



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 19, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Shenandoah National Bank
Charter Number 23085**

**478 Frontier Drive
Staunton, VA 24401**

**Comptroller of the Currency
Virginia Field Office
3800 Electric Road Suite 204
Roanoke, VA 24018**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The rating was assigned based on the following information:

- The bank's loan-to-deposit ratio is reasonable at 58.15% as of 3/31/02. The quarterly average using seventeen quarters beginning March 31, 1998, of 67.09% is also reasonable.
- Shenandoah National Bank provides for the credit needs of the community with 97% of total loans sampled extended to borrowers within the assessment area.
- Lending to borrowers of different incomes is good.
- No public complaints related to CRA have been filed as of the examination date.

DESCRIPTION OF INSTITUTION

Shenandoah National Bank (SNB) received a Satisfactory CRA rating at its last CRA performance evaluation dated February 27, 1998. They are not a subsidiary of a holding company and there have not been any major changes in the bank's corporate structure since the last CRA examination. There are no legal or financial impediments to SNB's ability to meet the credit needs of its assessment area.

SNB is an intrastate bank that serves one assessment area in Virginia. The main office is located in Staunton, Virginia. The bank operates six full-service branch offices within its assessment area. The branches are located in the cities of Staunton, Lexington, Harrisonburg, Waynesboro, Weyers Cave, and Stuarts Drafts. Three branches have opened since the last examination. No offices have closed. SNB does not offer ATM service to its customers.

As of March 31, 2002, SNB's assets totaled \$105 million, of which net loans comprise 57%.

The following table reflects the composition of SNB's loan portfolio based on the March 31, 2002 call report. The bank's three primary loan types are home mortgage, consumer, and small business loans.

Product Category	Gross Loans as of March 31, 2002*	
	Dollar (000's)	Percent
Commercial & Industrial Including Commercial Real Estate	\$41,712	72.16%
Residential Mortgage Loans	10,093	17.46
Individuals	4,665	8.07
Construction & Land Development	688	1.19
Farmland and Agriculture	584	1.01
All Other	64	0.11
Total	\$57,805	100%

* Data obtained from 3/31/02 call report

Management does not formally track loan originations by type, therefore we chose primary loan types based on outstanding balances and discussions with management about loan originations. As indicated in the table above, the bank's primary loan types based on outstanding balances are commercial loans and residential mortgage loans. A third primary loan product is consumer loans. Because most of these loans are small dollar loans, it is not reflected as a primary loan product based on outstanding balances. However, management indicated a significant portion of the number of loans they make are consumer loans so we included it as a primary loan type for evaluation purposes.

DESCRIPTION OF THE SHENANDOAH ASSESSMENT AREA

SNB has one non-MSA assessment area consisting of the counties of Augusta, Rockbridge, and Rockingham and the cities of Buena Vista, Harrisonburg, Lexington, Staunton, and Waynesboro. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The assessment area is located in the Shenandoah Valley region of Virginia near the intersections of interstates 81 and 64, approximately 100 miles west of Virginia's state capital, Richmond. The cities and counties in the assessment area are considered major centers for retail, education, and service for the western part of the state. Total population for the assessment area is approximately 218,000. The area is characterized by low cost, affordable housing and low unemployment. Unemployment as of March 2002 was 3.3% for Augusta County, 2.3% for Rockbridge County, and 2.5% for Rockingham County compared to the state unemployment figure of 4.0%. The area's top three industries by distribution of employees are manufacturing, services, and retail trade. Largest employers (by number of employees) include Wampler Foods, James Madison University, Augusta Medical Center, and RR Donnelley and Sons. Major banks in the area include Farmers and Merchants Bank, Planters Bank and Trust, and Bank of America.

The following table includes general demographic data describing the assessment area.

Demographic Characteristics of the Assessment Area		
<u>Number of Geographies by Income Level</u>	Low-Income	0
	Moderate-Income	1
	Middle-Income	29
	Upper-Income	22
	N/A	16
<u>Percent of Geographies by Income Level</u>	Low-Income	0
	Moderate-Income	1.47%
	Middle-Income	42.65%
	Upper-Income	32.35%
	N/A	23.53%
<u>Percent of Population in each Tract</u>	Low-Income	0
	Moderate-Income	0.55%
	Middle-Income	56.16%
	Upper-Income	43.29%

<u>Percent of Families by Income Level:</u>	Low-Income	13.63%
	Moderate-Income	15.66%
	Middle-Income	23.79%
	Upper-Income	46.92%
<u>Median Housing Characteristics</u>	Median Home Value	\$69,769
	Percent Owner Occupied Units	64.75%
	Median Gross Rent	\$370
<u>Median Income Data:</u>	1990 Census Median Family Income	\$28,301
	Updated Median Family Income	\$40,800

Community Contact

A community contact interview was conducted with the Central Shenandoah Planning District Commission. The contact indicated there was a community credit need for consumer lending. Overall, the representative felt that the performance of local financial institutions was satisfactory.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

SNB's loan to deposit ratio, while lower than comparable banks, is reasonable considering the age of several of its branches. A review of bank data reveals that SNB is similarly situated to Pioneer Bank and Rockingham Heritage Bank. All institutions are similar in asset size, offer similar credit products, operate within the same assessment area, and are considered small banks under CRA guidelines. The following tables reflect the loan to deposit ratio of SNB and the similarly situated banks:

Institution Name	Average Loan to Deposit Ratio Seventeen Quarters Beginning January 1,1998
Shenandoah National Bank	67.09%
Pioneer Bank	79.49%
Rockingham Heritage Bank	91.54%

Branching activity has a significant impact on SNB's loan to deposit ratio. New branches observe significant deposit growth upon opening as they offer attractive rates to encourage deposit growth. Loan growth lags behind deposit growth because of the strong competition and the bank's conservative lending nature. SNB has six branch locations, three of which have opened during this CRA assessment period.

Lending in Assessment Area

A majority of the bank's lending activity is to borrowers and businesses within its assessment area. Of the total sample of 103 loans (45 mortgage, 38 consumer, and 20 small business), 101, or 97% were made within the assessment area. The tables that follow summarize the results of

our review of loans made in SNB's assessment area between January 1, 1998 and March 31, 2002.

Lending Inside/Outside the Assessment Area

Assessment Area:	% of Rated Area Loans (#) in AA	Home Mortgage		Consumer		Small Loans to Businesses		Total Sampled Loans		% of Rated Area Deposits in AA
		%Inside	%Outside	%Inside	%Outside	%Inside	%Outside	%Inside	%Outside	
Virginia Non-MSA	100.00	95.92	4.08	100.00	0	100.00	0	97.44	2.56	100.00

File Samples Inside the Assessment Area

Assessment Area:	Total Home Purchase Loans				Total Consumer Loans				Total Small Loans to Businesses			
	#	% of Total	\$	% of Total	#	% of Total	\$	% of Total	#	% of Total	\$	% of Total
Virginia Non-MSA	45	100.00	3,175	100.00	38	100.00	359	100.00	20	100.00	353	100.00

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Shenandoah National Bank has a good distribution of loans to borrowers of different income levels and to small businesses. The analysis of lending to borrowers of different levels included a sample of 45 mortgage loans and 38 consumer loans as well as an analysis of 20 small business loans. The following tables contain distribution information for the loans sampled. The tables reflect satisfactory penetration among borrowers of different income levels, including low and moderate-income individuals.

The table below illustrates the distribution of home mortgage loans within the income levels compared to the percentage of families in each income level.

Borrower Distribution of Home Mortgage Loans

Assessment Area:	Low-Income Families			Moderate-Income Families			Middle-Income Families			Upper-Income Families		
	% Families	% Bank # Loans	% Bank \$ Loans	% Families	% Bank # Loans	% Bank \$ Loans	% Families	% Bank # Loans	% Bank \$ Loans	% Families	% Bank # Loans	% Bank \$ Loans
Virginia Non-MSA	13.63	4.65	1.13	15.66	18.60	12.67	23.79	32.56	26.76	46.92	44.19	59.44

The table below illustrates the distribution of consumer loans within the income levels compared to the percentage of households in each income level. Their performance was particularly strong among low- and moderate-income borrowers. This is noteworthy since the community contact indicated there was a need for consumer loans.

Borrower Distribution of Consumer Loans

Assessment Area:	Low-Income Households			Moderate-Income Households			Middle-Income Households			Upper-Income Households		
	% HH	%Bank #Loans	%Bank \$Loans	% HH	%Bank #Loans	%Bank \$Loans	% HH	%Bank #Loans	%Bank \$Loans	% HH	%Bank #Loans	%Bank \$Loans
Virginia Non-MSA	18.67	60.53	49.02	14.09	31.58	41.24	19.22	7.89	9.74	48.02	0.00	0.00

The table below illustrates the number and dollar volume of loans by size and the percentage of small loans to businesses compared to the percentage of businesses that are small.

Borrower Distribution of Small Loans to Businesses

Assessment Area:	Businesses With Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size					
	% of Businesses	% # Bank Loans	% \$ Bank Loans	\$100,000 or less		>\$100,000 to \$250,000		>\$250,000 to \$1,000,000	
				#	\$	#	\$	#	\$
Virginia Non-MSA	87.95	73.33	60.52	20	353	0	0	0	0

Geographic Distribution of Loans

The number and income distribution of geographies in the assessment areas are not sufficient for a meaningful analysis of the geographic distribution of the bank's loans in its assessment areas. There are no low-income geographies. There is only one moderate-income geography. Only 0.55% of the population lives in the moderate-income geography.

Responses to Complaints

SNB has not received any CRA-related complaints since the February 27, 1998 CRA examination.

Fair Lending Review

An analysis 1998, 1999, and 2000 public comments and consumer complaint information, HMDA, small business and small farm lending data was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in February 1998.