



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

September 07, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Rappahannock National Bank of Washington
Charter Number 6443
7 Bank Road
Washington, VA 22747**

**Comptroller of the Currency
Maryland/National Capital Area Field Office
250 E Street, SW - Mail Stop 3-5
Washington, DC 20019**

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.

INSTITUTION'S CRA RATING

This institution is rated “**Satisfactory**”.

The primary factors supporting the bank’s overall rating include:

- o Although below national peer banks ratio during the same period, the average loan to deposit ratio of 53% is reasonable in light of the performance context of the institution and increasing ratio trend. The bank’s average loan to deposit ratio in 2003 was 71%.
- o A substantial majority of loans originated are in the bank’s assessment area.
- o The record of lending reflects reasonable penetration to small businesses.
- o The distribution of loans reflects reasonable penetration among individuals of different income levels, especially low- and moderate-income borrowers.

DESCRIPTION OF INSTITUTION

Established in 1902, Rappahannock National Bank (RNB) is wholly owned by Union Bankshares Corporation of Bowling Green, Virginia. The bank serves the community from its single branch in Washington, Virginia in Rappahannock County. At December 31, 2003, total assets were at \$47 million. Gross loans of \$32 million were sixty-eight percent of total assets. The bank's lending activities are focused principally on residential mortgage products and business loans. The loan portfolio consists of forty-nine percent residential mortgages, forty-three percent commercial and commercial real estate loans, four percent construction and development loans, and four percent consumer loans.

RNB offers a full range of loan and deposit services. Loan products include fixed and variable rate commercial and commercial real estate loans, fixed and adjustable rate residential loans, home equity loans, and secured and unsecured consumer loans. Deposit services include accounts for both individual and business customers, along with a variety of investment options.

The Bank lobby and drive-in are open weekdays from 9:00AM to 5:00PM, and Fridays until 6:00PM. The Bank also offers Saturday lobby and drive-in hours from 9:00AM until 12:00 Noon. During this evaluation period, RNB closed its original branch in the historic district of Washington, Virginia and relocated to a more visible location on 7 Bank Road. The RNB branch remains centrally located within the county, and is easily accessible. The Bank maintains one deposit taking ATM at the branch and two others within the county of Rappahannock.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its assessment area. At the prior CRA examination dated October 26, 1998, RNB was rated "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

RNB's assessment area meets the requirements of the CRA regulation. The bank's assessment area consists of Rappahannock County, in the state of Virginia. The county is located in the north central part of the state. Washington, D.C. is approximately 70 miles to the east and Richmond is within 109 miles. The assessment area is predominantly rural, with a western boundary created by the Blue Ridge Mountains and northeastern boundary formed by the Rappahannock River. The county's 267 square miles are devoted primarily to farmland, forests, and orchards, and include portions of Shenandoah National Park. Washington is the county seat and the County's only incorporated town. Strict zoning ordinances have resulted in the County maintaining a low growth posture. Tourism has benefited the town of Washington and Rappahannock County. There are two census tracts included in the assessment area: one middle-income tract and one upper-income tract. The county is not located in a metropolitan statistical area and therefore, the bank is not subject to the Home Mortgage Disclosure Act. The 2002 updated HUD median family income was \$43,000.

The economic condition in RNB's assessment area is considered generally stable. The major employers in the county are Rappahannock County Schools, The Inn at Little Washington, Level 3 Communications, and Wakefield Country Day School. By industry type and number of employees, the largest sectors of employment are the services industry, followed by trade, and construction. In terms of housing, sixty-one percent are owner occupied units and twenty-four percent are rental units. Of the housing units, ninety-seven percent are 1-4 family units and less than one percent are multifamily units. There are no other financial institutions headquartered in Rappahannock County. Management and the Board continue to identify the primary credit needs within the bank's assessment area as residential real estate loans and commercial loans, especially to small businesses. During the examination we conducted a community contact. Our contact affirmed residential mortgage loans and small business loans were the principal credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period is from January 1, 1999 through December 31, 2003 inclusive. Our analysis of the bank's performance for the respective evaluation factors is described below.

Loan-To-Deposit Ratio

RNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. We reviewed the quarterly average loan-to-deposit ratios for the twenty quarters from January 1, 1999 through December 31, 2003, inclusive. During this evaluation period, RNB's loan-to-deposit ratio averaged 53%, below the national peer bank average of 65% during the same period. There are no other financial institutions headquartered in Rappahannock County, which makes a local comparison difficult.

Although the average loan to deposit ratio was lower than national peer, the ratio is considered reasonable in light of the performance context of the institution and the increasing ratio trend. Due to the County's rural nature, relative lack of significant commercial loan opportunities and low population, lending opportunities in the assessment area are limited. However, the average loan to deposit ratio trend has been increasing since the previous CRA examination, when the ten quarter average loan to deposit ratio was low at 23%. Within the past year, the Bank has expanded its home mortgage product offerings and hired a seasoned residential real estate lender. Due in part to these changes, the average loan to deposit ratio in 2003 was 71%.

Lending In The Assessment Area

A substantial majority of RNB's loans and lending-related activities are in the bank's assessment area. We sampled twenty business loans originated between January 1, 1999 and December 31, 2002 and tested bank compiled business loan origination data for the twelve months of 2003. Additionally, we sampled home mortgage originations covering January 1, 1999 through December 31, 2002. For business loans between 1999-2002, our sample reflects RNB originated 100% of its loans in the bank's assessment area. Similarly, during 2003 RNB originated 88% of the number of business loans (representing 95% of the dollar of loans), within its assessment

area. For home mortgage loans during the evaluation period, our analysis reflects RNB originated 100% of its loans in the bank's assessment area.

Lending within Rappahannock County Assessment Area										
	Number of Loans					Dollars of Loans				
	Inside		Outside			Inside		Outside		
Loan Type	#	%	#	%	Total	#	%	#	%	Total
Business Loans* (1999-2002)	20	100%	0	0%	20	\$4,041M	100%	0	0%	0
Business Loans (2003)**	23	88%	3	12%	26	\$2,169M	95%	\$107M	5%	\$2,276M
Home Mortgage*	20	100%	0	0%	20	\$1,930M	100%	0	0%	0
Totals	63	96%	3	4%	66	\$8,140M	98%	\$107M	2%	\$8,247M

Source: Loan sample*, Bank generated information**

Lending To Businesses of Different Sizes And To Borrowers of Different Incomes

Overall, given the demographics of the bank's assessment area, RNB's distribution of loans reflects reasonable penetration to business of different sizes and to borrowers of different income.

Lending to Businesses of Different Sizes

RNB's distribution of business loans, given the bank's assessment area demographics, reflects reasonable penetration among businesses of different sizes. Nearly 70% of businesses within the assessment area are considered small businesses. We sampled twenty business loan originations covering January 1, 1999 through December 31, 2002 and tested bank business loan origination data for the twelve months of 2003. Our analysis reflects 90% of the number of loans and 59% of the dollars of loans were extended to small businesses between 1999-2002. Further, RNB originated 88% of the number of loans and 79% of the dollars of loans to small businesses in 2003.

Lending to Borrowers of Different Incomes

During the evaluation period, RNB's distribution of loans reflects reasonable penetration among borrowers of different incomes, especially to low- and moderate-income families. We sampled twenty home mortgage loan originations for the evaluation period January 1, 1999 through December 31, 2002. As detailed in the chart below, our analysis reflects 10% of the number of loans and 14% of the dollars of loans were extended to low-income families, compared to the 15% that are low-income families in the bank's assessment area. Similarly, 10% of the number of loans and 12% of the dollars of loans were extended to moderate-income families, compared to the 11% that are moderate-income families in the bank's assessment area.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Home Mortgage Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
	15%	10%	11%	10%	20%	20%	54%	60%

Source: Home Mortgage Loan Sample; 1990 U.S. Census Data

Geographic Distribution of Loans

We determined that an analysis of the geographic distribution of loans originated is not meaningful. This is due to the demographics and composition of the assessment area (no low or moderate income geographies). Based on our review of lending inside the assessment area, the bank's distribution of loans reflects a reasonable dispersion throughout the assessment area. The bank's lending pattern does not exhibit any conspicuous, unexplainable gaps.

Responses To Complaints

RNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices. As a result, the OCC decided that a comprehensive Fair Lending examination would not need to be conducted in connection with this CRA evaluation.