



SMALL BANK

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

PUBLIC DISCLOSURE

May 18, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Virginia National Bank
Charter Number 23616
222 East Main Street
Charlottesville, VA 22902**

**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.

INSTITUTION'S CRA RATING

This institution is rated **Satisfactory** based on the following:

- VNB's average loan to deposit ratio is reasonable.
- A substantial majority of VNB's loans were made in their assessment areas.
- The distribution of loans reflects reasonable penetration among businesses of different sizes.
- The geographic distribution of loans reflects excellent penetration.

DESCRIPTION OF INSTITUTION

Virginia National Bank (VNB) is a \$213 million institution located in Charlottesville, Virginia. VNB received a satisfactory CRA rating at its last CRA performance evaluation dated November 29, 1999. This evaluation period covers October 1, 1999 to December 31, 2003. However, the loan samples do not include any loans originated during 2003. Loans originated in 2003 must be evaluated using year 2000 census data. Loans originated during and prior to 2002 are evaluated using 1990 census data. The OCC determined that Small Bank CRA examinations conducted during 2004 may exclude loans made during 2003 to avoid multiple lending analyses, if bank management agrees it is appropriate and there are no significant changes to the bank's lending practices. There are no legal or financial impediments to VNB's ability to meet the credit needs of its assessment areas (AA).

VNB operates six full-service branch offices and eight depository Automated Teller Machines (ATMs). All branches are located in Virginia with three in Charlottesville, one in Orange, and two in Winchester. VNB opened four new branches since the previous CRA examination. One branch was opened in Charlottesville during December 1998, one in Orange during November 2000, and two in Winchester during January 2002 and December 2003. No branches were closed during the evaluation period.

The bank offers a full range of deposit products for individuals, businesses, organizations and government authorities. Additionally, VNB offers commercial and personal loans. The following table reflects the number and dollar volume of loans made during the evaluation period:

Product Category	Composition of Loans Made During the Evaluation Period*			
	Number	Percent	Dollar	Percent
Commercial & Industrial Including Commercial Real Estate	834	34%	\$161,508,804	57%
Residential Mortgage Loans	511	21%	\$91,620,999	33%
Individual Consumer Loans	1100	44%	\$21,661,454	8%
All Other	32	1%	\$6,297,110	2%
Total	2477	100%	\$281,088,367	100%

* Source: Internal bank report

As indicated above, VNB's primary loan type, based on origination amounts, is commercial

loans. Bank management does not consider consumer loans a primary loan type since it makes up only 8% of the dollar volume of loans originated during the evaluation period. All analyses are completed using the bank's primary loan product, commercial loans.

DESCRIPTION OF ASSESSMENT AREAS

The bank has three AAs: Charlottesville/Albemarle County Metropolitan Statistical Area (Charlottesville MSA), Orange County, and the City of Winchester (Winchester AA). All AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

The Charlottesville MSA consists of the City of Charlottesville and Albemarle County, Virginia. Charlottesville is located within Albemarle County and is the county seat. Albemarle County is located in the foothills of the Blue Ridge Mountains in central Virginia. The total population for the Charlottesville MSA is 133,459. The unemployment rate is 2.1% in Albemarle County and 3.2% in Charlottesville, compared to the state average of 3.1%. Charlottesville is home to the University of Virginia (UVA), including the University Medical School and Hospital, in addition to numerous historic tourist attractions. UVA is the dominant employer within this assessment area. Competition in the Charlottesville MSA is strong and consists of numerous branches of commercial banks, credit unions, mortgage banking firms, consumer finance companies, brokerage firms, etc.

The Orange County AA consists of Orange County, which is located in Virginia's north-central Piedmont region. VNB has been operating in this AA since November 2000. As of June 30, 2003, VNB holds approximately 3.32% of the deposit market share in this AA. The population for Orange County is 25,374. The unemployment rate is 3%, compared to state average of 3.1%. The area's top three industries by distribution of employees are education/health/social services, manufacturing, and retail trade. Competition consists mainly of branches of regional and large banks.

The Winchester AA consists of the City of Winchester. VNB has operated in this AA since January 2002, only two years during this evaluation period. In addition, as of June 30, 2003, VNB holds only 0.49% of the deposit market share in the Winchester AA. Winchester is located in Northern Virginia and is within an hours drive of Washington DC. Winchester's population is approximately 23,585. The unemployment rate for Winchester is 2.5%, which compares favorably to the state average of 3.1%. The area's top three industries by distribution of employees are education/health/social services, manufacturing, and retail trade. Competition in the Winchester AA is strong with similar composition to that in the Charlottesville MSA.

Community Contact

We conducted one community contact during this examination with a representative of SCORE – Central VA Chapter. This chapter serves the Virginia counties of Albemarle, Fluvanna, Greene, Culpeper, Louisa, Madison, Nelson, and Orange. The contact indicated that small loans of \$50,000 or less to small businesses are a primary credit need in the communities served by this organization.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

VNB's loan to deposit ratio is reasonable considering their size, financial condition, and deposit market share in their AAs. A review of bank data reveals that VNB is similarly situated to Guaranty Bank and Virginia Heartland Bank. Both institutions are similar in asset size, offer similar credit products, and operate in at least one of the same AAs as VNB. The following table reflects the average quarterly loan to deposit ratio of VNB and the similarly situated banks.

Institution Name	Average Loan to Deposit Ratio Seventeen quarters beginning October 1, 1999
Virginia National Bank	77.44
Virginia Heartland Bank	79.27
Guaranty Bank	91.56

As indicated above, VNB's average loan to deposit ratio is considerably below Guaranty Bank's. However, the level is reasonable considering their size and deposit market share and is more in line with Virginia Heartland Bank's average.

Lending in Assessment Areas

A substantial majority of VNB's loans and other lending-related activities are in their AAs. Of the initial random sample of 20 commercial loans made during the evaluation period, 100% were made inside VNB's AAs.

Lending to Businesses of Different Sizes

The distribution of loans, given the demographics of the Charlottesville MSA, reflects reasonable penetration among businesses of different sizes. The analysis focused on the Charlottesville MSA since VNB originated only 11 commercial loans in each of the Orange County AA and Winchester AA during the evaluation period. The low number of loans in these AAs would not provide a meaningful analysis.

This analysis was performed using the initial random sample of loans from the Lending in the AAs analysis, all of which were located in the Charlottesville MSA, plus an additional sample of 20 commercial loans originated during the evaluation period and within the Charlottesville MSA. Following is a summary of the sample results:

Borrower Distribution of Loans to Businesses - Charlottesville MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.18	6.22	22.60	100%
% of Bank Loans in AA by #	50.00	37.5	12.50	100%
% of Bank Loans in AA by \$	66.70	31.45	1.85	100%

Source: Loan sample; Dunn and Bradstreet data.

As indicated above, the sample results are below the percent of AA businesses with revenues less than \$1 million. However, as stated previously, competition is very strong in the Charlottesville MSA. As of June 30, 2003, VNB held approximately 7% of deposits within the Charlottesville MSA.

VNB also made \$953,000 in community development loans during the evaluation period. This represents approximately 4% of VNB's March 31, 2004 Tier 1 Capital plus the Allowance for Loan and Lease Losses. The community development loans were made to two organizations: Piedmont Housing Alliance and Albemarle Housing Improvement Program, Inc. Both organizations assist low- and moderate-income families and individuals within VNB's AAs.

Geographic Distribution of Loans

VNB's geographic distribution of loans reflects excellent dispersion throughout the Charlottesville MSA. The analysis focused on the Charlottesville MSA since there are no low- or moderate-income tracts within the Orange County AA or Winchester AA.

The geographic distribution analysis was conducted using the same sample as that used in the analysis of lending to businesses of different sizes. Following is a summary of the sample results:

Geographic Distribution of Loans to Businesses in Charlottesville MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	2.52	2.50	24.81	40.00	44.11	35.00	28.18	22.50

Source: Loan sample; Dunn and Bradstreet data.

Note: 0.38% of AA businesses are located in tracts without an income designation.

As indicated above, the sample results are in line with the percent of AA businesses located in the low-income tract. The sample results significantly exceed the percent of AA businesses located in moderate-income tracts.

Qualified Investments and Community Development Services

VNB exhibits good responsiveness to credit and community development needs. During the evaluation period, VNB contributed approximately \$53,000 to various community development related organizations including Habitat for Humanity, Computers 4 Kids, and SCORE.

Responses to Complaints

VNB did not received any CRA-related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.