



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

January 22, 2013

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Old Point National Bank of Phoebus  
Charter Number 12267**

**1 West Mellen Street  
Hampton, Virginia 23663**

Office of the Comptroller of the Currency

4419 Pheasant Ridge Road, Suite 300  
Roanoke, Virginia 24014

**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 Outstanding.**

**The Lending Test is rated: Outstanding.**

**The Community Development Test is rated: Outstanding.**

Below is a summary of the major factors supporting the institution's rating:

- The bank's average loan-to-deposit (LTD) ratio is reasonable compared to similarly situated institutions;
- A substantial majority of the loans originated during the evaluation period were within the bank's assessment area (AA);
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area;
- The distribution of borrowers, given the demographics of the AA, reflects excellent dispersion to borrowers of different incomes;
- Lending to businesses of different sizes is reasonable;
- The bank demonstrates excellent responsiveness to community development needs; and
- The bank is a leader in providing community development services.

## **Scope of Examination**

The Old Point National Bank of Phoebus (OPNB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending and community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, services, and qualified investments. The evaluation period under the Lending Test covers the bank's performance from January 1, 2010 through December 31, 2011. The evaluation period for the community development test is March 1, 2010 to January 22, 2013.

We reviewed loans to businesses and home mortgage loans since these represent the bank's primary loan products. We utilized business loan and Home Mortgage Disclosure Act (HMDA) data reported by the bank. We excluded small loans to farms because OPNB made only one small farm loan during the evaluation period. Multi-family loans were also excluded because OPNB made only four loans during the evaluation period. Loans originated during calendar years 2010 through 2011 are represented in tables throughout this Evaluation.

## **Data Integrity**

OPNB's public lending information is considered to be accurate. We tested the accuracy of the bank's publicly filed information for home mortgage and small business

lending. Testing results validated the effectiveness of the bank's internal processes for collecting, validating, and filing reportable loan data.

We verified community development loans, investments, and services submitted by bank management to ensure they met the regulatory definition for community development.

### **Selection of Areas for Full-Scope Review**

OPNB does business in one AA which is comprised of portions of the Virginia Beach-Norfolk-Newport News VA-NC MSA 47260 (Virginia Beach MSA). The AA received a full-scope review.

### **Description of Institution**

OPNB is an intrastate bank headquartered in Hampton, Virginia. The bank is owned by Old Point Financial Corporation (OPFC), a \$907 million holding company, headquartered in Hampton, Virginia. OPFC owns Old Point Trust and Financial Services, N.A., which is located in Newport News, Virginia. OPFC stock is traded on the NASDAQ Small Cap market under the symbol OPOF.

OPNB was established in 1922 and had total assets of \$903 million as of December 31, 2012. Net Tier 1 capital was \$83.8 million. Tier 1 Risk-based Capital to Risk-weighted Assets equaled 14.68 percent. Tier 1 Leverage Capital equaled 9.50 percent. Based on outstanding loan balances, loans to businesses are a major product, followed by home mortgage loans, and consumer loans.

**Table 1** reflects the composition of OPNB's loan portfolio as of December 31, 2012. Gross loans comprised 52.15 percent of total assets.

<b>Table 1. Loan Product Category</b>	<b>Gross Loans as of December 31, 2012*</b>	
	<b>Dollar (000's)</b>	<b>Percent of total loans</b>
Commercial Real Estate	<b>\$264,835</b>	<b>56.21</b>
Residential Mortgage Loans	<b>\$133,688</b>	<b>28.38</b>
Commercial and Industrial	<b>\$25,341</b>	<b>5.38</b>
All Other loans	<b>\$22,118</b>	<b>4.69</b>
Consumer Loans	<b>\$13,146</b>	<b>2.79</b>
Construction & Land Development	<b>\$12,005</b>	<b>2.55</b>
<b>Total</b>	<b>\$471,133</b>	<b>100.00</b>

\*Data obtained from Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only - FFIEC 041 as of December 31, 2012.

The bank experienced significant declines in the loan portfolio during the calendar years 2010 through 2012. The bank’s total gross loans decreased approximately 26 percent from \$635 million at January 1, 2010, to \$471 million on December 31, 2012. A substantial portion of the declining loan volume was concentrated in commercial real estate loans and consumer loans and is attributed to the recent recession and weakening demand for larger commercial loans.

OPNB has no subsidiaries. During the evaluation period, there were no legal, financial or other factors impeding the bank’s ability to help meet the credit needs in its AA. The bank received a “Satisfactory” rating in its March 2010 CRA Performance Evaluation.

## Description of Assessment Area

Demographic Characteristics	#	Low Percent of #	Moderate Percent of #	Middle Percent of #	Upper Percent of #	NA* Percent of #
Geographies (Census Tracts/BNAs)	254	6.69	25.20	34.25	33.46	0.39
Population by Geography	1,150,695	4.18	20.83	38.57	36.42	0.00
Owner-Occupied Housing by Geography	447,743	1.46	13.54	38.82	46.18	0.00
Business by Geography	117,623	2.16	18.21	35.87	43.51	0.26
Farms by Geography	2,019	1.19	14.86	35.07	48.64	0.25
Family Distribution by Income Level	300,089	17.58	17.93	22.99	41.50	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	106,568	8.60	31.79	39.53	20.08	0.00
Median Family Income		49,157	Median Housing Value			118,112
HUD Adjusted Median Family Income for 2011		67,900	Unemployment Rate			
Households Below Poverty Level		9.61%	(December 2012 Bureau of Labor)			6.00%

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census and 2011 HUD updated MFI

OPNB has defined their AA as a portion of the Virginia Beach MSA. The greater metropolitan area is commonly known as Hampton Roads and is located along the eastern Virginia coast. The AA includes the counties of James City and York, the cities of Hampton, Newport News, Poquoson, Virginia Beach, and Williamsburg, and select census tracts in the cities of Chesapeake, Norfolk, and Isle of Wight County. The bank’s AA is consistent with the requirements of the regulation. Please refer to **Table 2** above for demographic data on the AA.

OPNB is a full-service community bank serving the Hampton Roads area, which encompasses eastern Virginia from James City County through the city of Chesapeake. OPNB operates 21 full-service branches, 2 limited service branches, 21 deposit-taking ATMs, and nine cash-only ATMs in the AA.

The Hampton Roads area is one of the world's largest natural harbors. It is home to the largest intermodal facility on the east coast and is the mid-Atlantic terminus for a major national railroad. The Hampton Roads region's economic base is largely port-related, including shipbuilding, ship repair, naval installations, cargo transfer and storage, and manufacturing related to the processing of imports and exports. Associated with the ports' military role are almost 50,000 federal civilian employees. The Norfolk International Airport is generally within a 30-minute commute of all business and residential areas.

The Hampton Roads area is also home to one of the largest military complexes in the country with bases representing each branch of the armed services. The retail business segment is the largest employer in the area, followed by manufacturing concerns. Hampton Roads is home to four Fortune 500 companies representing the food industry, transportation, retail, and healthcare: Smithfield Foods, Norfolk Southern, Dollar Tree, and Amerigroup, respectively.

Within the industrial sector, government is the largest employer, followed by trade, transportation and utilities. The federal government has based two major research laboratories within the AA. NASA/Langley is the home of a variety of aircraft-related research, including several one-of-a-kind wind tunnels. It is on the northeast edge of Hampton, near Poquoson. Also, the Department of Energy's Thomas Jefferson National Accelerator Facility (known as 'Jefferson Lab') conducts cutting edge physics research in Newport News; the lab hosts the Continuous Electron Beam Accelerator Facility (CEBAF) and a kilowatt-class Free-Electron Laser.

Economic conditions in the area are struggling. The recovery in Virginia Beach has been sluggish because of weights from federal spending cuts and the effects of Europe's recession on trade through the port. As of December 2012, the unemployment rate of 6.00 percent is higher than the Virginia state rate of 5.50 percent, but lower than the national average of 7.80 percent. According to the 2000 U.S. Census data, 9.61 percent of the households in the AA are below the poverty level, 20.79 percent receive social security, 2.59 percent receive public assistance, and 21.49 percent receive retirement benefits.

We conducted one community contact to determine credit and development needs in the AA. The contact identified credit needs for safe, affordable housing for low-income families and individuals; employment opportunities for low-income individuals; and support for programs that increase self-sufficiency and decrease poverty and unemployment. The contact commented that local financial institutions, including OPNB, are very supportive of the organization's programs and services.

## Conclusions with Respect to Performance Tests

### Description of Institution's Operations in Virginia

OPNB's business is concentrated in the Virginia Beach MSA. The FDIC Summary of Deposits, updated as of June 30, 2012, reported that there were 31 banking companies operating a total of 367 branches in the AA. OPNB was ranked seventh in market share with 3.40 percent of total deposits. On a statewide comparison, OPNB ranked 27th among 149 financial institutions in the state, with total deposits of \$725 million and a less than one percent deposit market share.

OPNB's primary competitors for home loans and small business loans are several large national banks, large state banks, and credit unions serving military families. Commercial banking competitors include Wells Fargo Bank, N.A. and Bank of America, N.A. State banking competitors include SunTrust Bank, Towne Bank, Branch Banking and Trust Company of Virginia, Monarch Bank, and Bank of Hampton Roads.

Overall lending levels reflect reasonable responsiveness to meeting AA credit needs. The bank ranked 60<sup>th</sup> in overall market share among 454 HMDA reporters in the AA. OPNB ranked number 60 for home purchase loans, number 15 for home improvement loans, and number 62 for home mortgage refinance loans with respective market shares of 0.08 percent, 1.00 percent, and 0.15 percent. Residential lending market shares reflect strong competition with more than 100 residential lenders in the assessment area, most of which are not financial institutions.

### LENDING TEST

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered the bank's business strategy and financial condition; the number and types of loans originated, and community credit needs identified through discussions with community contacts. We also considered the amount of competition from lenders not located in the AA. The bank's lending has declined over the past two years due to a lack of quality loan demand. Factors that impacted the lack of quality loan demand include: weak economic conditions, the bank's focus on lowering nonperforming assets, and strong competition in the area for quality loans.

OPNB's primary loan types, based on originations during the evaluation period, are loans to businesses and home mortgage loans. To arrive at the lending test rating, we gave more weight to loans to businesses than HMDA loans because there were almost twice as many business loan originations as HMDA loan originations during the evaluation period. Additionally, OPNB provided information on loans to businesses secured by residential property and letters of credit. Within HMDA loan types, refinance loans were weighted more heavily than home purchase or home improvement loans because they represented 48 percent of all HMDA loans originated during the evaluation period.

## Loan-to-Deposit Ratio

The bank's average loan to deposit ratio (LTD) is reasonable in light of circumstances such as their capacity to lend, other similarly situated institutions in their assessment area, demographic and economic facts about the assessment area, and the lending opportunities available in the bank's assessment area.

The bank's quarterly average LTD ratio of 76.23 percent is reasonable when compared to the quarterly averages of similarly situated banks. Peer institutions reported an average low LTD ratio of 79.89 percent and an average high LTD ratio of 106.12 percent.

## Lending in Assessment Area

### Inside/Outside Ratio

OPNB originated a substantial majority of its loans inside its AA. Based on originations and purchases of residential mortgages and business loans during the evaluation period, 89.83 percent of the loans in number and 88.91 percent in dollar volume were inside the AA. By loan product, 86.32 percent of home mortgage loans and 91.65 percent of small loans to businesses were inside the bank's AA. **Table 3** shows the volume of lending by type in OPNB's AA by number and dollar.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$ (000)
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Home Purchase	43	87.76	6	12.24	49	5,815	90.18	633	9.82	6,448
Home Improvement	103	86.55	16	13.45	119	4,443	94.39	264	5.61	4,707
Home Refinance	100	85.47	17	14.53	117	17,799	71.09	7,238	28.91	25,037
Small Business/Farm	549	91.65	51	8.50	600	95,573	92.91	7,290	7.09	102,863
<b>Totals</b>	<b>795</b>	<b>89.83</b>	<b>90</b>	<b>10.17</b>	<b>885</b>	<b>123,630</b>	<b>88.91</b>	<b>15,425</b>	<b>11.09</b>	<b>139,055</b>

Source: Data reported under HMDA from January 1, 2010 - December 31, 2011 and CRA data of loans to businesses for the same period.

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

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes, given the demographics of the AA.

Please refer to **Table 4** below for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases. We considered the number of families that live below the poverty level and the barriers that this may have on home ownership in evaluating the borrower distribution of home

mortgage loans. Approximately 10 percent of the families in the AA live below the poverty level. The median cost of housing in the AA is \$118,112 based on 2000 U.S. Census data. The HUD-updated median family income for 2011 is \$67,900. This means that a low-income family earns less than \$33,949. Based on these statistics, it would be difficult for low-income families to purchase housing in the AA.

**Home Mortgage Loans**

The overall borrower distribution of home mortgage loans reflects excellent penetration among individuals of different income levels.

The borrower distribution of home purchase loans is good. The percentage of loans to low-income borrowers exceeds the percentage of low-income families in the AA. The percentage of loans to moderate-income borrowers is well below the percentage of moderate-income families in the AA.

The borrower distribution of home improvement loans is excellent. The percentage of loans to low-income borrowers is below the percentage of low-income families in the AA. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The borrower distribution of home mortgage refinance loans is excellent. The percentage of loans to low-income borrowers is below the percentage of low-income families in the AA. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

Table 4 - Borrower Distribution of Residential Real Estate Loans in Virginia Beach MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	17.58	30.77	17.93	3.85	22.99	19.23	41.50	46.15
Home Improvement	17.58	13.95	17.93	32.56	22.99	20.93	41.50	32.56
Home Refinance	17.58	12.12	17.93	22.73	22.99	27.27	41.50	37.88

Source: OPNB HMDA data 2010 –2011, 2000 U.S. Census data.

**Loans to Small Businesses**

Please refer to **Table 5** below for the facts and data used to evaluate the borrower distribution of the bank’s origination/purchase of loans to small businesses.



The borrower distribution of loans to small businesses is reasonable. Compared to the percentage of AA businesses with gross annual revenues less than or equal to \$1 million, the bank's penetration is lower in terms of dollar volume and the number of loans, but is reasonable given the lending opportunities available in the AA.

<b>Table 5 - Borrower Distribution of Loans to Businesses in Virginia Beach MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
Percent of AA Businesses	67.38	2.82	29.79	100
Percent of Bank Loans in AA by #	49.00	34.97	16.03	100
Percent of Bank Loans in AA by \$	37.48	45.77	16.75	100

Source: OPNB HMDA data 2010 –2011, 2000 U.S. Census data.

**Table 6** indicates that a majority of loans to small businesses are for amounts of \$100 thousand or less.

<b>Table 6 - Borrower Distribution of Loans to Businesses by Loan Size in Virginia Beach MSA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans (000)	Percent of Dollar Volume
\$0 - \$100,000	332	60.48	16,476	17.24
\$100,001 - \$250,000	108	19.67	19,785	20.70
\$250,001 - \$1,000,000	109	19.85	59,312	62.06
Total	549	100.00	95,573	100.00

Source: OPNB HMDA data 2010 –2011, 2000 U.S. Census data.

## **Geographic Distribution of Loans**

The overall geographic distribution of loans by income level reflects excellent dispersion. The geographic distribution of home mortgage loans by income level was reasonable. The geographic distribution of small loans to businesses was excellent. We did not identify any unexplained, conspicuous gaps in lending.

### **Home Mortgage Loans**

Please refer to **Table 7** below for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases. We considered the demographic characteristics of low- and moderate-income geographies in evaluating geographic distribution of mortgage loans. We placed more weight on performance in moderate-income geographies than in low-income geographies because of significantly fewer opportunities in low-income geographies. There are 17 low-income geographies in the AA. Approximately 4 percent of the AA population lives in low-income geographies, and only 1.46 percent of the owner-occupied housing units are located in low-income geographies. These factors impact the bank's ability to make mortgage loans to individuals residing in these geographies.

Thirty-four percent of the occupied housing units in these geographies are rental properties. This adversely impacts the bank’s ability to make mortgage loans to individuals residing in moderate-income geographies. We also considered the number of competitors making loans in this market.

The geographic distribution of home purchase loans is good. The percentage of loans to borrowers living in low-income geographies is well below the percentage of owner-occupied units within these geographies. The percentage of loans to borrowers living in moderate-income geographies exceeds the percentage of owner-occupied units within these geographies.

The geographic distribution of home improvement loans is excellent. The percentage of loans to borrowers living in low-income geographies exceeds the percentage of owner-occupied units within these geographies. The percentage of loans to borrowers living in moderate-income geographies exceeds the percentage of owner-occupied units within these geographies.

The geographic distribution of home mortgage refinance loans is good. The percentage of loans to borrowers living in low-income geographies exceeds the percentage of owner-occupied units within these geographies. The percentage of loans to borrowers living in moderate-income geographies is below the percentage of owner-occupied units within these geographies.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.46	0.00	13.54	22.58	38.82	41.94	46.18	35.48
Home Improvement	1.46	2.17	13.54	28.26	38.82	39.13	46.18	30.43
Home Refinance	1.46	2.63	13.54	9.21	38.82	35.53	46.18	52.63

Source: OPNB HMDA data 2010 –2011, 2000 U.S. Census data.

### Loans to Small Businesses

Please refer to **Table 8** below for the facts and data used to evaluate the geographic distribution of the bank’s origination/purchase of small loans to businesses. We considered the demographic characteristics of low- and moderate-income geographies in evaluating geographic distribution of loans to businesses.

The geographic distribution of loans to small businesses reflects excellent dispersion. The percentage of loans to businesses in low-income geographies exceeds the percentage of businesses in these geographies. The percentage of loans to businesses

in moderate-income geographies exceeds the percentage of businesses in these geographies.

<b>Table 8 - Geographic Distribution of Loans to Businesses in Virginia Beach MSA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	Percent of AA Businesses	Percent of Number of Loans	Percent of AA Businesses	Percent of Number of Loans	Percent of AA Businesses	Percent of Number of Loans	Percent of AA Businesses	Percent of Number of Loans
Loans to Small Businesses	2.16	3.28	18.21	36.61	35.87	27.14	43.51	32.97

Source: 2000 U.S. Census data; OPNB CRA data 2010 –2011.

## **COMMUNITY DEVELOPMENT TEST**

### **The Community Development test is rated Outstanding.**

In evaluating performance under the Community Development Test, we considered the bank's capacity to lend and invest in its community, the availability of investment and community development lending opportunities, and the bank's responsiveness in providing services to the communities in which it does business.

### **Number and Amount of Community Development Loans**

Community development lending had a positive impact on lending performance in the AA. During the evaluation period, OPNB originated 14 qualified community development loans totaling \$16.4 million. Loans were for various operating needs of organizations that provide community development services and construct affordable housing for low- and moderate-income (LMI) individuals and families, including special needs projects for persons with disabilities and to fund rehabilitation of property in downtown Hampton.

### **Number and Amount of Qualified Investments**

The bank has a significant level of qualified investments in the AA. The bank showed excellent responsiveness to credit and community development needs.

The bank had one prior period investment to Virginia Community Development Corporation/Housing Equity Fund of Virginia XII, LLC. This is an investment in low-income residential rental properties, one of which involves new construction of 27 townhouse-style two- and three-bedroom apartments on vacant land in the Phoebus section of Hampton, Virginia. This property was formerly a mobile home park that had been blighted. OPNB has committed to funding \$1 million to this project and has paid approximately \$314 thousand thus far.

The bank has one current period investment to Virginia Community Development Corporation/Housing Equity Fund of Virginia XVI, LLC. This is an investment in the development of good quality affordable rental housing, one of which is Warwick SRO in Newport News, Virginia. This project involves the historic rehabilitation of 88 units of single room occupancy (SRO) efficiencies located in the former Warwick Hotel. OPNB has committed \$1 million to this project and has paid \$1 thousand to date.

The bank made 97 qualified community development investments totaling approximately \$593 thousand to community development organizations that provide direct support and services to moderate-income geographies and low- and moderate-income individuals in the AA. OPNB also made donations totaling approximately \$31 thousand during the evaluation period. The donations were made to service organizations that provide assistance to low- and moderate-income families in the bank's AA.

### **Extent to Which the Bank Provides Community Development Services**

The bank is a leader in providing community development services. Officers and staff contributed services to 42 community service organizations in the AA during the evaluation period. These services consistently addressed community development needs through service on committees and boards of directors for organizations that provide affordable housing, community services, and financial services to low- and moderate-income areas or individuals. Bank representatives also provided technical assistance to organizations whose primary goal is to raise and distribute funds to organizations that provide services to low- and moderate-income individuals and geographies. Bankers served as speakers at seminars and outreach events for small businesses and entrepreneurs, and conducted training sessions for low- and moderate-income adults on budgeting and the appropriate use of credit.

### **Responsiveness to Community Development Needs**

The bank's community development activities demonstrate excellent responsiveness to the community development needs of its AA. This takes into consideration the bank's capacity, the need, and the availability of such opportunities for community development in the bank's AA. The demographic characteristics of the AA limit the types of community development needs that can be served by the institution. We did not identify any un-met community development needs during the evaluation.

### **Responses to Complaints**

OPNB received no complaints during the evaluation period related to the bank's performance in meeting AA credit needs. This has a neutral impact on OPNB's overall performance.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.