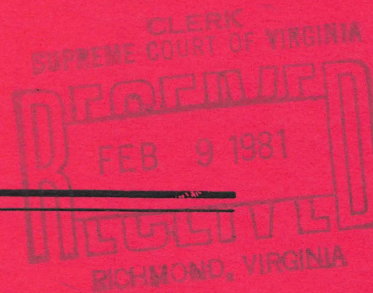


222Va194



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IN THE

# Supreme Court of Virginia

AT RICHMOND

---

RECORD NO. 801957

---

FRONT ROYAL SAVINGS AND LOAN ASSOCIATION

Appellant

v.

FIRST VIRGINIA BANK - SHENANDOAH VALLEY, et al.

Appellees

---

JOINT APPENDIX

---

James M. Thomson  
Charles E. Pikrallidas  
THOMSON, PIKRALLIDAS  
& SCHOTT  
201 N. Washington Street  
Alexandria, Virginia 22313

Counsel for Appellant

Edward L. Breeden, III  
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1700 First Virginia Bank  
Tower  
101 St. Paul's Boulevard  
Norfolk, Virginia 23510

Counsel for Appellee

William F. Schutt  
State Corporation  
Commission  
P. O. Box 1197  
Richmond, Va. 23219

Counsel for Appellee



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DOCUMENT CONTROL CENTER

APPLICATION TO ESTABLISH A BRANCH

Information and Instructions

This application form has been designed to elicit the minimum information required by the Bureau of Financial Institutions for the purpose of determining whether an applicant should be granted a certificate of authority to establish a branch office. However, it is the applicant's responsibility to furnish additional information to demonstrate that such authorization will be in the public interest as defined by the Statutes of Virginia.

The application should be submitted in duplicate. It should be accompanied by the following:

1. A check for \$1,000, payable to the Treasurer of Virginia.
2. An executed lease or letter of intent from owner(s) of property to be leased, or executed purchase agreement. (In Duplicate)
3. A study (or other statement of facts) which demonstrates that the establishment of the proposed office will be in the public interest. (In Duplicate)
4. A scaled map with directional indicator showing the proposed trade area and the locations of financial institutions having trade areas which overlap the applicant's proposed trade area. (In Duplicate)
5. A detailed current balance sheet, itemizing investments in land, buildings, leasehold improvements, furniture, fixtures, and equipment, and other fixed assets. (In Duplicate)
6. A copy of the most recent report to the FHLBB (Form 893) entitled "Determination of Compliance with Insurance Regulation 563.13". (Applicable for Savings and Loan Associations only. In Duplicate.)

Once the application and accompanying documents are received by the Bureau, they will be reviewed. Only when it is determined that they have been completed satisfactorily, will the Bureau conduct its investigation. Therefore, full and complete answers are required. When the space allotted is insufficient, a separate page should be used.

APPLICATION FOR A CERTIFICATE OF AUTHORITY  
TO ESTABLISH AND OPERATE A BRANCH

STATE CORPORATION COMMISSION  
BUREAU OF FINANCIAL INSTITUTIONS  
FIFTEEN SIXTEEN HUNDRED  
11 EAST BYRD STREET  
CHARMOND, VIRGINIA 23219

## FILE IN DUPLICATE

Check rec'd - 10-26-79  
Check date 10-25-79  
Check # - 6892  
Check amt. \$1,000.00 *of 79*

## I. GENERAL INFORMATION

NAME OF APPLICANT INSTITUTION First Virginia Bank - Shenandoah Valley	DATE IT COMMENCED BUSINESS December 28, 1871. Converted to State Charter on July 26, 1978.
--	---

PHYSICAL LOCATION OF MAIN OFFICE (street, city, or town and county or other identification)

200 North Main Street, Woodstock, Shenandoah County, Virginia 22664

NAME OF AFFILIATED COMPANY, IF ANY

First Virginia Banks, Inc., 6400 Arlington Boulevard, Falls Church, Virginia 22046

NAME AND TELEPHONE NUMBER OF OFFICIAL TO BE CONTACTED BY THE BUREAU WITH REGARD TO PRESENT APPLICATION

Charles R. Cash, William H. Coffman or V. R. Proctor III at (703) 459-3771.

PROPOSED BRANCH LOCATION (street, city, or town and county of other identification)

To be located generally in the center of the Royal Plaza present parking lot (free standing) in Front Royal, Warren County, Virginia.

NAME OF PROPOSED BRANCH Royal Plaza Office	DISTANCE FROM MAIN OFFICE 25.1 miles	EXPECTED OPENING DATE July 1980
---	---	------------------------------------

WILL THE CAPITAL OF THE APPLICANT BE INCREASED PRIOR TO THE ESTABLISHMENT OF THE PROPOSED BRANCH?

☐ Yes (if yes, explain)

☒ No

NUMBER OF OFFICES THE APPLICANT OPERATES:

1. Opened 5

2. Authorized, unopened none

NAME OF PROPOSED BRANCH MANAGER, EXPERIENCE AND EDUCATIONAL BACKGROUND AND LENDING AUTHORITY FOR BOTH SECURED AND UNSECURED LOANS.

A manager will be selected from internal sources prior to the opening of the branch office. His authority for loans will be \$10,000. unsecured and \$15,000. secured. If this is not adequate he can get prompt consideration for larger amounts through the zone manager.



APPLICABLE TO BANKS ONLY

SHOW HOW THE PROPOSED LOCATION MEETS GEOGRAPHIC REQUIREMENTS OF SECTION 6.1-39 OF THE VIRGINIA BANKING ACT.

Warren County and Shenandoah County are contiguous to each other. Using U.S. Route 55 from Shenandoah County line to Royal Plaza, the automobile speedometer reading is 11 miles.

II. QUARTERS

PROVIDE INFORMATION WITH RESPECT TO THE QUARTERS IN WHICH THE PROPOSED BRANCH WILL BE LOCATED. INDICATE THE SIZE AND COST OF LAND AND BUILDING, AND/OR ESTIMATED COSTS OF IMPROVEMENTS IN LAND AND BUILDING. SPECIFY ALL TRANSACTIONS AND COSTS INVOLVED. INDICATE ANY PLANS TO OPEN IN TEMPORARY QUARTERS AND GIVE DETAILS.

The site is approximately 10,041 square feet. The building is to contain approximately 2400 square feet.

Cost of building with drive-in canopy: \$150,000.

Lessee will provide \$115,000. and site improvements. The Bank will amortize \$35,000. on a 20 year basis.

The Bank will not open in temporary quarters.

NAME AND ADDRESS OF SELLER OR LESSOR

Royal Plaza Associates  
% Morton G. Thalheimer, Inc.  
F & M Center - 12th & Main Streets  
Richmond, Virginia 23277

EXPIRATION DATE OF LEASE

20 years from commencement of lease  
or approx. June 1, 2000. Lease  
provides for four 5-year options.

SELLER OR LESSOR RELATED OR CONNECTED IN ANY WAY WITH THE APPLICANT?

☐

Yes (if yes, explain)

☒

No

**III. INVESTMENT IN FURNITURE, FIXTURES & EQUIPMENT**  
(show estimates by an asterisk\*)

ITEM	NO. OF UNITS	TOTAL COST	ANNUAL RENTAL
Vault door(s)	1	12,000.	n/a
Safe(s)	11	8,000.	n/a
Safe deposit boxes	100	4,000.	n/a
Counter and cage fixtures	1	12,000.	n/a
Drive-in teller's windows	1	21,000.	n/a
Security equipment	1	5,000.	n/a
Other:			
Teller Line under-the-counter equipment	5	6,000.	n/a
Drapes and Carpet		3,500.	n/a
Sign	1	3,000.	n/a
4 Desks, 10 Chairs, 2 Filing Cabinets		2,500.	n/a
Camera	2	3,000.	n/a
<b>TOTAL</b>		<b>80,000.</b>	

**IV. ESTIMATED PREOPENING EXPENSES**

NATURE OF EXPENSE	AMOUNT
1. Attorney Fees	
2. Consultant Fees	
3. Salaries (preopening)	3,000.
4. Advertising (preopening)	5,000.
5. SCC Filing Fee	
6. Other: a.      Application Fee	1,000.
b.      Opening Inventory Supply	1,000.
c.	
d.	
<b>TOTAL</b>	<b>10,000.</b>

# V. RECORD OF APPLICANT

For Banks Only	END OF LAST THREE YEARS (INDICATE YEAR)		
	1978	1977	1976
Total Deposits	50,548,000.	47,943,000.	42,179,000.
Total Assets	55,556,000.	52,532,000.	46,379,000.
Capital Notes and Debentures	None	None	None
Common Stock	1,310,000	655,000	655,000
Surplus	1,000,000.	915,000.	915,000.
Undivided Profits and Reserves	2,171,000.	2,531,000.	2,237,000.
Total Equity Capital	4,481,000.	4,101,000.	3,807,000.
Net Income After Taxes	794,000.	674,000.	540,000.
Dividends Declared	414,000.	380,000.	380,000.
Percent of Total Capital to Total Assets	8.1	7.8	8.2
Percent of Bank Building and Land to Total Equity	17.1	14.9	15.8
Percent of Net Income after Taxes to Average Assets	1.4	1.3	1.1
For Savings and Loans Only	END OF LAST THREE YEARS (INDICATE YEAR)		
	19--	19--	19--
Total Savings			
Total Assets			
Reserves Required by Law			
Voluntary Reserves			
Capital Stock			
Surplus and Undivided Profits			
Total Net Worth			
Net Income After Taxes			
Dividends Declared			
Percent of Net Worth to Total Assets			
Percent of Net Income after Taxes to Average Assets			



## VI. FUTURE EARNINGS PROSPECTS

### A. ESTIMATED DEPOSITS

DESCRIPTION	First Year	Second Year	Third Year
Year-end Demand	\$ 200,000	\$ 400,000	\$ 700,000
Year-end Time and Savings	500,000	900,000	1,300,000
Year-end Total Deposits	\$ 700,000	\$1,300,000	\$2,000,000
Average Demand	\$ 100,000	\$ 300,000	\$ 650,000
Average Time and Savings	250,000	700,000	1,000,000
Total Average Deposits	\$ 350,000	\$1,000,000	\$1,650,000

### B. ESTIMATED INCOME AND EXPENSES

DESCRIPTION	ESTIMATED AMOUNT		
	First Year	Second Year	Third Year
GROSS INCOME			
90 % of total estimated average deposits)	35,000	100,000	165,000
EXPENSES:			
1. Salaries and benefits (No. of employees -4-)	35,000	37,500	41,500
2. Interest on time and savings deposits	17,500	52,500	77,500
3. Net occupancy expense (details below)	35,500	35,700	36,000
4. Furniture & equipment (depreciation, rental, etc.)	5,600	5,600	5,600
5. Other expenses			
Advertising			
Telephone			
Legal			
Postage			
Computer services			
Miscellaneous	400	500	600
6. Net preopening expenses (First year only)	10,000	-	-
TOTAL ESTIMATED EXPENSES	104,000	131,800	161,200
ESTIMATED NET PROFIT (OR LOSS)	(69,000)	(31,800)	3,800
OCCUPANCY:			
Rent	26,000	26,000	26,000
Depreciation	2,000	2,000	2,000
Maintenance (including building staff salaries)	1,500	1,500	1,500
Insurance Blanket Coverage	-	-	-
Taxes on real estate Estimated	1,000	1,000	1,000
Utilities (heat, light, power, etc.) Estimated	5,000	5,200	5,500
Other occupancy expenses	06 -	-	-

Total occupancy expenses	35,500	35,700	36,000
Less: Rental income	-	-	-
NET OCCUPANCY EXPENSES (should agree with line 3)	35,500	35,700	36,000

## VII. PUBLIC INTEREST

INSTRUCTIONS: ANSWER IN DETAIL. APPLICANTS ARE ENCOURAGED TO FURNISH ADDITIONAL INFORMATION ON SEPARATE PAPER TO PROVE THAT GRANTING OF THE CERTIFICATE WILL BE IN THE PUBLIC INTEREST.

### 1. PROVIDE A STATEMENT ON THE DEPOSIT AND LOAN SERVICES TO BE OFFERED. INCLUDING RATES.

Checking: Personal and Commercial Accounts. In addition, automatic funds transfer service called SCAT.

Savings: Regular Passbook, Statement Savings, Christmas Club, Giant Bankbook, Certificates of Deposit (all types).

Loans: all types of secured, unsecured, installment, time, demand and mortgage loans, including floor plan loans, credit cards and overdraft checking credit called cash-a-matic.

Rates: Rates on time deposits and on loans will be in accordance with First Virginia Bank - Shenandoah Valley rate policy at that time. See detailed loan policy attached.

Official Checks: Cashier's Checks, International Drafts and Wire Transfers.

### 2. PROVIDE A STATEMENT OF OTHER RELATED SERVICES TO BE OFFERED.

The full range of commercial and retail banking services offered by First Virginia Bank - Shenandoah Valley will be offered at the proposed branch. These include direct and indirect credit, trust services, wire funds transfer, international banking services, credit life and accident and health insurance, Master Charge and Visa credit cards including overdraft lines of credit, American Express Travelers Cheques, safe deposit boxes, investment services, and safekeeping services.

### 3. STATE THE DAYS AND HOURS THAT THE PROPOSED BRANCH WILL BE OPEN FOR BUSINESS. STATE THE DAYS AND HOURS THAT DRIVE-IN FACILITIES, IF ANY, WILL BE OPEN FOR BUSINESS.

Lobby and Drive-in: Monday through Thursday - 9:00 A.M. to 5:00 P.M.  
Friday - 9:00 A.M. to 6:00 P.M.  
Saturday - 9:00 A.M. to 12:00 Noon

### 4. DESCRIBE THE SERVICES PROVIDED BY OTHER FINANCIAL INSTITUTIONS WITHIN THE PROPOSED TRADE AREA INCLUDING THE INTEREST RATES PAID FOR DIFFERENT DEPOSITS AND THE INTEREST RATES CHARGED FOR DIFFERENT LOANS. STATE HOW THE PROPOSED BRANCH WILL DIFFER IN THE QUANTITY, QUALITY AND SERVICES TO BE OFFERED.

The services provided by other financial institutions within the proposed trade area include the more conventional and traditional services offered by financial institutions. Interest rates paid for deposit accounts and charged for loan accounts are generally competitive with other similar financial institutions.

The quality and quantity of service to be offered by the proposed branch will differ in a number of ways:

- (1) Continuous full service banking will be offered daily until 5:00 P.M.; until 6:00 P.M. on Fridays; and until 12:00 Noon on Saturdays. At present the other banks offer limited drive-in service only during weekday extended hours.

- (2) First Virginia is the only bank in the area offering and promoting Savings to Checking Automatic Transfer Plan (SCAT), where a customer can get the interest of a savings account and convenience of a checking account in one system.
- (3) The proposed branch will be able to offer much needed dealer financing to provide an outlet for consumer paper which is not presently being offered to any large degree by the existing banks.
- (4) First Virginia Bank - Shenandoah Valley is actively soliciting second trust loans and offers individual lines of credit and overdraft protection (Cash-a-matic).
- (5) First Virginia Bank - Shenandoah Valley, as a card-issuing bank for both Visa and Master Charge, is able to serve consumers efficiently as well as providing merchant services which are greatly needed in this rapidly growing shopping center.
- (6) The proposed branch will provide ample parking facilities for its customers. Present banking facilities do not provide adequate parking in many instances.
- (7) First Virginia Bank - Shenandoah Valley is a state-wide member bank of the First Virginia system which includes 163 branch locations offering virtually state-wide check cashing services to its customers. Due to its large regional base, First Virginia Bank can provide other services of superior quality and quantity to those offered by other banks in the area.

We have not attempted to make loan rate and savings rate comparisons as with the basic drastic changes that have taken place in the money market in the past sixty days rates at any institution are in a state of influx.

#### VII. PUBLIC INTEREST (continued)

PROVIDE THE FOLLOWING GROWTH INDICATORS OF THE CITY, OR COUNTY, OR METROPOLITAN AREA WITH-  
IN WHICH THE PROPOSED BRANCH WILL BE LOCATED AND GIVE SOURCE OF INFORMATION.

ITEM	SOURCE	PAST FIVE YEARS (Indicate year)				
		1948	1947	1946	1945	1944
Population	Lord Fairfax Plann. Comm.	19,800	19,200	18,800	18,400	17,900
Employment	"	8,531	7,990	7,395	8,221	7,517
Building Permits	"	219	330	300 (est.)	391	761
Total value of Building Permits	"	5,812M	7,334M	7,000M(est.)	7,009M	12,790M
Income Per Capita	"	Unavailable	5,771	5,204	4,711	4,515
Retail Sales	"	65,019M	57,798M	50,181M	45,768M	44,147M
Deposits in Banks	The Branch Directory	70,347M	60,898M	59,562M	47,028M	Unavailable
Deposits in Savings & Loan Associations	& Summary of Deposits	11,146M	8,607M	7,282M	Unavailable	Unavailable



7. DEFINE THE PRIMARY TRADE AREA (the area where more than 75 percent of deposits will originate) AND GIVE DETAILS REGARDING ECONOMIC CHARACTERISTICS, SUCH AS RESIDENTIAL AND BUSINESS CONSTRUCTION, AVERAGE HOUSING VALUES, SHOPPING CENTERS, MANUFACTURING AND INDUSTRIAL PLANTS, TRAFFIC PATTERNS, POTENTIAL FOR FURTHER DEVELOPMENT ETC. STATE THE NUMBER AND DOLLAR AMOUNT OF DEPOSITS AND LOANS THE APPLICANT PRESENTLY HAS IN THE PROPOSED PRIMARY SERVICE AREA, IF ANY.

It is our intention to establish a free-standing full service branch in the center of the present parking lot in the Royal Plaza Shopping Center, Front Royal, Virginia. A map is attached which points out the location.

Front Royal is the county seat of Warren County and is the location of the county's major business, commercial, industrial and health facilities. Royal Plaza Shopping Center is the largest of the two shopping centers in Front Royal with the county's only A & P and Safeway Stores located there, and is conveniently located to the downtown section of Front Royal.

Warren County, Front Royal and the Royal Plaza Shopping Center should benefit significantly with the completion of Interstate 66 anticipated within the next six months. East-west traffic volume will be greatly increased with the more convenient accessibility to the Washington metropolitan area.

The Town of Front Royal, being the county seat, has approximately 55% of the total population of Warren County. Due to the central location and ready accessibility to the entire county, we have designated Warren County as our primary trade area.

Present projections indicate a major population expansion due to being only one hour and thirty minutes from the Virginia side of the Washington metropolitan area, which has an estimated population of 1,250,000 people. The number of people who will elect to live in Warren County and work in the metropolitan area will increase due to the favorable tax rate and the modest housing cost.

Warren County's major employment is in manufacturing, followed by service workers and wholesale and retail trades people. Avtex Fibers is the leading manufacturer, employing approximately 2,000 people. E. I. duPont has recently announced the location of a new plant offering employment to approximately 250 people. Future expansion of small manufacturing companies is anticipated with the completion of Interstate 66 which intersects with Interstate 81 making Warren County ideally located, being only a day's drive by trucking firms from New York and Philadelphia. Attached is a listing of the principal industrial employers in the primary service area.

Single family dwellings make up the majority of the housing in Warren County. Most of the newer homes in the county are found in the subdivisions throughout the county and along the major secondary roads. The cost of single family dwellings has increased to an average of \$35,000. to \$65,000. per unit. With Farmers Home Administration financing there has been increased activity in townhouse and apartment construction within the Town of Front Royal and Warren County.

Warren County is ideally located to the following major cities: 69 miles from Washington, D.C., 107 miles from Baltimore and 129 miles from Richmond.

First Virginia Bank - Shenandoah Valley presently has a very good base of deposits and loans outstanding in the proposed primary service area. Our total deposits are \$1,366,000. in 460 accounts and total loans of \$2,672,000. in 452 accounts.

As stated in Warren County's last Comprehensive Plan, it is local governments intention to promote controlled commercial and residential growth. First Virginia Bank - Shenandoah Valley at present has no location in Warren County and feels that this is an expanding area where our services can be used to promote the orderly growth of this community and serve our present customers.

FRONT ROYAL-WARREN COUNTY INDUSTRY LIST

<u>Names &amp; Addresses of Plants</u>	<u>No. Employees</u>	<u>Product</u>
Allied Chemical Corporation Industrial Chemical Division Kendrick Lane Front Royal, Virginia 22630	25	Sulphuric Acid
AVTEX Fibers, Inc. Kendrick Lane Front Royal, Virginia 22630	2,000	Rayon Tire Cord Polyester
Front Royal Garment Co. 311 Commerce Avenue Front Royal, Virginia 22630	100	Dresses Sportswear
Heckman Bindery, Inc. Route 522 South, P.O. Box 906 Front Royal, Virginia 22630	9	Bookbinding
Jackson Furniture Co. E. 6th Street, P.O. Box 43 Front Royal, Virginia 22630	120	Upholstery Furniture
Lillian's Sportswear Mfg. Co. Route 55 West, P.O. Box 1611 Front Royal, Virginia 22630	39	Clothing
Old Virginia, Inc. 6th Street Ext. Front Royal, Virginia 22630	100 - 175	Seasonal Jams & Jellies
Riverton Corporation Riverton, Virginia 22651	150	Masonry Cement Stone
Shenandoah Fiberglass Products 210-B E. 4th Street Front Royal, Virginia 22630	22	Fiberglass Pipe
Zuckerman Steel Corporation 221 E. 5th Street, P.O. Box 528 Front Royal, Virginia 22630	15	Steel Fabrication New Steel Scrap Iron

# VII. PUBLIC INTEREST (continued)

LIST ALL THE FINANCIAL INSTITUTIONS WHOSE TRADE AREA IS OR OVERLAPS WITH THE PROPOSED TRADE AREA. INCLUDE ALL OFFICES OF BANKS AND SAVINGS AND LOAN ASSOCIATIONS AND SHOW THE DEPOSITS OF EACH OFFICE IN THE LAST THREE YEARS, SPECIFYING THE DATE.

NAME AND LOCATION	DATE ESTABLISHED	DISTANCE & DIRECTION	IN THOUSANDS OF DOLLARS DEPOSITS IN EACH OFFICE		
			6/30/1978	6/30/1977	6/30/1976
Banking Offices					
Farmers & Merchants National Bank 433 South Street Front Royal, Va.	7/6/71	.1 mile South	2,572	2,251	1,848
102 East Main Street Front Royal, Va.	5/23/69	.9 mile North	26,136	22,856	19,172
215 North Royal Ave. Front Royal, Va.	5/23/69	1.2 miles North	5,518	4,907	4,320
Bank of Virginia/Warren					
610 N. Royal Ave. Front Royal, Va.	11/7/66	1.5 miles North	1,450	1,162	806
307 East Main St. Front Royal, Va.	1/3/72	.9 mile North	27,213	23,837	21,844
The Peoples Bank of Front Royal					
232 North Royal Ave. Front Royal, Va.	3/31/73	1.2 miles North	7,428	5,885	4,290
Bentonville Bentonville, Va.	10/1/79	10.0 miles South	n/a	n/a	n/a
			6/30/1978	6/30/1977	6/30/1976
Savings and Loan Offices					
First Federal Savings and Loan 1 South Royal Avenue Front Royal, Va.	1964		9,580	7,808	7,282

The undersigned certifies that he is the president of the applicant, that he believes the facts herein before stated to be true, and that he has been duly authorized by the board of directors of the applicant to file this application.

October 25, 1979

DATE

011

PRESIDENT



COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
AT RICHMOND

APPLICATION OF  
UNITED VIRGINIA BANK - SHENANDOAH VALLEY CASE NO. BFI 800001

COMES NOW your Protestant, Front Royal Savings and Loan Association, and files herewith its Protest in the above captioned matter and states as follows:

1. The Protestant is a newly certificated financial institution which has not yet opened for business, but which has been granted conditional approval of insurance of accounts, located in the proposed primary service area of the Applicant.

2. The granting of a certificate of authority to the Applicant for the location of a new branch at Royal Plaza Shopping Center is opposed by this Protestant for the following reasons which the Protestant shall establish by competent evidence:

a. The addition of a new branch at this location will not serve the public interest in that:

(1) The proposed branch will not generate further healthy competition but rather will create excessive competition which will be detrimental to the community.

(2) The proposed branch will not provide additional convenience or services to the community.

(3) The proposed branch will not provide increased efficiency.

(4) The proposed branch will particularly jeopardize the financial soundness of the Protestant and the other licensed financial institutions in the proposed Primary Service Area.

b. The proposed primary service area is adequately serviced by the existing financial institutions at present.

c. The Protestant is a newly established savings and loan institution which will require a reasonable period of time within which to become established on a sound financial basis.

d. Your Protestant originally applied for a certificate of authority in 1973 and by order of October 3, 1973 was denied on the ground that there was no public need. This order was issued primarily because People's Bank of Front Royal had just been certificated and the Commission sought to provide a period of time for People's to become soundly established.

e. The primary service area is not experiencing at present significant economic or demographic growth to justify the addition of this new branch.

f. The success of the Applicant's branch relies on the ability of the Applicant to subsidize this branch and not upon providing additional convenience factors or serving the public interest;

g. The projections of the Applicant are wholly unrealistic with regard to current economic indicators of present and future growth in the proposed primary service area;

h. The proposed primary service area of the Applicant is unsubstantiated by the economic and demographic realities of the locale;

i. There exists no unsatisfied need for additional mortgage money in the area.

3. The Protestant would respectfully submit that the application for a certificate of authority should be denied.

FRONT ROYAL SAVINGS AND LOAN  
ASSOCIATION

By: Charles E. Pikrallidas  
Counsel

Charles E. Pikrallidas  
Charles E. Pikrallidas  
THOMSON, PIKRALLIDAS & SCHOTT  
201 North Washington Street  
Alexandria, Virginia 22313  
Counsel for Protestant

CERTIFICATE

I hereby certify that a copy of the foregoing Protest was mailed to Edward L. Breeden, Jr., counsel for the applicant, 1700 First Virginia Bank Tower, Norfolk, Virginia 23510; Hugh D. McCormick, Esq., counsel for Peoples Bank of Front Royal, Court House Square, Front Royal, Virginia 22630; and to the Commissioner of Financial Institutions (Attn: Nicholas C. Kyriakides, Deputy Commissioner for Research and Structure), this 25<sup>th</sup> day of March, 1980, postage prepaid.

Charles E. Pikrallidas  
Charles E. Pikrallidas



COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
AT RICHMOND

APPLICATION of  
FIRST VIRGINIA BANK - SHENANDOAH VALLEY

CASE NO. BFI 800001

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(4) The proposed branch will particularly jeopardize the financial soundness of the Protestant and the other licensed financial institutions in the proposed Primary Service Area.

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c. The Protestant is a newly established savings and loan institution which will require a reasonable period of time within which to become established on a sound financial basis.

d. Your Protestant originally applied for a certificate of authority in 1973 and by order of October 3, 1973 was denied on the ground that there was no public need. This order was issued primarily because People's Bank of Front Royal had just been certificated and the Commission sought to provide a period of time for People's to become soundly established.

e. The primary service area is not experiencing at present significant economic or demographic growth to justify the addition of this new branch.

f. The success of the Applicant's branch relies on the ability of the Applicant to subsidize this branch and not upon providing additional convenience factors or serving the public interest;

g. The projections of the Applicant are wholly unrealistic with regard to current economic indicators of present and future growth in the proposed primary service area;

h. The proposed primary service area of the Applicant is unsubstantiated by the economic and demographic realities of the locale;

i. There exists no unsatisfied need for additional mortgage money in the area.

3. The Protestant would respectfully submit that the application for a certificate of authority should be denied.

FRONT ROYAL SAVINGS AND LOAN  
ASSOCIATION

By: Charles E. Pikrallidas  
Counsel

Charles E. Pikrallidas

Charles E. Pikrallidas  
THOMSON, PIKRALLIDAS & SCHOTT  
201 North Washington Street  
Alexandria, Virginia 22313  
Counsel for Protestant

CERTIFICATE

I hereby certify that a copy of the foregoing Protest was mailed to Edward L. Breeden, Jr., counsel for the applicant, 1700 First Virginia Bank Tower, Norfolk, Virginia 23510; Hugh D. McCormick, Esq., counsel for Peoples Bank of Front Royal, Court House Square, Front Royal, Virginia 22630; and to the Commissioner of Financial Institutions (Attn: Nicholas C. Kyriakides, Deputy Commissioner for Research and Structure), this 25<sup>th</sup> day of March, 1980, postage prepaid.

Charles E. Pikrallidas

Charles E. Pikrallidas

AUG 11 3 47 PM '80

AT RICHMOND, AUGUST 11, 1980

APPLICATION OF

FIRST VIRGINIA BANK-SHENANDOAH  
VALLEY

CASE NO. BFI800001

For authority to establish a  
branch at the Royal Plaza  
Shopping Center, Front Royal,  
Warren County, Virginia

A hearing on the subject application was held April 24, 1980.\* The applicant was represented by Edward L. Breeden, Jr. and Edward L. Breeden, III, its counsel. James M. Thomson appeared as counsel for the protestant, Front Royal Savings and Loan Association (in organization). Commission counsel William F. Schutt was present.

Now having considered the application herein, the report of investigation submitted by the Bureau of Financial Institutions, and all the evidence and exhibits introduced at the hearing, the Commission is of the opinion and finds: that the applicant has paid-up and unimpaired capital and surplus in an amount deemed necessary to warrant additional expansion; that the proposed branch office will be located within fifteen miles of the boundary line of Shenandoah County, in which county the main office of the applicant is; and that the public interest will be served by permitting the applicant to establish the branch for which it has applied.

\* A proceeding on the branch application of Peoples Bank of Front Royal (Case No. BFI800008), which had been scheduled for a hearing in conjunction with the subject application, was continued generally upon motion of the applicant's counsel.

THEREFORE, IT IS ORDERED that First Virginia Bank-Shenandoah Valley be authorized to establish a branch bank at the Royal Plaza Shopping Center, Front Royal, Warren County, Virginia, and such establishment hereby is authorized, subject to the following condition: the authority to operate a branch bank granted herein shall be effective February 2, 1981, and shall expire February 2, 1982, unless extended by order of the Commission. The branch may be opened for business only on or after February 2, 1981, and the applicant shall notify the Commissioner of Financial Institutions of the date it is opened for business.

ATTESTED COPIES hereof shall be sent to Edward L. Breeden, Jr., and Edward L. Breeden, III, counsel for the applicant, 1700 First Virginia Bank Tower, Norfolk, Virginia 23510; James M. Thomson, counsel for the protestant, P.O. Box 1138, Alexandria, Virginia 22313; Charles R. Cash, President of the applicant, 200 North Main Street, Woodstock, Virginia 22664; Ronald S. Gilliam, President, Front Royal Savings and Loan Association (in organization), 27 South Royal Avenue, Front Royal, Virginia 22630; Hugh D. McCormick, Chairman of the Board and counsel, and W. M. Willson, Jr., Executive Vice-president, The Peoples Bank of Front Royal, 232 North Royal Avenue, Front Royal, Virginia 22630; Federal Reserve Bank of Richmond, 701 East Byrd Street, Richmond, Virginia 23219; Virginia Bankers Association, 700 Building, 700 Main Street, Richmond, Virginia 23203; and to the Commissioner of Financial Institutions.

A True Copy

Teste:



019

Clerk of State Corporation Commission



COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
RICHMOND

Dec 11 2 09 PM '80

AT RICHMOND, DECEMBER 11, 1980

APPLICATION OF

FIRST VIRGINIA BANK-SHENANDOAH VALLEY

CASE NO. BFI800001  
OPINION

For authority to establish a branch  
at the Royal Plaza Shopping Center,  
Front Royal, Warren County, Virginia

On October 26, 1979, First Virginia Bank-Shenandoah Valley applied for a branch in Front Royal. Initially the application was opposed by Peoples Bank of Front Royal, First Federal Savings and Loan Association of Front Royal, and Front Royal Savings and Loan Association, an association which was then organized but not open.<sup>1</sup> Peoples Bank and First Federal subsequently withdrew their opposition.<sup>2</sup>

After evidence had been pre-filed by First Virginia, a hearing on the subject application was held April 24, 1980. At the hearing investigation reports of the Bureau of Financial Institutions dated April 17, 1980, on the First Virginia application and on a branch application filed February 1, 1980, by Peoples Bank were received into

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<sup>1</sup> Front Royal S&L was granted a certificate of authority February 21, 1979. 1979 SCC Ann. Rept. 237. That decision was affirmed on appeal January 11, 1980 in Shenandoah S&L v. Front Royal S&L, 220 Va. 718 (1980).

<sup>2</sup> By letters dated January 29, 1980, and February 28, 1980, respectively.

the record by stipulation of counsel.<sup>3</sup> At the conclusion of the hearing the matter was taken under advisement. By order dated August 11, 1980, the application was granted, effective February 2, 1981.

First Virginia Bank-Shenandoah Valley traces its origins to Shenandoah County Bank, which was chartered in 1871. A successor organization established in 1935, Shenandoah County Bank and Trust Company, became a member of the First Virginia holding company in 1962. Mergers with Massanutten Bank of Strasburg in 1966 and with Peoples Bank of Mt. Jackson in 1969 completed the formation of the present institution, which converted to a state-chartered bank and took the name, First Virginia Bank-Shenandoah Valley, September 30, 1978. First Virginia currently operates three offices in Woodstock and one each in Mt. Jackson and Strasburg. As of December 31, 1979, the applicant had total deposits of approximately \$54.6 million and total assets of some \$60.3 million.

First Virginia proposes to open a 2400 square-foot banking office in the approximate middle of the parking area of the Royal Plaza shopping center, which is located on the southern edge of the town of Front Royal just southwest

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<sup>3</sup> The application of Peoples Bank also had been scheduled for hearing April 24; however, at the request of counsel that proceeding was continued generally.

of the intersection of South Street (Route 55 east from town) and Route 522 (which bears several street designations). The branch would be a free-standing building with facilities for three drive-in lanes. At present Royal Plaza has an "in-line" office of Farmers and Merchants National Bank; that office is within the row of businesses and lacks a drive-in facility. Customers of either branch bank would have the use of Royal Plaza's 870 parking spaces.

Royal Plaza, which features two large grocery chain stores and two department stores, is the only major shopping center in Front Royal - or in the county, for that matter. It draws shoppers from all over Warren County; testimony indicated that the shopping center attracted some customers from Page, Shenandoah, and Rappahannock counties, as well. Generally speaking, Front Royal is the commercial and financial center of Warren County. Consequently, Warren County was depicted as representing the primary service area (PSA) of the proposed First Virginia branch (despite the fact that the applicant's branch in Strasburg would be closer to some places in the northwest corner of Warren County than would the proposed office).

The economy of Warren County is dependent on manufacturing, and is not well diversified; agriculture (mainly livestock) and tourism, other basic segments, rank far below manufacturing

in importance. As the Bureau's investigation report noted,<sup>4</sup> the significance of agriculture is diminishing, while that of tourism is increasing. Diversification of the economy appears to be improving to some degree through growth of the transportation-and-utilities, government, trade, and services sectors.

Avtex Fibers, Inc. is the predominant manufacturing firm in the county, employing some 2,000 people. According to John K. Marlowe (who testified on behalf of First Virginia on the basis of knowledge he had acquired in a number of capacities) Avtex is currently engaged in several extensive, costly projects to improve its plant, and is moving its research and development department to Front Royal from Pennsylvania.<sup>5</sup> A DuPont automobile paint factory, which will employ about 300 workers, is scheduled to begin full production July 1, 1981, said Mr. Marlowe, a member of the local committee for liaison with DuPont. The addition of this plant will diversify somewhat the area's manufacturing sector.

An area toward the northern end of Front Royal is poised for additional industrial development by virtue

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<sup>4</sup> This investigation report for the First Virginia application will be referred to as the Report.

<sup>5</sup> Mr. Marlowe, a Front Royal native, is an AMC-Jeep-Lincoln/Mercury dealer. He is Chairman of the Warren County Board of Supervisors and a member of the Lord Fairfax Planning District Commission. He is a director of Peoples Bank of Front Royal.

of the construction of extensive water and sewer facilities which are well under way. The testimony and exhibits of Walter M. Duncan, Front Royal's town manager, described the extent of these water and sewer installations. The availability of railway transportation facilities and the virtual completion of Interstate Route 66 connecting Front Royal with Washington, D.C. - and points in-between - further militate toward the development and growth of the Front Royal area.

Population growth, fundamental to the support of additional financial institutions and offices, has characterized Warren County in the past decade; substantial growth is projected to continue. According to U. S. Census Bureau figures, population in the county grew 4.4 percent (14,655 to 15,301) between 1960 and 1970. A provisional estimate by the Tayloe-Murphy institute put the county's 1978 population at 19,800, for a 29.4 percent increase over eight years. The projection of the Virginia Department of Planning and Budget for 1980 is 21,500; this figure represents an 8.5 percent change in the two years since 1978. By 1985 Warren County is predicted to grow to 24,900 - by 1990 to 28,200, a 31 percent increase for the decade.

The growth of population in the county is not dependent entirely on the creation of local sources of employment;

Warren County residents commute to out-of-county jobs. This was the case even in 1970.<sup>6</sup> The accessibility afforded by I-66, though, has resulted more recently in the Front Royal area's increasingly becoming a "bedroom community" - perhaps not so much for workers in Washington, D.C., proper, as for those employed in the rapidly-developing counties surrounding it.

Income and retail sales results were ambiguous. The rate of growth in personal income in Warren County outstripped that of the state as a whole for the years 1970-1977, but the county's per capita income (total income divided by population) in 1977 was still below the state level. This latter measure of income grew at a lower rate than the state's, partly because of the Warren's rapid population growth.<sup>7</sup>

Using Virginia Department of Taxation figures, the applicant said Warren County retail sales had grown 145 percent (\$26.5 million to \$65 million) between 1970 and 1978, while Virginia's was increasing 131 percent (\$7.2 billion to \$16.6 billion).<sup>8</sup> The Bureau reported, however, based on published estimates from Sales Management, county sales growth of 95.8 percent (\$31 million to \$60.7 million)

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<sup>6</sup> Exhibit 1, Table 12.

<sup>7</sup> Exhibit 1, Table 6 and Report, p. 6 and Table II.

<sup>8</sup> Exhibit 1, Table 13A.

over the same period versus 141.1 percent growth in Virginia.<sup>9</sup> No explanation of this discrepancy between the two sources was offered.

The witnesses agreed that housing growth, which peaked in 1974, then dropped, and began rising again in 1977, had been strong. Demand for housing was expected to remain high in view of the anticipated population increases.<sup>10</sup>

Growth of deposits in Warren County's financial institutions was consistent and substantial until 1978. Then, between the middle of 1978 and mid-1979, bank deposits in the county declined by \$864,000: Farmers and Merchants' reported deposits were \$1.7 million lower and Bank of Virginia's were down some \$670,000, while Peoples Bank grew \$1.58 million. During the same period deposits in First Federal grew \$3.07 million. By year-end, 1979, deposits in Peoples Bank had risen some \$1.7 above the June 30 figure, and Bank of Virginia showed a \$1.1 million increase. Farmers and Merchants' deposits held steady at \$32.5 million. First Federal grew some \$.7 million in deposits during the last three months of 1979.

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<sup>9</sup> Report, p. 7.

<sup>10</sup> Report, p. 7, and Exhibit 1, p. 10 and Table 15.



Three banks operate a total of seven offices in Warren County. With the exception of the new Bentonville office of Peoples Bank, all the offices of financial institutions are located in the town of Front Royal. Most of the offices of financial institutions in Front Royal are clustered in the mid-town business district. However, Bank of Virginia has a branch at 610 North Royal Avenue (deposits \$2 million), and (as noted earlier) Farmers and Merchants has an office at Royal Plaza (deposits \$2.7 million as of June 30, 1979). The office site of Front Royal S&L is at Sixth Street and Commerce Avenue, a few blocks east of the Bank of Virginia branch - north of the mid-town area and roughly a mile from Royal Plaza.

At the end of 1979 the distribution of deposits among Warren County banks was: Farmers and Merchants - \$32.5 million (45 percent), Bank of Virginia - \$29.1 million (40.2 percent), and Peoples Bank - \$10.7 million (14.8 percent). At the date of the hearing First Federal had 100 percent of the area's deposits in savings and loan associations, i.e., \$14.7 million as of December 31, 1979.

Front Royal S&L received its certificate of authority February 21, 1979. The association obtained deposit insurance from the Federal Savings and Loan Insurance Corporation January 3, 1980, and the granting of its certificate was

upheld by the Supreme Court of Virginia January 11, 1980. Four weeks before the hearing in this case Front Royal employed John Salony as chief executive officer. On April 15, 1980, the association issued a call to its nearly 500 subscribers for the balances due on their purchases of stock. May 15 was set as the deadline for payment, and by April 24 approximately \$350,000 of an anticipated capital of \$1 million was in hand. Front Royal S&L planned to open for business July 3, 1980. In order to save construction costs and use more of its assets to produce income, the association's management decided to open in a trailer and to operate in such a facility perhaps as long as two years.

The protestant's pleading in this case stated a number of reasons for opposing the application. Its Protest, filed March 27, 1980, declared:

2. The granting of a certificate . . . is opposed . . . for the following reasons which the Protestant shall establish by competent evidence:

a. The addition of a new branch at this location will not serve the public interest in that:

. . . The proposed branch will not provide additional convenience or services to the community.

\* \* \*

e. The primary service area is not experiencing at present significant

economic or demographic growth to justify the addition of this new branch.

\* \* \*

g. The projections of the Applicant are wholly unrealistic with regard to current economic indicators of present and future growth in the proposed primary service area;

h. The proposed primary service area of the Applicant is unsubstantiated by the economic and demographic realities of the locale;

i. There exists no unsatisfied need for additional mortgage money in the area.

\* \* \*

Needless to say, if proof of these allegations had been introduced, the entire complexion of the case would have been different. However, Front Royal S&L pre-filed no evidence tending to prove such assertions. At the hearing it offered no substantive evidence, instead choosing to rely on information submitted by the applicant and the Bureau (notably the decline in 1978-1979 mid-year deposits in the area), on cross-examination and argument by counsel, and on the testimony of Mr. Salony, its sole witness.

For his part Mr. Salony merely recited what progress the association had made toward opening, and re-iterated its plea for a year's delay in authorizing the branch bank. When asked what the effect on his association would be

if First Virginia's application were granted, Mr. Salony replied merely that Dr. Rakes<sup>11</sup> had indicated that First Virginia was an aggressive competitor, and that "with an aggressive organization like that in the present economic situation, I think we could have a situation where we may run into some problems." (Transcript, p. 185.)

The protestant raised some question concerning First Virginia's making an unusually large number of real estate-related loans. However, it appeared that First Virginia made mostly "shell" home loans and installment loans for various purposes, which were only incidentally secured by liens on real estate - as opposed to the traditional home financing and other real estate lending in which savings and loans specialize.<sup>12</sup> It was not at all clear that Front Royal S&L wished to make "shell" home loans, or that the association and First Virginia would be competing for loans to any substantial extent.

We understood that Front Royal S&L was chiefly concerned that First Virginia not capture deposits that otherwise

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<sup>11</sup> Dr. Ganas K. Rakes, associate professor of finance at the McIntire School of Commerce of the University of Virginia, testified as an expert witness on behalf of the applicant.

<sup>12</sup> "Shell" home financing involves the construction of a home leaving its interior unfinished, to be completed by the buyer, who does the work himself or contracts to have it done. First Virginia apparently has enjoyed a great deal of success in such financing.

might come into the association. We searched the evidence for some estimate of the degree to which First Virginia was expected to detract from Front Royal S&L's deposit projections, and for a reason why a commercial bank from outside the county should have a material adverse impact on the potential deposits of a locally-oriented savings and loan association. No such information was to be found.

The protestant made vague references to difficulties arising from prevailing conditions in the general economy and in the money markets.<sup>13</sup> No connection was drawn, however, between such widespread situations and the effect this First Virginia branch would have on the new association. On the other hand, the evidence was that deposits in First Federal continued to grow during the period when bank deposits declined, in spite of such conditions. The point was made that a new savings and loan will be in a better position to offset the interest it must currently pay on deposits by the interest rates it charges on loans than would be an older association, which would doubtless have in its

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<sup>13</sup> On the basis of economic conditions, Mr. Salony said he had cut budgeted net operating profit from \$79,000 to \$39,000.

portfolio a number of long-term, low-yielding mortgages made in earlier years when low interest rates were the rule.<sup>14</sup>

The primary issue in this proceeding was, in the language of the case law: "jeopardy to the financial soundness" of an existing institution.<sup>15</sup> The Application of Burke and Herbert Bank and Trust Company, 1978 SCC Annual Report 240, affirmed in Services National Bank v. Burke & Herbert Bank, 219 Va. 1031 (1979), presented that same issue, but in a different fact situation. There the protestant's expert witness argued generally that regulatory authorities should protect fledgling banks until they have an opportunity to restore their initial capital losses. We found, on the facts in that case, that the protestant had had a reasonable opportunity to recover its initial losses. We proceeded, however, to opine on the general issue raised

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<sup>14</sup> We take this opportunity to correct an erroneous impression which may exist in the record (Tr., p. 169). Section 6.1-195.34(h) of the Code requires that 60 percent of an association's assets must be invested in loans under subsections (h) home loans, (j) mobile homes, and (k) loans secured by first liens on homes or other real estate. The Commission may permit exceptions to this requirement in the case of unusual circumstances in the real estate markets. There is no limit on the percentage of assets which may be invested in loans secured by first liens on real estate.

<sup>15</sup> Security Bank v. Schoolfield Bank, 208 Va. 458, (1968), and other similar cases.

We agree, generally, that caution should be exercised in permitting additional competition in markets where new institutions are trying to become established. However, the duration of protection, and the risks against which regulators should appropriately protect new banks are matters in which we must exercise judgment.

In this case, while it is apparent that the branch bank will compete for deposits with the new S&L to some degree, we conclude that the addition of First Virginia's branch will not jeopardize the financial soundness of Front Royal Savings and Loan for a number of reasons. First, generally, banks and savings and loan associations are different types of institutions, which traditionally have attracted different types of deposits from somewhat different constituencies.<sup>16</sup> Savings and loan associations also are authorized to pay slightly higher interest rates on passbook accounts and on some certificates of deposit.

In this particular instance, Front Royal S&L has a favorable office location in a different part of town from First Virginia's proposed branch. Front Royal can rely on the support of a large number of stockholders and can expect the support of the local community at large as against

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<sup>16</sup> We believe this situation will continue, despite an impetus toward less differentiation among deposit accounts in banks as opposed to savings and loans. Such an impetus results from the federal Depository Institutions De-regulation and Monetary Control Act of 1980.



an out-of-county bank. Because First Virginia already has a significant number of deposit and loan accounts in the Warren County area, its impact on the market will not be as great as that of an entirely new entrant. The primary reason, of course, that the First Virginia branch will not curtail the deposit growth of the new savings and loan is the fact that the area both plan to serve is undergoing enough growth in population and business development to support both ventures profitably.<sup>17</sup> Any reduction below state levels in population-per-office, we believe, will be short-lived.

The establishment of this branch of First Virginia was shown to be advantageous to the public in a number of ways: In the first place, First Virginia was able to show that it already has a significant number of deposit and loan customers in the Front Royal area.<sup>18</sup> Service of these customers stands to be improved by the establishment of the proposed branch. The addition of a drive-in facility at Royal Plaza will enhance banking convenience. First Virginia will offer safe deposit boxes, which apparently

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<sup>17</sup> We tend to agree with Dr. Rakes' referring to the 1978-79 dip in county bank deposits as an aberration.

<sup>18</sup> Charles R. Cash, President of First Virginia-Shenandoah, testified that his bank had 460 depositors (\$1,365,000 in deposits) and 50 loan customers (\$3,191,000 in loans) in the Front Royal area.

are in demand in Front Royal. It will introduce deposit and loan services presently not available, or only marginally available, at the banks already in town. The bank will offer an economic boost to the community by making available additional funds for business loans, and will give a healthy stimulus to the two dominant banks in the county, with which it will primarily compete. Although it is itself a holding-company bank, the record points to the conclusion that First Virginia will afford these benefits without removing its lending decisions to a remote headquarters.

1978 amendments to §6.1-39 of the Code of Virginia substituted a "public interest" test for that of "public convenience and necessity" in sub-section (c), and made reference in sub-section (a) to the definition of "public interest" set forth in §6.1-13(4).<sup>19</sup> A new sub-section, (c1), of §6.1-39 directs that the Commission

. . . shall follow the policy of favoring smaller institutions unaffiliated with a bank holding company and of not encouraging undue concentration of resources.

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<sup>19</sup> We previously discussed the term "public interest" in a proceeding for a new bank, and concluded that the change in terminology did not change substantially the way we approached our decision in such cases. See Application of State Bank of the Alleghenies, 1978 SCC Ann. Rept. 147, affirmed in Covington National Bank v. State Bank of the Alleghenies, 219 Va. 566 (1978).

in applying the test of public interest.<sup>20</sup>

We do not interpret subsection (cl) of §6.1-39 as a command to deny a holding-company bank's application when it is opposed by a smaller, unaffiliated bank. We would question the constitutionality of applying such an inflexible rule. Rather, we view sub-section (cl) as an explicit reminder to continue what has been the Commission's traditional approach in cases where large and small banks are on opposing sides, i.e., we have customarily taken the position that local ownership and orientation of banks are desirable characteristics, not lightly to be dismissed out of preference for large statewide banking organizations. By enacting sub-section (cl) the General Assembly, in effect, cautioned the Commission not to lose sight of the value inherent in the local control of banks, and not to assist in allowing a small number of banking behemoths to control virtually all the state's financial resources.

We believe the policy in favor of local control of banks is another of many factors which are always implicit in the term "public interest". This policy, like the other factors, must be given meaning and weight in the context

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<sup>20</sup> Another amendment to sub-section (c) permitted branching from one county fifteen miles into another county. Still a fourth amendment permitted the consolidation of several holding company banks, without their forfeiting each bank's individual branching rights. (See sub-sections (e) and (f)).

of a particular situation. The public interest is always paramount; local control is a subordinate consideration to it.

For several reasons we doubt whether sub-section (c1) was intended to afford protection to financial institutions other than banks: (1) The amendment, and the legislative consideration of it, occur entirely in the context of the policy debate on limited-versus-statewide branch banking. (2) Savings and loans have branched state-wide for years. It would be illogical to insulate small associations from the competition of holding company banks, with which they compete only indirectly, while not protecting them from large associations, with which they directly compete. (3) Technically, every savings and loan in Virginia - the largest, as well as the smallest - is unaffiliated with a bank holding company".

Based upon consideration of the evidence in this case, we find that the advantages to the public accompanying the application far outweighed any possible adverse effect it might have. Convenience and service to the public will be substantially improved. On the other hand, we foresee no detriment to the public interest arising from this additional banking office; we believe that the new savings and loan will not be deprived of deposits to a significant

extent - certainly not to an extent which would affect its ability to become profitable and to render service to the community. We are satisfied, therefore, that the public interest will be served by the proposed branch office, and we grant this application.

We earlier indicated our reservations about the import of sub-section §6.1-39(c1), and about its applicability, in the instant case. Nevertheless, we do bear in mind its policy of showing favor toward small, independent institutions - as well as our commitment to exercise caution in permitting additional competition where a new institution is attempting to establish itself.

On the other hand, we are obligated not to detain the applicant unreasonably, thereby holding back from the public a facility we find to be beneficial to it. We resolve these conflicting objectives by granting the branch authorization, but postponing its effective date until February 2, 1981 - a date nine months after the hearing on this application, and more than a year after the time when Front Royal S&L was fully authorized to open for business.<sup>21</sup>

ATTESTED COPIES hereof shall be sent to Edward L. Breeden, Jr., and Edward L. Breeden, III, counsel for the

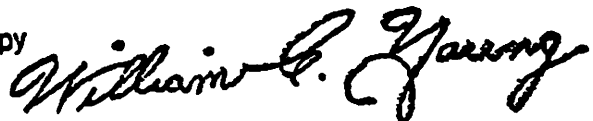
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<sup>21</sup> Records of the Bureau reveal that First Royal Savings and Loan Association opened for business September 4, 1980.

applicant, 1700 First Virginia Bank Tower, Norfolk, Virginia 23510; James M. Thomson and Charles E. Pikrallidas, counsel for the protestant, P.O. Box 1138, Alexandria, Virginia 22313; Charles R. Cash, President of the applicant, 200 North Main Street, Woodstock, Virginia 22664; Ronald S. Gilliam, President, Front Royal Savings and Loan Association, Sixth Street and Commerce Avenue, Front Royal, Virginia 22630; Hugh D. McCormick, Chairman of the Board and counsel, and W. M. Willson, Jr., Executive Vice-President, The Peoples Bank of Front Royal, 232 North Royal Avenue, Front Royal, Virginia 22630; Federal Reserve Bank of Richmond, 701 East Byrd Street, Richmond, Virginia 23219; Virginia Bankers Association, 700 Building, 700 Main Street, Richmond, Virginia 23203; and to the Commissioner of Financial Institutions.

A True Copy

Teste:



Clerk of State Corporation Commission

**INVESTIGATION REPORT**  
**BUREAU OF FINANCIAL INSTITUTIONS**  
**STATE CORPORATION COMMISSION**

**FIRST VIRGINIA BANK - SHENANDOAH VALLEY**  
**WOODSTOCK, SHENANDOAH COUNTY, VIRGINIA**

**APPLICATION FOR A BRANCH IN THE ROYAL PLAZA SHOPPING CENTER,**  
**U.S. ROUTE 55 (SOUTH STREET),**  
**JUST WEST OF ITS INTERSECTION WITH U.S. ROUTE 522,**  
**TOWN OF FRONT ROYAL, WARREN COUNTY, VIRGINIA**

**Prepared By:**

**William C. Herbert, III**  
**Economic Investigator**  
**Division of Research and Structure**

**April 17, 1980**



## THE PROPOSED ROYAL PLAZA OFFICE

### Location and Premises

The proposed branch will be located in the Royal Plaza Shopping Center, on U.S. Route 55 (South Street), just west of its intersection with U.S. Route 522, Town of Front Royal, Warren County, Virginia. The applicant plans to lease 9,832 square feet of shopping center space from Royal Plaza Associates and construct a branch office of 2,500 square feet. The building is expected to cost \$150,000, of which \$115,000 will be reimbursed to the tenant from the landlord. The initial lease term is twenty years with two five-year renewal options. Rental for the first three years of the lease will be \$26,000 per annum and will increase at various points over the life of the lease. The branch will have a drive-in teller window with two additional drive-in teller lanes, and parking appears adequate for the branch's needs. As submitted in the application, net occupancy expenses will total \$35,500 in the first year, \$35,700 in the second year and \$36,000 in the third year.

### Investment in Furniture, Fixtures and Equipment

According to the applicant, a total of \$80,000 will be invested in furniture, fixtures and equipment. This estimate seems realistic.

### Preopening Expenses

The applicant estimates that a total of \$10,000 will be spent in preopening expenses. This estimate includes preopening salaries, preopening advertising, the state application fee and an opening inventory supply. As a result of the public hearing, these costs could reach or exceed \$15,000 when consulting and legal fees are included.

### Future Earnings Prospects

The profitability of the proposed branch will primarily depend on deposit growth, operating expenses and management.

The table below shows the applicant's projected year-end and average deposits:

ESTIMATED DEPOSITS			
Description	First Year	Second Year	Third Year
Year-end Demand	\$ 200,000	\$ 400,000	\$ 700,000
Year-end Time and Savings	500,000	900,000	1,300,000
Year-end Total	\$ 700,000	\$1,300,000	\$2,000,000
Average Demand	\$ 100,000	\$ 300,000	\$ 650,000
Average Time and Savings	250,000	700,000	1,000,000
Total Average	\$ 350,000	\$1,000,000	\$1,650,000

As submitted, the applicant estimates that the proposed branch will generate the following income and expenses during its first three years of operation:

ESTIMATED INCOME AND EXPENSES			
Description	First Year	Second Year	Third Year
GROSS INCOME	\$ 35,000	\$100,000	\$100,000
EXPENSES:			
Salaries and benefits	\$ 35,000	\$ 37,500	\$ 41,500
Interest on time and savings	17,500	52,500	77,500
Net occupancy expense	35,500	35,700	36,000
Furniture & equipment (deprec.)	5,600	5,600	5,600
Miscellaneous	400	500	600
Net preopening expense (1st yr.)	10,000		
TOTAL ESTIMATED EXPENSES	\$104,000	\$131,800	\$161,200
ESTIMATED NET PROFIT (LOSS)	(\$ 69,000)	(\$ 31,800)	\$ 3,800

As shown above, the applicant estimates that the proposed branch will lose \$69,000 in the first year, \$31,800 in the second year and profit by \$3,800 in the third year of operation. The applicant makes no provisions for advertising, telephone, legal, postage or computer service. This economist estimates that these expenses will total \$5,000 or more per year over the applicant's first three years of operation. Thus, the branch may not begin to earn a profit until the fourth year of operation.

#### The Record of the Applicant

First Virginia Bank - Shenandoah Valley, a member bank, converted to a state bank on September 21, 1978. The applicant is a subsidiary of First Virginia Banks, Inc., Falls Church, Virginia, a multi-bank holding company. With its main office in Woodstock, the applicant operates four branch offices. Their locations and recent deposit history are shown below:

First Virginia Bank - Shenandoah Valley Deposits by Office (Thousands of Dollars)				
Location	2-29-80	6-30-79	6-30-78	6-30-77
*200 N. Main St., Woodstock	17,223	17,086	14,429	13,132
496 N. Main St., Woodstock	5,973	5,744	5,237	4,910
State Route 42, Woodstock	1,013	556	(Opened 11-16-78)	
Main Street, Mount Jackson	15,564	15,004	14,932	12,127
King & Holiday Sts., Strasburg	15,262	14,591	16,940	14,973

\*Main Office

Source: '79-80 Branch Directory and Summary of Deposits with Market Indicators, Decision Research Sciences, Inc. (6-30-77 to 6-30-79); First Virginia Bank - Shenandoah Valley (2-29-80)

As the table shows, all of the offices are of a size capable of generating profitable operations, with the possible exception of the Woodstock branch located on State Route 42.

Shown below is a brief comparison of some of the applicant's financial statistics:

FINANCIAL STATISTICS (Thousands of Dollars)				
Description	12-31-79	12-31-78	12-31-77	12-31-76
Assets	60,258	55,556	52,532	46,379
Deposits	54,644	50,548	47,943	42,179
Capital	4,901	4,481	4,101	3,807
Net Income	902	794	674	540
Capital/Assets	8.13%	8.07%	7.81%	8.21%
Net Income/Average Assets	1.56%	1.47%	1.36%	-
Source: Consolidated Reports of Condition and Income submitted to the Bureau of Financial Institutions and the Comptroller of the Currency				

As the table shows, the applicant has a good record of growth in assets and deposits. Assets totaled \$60.3 million as of December 31, 1979, an increase of \$13.9 million in three years. Deposits totaled \$54.6 million as of the same date, an increase of \$12.5 million in three years.

Both net income after taxes and net income after taxes as a percentage of average assets have been increasing. For the fiscal year ended December 31, 1979, net income after taxes totaled \$902,000, earning a 1.56 percent return on average assets. This compared with \$794,000 and \$674,000 for the two preceding fiscal years, earning 1.47 and 1.36 percent on average assets, respectively.

The applicant's capital currently appears to be adequate. The applicant's capital totaled \$4.9 million as of December 31, 1979, 8.13 percent of total assets, which compares with its peer group average of 7.95 percent as of December 31, 1979. Capital as a percentage of assets has ranged from 7.81 to 8.21 percent over the last three years, not fluctuating very widely. Fixed assets totaled \$1,015,000 as of December 31, 1979, 20.7 percent of capital. Approval of the proposed branch would not significantly affect this ratio.

Thus, the applicant's growth in assets and deposits, income record and capital structure appear adequate to enable the applicant to undertake the proposed investment. A statement of condition of the applicant as of December 31, 1979 is shown on the following page.

**FIRST VIRGINIA BANK - SHENANDOAH VALLEY**  
**STATEMENT OF CONDITION**  
**AS OF DECEMBER 31, 1979**

**ASSETS**

Cash and due from depository institutions	\$ 5,211,000
U.S. Treasury securities	3,595,000
Obligations of other U.S. Government agencies and corporations	3,458,000
Obligations of States and political subdivisions in the United States	5,419,000
Federal Reserve stock and corporate stock	69,000
Loans, Total (excluding unearned income)	\$41,251,000
Less: allowance for possible loan losses	<u>310,000</u>
Loans, Net	40,941,000
Bank premises (furniture, fixtures and other assets)	1,015,000
Other Assets	<u>550,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$60,258,000</u></b>

**LIABILITIES**

Demand deposits of individuals, partnerships and corporations	\$10,213,000
Time and savings deposits of individuals, partnerships and corporations	42,762,000
Deposits of United States Government	35,000
Deposits of States and political subdivisions in the United States	1,398,000
Certified and officers' checks	236,000
Total Deposits	54,644,000
Total demand deposits	\$11,034,000
Total time and savings deposits	<u>43,610,000</u>
Other liabilities	<u>713,000</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$55,357,000</u></b>

**EQUITY CAPITAL**

Common stock	\$ 1,310,000
Surplus	1,000,000
Undivided profits	2,503,000
Reserve for contingencies and other capital reserves	<u>88,000</u>
<b>TOTAL EQUITY CAPITAL</b>	<b><u>\$ 4,901,000</u></b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>	<b><u>\$60,258,000</u></b>

## ECONOMIC AND FINANCIAL CONSIDERATIONS

### Introduction

The Town of Front Royal, where the proposed branch is to be located, is the commercial center of Warren County. Warren County lies in northwest Virginia. It is bounded on the north by Frederick and Clarke counties, on the south by Page and Rappahannock counties, on the east by Fauquier and Rappahannock counties, and on the west by Shenandoah County. Warren County has a land area of 219 square miles which is predominately mountainous. The 1978 population was 19,800, including the population of Front Royal.

### Economic Base

The economy of Warren County is not well diversified, being heavily dependent on manufacturing. Apart from manufacturing, other basic industries are agriculture and tourism, although they are of much less importance to the area's economy.

As of March 1978, nonagricultural wage and salary employment by place of work for Warren County, including the Town of Front Royal, totaled 6,273. As of the same date, the manufacturing sector employed 2,575 persons, 41.0 percent of the total nonagricultural wage and salary employment compared with 21.0 percent for Virginia. The manufacturing sector was dominated by a single firm, Avtex Fibers, Inc., manufacturer of man-made fibers. This single firm employs approximately 2,000 persons, a large portion of the total nonagricultural employment in Warren County.

Agriculture and tourism are considered basic industries, since they result in an inflow of money into the area. Livestock is the main source of agricultural income. The significance of agriculture to the area's economy is diminishing, however, and tourism is expanding. The location in Warren County of such tourist attractions as Skyline Caverns, the entrance to the Skyline Drive and Shenandoah National Forest attracts thousands of tourists into the area, supplementing the income of area residents.

One factor which may help the development of Warren County is the completion of Interstate 66, which links Warren County with the Washington, D.C. SMSA. In addition, Dupont is constructing a plant to manufacture paint north of Front Royal which is expected to be fully operational by January 1981. This plant will employ 300 persons. The Dupont project has caused the development of major sewage and water facilities in the area. The availability of these facilities is expected to encourage other major firms to establish plants in the area, which will help diversify the manufacturing sector. Furthermore, the completion of Interstate 66 should bring more tourists into the area in addition to more residents from the Washington, D.C. area. The impact of these developments is bound to be felt by other sectors of the local economy, such as the services, building construction and trade sectors.

## Population

The population of Warren County seems to be increasing at a substantially higher rate in the 1970's than in the previous two decades. Estimates by Tayloe Murphy Institute, presented in Table I, show the 1978 population of Warren County as 19,800, compared to 15,301 in 1970, 14,655 in 1960 and 14,801 in 1950. This constitutes an increase of 29.4 percent in the 1970-1978 period, compared with an increase of only 4.4 percent in the 1960-1970 period and a decline of 1.0 percent in the 1950-1960 period. Thus, the population of Warren County has been growing at an increasing rate from decade to decade.

Projections by the Virginia Department of Planning and the Budget show a continuation of the upward trend but at a slightly lower rate. It is projected that the population of Warren County will reach 21,000 persons by 1980 and 27,300 by 1990.

## Income

The impressive increase in population was accompanied by an equally impressive increase in personal income. While in 1970 personal income in Warren County was \$49.7 million, it increased to \$111.4 million in 1977. This constituted a 124.1 percent increase, compared to a 105.0 percent increase in Virginia.

Per capita income, which is income adjusted for population changes, also experienced growth in Warren County. While in 1970 per capita income in Warren County was \$3,243, it increased to \$5,771 in 1977. This constituted a 79.6 percent increase, compared to an 86.0 percent increase in Virginia. However, as Table II shows, per capita income in Warren County is still below average, representing 84.4 percent of the state average figure.

## Bank Deposits and Savings in Thrift Institutions

Perhaps the most important indicator of the banking potential of an area is the past growth of banking deposits and savings in thrift institutions. As Table III shows, bank deposits in Warren County have been growing at an accelerated rate, as have population and income. In the 1950's, bank deposits increased from \$6.8 million to \$12.1 million or by 77.8 percent. In the 1960's, bank deposits increased to \$24.0 million or by 98.0 percent. In the 1970-1979 period, bank deposits increased to \$69.5 million or by 189.2 percent in a nine-year period. The percentage increase in the 1970's was substantially higher than the percentage increase in Virginia. However, as the table shows, bank deposits declined by \$0.9 million for the year ending June 30, 1979. As of December 31, 1979 bank deposits totaled \$72.2 million, an increase of \$2.7 million in six months.

Similarly, savings in the single thrift institution in the county grew at an accelerated rate. First Federal Savings and Loan Association did not grow much in the 1960's, but in the 1970's its savings increased from \$1.5 million as of May 31, 1970 to \$12.6 million as of March 31, 1979 in the Front Royal office.

## Housing

As did the population and other economic indicators discussed, the housing industry got a big boost in the 1970's. Table IV shows the number of housing units authorized in the county. Between 1970 and 1976, approximately 2,780 housing units were authorized in Warren County. As the table shows, the number of housing units was increasing through 1974, when they reached 762 units, and then declined. However, in 1977 the number of housing units authorized started rising again. With population growing at an increasing rate, the demand for housing is expected to remain strong, although high interest rates may cause a slump in demand in the short run. As the table shows, housing units authorized totaled 219 for 1978 and 119 for the first six months of 1979.

## Retail Sales

Unlike the other indicators examined, retail sales in the 1970-1978 period grew at a slower rate than for Virginia as a whole. In 1978, retail sales in Warren County were estimated at \$60.7 million, compared with \$31.0 million in 1970. This constituted a 95.8 percent increase, compared to a 141.1 percent increase for the state.

## Financial Institutions in Warren County

In Warren County there are three banks with seven banking offices, one thrift institution with one office, and one credit union, all located in the Town of Front Royal with the exception of The Peoples Bank of Front Royal Bentonville office located ten miles to the southwest. These institutions are: (1) Farmers and Merchants National Bank, Winchester, (2) Bank of Virginia, (3) The Peoples Bank of Front Royal, (4) First Federal Savings and Loan Association of Front Royal, and (5) Front Royal Federal Credit Union. Front Royal Savings and Loan Association, a new organization, has been authorized but has not opened for business.

Of the three banks situated in Warren County, Farmers and Merchants National Bank, Winchester has three branches in Front Royal and is the area's largest bank in terms of deposits, with deposits totaling \$32.5 million as of December 31, 1979 or 45.0 percent of the area's total bank deposits. This bank is a wholly-owned subsidiary of F&M National Corporation, Winchester. The second largest bank in the area in terms of bank deposits is Bank of Virginia, with its two branches holding deposits totaling \$29.1 million as of December 31, 1979, or 40.2 percent of the area's total bank deposits. The applicant currently has no office in Warren County or the Town of Front Royal. The applicant's Strasburg office, located just west of the Warren-Shenandoah County line, is the applicant's closest office to Warren County.

The only thrift institution in the county is First Federal Savings and Loan Association of Front Royal, operating one office in Front Royal and one in Winchester. As of September 30, 1979, the Front Royal office of First Federal had savings deposits totaling \$13.3 million.

Competition among financial institutions in the county can be characterized as keen. Population per bank office for Warren County (including Front Royal) totals 3,000 persons, using the Department of Planning and Budget's 1980 population projection, printed January 1980. This compares with the state's average of 2,978 persons per office, using the above source and the number of bank offices in Virginia as of June 30, 1979, taken from the '79-80 Branch Directory and Summary of Deposits with Market Indicators, Decision Research Sciences, Inc. The addition of one new office would decrease the average number of persons per office in Warren County to 2,625. Two new offices would decrease the average to 2,333 persons per office. While only one savings and loan office, First Federal, currently serves Warren County, an additional organization, Front Royal Savings and Loan Association, has State Corporation Commission approval and the conditional approval of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation to begin business in Front Royal.

### The Primary Service Area

The proposed branch will be located in the Royal Plaza Shopping Center on U.S. Route 55 (South Street), just west of its intersection with U.S. Route 522, Town of Front Royal, Warren County, Virginia. The primary service area (PSA) is defined as including the Town of Front Royal and Warren County. The population of the PSA totals 21,500, with approximately 10,000 persons living in the Town of Front Royal, the county seat. The Peoples Bank of Front Royal also has a branch application pending in Front Royal. The Peoples Bank of Front Royal proposes to locate a branch less than 0.5 mile to the north of the site of the subject application.

Front Royal is the financial and commercial center of Warren County. Avtex Fibers, Inc., the county's largest single employer, and six of the county's seven bank offices are located in the Town of Front Royal. Most commercial establishments in Front Royal are situated along Royal Avenue, Commerce Avenue, Main Street and South Street. The older downtown area is located along Main Street. Royal Plaza Shopping Center, where the proposed branch site is located, is situated to the south of the downtown area on South Street.

Interstate 66 passes Front Royal to the north, giving the area easy access to the Washington, D.C. area. In addition, Front Royal has a freight depot, with two rail lines running through the town, including the Southern and Norfolk & Western railways.

The Royal Plaza Shopping is the area's largest shopping center. Two major grocery chains have stores in the shopping center, with a substantial number of other retailers as well. Farmers and Merchants National Bank also has a branch office located in this shopping center.

The president of the applicant institution notes in his prefiled testimony that his bank currently serves customers with deposits totaling \$1,366,000 million and loans totaling \$3,191,767, who either live or own property in the PSA.



As stated earlier, three banks currently serve the Front Royal-Warren County area, including Farmers and Merchants National Bank, with three offices, Bank of Virginia, with two offices, and The Peoples Bank of Front Royal, with two offices. The Bentonville office of The Peoples Bank of Front Royal is the only bank office in Warren County that is not located in the Town of Front Royal.

The table below shows the location and deposit history of the bank offices and savings and loan office located in Warren County:

WARREN COUNTY DEPOSITS BY BRANCH OFFICE (Thousands of Dollars)					
Banks	12-31-79	6-30-79	6-30-78	6-30-77	6-30-76
<u>Front Royal</u>					
Bank of Virginia					
307 East Main Street	27,026	26,063	27,213	23,837	21,844
610 North Royal Ave.	2,024	1,899	1,480	1,162	806
Farmers and Merchants National Bank					
433 South Street	*	2,717	2,572	2,251	1,848
102 East Main Street	*	24,275	26,136	22,856	19,172
215 North Royal Ave.	*	5,524	5,518	4,907	4,320
The Peoples Bank of Front Royal					
232 North Royal Ave.	10,479	9,005	7,428	5,885	4,290
<u>Bentonville</u>					
The Peoples Bank of Front Royal					
U.S. Highway 340	223	-0-	-0-	-0-	-0-
<u>TOTAL</u>	<u>72,219</u>	<u>69,483</u>	<u>70,347</u>	<u>60,898</u>	<u>52,280</u>
<u>Savings and Loans</u>	<u>9-30-79</u>	<u>3-31-79</u>	<u>3-31-78</u>	<u>3-31-77</u>	<u>3-31-76</u>
<u>Front Royal</u>					
First Federal Savings & Loan Association					
1 South Royal Ave.	13,289	12,646	9,580	7,808	5,958
*\$32,467,000 total for all three branches					

All of the branches, except the Bentonville office of The Peoples Bank of Front Royal, are well established, having been open for three and one half years or more. Two of the six offices, operated by Bank of Virginia and Farmers and Merchants Bank, respectively, had deposits of \$1.9 million and \$2.7 million as of June 30, 1979. With the addition of the Bentonville office, three of the area's seven offices had deposits approximating \$3.0 million or less as of December 31, 1979. (Deposits by office for Farmers and Merchants National Bank as of December 31, 1979 were unobtainable.)

The rate of growth of bank deposits appears to have declined for the most recent eighteen-month period shown. For the six-month period ended December 31, 1979, deposits increased \$2.7 million, which compares with a net decrease of almost \$0.9 million for the year ended June 30, 1979 and a net increase of \$9.4 million for the year ended June 30, 1978. Thus, bank deposit growth appears to have slowed somewhat in recent months.

Savings in the one savings and loan office located in the PSA totaled \$13.3 million as of September 30, 1979. This compares with \$12.6 million as of March 31, 1979, \$9.6 million as of March 31, 1978, \$7.8 million as of March 31, 1977, and almost \$6.0 million as of March 31, 1976. Front Royal Savings and Loan Association has State Corporation Commission approval and the conditional approval of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation to begin business in Front Royal.

As stated earlier, the subject application is being considered concurrently with an application of The Peoples Bank of Front Royal to branch in the same area. Approval of the branch of The Peoples Bank of Front Royal would increase competition to some extent but would mainly serve to increase convenience for the area's residents. Approval of the subject application would increase both competition and convenience. The applicant already has a customer base in the area, and establishment of the proposed branch would bring a new entrant into the market to compete full-scale. The major concern becomes the effect that the proposed branch will have on Front Royal Savings and Loan Association, which has yet to open and establish itself in the community.

### Opposition

The subject application was initially opposed by The Peoples Bank of Front Royal, First Federal Savings and Loan Association and Front Royal Savings and Loan Association. Subsequently, The Peoples Bank of Front Royal and First Federal Savings and Loan Association withdrew their opposition.

### Summary

1. The proposed branch will be located in the Royal Plaza Shopping Center on U.S. Route 55 (South Street), just west of its intersection with U.S. Route 522, Town of Front Royal, Warren County, Virginia. The PSA is defined as including the Town of Front Royal and Warren County. The population of the PSA totals 21,500 persons, as projected by the Virginia Department of Planning and Budget, with approximately 10,000 persons living in the Town of Front Royal.

2. The Peoples Bank of Front Royal also has a branch application pending for a location in Front Royal less than 0.5 mile from the proposed branch site of the applicant.

3. While the economy of Warren County is growing, it is not well diversified, depending heavily on manufacturing for its employment base.

4. The applicant estimates that the proposed branch will lose \$69,000 in the first year, \$31,800 in the second year and profit by \$3,800 in the third year of operation. This economist estimates that the proposed branch will not begin to earn a profit until at least the fourth year of operation.

5. The applicant's income record, capital structure and growth of assets and deposits appear sufficient to enable the applicant to undertake the proposed investment.

6. Front Royal Savings and Loan Association has the approval of the State Corporation Commission and the conditional approval of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation to begin business in Front Royal. Approval of the subject application could have an adverse impact on Front Royal Savings and Loan, as it has yet to open for business and the approval of the applicant's proposed branch would bring a new entrant into the market.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Wm. C. Herbert, III", written in a cursive style.

William C. Herbert, III  
Economic Investigator

# APPENDIX

TABLE I  
POPULATION  
WARREN COUNTY

Year	Population	Percentage Change
1952	14,801	---
1960	14,655	(1.0)
1970	15,301	4.4
1978 <sup>1</sup>	19,800	29.4
1980 <sup>2</sup>	21,500	8.5
1990 <sup>2</sup>	28,200	31.2

<sup>1</sup>Estimated by Tayloe Murphy Institute

<sup>2</sup>Projections by Virginia Department of Planning and Budget

Source: U.S. Bureau of the Census, Tayloe Murphy Institute, Virginia Department of Planning and Budget

TABLE II  
PER CAPITA INCOME  
WARREN COUNTY

Year	Per Capita Income	Index (Virginia=100)
1952	\$1,234	102.9
1962	1,740	85.1
1970	3,214	87.4
1977	5,771	84.4

Source: Tayloe Murphy Institute

TABLE III  
BANK DEPOSITS  
WARREN COUNTY

Mid-Year	Bank Deposits	Percentage Change
1950	\$ 6,822,000	---
1960	12,131,000	77.8
1970	24,024,000	98.0
1972	32,745,000	36.3
1973	37,828,000	15.5
1974	42,901,000	13.4
1975	47,028,000	9.6
1976	52,280,000	11.2
1977	60,898,000	16.5
1978	70,347,000	15.5
1979	69,483,000	(1.2)

Source: Federal Deposit Insurance Corporation

TABLE IV  
HOUSING UNITS AUTHORIZED  
WARREN COUNTY

Year	Number of Housing Units
1970	309
1971	341
1972	374
1973	431
1974	762
1975	390
1976 <sup>1</sup>	173
1977 <sup>2</sup>	206
1978	219
1979 <sup>3</sup>	119

<sup>1</sup>The 1976 figure was given in writing to this economist by County Administrator J. Ronald George who stated that the 1976 figure cited by Tayloe Murphy is incorrect.

<sup>2</sup>The 1977 figure does not include the Town of Front Royal. According to the Town Engineer, the Town of Front Royal issued 132 building permits in 1977. It is not known how many of the building permits were for new housing units.

<sup>3</sup>The 1979 figure represents only the first six months.

Source: Tayloe Murphy Institute, Warren County Administrator, Town Engineer of Front Royal

**INVESTIGATION REPORT**  
**BUREAU OF FINANCIAL INSTITUTIONS**  
**STATE CORPORATION COMMISSION**

**THE PEOPLES BANK OF FRONT ROYAL**  
**FRONT ROYAL, WARREN COUNTY, VIRGINIA**

**APPLICATION FOR A CERTIFICATE OF AUTHORITY**  
**TO ESTABLISH A BRANCH AT**  
**9 COMMERCE AVENUE,**  
**TOWN OF FRONT ROYAL,**  
**WARREN COUNTY, VIRGINIA**

**Prepared By:**

**William C. Herbert, III**  
**Economic Investigator**  
**Division of Research and Structure**  
**April 17, 1980**

## THE PROPOSED COMMERCE AVENUE BRANCH

### Location and Premises

The proposed branch will be located at 9 Commerce Avenue, Town of Front Royal, Warren County, Virginia. The applicant anticipates leasing 4,000 square feet for the branch and an additional 4,000 square feet on the second floor for an operations center from The Peoples Building Corporation. The Peoples Building Corporation is owned by six of the bank's directors and their families, and the proposed site, which encompasses a little over one acre, was purchased approximately two years ago for \$100,000.

The building is expected to be a brick colonial structure with a total of 13,000 square feet. Total rental costs for the entire 8,000 square feet to be used by the applicant are expected to total \$50,000 per annum, with the branch's portion costing \$30,000 per annum. The building will have two drive-in teller windows. Net occupancy expenses, as submitted in the application, are expected to total \$39,000 in the first year, \$39,600 in the second year and \$40,200 in the third year of operation.

### Investment in Furniture, Fixtures and Equipment

The applicant estimates that a total of \$100,000 will be invested in furniture, fixtures and equipment. This estimate seems realistic.

### Preopening Expenses

The applicant estimates that a total of \$5,700 will be spent in preopening expenses. This estimate includes attorney fees, preopening salaries, preopening advertising, the state application fee and other miscellaneous expenses.

### Future Earnings Prospects

The profitability of the proposed branch will primarily depend on deposit growth, operating expenses and management.

The table below shows the applicant's projected year-end and average deposits:

ESTIMATED DEPOSITS			
Description	First Year	Second Year	Third Year
Year-end Demand	\$ 400,000	\$ 700,000	\$1,000,000
Year-end Time and Savings	1,000,000	2,000,000	3,000,000
Year-end Total	\$1,400,000	\$2,700,000	\$4,000,000
Average Demand	\$ 200,000	\$ 550,000	\$ 850,000
Average Time and Savings	500,000	1,500,000	2,500,000
Total Average	\$ 700,000	\$2,050,000	\$3,350,000

As submitted, the applicant estimates that the proposed branch will generate the following income and expenses during its first three years of operation:

APPLICANT'S ESTIMATED INCOME AND EXPENSES			
Description	First Year	Second Year	Third Year
GROSS INCOME	\$ 70,000	\$205,000	\$335,000
EXPENSES:			
Salaries and benefits	\$ 38,000	\$ 41,800	\$ 46,000
Interest on time and savings	35,000	105,000	175,000
Net occupancy expense	39,000	39,600	40,200
Furniture/equipment (deprec.)	12,000	12,000	12,000
Advertising	3,000	1,800	1,800
Telephone	1,800	2,000	2,200
Legal	300	300	300
Postage	1,200	1,500	1,800
Miscellaneous	2,400	2,400	2,400
Preopening expense (1st year)	5,700		
TOTAL ESTIMATED EXPENSES	\$138,400	\$206,400	\$281,700
ESTIMATED NET PROFIT (LOSS)	(\$ 68,400)	(\$ 1,400)	\$ 53,300

As shown above, the applicant estimates that the proposed branch will lose \$68,400 in the first year and \$1,400 in the second year and will profit by \$53,300 in the third year of operation. The deposit projections seem realistic, assuming no deposit growth at the applicant's main office; however, the operating expense estimates seem understated. This economist estimates that the proposed branch, including the administrative offices to be located on the second floor, will lose \$101,000 in the first year, \$34,000 in the second year and begin to earn a profit in the third year of operation.

#### The Record of the Applicant

The Peoples Bank of Front Royal, a nonmember bank, opened for business on March 31, 1973. The applicant's main office is located in Front Royal, and the applicant has one branch office located in Bentonville, approximately ten miles to the southwest of Front Royal. As of December 31, 1979, deposits totaled \$10,479,000 at the applicant's main office and \$223,000 at the applicant's Bentonville office, which opened on October 1, 1979.

Shown below is a brief comparison of some of the applicant's financial statistics:

THE PEOPLES BANK OF FRONT ROYAL FINANCIAL STATISTICS (Thousands of Dollars)					
Description	3-31-80	12-31-79	12-31-78	12-31-77	12-31-76
Assets	12,199	12,247	9,379	7,585	5,637
Deposits	10,725	10,702	8,577	6,998	5,081
Capital	882	859	750	481	494
Net Income After Taxes	21	92	70	63	35
Capital/Assets	7.23%	7.01%	8.00%	6.34%	8.76%
Net Income/Average Assets	-	0.87%	0.83%	0.95%	0.71%

Source: Applicant's C.P.A. audited statements; figures for 3-31-80 are from the applicant's daily statement.



As the table shows, the applicant has a good record of growth in assets and deposits. Assets totaled \$12.2 million as of December 31, 1979, an increase of \$6.6 million in three years. Deposits totaled \$10.7 million as of the same date, an increase of \$5.6 million in three years. As of March 31, 1979, assets totaled \$12.2 million, and deposits totaled \$10.7 million, showing no significant change in the last three months.

While net income after taxes has been increasing, net income as a percentage of average assets has been relatively stable. For the fiscal year ended December 31, 1979, net income after taxes totaled \$92,061, which compares with \$70,203 and \$63,278, respectively, for the two preceding fiscal years. Net income after taxes as a percentage of average assets was 0.87 percent for 1979, 0.83 percent for 1978 and 0.95 percent for 1977. Net income after taxes for the first three months of 1980 totaled \$20,987. It should be noted that the losses of the proposed branch are estimated to total \$101,000, which compares with the applicant's net income after taxes of \$92,061 for fiscal year 1979.

The applicant's capital totaled \$882,388 as of March 31, 1980, or 7.23 percent of total assets, which is low when compared with the peer group average of 9.57 percent as of December 31, 1979. This percentage is also below the statutory requirement for newly chartered banks at this time. \$285,076 would be needed to raise the applicant's ratio to that of its peer group.

The applicant is gradually selling stock, but stock sales would only increase capital by approximately \$90,000 if all the remaining authorized but unsold stock were issued at the current price of \$22.00 per share. As of March 31, 1980, the applicant had \$226,918 invested in bank premises, or 25.7 percent as measured against total capital. It appears that the proposed branch will have no effect on this ratio, as the premises are expected to be leased.

Thus, the applicant's financial condition may not be strong enough to support the proposed branch. The applicant's net income appears to be dropping, and its capital appears to be less than adequate. This is especially of concern when this economist's estimate of \$101,000 in losses for the proposed branch is compared with the applicant's net income after taxes of \$92,061 for fiscal year 1979.

The applicant's balance sheet as of December 31, 1979 is shown on the following page.

**THE PEOPLES BANK OF FRONT ROYAL  
BALANCE SHEET  
AS OF DECEMBER 31, 1979**

**ASSETS**

Cash and due from banks	\$ 964,909.20
Certificates of deposit	-
U.S. Government obligations	1,981,337.60
Municipal bonds	513,622.55
Loans (net)	6,065,579.59
Bank premises and equipment	502,517.97
Federal funds sold	1,700,000.00
Other assets	<u>146,145.05</u>

TOTAL ASSETS	<u><u>\$11,874,111.96</u></u>
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**LIABILITIES**

Demand deposits	\$ 2,380,906.83	
Savings deposits	2,617,921.15	
Other time deposits	<u>5,737,421.64</u>	
Total deposits		\$10,736,249.62
Accrued taxes and other expenses		78,991.95
Mortgage payable		200,000.00
Dividends payable		<u>-</u>

TOTAL LIABILITIES	<u><u>\$11,015,241.57</u></u>
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**CAPITAL**

Capital stock, par value \$10.00, authorized shares: 100,000; issued and outstanding shares: 45,713 in 1979; 40,328 in 1978	\$ 457,130.00
Surplus	330,742.00
Undivided profits	<u>70,998.39</u>

TOTAL CAPITAL	<u><u>\$ 858,870.39</u></u>
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TOTAL LIABILITIES & CAPITAL	<u><u>\$11,874,111.96</u></u>
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## ECONOMIC AND FINANCIAL CONSIDERATIONS

### Introduction

The Town of Front Royal, where the proposed branch is to be located, is the commercial center of Warren County. Warren County lies in northwest Virginia. It is bounded on the north by Frederick and Clarke counties, on the south by Page and Rappahannock counties, on the east by Fauquier and Rappahannock counties, and on the west by Shenandoah County. Warren County has a land area of 219 square miles which is predominately mountainous. The 1978 population was 19,800, including the population of Front Royal.

### Economic Base

The economy of Warren County is not well diversified, being heavily dependent on manufacturing. Apart from manufacturing, other basic industries are agriculture and tourism, although they are of much less importance to the area's economy.

As of March 1978, nonagricultural wage and salary employment by place of work for Warren County, including the Town of Front Royal, totaled 6,273. As of the same date, the manufacturing sector employed 2,575 persons, 41.0 percent of the total nonagricultural wage and salary employment compared with 21.0 percent for Virginia. The manufacturing sector was dominated by a single firm, Avtex Fibers, Inc., manufacturer of man-made fibers. This single firm employs approximately 2,000 persons, a large portion of the total nonagricultural employment in Warren County.

Agriculture and tourism are considered basic industries, since they result in an inflow of money into the area. Livestock is the main source of agricultural income. The significance of agriculture to the area's economy is diminishing, however, and tourism is expanding. The location in Warren County of such tourist attractions as Skyline Caverns, the entrance to the Skyline Drive and Shenandoah National Forest attracts thousands of tourists into the area, supplementing the income of area residents.

One factor which may help the development of Warren County is the completion of Interstate 66, which links Warren County with the Washington, D.C. SMSA. In addition, Dupont is constructing a plant to manufacture paint north of Front Royal which is expected to be fully operational by January 1981. This plant will employ 300 persons. The Dupont project has caused the development of major sewage and water facilities in the area. The availability of these facilities is expected to encourage other major firms to establish plants in the area, which will help diversify the manufacturing sector. Furthermore, the completion of Interstate 66 should bring more tourists into the area in addition to more residents from the Washington, D.C. area. The impact of these developments is bound to be felt by other sectors of the local economy, such as the services, building construction and trade sectors.

## Population

The population of Warren County seems to be increasing at a substantially higher rate in the 1970's than in the previous two decades. Estimates by Tayloe Murphy Institute, presented in Table I, show the 1978 population of Warren County as 19,800, compared to 15,301 in 1970, 14,655 in 1960 and 14,801 in 1950. This constitutes an increase of 29.4 percent in the 1970-1978 period, compared with an increase of only 4.4 percent in the 1960-1970 period and a decline of 1.0 percent in the 1950-1960 period. Thus, the population of Warren County has been growing at an increasing rate from decade to decade.

Projections by the Virginia Department of Planning and the Budget show a continuation of the upward trend but at a slightly lower rate. It is projected that the population of Warren County will reach 21,000 persons by 1980 and 27,300 by 1990.

## Income

The impressive increase in population was accompanied by an equally impressive increase in personal income. While in 1970 personal income in Warren County was \$49.7 million, it increased to \$111.4 million in 1977. This constituted a 124.1 percent increase, compared to a 105.0 percent increase in Virginia.

Per capita income, which is income adjusted for population changes, also experienced growth in Warren County. While in 1970 per capita income in Warren County was \$3,243, it increased to \$5,771 in 1977. This constituted a 79.6 percent increase, compared to an 86.0 percent increase in Virginia. However, as Table II shows, per capita income in Warren County is still below average, representing 84.4 percent of the state average figure.

## Bank Deposits and Savings in Thrift Institutions

Perhaps the most important indicator of the banking potential of an area is the past growth of banking deposits and savings in thrift institutions. As Table III shows, bank deposits in Warren County have been growing at an accelerated rate, as have population and income. In the 1950's, bank deposits increased from \$6.8 million to \$12.1 million or by 77.8 percent. In the 1960's, bank deposits increased to \$24.0 million or by 98.0 percent. In the 1970-1979 period, bank deposits increased to \$69.5 million or by 189.2 percent in a nine-year period. The percentage increase in the 1970's was substantially higher than the percentage increase in Virginia. However, as the table shows, bank deposits declined by \$0.9 million for the year ending June 30, 1979. As of December 31, 1979 bank deposits totaled \$72.2 million, an increase of \$2.7 million in six months.

Similarly, savings in the single thrift institution in the county grew at an accelerated rate. First Federal Savings and Loan Association did not grow much in the 1960's, but in the 1970's its savings increased from \$1.5 million as of May 31, 1970 to \$12.6 million as of March 31, 1979 in the Front Royal office.

## Housing

As did the population and other economic indicators discussed, the housing industry got a big boost in the 1970's. Table IV shows the number of housing units authorized in the county. Between 1970 and 1976, approximately 2,780 housing units were authorized in Warren County. As the table shows, the number of housing units was increasing through 1974, when they reached 762 units, and then declined. However, in 1977 the number of housing units authorized started rising again. With population growing at an increasing rate, the demand for housing is expected to remain strong, although high interest rates may cause a slump in demand in the short run. As the table shows, housing units authorized totaled 219 for 1978 and 119 for the first six months of 1979.

## Retail Sales

Unlike the other indicators examined, retail sales in the 1970-1978 period grew at a slower rate than for Virginia as a whole. In 1978, retail sales in Warren County were estimated at \$60.7 million, compared with \$31.0 million in 1970. This constituted a 95.8 percent increase, compared to a 141.1 percent increase for the state.

## Financial Institutions in Warren County

In Warren County there are three banks with seven banking offices, one thrift institution with one office, and one credit union, all located in the Town of Front Royal with the exception of the applicant's Bentonville office located ten miles to the southwest. These institutions are: (1) Farmers and Merchants National Bank, Winchester, (2) Bank of Virginia, (3) The Peoples Bank of Front Royal, (4) First Federal Savings and Loan Association of Front Royal, and (5) Front Royal Federal Credit Union. Front Royal Savings and Loan Association, a new organization, has been authorized but has not opened for business.

Of the three banks situated in Warren County, Farmers and Merchants National Bank, Winchester has three branches in Front Royal and is the area's largest bank in terms of deposits, with deposits totaling \$32.5 million as of December 31, 1979 or 45.0 percent of the area's total bank deposits. This bank is a wholly-owned subsidiary of F&M National Corporation, Winchester. The second largest bank in the area in terms of bank deposits is Bank of Virginia, with its two branches holding deposits totaling \$29.1 million as of December 31, 1979, or 40.2 percent of the area's total bank deposits. The applicant currently operates two offices in Warren County, with its main office in the Town of Front Royal and its branch office in Bentonville, and is currently the only other bank in Warren County. As of December 31, 1979 the applicant's market share was 14.8 percent.

The only thrift institution in the county is First Federal Savings and Loan Association of Front Royal, operating one office in Front Royal and one in Winchester. As of September 30, 1979, the Front Royal office of First Federal had savings deposits totaling \$13.3 million.

Competition among financial institutions in the county can be characterized as keen. Population per bank office for Warren County (including Front Royal) totals 3,000 persons, using the Department of Planning and Budget's 1980 population projection, printed January 1980. This compares with the state's average of 2,978 persons per office, using the above source and the number of bank offices in Virginia as of June 30, 1979, taken from the '79-80 Branch Directory and Summary of Deposits with Market Indicators, Decision Research Sciences, Inc. The addition of one new office would decrease the average number of persons per office in Warren County to 2,625. Two new offices would decrease the average to 2,333 persons per office. While only one savings and loan office, First Federal, currently serves Warren County, an additional organization, Front Royal Savings and Loan Association, has State Corporation Commission approval and the conditional approval of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation to begin business in Front Royal.

### The Primary Service Area

The proposed branch will be located at 9 Commerce Avenue, Town of Front Royal, Warren County, Virginia. The primary service area (PSA) is defined as including the Town of Front Royal and Warren County. This PSA is the same as that delineated for the proposed branch of First Virginia Bank - Shenandoah Valley. The population of the PSA totals 21,500, with approximately 10,000 persons living in the Town of Front Royal, the county seat. First Virginia Bank - Shenandoah Valley proposes to locate a branch less than 0.5 mile to the south of the site of the applicant's proposed branch.

Front Royal is the financial and commercial center of Warren County. Avtex Fibers, Inc., the county's largest single employer, and six of the county's seven bank offices are located in the Town of Front Royal. Most commercial establishments in Front Royal are situated along Royal Avenue, Commerce Avenue, Main Street and South Street. The older downtown area is located along Main Street. The applicant's proposed branch is situated to the east of the downtown area on Commerce Avenue.

Interstate 66 passes Front Royal to the north, giving the area easy access to the Washington, D.C. area. In addition, Front Royal has a freight depot, with two rail lines running through the town, including the Southern and Norfolk & Western railways.

As stated earlier, three banks currently serve the Front Royal-Warren County area, including Farmers and Merchants National Bank, with three offices, Bank of Virginia, with two offices, and the applicant, with two offices. The applicant's Bentonville office is the only bank office in Warren County that is not located in the Town of Front Royal.

The table below shows the location and deposit history of the bank offices and savings and loan office located in Warren County:

WARREN COUNTY DEPOSITS BY BRANCH OFFICE (Thousands of Dollars)					
Banks	12-31-79	6-30-79	6-30-78	6-30-77	6-30-76
<u>Front Royal</u>					
Bank of Virginia					
307 East Main Street	27,026	26,063	27,213	23,837	21,844
610 North Royal Ave.	2,024	1,899	1,480	1,162	806
Farmers and Merchants National Bank					
433 South Street	*	2,717	2,572	2,251	1,848
102 East Main Street	*	24,275	26,136	22,856	19,172
215 North Royal Ave.	*	5,524	5,518	4,907	4,320
The Peoples Bank of Front Royal					
232 North Royal Ave.	10,479	9,005	7,428	5,885	4,290
<u>Bentonville</u>					
The Peoples Bank of Front Royal					
U.S. Highway 340	223	-0-	-0-	-0-	-0-
TOTAL	72,219	69,483	70,347	60,898	52,280
<u>Savings and Loans</u>	9-30-79	3-31-79	3-31-78	3-31-77	3-31-76
<u>Front Royal</u>					
First Federal Savings & Loan Association					
1 South Royal Ave.	13,289	12,646	9,580	7,808	5,958
*\$32,467,000 total for all three branches					

All of the branches, except the Bentonville office of The Peoples Bank of Front Royal, are well established, having been open for three and one half years or more. Two of the six offices, operated by Bank of Virginia and Farmers and Merchants Bank, respectively, had deposits of \$1.9 million and \$2.7 million as of June 30, 1979. With the addition of the Bentonville office, three of the area's seven offices had deposits approximating \$3.0 million or less as of December 31, 1979. (Deposits by office for Farmers and Merchants National Bank as of December 31, 1979 were unobtainable.)

The rate of growth of bank deposits appears to have declined for the most recent eighteen-month period shown. For the six-month period ended December 31, 1979, deposits increased \$2.7 million, which compares with a net decrease of almost \$0.9 million for the year ended June 30, 1979 and a net increase of \$9.4 million for the year ended June 30, 1978. Thus, bank deposit growth appears to have slowed somewhat in recent months.

Savings in the one savings and loan office located in the PSA totaled \$13.3 million as of September 30, 1979. This compares with \$12.6 million as of March 31, 1979, \$9.6 million as of March 31, 1978,

\$7.8 million as of March 31, 1977 and almost \$6.0 million as of March 31, 1976. Front Royal Savings and Loan Association has State Corporation Commission approval and the conditional approval of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation to begin business in Front Royal.

As stated earlier, the subject application is being considered concurrently with an application of First Virginia Bank - Shenandoah Valley to branch in the same area. Approval of the proposed branch of The Peoples Bank would increase competition to some extent but would mainly serve to increase convenience for the area's residents. In discussions with this economist, the applicant's chief executive officer cited the lack of space at the main office as an auxiliary reason for needing the proposed office. Thus, while the subject application's approval would serve mainly to increase convenience (and hence increase competition in a limited sense), First Virginia's proposed branch would increase both convenience and competition, as it would be a new entrant into the market (although it already competes in the market to some extent from its Strasburg branch). The major concern becomes the effect that the proposed branches will have on Front Royal Savings and Loan Association, which has yet to open and establish itself in the community.

### Opposition

The subject application is opposed by Front Royal Savings and Loan Association, who has also filed opposition to First Virginia - Shenandoah Valley's proposed branch. Front Royal Savings and Loan Association has yet to open for business, but if it opens in the next few months it will face a number of problems, with mortgage rates and interest costs at exceptionally high levels.

### Summary

1. The proposed branch will be located at 9 Commerce Avenue, Town of Front Royal, Warren County, Virginia. The PSA is defined as including the Town of Front Royal and Warren County. The population of the PSA totals 21,500 persons as projected by the Virginia Department of Planning and Budget, with approximately 10,000 persons living in the Town of Front Royal.

2. First Virginia Bank - Shenandoah Valley also has a branch application pending for a location in Front Royal less than 0.5 mile from the proposed branch site of the applicant.

3. While the economy of Warren County is growing, it is not well diversified, depending heavily on manufacturing for its employment base.

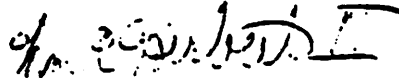
4. This economist estimates that the proposed branch will lose \$101,000 in the first year, \$34,000 in the second year and begin to earn a profit in the third year of operation, including the costs of the administrative offices to be located on the second floor.



5. The applicant's financial condition may not be strong enough to support the proposed branch. The applicant's net income appears to be dropping, and its capital appears to be less than adequate. This is especially of concern when this economist's estimate of \$101,000 in losses for the proposed branch is compared with the applicant's net income after taxes of \$92,061 for fiscal year 1979.

6. Front Royal Savings and Loan Association has the approval of the State Corporation Commission and the conditional approval of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation to begin business in Front Royal. Approval of the applicant's proposed branch is not expected to have a substantial impact on Front Royal Savings and Loan Association.

Respectfully submitted,



William C. Herbert, III  
Economic Investigator

# APPENDIX

TABLE I  
POPULATION  
WARREN COUNTY

Year	Population	Percentage Change
1952	14,801	---
1960	14,655	(1.0)
1970	15,301	4.4
1978 <sup>1</sup>	19,800	29.4
1980 <sup>2</sup>	21,500	8.5
1990 <sup>2</sup>	28,200	31.2

<sup>1</sup>Estimated by Tayloe Murphy Institute

<sup>2</sup>Projections by Virginia Department of Planning and Budget

Source: U.S. Bureau of the Census, Tayloe Murphy Institute, Virginia Department of Planning and Budget

TABLE II  
PER CAPITA INCOME  
WARREN COUNTY

Year	Per Capita Income	Index (Virginia=100)
1952	\$1,234	102.9
1962	1,740	85.1
1970	3,214	87.4
1977	5,771	84.4

Source: Tayloe Murphy Institute

TABLE III  
BANK DEPOSITS  
WARREN COUNTY

Mid-Year	Bank Deposits	Percentage Change
1950	\$ 6,822,000	---
1960	12,131,000	77.8
1970	24,024,000	98.0
1972	32,745,000	36.3
1973	37,828,000	15.5
1974	42,901,000	13.4
1975	47,028,000	9.6
1976	52,280,000	11.2
1977	60,898,000	16.5
1978	70,347,000	15.5
1979	69,483,000	(1.2)

Source: Federal Deposit Insurance Corporation

TABLE IV  
HOUSING UNITS AUTHORIZED  
WARREN COUNTY

Year	Number of Housing Units
1970	309
1971	341
1972	374
1973	431
1974	762
1975	390
1976 <sup>1</sup>	173
1977 <sup>2</sup>	206
1978	219
1979 <sup>3</sup>	119

<sup>1</sup>The 1976 figure was given in writing to this economist by County Administrator J. Ronald George who stated that the 1976 figure cited by Tayloe Murphy is incorrect.

<sup>2</sup>The 1977 figure does not include the Town of Front Royal. According to the Town Engineer, the Town of Front Royal issued 132 building permits in 1977. It is not known how many of the building permits were for new housing units.

<sup>3</sup>The 1979 figure represents only the first six months.

Source: Tayloe Murphy Institute, Warren County Administrator, Town Engineer of Front Royal

PRE-FILED TESTIMONY OF  
GANAS K. RAKES, D.B.A.

Q-1. PLEASE STATE YOUR NAME AND RESIDENCE ADDRESS.

A. My name is Ganas K. Rakes, and I live at 2513  
Smithfield Road in Charlottesville, Virginia.

Q-2. WHAT IS YOUR CURRENT OCCUPATION AND PLACE OF  
EMPLOYMENT?

A. I am an associate professor of finance at the  
McIntire School of Commerce of the University  
of Virginia in Charlottesville, Virginia.

Q-3. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND  
WORK EXPERIENCE.

A. Both my undergraduate degree in Business Admin-  
istration and my Master of Science degree are  
from Virginia Polytechnic Institute. I hold a  
Doctor of Business Administration degree from  
Washington University of St. Louis. Prior to  
assuming my present position, which I have held  
for ten years, I was on the faculty of Roanoke  
College. Currently I serve on the faculties of  
both the Stonier Graduate School of Banking,  
sponsored by the American Bankers Association,  
the Graduate School of Consumer Banking sponsored  
by the Consumer Bankers Association, and the

Virginia School of Bank Management, sponsored by the Virginia Bankers Association.

I am currently teaching courses at the University of Virginia in Financial Institutions and Corporate Finance. In addition, I have published several articles and case studies in these fields. I have testified previously before this body on a number of occasions.

Q-4. HAVE YOU BEEN EMPLOYED TO PREPARE ANY STATISTICAL MATERIAL FOR THE APPLICANT BANK?

A. Yes. I have prepared, at the request of First Virginia Bank-Shenandoah Valley, an exhibit and testimony containing statistical data relating to the economic condition of Warren County. This data establishes the need for additional banking facilities in the Front Royal/Warren County area. In addition, it strongly supports my view that the public interest will be served by the establishment of such facilities.

Q-5. WOULD YOU DESCRIBE THE PROCEDURES USED TO REACH YOUR CONCLUSION THAT THE PROPOSED BRANCH IS NEEDED AND IN THE PUBLIC INTEREST?

A. I visited the area and studied the available demographic and economic data concerning Warren County. Based on this material, projections of the trends of the past decade, and the factors

likely to impact the region in the future, my conclusions appeared entirely reasonable.

Q-6. WHAT DEMOGRAPHIC OR ECONOMIC TRENDS DID YOU CONSIDER SIGNIFICANT?

A. Table 1 provides an overview of these items. The rates of change in population, households, income, employment, retail sales, housing and bank deposits are at or above similar averages for Virginia. This overview strongly suggests expansion levels well beyond what would be anticipated in a rural county. Certainly, the market has increased sufficiently in recent years to justify the entry of an additional banking competitor.

Q-7. TO WHAT DO YOU ATTRIBUTE THE RAPID GROWTH IN THE FRONT ROYAL/WARREN COUNTY AREA?

A. The major source of strength for the area is likely derived from the continued growth in the Northern Virginia Metropolitan Area. In the 1950's most of the expansion took place in Arlington and Fairfax Counties and the Cities of Alexandria, Fairfax and Falls Church. In the 1960's, the counties not immediately adjacent to the District of Columbia began to experience the effects of the metropolitan expansion. Thus Prince William and Loudoun Counties were impacted by increasing population pressure. In the 1970's Stafford, Fauquier, Warren, etc., have

begun to experience expansion influences.

Primary development has tended to follow the highway network radiating from Washington. The recent completion of Interstate Route 66 should accelerate the economic expansion in the Front Royal/Warren County area.

Q-8. ARE YOU SUGGESTING THAT RESIDENTS OF WARREN COUNTY WILL DRIVE ALL THE WAY INTO WASHINGTON TO WORK?

A. There is evidence to support the view that a considerable number of commuters into the District of Columbia do reside in Warren County. However, I suspect that driving to work in the rapidly expanding counties surrounding the District of Columbia will be more significant. For example the IBM and Xerox plants as well as Dulles Airport in Prince William and Loudoun Counties are typical of the employers I would anticipate influencing Warren County. The development of the entire metropolitan area is pushing the expansion pressures further and further. Because of I-66, Warren County is already experiencing the impact and this trend will continue to provide an expanding economy that needs additional and more sophisticated financial services.

Q-9. BASED ON YOUR STUDY, WHAT DO YOU BELIEVE WOULD BE THE PRIMARY SERVICE AREA OF THE PROPOSED BRANCH?

A. The site for the proposed branch is in the Town of Front Royal, the County seat and principles municipality

of Warren County. The Town and the County currently have approximately 20,000 residents and provide the major portion of the service area for the proposed branch. Some traditional trade patterns exist between Warren County and adjacent counties. The several hundred Warren County residents currently served by the applicant bank provide strong evidence of these relationships. However, economic data is not available for political subdivisions smaller than the counties and independent cities of Virginia. Consequently, only Warren County data will be provided in this testimony. The growth trends of the entire PSA are likely to be very similar and should not affect the conclusions of my study.

Q-9. WOULD YOU BE MORE SPECIFIC ON THE IMPACT OF THE GROWTH TRENDS CURRENTLY PRESENT IN THE FRONT ROYAL/WARREN COUNTY AREA?

A. Table 2 provides data on the population growth in Warren County between 1970 and 1978. The 29 percent increase from 15,301 to 19,800 reflects a rate of change 2.7 times that of Virginia over the same period. More than 3,000 additional residents are now in Warren County than were there when the last new banking competitor (Peoples Bank) entered the market. The population is expected to continue to grow as reported in Table 3 which provides projections developed by



by the Department of Planning and Budget. An increase of 31 percent is anticipated in the number of residents between 1980 and 1990 compared to an increase of 12.3% for Virginia. Obviously the immediate past experience and projections support the belief that 500 to 600 new people have been added and will continue to be added to the customer base in Warren County each year. This level of growth provides an expanding environment that needs new financial services and competitors. While the population figures are impressive and support my view of a rapidly developing area, Table 4 provides a different and more significant aspect of change. The basic unit affecting the demand for banking services in an area is the number of households. Based on this measure, households increased 44 percent between 1976 and 1978 compared to the 29 percent in population. Thus the basic unit which generates deposits and loans is increasing much faster than population data alone would suggest. In addition, the decreasing family size involved is another indication of the urbanization of the region. Public school data is provided in Table 5. The 41.4 percent change between 1967/68 and 1977/78 verses an 8.7% in Virginia is another dramatic indication of the level of growth impacting Warren County.

Q-10. PLEASE DESCRIBE THE INCOME CIRCUMSTANCES OF WARREN COUNTY RESIDENTS AND THE LIKELY IMPACT ON THEIR NEED FOR ADDITIONAL FINANCIAL SERVICES?

A. Table 6 provides data on the total personal income received by area residents. The 125 percent increase between 1970 and 1977 significantly exceeded the 105 percent increase for Virginia over the same period. However, the per capita income level lag the state average. Table 7 provides income tax data, adjusted gross income per exemption. This measure suggests that while the income level in Warren County is only 84 percent of the state average, it is maintaining its appropriate relationship with Virginia levels. This is impressive for an area with such a rapidly expanding population. Yet another measure, median family income, is provided in Table 8. This study, published in August 1977 projected the Warren County median family income to reach \$14,653 by 1980 and \$19,236 for Virginia. A more recent report estimated that this measure for 1978 had reached \$15,955 for Warren County and \$18,510 for Virginia. Thus Warren County median family income already exceeds the level forecast for 1980 while the state levels have not increased as significantly. Clearly the income levels necessary to support additional competition between financial institutions are present in Warren County.

Q-11. DESCRIBE THE EMPLOYMENT CIRCUMSTANCES IN WARREN COUNTY.

A. Information on employment in Warren County is provided in Table 9. The number of jobs in the county increased by 10 percent between 1973 and 1978, while the number of working residents grew 30 percent in the same period. This occurred while the total population increase 17 percent. Two aspects of this relationships are important. First the commuting or bedroom nature of Warren County suggested earlier is supported. Secondly the portion of working, and therefore income earning potential bank customers, is rising much faster than the already impressive general population growth. Examination of the jobs in Warren County (Table 10) shows that manufacturing has been declining as a source of employment and other categories increasing in significance. The current construction of a new DuPont plant which will provide some 300 new industrial jobs may moderate this trend somewhat. Average covered wages are provided in Table 11 and indicate general salary levels in Warren County. Commuting data from the 1970 census is provided in Table 12. This data reveals that considerable interrelations existed as long ago as 1970. Warren residents do commute out of the County to jobs. This circumstance has undoubtedly increased as the roads have been improved. In summary, the levels of employment, both in Warren County and available in other

jurisdictions for Warren residents is increasing at impressive rates. An expanding population of employed residents, with increasing incomes are present in the Front Royal/Warren County area. As this population shifts to a more urban perspective, the need for additional financial services and competition becomes more and more obvious.

Q-12. HAS THE COMMERCIAL MARKET IN WARREN COUNTY KEPT PACE WITH THE OTHER DEVELOPMENTS IN THE AREA?

A. Yes. Table 13 provides information on taxable retail sales in Warren County. Between 1971 and 1978 such sales increased 115 percent or slightly more than the 109 percent increase for Virginia. Department and specialty store sales increased 106 percent in this same period compared to a 97.1 percent increase in the state (Table 14). These rates of increase are unusual for a basically rural county. Typically, sales grow more rapidly in the urban areas with enclosed malls and other attractions that develop into regional centers. Front Royal/Warren County clearly is a healthy commercial center. The areas \$65 million in taxable sales, more than double the amount of seven years earlier, suggests a significant market. It will certainly need a wide and increasing variety of consumer and commercial banking services.

Q-13. WHAT ARE CIRCUMSTANCES IN THE HOUSING INDUSTRY IN WARREN COUNTY?

A. Some 3,601 units with a total value of over \$57 million have been approved since 1970 (Table 15). This is approximately a 60 percent increase in the total stock of houses for the county. It is a rate of increase three times that of the 1960 to 1970 period. Some of the expansion relates to vacation homes and accounts for the number of houses growing faster than the number of households over the same period. It is indicative of an area with a significant need for financial institutions willing to support the increasing financing needs of suppliers, builders, developers and home buyers. It seems unlikely that the present or proposed local institutions could adequately serve the needs of all segments of the market.

Q-14. WHAT ARE THE BANKING CIRCUMSTANCES IN WARREN COUNTY?

A. There are currently three banking organizations and one savings and loan association in the county. A second savings and loan association has recently been approved and should be in business shortly. Banking deposits have increased 62 percent since 1974 with the 1978-1979 (June data) period involving a slight decrease. The savings and loan association has enjoyed a 200.0 percent growth in deposit volume in the same time period. It appears that the slow down in deposit growth is over.

The December 31 call report for the Peoples Bank of Front Royal indicated a 19 percent increase in total deposits. This is a remarkable increase in only six months. The savings and loan association reported an increase of over \$2 million between the September data used in Table 17 and December 31, 1979 to a total of \$14.7 million. Unfortunately, similar deposit data for the other two banking organizations was not available for Warren County. Total deposits in the county have increased at a rate of approximately 11 percent per year. However, the lack of growth in the 1978-1979 time period raises doubt about appropriate future growth assumptions. The only clear trend is to the effect that the existing savings and loan association is doing very well. I conclude that it and the new savings and loan association will be in a superior position to continue to attract a relatively larger share of the deposit volume in the market. This view is supported by the existence of a large base of local stockholders for the new institution and its identification as a locally owned institution. The proposed new branch bank should, therefore, not materially impact the new savings and loan association.

Q-15. HOW DO YOU SEE THE FUTURE DEPOSIT GROWTH OF WARREN COUNTY FINANCIAL INSTITUTIONS?

A. Table 18 provide a perspective on the likely deposit levels over the next three years under the assumptions

of deposit growth of 8, 10, and 12 percent per year. Obviously one cannot predict with any degree of certainty what rate of change will occur. However, I believe the 1978-1979 period was sufficiently unusual to have reasonable confidence that deposits will increase in the 8 to 12 percent range. Therefore, I believe that deposit increases in the next three years will range between \$23 and \$37 million. This will provide additional average deposit increases per financial office of between \$2.1 and \$3.4 million. This is, in my opinion, more than adequate to justify the proposed new bank branch.

Q-16. DO YOU BELIEVE THAT THE APPLICANT BANK IS A DESIRABLE ADDITION TO THE WARREN COUNTY MARKET?

A. This question should be answered in three parts. First, the size and growth trends of the market are more than adequate to support additional banking offices and a new competitor. Second, the applicant already has a significant customer base in Warren County. Table 19 provides details of the deposit and loan volume already in existence. The bank is providing almost \$3.2 million in loans to 508 different accounts and has over \$1.3 million in deposits. These customers deserve the convenience of closer access to their bank and the bank should be allowed to seek a better balance between its deposits and loans from Warren County. In

any event, relationships already exist and the applicant bank should be allowed to better serve the market with a local office. Thirdly, the new savings and loan association as well as the existing institutions will not be injured by the entry of a branch office of an out-of-town bank. The existing banks are sufficiently mature to compete and the deposit growth circumstances favor the savings and loan associations. Based on these three aspects I believe the branch application should be approved.



**TABLE 1**  
**GROWTH TRENDS**  
**Warren County**

Item	Time Period		Change
Population	<u>1970</u> 15,301	<u>1978</u> 19,800	29.0%
Households	<u>1970</u> 4,976	<u>1978</u> 7,180	69.0%
Personal Income	<u>1970</u> \$49.6(m)	<u>1977</u> \$111.4(m)	125.0%
Median Family Income	<u>1969</u> \$7,957	<u>1978</u> \$15,955	101.0%
Employment	<u>1973</u> 6,587	<u>1978</u> 8,531	30.0%
Retail Sales	<u>1971</u> \$30.2(m)	<u>1978</u> \$65.0(m)	115.0%
Housing Units	<u>1970</u> 5,992	<u>1979</u> 9,592	60.0%
Bank Deposits	<u>1970</u> \$24.0(m)	<u>1979</u> \$69.5(m)	190.0%

Source: The following tables.

TABLE 2  
POPULATION  
Warren County and State of Virginia  
1970-1978

Year	Warren County	Virginia
1970	15,301	4,651,488
1971	16,000	4,720,000
1972	16,600	4,765,000
1973	17,000	4,844,000
1974	17,900	4,909,000
1975	18,400	4,980,600
1976	18,800	5,052,400
1977	19,200	5,094,600
1978*	19,800	5,148,100
<u>Percent Change</u>		
1970-78	29.0%	10.7%

\*Provisional estimate.

Source: U.S. Bureau of the Census,  
Tayloe Murphy Institute, Univ-  
ersity of Virginia.

TABLE 3  
POPULATION PROJECTIONS  
Warren County and State of Virginia  
1980-2000

Year	Warren County	Virginia
1970	15,301	4,651,487
1978	19,800	5,148,100
1980	21,500	5,278,000
1985	24,900	5,602,100
1990	28,200	5,926,200
1995	31,200	6,191,600
2000	34,300	6,455,000
<u>Percent Change</u>		
1970-1980	41.0%	13.5%
1980-1990	31.0%	12.3%
1990-2000	22.0%	8.9%

Source: Commonwealth of Virginia, Dept. of Planning and Budget, (June, 1977 data).

TABLE 4  
HOUSEHOLD DATA  
Warren County

Year	Households	Population
1960	4,258	14,655
1970	4,976	15,301
1978	7,180	19,800
1980	7,850	21,400
1990	11,170	27,300
2000	14,540	33,500
<u>Percent Change</u>		
1960-1970	17.0%	.04%
1970-1978	69.0%	35.00%
1970-1980	58.0%	40.00%
1980-1990	42.0%	28.00%
1990-2000	30.0%	23.00%

Sources: Tayloe Murphy Institute and Bureau  
of Planning and Budget.

TABLE 5

PUBLIC SCHOOL DATA  
Warren County and State of Virginia

Session	Warren County	Virginia
<u>Enrollments</u>		
1967/68	3,35155	1,072,904
1977/78	4,460	1,166,513
Percent Change	41.4%	8.7%
<u>Membership (September 30)</u>		
1975/76	3,929	1,103,669
1976/77	4,247	1,100,723
1977/78	4,346	1,082,184
Percent Change	11.0%	-0.02%

Source: Virginia Department of Education.

TABLE 6

PERSONAL INCOME  
Warren County and State of Virginia  
1970-1977  
(Millions)

Year	Warren County	Virginia
1970	\$ 49.6	\$17,124.9
1971	\$ 56.9	\$18,736.8
1972	\$ 63.6	\$20,941.2
1973	\$ 73.3	\$23,530.6
1974	\$ 81.0	\$26,204.6
1975	\$ 86.7	\$28,719.9
1976	\$ 97.8	\$31,903.9
1977	\$111.4	\$35,125.9
<u>Percent Change</u>		
1970-77	125.0%	105.0%

Source: Tayloe Murphy Institute, University of Virginia.

TABLE 7  
ADJUSTED GROSS INCOME PER EXEMPTION  
Warren County  
1972-1977

Year	Warren County	Index (Virginia = 100)
1972	\$3,259	84
1973	\$3,618	85
1974	\$3,904	82
1975	\$4,147	82
1976	\$4,684	84
1977	\$5,086	84

Percent Change

1972-77            56.0%

Source: Virginia Department of Taxation.

TABLE 8

MEDIAN FAMILY INCOME  
Actual 1969, Estimated 1975, and Projected 1980<sup>1</sup>

Year	Warren County	Virginia
1969	\$ 7,957	\$ 9,049
1975	\$10,739	\$13,454
1980	\$14,653	\$19,236

Percent Change

1969-1975	35.0%	48.7%
1975-1980	36.0%	43.0%
1969-1980	84.0%	112.6%

Estimated 1978 Median Family Income<sup>2</sup>

1978	\$15,955	\$18,510
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Sources: <sup>1</sup>Tayloe Murphy Institute, University of Virginia, (August, 1977 data).

<sup>2</sup>Tayloe Murphy Institute, University of Virginia, (September, 1979 data).



TABLE 9  
EMPLOYMENT DATA  
Warren County  
March Data  
1973-1978

Year	By Place of Work	By Place of Residence
1973	5,728	6,587
1974	5,754	6,626
1975	5,777	6,701
1976	5,624	6,529
1977	6,102	7,990
1978	6,273	8,531
<u>Percent Change</u>		
1973-78	10.0%	30.0%

Source: Virginia Employment Commission.

TABLE 10  
NONAGRICULTURAL EMPLOYMENT BY INDUSTRY  
Warren County  
March Data  
1974-1978

Industry	1974	1978	Percent Change
Manufacturing	2,898	2,575	-11.0%
Contract Construction	305	343	12.0%
Transportation and Public Utilities	171	243	42.0%
Wholesale and Retail Trade	910	1,215	34.0%
Finance, Insurance, and Real Estate	172	144	-16.0%
Services	696	882	27.0%
Government	610	839	38.0%
Other	30	32	0.1%
Total	5,754	6,273	9.0%

Source: Virginia Employment Commission.

TABLE 11

AVERAGE COVERED WAGES  
Warren County and State of Virginia  
1974 and 1978 (2nd Quarter Data)

Category	Warren County 1974	Warren County 1978	Percent Change	Virginia 74-78 % Change
Agriculture	\$ 40	\$116	190%	40%
Construction	\$138	\$181	31%	24%
Manufacturing	\$160	\$216	35%	39%
Transportation, Communi- cations, & Utilities	\$200	\$275	38%	43%
Trade	\$102	\$129	26%	29%
Finance, Insurance, & Real Estate	\$127	\$158	24%	31%
Services	\$ 85	\$130	53%	37%

Source: Virginia Employment Commission.

TABLE 12  
COMMUTING DATA  
Warren County (1970)

Place of Work (Residents)	Number	In-Commuters
Warren County	4,149	-
Frederick County	190	184
Rappahannock County	127	157
Shenandoah County	99	414
Page County	82	160
Clarke County	81	27
Fauquier County	72	19
Winchester City	64	43
Prince William County	117	-
Washington, D. C.	76	-
Loudoun County	53	-
Other	<u>493</u>	<u>25</u>
	5,603	1,029
Out-Commuters	1,454	
In-Commuters	<u>1,029</u>	
Net Out-Commuters	425	

Source: Census of Population: 1970.

TABLE 13  
TAXABLE RETAIL SALES  
Warren County and State of Virginia  
1970-1978  
(Thousands)

Year	Warren County	Virginia
1971	\$30,185	\$ 7,933,750
1972	\$33,928	\$ 8,847,825
1973	\$37,973	\$10,011,394
1974	\$45,768	\$11,596,293
1975	\$44,147	\$11,981,067
1976	\$50,181	\$13,165,502
1977	\$57,798	\$14,742,818
1978	\$65,019	\$16,576,270

Percent Change

1971-78	115%	109%
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Source: Virginia Department of Taxation.

*Table 13A*

**TAXABLE RETAIL SALES**

**Warren County and State of Virginia  
1970-1978  
(Thousands)**

<b>Year</b>	<b>Warren County</b>	<b>Virginia</b>
1970	\$26,509	\$ 7,173,254
1971	\$30,186	\$ 7,933,750
1972	\$33,928	\$ 8,847,825
1973	\$37,973	\$10,011,394
1974	\$45,768	\$11,596,293
1975	\$44,147	\$11,981,067
1976	\$50,181	\$13,165,502
1977	\$57,798	\$14,742,818
1978	\$65,019	\$16,576,270

**Percentage Changes**

1970-71	14.0%	11.0%
1971-72	12.4%	11.5%
1972-73	11.7%	13.2%
1973-74	20.5%	15.8%
1974-75	-3.5%	3.3%
1975-76	13.7%	9.9%
1976-77	15.2%	12.0%
1977-78	12.5%	12.4%
Annual Average	12.06%	11.14%
1970-1978	145.00%	131.00%

**Source: Virginia Department of Taxation.**

TABLE 14

DEPARTMENT AND SPECIALTY STORE SALES  
Warren County and State of Virginia  
1971-1978  
(Thousands)

Year	Warren County	Virginia
1971	\$ 8,816	\$2,706,411
1972	\$10,463	\$2,984,147
1973	\$10,955	\$3,393,873
1974	\$12,075	\$3,859,940
1975	\$11,866	\$3,860,689
1976	\$13,492	\$4,242,994
1977	\$16,405	\$4,756,760
1978	\$18,153	\$5,335,461
<u>Percent Change</u>		
1971-78	106.0%	97.1%

Source: Virginia Department of Taxation.

TABLE 15  
HOUSING UNITS AUTHORIZED  
Warren County  
1970-1979

Year	Number	Value (000)
1970	309	\$ 4,632.6
1971	341	\$ 4,639.2
1972	374	\$ 4,450.0
1973	431	\$ 6,902.8
1974	762	\$12,789.7
1975	390	\$ 7,009.5
1976	326	N. A.
1977	330	\$ 7,333.9
1978	219	\$ 5,810.9
1979*	<u>119</u>	<u>\$ 3,500.1</u>
Total	3,601	\$57,068.7

\*1979 data covers only the period of January through June.

Source: Tayloe Murphy Institute, University of Virginia.



TABLE 16  
HOUSING STOCK  
Warren County  
1960, 1970, 1979

Year	Total Housing Units	Percent Increase
1960	4,949	
1970	5,992	21.0%
1979*	9,593	60.0%

\*The 1979 figure is based on the 1970 total plus the 3,601 units authorized between 1970 and June of 1979.

Source: U. S. Census of Housing data and Tayloe Murphy Institute.

TABLE 17  
DEPOSITS IN FINANCIAL INSTITUTIONS  
Warren County  
1970, 1974-1979

Year	Banks	Savings & Loan	Total	Percent Change
1970	\$24,024	\$ 1,538	\$25,562	
1974	\$42,901	\$ 4,217	\$47,118	
1975	\$47,028	\$ 5,418	\$52,446	11%
1976	\$52,280	\$ 7,063	\$59,343	12%
1977	\$60,898	\$ 8,607	\$69,505	17%
1978	\$70,347	\$11,146	\$81,493	17%
1979	\$69,483	\$12,646	\$82,129	1%

Average Increase Per Year

1974-79	\$5,316.4	\$1,685.8	\$7,002.2	11.6%
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Percent Change

1974-79	62.0%	200.0%	74.0%
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Source: Federal Deposit Insurance Corporation and Federal Savings and Loan Insurance Corporation.

TABLE 18  
DEPOSIT PROJECTIONS  
Warren County

Date	8% Growth	10% Growth	12% Growth
June 1979	\$ 82,129	\$ 82,129	\$ 82,129
	<u>6,270</u>	<u>8,213</u>	<u>9,855</u>
June 1980	\$ 88,699	\$ 90,342	\$ 91,984
	<u>7,096</u>	<u>9,034</u>	<u>11,038</u>
June 1981	\$ 95,795	\$ 99,386	\$103,022
	<u>7,664</u>	<u>9,939</u>	<u>12,363</u>
June 1982	\$103,459	\$109,325	\$115,385
	<u>8,277</u>	<u>10,933</u>	<u>13,846</u>
June 1983	\$111,736	\$120,258	\$129,231

Total Deposit Growth  
June 1980 through June 1983

June 1980-81	\$ 7,096	\$ 9,034	\$ 11,038
June 1981-82	\$ 7,664	\$ 9,939	\$ 12,363
June 1982-83	<u>\$ 8,277</u>	<u>\$ 10,933</u>	<u>\$ 13,846</u>
	\$ 23,037	\$ 29,906	\$ 37,247

Projected Average Deposit Growth Per Office  
June 1980 through June 1982

10 Offices	\$ 2,304	\$ 2,991	\$ 3,725
11 Offices	\$ 2,094	\$ 2,719	\$ 3,386

COMMONWEALTH OF VIRGINIA  
THE STATE CORPORATION COMMISSION

APPLICATION OF FIRST VIRGINIA :  
BANK-SHENANDOAH VALLEY FOR A :  
CERTIFICATE OF AUTHORITY TO :  
ESTABLISH AND OPERATE A : CASE NO. BFI800001  
BRANCH IN FRONT ROYAL, :  
VIRGINIA. :

PRE-FILED TESTIMONY OF  
CHARLES R. CASH

Q1. State your name and address.

A. My name is Charles R. Cash. My mailing address is  
Route 1, Box 465, Mount Jackson, Virginia, 22842.

Q2. How old are you?

A. 51.

Q3. What is your occupation?

A. I am President of First Virginia Bank-Shenandoah  
Valley, Woodstock, Virginia.

Q4. Mr. Cash, would you relate briefly your formal education  
and banking experience.

A. I graduated from Wytheville High School in Wytheville,  
Virginia, and obtained a graduate certificate from the American  
Institute of Banking. From January, 1949, until June 1, 1963,  
I was employed by the Bank of Virginia and its affiliate, the  
Bank of Henrico, working in Roanoke and Richmond, Virginia. On  
June 1, 1963, I became Executive Vice President and Director of  
People's Bank, Mount Jackson, Virginia. In January of 1964, I  
became Executive Vice President and Director of Shenandoah County  
Bank and Trust Company in Woodstock, Virginia, and in September  
of 1970, I became President and a Director of what is now First  
Virginia Bank-Shenandoah Valley, Woodstock, Virginia.

Q5. What civic activities have you been involved in which are not directly related to banking?

A. I have served on the town council in Mount Jackson for four years. I have been a member of the Shenandoah County Industrial Development Corporation for eight years, and the Shenandoah County Water and Sewer Association for four years.

Q6. Mr. Cash, could you relate a brief history of First Virginia Bank-Shenandoah Valley.

A. The Bank was originally chartered on December 28, 1871 as Shenandoah County Bank. In 1900 the name was changed to Shenandoah National Bank and on February 14, 1935, Shenandoah National Bank merged with Shenandoah Valley Loan and Trust under the name of Shenandoah County Bank and Trust Company.

On June 25, 1966, Shenandoah County Bank and Trust Company merged with Massanutten Bank of Strasburg under the name of Massanutten Bank of Shenandoah Valley, N.A.

On April 30, 1969, Massanutten Bank of Shenandoah Valley, N.A. merged with People's Bank of Mount Jackson under the name of First Virginia Bank, N.A.

On September 30, 1978, First Virginia Bank, N.A. changed its name to First Virginia Bank-Shenandoah Valley and converted to a State bank. Our Bank became a member of the First Virginia system on November 28, 1962, at which time, as previously indicated, the name was Shenandoah County Bank and Trust Company.

We presently have three locations in Woodstock, an office in Mount Jackson and one in Strasburg. Total footings as of December 31, 1979, were \$60,257,602. A copy of the December 31, 1979, statement is attached to this transcript.

Q7. Does your Bank presently have customers in the Front Royal area?

A. Yes. According to our records, we presently serve 912 customers in the Front Royal area. 460 of these are deposit account customers who had on deposit with us in September of 1979 \$1,366,000. In addition, we have 508 loan customers with loans totalling \$3,191,767. The breakdown of these deposit and loan accounts by account type and amounts is attached hereto.

Q8. Why does First Virginia wish to open a branch in Front Royal?

A. We now have a substantial number of customers in the Front Royal area as I have just described. Front Royal is now experiencing tremendous growth and all indications are that the growth is accelerating. Now that Route 66 is completed, except for two miles near Haymarket, Front Royal is only one hour and 15 minutes from metropolitan Washington. In addition, U.S. Route 81 is only ten miles away. The community is serviced by two major railroads, Norfolk & Western and Southern. According to Front Royal's town manager, Mr. Walter M. Duncan, the town is spending approximately \$15,000,000 for the expansion of trunk lines and sewer and water services. We feel certain that these factors, coupled with the decision of Dupont to locate its plant three miles outside of Front Royal, furnish an exceptionally favorable climate for opening a branch. The Dupont plant will provide from 300 to 350 new jobs. I am told that the plant will have 50 employees by July of this year and will be in full operation by July of 1981. The Dupont building permit for the building only is in excess of \$10,000,000.

Having worked on Shenandoah County's local Industrial Development Authority, I am familiar with the fact that the first thing needed to attract industrial growth to a community is water and sewer facilities; next would be availability of railroad service; labor force; and a favorable tax base. Warren County's tax base for real estate is 50 cents per \$100 of assessed value, and Front Royal's is only 17 cents per \$100 of assessed value. These figures compare very favorably with surrounding counties and towns and are much lower than the State average.

In addition, we have an exceptionally attractive location in Front Royal.

Q9. What arrangements have been made for the proposed branch in Front Royal?

A. We have entered into a lease with the Royal Plaza Associates, owners of the Royal Plaza Shopping Center. Our branch would be a free-standing building containing approximately 2,400 square feet located in the center of the Royal Plaza Shopping Center parking lot facing Route 55. It is to be a one-floor design compatible with present structures in the Shopping Center, with the facility for three drive-in units. We are very pleased with the central location of the branch in the only major shopping center in Front Royal. The Center has 870 parking spaces with two major grocery stores (the Safeway store has about 31,450 square feet and the A & P store has 32,260 square feet), and, in addition thereto, department stores (K-Mart Department Store with 53,090 square feet and People's Department Store with 20,000 square feet), and a number of small independent shops.

Front Royal serves as a shopping area for all of Warren County and for portions of Page County, Shenandoah County and Rappahannock County.

Our lease with Royal Plaza Associates is, of course, subject to approval of our branch application.

Q10. Describe generally the banking services that First Virginia would offer in Front Royal.

A. We would offer all of the normal banking services that a full service bank is able to offer, including trust services, at the Front Royal location. Our Bank has an individual credit limit of \$700,000 to any one borrower which is normally large enough to take care of commercial customers. We have available to us the expertise and funding capabilities of First Virginia Banks, Inc. for the requests which exceed our legal limit. We have, in the past, made Industrial Development Authority loans to new industrial plants including a local hospital expansion through the cooperation of our association with First Virginia Banks, Inc. In addition, we would offer all of the standard banking services, including all of the various savings plans and individual and commercial checking.

Q11. What banks are now in Front Royal?

A. The Bank of Virginia, which is of course one of the leading banks in Virginia; and the Farmers & Merchants National Bank of Winchester, which is in the process of a \$500,000 expansion of their main office in Front Royal. Farmers & Merchants not only has locations in Winchester and Front Royal but also in Flint Hill, Berryville, Middletown and Stephens City. Their holding company is the owner of the Stonewall Jackson Bank and



Trust Company which competes directly with us with branches in Woodstock and Mount Jackson. The People's Bank of Front Royal is an independent State bank which has enjoyed excellent growth in earnings since they opened in 1973. They have also opened a branch in Bentonville, Virginia.

Q12. What specific services will First Virginia offer at Front Royal which are either new to that community or represent an expansion of the services now provided by banks in Front Royal?

A. Additional services that we would provide for the community would include new car loan floor plan arrangements for dealers which the Bank of Virginia and F & M are not offering. People's Bank offers this service on a limited basis. We presently floor plan Marlow Motors Lincoln-Mercury and American Motors distributorship in Front Royal.

The Bank of Virginia and Farmers & Merchants are not actively involved in dealer financing. People's Bank does offer this service. We have been actively involved in dealer financing for 15 years and are in a position to properly service this segment of the market in Front Royal and Warren County.

Our Bank lobby would be open for full service from 9:00 a.m. to 5:00 p.m., while the other banks in Front Royal close at 2:00 p.m., and only offer drive-in service after that time.

We would offer savings and checking automatic transfer accounts (SCAT), which would pay interest of five percent on an average balance of \$1,000, whereas the Bank of Virginia's average balance is \$2,500 and Farmers & Merchants and People's do not offer this service at this time.

At the present time there is no drive-in service offered in the Royal Plaza Shopping Center. We would provide three drive-in facilities and there would be 870 parking spaces available for the customer's convenience.

Our Bank offers both Master Card and Visa services and we approve our own credit card customers.

Our access to Arlington Mortgage Company and general lending ability would increase the availability of loans in the area.

Over a period of years, we have been very successful in the area of shell home financing which is, in essence, putting up the home without the interior being finished. The owner finishes the house on his own, either doing the work himself or contracting from time to time with various tradesmen. There has been a great deal of activity in this area for second homes and recreational homes. Warren County and Shenandoah County are probably the two counties in the State which have seen the most unusual growth in individual lot sales to people from the metropolitan Washington area who buy in our area with the intent of retiring or building a recreational home. A study done in March of 1978 by the Lord Fairfax Planning Commission reflects that there were 15,803 lots that had been platted in a total of 126 different subdivisions. Our Bank probably has been engaged in more financing in this field than any bank in the State for the past 12 twelve years. We have financed in excess of \$20,000,000 in this type of financing to date. The program has been successful and we have not sustained a single loss in this type of financing. We would anticipate a strong demand for this type

of financing in years to come due to the present owners of lots wishing to develop their property either for recreational or permanent homes.

We are convinced that Warren County is going to experience exceptional growth in the next few years and that all of the financial institutions in Front Royal will prosper if they are well managed.

Charles R. Cash  
Charles R. Cash

STATE OF VIRGINIA,  
CITY OF Front Royal, to-wit:  
Warren County.

This day before me, Raymond B. Thomas, a Notary  
Warren County  
Public in and for the City and State aforesaid, appeared Charles  
R. Cash, who first being sworn deposed and said that the fore-  
going testimony is true to the best of his information, knowledge  
and belief.

Given under my hand this 7<sup>th</sup> day of March, 1980.

Raymond B. Thomas  
Notary Public

My Commission expires:

September 13, 1980

1  
2 just on behalf of his own client, the  
3 Peoples Bank. And it is the opinion of the  
4 Commission, Mr. McCormick, that it should be  
5 continued generally. It will be granted.

6 MR. McCORMICK: Thank you, sir.

7 MR. THOMSON: Your Honor, might we  
8 ask that if there is an attempt to reinstate  
9 this hearing prior to a year's time, that we  
10 be notified and be heard on the motion, because  
11 we are being put to a double expense now by  
12 having, if we do have to come back before  
13 a year's time --

14 COMMISSIONER BRADSHAW: Any Protestant  
15 here this morning will be notified when the  
16 matter is reset.

17 MR. SCHUTT: Thank you, Mr. McCormick.

18 (Mr. McCormick is excused)

19  
20 COMMISSIONER BRADSHAW: Did you have  
21 anything else in your opening statement, Mr.  
22 Schutt?

23 MR. SCHUTT: With respect to the First  
24 Virginia application, it is the position of the

Bureau of Financial Institutions that the Application is a viable one, and that the question that exists with respect to this Application concerns the potential impact of the Applicant on a newly chartered, and yet unopened, savings and loan association. There has been no prefiled testimony or expert testimony on behalf of the Protestant, and the Bureau, therefore, can reach no conclusion as to the extent of harm that is anticipated to occur to the S & L. In any event, I believe it is fair to say that the Bureau feels that it is the Commission's prerogative to determine whether protection should be granted a fledgling institution, and the extent of that protection, both as to the amount of protection and duration of it; other than to say that we believe Doctor Rakes paints a very favorable picture of the existing and potential growth situation in Front Royal, the Bureau of Financial Institutions has no strong position in the matter and awaits to hear the able presentations of

1  
2 the parties.

3 COMMISSIONER BRADSEAW: All right, sir.  
4 Mr. Breeden?

5 MR. SCHUTT: Excuse me. I forgot to  
6 mention the Bureau's investigation report,  
7 which has been submitted in accordance with  
8 the Commission's Order on April 17th, having  
9 already received it, I would simply offer  
10 that it reaches no final recommendation, and  
11 I would offer that under my sponsorship at  
12 this time as part of the record, subject to  
13 objection of the parties.

14 COMMISSIONER BRADSHAW: Any objection?

15 MR. THOMSON: Your Honor, we have no  
16 objection. We have no objection to either  
17 one of the reports. I think in many instances  
18 they parallel each other, because of the  
19 necessity of preparing for trial -- not knowing  
20 that there was going to be a continuance this  
21 morning, some of our information encompasses  
22 both of the institutions, and we are not going  
23 to, obviously, have a chance to separate that  
24 information. It would be helpful if the

Commission received both of the reports  
so that when they are referring to them --  
as I say -- I don't think in factual information  
there is a great deal of difference.

MR. SCHUTT: That is agreed.

COMMISSIONER BRADSHAW: We will receive  
both without objection.

MR. BREEDEN: We have no objection.

COMMISSIONER BRADSHAW: Mr. Breedon,  
suppose you tell us about First Virginia Bank.

MR. BREEDEN: May it please the  
Commission, on behalf of First Virginia,  
Shenandoah Valley, we have filed an appreciable  
amount of prefiled testimony and statistical  
information. When we began to prepare this  
case, we were of the opinion that there was  
likely to be some real substantive disagreement  
as to the need for another banking institution  
in this community, and as to whether or not  
the market would support it.

As we see it at this juncture, there is  
really very little difference, very little

1  
2 conflict between the information that we  
3 have filed and the information that has been  
4 offered by the Bureau, and that which was  
5 offered on behalf of the Peoples Bank.

6 We agree, basically, with the findings  
7 in the Bureau's study that all of the most  
8 important indicators, such as population,  
9 income, and bank deposits in this community  
10 are growing at an accelerated rate. There  
11 are one or two points at which we do differ  
12 somewhat with the Bureau's findings. We  
13 think that they are in error on the retail  
14 sales. The retail sales in the Front Royal,  
15 Warren County have, according to the most  
16 reliable statistics, grown at a rate  
17 considerably greater than for the State of  
18 Virginia as a whole. I think the Bureau's  
19 report indicates something to the contrary.  
20 And we don't know where they get their  
21 numbers, but we are going to have some evidence  
22 on that.

23 Many of the factors that were considered  
24 by the Commission at the most recent hearings



1  
2 pertaining to Front Royal and Shenandoah, in  
3 the savings and loan cases, in '78 and '79,  
4 many things they were talking about in those  
5 cases were projections. Those things almost  
6 without exception have actually materialized  
7 in the interim, and I am making reference to  
8 Interstate 66, 81, to the Dupont plant, to the  
9 expansion of the sewer and water facilities  
10 in the community, and also to the level of  
11 employment at the AVTEX plant which we under-  
12 stand is now probably at as high a level as  
13 it has ever been. That Company has been  
14 consolidating its operations in Front Royal.

15 Originally, of course, we had two  
16 Applicants, and we were of the view that  
17 even though there were two Applicants,  
18 frankly, that the market would support  
19 both, because we really have only one new  
20 bank that was applying, and the other bank,  
21 Peoples Bank, was -- really, it was already  
22 there, and was simply opening another office.

23 Well, our forisjurare , we feel like  
24 the market would support the First Virginia branch

1  
2 in that community.

3 We do not feel that granting First  
4 Virginia's Application in this instance would  
5 have any significant adverse impact on the  
6 Front Royal Savings and Loan. They have delayed  
7 in opening their office, apparently, and we  
8 don't know just why that was, or why that has  
9 occurred, but we feel it doesn't really have  
10 anything to do with us or our potential entry  
11 into the market. That savings and loan, as  
12 this Commission recognized in its opinion in  
13 that case, is broadly based, they have a broad  
14 community support. I think they have over  
15 five hundred subscribers. According to our  
16 figures, if they just got the average deposit  
17 from their subscribers, they would go a long  
18 way to supporting their operation.

19 There are certain advantages we feel  
20 in a savings and loan that is a new one, over  
21 an established savings and loan. The savings  
22 and loan that is already in that community,  
23 First Federal, has had an extraordinarily  
24 successful history up until now. They have done

1  
2 very well. Of late, they have been doubling  
3 in size every two or three years, and that  
4 certainly indicates that this is a strong  
5 market for savings and loans.

6 Now, the new savings and loan, our  
7 evidence will show, does not suffer from some  
8 of the problems of an established savings and  
9 loan would have in this day and age in terms  
10 of having money loaned out at low rates, and  
11 having, say, to pay high rates for new deposits.  
12 And we are going to address ourselves to that  
13 question.

14 Whatever the Front Royal Savings and  
15 Loan does, or whatever they don't do, we feel  
16 are not really going to be affected by the  
17 Commission's action on our application.

18 We are going to offer some testimony  
19 describing our proposed location, which we  
20 think is an exceptionally attractive one, and  
21 one which will offer some physical features that  
22 are not presently incorporated in any of the  
23 other branches that are in this community, and  
24 in terms of the public interest test under the

1  
2 statute, our evidence, I think, will show that  
3 in terms of the increased competition,  
4 additional conveniences, efficiencies, these  
5 specific items that are mentioned in the statute,  
6 we feel without exception have got to be  
7 served by the granting of this Application.

8 The negative side, so far as unfair  
9 competition, or undue concentration of assets  
10 and those things, or conflict of interest also  
11 mentioned in the statute, we don't think there  
12 is a hint of any of that involved in this  
13 Application.

14 First Virginia, Shenandoah Valley, of  
15 course, has no corporate relationship  
16 whatsoever with any other institutions that  
17 are now there. The bottom line, we think,  
18 is that a citizen of Warren County or Front  
19 Royal will -- would be bound to view the  
20 building of this new branch, and the services  
21 that it would offer, as an asset. Whether  
22 he dealt with this bank or another one, he  
23 certainly could not view it as other than an  
24 asset to the community.

1  
2 A word about our witnesses and  
3 how we intend to proceed. I think we  
4 have seven witnesses. We have Doctor  
5 Rakes, who is our professional witness  
6 and expert witness. And we are going to  
7 have some -- put him on and he is going  
8 to have some comments with regard to the  
9 statistics and the market data.

10 We have prefiled testimony  
11 from Mr. R. Edward Duncan who was the  
12 Executive Director of the Lord Fairfax  
13 Planning District Commission. His  
14 data is entirely statistical. It is --  
15 it appears to us to come to exactly the  
16 same place that everybody else is get-  
17 ting their data, mostly from -- either  
18 from the Planning District itself which  
19 comes from the Tayloe Murphy Institute,  
20 or directly from the Tayloe Murphy  
21 Institute, and for that reason we are  
22 not going to have him appear in person  
23 because I simply think it would be a re-  
24 hash of what is already in the record.

We have four witnesses who are community business and civic people, who are going to be very short and, then, we are going to offer some testimony from our corporate employees. Mr. Charles R. Cash you see here at the table. He is the President of the Bank, and his testimony is going to be directly directed mostly towards the public interest issue. And, also Mr. Jim Kenny, who is here this morning. He would be the Vice-President in charge of this branch if the application is granted. He is going to talk about the location and some of those factors.

COMMISSIONER BRADSHAW: Thank you, Mr. Breeden.

Mr. Thomson?

MR. THOMSON: If it please the Commission, the hearing this morning is obviously going to be somewhat lengthy. For the purpose of trying to get directly to the meat of the question, we really

GANAS K. RAKES,  
a witness introduced on behalf of the Applicant, being  
first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BREEDEN

Q Would you state your name, please, sir?

A My name is Ganas K. Rakes.

Q Where do you live?

A 2513 Smithfield Road, in Charlottesville,  
Virginia.

Q What is your occupation?

A I am Associate Professor in the McIntire  
School of Commerce at the University of Virginia, and I  
teach courses in Corporate Finance, Financial Institutions,  
Banking.

Q And very briefly, what is your academic  
background?

A I have been on the faculty of the University  
of Virginia for twelve years. I have done a number of  
banking and financial institution related activities, I am  
on the faculty of the Graduate School -- of the Stonier

1 Graduate School of Banking. I was sponsored by the American  
2 Banking Association and a number of others. I published  
3 some articles, key studies, and done an abnormal amount  
4 of academic and consulting work in the field.  
5

6 Q And you have appeared before this  
7 Commission on previous occasions?

8 A Yes, sir, in similar matters.

9 Q Doctor Rakes, you have been requested  
10 to make a study of the banking and financial market in  
11 Front Royal and Warren County area relative to this  
12 Application, have you not, by First Virginia?

13 A Yes, sir.

14 Q And would you tell the Commission please,  
15 sir, basically what you have done in connection with  
16 that study?

17 A Yes, sir. I made a visit to the site.  
18 I have been there a number of times in recent years. I  
19 made additional visits in order to collect data. We  
20 talked to the people at the planning commission -- Lord  
21 Fairfax Planning Commission, local government officials.  
22 I looked at all of typical series of data that are normally  
23 available that one would consider as indicative of what  
24 is likely to happen in a community. The economic trends.



1  
2 The demographic characteristics. The normal arrangements  
3 with regard to population, income, housing -- the normal  
4 arrangements that I would consider reasonable in the  
5 circumstances to allow you to form an opinion about what  
6 is likely to happen.

7 And based on that analysis, I am  
8 convinced that the growth trends that have been apparent  
9 for several years are still there, and probably  
10 accelerating for some fairly specific reasons.

11 Q All right, sir. Have you reviewed  
12 the report of Mr. Herbert of the Bureau of Financial  
13 Institutions with reference to both First Virginia's  
14 Application and the Peoples Application?

15 A Yes, sir.

16 Q Are you generally in accord with  
17 the conclusions reached in those reports?

18 A I think in general everyone who  
19 is speaking about this area is in general accord that it  
20 is an area of rapid growth. I don't think the trends are  
21 at issue here.

22 Q All right, sir. I would like to  
23 direct your attention to page 7 of both reports, either  
24 report. Where there is a comment about the retail sales  
wherein in the report it says: Unlike the other indicators  
examined, retail sales in the 1970-78 period grew at a slower

1  
2  
3 rate. Have you conducted an investigation of retail sales  
4 for this area?

5 A Yes, sir. The only conclusion I  
6 can reach is that probably the investigator for the Bureau  
7 of Financial Institutions used a different series, or  
8 different source of data than I used.

9 Q Tell us what data you used, and  
10 what conclusions you draw with regard to retail sales  
11 from that data.

12 A I used the reports provided by  
13 -- developed by the Virginia Department of Taxation  
14 that reports on sales tax collections in that area. I  
15 think there are several series out that would purport  
16 to show what is happening to retail sales there.

17 I used that one because I think  
18 it is likely to be the most accurate, probably conservative,  
19 because I rather doubt that anyone would overstate what  
20 their sales would be, and provide more tax revenue to the  
21 State, but based on looking at that for the period 1970-78,  
22 the sales, taxable retail sales, increased a hundred and  
23 forty-five percent, in Warren County, compared to a hundred  
24 and thirty-one percent increase in the State.

This is only one index. Typically

1  
2  
3  
4 retail sales alone are not all that usual, but it is an  
5 indicator that shows that the commercial vitality of  
6 Warren County is proceeding very, very rapidly.

7 The reason that is so significant,  
8 I think, is that this isn't an area with a large, enclosed  
9 mall. It doesn't have the regional shopping center type  
10 of things that we would normally expect to be developing  
11 in an area to attract people.

12 There is a strip shopping center  
13 there in which the Applicant hopes to place a bank. This  
14 is just a general level of increase in commercial activity  
15 which I think characterizes what is happening in Front  
16 Royal and Warren County. It is simply becoming another  
17 circle on the expansion of Northern Virginia. Probably  
18 accelerated because of the Interstate 66 completion, or  
19 other things.

20 Q Doctor Rakes, do you have this  
21 chart in front of you?

22 A Yes, sir. I have additional  
23 copies.

24 Q We would like to offer this chart.  
Will you tell the Commission briefly what that shows?

1  
2  
3  
4           A           This is, in a sense, just an  
5 expanded version of a table that was in my prefiled  
6 testimony, which I hope -- of Table 13. In the Table  
7 that I prefiled I gave the data '71 through '78, because  
8 that is the year in which retail sales and department  
9 specialty store sales were available, so I just recopied  
that. In fact I offer this --

10           Q           In light of the comment that was  
11 made in the Bureau's study, if we may, we would like to  
12 offer one of these as -- do you believe, Doctor Rakes,  
13 that this is the most accurate and reliable information  
available on retail sales for the periods covered here?

14           A           Yes, I do. Basically, I don't  
15 know where the investigator for the Bureau found his  
16 data, and that may be a very valid source. I have no  
17 question that he found a series that reported exactly that.  
18 This is the one I have traditionally used, and the one I  
19 have come to believe is probably most valid for measuring  
this type of data.

20                   COMMISSIONER BRADSHAW: Is it your  
21 desire, Mr. Breeden, just to substitute this  
22 for what was --  
23  
24

1  
2  
3  
4 MR. BREEDEN: We can substitute  
5 it. I was offering it in addition, really,  
6 if we could.

7 COMMISSIONER BRADSHAW: All  
8 right. It will be 13-A, in addition to the  
9 prefiled.

10 MR. BREEDEN: Let me ask the  
11 Commission, if I may. I have assumed,  
12 perhaps incorrectly, that the prefiled  
13 testimony is part of the record in this  
14 case, and that it is not necessary to  
15 offer it at this time, but if it is necessary,  
16 if there is any question as to whether or  
17 not the prefiled testimony is part of the  
18 record, I would like to offer it at this  
19 time.

20 COMMISSIONER BRADSHAW: You  
21 offer it and it will be accepted through your  
22 witness. If you want to, just offer his  
23 testimony and tables as an exhibit it will  
24 be so received.

MR. BREEDEN: All right, sir. I  
will so ask that it be received, and that

the copy to be received be the one that is already in the file.

COMMISSIONER BRADSHAW: Do you want it copied into the record, or just accept it as an exhibit?

MR. BREEDEN: Just accept it as an exhibit.

COMMISSIONER BRADSHAW: It will be Exhibit No. 1.

MR. BREEDEN: And the same with regard to Mr. Richard Edward Duncan's testimony, who I referred to earlier. If I may also move its admission in the record.

COMMISSIONER BRADSHAW: Is Mr. Duncan going to testify?

MR. BREEDEN: He is not going to appear. This is the statistical information that we prefiled.

COMMISSIONER BRADSHAW: Well, I am sorry. We can't accept that unless counsel will stipulate it, because it is subject to cross examination.

MR. BREEDEN: Well --

MR. THOMSON: No, sir, I can't stipulate it. You can bring him here, you can bring him in.

MR. BREEDEN: Well, we will note that exception for whatever that might be worth, but I don't think there is any controversy. I think it is as I indicated before, repetitious.

COMMISSIONER BRADSHAW: We will accept Doctor Rakes Exhibit as GKR-1, which includes his table and the new table you just added, Table 13.

BY MR. BREEDEN (Continuing)

Q Doctor Rakes, with reference to a comment made by Mr. Thomson in his opening statement, wherein he referred to page 9 of the Bureau's report, and I think that is the same on either report, same page, I understood Mr. Thomson to say that the report showed a decrease in the deposits for the Bank of Virginia for '78 to '79. Would you add for us, please, the deposits

for June 30, '78, and compare them, if you will with the deposits for December 31, 1979 and see which of those is greater?



1                                   A                                   Well, for the Bank of  
2  
3 Virginia, considering the two offices open, we are  
4 dealing with a modest amount of increase. Twenty-  
5 eight million six ninety-three to twenty-nine  
6 million fifty thousand dollars.

7                                   MR. THOMSON: You must  
8 have a different figure than I do.

9                                   WITNESS RAKES: No, sir.  
10 I think probably you didn't -- you  
11 have to add these together so you  
12 have twenty-eight million and twenty-  
13 nine million.

14                                  MR. THOMSON: You are  
15 using the February 31, not the June --

16                                  WITNESS RAKES: Yes.

17                                  MR. THOMSON: Well, of  
18 course. I used the June 30th.

19                                  WITNESS RAKES: There is  
20 only a two hundred thousand dollar --  
21 well, let's see, there's a modest de-  
22 crease.

23                                  MR. THOMSON: Right.

24                                  WITNESS RAKES: Of course,

1 if you are a banker any decrease is  
2 not modest. There is a decrease from  
3 the middle of '78 to the middle of  
4 '79 which is typical of banking institu-  
5 tions all over the State and I hope,  
6 for goodness sake, temporary in an  
7 abnormal economic circumstance.  
8

9 BY MR. BREEDEN: (Continuing)

10 Q But from June of '78 to the most  
11 recent figure of December of '79, there is an increase?

12 A There is an increase of over  
13 a million dollars. Yes, sir.

14 Q With regard to the comment  
15 in the report as to the competition, I think on Page 8  
16 of the report -- and, again, it's the same in both  
17 reports -- there is a comment with regard to the  
18 keen competition among the banking institutions in  
19 this community.

20 In view of the fact that  
21 from these numbers, the F&M Bank, the Farmers and  
22 Merchants Bank, has some forty-five percent of all  
23 the deposits in that community. Could you comment  
24 for the Commission as to the competition aspect of

1  
2 this?

3           A           I'm sure the bankers in the  
4 market, whether there is one, two, three, four, five  
5 bankers there, consider the competition to be keen.  
6 It doesn't take a lot of other institutions for you  
7 to think that you are in competition. The three  
8 banking offices that are there, while F&M has forty-  
9 five percent the two largest institutions hold  
10 eighty-five percent of the volume of commercial  
11 banking. Only fifteen percent is held by the smaller  
12 Peoples. The smaller one is growing, but it's still  
13 a market that is characterized by two primary com-  
14 mercial banks.

15                   The scenario, in terms of  
16 competition, you can't really substantiate. There  
17 is no index that I know of that would put me in a  
18 position to say definitely this is what's happening.

19                   It's my opinion that those  
20 two larger banks are not really seeking much business  
21 other than deposits there. I judge that Peoples  
22 Bank to be a far more competitive, consumer-oriented  
23 institution than the two larger ones in terms of  
24 their willingness to accept consumer installment paper  
and that type of business. But that's what I -- the

conclusions I draw from talking to people there without any statistical evidence to back it up. I do not consider that to be a competitive market.

In the previous hearings, First Virginia has already been identified as a competitor in a part of that market. That information was introduced, I think, in the '78-'79 series. It has considerable business there. Three point two million in loans, a million three in deposits. The aspect of that that impresses me the most is that these are two different groups. There are some five hundred borrowers and some four hundred depositors and a total of nine hundred customers from Warren County. And, in most of these cases when you see deposits and loans out of an area you expect that probably the bank has made some loans and requires the deposits as a part of getting that and it's somewhat contrived. It doesn't appear to be the case here.

They have three point two million dollars in loans, yet the banking institutions there should be large enough to support the need but substantial numbers of the residents are leaving Warren County to take their banking business somewhere

1  
2 else and at some inconvenience to do business with  
3 First Virginia. Two separate groups. Depositors  
4 and borrowers which impresses me from the perspective  
5 that apparently the banks there are not as aggressive  
6 as one might have expected them to be up front.

7 I believe the competition --  
8 the competitive nature of this market would be improved  
9 by putting another competitor, First Virginia, in  
10 that area. I think the competition would not be  
11 that First Virginia would come in and dominate the  
12 market. I don't think they would do that at all.

13 I think that Farmers and  
14 Merchants, the Bank of Virginia would simply be more  
15 competitive and more responsive to that local market  
16 and that all of the banks would begin to compete.

17 Q Can you comment for us  
18 upon the impact that you can foresee the -- a new  
19 First Virginia branch at this location having on  
20 a new savings and loan, the Front Royal Savings and  
21 Loan?

22 A I think I need to approach  
23 that from two points of view, but first I think  
24 it's self-evident that opening a new institution  
that accepts deposits there, someone else asking for

the money, for the depositor to look at, the question becomes one of whether that is sufficient to be judged adverse or to be harmful. And that I guess is the area where the greatest element of disagreement would come up.

From the first point of view, I would like to focus on the information developed by the investigator for the Bureau of Financial Institutions, and in his analysis the four million dollar deposit projection did not, for Peoples, did not appear to involve adverse competition. Therefore, I really can't believe that the two million dollar deposit forecast over the first thirty-six months of operation by First Virginia would be as harmful, certainly no more harmful. So if four million in Peoples is realistic and doesn't involve any injury, and that view point from the Bureau is accepted, I would have to suggest that the two million dollar projection of First Virginia isn't going to harm them.

Then, to deal more specifically with the aspects of Front Royal Savings and Loan's ability to attract deposits, I think they have significant advantages in that market. I'm delighted

1 to work for holding company operations. They pay  
2 quickly, everything like that. But I think we  
3 all have to recognize that an independent, home-  
4 owned bank has obvious significant marketing ad-  
5 vantages in that market. And their filings show  
6 over five hundred subscribers, over four hundred  
7 households, Front Royal, Warren County, as subscrib-  
8 ing to stock in that institution. That's an enormous  
9 amount of community support in an area with twenty  
10 thousand people. Eighty-six percent of those are  
11 from that area. I would judge at least four hundred  
12 people. Four hundred potential depositors.

13 Now, based on the per capita  
14 savings and deposits in that area, total deposits,  
15 banks and savings and loans of eighty million dollars,  
16 and if we use Mr. Thomson's assumption of twenty  
17 percent across the board, that's over sixty-four  
18 million dollars in time and savings, in that general  
19 region, or say sixty million. If we divide that  
20 through, that suggests something like three thousand  
21 dollars in time and savings deposits per capita. If  
22 they can just attract their subscribers to move  
23 their money into the bank, they are going to come  
24 up with a million and a quarter, a million and a half,

two million dollars in deposits just within their own arrangement. And I can't imagine that anything First Virginia could do could budge those --

MR. THOMSON: Let me correct the witness. The twenty percent I was referring to were the specific figures of First Virginia-Shenandoah Valley. It did not pertain to the general market.

WITNESS RAKES: It probably would, though. I would have to study that. I would have to go through it to see. I don't think it would be far off. In fact, that might be a little low on the savings and deposits.

But, suffice it to say that there is considerable deposit volume, probably to be gathered simply from dealing with their own subscribers which would be a large group. If their friends are likewise encouraged, I believe they have a significant and substantial advantage in entering business. They still have the advantage which will be phased



1  
2 out before long, I suspect, of paying a  
3 higher yield than the banking office can  
4 pay. They have the significant advantage  
5 of Regulation Q, which, of course, I think  
6 will be phased out over the next few years.  
7 But for the introductory opening period,  
8 and the years when Front Royal Savings  
9 and Loan is being established, they have  
10 that advantage. They have what I would  
11 judge to be an excellent location in  
12 terms of the population trend going by  
13 that location, in terms of the primary  
14 grocery, retail shopping, in terms of  
15 the location of the major residential  
16 areas. I think it would be prime savings  
17 and loan deposits generators.

18 I can't imagine that this  
19 institution would not be successful. I'm  
20 sure they would view it to say they would  
21 be more successful without First Virginia  
22 in the market. But I really can't imagine  
23 that this application or even another  
24 deposit collector for Peoples could  
significantly inhibit their ability to

become established and prosper in this market.

I thought, from my point of view, the market in '73 justified a second savings and loan. That opinion, obviously, did not prevail. Since that time it has grown more than enough I think to take care of Front Royal Savings and Loan and an additional banking competitor.

BY MR. BREEDEN: (Continuing)

Q Doctor Rakes, I think you've already touched on this, but the reports project roughly half the deposits for First Virginia that they projected for Peoples; isn't that correct?

A Yes, sir.

Q And, yet the reports suggest that First Virginia would have to have the deposits growing to present more competition than the Peoples branch would present.

Could you comment on that?

A Well, I just don't believe that logic follows. I do not believe that First Virginia

would be, and it's two million dollars in deposits,  
would have more effect than the four million dollars  
projected for Peoples.

MR. BREEDEN: All right, sir.

Answer Mr. Thomson.

MR. SCHUTT: Excuse me, sir.

May I ask a few questions?

MR. BREEDEN: I beg your pardon.

Answer Mr. Schutt.

CHAIRMAN SHANNON: Go ahead.

COMMISSIONER BRADSHAW: Go

ahead.

## CROSS EXAMINATION

BY MR. SCHUTT:

Q Mr. Rakes, with reference to your -- excuse me. You made reference to the investigation report of the Bureau on the Peoples Bank application, wherein it was projected that at the end of the third year Peoples would accumulate some four million dollars of total deposits.

A Yes, sir.

Q And I believe that was on the first or second page of the report. And, then, on Page 11 of the report, if I understood you, you emphasized that the investigator concluded that those four -- that the proposed branch would not have a substantial impact on Front Royal.

A He said it's not expected to have a substantial impact. And, in the other one he said it could have. So, we are arguing about the -- we are arguing about the "not expected" versus "could have". And I really -- the only position I would take there is to say that I don't see that one could necessarily draw that conclusion based on the deposit projections.

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3 Q I ask you to look at page 2 of the  
4 Examiner's report, the Investigator's report. There is  
5 a table there, in the upper part of the page, and the  
6 paragraph begins: As shown above.

7 A Yes, sir.

8 Q Will you read the second sentence  
9 in that paragraph? Beginning: The deposit projection?

10 A The deposit projections seem  
11 realistic assuming no deposit growth in the Applicant's  
12 main office. I did not -- we did not choose to put in  
13 an opening statement. My formal, specific position with  
14 this would be that I would say it like this. I would  
15 include that he considers the three year deposit growth  
16 projection of four million dollars realistic, assuming no  
17 change at their main office. That aspect that you are  
18 alluding to is definitely part of the comment that would  
19 need to be made here, four million dollars in total  
20 for Peoples.

21 Q So the investigator's conclusion  
22 that -- is consistent with the idea that there would be  
23 no growth in the overall organization of Peoples Bank.

24 A Not necessarily. I couldn't follow  
it to that extent. He is assuming, I think that in that

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3 period of time that Peoples Bank should grow at least  
4 four million dollars in total, which -- without necessarily  
5 identifying where those deposits would apply. The only  
6 position I would take in respect to that is to say that  
7 four million dollars in Peoples is not going to hurt,  
8 then I can't really see that two million dollars in First  
9 Virginia is going to be injurious.

10 Q Do you understand that Peoples  
11 Bank is already there, and First Virginia is not there?

12 A Physically, yes, sir. First  
13 Virginia is there with five hundred borrowers and four  
14 hundred depositors, but physically it is not in that  
County.

15 Q On page 8 of your prefiled testimony,  
16 in describing the employment characteristics of Warren  
17 County, is it fair to say that you refer to the character  
18 of the County as being a bedroom community, with substantial  
out-commuting?

19 A I don't recall using that term. I  
20 believe the bedroom community aspect of Warren County is  
21 increasing, but I would agree with the Bureau's report that  
22 manufacturing is historically the dominant circumstance there,  
23 with tourism and so forth being the second area. I would  
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4 agree that the bedroom aspect is accelerating. In future  
5 years it will be, particularly because of the tendency for  
6 all of those vacation homes that have been built around  
7 in the mountains over time to become permanent retirement  
8 residents.

9 So I think that the observation  
10 of the bedroom aspect is an accurate one.

11 Q Do -- you do recall making reference  
12 to perhaps the distance from Front Royal or Warren County  
13 to Washington, D. C. proper, being a long distance, but  
14 that there might be substantial out of county employment  
15 in the so-called inner-ring of counties surrounding the  
16 metropolitan area?

17 A Yes. I included in my study the  
18 1970 net commuting data, which shows some evidence of  
19 that. I really rather doubt that significant numbers of  
20 Warren County residents are going to drive into the  
21 District. I do think as the prices in the Northern  
22 Virginia area accelerate, as they continue to go up, that  
23 Warren County will become a more attractive place to live,  
24 as will Fauquier and Rockingham and several other counties  
in that area. I would expect most of the out-commuting to

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4 be into places like the IBM plant, the Xerox facility,  
5 in Prince William and Loudoun Counties, to industry around  
6 Dulles Airport, and that sort of arrangement. And I think  
7 that to an increasing degree there will be a commuting  
8 arrangement. This will be impacted by whatever happens  
9 to gasoline taxes, -- not taxes, but cost -- it will be  
10 offset by the increasing tendency to van pooling and things  
11 like that. The precise impact is difficult to tell. But  
12 I would conclude that just as in the '50's, the Alexandria-  
13 Arlington areas were impacted, and in the '60's, it was  
14 Fairfax County, in the '70's it moved out to Prince William  
15 and Loudoun, and into the northern part of Fauquier; in the  
16 80's, Warren County is going to be impacted by very  
17 accelerating patterns of growth development.

18 Q I direct your attention to page 9  
19 of your report.

20 A Yes, sir.

21 Q And you are talking about rates  
22 have increased in sales. The fourth sentence in the  
23 paragraph, answering question 12, is this a correct  
24 quotation: These rates of increase are unusual for  
a basically rural county.



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3 A I would conclude that to be, yes, sir.

4 Q I take it then you consider Warren  
5 County to be basically a rural county.

6 A Yes, sir. Now, the characteristics  
7 I would use to define 'rural' may be more technical than  
8 anything else. Front Royal is not an independent city.  
9 It is an area, that in driving through it, I would characterize  
10 as farming, the old Remount Station has been taken over  
11 by the zoo -- it is basically an agricultural area, recreation  
12 area, Skyline Drive. There is heavy industrial manufacturing  
13 base there that would give the employment characteristics  
14 of less than a rural area, but I would still describe it as  
rural environment, yes, sir.

15 Q On page 10, in answer to question 14,  
16 about the banking circumstances in Warren County, you  
17 make reference to the single savings and loan association  
18 enjoying a two hundred percent increase or growth in  
deposit volume over the period 1974 to '79.

19 A Yes, sir.

20 Q What was the base number?

21 A Four point two million in 1974,  
22 growing to -- that would be September data -- growing to  
23 twelve point six in 1979, for an increase of eight point four,  
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3 or double the 1974 base that I used in that calculation.

4 Q And that can be seen in your Table 17,  
5 is that correct?

6 A Yes, sir. I think the important  
7 point is to recognize that this institution has been there  
8 for many years, and it is only in the last four or five years  
9 that it really has started to expand and grow, and I think  
10 they pioneered a market in terms of developing consumer  
11 acceptance and recognition of the savings and loan, of the  
12 thrift institutions, which I believe Front Royal Savings and  
Loan will be ideally positioned to take advantage of.

13 Q I understood you to be implying  
14 that two hundred percent rate of growth in savings and  
15 loans over that period of time would be a healthy growth  
16 rate. Is that -- did I conclude wrong?

17 A No. I conclude that to be very  
18 healthy. It is three times the average, the amount for the  
19 banks, although I did not do an analysis statewide to see  
20 whether that is above or below, or about the same statewide  
21 average. Relative to the banking deposit growths, it is  
very attractive -- three times the rate.

22 Q My next question goes to ask you  
23 what the state rate of growth for that time period would be  
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3 for savings and loan deposits.

4 A I probably should know it but I do  
5 not.

6 Q Can you supply that figure for the  
7 record?

8 A Yes, sir.

9 Q And can you give us the base number  
10 for the 1974 starting figure for the statewide deposits  
11 in S&L's also.

12 A When I return to Charlottesville  
13 I have this information in my files, and I will furnish  
14 you with the 1974 State, S&L deposits, and the latest  
15 information I would have in my files would be the 1979  
16 figure, and I would calculate using the same methodology  
17 and include the '74 and '79 figures that I have here as  
18 a sample, and in a companion column furnish you the  
19 -- calculated the same way -- the rate of growth, what  
20 it has been.

21 Q Fine. I think that comparison  
22 would be useful.

23 A I am not sure whether this is above  
24 or below or about the same.

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3 Q Let me direct your attention to  
4 page 11 of your testimony, and ask you if this is a  
5 correct quotation from about midway -- the first para-  
6 graph there, beginning with the word, 'however.' You  
7 say, 'However, the lack of growth', and we are talking  
8 about deposit growth there, 'in the 1978-1979 time period  
9 raises doubt about the appropriate future growth assumptions.  
10 The only clear trend is to the effect that the existing  
11 savings and loan association is doing very well." Is  
12 that a correct quotation?

13 A Yes, sir.

14 MR. SCHUTT: No further questions.

15 WITNESS RAKES: I think that one  
16 should not just completely take those  
17 out of context, without considering what  
18 went on before and what came afterwards.  
19 I would say in this time period there was  
20 very little deposit growth anywhere, and I  
21 think hopefully the Federal Reserve efforts  
22 and restrictions are going to reverse this  
23 drastically, and if we have any confidence  
24 at all in the monetary authorities in their

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3 effort to do this, everything they are doing  
4 will work to reverse this circumstance ,  
5 because efforts to deliberately restrict the  
6 growth of credit and to stimulate savings,  
7 and encourage consumers to defer consumption  
8 would have the effect of increasing savings  
9 rates.

10 So I believe -- I hope that this  
11 time period of low growth is an aberration.  
12 If it isn't, then one bank branch is  
13 certainly a minor aspect of the problems we  
14 will all be concerned with.

15 BY MR. SCHUTT (Continuing)

16 Q Is that belief and that hope and  
17 that faith in the Fed's policy the basis for your -- the  
18 present projections in Table 18 where you assume there  
19 a minimum eight percent?

20 A Yes, sir.

21 MR. SCHUTT: No further questions.

22 WITNESS RAKES: I believe  
23 the Fed in removing the fifteen percent  
24 requirements against money market funds  
to begin to curb the outflow of funds or  
the diversion of funds after the peaking

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4 of the interest rates. There is no way  
5 to say it will be eight percent or six  
6 percent. I would base my judgment to  
7 say at least eight percent over the long  
trend.

8 MR. SCHUTT: That is all the  
9 questions I have.

10 COMMISSIONER BRADSHAW: Mr.  
11 Thomson?  
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## CROSS EXAMINATION

BY MR. THOMSON

Q You would disagree with the Report of the State Corporation Commission that the competition among the banks in the County is keen?

A I would disagree with the report of the economic investigator of the Bureau of Financial Institutions, that it is keen, yes, sir.

Q You feel that banks are not doing the job that they really should do to gain deposits in that area.

A Oh, I think they are doing the job they should do to gain deposits. They are working hard at deposits. Perhaps if they made more loans they would get more deposits.

Q You can't make loans without the deposits, can you?

A They tend to compliment each other, yes, sir.

Q And I am saying in your opinion they are doing everything they should to get the deposits.

A Mr. Thomson, I really can't -- it is my supposition that this market is characterized by

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3 one bank with its headquarters in Winchester, another  
4 bank where the decisions are made at Tyson's Corner, and  
5 one bank where the decisions are made in Front Royal. I  
6 believe the Front Royal bankers are doing a diligent job  
7 to serve the public. I am not convinced that the time frame  
8 -- the decision framework -- the loan committees -- enable  
9 the two larger competitors to do what probably the  
10 management of those institutions in Front Royal would  
11 like to do. I think there is slippage.

12 No, I do not think they are  
13 aggressively seeking all of the business that is there.

14 Q If these two holding companies are  
15 doing such a lousy job, why should we expect to have any  
16 more from First Virginia?

17 A Because I think that First Virginia's  
18 track record as a consumer bank, its pattern of pursuing  
19 dealer paper, installment paper, of long hours of operations  
20 that it has demonstrated in Shenandoah County that it is an  
21 aggressive institution, and to bring those characteristics  
22 into Front Royal will encourage Farmers & Merchants and the  
23 Bank of Virginia's affiliate to begin to do likewise.

24 Q You mean that you think your proximity  
is closer at Winchester, and that you have more local



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3       attachement to the area than Winchester does?

4               A           Well , I am from Charlottesville.

5               Q           I am speaking of your institution,  
6       the one you are arguing for.

7               A           Well, I hope I am not arguing. I am  
8       stating my opinion. It is my opinion that First Virginia  
9       brings a type of banking to the community that will have  
10      the result I am suggesting.

11              Q           Tell us when you made the study  
12      of the holding company, Winchester, Farmers & Merchants?

13              A           I beg your pardon, sir. I hope I  
14      didn't give the wrong impression. I did not do a study  
15      and haven't developed a data base that would allow me to  
16      say based on the evidence this is what it is,

17              Q           You just gave an off-the-cuff  
18      opinion.

19              A           Yes. I hope I stated that when I  
20      started.

21              Q           And the same thing would be true  
22      of the Bank of Virginia.

23              A           Yes, sir.

24              Q           Would you look at the Commission's  
25      Report, and the Table on Page 12, please?

26              A           Yes, sir.

Q Beginning in 1970, the population of Warren County was given as fifteen thousand, three hundred and one.

A Yes, sir.

Q Though it has been estimated or projected -- the figure for 1980, is twenty-one thousand five hundred, is it not?

A Yes, sir.

Q That is approximately sixty-two hundred people in the decade?

A Yes, sir.

Q That is how much it grew, is that correct?

A An increase of about sixty-two hundred.

Q How many banks or savings and loans were placed in this area during that same period of time?

A Between 1970 and projected to 1980?

Q Yes, sir.

A The Peoples Bank would have been added in March of '73 and in --

Q With a branch.

A I don't know. Peoples, obviously, has a branch.

Q So that there are two that have been granted in that period of time to Peoples, the original application and a branch?

A You are saying banking offices?

Q That's correct.

A One competitor and two offices there have been added. Yes, sir.

Q Is that the only banks that have been created in that period of time, the only banking offices?

A I -- really, I know there are ten current banking offices. I don't know what their track record in terms of approving them over the years has been, whether Bank of Virginia added one, when that was added in, or when Farmers and Merchants added its branches, I don't know how long it has been there.

Q All right, sir. But an additional savings and loan was also placed in the

same trade area during this period of time?

A Yes, sir.

Q So there are three financial institutions in the trade area during the '70-1980 period?

A There are at least three offices of two different institutions, or there are at least two offices open and a third one which I hope is imminent.

Q Yes, sir. Now, if you will, look at the same page, the bottom table, bank deposits in Warren County decreased from '78 to '79 a total of one point two percent, did it not?

A Yes, sir. And that's the same data that I present in my prefiled testimony in -- essentially the same as my Table 17, yes, sir.

Q This is not atypical for a rural county at this particular period in the economic history of the State, is it?

A I don't think that this movement between '78 and '79 would be atypical for any area, urban or rural. We've just gone through a period of very flat deposit growth for this period of time. However, fortunately, there is some evidence that that

has changed.

Q That is true for this area, as it is true for the rest of the State, the rest of the nation. That's what we've been going through?

A Yes. I would agree with that.

Q And I understand from what you are about to say that you foresee that this is all going to clear up?

A Oh, I wish I could say that.

Q All right, sir. Well, tell us what you were getting ready to interject there.

A All right, sir. Assuming I can find it. I can't get adequate data for the affiliates of the holding company in that area; however, Peoples Bank does report independently. And the Peoples Bank of Front Royal was able to report a substantial growth in the last six months of information that I was able to get, the December 31 Call Report of 1979 shows a rather remarkable increase in deposits from the June data.

That was used in my figures. And it is provided on Page 9 of this report. I am hopeful, but not absolutely sure, I'm hopeful that this would show -- well, it's a million and a half

that -- Peoples Bank has shown a million and a half dollar increase between those two figures. We don't have the data for Farmers and Merchants. I'm hopeful that deposits have increased.

Q That's the lowest rate of growth of any year shown on this report, isn't it, from '76 through '79?

A Yes, sir.

Q By far. I mean, it's half the growth of any other year?

A I think it goes back even further than that. It is the lowest growth of that -- the lowest growth that you would find in probably the last ten years.

Q All right, sir. If you will, look at the two sets of figures. The estimates figures that we were dealing with, the estimated deposits that your organization listed as seven hundred thousand dollars for the end of the first year, and look at the figures on Page 9 giving the growth in deposits.

If that -- if this had occurred in '78-'79 period, your institution would have absorbed almost a total growth?

A (Witness nodded in the affirmative)

Q And there would have been no deposits for anyone else, would there?

A That's correct. However, I hope that the next three years is going to more similarly reflect the '77 to '78 figures than it will the '78 to '79 figures.

Q That's what I wanted to get to. Tell us what you see brings us out of the present doldrums we are in.

A If there is anything that is more tenuous than forecasting future deposit growths, it's probably interest rates and economic conditions. Okay.

The first quarter figures released from the Federal Reserve Board began to show a slight reversal in the total part of gross national product going into savings. As I remember -- and the numbers can change -- as of fourth quarter '79, the savings rate had dropped to three point three percent of gross national product. That's roughly -- well, considerably below the four point seven, four point eight, four point nine percent an economist would consider as typical. That's part of the obvious

1 impact of inflation and just the resistance to people  
2 tucking away funds in five and six percent savings  
3 accounts. With inflation rates such as we have now,  
4 it is certainly better off to go out and buy real  
5 assets.

6 Q Speaking of the inflation rate,  
7 it was just released yesterday as one point four percent,  
8 now running at an annual rate of over eighteen percent.

9 A Yes, sir.

10 Q Has that shown any modification?

11 A The formal reported numbers  
12 haven't. However, the mortgage interest cost and the  
13 increases in fuel costs account for such a large  
14 percentage of the January, February increase. And I  
15 don't believe we will see further increases of that  
16 sort.

17 I think probably the next  
18 month's figure will show a similar annual rate of  
19 eighteen percent and, then, we should see lower rates.  
20 I think the important thing to remember when you  
21 look at that eighteen percent rate, mortgage costs,  
22 housing costs, are a large part of that but most  
23 of the residents already own their own homes and are  
24 locked into whatever mortgage rates they are paying.



So, that isn't to say we are all facing rising prices of eighteen percent. That's a shocking figure; that can't be sustained.

And, obviously the <sup>monetary</sup> military policy has to reverse that trend. I hope and believe that the basic structure is in place that will bring about a very rapid reversal. Already a number of observers and economists are calling for a ten or eleven percent prime rate by the end of the year. If that happens, and when that happens, the short-term rates and the short-term markets drop below the long-term rates, mortgage rates, for instance, obviously these money market instruments will self-destruct and deposit creation with normal sense will be restored in the banking financial system.

And the sooner that happens, the more stable, the more viable all of these things are going to be.

Q My point to you is you can't give us, or the Commission, an assurance that is going to happen in the next twelve months?

A No, sir, I could not give you any assurance other than I think it will.

Q I just have a couple of more

questions. Look at the last table on Page 13, if you will. Housing units authorized in Warren County were three hundred and nine in 1970.

A Yes, sir.

Q That got to a high of seven hundred and sixty-two in 1974?

A Yes, sir.

Q And were two hundred nineteen as of 1978. These figures would show for the first half of 1979, a hundred and nineteen?

A Yes, sir. And there were another forty-six in the third quarter of '79.

Q All right. But even allowing for doubling that number they still are not up to what the housing starts were back in 1970?

A That's correct. There is some disagreement between the information provided by the investigator and the data that I have with respect to 1976 and 1977. I have attempted to check that out, and the source of the confusion appears to be that Warren County and Front Royal report separately and it is my judgment that my figure for 1977 of three hundred thirty units is correct. I think my '76 figure is correct, too, but I can't refute the figure

that is presented here. It's my judgment that Front Royal figures are not included there and that the '77-'76 figures really ought to be three hundred twenty-six.

But that's a relatively small amount of the total arrangement. And I would have to agree with the general position that the greater amount of housing occurred in the '70 through '74 period compared to '75 through '78.

Q All right, sir. Now, one other question. Is it a fair statement to say that when the interest rates do come down that it will still take the building industry approximately eighteen months to get housing starts really back on a firm basis?

In other words, it takes about eighteen months for the building industry to really get cranked up when the funds become available for them to build with?

A I have no expert experience or anything to let me deal with that as a generalized statement. I think I would have to agree, just based on the same kind of observation that anyone who looked at it would say that once it starts it takes awhile to get going. It might be different in Warren County, because there are so many lots that have already been

1 approved for building. That building cycle is shorten-  
2 ed by that normal process of zoning approval and that  
3 sort of thing. It takes time to get your construction  
4 money lined up, locate your crews, put in the orders,  
5 wait for things. Everyone starts ordering at the same  
6 time so deliveries of critical materials are stretched  
7 out so it is some time. Whether it's eighteen months,  
8 twelve months, I wouldn't be able to elaborate on.  
9

10 MR. THOMSON: That finishes  
11 my questions.

12 COMMISSIONER BRADSHAW: Any  
13 redirect?

14 MR. BREEDEN: I have two or  
15 three, yes, sir.

16 COMMISSIONER BRADSHAW: All  
17 right.  
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## REDIRECT EXAMINATION

BY MR. BREEDEN:

Q Mr. Rakes, referring to Mr. Schutt's question about the four million dollars in deposits which showed on Peoples application, and in the report, as opposed to the two million dollars that showed for First Virginia, whether or not that four million dollars is in a new bank in the community or whether it is in a branch of an existing branch -- an existing bank, it is nonetheless new deposits, is it not?

It is deposits that were not there before?

A Well, under the -- as I understand your rules for filing these arrangements; these would be net additional deposits to the institution in question. It would not, for instance, be a transfer of the Warren County deposits that you already hold in other branches of your organization.

Q So, whether it's in Bank X, Y, or Z, it is still a deposit that is not someplace else?

A Yes, sir.

Q With regard to the question about



WITNESS RAKES: I think for banks of this size, it's a generally true record to say yes.

BY MR. BREEDEN: (Continuing)

Q I'm asking you now. Mr. Thomson can ask you something later.

Is it possible to ask you the reverse of that question, Doctor Rakes? Can you have deposits and not make loans?

A You certainly can if your primary focus of lending is not in the community where you solicit deposits. If one were, for example, hypothetically to be more interested in lending in signing loan arrangements, and making your loans in Winchester or Tyson's Corner, one could certainly use hypothetically the deposits from Warren County to support those lending decisions.

Q Could you not take the deposits and not make loans at all but put them -- put the money up and buy some other arrangement?

A I think if I were purely a selfish banker right now, with some of the yields available, I'm not sure I'm going to take the risk of

analyzing loans when you could invest the money in such high-yielding money market instruments.

Q And, finally, with regard to the invitation to give the Commission an assurance of what's going to happen economically in the market in the next eighteen months, do you know any economist who can give that type of account, or will give that type of guarantee?

A Not one whose opinion I would respect.

Q If having to choose between the market condition remaining as it is today, as opposed to being a downward trend in interest rates, which would you choose?

A I'm not sure I understand the question.

Q Maybe I didn't understand it either.

If you cannot give a guarantee, but if you have to make a choice as to whether or not the interest rates and the market conditions are going to remain as they are today over the next eighteen months or whether or not the interest rates are going to move, then, what would you choose and which direction



do you think the wise choice would be?

A Well, I think the stakes are so high that I hope that the Federal Reserve, the fiscal policy, holds as it is until the tide is reversed and hopefully that is already here. I deplore the effect on financial institutions in terms of profits, in terms of everything that is happening. Existing savings and loans are projected to lose as much as three billion dollars of their capital and surplus in this year. That's on a base of thirty-two billion, almost ten percent of their total capital and surplus should be wiped out nationally through operating losses. Something over thirty percent of their funds now are from these money market instruments.

That's got to go --

Q Excuse me.

A I could easily put up with what we have now to get rid of that. Yes, sir.

Q Is that phenomena going to have the same effect on savings and loans that are now starting up?

A No, sir. The savings and loans that are starting up now are in a very fortunate position in terms of their safety and solvency. They are in a

very fortunate position because if it's heavily capitalized as one like Front Royal Savings and Loan, for example, they can commit the bulk of their capital at very high yields. And this will give them profits. It will allow them to recover their operating costs quicker than one would typically consider, or one would expect. It will not give them sufficient earnings to make their stockholders happy on an equity base that large, but it will certainly make them a very solvent institution because they will be committing their assets at the higher rates.

They should still get one or two, or even two and a half, percent spread on the deposits that they collect even at money market rates, just as a bank gets demand deposits that are so-called free, although I don't think managing and maintaining the check clearing system and all those other things make those demand deposits free. The savings and loans, not all the funds they get will come in at the higher money market yield. Some will be at lower passbook or certificate of deposits rates. So I would expect it to be very profitable.

I think a U.S. institution is safer than one that has been in business ten years,

has many of the mortgages on their books at the lower rates but really hasn't been in business long enough to start accumulating a lot of retained earnings.

The danger period is somewhere in between.

A new one, I don't think there is any real concern from a solvency, safety point of view.

Q All right, sir. Those are my questions.

COMMISSIONER BRADSHAW: Thank you, Doctor Rakes. The Commission will take a short recess.

MR. THOMSON: I have just one question when I come back.

MR. SCHUTT: May it please the Commission, I have Mr. Kyriakides and Mr. Bailey from the Bureau. May they be excused?

COMMISSIONER BRADSHAW: They may.

(11:30 a.m.)

11:40 a.m. The Commission  
resumes its session.

COMMISSIONER BRADSHAW: Go ahead,  
Mr. Thomson.

RECROSS EXAMINATION

BY MR. THOMSON

Q I think as you were being questioned  
on redirect examination, you were indicating that Front  
Royal should have an easy time of it because interest rates  
are high, and their income would be way up, is that correct?

A I think that, assuming good manage-  
ment, commitment from the shareholders, directors and so  
on, which they obviously have, they will not face the  
problem of having large parts of their resources committed  
into low yielding mortgages from previous years. I believe  
there are investment opportunities for their capital funds  
and the deposits they attract can go into current yielding  
arrangements. Not all of it in mortgages, because I am not  
sure about what the trend in rate of mortgage demand will be.  
But certainly there will be ample opportunities for them  
to commit their funds for rates above the average they will

1  
2  
3 be paying for their deposits, yes, sir.

4 Q Well, isn't that always the case,  
5 though? They have to get more for their money than they  
6 pay for it.

7 A But many savings and loans are not  
8 doing that now, and Front Royal would be in a position to  
9 do that.

10 Q Do you foresee that the interest  
11 rates between now and the end of the year are going to go  
12 up or down?

13 A In my judgment and the consensus  
14 of the reading I have done in the field would suggest a  
15 decline in the short term rates. The latest figures  
16 seem to center around ten or eleven percent prime by  
17 the end of the year.

18 Q I am speaking on behalf of the  
19 savings and loan. I am talking about the longer term rates  
20 now. Will that go up or down between now and the end of  
21 the year?

22 A In my judgment, the longer term  
23 rates will go down somewhat. I don't foresee the long term  
24 rates dropping a great deal over a longer period of time.  
I think the institutions will be locked in at some of the

CD's they are putting out at twelve, twelve-and-a-half, I don't see the long term mortgage rate coming down much below that, but I think there will be some softening, yes, sir.

Q Some softening, but not a great deal between now and the end of the year.

A For mortgages, yes, sir; much more softening for the short term rates.

Q So you would anticipate then that the income for a new savings and loan would be up because the rates are going to stay fairly well up.

A Yes, sir. Assuming -- yes, sir.

Q And consequently, they are going to have to pay more for the money they get, because that is going to be the type of attractive market they will be in.

A Yes, sir.

MR. THOMSON: That is all I have.

COMMISSIONER BRADSHAW: Doctor Rakes, do you think this community could support two banks? Branches?

WITNESS RAKES: I think this community could easily support four banking

competitors. I don't see another bank branch as being a lot more significant than sticking a machine out on the front of windows you already have, or opening up a branch of a supermarket. I really don't see that a branch of a competitor that is already there, as a particularly relevant item. If you choose to put one across town, you provide some convenience for your customers, but in terms of treating a branch of an out-of-county organization that is coming in and a branch of one that is already there, I think it is an entirely different thing.

If an institution in a market wants to tie up its money in bricks and mortar, I think they are accountable to the shareholders for doing that. As long as they are solvent, and they want to yield their profits to that, I would let them do it.

COMMISSIONER BRADSHAW: All right, thank you very much.



## RECROSS EXAMINATION

BY MR. SCHUTT

Q Doctor Rakes, it is evident from the exhibits submitted that Peoples Bank of Front Royal has grown in deposits over the years, has it not?

A Yes, sir.

Q You don't see any reason for that trend not to continue, do you?

A No, sir. I think the independent home loan banks have an inherent advantage in these markets. It is Warren County, Front Royal. There are local people running it, and I think it is an advantage that no holding company can overcome.

MR. SCHUTT: Thank you.

COMMISSIONER BRADSHAW: Thank you,

Doctor.

\* \* \* \* \*

WITNESS STANDS ASIDE.

~~MR. BREEDEN: Mr. Walter Duncan?~~

WALTER M. DUNCAN,  
a witness introduced on behalf of the Applicant, being  
first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BREEDEN

Q Will you state your full name?

A Walter M. Duncan.

Q What is your occupation, Mr. Duncan?

A I am the Town Manager of Front  
Royal, Virginia.

Q Mr. Duncan, I understand you are  
no relation at all to Mr. Richard Edward Duncan, whose  
testimony and exhibits was recently excluded from these  
proceedings, are you?

A No, sir. Ed Duncan came from  
Madison County, and I was raised in Warren County.

Q How long have you been the Town  
Manager there?

A Sixteen years.

Q All right.

COMMISSIONER BRADSHAW: You must be doing a good job. Longevity is usually not that long for a Town Manager.

WITNESS DUNCAN: I have had my ups and downs, I will tell you.

BY MR. BREEDEN (Continuing)

Q Mr. Duncan, Front Royal is engaged in expansion of its water and sewer facilities, is it not?

A Yes, sir.

Q You have there some maps that show that, do you not?

A Yes, sir.

Q I will take those and put them up for you. Can you describe those for us, Mr. Duncan, in a general way what this expansion project entails. Where is it going? What is its cost? And physically describe it.

A The town is presently engaged in a sewer expansion program with EPA funding seventy-five percent. We are building a new treatment plant, with approximately ten miles of trunk lines to serve this plant, plus we are building three miles of trunk lines from Front

Royal to Cedarville, to the Dupont site. Let's see if I can get oriented on this map now.

Dupont is north of Front Royal, right here. This block of land right here (pointing). The town has already let contracts to the Dupont Site, water and sewer, a little more than two million dollars, and we still have to build a pumping station right here (pointing) close to 66, put up the sewer across the gap at Guard Hill into the trunk lines that come down to the river that come into town.

So right now the town is obligated for approximately twelve million dollars in sewer and water construction, of which EPA will pay seventy-five percent of that ten million, and the town will have to find the funds for the other two million dollars, to go into Dupont.

COMMISSIONER HARWOOD: Dupont is going to be just north of --

WITNESS DUNCAN: Just off of 522, yes.

COMMISSIONER HARWOOD: Does the town go north of the river, the city limits?

WITNESS DUNCAN: Right here (pointing).

BY MR. BREEDEN (Continuing)

Q Can you show where the Royal Shopping Plaza is?

A Here is where 55 goes through town, and the shopping center is right in here (pointing).

Q All right. Now, the total cost of this project, including the Town and the Federal Government, and what everybody is putting in it, totals what?

A Twelve million dollars right now. That is what we have. What we are obligated, with the latest contracts coming in. We still are going to have to build a pumping station here (pointing) near 66, approximately three-quarters of a million dollars, and then we are going to have to also add in the future a three million gallon water storage tank north of Front Royal to give us back-up water to Dupont and to the rest of the Town.

Q Now, a large part of the incentive for building this project was the Dupont plant, was it not?

A Well, that was the incentive for the cost above what EPA is participating in. In other words, we were, before DuPont came to see us, obligated for this ten million dollar program of the new sewer plant plus the ten miles of trunk lines. And, then, when DuPont came to us and we have another three miles of trunk lines going to Cedarville and three miles of water lines going to Cedarville --

Q What is DuPont's requirements with respect to the size of the water main?

A Well, DuPont could get along with the six inch water line.

Q And what size is the water line that is going to be put in?

A We are going to Cedarville with a twelve inch line to give us room for future growth expansion.

MR. BREEDEN: All right, sir. That's all I have. Answer these gentlemen.

COMMISSIONER BRADSHAW: Any questions?

MR. SCHUTT: No questions.

MR. THOMSON: I merely call attention to the Commission, we used this type of testimony in our presentation of the application of Front Royal Savings and Loan, stating that this would be a great asset to the County and the City.

BY MR. BREEDEN: (Continuing)

Q What percentage of this project, if you can express it in those terms, Mr. Duncan, is now actually complete?

A Well, the treatment plant is just about completed. The trunk lines going to DuPont have been -- the contractor has been working since the first of the year. He's supposed to be out of there by July 1. So, we've got a lot of work going.

CHAIRMAN SHANNON: Mr. Duncan, how far north of I-66 is the DuPont plant?

WITNESS DUNCAN: Approximately a mile and a half, something like that.

CHAIRMAN SHANNON: Right in Cedarville?

WITNESS DUNCAN: Uh-huh.

Yeah. The old Isaac Farm. They bought that farm out there, I believe a hundred and seventy-five acres. Right where you turn to go to Rockland.

CHAIRMAN SHANNON: It's in downtown Cedarville?

WITNESS DUNCAN: Yes, sir. Right downtown Cedarville.

CHAIRMAN SHANNON: How much of the project is the County picking up?

WITNESS DUNCAN: Well, the County gave us a sleeve that was put under 66 about ten years ago. They gave us a deed to that sleeve.

CHAIRMAN SHANNON: But, is it being financed by EPA and the Town, or is the County participating in any of the additional financing?

WITNESS DUNCAN: The Town is financing totally the project to DuPont. EPA is not putting any money into that at all.

CHAIRMAN SHANNON: I thought



1  
2 I understood you to say seventy-five  
3 percent?

4 WITNESS DUNCAN: That's  
5 in the in-Town ten million dollar project  
6 for the sewer plant. And the ten miles  
7 of trunk line in town is seventy-five  
8 percent EPA funding, twenty-five percent  
9 local.

10 CHAIRMAN SHANNON: I see.

11 COMMISSIONER BRADSHAW: As  
12 Town Manager, do you deposit all the Town  
13 money in the banks? Savings and loans?

14 WITNESS DUNCAN: Yes, sir.

15 COMMISSIONER BRADSHAW: Do  
16 you spread it around?

17 WITNESS DUNCAN: We've spread  
18 it for the best interest.

19 (Laughter in the courtroom)

20 COMMISSIONER BRADSHAW: Is  
21 there competition for that money up there  
22 now?

23 WITNESS DUNCAN: Yes, sir,  
24 it is.

MR. BREEDEN: The bank is

pretty nice to you?

WITNESS DUNCAN: Yes, sir,  
they are real nice to us now.

(Laughter in the courtroom)

COMMISSIONER BRADSHAW: Thank  
you.

MR. BREEDEN: I would like  
one other question.

BY MR. BREEDEN: (Continuing)

Q You have some small maps that  
show the segments of this large map, do you not?

A It shows the lines going to  
DuPont. Yes.

Q That actually has the project  
drawn in?

A Yes.

MR. BREEDEN: There are how  
many there?

COMMISSIONER BRADSHAW: We  
don't need but one.

MR. BREEDEN: Well, these are  
one, two, three, four -- there are five

drawings that show the entire project.  
They are not duplicates. And I don't  
have -- I would like to put it in.

COMMISSIONER BRADSHAW: All  
right.

MR. BREEDEN: I would like to  
put this big map in.

COMMISSIONER BRADSHAW: All  
right. That will be Exhibit 2.

MR. BREEDEN: These were both  
in Mr. Edward Duncan's testimony, but since  
it is not going in the record, we would  
like to offer these.

MR. THOMSON: Do you have  
any extra copies of it?

MR. BREEDEN: I don't have any  
readily with me. It was in the prefiled  
testimony that you had.

COMMISSIONER HARWOOD: Mr.  
Breedon, all but the map that Mr. Duncan  
just used, which is colored, we have the  
five sheets showing water and sewer. Is  
that the one? I want to be sure I have  
the right one.

4-7

Duncan - Direct

MR. BREEDEN: Yes, that's  
it. That was part of R. E. Duncan's  
prefiled testimony.

COMMISSIONER HARWOOD: There  
are five pages, I believe.

MR. BREEDEN: Yes, sir.

COMMISSIONER BRADSHAW: All  
right.

\* \* \* \* \*

WITNESS STOOD ASIDE

BASIL M. WINSTEAD, a witness  
called by and on behalf of the Applicant, First  
Virginia Bank-Shenandoah Valley, having first been  
duly sworn, testified as follows:

## DIRECT EXAMINATION

BY MR. BREEDEN:

Q Mr. Winstead, would you state  
your full name, please?

A My name is Basil M. Winstead.

Q And where do you live?

A I live in Arlington, Virginia  
and Bryce Mountain, Basye, Virginia.

Q And I understand you are  
retired at the moment?

A Yes. I am retired.

Q What are you retired from?

A I'm retired as Vice-President  
of an Eastern Regional Manager of Safeway Stores,  
Incorporated.

Q Does Safeway -- how long have  
you been retired?

A I've been retired since December

the 31st, 1978.

Q Does Safeway Stores -- strike that. Let me ask you, do you still keep in touch with the activities of your company?

A I'm a grocery man for life as you will be an attorney for life.

Q And does Safeway have a presence in Front Royal?

A Yes.

Q How long have they been there?

A We operated our store originally in 1941. We had a six thousand square foot store.

Q Where was that located?

A That was located on -- what is the street west of Commerce? It's 522 going through town.

Q All right. And, then, you have --

A Then, I opened a store on Commerce Street in February of '64. The one at 522 was a six thousand square foot store. The one we opened on Commerce Street in '64 was a fifteen thousand square foot store. And we currently have a store in the shopping center that we opened on 5/21/78 and that is a thirty-three thousand one hundred seventy-one square

foot store.

Q And where was the Commerce Street? When you say the shopping center, you are referring to the Royal Plaza Shopping Center, are you not?

A The Royal Plaza Shopping Center, yes, where we currently have our store. Yes.

Q That's a thirty-three thousand square foot store?

A That's correct.

Q And the previous fifteen thousand square foot store is on Commerce Street?

A That's correct.

Q Where is that in relation to the Royal Plaza Shopping Center?

A About one -- about a quarter to a half a mile north.

Q All right, sir.

A On Route 55 going through town.

Q Without disclosing any, you know, Safeway figures, specific figures, which perhaps the company would not want to have disclosed, could you comment on the market conditions there for retail sales in your business in the area of this -- in Front Royal

4-12

Winstead - Direct

106

generally, in this shopping center specific?



1  
2  
3 A We have been very successful in  
4 Front Royal over the years. Our growth has been  
5 tremendous. We have -- as evidenced by the size store  
6 we have currently built -- our research certainly indicated  
7 that the market was there, and we are highly pleased. I  
8 was in charge when this store was developed, and I have  
9 certainly contacts with our people currently that give  
10 favorable comments about our operation in Front Royal.

11 Q And is it true, Mr. Winstead,  
12 that in the same shopping center where your thirty three  
13 thousand square foot store is, there is a large competitor  
14 in the form of the A & P Company, is there not?

15 A Yes. A & P Stores opened first  
16 in this Royal Plaza Shopping Center, and they were quite  
17 successful, and we have since opened our store, and they  
18 have since enlarged their store. So --

19 Q With regard to the previous store  
20 that you had, which is close by, the fifteen thousand square  
21 foot store on Commerce Street, what has occurred with  
22 that building?

23 A We sold that store to an independent  
24 operator who took it over and operates that store.

Q Does he operate it now?

A Yes.

Q So far as you know, successfully?

A I would think so, yes.

MR. BREEDEN: Thank you. That is  
all I have. Do you want to answer these gentlemen?

MR. SCHUTT: No questions.

MR. THOMSON: No questions.

COMMISSIONER BRADSHAW: Thank you,  
Mr. Winstead.

\* \* \* \* \*

WITNESS STANDS ASIDE

MR. BREEDEN: Mr. John Felds.

JOHN E. FOLDS,

a witness introduced on behalf of the Applicant, being first  
duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BREEDEN

Q State your full name please, sir.

A John E. Folds.

Q Where do you live?

A Reston, Virginia.

Q What is your business, Mr. Folds?

A I am the President of Cumberland  
Corporation, which is home manufacturing -- homebuilding  
corporation.

BAILIFF: How do you spell your  
last name, sir?

WITNESS FOLDS: F-o-l-d-s.

BY MR. BREEDEN (Continuing)

Q What type of homes does the Cumberland  
Corporation manufacture?

A We manufacture the homes in Warren  
County, Virginia. We build the homes in Virginia and four

1  
2  
3 or five other states in the general area. We manufacture  
4 exclusively single-family homes, both second homes and  
5 first homes.

6 Q How would you describe these homes?  
7 Would you describe these as shell homes? What is the words  
8 that you use to describe this particular process?

9 COMMISSIONER BRADSHAW: Prefab.

10 WITNESS FOLDS: Prefab.

11 BY MR. BREEDEN (Continuing)

12 Q I didn't want to use the wrong word.  
13 And you say they are manufactured in Warren County?

14 A That is correct.

15 Q And how in relation to Front Royal,  
16 how close?

17 A We are about five miles from Front  
18 Royal.

19 Q How long have you been there?

20 A Ten years.

21 Q Have you been associated with the  
22 company during that whole period of time?

23 A Yes, I have.  
24

Q And do you do business with First Virginia, Shenandoah Valley?

A Yes, we do.

Q How long have you been doing business with them?

A Eight years.

Q And do you also do business with other banks in the community?

A Yes, we do.

Q When you first came to Front Royal, what was your experience in seeking banking services in that community?

A There was --

Q What type of service were you looking for, if you will preface it with that.

A Well, let me, from my own personal standpoint, characterize my experience. The first year was very difficult, just in general. And then, of course, we needed a banking relationship, both in terms of direct loans to our corporation, plant and equipment, rolling stock and that sort of thing, and we also needed banking relationships to supply financing to our customers.

Q All right. And what did you do to

1  
2  
3 seek that relationship?

4           A           We started there in the Front  
5 Royal area, and went really from Baltimore down through  
6 Richmond, into Norfolk, in order to seek a banking  
7 relationship, and after a rather arduous task did manage  
8 to secure banking relationships in the Warren County  
9 area. More specifically, we were well received by First  
10 Virginia Bank, located in Woodstock. And also another  
11 bank in the Warren County area.

12           Q           Do you have some familiarity with  
13 the way in which the banks operate there; for instance,  
14 when you apply for a loan or banking services at First  
15 Virginia, do you have some familiarity with how that  
16 application is passed upon?

17           A           Yes, I do.

18           Q           Could you describe that for the  
19 Commission?

20           A           Let me back up, if I could, just  
21 one minute.

22           Q           All right.

23           A           Our particular type of product, and  
24 our particular type of financing needs, are somewhat unique.  
They don't fit into the normal banking function of a bank

1  
2  
3 making real estate loans to one of its customers, or the  
4 bank providing financing to a company that manufactures  
5 shoes or one that manufactures tires. We have a product  
6 line that was somewhat unique for the late '60's and early  
7 '70's. And as a result of that uniqueness, we had a difficult  
8 road in terms of securing adequate banking relationships.

9 As I mentioned earlier, it was a  
10 very arduous task for us to ever get our foot in the door  
11 with a bank. And subsequently with other banks.

12 We were very well received at  
13 First Virginia Bank, and as a result of their assistance  
14 both in terms of the direct financing to Cumberland  
15 Corporation, and the simultaneous assistance in terms of  
16 providing direct financing to our customers, we were able  
17 to launch our particular corporation, and to meet with  
18 modest success and continues to grow and prosper most of  
19 the time.

20 I remember the '73 through '75 period,  
21 which was very difficult. Now, to answer your question  
22 concerning the -- my familiarity with the decision-making  
23 process of the banks in that area, we through the '70's found  
24 that our requests were dealt with on a local basis. In  
our particular case, our relationship with Virginia -- First

1  
2  
3 Virginia Bank, our requests were handled at the Woodstock  
4 office in ninety-nine percent of the cases. In the case  
5 of our relationship with Bank of Virginia, it was formerly  
6 Bank of Warren, and it became Bank of Virginia-Warren, and  
7 now it is Bank of Virginia. From '71 to '79, we felt that  
8 the decision concerning our loan requests were made locally,  
9 and it has been our experience within the last year that  
10 perhaps the decision -- not only perhaps, but the decision  
11 in a lot of the cases concerning our relationship with the  
bank are not made locally.

12 Q In that respect, you are referring  
13 to the Bank of Virginia?

14 A That is correct.

15 Q And to your knowledge, the decision  
16 with regard -- the process with regard to First Virginia  
has not changed, is that correct?

17 A That is correct.

18 Q And they are still made locally.

19 A It is made in Woodstock.

20 Q Woodstock.

21 A Right.

22 Q And Mr. Folds, would a branch of First  
23  
24



1  
2  
3 Virginia in Front Royal, in your opinion, provide additional  
4 convenience to your Company?

5 A It would be more convenient for our  
6 company to deal with a branch in Front Royal than it would  
7 be to deal with the existing branches, yes.

8  
9 CHAIRMAN SHANNON: Mr. Folds, where  
10 is your facility located in Warren County?

11 WITNESS FOLDS: We are located on  
12 Route 55. Actually, equal distance between  
13 Front Royal and Strasburg. Strasburg is  
14 in the northern part of Shenandoah County,  
15 so we would be in, I guess, the northwestern  
16 portion of Warren County.

17 CHAIRMAN SHANNON: Near Waterlick?

18 WITNESS FOLDS: We are in downtown  
19 Waterlick.

20 COMMISSIONER BRADSHAW: Were you  
21 given any loans or commitments from First  
22 Virginia that were turned down at the Bank  
23 of Virginia, Farmers & Merchants, or any other  
24 lending institutions when you first went in?

WITNESS FOLDS: Yes, and I go back

1  
2  
3 to my initial statement. Our product line  
4 does not fit into the type of lending that  
5 most banks seek. At least not in the '70's.  
6 It did not fit into a certain segment of a  
7 bank's portfolio. And this was true whether  
8 it was in Philadelphia, New York, or Wilmington,  
9 North Carolina. So we had a very difficult  
10 time in selling any financial institution on:  
11 one, lending money to us directly, and even  
12 a more difficult time in trying to secure  
13 financing for our customers for our particular  
14 product.

15 And the answer generally was that  
16 that is just not something that we can loan  
17 money for.

18 And First Virginia Bank led the way,  
19 really, in providing this indirect financing  
20 for our customers, which indirectly benefitted  
21 us.

22 COMMISSIONER BRADSHAW: Would savings  
23 and loans today lend indirectly to your  
24 customers for prefab homes?

WITNESS FOLDS: Yes. I think I need

1  
2  
3 to qualify and explain our product a  
4 little more. The initial product that  
5 Cumberland Corporation sells, historically  
6 speaking, was a prefab, a shell home, which  
7 was something that a savings and loan  
8 association, if not by law, was probably  
9 not in a position to loan money on, because  
10 it was not completely finished, and in some  
11 instances was not inhabitable.

12 Our product line has developed  
13 through the '70's to where in the '80's  
14 of course, fifty percent of our product line  
15 ultimately is financed by savings and loan  
16 associations, with the balance being financed  
17 by commercial banks.  
18  
19  
20  
21  
22  
23  
24

## CROSS EXAMINATION

BY MR. THOMSON:

Q Did you indicate, Mr. Folds, that the plant that you have is equal distance between Strasburg and Front Royal?

A That's correct.

Q Is your account located at the Strasburg branch of First Virginia?

A Well, it's -- we, of course, can make deposits there. It's my understanding now that in essence the Strasburg is in fact a branch of the Woodstock Bank. When we make a deposit, or secure a cashier's check, then, we can do that at Strasburg.

As I mentioned earlier, ninety-nine percent of the management decisions concerning our loans and loans for our customers are made in Woodstock. I need to add also that although our plant is located in Waterlick we have administrative offices located in both Manassas and Chantilly, Virginia which is near Dulles Airport. And, to that extent, the location of an office in Front Royal would be considerably more convenient for those two offices than those two offices having to deal with either Strasburg

or Woodstock.

Q What are we talking about, eight or ten miles?

A No. Well, it would not make a difference in the viability of Cumberland Corporation.

Q That's what I mean. In fact, if a branch were placed in Front Royal, as the branch in Strasburg, the decisions are still going to be made in Woodstock, aren't they?

A Yes, sir.

MR. THOMSON: No further questions.

MR. BREEDEN: All right. That's all. You may come down.

COMMISSIONER BRADSHAW: Thank you, Mr. Folds.

WITNESS FOLDS: Thank you.

\* \* \* \* \*

WITNESS STOOD ASIDE

MR. BREEDEN: Mr. John

Marlow.

JOHN K. MARLOW, a witness called  
by and on behalf of the Applicant, First Virginia Bank-  
Shenandoah Valley, having first been duly sworn, testified  
as follows:

DIRECT EXAMINATION

BY MR. BREEDEN:

Q Would you state your full name,  
please, sir?

A John K. Marlow.

Q Where do you live, Mr. Marlow?

A Front Royal, Virginia.

Q How long have you lived there?

A With the exception of time in  
school, in the service, from the age three to the present.

Q All right, sir. We will estimate that time. I won't ask you how old you are.

A I'm not embarrassed about that yet.

CHAIRMAN SHANNON: Did you play football at University of Virginia?

WITNESS MARLOW: Yes, sir.

BY MR. BREEDEN: (Continuing)

Q Mr. Marlow, you are in business there in Front Royal, are you not?

A Yes, sir.

Q What is your business?

A I'm in the automobile business.

Q What dealership have you got, or dealerships?

A We have Lincoln-Mercury, AMC and Jeep.

Q And do you deal with First Virginia Bank?

A Yes, I do.

Q And how long have you been dealing with that organization?

A

Since 1968.

Q

What sort of banking service do they provide for your dealership?

A

They provide our floor plan, which is our wholesale financing of our inventory, automobiles, and also they buy retail finance contracts from us.

Q

So they are buying the dealer paper and they are floor planning both?

A

Yes.

Q

And, do you -- do you do similar type of business with other banks in Front Royal?

A

Peoples Bank provides retail financing for us.

Q

And, as a matter of fact, I believe you are on the Board of Peoples Bank? .

A

Yes, I am.

Q

The other banks in Front Royal, specifically Bank of Virginia and F&M, Farmers and Merchants, do you have any knowledge as to whether or not those banks engage in that type of business?

A

Bank of Virginia definitely does not. Farmers and Merchants Bank has over the years somewhat, but currently it is a very low priority with them.



Retail financing, for our purposes, is ineffectual.

Q All right, sir. Mr. Marlow, you are also quite active in civic matters in that community, are you not?

You are, I believe, currently Chairman of the Board of Supervisors of Warren County; is that correct?

A Yes, I am.

Q How long have you been Chairman?

A I've been on the Board of Supervisors -- I was elected in 1968. I have served twelve years. I'm serving my eighth year as Chairman of the Board.

Q And I think that you are also involved in other civic and government activities there and have been over the years, have you not, sir?

Could you give us a rundown on what your experience has been in that regard?

A I was one of the founders of the Lord Fairfax Planning District Commission. I have served as Treasurer. I've been Vice-Chairman and Chairman, serving about eight years on the Planning District Commission. A number of civic organizations.

Past President of Rotary. You know, it goes on and on. Industrial Commission. My family thinks that I meet all the time, and I think I do also.

Q I think also, are you not, you are on some sort of liaison committee with DuPont?

A DuPont Liaison Committee is a six-man committee, two from the Town, two from the County, and two from the Industrial Authority, that coordinates DuPont's activities.

Q In your connection with these activities, do you feel you have pretty good familiarity with the activities at DuPont and AVTEX, and the other industry in the community?

A Yes. As I mentioned, the DuPont Liaison Committee -- AVTEX, as you know, was bought several years ago. The President and essentially owner of AVTEX keeps the community pretty well informed and has periodic meetings with community civic leaders, which I've been included in these meetings, as to the present activities and future plans of AVTEX Corporation.

Q What can you tell us concerning the level employment activity that is currently going on at AVTEX?

A Well, the employment activity

1 currently is in the neighborhood of eighteen hundred  
2 to two thousand, which is as high as they maintain --  
3 as they have maintained for a number of years. They  
4 have -- AVTEX has discontinued operation in some other  
5 plants, moving Research and Development from Pennsylvania  
6 to Front Royal. They are just completing a twenty  
7 million dollar Farm Home Administration plant, revitaliza-  
8 tion program, this Summer. They are to open a bag  
9 house operation to purify the air, the emissions from  
10 the AVTEX plant. This is also a multi-million dollar  
11 program.

12 And they are making the conversion  
13 from oil to coal. They have gone from the coal to oil,  
14 and they are back to coal again. And that's also a  
15 multi-million dollar program.

16 Q With regard to DuPont, how far  
17 along is the DuPont plant now?

18 A DuPont is well into their  
19 construction. They plan to open, have some administrative  
20 personnel in operation June of this year. They plan to  
21 be into operation, full production, or into production,  
22 July 1st, 1981. So, a little more than a year from now  
23 they will be in full operation.  
24

CHAIRMAN SHANNON: What will they produce, Mr. Marlow?

WITNESS MARLOW: They are producing paint, automobile paint, refinishing market.

CHAIRMAN SHANNON: Do you think the decline in the domestic automobile market could have any adverse effect on their opening?

WITNESS MARLOW: No. In fact, the refinishing cycle goes in reverse somewhat to the new car sales, because people don't -- if people don't trade in their cars there is more refinishing, more work to be done. So, that is a large segment of their business.

And, also they do sell paint to the new car industry also. Primarily General Motors.

CHAIRMAN SHANNON: But it's not locked in totally to the new car industry?

WITNESS MARLOW: No. This is a decision that was made and the market is

growing with or without new car sales.

COMMISSIONER HARWOOD: If you don't buy a new one, people paint their old one?

WITNESS MARLOW: They will have to do something with the old one. Yes, sir.

BY MR. BREEDEN: (Continuing)

Q With regard to that in your own business as an AMC dealer, how is your business doing currently?

A I'd rather not get into that too much. (Laughter in the courtroom)

Q I'm sorry. I'm not asking you for any specific figures. But in relation to the other, the AMC business, with regard to the auto market generally?

A Well, AMC has been somewhat of a bright spot in the dismal picture. We have Jeep, and Jeep is, in our area, relatively stable. The AMC has enjoyed small car identification and that business, as I have said, has been a bright spot.

COMMISSIONER BRADSHAW: Don't  
ask him about the Lincoln.

WITNESS MARLOW: I would make  
a good sales pitch.

BY MR. BREEDEN: (Continuing)

Q One other question, Mr. Marlow,  
about school population. Somewhere in all of these  
numbers there is a suggestion that in Front Royal the  
school population is flattening out. Could you  
comment on that, please, with regard to what is  
happening in the public school figures and, then, with  
regard to the private school activity that is not  
included in these public school figures?

A Well, this is something that  
we just have gone over from a County government with  
the School Board because they are basing their funding  
on school formula -- excuse me, State formula, et  
cetera, and based on the attendance. And the growth  
in the public school system for the last couple of  
years seems to not support the growth in the area  
figures that have been mentioned today. However,  
as the occurrence of new private school, Royal Christian  
Academy, there are two other private schools in the

1  
2 immediate vicinity that are expanding, one by the  
3 grade per year, so that even though the statistics  
4 in the public school system indicate a flattening  
5 of school growth, the number of children in Warren  
6 County that have to be educated are increasing.

7 MR. BREEDEN: All right, sir,  
8 that's all I have. Answer these gentle-  
9 men, please.

## CROSS EXAMINATION

BY MR. THOMSON:

Q By what numbers per year?

A The population?

Q What is the increase in school  
population per year?

A I don't know.

MR. THOMSON: No questions.

MR. SCHUTT: I have no  
questions.COMMISSIONER BRADSHAW: Thank  
you, Mr. Marlow.

\* \* \* \* \*

WITNESS STOOD ASIDE



JAMES R. KENNY, a witness called  
by and on behalf of the Applicant, First Virginia Bank-  
Shenandoah Valley, having first been duly sworn,  
testified as follows:

DIRECT EXAMINATION

BY MR. BREEDEN:

Q State your full name, please.

A James R. Kenny.

Q Where do you live?

A Strasburg, Virginia.

Q And where are you a native of?

A Front Royal.

Q And by whom are you employed?

A First Virginia Bank-Shenandoah  
Valley.

Q All right. And what do you do  
for them?

A I'm a Vice-President and Manager  
of Strasburg office.

Q If this application is granted,  
do you anticipate there will be a change in your  
assignment?

A Yes, sir.

Q And what would that be?

A Manager of the Front Royal office.

Q Are you familiar, then, Mr. Kenny with the physical layout and so forth of the Front Royal office, the proposed office?

A Yes, sir.

Q Could you describe for the Commission, please, Mr. Kenny, what that office will consist of, size, where it's going to be located, and the physical features of this office?

A The office will be located approximately the center of the shopping center. It will be a one-story, brick building which will contain approximately twenty-four hundred square feet. It will also have a canopy or drive-through area which will accommodate the drive-in windows and also two pneumatic tubes, a vault which will house, of course, safe deposit boxes for customers. We will have a conference room, two platform type offices, reception area, and a teller line which will accommodate five tellers.

Q Will there be any other -- is

1  
2 First Virginia going to be the only occupant of this  
3 structure?

4 A Oh, yes. It will be a free-  
5 standing building.

6 Q And you may have said this,  
7 but precisely where is it to be located with reference  
8 to the shopping center?

9 A It's very near the center, front  
10 center, I would say, of the shopping center. It would  
11 face the main highway which is commonly known as South  
12 Street. And it's a continuation through town of Route 55.

13 Q Will it be completely surrounded  
14 by parking spaces?

15 A Yes, sir.

16 Q On all sides?

17 A Yes, sir.

18 Q How many parking spaces total?

19 A Approximately eight to nine  
20 hundred, eight to nine hundred in the shopping center  
21 area.

22 Q In the center?

23 A Yes, sir.

24 Q And the drive-in facilities, what  
is the drive-in facility? How many facilities will there be?

A Well, there is actually three.

One is a drive-in window where you are talking to the teller or very near it. Further over there will be pneumatic tubes. These are tubes that you drop a deposit into it, it goes underground and back out to the automobile.

Q And means of communication with the teller from that location?

A Oh, yes, sir.

Q Are you familiar with the other branches and bank locations in Front Royal?

A Yes, sir.

Q Is there another branch free-standing, drive-in branch such as this one in Front Royal?

A No, sir. You are saying in the shopping center?

Q Located in the shopping center? Located in the shopping center in the way that this one is?

A No, sir. Farmers and Merchants does have an in-line bank that does not have a drive-in facility.

MR. BREEDEN: All right, sir.

Those are my questions.

CHAIRMAN SHANNON: What do you mean by an in-line?

WITNESS KENNY: In-line with the stores, has a store on either side, or some facility.

CHAIRMAN SHANNON: What is the nearest branch bank to you?

WITNESS KENNY: From this proposed location?

CHAIRMAN SHANNON: Yes.

WITNESS KENNY: Would be the one I just spoke of which would be approximately three hundred feet, I would say.

CHAIRMAN SHANNON: Is that the one on 433 South Street?

WITNESS KENNY: Yes, sir.

CHAIRMAN SHANNON: That's Farmers and Merchants?

WITNESS KENNY: Yes, sir.

CHAIRMAN SHANNON: That's about three hundred feet?

WITNESS KENNY: Yes, sir.

COMMISSIONER BRADSHAW: They have one that does -- they are the one that

Kenny - Direct

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does not have the drive-in?

WITNESS KENNY: Not at that  
facility. No, sir.

COMMISSIONER BRADSHAW: Any  
questions?

MR. SCHUTT: No questions.

MR. THOMSON: Just one or  
two, Your Honor.

## CROSS EXAMINATION

BY MR. THOMSON

Q Just one or two, Your Honor. The report lists that the proposed branch of Peoples and proposed branch of First Virginia are about half a mile apart. How far was your branch from the proposed location of Front Royal Savings and Loan at 6th and Commerce?

A I would guess one mile.

Q Do you know how many blocks it was from the proposed location of Peoples proposed branch?

A How many blocks?

Q Uh-huh.

A Half a mile I would estimate; ten city blocks.

MR. THOMSON: All right, thank you.  
That is all I have.

COMMISSIONER BRADSHAW: All right,  
thank you, Mr. Kenny.

\* \* \* \* \*

WITNESS STANDS ASIDE.

~~MR. BREEDEN: Mr. Cash?~~

CHARLES R. CASH,  
a witness introduced on behalf of the Applicant, being  
first duly sworn, testified as follows:

## DIRECT EXAMINATION

BY MR. BREEDEN

Q What is your name?

A Charles R. Cash.

Q Where do you live?

A Route 1, Mt. Jackson, Virginia.

Q And how are you employed, sir?

A I am President of First Virginia  
Bank, Shenandoah Valley.Q All right. You have some prefiled  
testimony in this case, do you not?

A Yes, sir.

COMMISSIONER BRADSHAW: His testimony,  
Mr. Breedon, will be received as CRC-3.You can have him summarize it if you  
like, or highlight it.

BY MR. BREEDEN (Continuing)



Q All right, I will be glad to do that. Could you, Mr. Cash, please just summarize and include something about your banking experience, how long you have been associated with First Virginia, and a condensed history of the performance since you have been President of that bank.

A Well, I am originally from southwestern Virginia; Wytheville, Virginia. And have been in banking since 1949, starting in Roanoke, Virginia for the Bank of Virginia. I came to the community of Mt. Jackson in 1963, as Executive Vice President of that bank, which was then owned by First Virginia Corporation.

During the period of time after becoming -- they also owned the bank in Woodstock, Virginia, the Shenandoah County bank. Later acquired the bank in Strasburg. All three were merged together in 1969. We became associated again as a State bank in September -- September 30, 1978. Presently our bank is an approximately sixty-one million dollar bank. Our earnings have been good. The last three years -- last year's earning was one point five-six, one point four-seven in '78, one point three-six --

CHAIRMAN SHANNON: Of assets?

WITNESS CASH: Yes, percent of

assets. Counsel indicated that we might operate at a loss leader in one location. I can assure you that that is not in my philosophy of banking to ever operate as a loss leader, and we would not attempt to try to run a bank at Front Royal any different than we would any -- than any office that we now have.

BY MR. BREEDEN (Continuing)

Q Mr. Cash, let me ask you this: You say that your profitability has been good. I don't know which way this cuts, for sure, but actually your profitability has been the best in the First Virginia system, has it not?

A Yes, sir.

Q In the last year or so at least, and I personally don't know beyond that. Counsel earlier made comment concerning the free money, or the free deposits that a bank gets in relation as compared to the deposits that savings and loan get, as to which they must pay a return on all deposits. Could you comment on how free the checking deposits are to a bank?

A We recently ran a survey to determine

basically about service charges. Right now we do not have service charges on checking accounts. We found that of approximately six thousand accounts that we have, two thousand accounts -- the average balance of those two thousand accounts was a little less than ten dollars.

CHAIRMAN SHANNON: Less than ten dollars?

WITNESS CASH: Yes. I would think that this is what free checking does. It invites people to have multiple number of accounts.

CHAIRMAN SHANNON: A lot of college kids must have accounts with you.

WITNESS CASH: Well, it is the full run of the gauntlet. But, in talking to other bankers in the area, that is not an unusual number in percentage. With computer costs in maintaining these accounts, with monthly statements on all these accounts, it is a long ways from being free money. Probably percentagewise, it is probably going to -- if we really put a pencil to it, and I haven't, so I won't give any figures,

it is probably costing us more than our passbook savings to maintain.

And as you know, our bank, and the only bank in the county, has the automatic transfer from checking to savings. We have in a very short period of time been involved, since it has been permitted, that has now gone to a little over three million dollars.

So, this is the trend. Of course, everyone is going to have this account in the future, where we pay on this free money as you have indicated.

COMMISSIONER BRADSHAW: Mr. Breeden, it is now twelve-thirty. The Commission will recess for lunch until two, and we will pick up with this witness at that time.

(12:32 p.m.)

2:00 p.m. The Commission  
resumes its session.

COMMISSIONER BRADSHAW: All right,  
Mr. Cash is here. That is a good name for  
a banker.

MR. BREEDEN: I have been  
wanting to say that. Charlie Cash, that  
is a good name for a bank. I haven't asked  
him if he changed his name when he went into  
the business.

BY MR. BREEDEN (Continuing)

Q Mr. Cash, assuming this application  
for the branch at Front Royal is approved, how in your  
view, would the Shenandoah Valley bank help to increase the  
level of competition in that area?

A Well, as has been brought out, two  
banks, the Bank of Virginia and Farmers and Merchants,  
Winchester have eighty-five percent of the market. We feel  
that I can compete with my old bank, and on a very  
formidable basis, and we would be able -- now we have been  
able to secure loans primarily in the area. We would be  
using Mr. Kenny, who is a former resident of the area, who

1  
2  
3 is very familiar with the market. So we feel that we  
4 certainly should be able to get our fair share of the  
5 market from the larger banks, as will be illustrated I  
6 guess that we do get along with our neighbor, so to speak,  
7 as having Mr. Marlow here, who is the Director of Peoples  
8 Bank talk to us.

9 Q I would like to review with you,  
10 and have you tell the Commission about some of the  
11 additional services and convenience items which you feel  
12 would be contributed by this proposed branch, specifically  
13 what provision would be made for safe deposit boxes and  
14 what do you understand to be the situation with regard  
15 to the availability of safe deposit boxes in Front Royal  
16 at this time?

17 A We would have approximately a hundred  
18 and fifty safe deposit boxes, as the market now is unable  
19 to obtain safe deposit boxes.

20 Q What about trust services? Will  
21 trust services be available through this branch?

22 A We have trust services that is  
23 centralized at our Woodstock office, but this trust officer  
24 would be made available to go to Front Royal and to service  
any account who would need that service.

Q In your prefiled testimony, you mentioned -- I believe the figure was two million, six hundred and seventy-two thousand dollars in loans to the Front Royal area from the Bank at Shenandoah Valley. And you have more recent information. I think the figure has been mentioned a couple of times before, but I would like to point out that this is a change in the prefiled testimony.

What is the current figure for loans in the Front Royal area from your bank, and how many customers of -- are those loans distributed among?

A It was revised March 7, 1980. We went back and relooked at each of the loans which were made to property owners in the area that may live outside the area, that did not have the same zip code, that the original figures were derived at. We have five hundred and eight customers, for three million, one hundred and ninety-one thousand in loans.

Q Was that change made, do you know -- do you have the copy as filed there? Was that change shown on the filed copy?

A It does not on my --

COMMISSIONER BRADSHAW: It does --

COMMISSIONER HARWOOD: It does on ours.

MR. THOMSON: It's on Page 8 also of the report.

BY MR. BREEDEN: (Continuing)

Q Now, with regard to the deposits, you said there were some million three in deposits.

What is that exact figure?  
Do you have it there?

A Four hundred and sixty accounts, a million three hundred sixty-five thousand.

Q Now, to ask the obvious question, would this branch be more convenient for those customers than the outlets that your bank now has?

A Well, as you can see, our loan



totals people will drive ten to fifteen miles to seek a loan, but they will not do that to make deposits on a routine basis. So, yes, we feel that the convenience of the present people that we are now serving and potential customers would certainly be served by a branch.

Q All right. Let me ask you about the hours at this location. What hours will this branch operate?

A We are somewhat unique in providing a continuous lobby service from nine to five, continuously each day, Friday, nine to six. We keep our office open in its entirety. We do not close and open up with the drive-ins only.

So, full service of the bank is open for those particular hours and nine to twelve full service on Saturdays.

Q All right. One of the things mentioned in your application are the SCAT accounts. Would you describe briefly what these are?

A This is the automatic transfer from savings, checking to savings, savings to checking accounts, that we pay interest on. Basically, we pay interest on checking account that we now have that we --

1 we have a little over three million dollars in this  
2 account.

3 Q Do you know whether that or  
4 some other programs are offered by the banks that are  
5 now operating in Front Royal?

6 A The Bank of Virginia does  
7 have the service but where we pay on one thousand  
8 dollars average, it's really a little lower than that,  
9 eight hundred and seventy-two dollars I think is the  
10 exact figure, we pay five percent, and their figure  
11 you have to maintain a balance of twenty-five hundred  
12 dollars.

13 COMMISSIONER BRADSHAW: How  
14 exactly does that work? If I put five  
15 thousand in the bank, would you pay me  
16 interest on everything above a thousand?

17 WITNESS CASH: No, sir.

18 COMMISSIONER BRADSHAW: How?

19 WITNESS CASH: If you kept  
20 five thousand dollars with us, if your  
21 average balance was five thousand dollars,  
22 you would receive five percent on that  
23 total five thousand dollars.  
24

COMMISSIONER BRADSHAW: Well,  
it's in my checking account.

WITNESS CASH: It is our --  
it would be a SCAT account which is, in  
essence, technically two accounts on our  
books. We have to maintain a separate --  
it's all done by computer, but we have to  
maintain a basic separate savings account.  
And your checking account actually has  
zero balance, so when you write a check  
it transfers that money from your checking --  
from your savings account to your checking  
account.

CHAIRMAN SHANNON: What does  
SCAT stand for?

WITNESS CASH: It's --

COMMISSIONER BRADSHAW: Savings,  
checking, automatic transfer.

WITNESS CASH: Right.

BY MR. BREEDEN: (Continuing)

Q Savings to checking, automatic  
transfer?

A Our computer people were having

so much when they were working on the program -- they were having so much trouble when they were working on the program trying to -- rather than writing all that out, they came up with the abbreviation.

Q All right. Turning to the dealer finance, does your bank provide both floor planning and purchasing of dealer paper?

A As mentioned in my prefilled testimony, our bank has a basic lending limit of seven hundred thousand dollars. We provide floor plan services, as was mentioned, to Marlow Motors, who is one of our customers from Front Royal. The other banks do not -- well, I shouldn't say -- Peoples Bank possibly would offer the service but because of the size and legal limit, they would not be able to take care of a Marlow Motors size floor plan. So, that is the primary reason he uses us.

Q Do the other banks, Virginia and F&M, provide that type of financing in Front Royal?

A Neither one of the two banks --

COMMISSIONER BRADSHAW: How many car dealers in Front Royal?

WITNESS CASH: There are actually

three. Three major --

COMMISSIONER BRADSHAW: I wonder where the other two get their floor plan?

WITNESS CASH: One of them is with GMAC and the other is Ford Motor Credit. We have talked to the Ford dealer and we feel rather reasonable that he will become a customer of ours, and it's possible that the GMAC dealer. Also, we do business with the GMAC dealer on an indirect basis, but we do not -- we do not as far as his floor plan.

CHAIRMAN SHANNON: Mr. Cash, do you-all intend to continue free checking service in the Front Royal-Shenandoah area?

WITNESS CASH: Of course, normally competition will decide that. The Bank of Virginia and F&M both -- F&M is installing a service charge. We tried to be competitive within the area, and it would be an ultimate yes. We would. It wouldn't be less than truthful to say ultimately we are going to have to institute

a service charge.

CHAIRMAN SHANNON: Is Peoples giving free checking?

WITNESS CASH: At this point.

CHAIRMAN SHANNON: And how many banks are there in the First Virginia organization?

WITNESS CASH: Twenty-one now. Twenty-three. There are one hundred sixty-three banking offices.

BY MR. BREEDEN: (Continuing)

Q As a follow-up to that question, what about check cashing capability of a customer of the Shenandoah Valley bank throughout the State of Virginia? How does that work?

A Our customer, with the identification on him, can go into any of the other offices of First Virginia, and as we mentioned there is a total of a hundred and sixty-three, and cash checks, cash a check up to one hundred dollars without any further identification.

COMMISSIONER BRADSHAW: Will you

1 cash a check at your bank from Peoples Bank?

2 WITNESS CASH: Generally  
3 speaking, there would -- the person would  
4 have to be known and -- in other words,  
5 normally you don't. Normally you don't  
6 take a personal check on another bank unless  
7 they are known to you or have a deposit re-  
8 lationship with you.

9 COMMISSIONER BRADSHAW: I've  
10 often wondered what the "Full Service" sign  
11 on everybody's door meant.

12 WITNESS CASH: Well, if you  
13 saw the returns --

14 COMMISSIONER BRADSHAW: It's  
15 full service if they know you and you've  
16 got an account.

17 MR. THOMSON: Everyone else  
18 take a deep breath.

19 COMMISSIONER BRADSHAW: They  
20 won't even cash a State of Virginia check  
21 around here unless you've got an account.

22 MR. THOMSON: That's right.  
23 They take those and forge them just the  
24 same as they do the others.

COMMISSIONER BRADSHAW: I

reckon so.

BY MR. BREEDEN: (Continuing)

Q How about the real estate loans? What is First Virginia doing in the field of second deed of trust loans?

A We are still making -- of course, with the downturn, and with the restrictions placed by Fed that these are loans that have to be accounted -- be counted against your base total, we are not actually actively soliciting those. We have a good customer who really needs a second trust loan and at the present time with the present run off of our loans we will make the loan.

Q All right. Let me ask you this, Mr. Cash. Mr. Folds was here testifying about the pre-fab homes and the shell homes, whatever you call them. What can you tell us about the developments, the number of platted lots in your area; that is, the Front Royal/Warren County area, and the number of those lots have -- the number of those lots that have been sold and this type of information, and the financing that the bank has done in this area?



1  
2 A I guess I'm considered as  
3 somewhat of a Maverick within our organization, in  
4 that we have made a very profitable operation out  
5 of lending against recreation property and the --  
6 what we would call shell homes that primarily are  
7 built by people who put sweat labor into it to finish  
8 the house. We have, over the period of the last eight  
9 years, we have made in excess of twenty million dollars  
10 in this type of loan and have not had any loss.

11 Front Royal had fifteen  
12 thousand eight hundred and three plotted lots in  
13 the area.

14 Q When you say Front Royal, are  
15 you talking about Warren County?

16 A Warren County. I'm sorry.  
17 Made up of one hundred twenty-six different sub-  
18 divisions and, of course, I'm certain that ya'll --  
19 some of these recreation subdivisions are -- get  
20 into the news where they have not been properly handled.  
21 But we have tried to watch who we lend to and the  
22 developer with which we work with. And we have been  
23 very successful in this.

24 It's the -- within the vicinity  
of this Washington Metropolitan area and the Warren County

and Shenandoah County both, it's a piece of blue sky that these people are buying, and to a certain extent we finance dreams. These people ultimately -- a lot of it doesn't materialize, but basically people coming out and getting away from it for a week-end. And we have the people who really finished out a shell home.

We have seen where they have more pride of ownership of that home than they do their primary residence. So, it has been very successful for us.

Q All right, sir. Do the other banks in Front Royal, to your knowledge, engage in this type of loan?

A The Bank of Virginia, at one time, was quite active in this area. They have now ceased to be active in this type of financing. The other banks do not actively solicit this type of loan.

Q Now, taking the other side of the coin, and this is a very general question, but do you feel -- can you see any way that the granting of this application to Shenandoah Valley Bank would result in any diminished competition in the Front Royal area or any unfair competition in the Front Royal area?

A No, I cannot perceive of any

operation that we would conduct that would be unfair and that would not just have to increase.

Q And First Virginia, of course, is not in any way related to any of the banking organizations that are now --

A No, sir. We have no relationship.

Q And can you, Mr. Cash, see any way that your entry into this market with a branch in Front Royal would result in any undue concentration of resources or anything of that kind?

A No, sir. I think it would -- right now there seems to be a concentration between two principal banks.

Q Your bank has recently had a Fed exam, has it not?

A Yes, it has.

Q When was that?

A This was in November.

Q 1979?

A Right.

COMMISSIONER SHANNON: When you said "Fed," you mean Federal Reserve?

WITNESS CASH: Right, sir. Yes, sir.

BY MR. BREEDEN (Continuing)

Q Did that examination cover such questions as conflict of interest, or any unsafe or unsound practices?

A Yes, sir.

Q And was there any suggestion in the examination report that any such practices existed with regard to the Shenandoah Valley Bank?

A No, sir.

MR. BREEDEN: Answer these gentlemen, please.

CHAIRMAN SHANNON: How old  
is First Virginia, the holding Company?

WITNESS CASH: It is the oldest  
and -- I defer to Mr. Kauffman. It is the  
oldest holding company in the State. It  
was formed -- the first one, I believe,  
in the state of Virginia.

CHAIRMAN SHANNON: That is all  
right. If you don't know.

COMMISSIONER BRADSHAW: Mr. Schutt?

CROSS EXAMINATION

BY MR. SCHUTT

Q Mr. Cash, what would be a typical percentage of real estate loans that would be in your bank's loan portfolio?

A Well, if you consider all of the loans that we have that are related to real estate, we would be close to sixty percent.

Q Then I take it --

A In a rural area, more so than any metropolitan area -- you will find that most of the people own real estate and it ultimately ends up being used as collateral to loans.

Q In the situation that is shown on the attachment to your prefilled testimony, would be an aberrant or atypical situation where you have such a high degree of installment loans and very few real estate loans in Warren County?

A Most of those loans that you see would be installment loans that are placed on an add-on type basis. Add-on interest, but are secured by the trust.

Q Okay.

MR. SCHUTT: That is all I had to ask Mr. Cash.

COMMISSIONER BRADSHAW: Mr. Thomson?

CROSS EXAMINATION

BY MR. THOMSON

Q Mr. Cash, you indicated your demand accounts were not a profitable item for the bank, is that correct?

A No, that is not correct. What I am saying is that it is not free.

Q Now, let's look at that a minute. Who makes a determination whether or not you are going to offer check free accounts, or charge free accounts?

A Our local board.

Q And that is done at your own instance, isn't it? That is a loss leader you offer the customer, isn't it?

A We are not going to argue that point.

Q I said isn't that a loss leader you offer as an advertising to get customers?

A No, sir. That is what we are doing. There is not a bank in our county that offers a service charge account. We are doing it to meet competition.

Q I thought you indicated that Farmers & Merchants had gone to --

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3 A They are not in our area. I am  
4 talking about Shenandoah County.

5 Q Oh, I see. But if you go into this  
6 area, you are going to be competing directly with Farmers  
7 and Merchants, and they have given it up, haven't they?

8 A They have just given it up.

9 Q All right, sir. And you can give  
10 it up, can't you? I mean, it is a matter of your own  
11 action.

12 A Sir, I answered that. We probably  
13 will give it up.

14 Q Okay, sir. When you offer a  
15 service charge free checking account, that is an item  
16 to stimulate the number of accounts for your bank, isn't  
17 it?

18 A As I mentioned before, when everyone  
19 else in your trade area is doing it, there is no extra  
20 stimulant that you can get from it.

21 Q You do it if you are the last one  
22 to meet the competition, but on all others -- it is so  
23 they can draw accounts, isn't that the purpose of it?

24 A No. I think the purpose of it is  
that we are right poor businessmen.



Q Isn't the number of ten dollar accounts -- I think you indicated it was about two thousand -- contributed to by your SCAT Program?

A No, no. This -- those people would not qualify for SCAT anyway.

Q If you transferred the money into your checking account, you qualify don't you?

A No. That figure that I have given you has no relationship -- the SCAT Account has a zero balance.

Q And the checking account, it has a zero balance.

A Right . It has no -- it has no relationship at all to the two thousand.

Q I see. Then the number of accounts under ten thousand dollars might be at zero would be in addition to the two thousand.

A Right.

Q Okay. And you indicated there was some fifteen thousand lots in the Warren-Front Royal area.

A Right.

Q Are you aware that only sixty-two hundred people came into the County total, men, women and

children, in this decade? That the population only grew sixty-two hundred people.

A We are asking to go to Warren County. Not because of the past, but because of what we anticipate the future to be.

Q Let's look at that --

A Safeway store built their new store based on a ten year projection, and if you take any percentage that you want to take of those fifteen thousand platted lots, you can't help but see that there is going to be growth.

Q All right, sir. Now look at that. In the projections and in the Report of the department here, they are only projecting sixty-seven hundred people to come into the County in the next ten years.

A We -- I am not the expert witness. We feel that we will get our fair share of the accounts that is going to be generated from the new growth that is going to come into the community.

Q But Mr. Cash, doesn't it have to relate to people; to people in the County.

A It would have to relate to people.

Q You are not disputing the fact that

the expected growth is only sixty-seven hundred people, men, women and children, are you?

A These are projections.

Q Yes, sir. But you are not disputing those, are you?

A No. I am not, because I do not have the information. But I think that for the first time that you have seen that the community, basically Front Royal, is spending something over twelve million dollars for additional expenditures. They are obligating themselves for over two million dollars from the Town of Front Royal for the industrial. It has got to come. We have seen the growth in the Winchester area. We -- Frederick. We border Frederick, and we border Rockingham. We have seen the growth in those two communities.

I feel that Front Royal is, with the new water and sewer, with the addition of Dupont, you are going to see the same type of development in that area that has happened in other areas.

Q But you are not disputing the projections.

A No.

Q Now, in this immigration that is going to take place from the District of Columbia and Northern Virginia, before they get to Warren County don't they have to go through Fauquier or Loudoun and Frederick and Clarke Counties?

A Yes, sir.

Q All of which have plenty of blue sky?

A Have you checked the tax rates of those communities, comparable to Front Royal?

Q Let's answer my question first. All of those counties have plenty of blue sky.

A They all have plenty of blue sky, but they have zoning restrictions, they are much stiffer than Warren County.

Q Mr. Cash, have you gone through the zoning laws of Loudoun, Fauquier, Frederick and Clarke Counties?

A Sir, I am familiar with those zoning, and I looked at it. I am involved in the local government in my little community. We have looked at all these areas.

Q Are you telling this Commission that you are intimately familiar with --

A No, I am not intimately familiar.

Q Lets talk about competition for a minute. In the area of competition, won't you compete with Front Royal Savings and Loan for savings?

A Front Royal Savings and Loan, as has been illustrated, has the advantage of the savings differential in rates.

Q Now, I will ask the question again: Won't you compete with them for savings?

A We will be competing for savings.

Q The only area where they have that half percent is in passbook, isn't it?

A No, they have it in regards to the six months certificates also.

Q All right, sir. But in fact when you talk about larger CD's, they are in an open competitive market with you, aren't they?

A Not necessarily.

Q Direct. Whatever you want to pay for them and whatever they want in the Jumbo's.

A Yes.

Q So that in any area you want to talk about, as far as savings are concerned, you are going to be in competition with them even when they have a half a percent differential.

A If we are capable of selling.

CHAIRMAN SHANNON: Is there any differential on thirty month certificates between banks and savings and loans?

MR. THOMSON: I don't think it applies past the money market. I may be wrong on that. I am not certain.

WITNESS CASH: We have met eleven seventy-five I think, and they are permitted a quarter of a percent differential on that.

CHAIRMAN SHANNON: On thirty months.

WITNESS CASH: On thirty months. They put a cap on that, and I think what is going to happen is that will come off.

CHAIRMAN SHANNON: As the rates drop.

WITNESS CASH: As the rates drop.

BY MR. THOMSON (Continuing)

Q In addition, the savings and loans in the State are restricted to utilizing their funds, eighty percent in first trust real estate market, aren't they?

A That is today.

Q And you have no such restriction on the amount of real estate loans you can make.

A No, sir -- yes, yes, wait a minute. I have to qualify that, yes, we do. We have a total restriction -- I believe it is seventy percent of our total deposits.

Q You cannot make real estate loans in excess of seventy percent.

A Yes, sir.

Q But it is a limitation -- they cannot have anything but eighty percent in first trust real estate mortgage.

A Yes. I am not arguing that.

Q And yet in your instance, your bank has sixty percent real estate-oriented loans.

A Yes.

Q And does not that indicate you will be

in direct competition for loans with the new savings and loan coming into the area?

A If you are -- if your savings and loans would be one of the few that has ever been in competition with us for this type of loan.

Q When you talk about 'this type of loan,' you are talking about Mr. Folds loan?

A Right.

Q But there are plenty of other loans you have got in that sixty percent that don't relate to Mr. Folds.

A No. This is primarily -- the loans that we are talking about -- in that category that we have made, are primarily in the recreational area.

CHAIRMAN SHANNON: Are they home improvement loans?

WITNESS CASH: No, sir. We -- in other words, people -- in regard to Mr. Folds -- we have roughly two million dollars in shell home-type of loans. These are people who come out and decide to build on a lot that they already own.

CHAIRMAN SHANNON: They are first mortgage loans.



WITNESS CASH: Right.

CHAIRMAN SHANNON: But do you  
engage in much home improvement financing?

WITNESS CASH: We just don't see  
that type of thing. When we get the second  
trust or first trust, these are usually  
for debt consolidation.

BY MR. THOMSON (Continuing)

Q And the handling of Mr. Marlow's  
account, for purchasing of his contract paper, are you  
doing this from your Strasburg office or are you doing  
it from your Woodstock office?

A We are doing it from the Strasburg  
Office.

Q Is there any reason you can't handle  
the other dealers in the same locality in the same way?

A We have been able and successful in  
doing a limited amount of volume from Front Royal area in  
this manner. So to answer you, I can't say that we would  
have to close up shop.

MR. THOMSON: That is all I have.

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Cash - Cross

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COMMISSIONER BRADSHAW: All right,  
Mr. Cash, you may stand down. Thank you,  
sir.

\* \* \* \* \*

WITNESS STANDS ASIDE

A Yes.

Q All right. I direct your attention to Page 6 of your report, Mr. Herbert. With respect to the First Virginia report, and further to the figures relating to the growth of bank deposits over the period 1970 to 1979, at my request, did you secure the percentage of increase for that period of time for the State of Virginia?

A Yes, I did.

Q What is that figure?

A It's one hundred forty-six point nine percent. Base figure is seven point three billion dollars and the '79 figure is eighteen billion dollars, almost eighteen.

Q All right. Thank you. Questions occurred during the testimony of Mr. Rakes with respect to the retail sales figures that I think -- I think your figures are under a heading of "Retail Sales" on Page 7.

Would you state for the record, please, the source of your information?

A A magazine called Sales Management is the source for the 1970 figure. And I stated thirty-one million. But if you don't round it off, they break

1  
2 it down to thirty million nine hundred ninety-nine  
3 thousand. For my 1978 figure, I rounded it off to  
4 sixty point seven million. It's sixty million six  
5 hundred and ninety-seven thousand dollars. And I'm  
6 pretty sure it's the same organization, but the official  
7 title of the magazine is Sales and Marketing Management  
8 magazine. It's a 1979 issue, and it's 1979 survey of  
9 buying power data service.

10 Q Is that the source of retail  
11 sales figures that is customarily used?

12 A That's the source the Bureau  
13 uses consistently in doing its reports.

14 MR. SCHUTT: Thank you. That's  
15 all I have.

16 COMMISSIONER BRADSHAW: Thank  
17 you, Mr. Herbert.

18 MR. THOMSON: No questions.  
19  
20  
21  
22  
23  
24

## CROSS EXAMINATION

BY MR. BREEDEN:

Q I would simply ask you this,  
Mr. Herbert. The sources, do you know where they get  
their information?

A Not right off the top of my  
head, no.

Q You don't know whether they go  
to the Treasurer's Office or the Commission of Revenue's  
office and actually pull the actual sales tax numbers or  
not?

A No, sir.

MR. SCHUTT: Thank you.

COMMISSIONER BRADSHAW: Thank

you.

\* \* \* \* \*

WITNESS STOOD ASIDE

JOHN SALONY, a witness called  
by and on behalf of the Protestant, Front Royal Savings  
and Loan Association, having first been duly sworn,  
testified as follows:

## DIRECT EXAMINATION

BY MR. THOMSON:

Q Mr. Salony, state your full  
name and residence?

A Okay. John Salony. I'm  
Executive Vice-President, Front Royal Savings and Loan.  
I'm presently renting a townhouse in Front Royal, and  
my transition from Maryland it seems even though being  
an S&L executive I got caught in the housing crunch also.  
So we are selling our house up in Maryland and moving  
down to Virginia.

Q What is your connection with  
the Front Royal Savings and Loan Association?

A Okay. Four weeks ago I was  
employed subject to approval from the State Corporation  
Commission and the Federal Home Loan Bank Board, which  
I have received both.

Q As the Chief Operating Officer?

A Chief Executive Officer.

Q Would you give the Commission a little of your background, particularly as it relates to financial organizations?

A Okay. Most recently I was employed for the past three years as the Senior Officer for Fidelity Savings and Loan. It's a one hundred twenty-six million dollar organization in Baltimore. Prior to that I worked for Maryland National Bank, which is a three billion dollar corporation in Baltimore, Maryland. Also, prior to that I worked for Providence Savings, which is a thrift organization in New Jersey. I worked on Wall Street as a financial --

COMMISSIONER BRADSHAW: You are moving in the right direction, south, all the time. (Laughter in the courtroom)

WITNESS SALONY: It seems everything about the Commonwealth we like. And I agree with you.

BY MR. THOMSON: (Continuing)

Q John, when you came on board, was the approval of the Supreme Court and the State

Corporation Commission granted for the certificate of authority for Front Royal Savings and Loan?

A That's correct.

Q And that occurred in January of this year?

A They both occurred in January. The State Supreme Court, I believe, is January 11th, and the Federal Home Loan Bank Board gave additional approval as well as the FSLIC on the insurance of accounts on January 3rd.

Q One was January 11th, the other was January 3rd?

A Correct.

Q And you are scheduled under the regulations of the Federal Home Loan Bank to open on July the 3rd?

A That's the date we will open, yes, sir. July 3rd.

COMMISSIONER BRADSHAW: Can you open before then, legally, I mean?

WITNESS SALONY: Well, we have a call in for the balance of the stock subscriptions which we have due, and if we



do get those balances in prior to July  
3rd, yes, we can.

BY MR. THOMSON: (Continuing)

Q Since you have been on board,  
what other changes -- have there been other changes  
that you have made in regard to the Association to  
attempt to meet the present monetary conditions that  
you are facing in getting open?

A Well, based on my opinion and  
my years of experience, what we have done the last  
four weeks has fairly much changed a lot of the things  
we planned on doing. Part of the process in opening,  
of course, is to get the staff in a building. And  
based on some of my persuasion and a lot of the economic  
situation, we have cancelled the plans to build a more  
permanent structure on the same site and, instead we  
have received tentative approval from the State  
Corporation Commission, as well as the Federal Home  
Loan Bank, to purchase a trailer which we are presently  
renting for two hundred dollars a month, and the trailer  
will be purchased at the cost of eighteen thousand  
dollars. And we figured this is a lot nicer way to use  
the capital base that we have as far as an income producing

1                   7-12                   Salony - Direct                   184  
2                   asset rather than tie it up in a non-income producing  
3                   asset in a building for a hundred and fifty thousand  
4                   dollars.

5                                   So, based on that, plus we have  
6                   changed some forms, savings forms, lending forms. We've  
7                   also revised a computer system, the operating procedures,  
8                   and I've cut the budget operating profit by fifty percent  
9                   also based on the present economic situation.

10                               Q                   And have you recomputed the whole  
11                   profit and loss situation for the purpose of going into  
12                   business at this time as opposed to when the approval  
13                   was granted?

14                               A                   Most definitely. We've reduced  
15                   the operating -- the net profit, as we see, from seventy-  
16                   nine thousand to thirty-nine thousand. So, that's a  
17                   fifty percent reduction. I think that's more realistic  
18                   in light of today's economic situation.

19                               Q                   Would you tell the Commission,  
20                   Mr. Salony, what your opinion is of the effect of  
21                   First Virginia's branch application, if granted, would  
22                   have on your Association getting into business beginning  
23                   in July of this year?

24                               A                   Well, I remember when I was  
                  listening to what Doctor Rakes said, the expert witness,

for First Virginia. And he indicated that they are not going to be a sleeper. Not those exact words, but in so many words they are going to be extremely competitive. And I think that's the last thing we need, is an extremely competitive, aggressive organization.

They have indicated they are not going to be sleepers in the market. They've indicated they are going all out, double barrel, and come right on top. And I think as a new savings and loan we just need that particular time, at least twelve months. And at the end of twelve months we can reassess our position again.

But with an aggressive organization like that in the present economic situation, I think we could have a situation where we may run into some problems.

MR. THOMSON: Your witness.

MR. SCHUTT: No questions.

still shooting for the million dollars.

Q For one million dollars?

A Yes, sir.

Q Has there been any request for a reduction in the capitalization of the savings and loan?

A Request as far as --

Q A request to permit you to operate with a smaller subscription?

A None that I'm aware of.

Q The --

A A formal -- are you speaking of a formal request? None that I'm aware of.

Q Are you contemplating making such a request?

A In my opinion, no.

Q Of the one million dollars, how much has been raised, Mr. Salony?

A Okay. We have a call date of May 15th and we have three hundred fifty thousand in to date, which represents one hundred eighty-five stockholders or subscribers paid in full.

Q And was the original call date May 15th, or has that been --

A Well, the letter went out April 15th introducing myself, my assistant, Ms. Maggie Yeates, giving something of my background and suggesting that the balance is due in the original subscription form. The balance is due thirty days after we call for it in the original subscription application. So that would put us at May 15th.

CHAIRMAN SHANNON: You say you have three hundred and fifteen or three fifty?

WITNESS SALONY: Three fifty, sir. Three fifty plus.

BY MR. BREEDEN: (Continuing)

Q That's in hand?

A That's presently in hand on the books, yes, sir.

Q So you need to get another six hundred and fifty thousand dollars?

A That's correct.

Q Between now --

A That's approximately correct.

Q Was there one time in April, one

subscription date, that was supposed to be due April 1,  
or am I in error?

A Based on the four weeks that  
I've been here, I'm not aware of that. Like I said,  
the April 15th date was the date we asked the people  
to bring it in and they have thirty days from that time  
to bring it in.

COMMISSIONER BRADSHAW: That's  
a bad date to have asked for it, tax due,  
wasn't it?

WITNESS SALONY: We thought  
about that, but I only came on four weeks  
before that so I didn't have much control  
over that.

MR. THOMSON: That was running  
on a July 3rd deadline.

WITNESS SALONY: We have taken  
everything into that July 3rd opening date.  
So I guess if we had done it a couple of  
weeks before, a couple of weeks after, I  
guess one date is pretty much as good as  
the other date.

And we are just optimistic a

lot of people are going to get refunds  
rather than have to pay money.

BY MR. BREEDEN: (Continuing)

Q And, of course, if you don't  
get that you must either have a reduction in capital  
or you cannot open on July 3rd regardless of what action  
may be taken on First Virginia's application?

A We will make the deadline.

Q I'm talking if you do not, then,  
you've got to have that in any event to open; isn't  
that correct?

A That's correct. Yes.

MR. BREEDEN: That's all I  
have.

MR. THOMSON: No further  
testimony.

COMMISSIONER BRADSHAW: I have one short question. Mr. Salony, can an S & L make a loan on a shell home, or do you have to live in it to make a loan?

WITNESS SALONY: Well, in my opinion I think we can. I think we can make that type of loan. Unfortunately, we would make it for the actual value of the land. We would -- we can lend on the land and building. We would make it on the land and building.

Again, in my opinion, it would have to be a loan we would have to keep within our own portfolio. Under no circumstances would the Veterans Administration or the FHA accept that loan.

Neither would we be able to get those loans on what we call our secondary market, Freddy Mack or Fanny Mae. That would put us in a definite disadvantage in a sense that we are a small organization starting out and not having the secondary markets to create. We would probably be able



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3 to make half a dozen loans a month and  
4 not be able to adequately serve our  
5 community. So if we did get in and decide  
6 to make those type of loans, at least we  
7 would limit them very much.

8  
9 COMMISSIONER BRADSDHAW: All right,  
10 thank you very much.

11 CHAIRMAN SHANNON: How long, Mr.  
12 Salony, are you anticipating you will be  
13 in a temporary quarters, in your trailer?

14 WITNESS SALONY: I think we can go  
15 as long as two years. I am more convinced  
16 with the present economic situation, with  
17 the conditions that are happening, -- I  
18 would think it is a lot more profitable  
19 for us and our stockholders, to have our  
20 assets tied up in income-producing items  
21 rather than in non-income producing items.  
22 A hundred and fifty thousand dollar building  
23 sounds nice, but the name of the game in this  
24 business is to make a profit, and I think that  
is something we have to very much stress, and

as you can see, I have even reduced my profit, and to make up for it we have even cut everything back also realistically, and said: Hey, we don't think this big building is the answer.

It is not a matter of just running scared, it is a matter of reacting realistically to the present economic situation.

COMMISSIONER BRADSHAW : It does sound nice when Mr. Thomson is applying for the charter. Big, impressive, big building down there.

MR. THOMSON: We could afford it then, Your Honor.

CHAIRMAN SHANNON: Mr. Salony, you have moved down from the big city into the country. Are you optimistic about the future of savings and loans -- another savings and loan in Front Royal?

WITNESS SALONY: Yes, sir. The county I live in is Carroll County, which is dairy and farming area outside of

Baltimore, so I am used to it. I spent my summers on farms in Pennsylvania most of my life, and the more I see of the Commonwealth, the more I like it. My wife is from Eastern Shore in Maryland, so she gets me assimilated into that type of atmosphere. But I have no problem adjusting, as far as I see personally and as far as the savings and loan.

CHAIRMAN SHANNON: Do you think it will be enthusiastically received?

WITNESS SALONY: I think it will be received well.

Okay, I don't think there is any way possible that with an aggressive organization like First Virginia, even though we may be starting out with a large base of stockholders -- just under five hundred -- and realistically speaking those people can also -- or should also have a savings or checking account with us when we get our accounts -- but realistically I think it is asking a lot for somebody to --

CHAIRMAN SHANNON: Don't savings and loans usually work pretty close with banking organizations, because I know you have to have somewhere to deposit your funds.

WITNESS SALONY: That is correct.

CHAIRMAN SHANNON: I take it you will be establishing some good relationships with the local banks.

WITNESS SALONY: We presently have relationship with the Bank of Virginia. We don't have a line of credit with them, but we do have certificates with them, stock subscription money we have we are investing short-term to keep our liquidity, and we will have, hopefully, a line of credit either with the Bank of Virginia or with the Federal Home Loan Bank Board in Atlanta.

COMMISSIONER BRADSHAW: All right.  
Thank you, sir.

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WITNESS STANDS ASIDE.