CLERK
SUPREME COURT OF VIRGINIA
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RICHMOND, VIRGINIA

IN THE

Supreme Court of Virginia

AT RICHMOND

RECORD NO. 781457

THE SERVICES NATIONAL BANK
Appellant

v.

BURKE & HERBERT BANK & TRUST COMPANY, ET AL.
Appellees

JOINT APPENDIX

Frank E. Brown, Jr., Esq.
Barham, Radigan, Suiters & Brown, P. C.
2009 North Fourteenth St.
Arlington, Virginia 22216

Counsel for Appellant

Charles E. Pikrallidas, Esq.
Thomson, Pikrallidas & Schott
201 North Washington Street
Alexandria, Virginia 22313

Counsel for Appellees

William F. Schutt, Esq.
State Corporation Commission
P. O. Box 1197
Richmond, Virginia 23209

Counsel for Appellees

RICHMOND LEGAL PRINTING, INC. 1615 WEST BROAD ST. RICHMOND, VA. 23220

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APPLICATION FOR A CERTIFICATE OF AUTHORITY

TO ESTABLISH AND OPERATE A BRANCH

FILE IN DUPLICATE

$1,000 [illegible]
1-9-78 [illegible]

BUREAU OF BANKING
STATE CORPORATION COMMISSION
200 BLANTON BUILDING
RICHMOND, VIRGINIA 23219

I GENERAL INFORMATION

NAME OF APPLICANT INSTITUTION	DATE IT COMMENCED BUSINESS
BURKE & HERBERT BANK & TRUST COMPANY	AUGUST 15, 1852

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

100 SOUTH FAIRFAX STREET, ALEXANDRIA, VIRGINIA 22314

NAME OF AFFILIATED COMPANY, IF ANY

NONE

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

C. S. TAYLOR BURKE, JR. (703) 549-6600 ext. 250

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

300 SOUTH EADS STREET, ARLINGTON, VIRGINIA (CRYSTAL CITY) 22202

NAME OF PROPOSED BRANCH	DISTANCE FROM MAIN OFFICE	EXPECTED OPENING DATE
CRYSTAL CITY BRANCH	FOUR MILES	MAY, 1979

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

___ No
X Yes *(if yes, explain)*

ESTIMATE $536,771.53 IN RETAINED EARNINGS ADDED TO UNDIVIDED PROFITS THIS YEAR, AND A LIKE AMOUNT ADDED AT THE END OF 1978.

NUMBER OF OFFICES THE APPLICANT OPERATES:

1. Opened SIX (6) 2. Authorized, unopened ZERO (0)

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

C. S. TAYLOR BURKE, III
TWO YEARS YALE UNIVERSITY, MAJOR ECONOMICS
JUNE, 1971, TELLER, MAIN OFFICE BURKE & HERBERT BANK & TRUST COMPANY
AUGUST 1, 1974, ASSISTANT MANAGER MONROE AVENUE BRANCH, BURKE & HERBERT
FEBRUARY 24, 1976, MANAGER, LANDMARK BRANCH, BURKE & HERBERT
LOAN AUTHORITY: $1,500.00 UNSECURED $10,000 SECURED
(WILL BE INCREASED BY THE TIME BRANCH OPENS)

001

II QUARTERS

ROVIDE INFORMATION WITH RESPECT TO THE QUARTERS IN WHICH THE BRANCH WILL COMMENCE BUSINESS NDICATE ANY PLANS TO OPEN IN TEMPORARY QUARTERS. SPECIFY ALL THE TRANSACTIONS INVOLVED. NDICATE ESTIMATED IMPROVEMENTS FOR THE LAND OR BUILDING.

BUILDING IS 1,400 SQUARE FEET, NOW OCCUPIED BY THE ARLINGTON COUNTY PUBLIC LIBRARY AT SOUTH-WEST CORNER OF SOUTH 23RD AND SOUTH EADS STREET. WILL BE VACANT DECEMBER 9, 1977. IT IS A ONE-STORY, SQUARE, COMMERCIAL BUILDING, BRICK WALLS, CONCRETE FLOOR, SLAG ROOF. NO PLANS TO OPEN IN TEMPORARY QUARTERS. WILL SIGN OPTION WITH MR. PAPPAS ON DECEMBER 1, 1977, AT $1,200 PER MONTH. OPTION TO CONTINUE UNTIL APPLICATION IS DENIED OR UNTIL BRANCH OPENS FOR BUSINESS. ON OPENING DAY, TWENTY-FIVE YEAR LEASE IN FIVE PORTIONS WITH OPTIONS TO RENEW COMES INTO EFFECT. RENT IS $1,350 PER MONTH, INCREASING AT END OF EACH FIVE YEARS ACCORDING TO RISE IN C.P.I. BANK PAYS REAL ESTATE TAXES AND HAZARD INSURANCE. BANK WILL MAKE COSMETIC IMPROVEMENTS TO OUTSIDE OF BUILDING AND ADD TWO DRIVE-UP STALLS ON WEST SIDE. BEGINNING COST OF BUILDING, $6 PER FOOT INCLUDING TAXES AT $2 PER FOOT FOR LAND THAT IS OCCUPIED BY BUILDING.

NAME AND ADDRESS OF SELLER OR LESSOR	EXPIRATION DATE OF LEASE
LOUIS A. PAPPAS, TRUSTEE 551 SOUTH 23RD STREET ARLINGTON, VIRGINIA 22202	TWENTY-FIVE YEARS FROM BEGINNI DATE. LEASE BEGINS WHEN BRANCI OPENS.

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

[X] Yes *(if yes explain)*

[ ] No

SELLER IS A DEPOSITOR AND A BORROWER AT BURKE & HERBERT BANK & TRUST COMPANY.

III INVESTMENT IN FURNITURE, FIXTURES & EQUIPMENT

(show estimates by an asterisk)

ITEM	NO. OF UNITS	TOTAL COST	ANNUAL RENTAL
Vault door(s)	ONE	$ 10,000	
Safe(s) NIGHT DEPOSITORY AND VAULT	TWO	3,500	
Safe deposit boxes	160	5,000	
Counter and cage fixtures	4	8,000	
Drive-in teller's windows	2	15,000	
Security equipment ALARM SYSTEM	1	2,500	

ther: DUAL CAMERA SYSTEM	1	3,000	
TELLER'S LOCKERS	6	2,000	
FURNITURE		3,700	
CARPET		700	
DRAPERIES		2,000	
TOTAL		$ 55,400	

2

IV ESTIMATED ORGANIZATIONAL EXPENSES

NATURE OF EXPENSE	AMOUNT
1. Attorney Fees	NONE
2. Consultant Fees	NONE
3. Salaries (preopening) (THREE PEOPLE ONE MONTH)	$ 10,000.00
4. Advertising (preopening)	3,000.00
5. Other (detail those in excess of $1,000)	
a.	
b.	
c.	
d.	
TOTAL	$ 13,000.00

V RECORD OF APPLICANT BANK

TION V applicable to Banks only.

	END OF LAST THREE YEARS (indicate Year)		
	197 4	197 5	197 6
al Deposit Volume	$31,180,014	$37,619,566	$45,173,352
al Assets	35,260,140	41,935,679	49,797,619
ital Notes and Debentures	223,000	179,000	135,000
mon Stock	726,000	726,000	798,600
plus	1,321,000	1,321,000	1,321,000
divided Profits and Reserves	1,331,356	1,656,603	1,801,859
tal Equity Capital	3,313,984	3,513,811	3,921,459
t Income After Taxes	472,999	439,022	532,387
vidends Declared	145,200	145,200	163,350
ercent of Total Capital to Total Assets	9.3%	9.3%	8.6%
ercent of Total Loans to Total Deposits	67.1%	66.7%	63%
ercent of Net Income After Taxes to Total Equity	14.2%	12.4%	13.5%
ercent of Bank Building & Land to Total Equity	19.1%	24.6%	23.5%

VI FUTURE EARNINGS PROSPECTS

A. ESTIMATED AVERAGE DEPOSITS

DESCRIPTION	AVERAGE DURING		
	First Year	Second Year	Third Year
RAGE DEPOSIT VOLUME			
A. Demand Deposits	$ 190,000	$ 570,000	$ 950,000
B. Savings and/or Time Deposits	$ 310,000	$ 930,000	$1,550,000
TOTAL AVERAGE DEPOSITS	$ 500,000	$1,500,000	$2,500,000

B. ESTIMATED INCOME AND EXPENSES

DESCRIPTION	ESTIMATED AMOUNT		
	First Year	Second Year	Third Year
ss income % o. total estimated average deposits)	35,850	107,550	179,250
ENSES:			
1. Salaries and benefits	30,000	32,100	34,347
2. Interest on time and savings deposits	18,600	55,800	93,000
3. Net occupancy expense *(details below)*	52,257	53,007	53,757
4. Furniture & equipment *(depreciation, rental, etc.)*	(SEE DEPRECIATION BELOW)		
5. Other operating expenses:			
Advertising	3,500	3,500	3,500
Telephone	1,000	1,050	1,200
Legal	1,000	1,000	1,000
Postage	169	190	220
Computer services	920	2,576	3,680
Miscellaneous	3,000	3,000	3,000
6. Net organization expenses *(First year only)*	13,000	0	0
TOTAL ESTIMATED EXPENSES	123,446	152,223	193,704
ESTIMATED NET PROFIT *(OR LOSS)*	- 87,596	- 44,673	- 14,454
CUPANCY:			
Rent	16,200	16,200	16,200
Depreciation	21,857	21,857	21,857
Repairs	1,000	1,000	1,000
Maintenance *(including building staff salaries)*	4,000	4,200	4,500
Insurance	300	350	400
Taxes on real estate	5,400	5,600	5,800
Utilities *(heat, light, power, etc.)*	2,500	2,800	3,000
Other occupancy expenses	1,000	1,000	1,000
otal occupancy expenses	52,257	53,007	53,75
ess: Rental income	0	0	0
NET OCCUPANCY EXPENSES *(should agree with line 3 above)*	52,257	53,007	53,75

VII PUBLIC INTEREST

NSTRUCTIONS: ANSWER IN DETAIL. APPLICANTS ARE ENCOURAGED TO FURNISH ADDITIONAL INFORMATI
N A SEPARATE PAPER TO PROVE THAT GRANTING OF THE CERTIFICATE WILL BE IN THE PUBLIC INTERES

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

CHECKING ACCOUNTS. SAVINGS ACCOUNTS, 5% FROM DAY OF DEPOSIT TO DAY OF WITHDRAWAL. INTEREST COMPOUNDED AND PAID QUARTERLY. CERTIFICATE OF DEPOSIT UNDER $100,000 - THE MAXIMUM INTEREST ALLOWED BY LAW. OVER $100,000 ACCORDING TO MONEY MARKET CONDITIONS. MORTGAGE LOANS, CONVENTIONAL TWENTY-FIVE YEARS, 9% AT PRESENT. COMMERCIAL LOANS, 8% AT PRESENT. AUTO LOANS 9.31% NEW CARS, 10.25% OLDER CARS UP TO THREE YEARS. EQUITY LOANS 10.25% UP TO TEN YEARS. PERSONAL LOANS FROM 8% SIMPLE TO 12% DEPENDING ON THE RISK. IRA ACCOUNTS 7 3/4% FOR THREE AND ONE-HALF YEARS.

B. PROVIDE A STATEMENT OF OTHER RELATED SERVICES TO BE OFFERED.

BANK BY MAIL
PERSONAL MONEY ORDERS
VISTA AND MASTERCHARGE FOR MERCHANTS
CHRISTMAS CLUBS - WILL PAY 5% WHEN PUT ON COMPUTER IN 1978
SAFE DEPOSIT BOXES
COLLECTIONS
SERIES E BONDS
TRAVELERS CHECKS

C. 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.

9:00 a.m. - 2:00 p.m. MONDAY THROUGH FRIDAY. 5:00 p.m. - 8:00 p.m. FRIDAY EVENING.
9:00 a.m. - 12:00 p.m. SATURDAY.

DRIVE-IN OPEN DAILY PLUS 5:00 p.m. - 8:00 p.m. MONDAY THROUGH FRIDAY.

D. DESCRIBE THE SERVICES PROVIDED BY OTHER FINANCIAL INSTITUTIONS WITHIN THE PROPOSED TRAI 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 COMMERCIAL BANKS IN THE AREA PROVIDE ALL OF THE ABOVE. THEIR LOAN RATES ARE COMPARABLE EXCEPT THAT FIRST VIRGINIA CHARGES 8.66 ON NEW LOANS. THE SAVINGS AND LOANS IN THE AREA PAY 1.4% MORE ON SAVINGS ACCOUNTS AND C.D.'s.

OUR BRANCH WILL NOT DIFFER FROM THE OTHERS IN QUANTITY OR IN SERVICES TO BE OFFERED. IN QUALITY, IT WILL BE LIKE YOUR NEIGHBORHOOD EXXON DEALER AS COMPARED TO A GAS-AND-GO HESS STATION. WE HAVE LOW TURNOVER IN EMPLOYEES AND GET TO KNOW THE CUSTOMERS. A SMALL BANK IS ABLE TO GIVE MORE INDIVIDUAL ATTENTION TO EACH CUSTOMER THEN A LARGE BANK. OUR BRANCH MANAGER WILL BE ABLE TO PHONE THE MAIN OFFICE TO GET ANY BUT THE MOST COMPLICATED LOAN APPROVI THE SAME DAY. THIS IS IMPOSSIBLE IN A LARGE BANK. 006

BRANCH WILL BE IN A FREE STANDING BUILDING. FREE STANDING BRANCHES OF COMPETING BANKS ARE BEING RAZED BY VIRGINIA HIGHWAY DEPARTMENT. THEY MUST RELOCATE IN HIGHRISE BUILDINGS AND LOSE VISIBILITY

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)				
		197_	197_	197_	197_	197_
pulation	ARLINGTON COUNTY PLANNING DIV.	1973 161,500	1974 159,300	1975 157,100	1976 155,900	1977 153,1[illegible]
ployment	VA. EMPLOYMENT COMMISSION	1972 106,808	1973 108,196	1974 110,355	1975 108,262	1976 109,1[illegible]
ilding Permits	ARLINGTON COUNTY DEPT. INSPECTION	1973 154	1974 145	1975 58	1976 181	1977 41
tal value of ilding Permits	ARLINGTON COUNTY ANNUAL REPORTS	1973 50,903,000	1974 25,363,000	1975 30,644,000	1976 19,051,000	1977 51,533,00
come Per Capita	BUREAU ECONOMIC ANALYSIS U.S. DEPT. LABOR	1971 7,038	1972 7,629	1973 8,444	1974 9,257	1975 10,2[illegible]
tail Sales	ARLINGTON COUNTY COMMISSIONER REVENUE	1972 452,365,436	1973 446,440,859	1974 449,173,623	1975 519,578,017	1976 535,193,7
eposits in Banks	SUMMARY OF DEPOSIT F.D.I.C.	1968 398,508,000	1970 465,844,000	1972 688,721,000	1974 702,749,000	1976 775,590,0
eposits in Savings & oan Associations	FEDERAL HOME LOAN BANK BOARD	1972 220,057,000	1973 270,965,000	1974 290,838,000	1975 326,108,000	1976 417,790,0

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.

NORTHWESTERN ONE-THIRD OF STUDY AREA IV

STABLE SINGLE FAMILY NEIGHBORHOODS. AVERAGE HOUSING VALUE $75,000. RETAIL COMMERCIAL ON 23RD STREET RUNNING WEST TO JOYCE STREET. MAIN TRAFFIC PATTERNS NORTH-SOUTH ON U.S. #1 AND EAST-WEST ON 23RD STREET. 23RD STREET IS THE ONLY THROUGH STREET FROM U.S. #1 TO ARMY NAVY DRIVE. TRAFFIC IS HEAVY IN ALL FOUR DIRECTIONS.

MIDDLE ONE-THIRD OF STUDY AREA II

HIGH-RISE OFFICE BUILDINGS AND APARTMENTS WITH COMMERCIAL DEVELOPMENT SCATTERED THROUGH, (MAINLY UNDERGROUND). DO NOT EXPECT BUSINESS FROM HOTEL PATRONS IN AREA, BUT HOTEL EMPLOYEES CAN BE CUSTOMERS.

MIDDLE ONE-THIRD OF STUDY AREA III

NOT DEVELOPED AT PRESENT. PLANS ON DRAWING BOARD FOR CONSTRUCTION OF 1,200 HOTEL UNITS, 1.5 MILOION SQUARE FEET OF OFFICE SPACE AND 500,000 SQUARE FEET OF COMMERCIAL SPACE. SHOULD BE LARGELY COMPLETED BY OUR TARGET OPENING DATE OF MAY, 1979.

SOUTHERN ONE-FOURTH OF STUDY AREA I

NOT DEVELOPED AT PRESENT. WILL BE DEVELOPED IN HIGH DENSITY RESIDENTIAL AND OFFICE, [illegible] WILL DRAW SOME DEPOSITS FROM THIS AREA.

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.

NAME AND LOCATION	YEAR ESTAB-LISHED	DISTANCE & DIRECTION	IN THOUSANDS OF DOLLARS			
			DATE OF STATEMENT	LOANS	DEPOSITS	CAPITAL AND RESERVES
CLARENDON BANK & TRUST CO. 1930 JEFFERSON DAVIS HWY.	12/15/21	.5 MILES NORTH	6/30/77	151,308,802	228,909,440	17,779,015
THE SERVICES NATIONAL BANK 2301 JEFFERSON DAVIS HWY.	2/19/74	.1 MILES EAST	6/30/77	7,963,348	8,416,580	2,421,781
BANK OF VIRGINIA POTOMAC 1755 JEFFERSON DAVIS HWY.	1/2/72	.6 MILES NORTH	6/30/77	134,982,000	190,614,000	15,677,000
FIRST VIRGINIA BANK 419 23RD STREET, SOUTH 1830 JEFFERSON DAVIS HWY. 23RD & CLARN STREETS	6/25/06	.05 MILES NORTHEAST .8 MILES NORTH .10 MILES EAST	6/30/77	268,503,627	436,708,673	34,426,442
ARLINGTON TRUST COMPANY 2001 JEFFERSON DAVIS HWY.	1906	.5 MILES NORTH	6/30/77	128,590,000	253,735,000	19,057,000
VIRGINIA NATIONAL BANK 1425 SOUTH EADS STREET	1867	.8 MILES NORTH	6/30/77	1,126,064,162	1,677,819,482	109,481,342
FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF ALEXANDRIA, VIRGINIA 2025 CRYSTAL PLAZA	1935	.1 MILES EAST	6/30/77	179,097,682	185,098,480	6,906,743
WASHINGTON & LEE SAVINGS AND LOAN ASSOCIATION 2301 SOUTH JEFF. DAVIS HWY.	1963	.1 MILES EAST	6/30/77	215,428,180	212,148,401	7,296,321
FIRST FEDERAL ARLINGTON 1755 SOUTH JEFF. DAVIS HWY.	1935	.6 MILES NORTH	6/30/77	204,911,383	204,034,124	12,116,985

undersigned certifies that he is the president of the applicant, that he believes the ts hereinbefore stated to be true, and that he has been duly authorized by the board of ectors of the applicant to file this application.

C. S. Taylor Burke, Jr., PRESIDENT

ecember 1, 1977 77

DATE

COMMONWEALTH OF VIRGINIA

Sidney A. Bailey
Commissioner of Banking

Ralph S. Jessee
First Deputy Commissioner

Walter Wightman
uty Commissioner-Consumer Credit

State Corporation Commission
Bureau of Banking
800 Blanton Building
Richmond, Virginia 23219

March 6, 1978

MEMORANDUM

TO: Sidney A. Bailey

FROM: Nicholas C. Kyriakides
Economist

Re: Application of Burke & Herbert Bank & Trust Company for a branch at 2300 South Eads Street, Arlington County, Virginia.

The captioned application, the attached investigation report and examination reports of Burke & Herbert Bank & Trust Company were reviewed by this economist. The investigation report written by David L. Marshall gives, in my opinion, an accurate picture of the facts. But it does not arrive to conclusions since the application is opposed and will be heard by the State Corporation Commission at which time additional evidence will be presented by the parties involved. The condition of the applicant, as demonstrated by examination reports, is good and the applicant can undertake the proposed branch expansion if the Commission ascertains that it will serve the public interest.

noted
SAB

Sidney A. Bailey
Commissioner of Banking

Ralph S. Jessee
First Deputy Commissioner

Walter Wightman
Deputy Commissioner-Consumer Credit

COMMONWEALTH OF VIRGINIA

State Corporation Commission
Bureau of Banking
800 Blanton Building
Richmond, Virginia 23219

February 23, 1978

Mr. Nicholas C. Kyriakides
Economist
Bureau of Banking
800 Blanton Building
Richmond, Virginia 23219

Re: The application of Burke & Herbert Bank & Trust Company, Alexandria, Virginia for a certificate of authority to branch at 2300 South Eads Street, Arlington, Virginia.

Dear Sir:

In accordance with your instructions I have investigated the above captioned application and file the following report:

THE PROPOSED CRYSTAL CITY BRANCH

Location and Premises

The proposed Crystal City branch will be located at 2300 South Eads Street, Arlington, Virginia. South Eads Street is one block west of Jefferson Davis Highway in Arlington, just south of the Pentagon building. The proposed site is directly across from the Crystal City development, high density residential and office high rises.

The applicant has an option to lease a 1,400 square foot brick building on the southwest corner of South Eads Street and 23rd Street, South. This was the location of the Arlington County Public Library until December 9, 1977. The lease is for a five year period, beginning on the date which the branch opens for business, and includes options to renew for four consecutive five year terms. Rent for the first five years will be $16,200 per annum, and will be adjusted for each consecutive renewal term in proportion to the rise in the Consumer Price Index.

The applicant plans to spend a total of about $85,000 in improving the property. This includes $10,000 architect fee, $15,000 for site work, and $60,000 for improvements to the building.

Investment in Furniture, Fixtures and Equipment

The applicant submitted the following breakdown of the estimated investment in furniture, fixtures and equipment for the proposed branch.

INVESTMENT IN FURNITURE, FIXTURES & EQUIPMENT

ITEM	NO. OF UNITS	TOTAL COST
Vault door(s)	1	$10,000
Safe(s) NIGHT DEPOSITORY AND VAULT	2	3,500
Safe deposit boxes	160	5,000
Counter and cage fixtures	4	8,000
Drive-in teller's windows	2	15,000
Security equipment ALARM SYSTEM	1	2,500
Other: DUAL CAMERA SYSTEM	1	3,000
TELLER'S LOCKERS	6	2,000
FURNITURE		3,700
CARPET		700
DRAPERIES		2,000
TOTAL		$55,400

Subsequent to submitting the above estimates in the application, the applicant has indicated that more recent estimates, based on actual purchase options, show the total estimated investment of $55,400 in furniture, fixtures and equipment to be low, and that a total of about $65,000 would be more realistic.

Estimated Organizational Expenses

The applicant estimates that preopening expenses for the proposed branch will total $13,000. This total includes $10,000 in preopening salaries (three people-one month) and $3,000 in preopening advertising. The application fee of $1,000 was omitted from this estimate as was attorney fees, which may be incurred since the application is opposed, and a public hearing has been requested.

Future Earnings Prospects

The applicant predicts that the following average deposits will be generated by the proposed branch during its first three years of operation:

	First Year	Second Year	Third Year
Demand Deposits	$190,000	$ 570,000	$ 950,000
Savings and Time Deposits	$310,000	$ 930,000	$1,550,000
Total Average Deposits	$500,000	$1,500,000	$2,500,000

As is shown above, the applicant projects total average deposits of $0.5 million during the first year, $1.5 million during the second year and $2.5 million during the third year of operation of the proposed branch. Based on these average deposit projections, which seem realistic, the applicant

estimates that the proposed branch will have the following income and expenses during its first three years of operation:

ESTIMATED INCOME AND EXPENSES

DESCRIPTION	ESTIMATED AMOUNT		
	First Year	Second Year	Third Year
GROSS INCOME	$ 35,850	$107,550	$179,250
EXPENSES:			
Salaries and benefits	$ 30,000	$ 32,100	$ 34,347
Interest on time and savings deposits	18,600	55,800	93,000
Net occupancy expense	52,257	53,007	53,757
Furniture & equipment	Included in net occupancy expense		
Advertising	3,500	3,500	3,500
Telephone	1,000	1,050	1,200
Legal	1,000	1,000	1,000
Postage	169	190	220
Computer services	920	2,576	3,680
Miscellaneous	3,000	3,000	3,000
Net organization expenses (First Year Only)	13,000	0	0
TOTAL ESTIMATED EXPENSES	$123,446	$152,223	$193,704
ESTIMATED NET PROFIT (OR LOSS)	(-$87,596)	(-$44,673)	(-$14,454)

As can be seen above, the applicant estimates that the proposed branch will lose $87,596, $44,673 and $14,454, respectively, in its first three years of operation.

These estimates present a conservative picture of the future earnings prospects for the proposed branch for the following reasons: (1) Gross income was based on 7.2 percent of average deposits, while the applicant currently earns above 8 percent: (2) the net occupancy expense estimate is over $50,000 because all improvements were depreciated over a short period of time (7 years), as was furniture, fixtures and equipment. The net effect of these conservative estimates is to understate the earnings potential of the proposed branch.

The Record of the Applicant

Burke & Herbert Bank & Trust Company opened for business on August 15, 1852. It is a non-member bank which operates five branches currently. The names of these branches, the dates they were opened and the deposits of each as of September 30, 1977, as given by the applicant, is shown below:

Branch Name	Date Opened	Sept. 30, 1977 Deposits (000)
Monroe Avenue Branch	12/1/54	7,661
Duke Street Branch	9/25/61	4,011
King and Washington Branch	4/23/63	2,630
Telegraph Road Branch	4/16/68	4,260
Landmark Branch	2/24/76	1,307

Note: The main office had deposits of $29.1 million as of Sept. 30, 1977.

A review of the recent record of the applicant reveals growth of over 65 percent since 1973. In fact, the applicant had total assets of $35.3 million

in 1973, and by December 31, 1977 total assets had grown to $57.1 million. A comparison of the applicant's total assets, total deposits and earnings from 1974 through 1977 is shown below:

	1974	1975	1976	1977
Total Assets	$35,260,140	$41,935,680	$49,797,000	$57,114,000
Total Deposits	$31,180,015	$37,619,567	$45,172,000	$51,980,000
Net Income	$ 472,999	$ 439,022	$ 533,000	$ 721,000

As can be seen above, the years 1974 through 1977 were profitable ones for the applicant, and the applicant appears to be in a position to absorb the losses predicted for the proposed branch without difficulty.

ECONOMIC AND FINANCIAL CONSIDERATIONS

In this section, various economic indicators are examined in order to determine the level of economic development and rate of economic growth found in the Washington, D. C. SMSA.[1] These data, which are presented in the appendix, are discussed below:

Level of Economic Development and Rate of Economic Growth

The Washington, D. C. SMSA, of which Arlington County is part, is the most populated metropolitan area in Virginia. As can be seen in Table I of the appendix, the population of this area was 1,017,700 in 1976. Also shown in Table I is the population of the various components of the Washington, D. C. SMSA which are in Virginia. As shown in the table, Fairfax County is the largest component of the SMSA in terms of population, which was 525,500 in 1976, making Fairfax County the most populated county in Virginia. The population of Arlington County was 153,500 in 1976.

Table II gives the personal income figures for the Washington, D. C. SMSA. As this table shows, this area generates a high level of personal income: $8.1 billion in 1975 (or 28.0 percent of the state total). Table III indicates that per capita income in the Washington, D. C. SMSA was $8,119 in 1975, exceeding the state's 1975 per capita income of $5,786 by 40.0 percent. Tables II and III also show that personal income and per capita income for Arlington County are at a high level. In fact, Arlington County accounted for about 19.0 percent of personal income in the Washington, D. C. SMSA in 1975. Per capita income in Arlington County was $10,238 in that year, exceeding the state average by about 77.0 percent.

Other economic indicators examined in determining the level of economic development for Arlington County and the Washington, D. C. SMSA were: retail sales (Table IV), savings and loan deposits (Table V), total bank deposits (Table VI), and per capita figures for each (Table VII). These indicators also reveal an above average level of economic development in Arlington County and the Washington, D. C. SMSA as a whole. In fact, the only economic indicator examined in which the Washington, D. C. SMSA fell below the state average was per capita bank deposits. This can be seen in Table VII, titled "Financial and Commercial Activity." As the table shows, in 1976 per capita bank deposits were $2,496 for the SMSA as opposed to $2,780 for the state. This is due, at least in part, to the influx of deposits from the Virginia residents of the SMSA into financial institutions located in the District of Columbia. At the same time, per bank deposits were $5,053 in Arlington County in 1976, or almost twice the state average.

The Washington, D. C. SMSA is thus seen as a heavily populated area, with a high level of income and correspondingly high level of financial and commercial activity.

Even with the high level of economic development that presently exists in the Washington, D. C. SMSA, there continues to be substantial growth. As shown in Table I, the population of the SMSA grew from 921,237 in 1970 to 1,017,700 in 1976, a growth of 10.5 percent. This compares to the population growth in Virginia over the same period of 8.2 percent, from 4,651 in 1970 to 5,032,300 in 1976. Personal income has also grown at a faster rate in the SMSA

[1]This discussion includes only the Virginia portion of the Washington, D. C. Standard Metropolitan Statistical Area.

neighborhoods with average housing values estimated at around $70,000. Directly across Jefferson Davis Highway from the proposed branch is the Crystal City development which is high density business and residential. The as yet undeveloped parts of the primary trade area are found between South Ball Street and the railroad, and an area around 15th Street, South.

Just north of the primary trade area is the site of the Pentagon City development, which proposes to include a retail center, a major hotel, office buildings, and high-rise rental and condominium apartments. Pentagon City is also the site of a Metro station, as is Crystal City.

The area, in general, has very high potential due to its close proximity to the Pentagon (which employs more than 30,000 workers), National Airport, and, of course, downtown Washington, D. C. Its potential is evidenced by Crystal City, where the 22nd high-rise in the complex is under construction. Crystal City contains 3 million square feet of office space, 2,650 rental apartments and 250,000 square feet of shopping area. It is estimated that Crystal City is the workplace for 20,000 and home for 5,000 to 6,000 residents.

The applicant has indicated that the proposed branch will provide greater convenience to residents of the Aurora Highlands Community than the existing banking offices in the area, since the proposed branch will be located on the same side of Jefferson Davis Highway (the west) as is the community, and will be the closest banking facility to the community. Therefore the applicant feels that some portion of the projected deposits for the proposed branch will come from this community, which appears to contain greater than 1,000 residential units.

Located within the primary trade area, as delineated by the applicant, are six banking offices and three savings and loan offices. The savings and loan offices are: (1) First Federal Savings and Loan Association of Alexandria, 2025 Crystal Plaza; (2) Washington & Lee Savings and Loan Association, 2301 S. Jefferson Davis Highway; and (3) First Federal Savings and Loan Association of Arlington, 1755 S. Jefferson Davis Highway. The six banking offices and the dates they were established are shown below.

Name and Address	Date Opened
Clarendon Bank & Trust (branch)	
1930 Jefferson Davis Highway	2/1965
The Services National Bank (main office)	
2301 Jefferson Davis Highway	2/1974
Bank of Virginia-Potomac (branch)	
1755 Jefferson Davis Highway	8/1967
First Virginia Bank (branch)	
419 23rd Street, South	1/1954
23rd & Clark Streets	1/1975
Arlington Trust Company (branch)	
2001 Jefferson Davis Highway	7/1965

In addition to the six banking offices listed, there are three banking offices just north of the delineated primary trade area. They are: (1) a branch of First Virginia Bank at 1330 Jefferson Davis Highway; (2) a branch of Virginia National bank at 1425 S. Eads Street; and (3) a branch of First and Merchants National Bank at 350 Army-Navy Drive. These offices opened in 1970, 1969, and 1962, respectively.

Opposition

The Services National Bank has written to the Bureau of Banking requesting a public hearing at which to express opposition to the present application. This bank, which is located in the Crystal City development, is directly across Jefferson Davis Highway from the proposed branch site, and management feels that the additional competition provided by the proposed branch may prove detrimental to its future growth. As was shown on the previous page, this bank was established in 1974. It became profitable in 1976, having income of $77,000 that year. However, in 1977 the bank lost $22,000, having charged off $170,000 in loans that year. A comparison of the assets, deposits, income, and capital position of Services National Bank for the past three years is shown below:

	1975	1976	1977
Total assets (000)	$7,549	$9,808	$11,800
Total deposits (000)	$5,209	$7,367	$ 9,399
Income *	$(-84)	$ 77	$(-22)
Total Capital (000)	$2,299	$2,376	$ 2,354
Capital/Asset Ratio (percentage)	30.5	24.2	19.9

* income before securities transactions

Summary

The applicant, Burke & Herbert Bank & Trust Company, has a record of growth and profitability, and the losses which are projected for the proposed branch should present no problems for the bank. The area, in general, has both a high level of development and a high rate of growth. The high potential of the primary trade area is demonstrated by the Crystal City development, which includes 21 high-rises presently (with an additional high-rise under construction), providing a workplace for about 20,000 people, and home for between 5,000 and 6,000 residents. The primary trade area, as delineated by the applicant, is currently served by six banking offices and three savings and loan offices. In addition, there are three banking offices just north of the delineated primary trade area, in the vicinity of the Pentagon City development site. The proposed branch is thus in an area which is served by many competitors, but at the same time, an area which appears to offer much potential for further development and growth.

Respectfully submitted,

David L. Marshall

David L. Marshall
Jr. Examiner

DLM/dco

TABLE I
POPULATION
WASHINGTON, D. C. SMSA (Va. Part)

Location	1970	1976	Percentage Change 1970-1976
Alexandria City	110,927	108,100	(- 2.5)
Fairfax City	22,727	21,000	(- 7.7)
Falls Church City	10,772	9,400	(-12.7)
Manassas City	11,018	12,400	12.8
Manassas Park City	6,844	9,300	35.9
Arlington County	174,284	153,500	(-11.9)
Fairfax County	454,275	525,500	15.7
Loudoun County	37,150	50,000	34.5
Prince William County	93,240	128,500	37.8
SMSA (Va. Part)	921,237	1,017,700	10.5
State of Virginia	4,651,487	5,032,300	8.2

Source: Tayloe Murphy Institute, University of Virginia.

TABLE II
PERSONAL INCOME
WASHINGTON, D. C. SMSA (Va. Part)

Location	1970	1975	Percentage Change 1970-1975
	(In millions of Dollars)		
Alexandria City	585.1	929.8	58.9
Fairfax City	115.1	178.3	54.9
Falls Church City	89.9	144.9	61.2
Manassas City	-----	76.7	----
Manassas Park City	-----	40.8	----
Arlington County	1,112.7	1,556.5	39.9
Fairfax County	2,215.7	4,172.5	88.3
Loudoun County	143.9	292.8	103.5
Prince William County	395.2	714.6[a]	80.8
SMSA (Va. Part)	4,657.6	8,106.9	74.1
State of Virginia	17,293.7	28,732.1	66.1

Source: Tayloe Murphy Institute, University of Virginia

a. When adjusted to include Manassas City and Manassas Park City this figure is 832.1 and the percentage change is 110.6.

TABLE III
PER CAPITA INCOME
WASHINGTON, D. C. SMSA (Va. Part)

Location	1970	1975	Percentage Change 1970-1975
Alexandria City	5,262	8,655	64.5
Fairfax City	5,226	8,414	61.0
Falls Church City	8,331	14,548	74.6
Manassas City	-----	6,558	----
Manassas Park City	-----	4,384	----
Arlington County	6,370	10,238	60.7
Fairfax County	4,859	8,114	67.0
Loudoun County	3,864	5,994	55.1
Prince William County	3,549	5,773[a]	62.7
SMSA (Va. Part)	5,044	8,119	61.0
State of Virginia	3,712	5,786	55.9

Source: Tayloe Murphy Institute, University of Virginia

a. When adjusted to include Manassas City and Manassas Park City this figure is $5,745 and the percentage change is 61.9.

TABLE IV
RETAIL SALES
WASHINGTON, D. C. SMSA (Va. Part)

Location	1970	1976	Percentage Change 1970-1976
	(In $000's of Dollars)		
Alexandria City	266,676	518,666	94.5
Fairfax City	121,732	264,331	117.1
Falls Church City	67,710	141,938	109.6
Manassas City	-------	100,285	------
Manassas Park City	-------	8,559	------
Arlington County	386,877	651,204	68.3
Fairfax County	644,201	1,492,708	131.7
Loudoun County	54,302	105,581	94.4
Prince William County	155,451	249,367	60.4
SMSA (Va. Part)	1,696,949	3,532,639	108.2
State of Virginia	7,304,684	14,542,604	99.1

Source: The Marketing Magazine, July 10, 1971; Sales & Marketing Management Magazine, 1976.

TABLE V

SAVINGS AND LOAN DEPOSITS

WASHINGTON, D. C. SMSA (Va. Part)

Location	May 31, 1970	Sept. 30, 1975	Sept. 30, 1976	Percentage Change 1970-1976	Percentage Change 1975-1976
	(In thousands of Dollars)				
Alexandria City	82,688	186,919	203,933	146.6	9.1
Fairfax City	3,736	32,975	41,654	1,014.9	26.3
Falls Church City	19,900	28,828	34,009	70.9	18.0
Manassas City	------	-------	-------	-------	----
Manassas Park City	------	-------	-------	-------	----
Arlington County	129,484	326,108	417,790	222.7	28.1
Fairfax County	76,987	384,365	507,778	559.6	32.1
Loudoun County	3,500	15,216	23,957	584.5	57.4
Prince William County[a]	37,126	105,104	126,224	240.0	20.1
Area Total	353,421	1,079,515	1,355,345	283.5	25.6
State of Virginia	1,498,384	3,866,048	4,698,017	213.5	21.5

Source: Federal Home Loan Bank Board

a. Deposits of Manassas City and Manassas Park City are included in Prince William County deposits.

TABLE VI

TOTAL BANK DEPOSITS

WASHINGTON, D. C. SMSA (Va. Part)

Location	1970	1975	1976	Percentage Change 1970-1976	Percentage Change 1075-1976
	(In Thousands of Dollars)				
Alexandria City	247,941	383,269	397,038	60.1	3.6
Fairfax City	61,441	127,376	151,540	146.6	19.0
Falls Church City	59,386	85,423	88,683	49.3	3.8
Manassas City	-------	-------	71,139	-----	----
Manassas Park City	-------	-------	1,458	-----	----
Arlington County	465,844	764,202	775,590	66.5	1.5
Fairfax County	284,882	768,184	820,112	187.9	6.8
Loudoun County	66,705	139,242	144,408	116.5	3.7
Prince William County	81,585	159,643	90,691[a]	11.2	(-43.2)
SMSA (Va. Part)	1,267,784	2,427,339	2,540,659	100.4	4.7
State of Virginia	7,278,214	13,204,497	13,990,422	92.2	6.0

Source: Federal Deposit Insurance Corporation

a. When adjusted to include Manassas City and Manassas Park City this figure is 163,288 and the percentage changes are 100.1 and 2.3 respectively.

TABLE VII
FINANCIAL AND COMMERCIAL
ACTIVITY
WASHINGTON, D. C. SMSA (Va. Part)

Political Subdivision	1976 Bank Deposits Per Capita	1976 S & L Deposits Per Capita	1976 Retail Sales Per Capita
Alexandria	$3,673	$1,899	$ 4,798
Fairfax City	$7,216	$1,965	$12,587
Falls Church City	$9,434	$3,401	$15,100
Manassas City	$5,737	------	$ 8,088
Manassas Park City	$ 157	------	$ 920
Arlington County	$5,053	$2,749	$ 4,242
Fairfax County	$1,561	$ 987	$ 2,841
Loudoun County	$2,288	$ 490	$ 2,112
Prince William County	$ 706	$ 872[a]	$ 1,941
SMSA (Va. Part)	$2,496	$1,386	$ 3,471
State of Virginia	$2,780	$ 946	$ 2,890

Source: Computed from Tables I, IV, V and VI.

a. Manassas City and Manassas Park City are included in Prince William County statistics.

TABLE VIII
DEPOSIT MARKET SHARE
WASHINGTON SMSA (Va. Part)
AS OF JUNE 30, 1976

Name of Bank	Offices	Deposits in $000's June 30, 1976	Deposit Share
United Virginia Bank/National	41	$ 392,440	15.4
First Virginia Bank	48	391,314	15.4
Arlington Trust Company, Inc.	15	230,249	9.1
Clarendon Bank & Trust	16	205,684	8.1
Bank of Virginia-Potomac	25	153,417	6.0
First & Merchants National Bank	12	150,807	5.9
Virginia National Bank	19	150,662	5.9
Alexandria National Bank of Northern Va.	11	121,896	4.8
The Northern Virginia Bank	8	110,897	4.4
The National Bank of Fairfax	12	99,937	3.9
Dominion National Bank	18	94,953	3.7
Fairfax County National Bank	12	55,871	2.2
Burke & Herbert Bank & Trust Company	6	41,205	1.6
Guaranty Bank & Trust Co.	4	39,092	1.5
Potomac Bank & Trust Company	3	33,048	1.3
Hamilton Bank & Trust Company	5	31,761	1.3
The Peoples National Bank of Leesburg	4	29,603	1.2
First Virginia Bank-Manassas National	9	28,642	1.1
Fidelity American Bank N.A.	4	22,790	.9
First Virginia Bank-First National	4	19,859	.8
First Manassas Bank & Trust Company	3	19,201	.8
The Middleburg National Bank	1	15,302	.6
The Round Hill National Bank	2	13,811	.5
The Farmers and Merchants National Bank	2	11,300	.4
Commonwealth Bank & Trust Company	2	10,660	.4
The McLean Bank	1	10,249	.4
The Bank of Arlington	1	8,836	.3
Virginia National Bank/Fairfax	3	8,714	.3
The Bank of Vienna	1	7,198	.3
First Commercial Bank	2	7,055	.3
The Town and Country Bank & Trust	1	6,614	.3
The Services National Bank	1	6,501	.3
The State Bank of Prince William	2	5,200	.2
Bank of Virginia-Loudoun	2	3,699	.1
First & Merchants National Bank of Prince William	1	2,192	.1
TOTAL	301	$2,540,659	99.8

* Independent Banks

TABLE IX
THRIFT INSTITUTIONS
WASHINGTON, D. C. SMSA (Va. Part)
SEPTEMBER 30, 1976

Name of Association	Offices	Deposits in $000's September 30, 1976	Deposit Share
First Federal Savings & Loan Association of Arlington	10	$ 217,539	16.1
Arlington-Fairfax Savings & Loan Association	11	185,387	13.7
Washington-Lee Savings & Loan Association	19	172,765	12.7
First Federal Savings & Loan Association of Alexandria	8	162,988	12.0
Northern Virginia Savings & Loan Association	11	146,742	10.8
Suburban Savings & Loan Association	10	108,221	8.0
Piedmont Federal Savings & Loan Association	5	89,156	6.6
Providence Savings & Loan Association	8	77,133	5.7
United Savings & Loan Association	5	36,099	2.7
First Commonwealth Savings & Loan Association	3	29,053	2.1
First American Savings & Loan Association	5	22,847	1.7
Metropolitan Savings & Loan Association	2	22,573	1.7
Family Savings & Loan Association of Virginia	4	19,570	1.4
Herndon Federal Savings & Loan Association	1	17,654	1.3
Dominion Federal Savings & Loan Association	1	15,671	1.2
Commonwealth Savings & Loan Association	2	12,921	1.0
Potomac Savings & Loan Association of Reston	2	9,543	0.7
Jefferson Savings & Loan Association	1	4,852	0.4
Newgate Savings & Loan Association	1	3,362	0.2
Old Dominion Savings & Loan Association	1	1,267	0.1
Total	110	$1,355,345	100.1

MR. BROWN: With the consent of the Commission, I would like to have Mr. Groom very briefly elaborate on a couple of the statements in the prefiled testimony. I think it may be of help to the Commission to go into it in a little more detail.

BY MR. BROWN: (Continuing)

Q Mr. Groom, on Page 10 of Mr. Burke's prefiled testimony he makes reference to some special incentives for the military that Services may be able to offer that Burke and Herbert is not intending to offer and throughout the prefiled testimony stresses the military orientation of the bank.

I would like, if you could, to tell the Commission, or put in perspective, the so-called military emphasis of the bank and, secondly, whether in fact the bank does or can offer any special incentives to military personnel for their banking needs.

A Well, this bank was organized in 1974 and conceived by both military and people active in the business community in Northern Virginia. And the hope was that they would capture a significant amount of

military business as well as Department of Defense. The Comptroller of the Currency insisted that they concentrate on the community as well.

And the bank has been -- was organized in '74 and has been doing business at the one location since that time. And, as we've pointed out, it really hasn't gotten off the ground yet entirely. And it -- we know of no special -- I know of no special services that we can provide the military or benefits or incentives to bank with us other than an introduction through someone that may have been with the military just through some word of mouth.

We have a portion of our business is military related, but we are a community bank serving the National Center at Crystal City trade area that the Applicant has proposed to establish a branch.

COMMISSIONER BRADSHAW: Mr. Groom, how many depositors do you have?

WITNESS GROOM: Sir, we have thirty-five hundred checking accounts. We have approximately fifteen hundred savings accounts.

COMMISSIONER BRADSHAW: What percentage

CROSS EXAMINATION

BY MR. THOMSON:

Q Mr. Groom, you identified this as a branch of First Virginia?

A Yes, sir, Clark Street.

Q Does it have a drive-in facility?

A No, it does not.

Q Didn't you just testify it was the policy that they would not locate a branch unless they had a drive-in facility?

A I said in most instances they wouldn't.

Q But that one doesn't?

A That doesn't.

Q That's the one just down the block? That is the one just down the block from you?

A That's correct.

Q When did that location go into being?

A I would have to check some files over there. I suspect it's 1975 or '4. It's the same time that -- I have to check the records. I have the FDIC report.

MR. BROWN: I think that's before the Commission in the report, isn't it? The Bureau of Banking report.

WITNESS GROOM: It was very close to Services' opening of their own branch, because they were alarmed.

BY MR. THOMSON: (Continuing)

Q This is referring to the Bureau of Banking's report. Could you tell us when that office appears, from the report, to have opened?

A That says 1954. That is what this says. 4/19 -- that's the 23rd, the 23rd and Clark is 1975.

Q 1975?

A Yes. January 1975. 23rd and Clark Street.

Q That was after your bank had opened?

A This bank opened in '74, right.

Q Did you oppose the location of that branch there?

A I was not involved in the application, because I was not an employee of Services National Bank. The bank was not notified of the pending branch

application. The bank, to the best of my knowledge, did -- and Mr. Brown was involved with the bank at the time -- the bank was not notified of the application. There was some slip up in the address. And I can't tell you whose fault it was.

The bank was in temporary quarters, and there was no notice of the pending branch application; therefore, the management of the bank at that time did not take action within the appropriate time. I think they attempted to take action and by statute they were then --

MR. BROWN: I can speak to that, if you want to know.

MR. THOMSON: If he wants to speak to it, take the stand. But just let me finish up with this witness and we will go through that.

BY MR. THOMSON: (Continuing)

Q But, as a fact, there was no opposition given to this? Was this the Comptroller's Office or was this through the State Corporation Commission?

A That is a State bank. First Virginia Bank would be through the State Corporation Commission.

Q And you say you were not properly notified, or the bank was not properly notified so that no opposition was given there?

A They did not, to the best of my knowledge. That is correct.

Q Was your bank located there at the time Washington and Lee Savings and Loan went into being?

A I will have to check the date. I assume I have to check the date.

Q Well, did you oppose that application?

A To my knowledge, Services National Bank did not oppose that branch.

Q Now, as a practical fact, isn't Services National a great deal more in competition with any bank on the east side of Jefferson Davis Highway than it is with anything on the west side?

A We are in competition with all banks in that trade area.

Q I think you understood my question, didn't you?

A Yes.

Q Isn't it more in competition with banks that are closest to it?

A That would be true.

Q Aren't these two banks, First Virginia and Washington and Lee, in the same block with you, just down the street from you?

A Washington and Lee is not a full service bank.

Q I understand. That's a savings and loan association, but it's just two doors away.

A It is just several doors down.

Q And this bank down at the end of the street, First Virginia, is in the same block with you?

A It is.

Q Right across from Stouffer's Inn?

A Right.

Q Aren't you in competition with all the business on the east side through Crystal City with the existing banks there?

A Yes, we are.

Q Can you tell me what incentive there will be for any of these people on the east side at Crystal City to go across Jefferson Davis Highway to Burke

and Herbert?

A To the commercial, there is some commercial development up the 23rd Street and they can.

Q That was not my question, Mr. Groom. What incentive would there be for anybody located on the east -- whether it's business or residential in Crystal City to cross from here over to Burke and Herbert to do banking business?

A To utilize the facilities of another bank.

Q I see. But they would have to pass right by you to do that?

A That is correct.

Q Now, what I'm saying is what incentive will there be for people to leave Crystal City and the one, two, three, four, five banking offices there and go across the road?

A To do business with an independent bank.

Q Isn't yours an independent bank?

A That is correct.

Q Is there any other incentive that you can think of that they would cross the road for?

A They have another choice of doing --

of banking services.

Q All right, sir. Can you think of any other reason that they would go across the road? That is, except to get to the other side.

A No. I don't have any specific reason.

Q All right. Let me cover one other point.

COMMISSIONER BRADSHAW: How many people live in Crystal City? Isn't that primarily a work community?

MR. THOMSON: It's about five to six thousand residential people in the Crystal City complex in addition to about twenty thousand that attend there during office hours.

COMMISSIONER BRADSHAW: Would it be safe to say that the people that bank with you bank at work rather --

WITNESS GROOM: The convenience of work, yes. We have a high number of people in both -- well, the designation of the 22202, and I can show you the post office. We have a high percentage of them that both live in

Crystal Towers across the street, and there also are quite a significant amount who work in the area, so that there is a combination of business. It's not one or the other, the concentration of business.

There are people with Arlington County zip codes that definitely get their mail, and people generally don't have their bank statements mailed to their office. They generally have them mailed to their homes.

So, that that's the reason I come to that conclusion.

BY MR. THOMSON: (Continuing)

Q I would like next to show you what purports to be a copy of your Annual Report for 1976 and ask you first if you can identify that?

A (Witness looking at paper writing) Yes. This represents the bank's report for the calendar year ending ---

Q I direct your attention to Paragraph 2, the written part of the report, the second page, and I ask you if you would not read that into the record?

A It says: Our net income increased from a loss of eighty-one thousand in 1975 to a gain of seventy-six thousand eight hundred in 1976. This favorable trend is primarily due to the fact that operating income increased forty percent while expense increased only eight percent. Our deposit base is now sufficient to support our fixed operating expenses and with continued growth we expect additional net income increases supported with only a relatively small incremental operating cost.

Q Isn't that in effect saying that with the deposits you had at the end of 1976 you were in a position to meet your fixed expenses?

A That is the conclusion drawn by the President of the bank at that time.

Q All right, sir. And in that operating report for the end of 1976 you are showing total deposits of seven point three million dollars?

A That is correct.

Q And today that is as of March of 1978 you are showing total deposits of nine point eight million dollars?

A That is correct, sir.

Q So that in fact you've got more than two million, almost three million, dollars more than you needed to meet your fixed assets or fixed expenses?

A That was in the opinion of the person that signed that at that time.

Q Okay, sir. But that was the Chairman of the Board and the President of the bank at that time; was it not?

A That is correct.

Q Now, when you attended this hearing did you see the various proposals for widening 595?

A Yes, sir. They had posted it on the wall, and they actually gave a handout to those people that were interested in taking one with them.

Q And they were showing a six-lane, divided, limited access highway, were they not?

A They did show sixteen proposals. You know, I can't --

Q Were any of them for less than six lanes?

A Yes. They said they might leave it as is.

Q I understand that. They may not make any change at all.

A That is correct, sir.

Q But, for the proposals for a change, all of them showed six lanes in Arlington County, beginning here at 595 or what is now 395 and going all the way to the Airport access road.

A I have to honestly check that, because there are so many proposals I can't certify or speak --

Q Did you see any proposals that were six lanes?

A Yes, I did see --

Q Those were limited access with a divider in the middle?

A Yes, sir.

Q All right, sir. Do you know whether or not they have acquired the right-of-way all the way through there to that interchange?

A Mr. Hope did not know. He did not speak on land acquisition at the hearing. I know of condemnations that have taken place in that corridor, which include the First Virginia site, but the State Road Commission indicated that that was not a concern

bank to include in their plans plans for servicing the community and not think of the bank as being an organization which could serve the needs and wants of military people all across the world.

COMMISSIONER BRADSHAW: Would the military help you collect a bad debt if they get transferred?

WITNESS GROOM: There has definitely been a change in that. There has been a change in that. They -- we have to do an awful lot of collection work, and with those people in the military -- there has been no real help from the military.

BY MR. THOMSON: (Continuing)

Q But even after the bank was in operation, even after that objection, that objection by the Comptroller, the bank continued to put great emphasis on the military, did it not?

A Well, when you say after organization --

Q Yes, sir.

A Yes, they did spend some time and effort

1 other thing.

2

3 COMMISSIONER BRADSHAW: Is that why

4 you charged off a hundred seventy-five thousand

5 dollars last year?

6 WITNESS GROOM: It is part of the

7 problem, yes, sir.

8

9

10 BY MR. THOMSON: (Continuing)

11 Q The only year that the bank has made

12 money since it has been in business, that is '74, is

13 1976?

14 A It reported earnings in '76.

15 Q What was the amount of those earnings?

16 A Seventy-six thousand.

17 Q All right, sir. And last year they

18 lost twenty-two thousand dollars, approximately twenty-two

19 thousand dollars after charging off a hundred seventy-five

20 thousand dollars' worth of loans?

21 A Yes, sir.

22

23 COMMISSIONER SHANNON: Last year?

24 You meant '75?

'77s figures don't relate to '76 operations, because they certainly do.

Q That would be true for every bank.

A I know that. I agree. But I'm just saying there were certain things that -- a loan was taken out in '75 and '76 that certainly are attributable to the bank during its formative years in trying to organize and make the bank grow that I think 1976's earnings are a misstatement of, you know, what actually happened.

Q But as a practical fact, if you were able to make a profit in 1976 of roughly seven and a half million dollars' worth of deposits, has anything dramatically changed in the bank which will prevent you from making more money with nine point eight million dollars in deposits?

A The interest cost in our bank -- at our bank are extremely high, and, yes, there is a concern there.

Q Are you saying you are paying a lot for hot money? Is that what you mean?

A We are paying for deposits and we are paying for consumer deposits to be competitive with the

banks and savings and loans in our market. We don't have the benefit of, you know, a lot of low-cost money and so we are paying heavily for the money.

Q You are not paying anymore for it than any other banks in the Northern Virginia area?

A No. We are paying the maximum. I mean, we are paying the maximum to compete as effectively as we can.

Q That's the same thing all the other banks and savings and loans are paying in the Northern Virginia area.

A No, sir.

Q Who is paying under?

A A number of banks in Northern Virginia, First Virginia on passbook savings.

Q Paying less than you do?

A Yes. And, then, you look into your CD's. I mean, there are a number of banks. Calculations of interest on savings, Mr. Thomson, you really have to go into the details to make sure that everybody is paying the same.

So that I don't think -- I mean, Dominion National, which I was associated with, does not

pay the maximum. First Virginia, and so you really have to understand the method of calculation. Mr. Burke would even speak to that.

Q I appreciate what you are saying. But I'm looking at monies that are available. And your bank grew two million dollars in the last year, according to this exhibit, did it not?

A Into 1977 with about one million of that coming in through deposits that I acquired in the form of large CD's to keep the loan to deposit ratio at an acceptable level.

Q When you look down this total list, the people closest to you did the least well, didn't they? That is, First Virginia Bank?

A First Virginia? Let me --

Q Take a look at it. See if they didn't -- see if they weren't the smallest growth of all of them?

A Percentage-wise. I know First and Merchants did not do well. And First Virginia, across the street, has, since 1975, done nothing in total deposit growth. I mean, inflation has been at a greater rate than total actual deposit growth. So that

we did report deposits, as you say, at the end of the year of nine point three. But I'll be honest with you, there's over a million of that that I had to acquire to keep the loan to deposit ratio in line, as I was part of the new management that came into the bank.

Q But the fact is that all three branches of First Virginia grew less than a million dollars. Two of those branches are in close proximity to you, and you grew two million dollars.

A I don't count as solid growth -- I'm trying -- all I'm trying to convey is some of the money is hot money and I have, you know, I am trying to correct the problem and I need the time to correct the problem and stablize this deposit growth.

The bank makeup of deposits is such that, yes, we have four million in demand deposits. We have two point three, two point four million in savings accounts. But when you talk about certificates of deposits which, you know, these things we are trying to represent, you know, they are costly and that's a concern of mine in operating that bank.

COMMISSIONER BRADSHAW: What is your loan to deposit ratio?

WITNESS GROOM: It runs at eighty percent.

COMMISSIONER BRADSHAW: Eighty?

WITNESS GROOM: Yes, sir.

BY MR. THOMSON: (Continuing)

Q And --

A If you will check the statistics, it was over one hundred percent before the initial periods of time, and I took the corrective action in coming into the bank on December 1st to correct the situation. And one of the alternatives, sell loans, buy money, and that's where I consider, you know, my talents lie. And also in managing the bank on a day-to-day.

So I'm trying to correct some situations that have been implanted in this organization since its inception, and that is operating at this high loan to deposit ratios. And that's why I speak with saying the earnings were overstated and the deposit growth is not as substantial as it may represent.

Q Let's take a look at that. Let's go

back through the Annual Report. Referring to the '75 Report it says: Compared to December '74 total resources on December 1, '75 increased two million six hundred fifty thousand dollars, up fifty-four percent. Deposits increased two million seven, up a hundred eight percent. The loans increased three million to a hundred twenty-six percent.

See if that isn't correct for the '75 Report?

A Oh, yeah, I agree with -- I'm not going to not agree with these figures as reported.

Q Then, doesn't that, in 1976, as compared to December '75, total resources as of December 31st increase two million two, up twenty-nine point nine percent; deposits increased two point one million, up forty-one point four percent; total loans increased a million eight, up thirty-three percent?

Is that not a true reflection of the Report?

A These are accurate.

Q All right, sir. If you look at the same comparable figures you are talking about a twenty-eight percent increase in deposits in the 1977 Report,

are you not?

A In 1977, the --

Q Right at the top.

A I realize that. I understand exactly what you are talking about. I'm trying to only emphasize that in the category of certificates of deposit, the figure is for the makeup of large CD's and such that there is one point three to one point seven million in that figure and that is not -- that makes me uncomfortable in operating that bank on a day-to-day basis until I can expand my deposit base and work on it.

As you know, I said I came there in December, on December 1st, and that I just -- I am just emphasizing that that's not real growth; that's all I'm trying to tell you.

Q Are you trying to say there is not real growth before you came there?

A No. There is -- I will admit there is a solid base of business of seven and a half million dollars in that bank.

Q And in fact under the report that was filed in 1976 that was adequate to meet the expenses of

your bank?

A At that time it was.

Q All right, sir. Now, in fact, you have, under the latest report, the March report of 1978, nine point eight million, wasn't it?

A Right.

Q So you've continued to go up even after that 1977 hot money came in?

A That's under new management, Mr. Thomson.

Q I understand that. But you are going to stay there for awhile, aren't you?

A I hope so, sir.

Q Well, there is no reason to foresee that it's going to go down, is it?

A I know that I'm having to -- the figures will not increase in the same proportion as my -- my intent is to substitute large CD's with more diversified types of deposits.

Q I understand that. But you are still taking that into consideration well above the demand in savings, which you were in 1976?

A Yes.

Q Even taking the hot money into consideration?

A Yes.

COMMISSIONER SHANNON: Mr. Groom, what are you paying for hot money?

WITNESS GROOM: June, the next large ones come up for consideration, and the one year CD rate is -- now, it's over eight percent; it could be as much as eight and a quarter.

So, the CD rates have moved up rapidly. And -- seven and a quarter to eight and a quarter and could go to eight and a half.

COMMISSIONER SHANNON: That's on a negotiated basis?

WITNESS GROOM: A hundred thousand, yes, sir.

COMMISSIONER BRADSHAW: Mr. Schutt, before your questions the Commission will take a short recess.

MR. THOMSON: So I don't forget it,

CROSS EXAMINATION

BY MR. SCHUTT:

Q Mr. Groom, I'm concerned with the degree and the nature of harm that you anticipate accruing to your bank from the entry of Burke and Herbert across the highway.

How specifically do you think the addition of that facility would hurt your bank?

A Well, with no construction and taking place of any significance at the present time in the immediate trade area, I feel that Burke and Herbert will definitely pick up its business from attracting business it has already maintained with other banks in the community.

And that's one of the reasons I'm down here, because I think Mr. Burke does an excellent job. And he has a good bank, and he can take business away from anyone of us.

He has done a good job over the years, and I think they will pick up,you know, a fair share of the business, and it will be rotation from already existing banking facilities in that market at the present

time. And, therefore, I'm concerned about my deposit base being erroded, especially with a period of high interest rates and not having a chance to expand the deposit base without having increased competition and, therefore, my balance sheet and profit and loss statement will be effected with this increased interest expense and maybe not being able to offset on the other side on the interest income. And also a loss of deposit base could seriously effect this bank.

Q You don't think it will hurt the loan side of your business, though?

A Well, the loan side, as I indicated initially , is running at eighty percent right now. It was one hundred percent when I came to the bank.

And I worked in an effort to try to keep the loan position at an acceptable level for all people. I'm talking about stockholders, depositors and still trying to service the depositors' needs.

I have worked out relationships which have given me the ability to lay off loans if, you know, if I find that I need to.

Q As a part of your corrective actions, then, is it fair to say you have a restrictive loan

policy now?

A We are being fairly cautious about the type of loans that we are undertaking and the amount of loans. We have set a definite loan to deposit ratio. It was not in effect, you know, when the bank first started and in the ensuing years.

Q But your concern is on the deposit side? That is with this additional competitor?

A This bank has one office. We are very dependent. Everything we have is in that one office. If the branching law changes have come about, and at some point when we restore our capital, we hope to be able to expand our deposit base. There are no -- to our knowledge there are not any new people moving into any of the developments in the trade area that are going to bring substantial deposits to the trade area in the immediate future.

The bank has benefited in the immediate past from people moving into the National City complex and even last July the deposits did rise substantially. There was a big move in the Navy Department into the area.

So, yes, we have benefited in the past

by the deposit growth. But the deposit growth now has leveled out except for -- you know, except for what could be generated. And all I'm saying is that I have to substitute a million six of that hot money for more stable type of deposits to insure that the bank is properly managed and operated.

Q How much of a deposit base do you think you have now in the area west of Jefferson Davis Highway?

A That includes those zip codes?

Q Aurora Heights and at Crystal Towers?

A Deposit? Well, the -- the 222 --

Q Do you know how many depositors you have over there?

A We have over a thousand in the 22202, checking and savings.

Q And does that only include --

A There are some other zip codes. I don't have the full breakdown to incorporate. All the way up to 22209, I think it is, in North Arlington but we do have, within the 22202, and we have, then, the -- I can't certify that they are all in that one location. I'm not trying to imply that.

Q Is it fair to say that you don't know to what extent your customer base is located in Aurora and Crystal Towers?

A I know we have customers, yes, that use our bank. I just don't know the exact number.

Q Do you have a substantial number?

A Substantial, representing more than fifty percent?

Q I don't know. Can you estimate percentage-wise?

A I would say we have on that side of the highway twenty-five to the -- the zip code indicates that we have a thousand out of the five thousand in the 22202. And that -- so, that's why I say the twenty to twenty-five percent.

Q Except for the 22202, it covers more area?

A It could. I don't have that break-down right here.

Q But it would be less than twenty percent, then, is in Aurora and Crystal Towers; is that right?

A It would be approximately that figure.

BY MR. SCHUTT: (Continuing)

Q You don't contend there is not adequate capital in your bank to support the assets, do you?

A No, sir. The capital is adequate.

COMMISSIONER BRADSHAW: What percentage of your capital is loaned to Directors?

WITNESS GROOM: Over -- they are over what percentage? It's almost forty percent. There is seven hundred to eight hundred thousand dollars.

The original capital was two and a half million. It was two point three five. And there is about eight hundred thousand.

COMMISSIONER BRADSHAW: Does the Comptroller have any ruling about that?

WITNESS GROOM: The Comptroller? Mr. Groom is concerned about it. You know, if that's what you want.

I came to the bank on December 1st. The -- all of the loans, with the exception of

WITNESS GROOM: To be honest with you, it has not been imposed. It is one of -- I'm meeting with them to discuss, you know, things that I want to make sure as far as statutes that aren't clear to me. I want to discuss some of those points.

CHAIRMAN HARWOOD: Do you know if there are any pending applications for new banks or branches in your primary service area?

WITNESS GROOM: Not to my knowledge, no. Not in that primary service area.

BY MR. SCHUTT: (Continuing)

Q Would you oppose any such application?

A I would if they were in the same primary service area at the present time.

Q As it's drawn here that we've seen on the board?

A Right.

Q Do you have any policies of the bank that favor military personnel over other -- over civilian customers?

A The military and the civilian customers are handled alike, except -- and the only instances that we do offer, or have in the past but they are not this year, offering to midshipmen who are graduates of the Naval Academy term loans for what amounts to normal automobile purchases upon their graduation at preferential interest rates.

And I'm saying rates below the going rates for a loan of the like amount at the same time.

Q You don't have any immediate plans, then, to branch yourself? Is that --

A I think it's imperative that we restore the capital of this bank before we -- and build some confidence -- before we really undertake and spend additional money for branching.

Q Your ratio of capital to total assets right now is approximately twenty percent; is it not?

A The capital to total? We have a two point three to the total assets of twelve.

Q Right around twenty percent?

A Twenty percent, yeah.

Q How long a delay do you think it will -- is involved, assuming that some delay would be in order

for you to implement your policies and restore the capital you are talking about?

A I'm hopeful of restoring the capital in 1979, so that it will give me the ability to compete with other banks in the community by going out and seeking branch rights so that --

COMMISSIONER SHANNON: What is the percentage of capital to the total assets?

WITNESS GROOM: The capital is two point three now. We run about twelve or thirteen. So it's in excess of twenty percent. We have the two right at the twenty percent.

We have -- wait. Wait. You got me off track.

There is eleven. It's eleven or twelve percent. We have two point three million in capital. And we run about twelve to thirteen million in -- so, I just have to calculate it out.

That's what we have as far as capital. And if we are taking a specific

date -- I don't know whether you want me to write on this or not, but that's what we have. The two point four million and thirteen million.

COMMISSIONER SHANNON: Well, the percentage capital of state banks or total capital or total assets runs around seven and a half.

WITNESS GROOM: Seven is the accept-- excuse me. It's pretty standard.

COMMISSIONER SHANNON: What is your comfortable figure?

WITNESS GROOM: We are in excess of that, and that's because the bank was heavy, the capital --

COMMISSIONER SHANNON: They are over capitalized?

WITNESS GROOM: The bank was heavily capitalized. And I will be honest. If the bank had not had that capital the bank would be in severe financial condition today.

The bank would have lost another three hundred and fifty thousand dollars,

if you are taking a million away and, say, that the bank should have capitalized with a million and a half. So the capital has worked definitely to the advantage of the bank. There is no question in my mind that it has protected the bank through this period of time.

Had it not been there, the bank, I'm sure, would have had to have been merged out. You know, merged into another organization.

COMMISSIONER SHANNON: I believe you testified earlier that your loan to deposit ratio was about eighty percent right now?

WITNESS GROOM: Right now it is, sir.

MR. SCHUTT: It was formerly over a hundred percent.

WITNESS GROOM: They operated the bank at a hundred percent.

BY MR. SCHUTT: (Continuing)

REDIRECT EXAMINATION

BY MR. BROWN:

Q Mr. Thomson asked you about the statements in the 1976 report with regard to the adequacy of the present deposit base vis-a-vis your expenses and costs, and I think your comment was that was -- that's an accurate reflection of that in the opinion of the person who signed it; is that either your opinion of what the true state of facts was, or is your opinion that that situation is different today?

A That analysis showed that the bank made seventy-six thousand or seventy-seven thousand for that year. And the loss was attributable to 1977 when, in fact, an analysis of the loans made showed that these loans were made in '74 and '75 and definitely would have had an impact had management taken the appropriate action on the calendar year 1976.

So, it would have -- it distorted what was reported at the time. And these losses were real. The loan losses.

Q And one final question. You mentioned

in response to some questions from Mr. Thomson with regard to the growth in deposits that something to the effect that it was -- you had to look at what type of money you had.

Why is that deposit mix critical to Services?

A Well, the two most -- the two largest expenses in running a bank are interest and salaries. And interest expense is a concern and the makeup and mix of your deposits dictates what your interest expense is going to be.

And with the bank having somewhat a little bit over the four million in demand deposits and two point five in savings passbook, the other is certificate of deposits, not all money markets -- seven hundred thousand of that is approximately consumers CD's but they are at the highest level, or most of which are at the higher level, because we are offering the maximum.

So the interest expense has a definite effect on the profit and loss statement for the bank.

MR. BROWN: That's all I have.

RECROSS EXAMINATION

BY MR. THOMSON:

Q Mr. Frank S. Besson (phonetic) is Chairman of the Board?

A Mr. Besson, yes, sir.

Q And he signed the report for 1976?

A Yes, he did.

Q And he is the same Chairman that is there today?

A That is correct.

Q Are you aware when Burke and Herbert plans to open this branch if it is granted?

A Am I aware when?

Q Uh-huh.

A I saw one date, and I assume it's 19 -- it says '79 in its Annual Report.

Q That is correct.

A I thought that was a typographical error.

Q The Report said '79.

A His Annual Report did say that.

Q Do you have any reason to know that it's --

A No. That is the only reference point I have.

Q All right, sir. And, for the record, it is May of '79 that we plan to open the branch. So that if that is correct you are going to have one additional year to gain deposits without any competition from Burke and Herbert.

A That would be factually correct.

Q And you are already two million dollars above what you were in that '76 report?

A Yes.

MR. THOMSON: Okay, sir. That's all I have.

COMMISSIONER BRADSHAW: Mr. Groom, I want to ask you to run back over a point Mr. Schutt asked you about. You said you were not in competition for loans but you would be for deposits.

And I want to ask you if someone either works or shops in Crystal City -- and I would say that's where most of the traffic comes from, working and shopping, or they

are living over there -- why would they walk across the road and deposit in Mr. Herbert's bank when they can walk next door in a savings and loan and get a higher interest rate at Washington and Lee?

If you are really competing for deposits why do you think they would go across the highway?

WITNESS GROOM: Well, he has the ability to attract business in that he does have various established business which I think he could attract deposits. He could -- I'm not saying that he will -- undercut the market.

COMMISSIONER BRADSHAW: But don't you think an S&L is a bigger attractor with a higher interest rate for somebody in Crystal City?

WITNESS GROOM: W&L, the savings and loan, yeah, they have -- they can pay a quarter percent more for savings. I agree with that, as far as savings.

COMMISSIONER BRADSHAW: You and Mr. Herbert would be paying the same interest rate for deposits.

WITNESS GROOM: We would be on the same level.

COMMISSIONER BRADSHAW: Same level?

WITNESS GROOM: Yes, sir.

COMMISSIONERBRADSHAW: All right, sir. Thank you.

Do you have any --

MR. BROWN: That's all I have.

COMMISSIONER BRADSHAW: All right.

* * * * * * * * * *

WITNESS STOOD ASIDE

with the work and did not participate in any way.

Q Prior to undertaking this assignment, as you will, from Services National Bank did you check with other members of the firm with regard to any possible conflict of interest?

A Yes, I did. And it was their impression that there was no inhibition against my doing this.

COMMISSIONER BRADSHAW: And, Mr. Thomson, you have no objection for his testimony to be received as an exhibit?

MR. THOMSON: No, sir.

COMMISSIONER BRADSHAW: All right.

MR. BROWN: All right. If it's appropriate -- I'm not certain whether the procedure is the same here as in the trial court -- but I would ask that his testimony be accepted as that of an expert witness in the field of banking and market conditions on banks.

COMMISSIONER BRADSHAW: It will be so received. What's the next number?

THE BAILIFF: 12.

COMMISSIONER BRADSHAW: Exhibit 12.

MR. BROWN: I would like to do what

I did with Mr. Groom and just hit about two points in Mr. Dembitz's testimony that I would like him to elaborate on.

COMMISSIONER BRADSHAW: All right.

BY MR. BROWN: (Continuing)

Q First of all, Mr. Dembitz, we have used the term "damage to the financial soundness of existing institutions" or "jeopardize the financial soundness of financial institutions", which is a phrase coined by the Virginia Supreme Court and you have spoken in your testimony with regard to damage to Services National Bank from your study of the situation.

Would you define for the Commission what, in your opinion, would -- well, what you mean when you say "damage to an existing financial institution" or "jeopardizing the financial soundness"?

A Mr. Brown, I realize that the reference to this on Page 4, using the term "damage" without defining "damage" was something that I ought to be asked here, and I wrote a statement on this subject which will take about one minute to read, and I have some extra copies.

Would it be permissible to read this and give copies to those concerned?

COMMISSIONER BRADSHAW: All right.

WITNESS DEMBITZ: I would like to comment on the problem of defining what constitutes damage to existing institutions or jeopardizing the financial soundess of such institutions.

In the first place, I would not want to contend that any change that would cause a bank's earnings in the future to be less than they would otherwise be, would constitute objectionable damage or jeopardy. A standard as broad as this would require the rejection of almost all applications for the establishment of any new bank or branch, and would be clearly anti-competitive and contrary to sound public policy.

At the other extreme, I can imagine its being asserted that in some cases there would be no relevant damage unless the earnings of existing institutions would be reduced below their current level. This kind of standard seems equally inapplicable to the present case.

I would say, rather, that the question of whether there would be objectionable

damage or jeopardy depends on the circumstances of each particular situation.

The case of The Services National Bank is special because of that bank's urgent need of earnings so as to restore its original capital. In view of this bank's existing impairment of its capital funds, I would say that if there were interference with its opportunity to develop enough earnings to restore its capital, this would constitute damage and jeopardy to the bank's position.

BY MR. BROWN: (Continuing)

Q From your study of the facts and the considerations which are outlined in your prefiled testimony, is it your opinion that competition from Burke and Herbert at this time would constitute such interference with the opportunity to develop earnings to restore the capital?

A Yes. I listened to the previous testimony of Mr. Groom and the questioning of Mr. Groom, and it appears to me that without that -- while I am not in any position to quantify the amount of damage that would be done to the profit prospects of The Services

National Bank, that it seems to me likely that there would be some amount of -- some amount of damage and assuming that there would be, yes, that would be damage within the definition that I think is relevant.

Q All right. You mentioned in your prefiled testimony the prospect, indeed the reality from Burke and Herbert's own figures, subsidization from the parent bank for a period of at least three years and the Burke and Herbert figures, and under your calculations well into the fourth year at the minimum. And you mentioned that in your opinion this was contrary to public policy to allow this type of subsidization and that cross-subsidization had been a problem, both with regulated industries and in the anti-trust fields.

And I would ask you if you would, again, if you didn't in your testimony, go into what you meant by cross-subsidization? And I have previously asked, obviously, and will ask now, for Mr. Dembitz to explain what he means by that term.

A Again, may I read my two-minute statement on the subject of which I have copies?

Q All right.

A The kind of situation that comes to mind in talking about cross-subsidization is illustrated by -- this refers to Page 5 of my statement, the beginning

of the first full paragraph -- this is illustrated by the case of a chain of stores that decides to operate at a loss in a particular area. This involves the assumption that the chain can afford to do this because of the profits that it makes in the other areas where it operates.

This may be advantageous to the customers in the area if they are able to buy at lower prices than would ordinarily be charged, or if they have the convenience of shopping at a location where there really isn't enough business to support a profitable store, or the like.

If the chain is engaged in a line of business that, unlike banking, is not subject to regulation by a special authority, it would ordinarily be free to engage in an unprofitable expansion if it wants to. Even in this case, however, there would be questions that might call for consideration under the anti-trust laws and other laws regarding unfair competition.

The motives of the proposed unprofitable operation would ordinarily call for official scrutiny, in order to determine whether the company's voluntary entry into an unprofitable operation was for such purposes as competing unfairly against existing stores

in the area, or improperly inhibiting the establishment of competing stores.

In the present case, I certainly am not in a position to ascribe any improper motives to Burke and Herbert relating to the establishment of their proposed unprofitable branch. In the present case, however, because of the responsibility of the bank regulatory agencies for preventing unsound conditions in the banking field, I would say that regardless of the motives of Burke and Herbert this is this kind of situation where the regulatory authority indeed has the responsibility to prevent damage or jeopardy to existing institutions.

Q From your study of this trade area and the facts at your disposal and listening to the testimony this morning with regard to proposed developments, whether they be in the trade area or not, some years down the road, is it your opinion that there is any positive need for an additional banking facility at the location proposed by Burke and Herbert?

A Well, the direct answer to that question is, no, I don't see any positive need, but I must say that I am not underwriting the relevancy of that question. I'm merely answering the question.

Q All right. I asked Mr. Burke with regard

to some of the projection figures, which were set out in the Bureau of Banking report, specifically with regard to the assumption there and in his prefiled testimony that the profit figures were conservative, one of the reasons being that depreciation was written off over seven years at a very conservative rate, and the implication being if this were done normally we might be -- might show greater profits.

Did you, in fact, calculate the depreciation figures over periods of time other than seven years to ascertain if that would have made a significant difference in the Burke and Herbert picture?

A Yes. I made two sets of calculations, both of them based on the depreciating of eighty-five thousand dollars invested in building improvements, site improvements and sixty-five thousand dollars invested in the furniture and fixtures, the sixty-five thousand being the figure stated in Mr. Marshall's report, as I believe to be a more realistic estimate of the probable cost of the furniture and fixtures.

The two sets of calculations, one of them I assumed a twenty-year depreciation period for the building improvements, and a ten-year period for the furniture and fixtures. And the other calculation I went to what seemed to be the absolute extremes of -- may

I say -- unconservatism, in depreciating the building improvements as if they would last in their initial form for the entire twenty-five year period of the options to renew the lease, and the furniture and fixtures over a twelve-year period which I understand is the maximum permitted under Treasury Department regulations.

For the periods of twenty years and ten years, the depreciation came to ten thousand seven hundred and fifty dollars a year, making approximately nine thousand three hundred dollars less than on the conservative basis previously set forth. If one went to the ultimate extreme of twenty-five years and twelve years, then, the annual depreciation came to eight thousand eight hundred dollars, or approximately eleven thousand two hundred dollars less than the figures previously referred to.

Excuse me. I think I left out one detail that needed to make sense in reading this back, and that is that the depreciation on the conservative basis, that was used in the first instance, came to twenty thousand 0 five seven dollars per year. That was eighty-five thousand dollars for the building improvements and fifty-five thousand four hundred dollars, the original estimate of the cost of furniture

and fixtures. Adding those together and dividing by seven came to twenty thousand and fifty-seven dollars per year, and that figure appears to have been included as one of the elements in the projection of fifty-two thousand two hundred fifty-seven dollars as the net occupancy expense for the first year of the proposed branch.

So, that -- the result of my calculations was that if one calculated the depreciation on a less conservative basis, the depreciation might come to about nine thousand dollars a year less than that twenty thousand figure; and if one went all the way to the ultimate extreme, it might be about eleven thousand dollars less than that twenty thousand dollar figure.

I'm sorry this got so long, but that's what arithmetic takes when you spell it out.

Q That's perfectly all right. These figures were done since your prefiled testimony was filed?

A Yes.

Q And in your prefiled testimony you stated that even adjusting for over-conservatism in the rate of return, which appeared to be about the same, you did not think that the implication that the bank might be operating at a profit rather than a fourteen

thousand dollar deficit was substantiated.

If your opinion the same, taking into account now your calculations on, even adjusting for over-conservatism, let's say, onthe depreciation figures, is it still your opinion that in all events this fourteen thousand dollar deficit is not going to be raised to a zero figure?

A That is my opinion, yes.

MR. BROWN: That's all I have. We will rely on the prefiled testimony.

COMMISSIONER BRADSHAW: All right.

How much time are we talking about for cross-examination of this witness?

MR. THOMSON : I wouldn't think it would be more than fifteen or twenty minutes.

COMMISSIONER BRADSHAW: Mr. Schutt?

MR. SCHUTT: I just have one or two questions.

COMMISSIONER BRADSHAW: Then, they wanted to close.

Okay. We will recess at this point for lunch.

NOTE: The Commission is recessed at 12:29 o'clock P.M. Thereafter, the

Commission is again in session at 2:03 o'clock P.M. and the hearing continues as follows, viz:

COMMISSIONER BRADSHAW: All right. Mr. Thomson.

1 Herbert.

2 MR. THOMSON: I will let the

3 Commission judge for that.

4

5 BY MR. THOMSON: (Continuing)

6 Q But the fact is, we did not get the

7 benefit of your views until you presented them to us

8 just now?

9 A I'm sorry. If I had realized it would

10 be appropriate to circulate them at ten o'clock this

11 morning I certainly would have done so.

12 Q All right, sir. Now, when we were

13 talking about this cross-subsidization it would appear

14 that you feel that there is something wrong about a

15 bank with more than one office subsidizing a branch

16 for at least a four-year period; is that correct?

17 A The usual standards, as I understand

18 it, in relation to chartering a new bank or authorizing

19 a new branch is that the new bank or branch should be

20 expected to be profitable within a period of three

21 years. I'm not taking a position now as to whether

22 that is an unappropriate standard. It is the usual

23 standard, at least in the chartering of the federally

24 chartered banks. And I believe in various states.

I asked Mr. Brown about the precedent in

the State of Virginia and he told me that as far as he knew there wasn't any specific standard set forth in the Virginia statutes or Virginia decisions.

However, in this particular case it is not merely the question of what should be the relevant time period within which the branch should become profitable as a matter of sound banking. Here, the question that I was asked to look at was the relation of this to the position of The Services National Bank and in this particular case it seemed to me clear that if this was going to be carried as an unprofitable branch for a period of at least three years, and for some undeterminable period, perhaps beyond three years, that this would certainly be damaging to the position of The Services National Bank which is in a somewhat unusual position compared with banks in general that might be protesting against a new competitor's application.

Q Now that you got that out of your system, let's come back to my question. Are you saying that if a bank has to subsidize a branch for longer than three years that it should not be granted?

A No. I'm not saying that. I'm merely referring to what is the stated policy of the Comptroller of the Currency and of some other states that I'm

acquainted with.

Q Is that the policy of the Comptroller of --

A Yes.

Q Is it his policy with a new bank, that if it can't show profits in the first three years out it goes?

A The general policy is, of the Comptroller's Office, that in order to obtain a charter for a new bank it is necessary to --

Q That's not my question, what you have to do if you have been chartered.

A No.

Q If you had been chartered, do you have to meet the standards of having a profit at the end of three years?

A No, certainly not.

Q All right, sir. Then, what does this criteria mean?

A It means that in granting an application for a new charter the applicants have to convince the Comptroller of the Currency that the proposed bank has a good prospect of becoming profitable by the end of its third year.

Q And if they are wrong there are no

consequences that flow from it?

A No, sir, certainly not.

Q Then, what consequences would you have flow from the fact that Burke and Herbert would not show a profit at the end of three years?

A The big difference is between --

Q No. What consequences would you have flow as far as Burke and Herbert is concerned by the fact they would not show a profit at the end of three years?

A What do you mean, what consequences?

Q Is there a penalty that should attach, like denial of a branch?

A I am not the authority. I don't make the rules. I'm just saying what the rules are.

Q Aren't you the expert here? Aren't you telling us what should or shouldn't happen in your opinion?

A On this particular subject, I'm only telling you what does happen.

Q All right, sir. So that you are not prepared to say that Burke and Herbert should be denied this branch on the fact they can't show a profit in three years?

You are not saying that?

A No, sir, I'm not saying that.

Q All right. Good enough.

Let's go a minute to the board over here. Do you agree with Mr. Groom that the competitive factors between the various banks in this area don't really exist so far as loans are concerned?

That is loans for all of the lending institutions?

A I'm not sufficiently acquainted with the loan market in the area. I can't give an expert opinion.

Q I'll put the question around the other way. The competitive factors that you believe that will adversely effect Services National will relate to deposits?

A Yes, sir.

Q All right. Now, will you tell us what incentives there will be for people in Crystal City on the east side of Jefferson Davis Highway to bypass those banks and savings and loans and go across Jefferson Davis Highway to do business with Burke and Herbert?

A In the first place, some considerable portion of the people who work on the east side of the highway live on the west side of the highway. I don't know what proportion.

Mr. Groom was asked that question and his answer, as I understood it, was that there is some considerable number of such people but he can't give the number.

Q So you really can't say how much you would be hurt could you?

A I didn't -- I never said how much you would be hurt. I simply said they would be hurt.

Q Let's go back to my question. What incentive is there for any person living or working in this area to bypass these banks and savings and loans there in the Crystal City area and go across the highway and do business with Burke and Herbert?

Now, I understand you to say that if they lived on this side and worked on this side that they would have an incentive.

Now, what others?

A Some -- simply the fact that there is an additional source of competition in the area.

Q Isn't that good in the banking business?

A In general, yes, unless one of the institutions involved is in the position that Services National Bank is in at the moment.

Q And what is that?

A That they have an impairment of capital,

that their cumulative earnings from organization to the present is negative, that they have so far produced no net earnings at all in the history of the bank.

Q That's not really correct is it, Mr. Dembitz? Mr. Groom testified they made a profit in 1976.

A No, sir. The cumulative earnings are negative.

Q The cumulative earnings?

A So that combining the periods from the organization to date, they have no net profit at all.

Q All right, sir. Now, when Services National filed its original application it projected losses for its first two or three years, did it not, sir?

A They projected a loss only for the first year.

Q And they were going to make money after that?

A So they hoped, yes.

Q And they were wrong in the second year?

A That's right, also in the third year.

Q No. They were right in the third year; they made money in '76.

A The projection -- in the projection they expected that by the end of the third year they would have profits exceeding their loss, that is the cumulative position up to the end of the third year would be positive, whereas it proved to be negative.

Q Let's get to the nitty-gritty. Assume that Services had projected a loss for each one of the first three years, or just let's make that -- strike that.

Assume they projected a loss for the first two years and projected a profit for the third year. Should the Corporation Commission or the Comptroller of the Currency take the position that no new bank or no new branch could come into that area until in fact it had paid back all of its capital?

A The position of various bank regulatory authorities has been that in a given service area if there is a bank in the area which is relatively new and which has not yet gotten itself -- gotten its position firmly established that they will reject the applications of additional banks to enter that area as long as the regulatory authorities is concerned that the admission of an additional bank may endanger a relatively new

bank whose position has not yet been consolidated.

Q Now that you've answered the question you wanted to answer, answer mine. Should the regulatory authority -- should the State Corporation Commission, the Comptroller of the Currency, deny an application because in the first two years it projected a loss and in fact they were experiencing that loss and thereby exclude the possibility of any financial institution coming into that area during that period of time?

A Well, sir, I did not come here for the purpose of telling the regulatory authorities how they ought to do their business. I'm only giving my, I hope, expert opinion as to what is actually -- what has actually been done in cases of this kind.

Q You are not going to answer my question. Just tell me if you are not going to answer it; that's all right, I'm not trying to pressure you. If you don't want to answer it, just say so.

A I don't think it's appropriate for me to answer.

Q You are recommending that this bank not be granted, are you not?

A Yes.

Q Aren't you telling the Corporation Commission what it should do when you make that

recommendation?

A In that respect, yes.

Q All right. Now, sir, would you please answer my question that I placed to you: Should the Corporation Commission or the Comptroller of the Currency take the position that as long as the new bank is losing money, even though it is according to their projection, that no other application should be considered in that period of time?

MR. BROWN: If he is talking about a hypothetical he has misstated it. I did not quite understand it, because the projection was not for a loss the first two years, as I understand it.

MR. THOMSON: I did state that in the hypothetical. I asked him to make that assumption.

MR. BROWN: That's right, but that was not the fact that he testified to. The projection of the loss was the first year.

BY MR. THOMSON: (Continuing)

Q Would you answer the question, please, sir, or tell me you are not going to answer it? That's

all right. I don't care whether you answer it or not.

A It certainly depends on the circumstances of the case and the judgment of the regulatory authority. The fact is in many cases, in a number of cases that I'm acquainted with, regulatory authority -- regulatory authorities have denied such applications within the kind of period that you have described, and I think it's customary.

Q All right, sir. If I'm understanding your answer to my question is that during the period of time that a bank like Services National is in formation, if it's losing, according to its projections, that the regulatory agency should not consider any other financial institution for that area.

No other facts taken into account, just that one fact?

A Well, you are not asking, then, about a natural situation. You are asking about a hypothetical situation.

Q That's correct. I posed it to you, two years of losses, and they projected those losses, third year profit, and the first two years another bank applies for that area. Without any other facts involved, should the Commission turn them down solely because they

are losing, according to their projections?

A I think it would have to depend upon the circumstances of the case. I don't see how one can generalize --

Q That's exactly right. You would have to take other things into consideration. It could not be automatic could it?

A Right.

Q Good enough. In talking about deposits, there is a bank and savings and loan closer to Services than Burke and Herbert would be; isn't that correct?

A Yes, sir.

Q In your opinion, are those two greater competitive factors to Services National than Burke and Herbert?

A I have no basis for saying greater, but certainly they are additional competitive factors.

Q Is closeness or proximity of the banks have any relationship to the competitive features between them?

A Yes, it does.

Q And those are, in fact, much closer?

A Yes, they are.

Q All right, sir. In addition, Washington and Lee Savings and Loan can pay higher interest rate

than either Burke and Herbert or Services National, can it not?

A Yes, it can.

Q So, as a fact, they have an edge if there is anyone in the area having an edge. It has it doesn't it?

A It has an edge for the kind of services that they can offer, yes.

Q Right.

A But only those kind of services, of course.

Q That is effecting savings deposits?

A Oh, yes.

Q Right. Would you agree that if and when 595 is built that there will be an effective, and even more effective, barrier between these two institutions than there is at the present time?

A It depends on the arrangements of entrances, underpasses, and so forth. I assume there may be a greater barrier.

Q Let me state them for you, then. A limited access highway like Shirley Highway, an interstate, with a divider between the two.

A No underpass?

Q That's right.

A If there is no underpass, yes, certainly it will be a barrier between the two.

Q Do you know of any underpasses that are proposed?

A I don't know the details of the 595 plan.

Q All right, sir. And assuming there aren't any, you are not making anything contrary to your beliefs is it?

A You are right.

Q And if in fact that does take place there would be an actual physical barrier between -- cross-over between the two areas, would it not?

A It would, yes.

Q Would that tend to lessen the amount of competition between those two financial institutions, Burke and Herbert and Services National?

A It would tend to lessen the amount of competition. It would still leave the question of Services National depositors living to the west of this 595.

Q That's correct. And it would likewise leave in limbo the question of Services' customers who want to use drive-in facilities, wouldn't it?

A Yes.

Q They might lose those to Burke and Herbert. Do you think the public ought to have that option?

A Well, certainly the public should have that access to drive-in facilities, yes.

Q All right, sir. Do you have any idea when Burke and Herbert intends to open this facility?

A In the Annual Report, of which I saw a copy, it said early Spring of 1979.

Q That would mean that Services National would have another year free of any competition of any nature from Burke and Herbert, would it not?

A Well, almost a year, depending on how you define early Spring.

Q All right, sir. What has been the minimum deposit growth of Services National in any one year?

A Without stopping to look at my notes, my impression is about two million dollars.

Q Right. Now, assuming that that continues on for this year, what will be the deposit volume at the end of 1978 of Services National?

A This means that I have to assume that they would continue to gain at the same rate that they have been gaining.

Q That's correct.

A I mean, even if I don't assume that I should answer your question as you put it?

Q I'm asking you to assume it. Predicate your answer on the fact that they will have the same growth this year as they have in the past year.

A If you can make that assumption, then, it would be -- you must have the figure two million more than whatever it is.

Q Roughly nine million dollars, isn't it?

A I think so.

Q So that would be about eleven million dollars?

A I think so.

Q Now, what figure would they have to reach in deposits before they are going to start making money, sir?

A It depends on a large number of factors, including interest rates, expenses, the experience of long losses.

Q Is it a fair statement to say you can't tell when this bank is going to start making money?

A That is a fair statement.

Q And it's totally out of your control

anyway?

A True.

Q And you've not been given any information on which you can predicate when they are going to make money?

A If I had been given such information I doubt it anyhow. I don't think anybody can predict that.

MR. THOMAS: That's all I have of this witness.

COMMISSIONER BRADSHAW: Mr. Schutt.

MR. SCHUTT: Yes, sir.

CROSS EXAMINATION

BY MR. SCHUTT:

Q Mr. Dembitz, what is the basis for your saying that harm will result from the establishment of this branch and your concluding that it might interfer with Services National's opportunity to develop sufficient earnings?

A The expectation that some amount of deposits that would otherwise have gone to The Services National Bank, either existing deposits or perspective deposits, would be drawn away to the proposed new competitor.

Q And it is simply the fact that there is an addition of a competitor without anything more?

A Yes.

Q I have some questions about the definition of "jeopardizing financial soundness" that you submitted this morning.

Is that something that you composed yourself, or did you derive that from somewhere?

A No, sir. I dictated it completely from scratch.

Q I see. Are you aware of any regulatory agency that you believe has a definition of "financial soundness" that coincides with that?

A No, sir. I'm not aware, but I do think -- may I add that I do think that this is a fair and appropriate definition of "financial soundness" applicable to the case at hand.

Q Yes, I understand that. You have sort of created a spectrum there in your second and third paragraphs. And you say in the third paragraph: At the other extreme, I can imagine its being asserted that in some cases there would be no relevant damage unless the earnings of existing institutions would be reduced below their current level.

Do you really think that is the extreme, the opposite extreme?

A (Witness did not answer)

Q What about damages so severe that would cause insolvency of the existing institution? Is that not more extreme?

A Yes, that is more extreme.

Q If, as Mr. Groom has testified this morning, Services National was overcapitalized at the

outset, why is it so urgent that they be able to restore the capital that they had at the organization stage of the bank?

A I think in fairness to the subscribers who committed their capital to the bank and who had the right to expect that a -- that the proposed bank would be able to operate with the intended amount of capital and as to the question of earning a fair return on that amount of capital, the stockholders knew, or should have known, that no regulatory authority is going to guarantee the ability of a bank to earn a profit.

But at least that the bank should be able to maintain the amount of capital originally paid in.

Q Do you take it that is the function of a regulatory agency, to insure investors, investments in financial institutions?

A Excuse me. I meant to say no, the opposite of that. If I did not state it clearly, I meant to say no. It certainly is not the function of a regulatory agency to do that.

Q That seems to me to be what is being proposed here; does it not seem to be that way to you?

A No, sir. As I saw this, it's a -- the regulatory agency merely being asked to give the financial institution an opportunity to produce enough earnings to restore its original capital. The regulatory agency certainly would not in any way be guaranteeing or assuring any level of earnings, or any earnings at all, but the regulatory authority would still have the function of assuring the institution an opportunity to try to earn -- to try to earn enough to restore its capital position, that is to bring its cumulative net earnings up to zero.

Q How long does this last? Just until they have accumulated net earnings that are positive, or should this continue throughout the life of a financial institution?

A No, certainly not throughout the life of an institution. In general, until they have earnings that are positive unless there were some -- unless there were some overwhelming consideration of the public interest that called for overruling such a position, that is to say that the institution should be protected in its ability to try to earn a profit, until either it has a net profit or until there is some overwhelming

consideration of public interest which demands that the regulatory authority terminate this sort of position.

Q You just think that different banking institutions should be protected until they have cumulative earnings that exceed zero; is that right, sir?

A Yes. I do think so. And part of my -- part of my view that this is an appropriate position -- excuse me, I don't mean to say that -- part of my view is that this is a normal position for a regulatory authority arises from several applicants for new bank charters where I was involved and where the application was rejected on no ground except the fact that there was a relatively new institution in the proposed service area which, in the opinion of the regulatory authority, needed to be given a further opportunity to consolidate its position.

Q And you think the effect of a branch application, then, in the circumstances you just described is equivalent to the application for a new institution?

A In this respect, yes.

MR. SCHUTT: I think that's all the questions I have from Mr. Dembitz.

COMMISSIONER BRADSHAW: Any redirect?

MR. BROWN: I have nothing further.

COMMISSIONER BRADSHAW: Thank you, sir. You may stand down.

* * * * * * * * * * *

WITNESS STOOD ASIDE

MR. BROWN: That concludes The Services National Bank's testimony.

COMMISSIONER BRADSHAW: Any closing statement, Mr. Thomson?

MR. THOMSON: Yes, sir.

MR. SCHUTT: Could I ask Mr. Burke to come back to the stand for just one question?

COMMISSIONER BRADSHAW: Yes.

nothing behind us. We do not have a holding company. We don't have a statewide bank. We don't have any branches.

That branch is standing on its own two feet. Certainly, the Burke and Herbert branch is not an example of standing on your own two feet.

All we are saying, as Mr. Thomson has correctly stated, is to give us a little time to restore the capital account. We are ready, willing and able to compete. We just want to be on a sound, equal footing so that we can go out, for example, and solicit a greater customer base with new branches, or at least have the opportunity to do that.

We cannot justify additional expenditures of capital for a new branch when the original capital has not yet been restored. There has been, in my opinion, no evidence of any new or different service that will be offered by Burke and Herbert that is not offered in the area. This was

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 13, 1978

APPLICATION OF

BURKE & HERBERT BANK & TRUST COMPANY

CASE NO. 19967

For authority to establish a branch at 2300 South Eads Street, Arlington County, Virginia

The application herein was heard on May 17, 1978. The applicant was represented by James M. Thomson, its counsel. Frank E. Brown, Jr. appeared as counsel for the protestant, The Services National Bank. Counsel to the Commission, William F. Schutt, was present.

Having considered the application herein, the report of investigation submitted by the Bureau of Banking, and all the evidence and exhibits introduced at the hearing, the Commission is of the opinion and finds:

(1) That the applicant has paid-in and unimpaired capital and surplus of more than $50,000;

(2) That the proposed branch office will be located not more than five miles outside the city limits of Alexandria, where the applicant has its main office; and

(3) That the public convenience and necessity will be served by permitting the applicant to establish a branch at the location for which it has applied.

THEREFORE, IT IS ORDERED that Burke & Herbert Bank & Trust Company be authorized to establish a branch bank at 2300 South Eads Street, Arlington County, Virginia, upon

condition that the applicant establish said branch office and open it for business within one year from this date. The applicant shall notify the Commissioner of Banking of the date said branch office opens for business.

ATTESTED COPIES hereof shall be sent to C. S. Taylor Burke, 100 South Fairfax Street, Alexandria, Virginia 22314; Marshall H. Groom, President, The Services National Bank, P.O. Box 2567, Arlington, Virginia 22202; Steve A. Hawkins, President, Aurora Highland Civic Association, 810 South 22nd Street, Arlington, Virginia 22202; James M. Thomson, Esquire, Thomson & Pikrallidas, 201 N. Washington Street, P.O. Box 1138, Alexandria 22313; Frank E. Brown, Jr., Barham, Radigan, Suiters & Brown, P.C., 2009 North 14th Street, Suite 410, Arlington, Virginia 22216; Federal Deposit Insurance Corporation, Suite 435, United Virginia Bank Building, Richmond, Virginia 23219; Virginia Bankers Association, 700 East Main Street, Richmond, Virginia 23203; and, to the Commissioner of Banking.

A True Copy

Teste: William C. Young

Clerk of State Corporation Commission.

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, OCTOBER 13, 1978

APPLICATION OF

BURKE & HERBERT BANK AND
TRUST COMPANY

CASE NO. 19967

For authority to establish a
branch at 2300 South Eads Street,
Arlington County, Virginia

Burke & Herbert Bank and Trust Company of Alexandria filed its application for a branch at 2300 South Eads Street, Arlington County, Virginia on January 9, 1978. After the Bureau of Banking[1] submitted its investigation report on March 7, 1978, a hearing was set by order dated March 21, 1978, which incorporated the Bureau's report into the record.

At the May 17, 1978 hearing on the application, the applicant was represented by Mr. James M. Thomson. Services National Bank, protestant herein, was represented by Mr. Frank E. Brown, Jr. At the conclusion of the hearing, the matter was taken under advisement. On June 13, 1978, an order granting the application was entered. An appeal was noted by Services National on July 7, 1978.

As required by §12.1-39 of the Code of Virginia, the Commission makes the following statement of its reasons for granting the application.

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[1] Since July 1, 1978 re-designated the Bureau of Financial Institutions.

At all times relevant to the application herein,[2] §6.1-39(c) provided (in pertinent part):

> Notwithstanding the limitations of the foregoing paragraphs, the State Corporation Commission may, when satisfied that public convenience and necessity will thereby be served, authorize the establishment of branch banks . . . in counties contiguous to the city in which the parent bank is located . . . but if the parent bank is located in a city such branches in the contiguous county may not be established more than five miles outside the city limits.

Arlington County is contiguous to Alexandria, where Burke & Herbert has its main office. The location applied for is less than five miles beyond the city limits of Alexandria. Burke & Herbert is a sound institution, capable of sustaining an additional branch. The sole issue remaining, then, is whether the evidence satisfies the Commission that the public convenience and necessity will be served by establishment of the proposed branch.

Burke & Herbert is an independent bank which has been in business for more than 125 years. On December 31, 1977 it had deposits of approximately $52 million. To date Burke & Herbert has opened five branch offices in Alexandria. The first was established in 1954; three more followed in

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[2] An amendment, effective July 1, 1978, to §6.1-39 substituted "public interest" for "public convenience and necessity".

the 1960's. Burke & Herbert's latest branch was established in February of 1976. It sought by this application to establish a free-standing branch office with drive-in facility on the southwest corner of 23rd and Eads Streets, one block west of Jefferson Davis Highway.

East of Jefferson Davis Highway at 23rd Street is the National Center - Crystal City complex of apartment and office buildings, where some 20,000 people work and 5,000 or 6,000 live. There Services National has its only banking office, slightly below ground level in leased business premises which are a part of a high-rise building. This location is some 500 feet from Burke & Herbert's proposed site.

Services National Bank opened in February, 1974, with initial capital of $2.5 million. Although the Comptroller of the Currency allowed it to open for business only after its organizers showed it could succeed on the basis of local business, Services National was conceived to offer special service to Armed Forces and Department of Defense personnel, who are often based in the Washington, D.C. area, but scattered world-wide. Protestant's testimony indicated that it does not give preferential treatment to such service personnel, but conceded that its special orientation does provide it with introductions to prospective customers. Its president,

Marshall H. Groom, was unable to say just how much of its business could be attributed to its service-related tendencies, but he did testify that presently "over 50 percent of all banking business" came from the local community.[3] Services National has some 3,500 checking accounts, and approximately 1,500 savings accounts.

The primary service area delineated by the applicant is bounded on the north by 15th Street, on the east by the R,F&P Railroad right-of-way beyond Ball Street, on the south by Fort Scott Drive, and on the west by Arlington Ridge Road. This area is presently served by six bank offices and three offices of savings and loan associations.

North of the primary service area is the vicinity, presently served by three banking offices, where a proposed development, Pentagon City, will be. Also projected for this area are 220 low-rise apartments, 300 units of housing for the elderly, and 300 units where nursing care will be provided. These latter developments are an estimated two years away, Pentagon City some four years hence.

Beyond this area, to the North, lies the Pentagon itself, where approximately 30,000 people are employed. Another development - also four years away - is projected

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[3] From this statement we infer that nearly half Services National's business does <u>not</u> come from the local community.

east of the primary service area, where Airport City is proposed to be built. Although several plans for improving Jefferson Davis Highway into a route designated I-595 are being reviewed, that change is perhaps five years away.

Applicant and protestant accept, generally, the economic data as it was reported in the investigation report prepared by the Bureau's economist. They disagree sharply, however, on the conclusions that should be drawn from that information.

It is true that Arlington County's population declined substantially from 1970 to 1976 as people moved to more suburban areas. It is also true that in comparison to Fairfax County (which, incidentally, has many times the area of Arlington County) and surrounding "second-tier" counties, the rates of growth in several Arlington County economic indicators has been slow.

However, Arlington County remains the second most populous (after Fairfax) jurisdiction in the Virginia portion of the Washington, D.C. SMSA (Standard Metropolitan Statistical Area). Also, it is second only to Fairfax in total annual income ($1556.5 million),[4] retail sales ($651 million), bank deposits ($776 million), and savings and loan deposits ($418 million). In per capita income ($10,238) and per capita savings and loan deposits ($2,749), Arlington County is

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[4] All figures are for 1976, except those for income and income per capital, which are 1975 statistics. Reference is to the Bureau's economist's report, Tables I-VII.

second only to Falls Church city among SMSA jurisdictions; it surpasses Fairfax County in both these categories. In deposits per capita Arlington County exceeds Fairfax County by a wide margin: $5,053 to $1,561 for bank deposits, and $2,749 to $987 for savings and loan deposits.

Although it is fourth among nine Virginia jurisdictions in the SMSA with respect to bank deposits per capita, and fifth in retail sales per capita ($4,242), Arlington County is well above SMSA ($3,471) and Virginia ($2,890) average figures in both these departments.

Arlington County's location in the heart of a flourishing metropolitan area gives assurance of its continued development. Indeed, while applicant's testimony regarding the Pentagon City, Airport City, I-595, and other developments may place these projects some years in the future, its point, i.e., that Arlington County's growth is not at a standstill, is well taken.

Despite our having considered the contrary views presented by witnesses for the protestant, we find that the economic and banking viability of the trade area is good; the prospect of future growth in the area lends support to the proposed branch's feasibility, to the need of the public for an additional banking facility, and to the conclusion that there will be enough business to support comfortably all bank offices in the area.

While the proposed branch apparently will not serve many existing customers of Burke & Herbert more conveniently, the move does represent a logical expansion of its system of branches into a viable area of a next-door jurisdiction. Applicant cited its drive-in facility and its orientation toward personal service as making it particularly qualified to serve the needs of neighboring Aurora Heights, a middle-class residential subdivision comprising some 1,000 homes.[5] We find that more than "mere convenience" will be provided by the entry of Burke & Herbert's branch office.

Services National, in its Protest, sought denial of Burke & Herbert's application on the ground that entry of the branch would jeopardize protestant's financial soundness. At the hearing, it contended that it should be protected from additional competition "for a while longer", until Mr. Groom could replace purchased deposits with ordinary deposits, and until the bank's capital could be restored, through accumulated earnings, to its initial level. In support of protestant's position its expert witness, Mr. Lewis N. Dembitz, argued generally, from a theoretical standpoint, that regulatory authorities should protect fledging banks until they have an <u>opportunity</u> to restore initial capital losses.

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[5] Should I-595 later impede east-west traffic on 23rd Street, the proposed branch will be one of very few area bank offices convenient to southbound traffic on the highway, as well as to people in the area west of the highway.

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.

Services National has been in business more than four years. In terms of time, and in terms of deposit volume, it some time ago passed the point where new banks usually produce profits. In fact, Protestant made a profit in 1976, and would have done so in 1977 - except for the extraordinary provision for loan losses management chose to make that year. We believe, and so find, that Services National has had a reasonable opportunity to recover its initial losses.

We also find that there is no allegation - and no evidence tending to show - that Services National's failure to generate positive cumulative earnings has resulted from its inability to get deposits, or from excessive competition for deposits.

On the contrary, Services National has enjoyed healthy, if not spectacular, deposit growth: it had $5.2 million in deposits by the end of 1975, $7.3 million by 1976, and $9.4 million by 1977 (though a portion of this latest figure was in the form of large certificates of deposit purchased to

assure liquidity). The bank's operating earnings have likewise shown steady improvement over the years.

It appears from the evidence that Services National's difficulties to date stem from internal causes, and that its capital deficit results from management policies and decisions, rather than from market forces.

The fact that new president Groom ordered a drastic accounting "write-off" of loan losses and took firm steps to guarantee the bank's liquidity and improve its lending policies leads us to believe that Services National's recovery is well under way. If its capital accounts are not fully restored by May, 1979, when (we are assured by counsel) Burke & Herbert's branch will open, the new office will delay full recovery only slightly - if at all.

The protestant was not able to show the degree to which it depended upon the market area west of Jefferson Davis Highway for deposits, nor that the proposed branch would result in undue competition. We think Burke & Herbert's impact on Services National's deposit growth will not be substantial for several reasons.

First, Services National has demonstrated an ability to achieve solid deposit growth in a market served by several branch banks (six) and three branches of savings and loan associations. Its growth has taken place with branches of

First Virginia Bank and Washington-Lee Savings and Loan Association located on the same block. Next, while the parties' trade areas do overlap, Services National has a source of accounts (i.e., military and Department of Defense - related people) which will not be appreciably affected by Burke & Herbert's branch. Finally, Services National will retain the advantage of greater convenience for residents and workers in the National Center - Crystal City complex.

Burke & Herbert's application projected that the proposed branch would lose money during its first three years of operation. In analyzing those projections, the Bureau's economist found them to be conservative, because Burke & Herbert had used a very short depreciation period, and because it had projected branch earnings using a rate of return on average deposits below that normally earned by the bank. The testimony of C. S. Taylor Burke, Jr. confirmed that the projections were conservative, and stated that the branch would be profitable not later than its fourth year.

Witness Dembitz re-analyzed the applicant's projections, concluded that they were not conservative, and then argued that Burke & Herbert ought not to be allowed to "subsidize" a money-losing branch for more than three years.

We believe that the analysis of the Bureau's economist is essentially correct, and that Burke & Herbert can be

expected to begin generating profits from this branch about the end of the third year or near the beginning of the fourth. This finding comports with our view of the strength of the economy in the primary service area, and the prospects for growth and development there.

Though we agree generally that a bank should not be allowed to subsidize a losing branch too long where the effect of that practice will be to injure competing banks, we do not find in the evidence a basis for concluding that such a situation exists in the present case.

The Protest filed by counsel for Services National relied on certain cases decided by the Virginia Supreme Court, and Mr. Dembitz' testimony was presented to show that - in the language of the case law - the additional banking facility would "jeopardize the financial soundness"[6] of Services National. We do not consider that Mr. Dembitz' attempt to describe the amount of harm contemplated by the Court's phrase was successful, and we certainly are not bound by his notion of what detrimental effect may not be permitted. We think his conclusions are not well supported by facts. Noting Services National's relatively high capital-to-asset ratio, we judge the danger of its becoming insolvent is slight. In short, we are not persuaded that establishment

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[6] Reference is to language in Farmers and Merchants v. Commonwealth, 213 Va. 401 (1972) and Security Bank v. Schoolfield Bank, 208 Va. 458 (1968).

of the proposed branch threatens the financial soundness of Services National; we think Protestant is asking us for longer and greater protection than it reasonably needs. We are unwilling to deny on the basis of this protestant's case an application which, we believe, will substantially benefit the public.

Since we find from the evidence that the public need and convenience will be promoted by the additional banking facility sought, and that the financial soundness of existing institutions will not be jeopardized by it, we grant the application herein.

ATTESTED COPIES hereof shall be sent to James M. Thomson, Esquire, Thomson & Pikrallidas, 201 N. Washington Street, P.O. Box 1138, Alexandria, Virginia 22313; Frank E. Brown, Jr., Esquire, Barham, Radigan, Suiters & Brown, P.C., 2009 North 14th Street, Suite 410, Arlington, Virginia 22216; Federal Deposit Insurance Corporation, Suite 435, United Virginia Bank Building, Richmond, Virginia 23219; Virginia Bankers Association, 700 East Main Street, Richmond, Virginia 23203; and, to the Commissioner of Financial Institutions.

A True Copy

Teste: William C. Young

Clerk of State Corporation Commission.

V I R G I N I A:

IN THE SUPREME COURT OF VIRGINIA

THE SERVICES NATIONAL BANK Appellant,

against Record No. 781457
S.C.C. Case No. 19967

BURKE & HERBERT BANK
& TRUST COMPANY, et al. Appellees.

ASSIGNMENTS OF ERROR

THE SERVICES NATIONAL BANK, by counsel, files herewith its Assignments of Error in the captioned case pursuant to Rule 5:18(i) of the Rules of this Court:

1. The State Corporaton Commission erred in issuing its Order of June 13, 1978, granting the Application of Burke & Herbert Bank & Trust Company for Authority to Establish a Branch at 2300 South Eads Street, Arlington, Virginia, in that the Order, from which this appeal is taken, contains no finding that the financial soundess of The Services National Bank will not be jeopardized, and the Opinion of the Commission, issued October 13, 1978, cannot be issued to supplement the Order in this regard.

2. Even if the Opinion of the State Corporation Commission can be used to supplement its Order of June 13, 1978, the Commission erred in finding that the financial soundness of The Services National Bank would not be jeopardized by the establishment of the requested branch.

THE SERVICES NATIONAL BANK
By Counsel

BARHAM, RADIGAN, SUITERS & BROWN, P.C.
2009 North 14th Street
Arlington, VA 22216
(703) 841-0011

By: Frank E. Brown
Frank E. Brown, Jr., Esquire
Counsel for Appellant

PRE-FILED TESTIMONY OF

C. S. TAYLOR BURKE

IN SUPPORT OF A BRANCH BANK OF
BURKE & HERBERT BANK & TRUST COMPANY

BEFORE THE
STATE CORPORATION COMMISSION
COMMONWEALTH OF VIRGINIA

CASE NUMBER 19967

A. BACKGROUND ON THE BANK AND ITS PROPOSED BRANCH:

Q-1. State your name and the address of your residence?

A. C. S. Taylor Burke. I reside at 704 Junior Street, Alexandria, Virginia.

Q-2. What is your occupation or profession?

A. I am President of Burke & Herbert Bank & Trust Company.

Q-3. How long have you been so employed?

A. I have been working with the bank since 1946. I have been the bank's chief executive officer for 15 years.

Q-4. Your bank presently has its main office in Old Towne, Alexandria and five branches in Alexandria and nearby Fairfax County?

A. That is correct. Our bank opened for business in 1852 and we did not open our first branch until 1954; we opened three branches in the 1960's and we have opened one branch in 1976.

CSTB #1

Q-5. What level of deposits have you gained at the main office and each of your branches?

A. As of September 30, 1977 we had $29.1 million at the main office; $7.6 at the Monroe Avenue Branch; $4 million at the Duke Street Branch; $2.6 million at the King and Washington Streets Branch; $4.2 million at the Telegraph Road Branch; and $1.3 million at the Landmark Branch.

Q-6. Can you give us your total assets, total deposits and net income for the years 1974 through 1977?

A. Our total assets have gone from $35.2 million in 1974 to $57.1 million in 1977. Total deposits have risen from $31.1 million in 1974 to $51.9 million in 1977. Net income has risen from $472,999 to $721,000 in the same period.

Q-7. Where do you propose to locate the branch which is the subject of this application?

A. At 2300 South Eads Street, in Arlington County. South Eads Street is one block west of Jefferson Davis Highway, just south of the Pentagon and the proposed development of Pentagon City. Eads Street parallels Jefferson Davis Highway, which is also known as Route #1. The development known as Crystal City is on the east side of Jefferson Davis Highway. We would be one block away from this main thoroughfare. We propose to lease a 1400 square foot brick building which was formerly the location of an Arlington County public library. We propose to remodel this site at a cost of $85,000 and furniture, fixtures and equipment will cost another $55,000

to $65,000.

Q-8. What are your estimated pre-opening expenses?

A. Just under $20,000.

Q-9. What deposits have you projected for the new branch for its first three years of operation?

A. We believe we have made conservative estimates of growth at the proposed branch. We feel we will have $500,000 in total deposits the first year; $1.5 million the second year; and $2.5 million at the end of the third year. We have given the breakdown in our application between demand and savings and time deposits.

Q-10. What do you believe will be the income and expenses of this new branch during the first three years?

A. We are prepared to sustain a loss of $87,600 the first year; $44,700 the second; and $14,500 the third year. As I said, these are very conservative figures and at the latest we will be in the black in the fourth year. As indicated in the Bureau's report, we depreciated our furniture, fixtures and equipment over a seven-year period; this, of course, pushed our net occupancy expenses over $50,000. We also used a gross income based on 7.2% of average deposits, although we currently earn above 8%. We agree with the report of the Bureau that we have understated "the earnings potential of the proposed branch." (Report, Bureau of Banking, page 3).

Q-11. Is your bank able to sustain the projected expenses of opening the new branch and the anticipated losses in its first three years of operation?

A. Here again we agree with the Bureau of Banking's report that "the applicant appears to be in a position to absorb the losses predicted for the proposed branch without difficulty". (Report, Bureau of Banking, page 4).

B. DEMOGRAPHIC INFORMATION CONCERNING ARLINGTON COUNTY

Q-12. Can you review for us the population situation in Northern Virginia?

A. The older communities of Alexandria, Falls Church, Fairfax City and Arlington County have actually lost population, while Fairfax and the second tier counties of Loudoun and Prince William are gaining in population. Between 1970 and 1976 the population of the Virginia part of the Washington SMSA has grown 10.5% (from 921,237 to 1,017,700). This compares with an 8.2% growth rate for the State.

Arlington County has actually experienced a decline in population from 174.284 to 153,500 (-11.9%). The important point to note, however, is that the growth in Arlington has been in the area where we propose to locate. It is estimated that Crystal City is the work place for 20,000 people and the home for 5,000 to 6,000 residents. In addition, the proposed Pentagon City development will add an estimated additional 7000 apartments to this area. Arlington County still has

the highest density of population of any jurisdiction in the State.

Q-13. What do the most recent figures show concerning personal income for Northern Virginia and Arlington?

A. The Virginia part of the Washington SMSA has grown in personal income from $4.6 billion to $8.1 billion between 1970 and 1975; this is a 74.1% increase. Here again the greater growth has been in Fairfax County and the second tier counties of Loudoun and Prince William. This compares with a 66.1% increase for the State. Nontheless, Arlington County's personal income has risen from $1.1 billion to $1.5 billion for a 39.9% increase. This income is highlighted by the fact that Arlington, like Alexandria, is a small community of some 20 square miles as compared to Fairfax, which has 400 square miles.

Q-14. What can you tell us of the per capita income of Northern Virginia and Arlington County?

A. Per capita income has risen from $5,044 in 1970 to $8,119 in 1975 for the Virginia part of the Washington SMSA; it is a 61.7% increase. This compares with a 55.9% increase for the State (from $3,712 to $5,786). Arlington County's figures have risen from $6,370 to $10,238 for a 60.7% increase.

Q-15. What do the retail sales figures for the Northern Virginia and Arlington areas indicate?

A. Retail sales have gone up from $1.6 billion to $3.5 billion in the Virginia part of the Washington SMSA; it is an increase of 108%. This compares with a 99% increase for the State. Arlington County's figures show an increase from $386 million to $651 million, or a 68.3% increase. It should be pointed out that while the increase in retail sales has not been as great in Arlington as in the balance of the SMSA, it is a very healthy increase. It would also reflect a shifting of retail sales from older Arlington County shopping areas to the newer ones in Fairfax County at Tysons Corner and Springfield. Of particular import is the fact that the newer shopping areas in the underground at Crystal City have been well received and will provide a basis for increased sales.

Q-16. What do the savings and loan deposits reflect for Northern Virginia and Arlington County?

A. Savings and loan deposits in the Virginia part of the Washington SMSA went from $353 million on May 31, 1970 to $1 billion on September 30, 1975, for an increase of 283.5%. As of September 30, 1976 the figure was $1.3 billion for a 25.6% change in that last year. The comparable state percentages were 213.5% and 21.5%. The figures for Arlington County were even better. Such deposits rose from $129 million to $326 million and finally to $417 million. This gave comparable percentages of 222.7% and 28.1% for the same periods.

Q-17. What do the figures on total bank deposits reveal for the Northern Virginia area and Arlington County?

A. Deposits in banks rose from $1.2 billion in 1970 to $2.4 billion in 1975 and to $2.5 billion in 1976 for the Washington SMSA. The comparable percentages for the State are 92.2% and 6%. The figures for Arlington County are $465 million in 1970 and $764 million in 1975 and $775 million in 1976; the percentages are 66.5% and 1.5%. Here again while the County figures are below those of the State and Northern Virginia, the growth is very substantial.

Q-18. Can you relate for us the financial activity of Northern Virginia and Arlington County in regard to bank deposits per capita, savings and loan deposits per capita, and retail sales per capita?

A. The Northern Virginia figures for the Washington SMSA reveal that per capita bank deposits were $2496 in 1976; savings and loan per capita deposits were $1386 in 1976; and per capita retail sales were $3,471. The comparable figures for Virginia are $2780, $946 and $2890. The figures for Arlington County are very outstanding for 1976. The per capita bank deposits are $5053, which is double that of the SMSA and the State average. In per capita savings and loan deposits the County figure of $2749 is double that of the SMSA and almost three times that of the State. The retail sales figure per capita for Arlington County is $4242; this far exceeds the figure for the SMSA or the State.

In general, it can be said that only the smaller communities of Fairfax City, Falls Church, or Manassas City have figures which exceed those of Arlington in these three areas.

Q-19. What do the demographic indicators we have just discussed indicate to you about the outlook for an additional bank branch in Arlington County?

A. The outlook for an additional branch, especially if run in accordance with sound banking principles as followed by Burke & Herbert since 1852, is quite favorable. The figures indicate a healthy growth in banking in Arlington County, with bank deposits per capita and savings and loan deposits per capita double that of the SMSA.

C. THE PRIMARY TRADE AREA:

Q-20. Have you reviewed the list of banks and savings and loan institutions in the Virginia part of the Washigton SMSA?

A. Yes, I have, and I concur in the conclusions drawn by the Bureau of Banking's report on page 6 and in Tables VII and IX on pages 13 and 14.

Q-21. What is your proposed trade area?

A. The boundaries are generally Arlington Ridge Road on the west; Fort Scott Drive on the south; the RF&P Railroad right-of-way on the east; and 15th Street South on the north.

Q-22. Could you describe the general area for us?

A. The majority of this area from Eads Street to the west is comprised of mature single family residential homes, with housing values averaging $70,000 per dwelling. There are approximately 1000 such units. In addition, there is under construction 220 low rise apartment units, 300 units for the elderly and 300 units for nursing care in this area.

To the east of the proposed site and on the opposite side of Route #1 is the Crystal City Development with high density business and residential uses. There are still undeveloped areas around 15th Street South and between South Ball Street and the RF&P Railroad right-of-way. Plans have been made, however, for the construction of 1200 hotel units, 1.5 million square feet of office space, and 500,000 square feet of commercial space in this area; this development to be known as "Airport City".

Just north of the primary trade area is the site of the Pentagon City development which includes all types of commercial uses as well as rental and condominium residential units. Present projections indicate that Pentagon City will contain 1.25 million square feet of office space, 800,000 square feet of retail-commercial space, 2000 hotel rooms, 5900 apartment dwellings and other facilities. Pentagon City is also the site of a major metro station, as is Crystal City.

The Pentagon, just to the north of the proposed trade area, has 30,000 workers who travel to and from that employment center daily. National Airport and downtown Washington, D. C. are close by. The potential of the area is best evidenced by Crystal City, where the 22nd high rise building is under construction. Crystal City contains three million square feet of office space; 2650 rental aprtments; and 250,000 square feet of shopping area. We estimate that Crystal City is the place of employment for 20,000 and the home for 5,000 to 6,000 people.

Q-23. What is the traffic situation in the general area and on Eads Street, the site of your proposed location, in particular?

A. At the present time the Jefferson Davis Highway (Route #1) is the major throughfare in the PSA, although traffic on Eads Street, which is one block west of Route #1, is heavy. There are currently many proposals being considered by Arlington County which will make Route #1 into a six-lane divided, limited access route at least from Shirley Highway on the North to Washington National Airport on the south. Although, because the proposal is currently subject to litigation, I cannot say when construction of this six-lane highway (proposed Interstate 595) will commence, its effect on traffic patterns can be predicted. It will increase Eads Street's use as the main route west of Interstate 595 and limit access from Crystal City to Eads Street.

D. COMPETITION WITH OTHER FINANCIAL INSTITUTIONS IN PRIMARY SERVICE AREA

Q-24. How many savings and loan and banking offices are located in the primary service area?

A. There are three savings and loan offices:

(1) First Federal Savings and Loan of Alexandria, 2055 Crystal Plaza;

(2) Washington-Lee Savings and Loan, 2301 South Jefferson Davis Highway;

(3) First Federal Savings and Loan of Arlington, 1755 South Jefferson Davis Highway.

Not one of these savings and loan institutions has opposed this application.

There are six banking offices in the primary trade area. They are:

			Opened
(1)	First Virginia Bank 419 23rd Street, South	(branch)	1-1954
(2)	First American Bank (formly Clarendon Bank & Trust 1930 Jefferson Davis Highway	(branch)	2-1965
(3)	First American Bank (formerly Arlington Trust Company, Inc. 2001 Jefferson Davis Highway	(branch)	7-1965
(4)	Bank of Virginia - Potomac 1755 Jefferson Davis Highway	(branch)	8-1967
(5)	The Services National Bank 2301 Jefferson Davis Highway	(main)	2-1974
(6)	First Virginia Bank 23rd & Clark Streets	(branch)	1-1975

It should be noted that all of the above offices are members of Statewide holding companies, with the exception of Services National Bank. It is also a fact that none of the above banks has opposed this application with the exception of Services National Bank. For your reference, I have indicated on a map of this area the location of these institutions (Exhibit 1).

Q-25. What statistical information do you have on Services National Bank?

A. Table VII of the Bureau of Banking's report lists this bank with deposits of $7.2 million on June 30, 1976. It has figured that Services National's one office has .3% of the total deposits of the Virginia part of the Washington, D. C. SMSA. By comparison, we have six offices, all too remote to be considered competition to Services National Bank. We had deposits of $41.2 million on June 30, 1976, or 1.6% of the above market.

Services National had total deposits at the end of 1975 of $5.2 million; at the end of 1976 of $7.3 million; and at the end of 1977 of $9.3 million. This is a growth of $2 million each year. Total assets followed a similar pattern and went from $7.5 million in 1975 to $9.8 million in 1976, to $11.8 million in 1977. While this rate of deposit or asset growth of $170,000 per month is not spectacular, it is good solid growth.

From news articles released by Services National, it appears that it capitalized at $2.5 million upon the sale of 125,000 shares at $20.00 per share. Its capital in 1975 was $2.299 million and increased to $2,376 in 1976 and was reduced to $2.354 in 1977 when the bank lost $22,000 as a result of charging off $170,000 in loans.

Q-26. Do you have copies of the annual reports of Services National Bank for 1977?

A. Yes, and I would like to ask that it be marked as an exhibit and included in my testimony (Exhibit 2).

Q-27. Would you comment on your observation about this annual report?

A. The report shows that the bank's deposits grew 28% or more than $2 million. The bank had total deposits of $9.4 million. The bank had a profit of $76,000 in 1976 but showed a loss of $21,000 in 1977. This loss resulted from charge-offs of loans by new management which took over in the fourth quarter of 1977. This happens quite often. When new management takes over, it charges off any questionable item. This has the effect of putting the blame on the preceding administration. Then if the charged-off loan is subsequently collected, it goes into income and makes the new management look good.

Q-28. Has Services National sought a particular and an exclusive market for its stock and its general business?

A. Yes, it has. When the bank was being organized the stock was sold to over 1600 stockholders and the organizing group said 90% of the stock would be reserved for U. S. Navy, Army, Marine, Air Force and Coast Guard personnel. A recent flyer claims 95% of the 1650 stockholders are DOD (Department of Defense), Military and Civil Service. This flyer carries the caption "A Bank Organized by and for the Military" (Exhibit 3). I ask that a copy of this flyer be marked as an exhibit and included in my testimony. I also ask that copies of a series of newspaper articles, which support this position taken by Services National, be marked as an exhibit and included in my testimony (Exhibit 4).

Q-29. What significance does this military approach have on competition with your proposed branch?

A. It should serve to reassure Services National that competition from us will not adversely effect that bank's business. We service military and civil service personnel but we do it on the same basis as we serve all customers. We do not have special incentives for military and civil service personnel. Our stock is widely held by persons from all walks of life and our board is not dominated by military personnel. We do not purport to service customers in the military services that are located all over the world. Ours is a local independent bank and we try to serve the general public in the area of our home office and our branches.

E. CONVENIENCE AND NECESSITY:

Q-30. Where is Arlington County located and how far is your proposed branch from the Alexandria City limits?

A. Arlington County is immediately adjacent to the City of Alexandria, where our main office is located. Our proposed branch is less than five miles from the City limits of Alexandria.

Q-31. Will the public convenience and necessity be served by authorizing the establishment of your proposed branch bank?

A. It is my understanding that public convenience and necessity will be served by increased competition, additional convenience, or gains in efficiency which outweigh possible adverse effects on other financial institutions such as diminished or unfair competition, undue concentration of resources, conflicts of interest or unsafe or unsound practices.

If this be the case, I think we need look first to the opposition we have. Of the nine financial offices, only one, Services National Bank, is in opposition. So I think it can be fairly said that for eight of these institutions we can come into the market without adversely affecting them to any substantial degree. Indeed, the failure to oppose would indicate a feeling that we can contribute to public convenience and necessity.

Q-32. What features can you provide on the positive side which show public convenience and necessity?

A. Burke & Herbert has long been proud of its reputation as a local bank intimately knowledgeable about local business and local conditions. As indicated in an article appearing in The Alexandria Packet, we are seeing in this area a movement toward merger of financial institutions which is taking control of banking from local bankers. In this climate Burke & Herbert is becoming a unique institution. I would like to make this article part of my testimony and marked as an exhibit (Exhibit 5).

We prepose to offer a full service branch with drive-up facilities to serve the homeowners who live in the residential areas primarily to the west of our location, including the Aurora Highlands Community. These single family homes have long had the need to be serviced by a local branch oriented to their needs. We will provide additional competition in the area. You have to remember that the five banks with branches in our trade area have almost 40% of the deposits in the Northern Virginia area. Services National has only .3% and we have only 1.6%. Both of us have a long way to go to catch up.

I do not think, however, that Services National opposes this application on our ability to serve this area and to bring with us the positive features of convenience and necessity. Rather, I believe they oppose because they believe that our branch will hurt their move to profitability.

While I appreciate the concern of Services National Bank, there is no evidence that our presence through this branch will diminish or provide unfair competition. There is certainly no question of undue concentration of resources. We have found no evidence to indicate that the location of this branch will provide any conflicts of interest or promote unsafe or unsound practices. On the contrary, the conservative figures used by us show that we plan and program no radical approaches to banking in this area. Of even greater weight is the fact that we have conducted our business in this fashion for at least the past fifty years.

The simple truth is that we will serve the public convenience and necessity because we have services to offer to the public in our primary service area. And we will not hurt Services National for several reasons. The first is that we are geared to serving the 1000 single family residential units primarily to the west of us. We also hope to serve customers who use Jefferson Davis Highway (Route #1). We are, however, one block off of Jefferson Davis Highway to the west and this branch will not really come into its own until U.S. Interstate #595 is completed. When Interstate 595 is completed northbound traffic will not be able to get from the Crystal City side of the road to our side except at very limited cross-overs. The same is true for the southbound traffic. Services National will be secure behind this barrier from the rigors of the full effect of competition. In addition, the proposed Airport City development which is planned east of U.S. Route #1 should increase Services National's base of operation.

I hereby certify that a true copy of this pre-filed testimony has been mailed, postage prepaid, this 19th day of Arpil, 1978, to Marshall H. Groom, President, The Services National Bank, P.O. Box 2567, Arlington, Virginia 22202.

James M Thomson

James M. Thomson
THOMSON & PIKRALLIDAS
201 North Washington Street
Alexandria, Va. 22313
Counsel for Applicant

1977
ANNUAL REPORT

POST OFFICE BOX 2567
2301 SOUTH JEFFERSON DAVIS HIGHWAY
ARLINGTON, VIRGINIA 22202
(703) 979-9300

During the past year, Services National Bank continued a favorable rate of growth. On December 31, 1977 as compared to the end of 1976, total deposits had increased $2,031,926 or 28 percent.

My letter accompanying the September 30, 1977 Third Quarter Statement of Condition stated that a stringent review of our loan portfolio had begun and would continue into the Fourth Quarter. This review revealed that a number of our loans carried as assets were of doubtful value. Those not realistically collectible were charged-off and the provision for loan losses was increased to protect against possible future losses in the loan portfolio. As a result of these actions, despite our favorable growth rate, the Bank experienced a loss of $21,714 or 17 cents per share for the full year period.

Over one-half of the loans charged-off in 1977 originated in our first two years of operation, 1974 and 1975. These loans would not have been made under our more conservative credit standards introduced in 1976. Since then we have imposed even stricter standards for screening loan requests and have added a system of tighter internal controls over the monitoring of outstanding loans.

As indicated in my earlier letter, our President, Mr. Chester W. Groch resigned effective September 30, 1977. The Board after thoroughly reviewing several outstanding candidates, offered the position to Mr. Marshall H. Groom. Mr. Groom assumed the position of President and Chief Executive Officer on December 1, 1977 and joined the Board of Directors at the December meeting. Mr. Groom's broad background of 20 years experience in banking in our metropolitan area, coupled with his realistic approach to the application of sound principles to the management of the Bank's affairs and his dedicat on to his tasks, auger well for the future of the Bank.

As required, the Bank was examined during 1977 by the National Bank Examiners. In addition, the international accounting firm of Arthur Andersen & Co., conducted an audit of the Bank's financial statements as of December 31, 1977.

Since the last Annual Meeting of the Stockholders, the Board of Directors has elected two other new members.

Mr. Ted L Johnson joined the Board in October 1977. Mr. Johnson, President of Dart Services, Inc., Com-X, Inc., and Shirlington Security & Storage is a strong supporter of the Bank, an active businessman in the community, and a retired Army Officer with both enlisted and commissioned service.

Vice Admiral William P. Mack, USN(Ret.) joined the Board at the February meeting. Admiral Mack culminated 38 years of service in the Navy by serving as Superintendent of the U.S. Naval Academy from 1972 to 1975. He brings to the Board not only a unique understanding of military personnel the Bank endeavors to serve, but also a sound education and background in financial management.

With Mr. Groom's selection as President and the thorough review of our entire loan portfolio, your Board of Directors firmly believes the Bank has overcome a temporary setback and can now aggressively pursue our long range growth and profit plan.

Frank S. Besson, Jr.
Chairman of the Board

THE SERVICES NATIONAL BANK

Statements of Condition

December 31, 1977 and 1976

ASSETS

	1977	1976
CASH AND DUE FROM BANKS	$ 1,237,444	$ 696,569
SECURITIES (Notes 1 and 3):		
U.S. Treasury securities	797,086	551,215
Obligations of U.S. Government agencies	1,200,758	400,320
Federal Reserve Bank stock	63,000	63,000
Total securities	2,060,844	1,014,535
FEDERAL FUNDS SOLD	900,000	500,000
LOANS (Notes 1, 4, 5 and 9):		
Consumer loans	2,570,158	2,858,844
Real estate mortgage loans	2,457,920	1,996,170
Commercial loans, including dealer floor plan loans of $513,754 in 1977 and $377,276 in 1976	1,579,814	1,559,986
Small Business Administration loans	805,813	561,338
Participation loans		400,000
Total loans	7,413,705	7,376,338
Less reserve for possible loan losses	(122,000)	(80,000)
Net loans	7,291,705	7,296,338
LEASEHOLD IMPROVEMENTS AND EQUIPMENT, net (Note 1)	202,116	212,608
OTHER ASSETS	107,553	88,314
	$11,799,662	$9,808,364

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:		
Deposits—		
Demand deposits	$ 4,445,835	$3,659,245
Certificates of deposit	2,469,271	1,717,502
Savings deposits	2,484,039	1,990,472
Total deposits	9,399,145	7,367,219
Accrued interest and other liabilities	46,228	65,142
Total liabilities	9,445,373	7,432,361
COMMITMENTS (Note 6)		
STOCKHOLDERS' EQUITY:		
Common stock, $12 par value, 150,000 shares authorized, 125,000 shares outstanding	1,500,000	1,500,000
Surplus	600,000	600,000
Undivided profits (Note 8)	254,289	276,003
Total stockholders' equity	2,354,289	2,376,003
	$11,799,662	$9,808,364

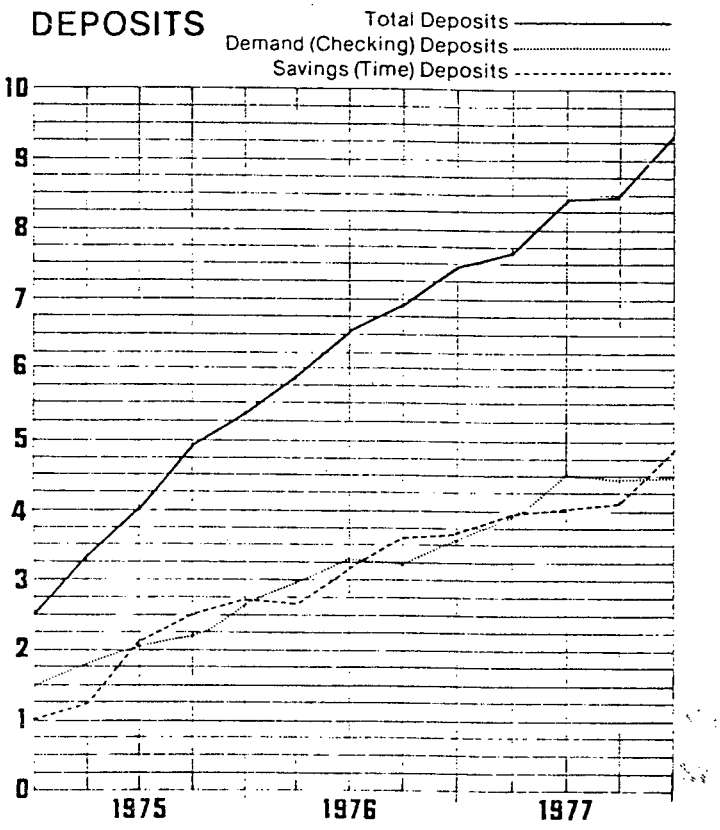
The accompanying notes to financial statements are an integral part of these statements.

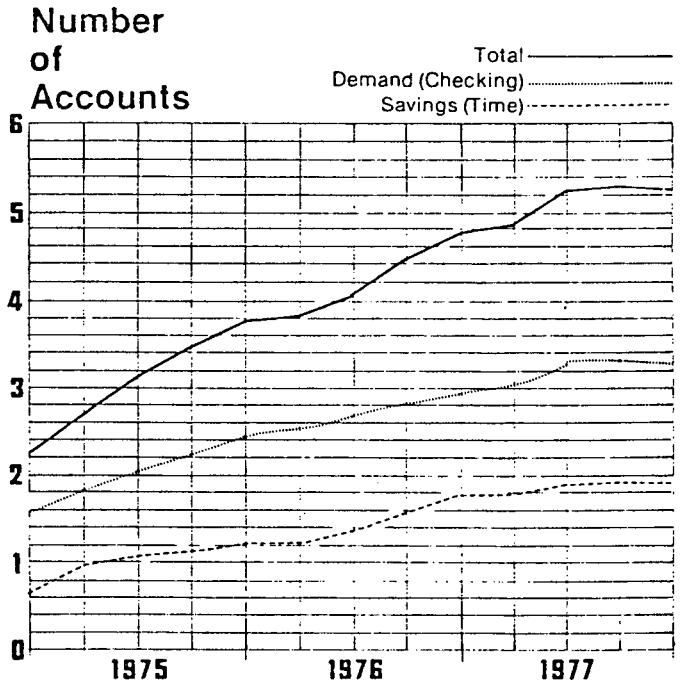
THE SERVICES NATIONAL BANK

Statement of Changes in Stockholders' Equity

For the years ended
December 31, 1977 and 1976

	Common Stock	Surplus	Undivided Profits	Total
BALANCE, December 31, 1975	$1,500,000	$600,000	$199,194	$2,299,194
Net income for 1976	—	—	76,809	76,809
BALANCE, December 31, 1976	1,500,000	600,000	276,003	2,376,003
Net loss for 1977	—	—	(21,714)	(21,714)
BALANCE, December 31, 1977 (Note 8)	$1,500,000	$600,000	$254,289	$2,354,289





The accompanying notes to financial statements are an integral part of these statements

THE SERVICES NATIONAL BANK

Statements of Operations

For the years ended December 31,

	1977	1976
OPERATING REVENUE:		
Interest and fees on loans	$702,422	$597,020
Interest on Federal funds sold	33,137	8,783
Interest on securities—		
U.S. Treasury securities	38,439	45,643
Obligations of U.S. Government agencies	35,539	28,408
Other	3,780	3,780
Other operating revenue	70,615	40,814
	883,932	724,448
OPERATING EXPENSES:		
Salaries	163,894	147,246
Employee benefits and payroll taxes	19,241	15,370
Interest on deposits (including $49,267 in 1977 on certificates of deposit over $100,000)	223,643	171,287
Occupancy and equipment (Note 6)	79,912	77,707
Provision for loan losses (Notes 1 and 4)	192,700	61,497
Advertising and promotion	21,095	18,649
Stock tax	23,914	22,962
Data processing services	31,604	24,458
Other operating expenses	149,643	108,463
	905,646	647,639
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY CREDIT	(21,714)	76,809
INCOME TAXES	-	22,611
INCOME (LOSS) BEFORE EXTRAORDINARY CREDIT	(21,714)	54,198
EXTRAORDINARY CREDIT, due to recognition of net operating loss carry-forwards	-	22,611
NET INCOME (LOSS)	$(21,714)	$ 76,809
NET INCOME PER SHARE, based on 125,000 shares outstanding during the periods—		
Income (loss) before extraordinary credit	$(.17)	$.43
Extraordinary credit	-	.18
Net income (loss)	$(.17)	$.61

The accompanying notes to financial statements are an integral part of these

THE SERVICES NATIONAL BANK

Statements of Changes in Financial Position

For the years ended December 31,

	1977	1976
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Operations—		
Net income (loss)	$ (21,714)	$ 76,809
Provision for loan losses	192,700	61,497
Depreciation and amortization	21,494	16,961
Total from operations	192,480	155,267
Increase in deposits—		
Demand deposits	786,590	1,016,534
Time deposits	1,245,336	1,141,682
Total from deposits	2,031,926	2,158,216
Increase (decrease) in accrued interest and other liabilities	(18,914)	24,089
	$2,205,492	$2,337,572
FINANCIAL RESOURCES WERE USED FOR:		
Increase (decrease) in earning assets—		
Loans, before net charge-offs	$ 188,067	$1,914,357
Investment securities	1,046,309	76,300
Federal funds sold	400,000	400,000
Total increase in earning assets	1,634,376	2,390,657
Increase (decrease) in cash and due from banks	540,875	(104,254)
Net additions to leasehold improvements and equipment	11,002	12,009
Increase in other assets	19,239	39,160
	$2,205,492	$2,337,572

The accompanying notes to financial statements are an integral part of these statements.

:PORT OF INDEPENDENT PUBLIC :COUNTANTS

the Board of Directors and Stockholders of 'he Services National Bank:

We have examined the statements of condition of THE SER-:CES NATIONAL BANK as of December 31, 1977, and :cember 31, 1976, and the related statements of operations, anges in stockholders' equity and changes in financial sition for the years then ended. Our examination was made accordance with generally accepted auditing standards, and cordingly included such tests of the accounting records and ch other auditing procedures as we considered necessary in circumstances.

In our opinion, the financial statements referred to above esent fairly the financial position of The Services National nk as of December 31, 1977, and December 31, 1976, and the sults of its operations and the changes in its financial sition for the years then ended, in conformity with generally cepted accounting principles consistently applied during periods.

Arthur Andersen & Co.

ashington, D.C.,
nuary 26, 1978

FORM F-2

The Services National Bank files with the Comptroller of the Currency each year an Annual Report on Form F-2. A copy of this report may be obtained by any stockholder upon written request to W. James Studebaker, Vice President and Cashier, The Services National Bank, 2301 South Jefferson Davis Highway, Arlington, Virginia, 22202.

QUARTERLY DETAIL/Per Share High-Low Bid Prices* for The Services National Bank Common Stock

Year	1976				1977			
ter	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Bid	21	20¾	20½	20	19	19	19	17
Bid	20½	18	18	19	17	17	16	15
ter-End Low Bid	19	18	18	18	17	17	16	15

uotations between dealers and not cessarily actual transactions.

THE SERVICES NATIONAL BANK

Notes to Financial Statements

December 31, 1977

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost, less accumulated depreciation and amortization of $60,231 in 1977 and $39,983 in 1976. Leasehold improvements are amortized using the straight-line method over the term of the lease including renewal options. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets.

Securities

Securities are stated at cost, as adjusted for amortization of premium and accretion of discount.

Reserve for Possible Loan Losses

The provision for loan losses charged to operations is based on management's periodic review and evaluation of the loan portfolio.

Unearned Interest Income

Interest applicable to consumer loans is recognized on an effective-yield basis. Unearned interest is reflected as a reduction of loans in the accompanying statements of condition and amounts to approximately $235,000 in 1977 and $255,000 in 1976.

Investment Tax Credit

Investment tax credits are accounted for on the flow-through method. However, since the Bank has not had current taxable income, no current benefit has been recognized, and these credits (approximately $11,000) have been carried forward to future years. The investment tax credit carry-forwards expire in 1980 through 1984.

(2) ORGANIZATIONAL COSTS

Organizational costs incurred prior to February 19, 1974 (the date the Bank commenced operations), amounted to $84,446. These costs were expensed when incurred for financial reporting purposes. For Federal income tax purposes, they are being amortized over five years from the date the Bank commenced operations. At December 31, 1977, $18,292 of organizational costs remain to be amortized for Federal income tax purposes.

(3) SECURITIES

The book value and market value of securities at year-end are as follows:

	1977		1976	
	Book Value	Market Value	Book Value	Market Value
U.S. Treasury:				
Maturing in one year	$ —	$ —	$ 249,976	$ 254,890
Maturing after one year but within five years	698,202	697,561	301,239	312,690
Maturing after five years but within ten years	98,884	98,094	—	—
U.S. Government agencies:				
Maturing in one year	999,647	1,000,157	—	—
Maturing after one year but within five years	100,736	99,625	400,320	408,640
Maturing after five years but within ten years	100,375	99,875	—	—
Federal Reserve Bank stock	63,000	63,000	63,000	63,000
	$2,060,844	$2,058,312	$1,014,535	$1,039,220

Securities with a book value of approximately $1,100,000 at December 31, 1977, were pledged to secure public deposits and for other purposes as required by law.

(4) RESERVE FOR LOAN LOSSES

The changes in the reserve for loan losses were as follows:

	1977	1976
Balance, beginning of year	$ 80,000	$ 86,048
Provision charged to operations	192,700	61,497
Loans charged off	(169,830)	(72,399)
Less recoveries of amounts previously charged off	19,130	4,854
Net charge-offs	(150,700)	(67,545)
Balance, end of year	$ 122,000	$ 80,000

During the fourth quarter of 1977, the Bank provided $141,700 for possible loan losses. The provision previously reported for the first nine months of the year was $51,000. The fourth quarter provision was, in the opinion of management, necessary to increase the reserve for possible losses in collection of the loan portfolio as of December 31, 1977.

(5) LOANS

The following schedule summarizes loans extended to customers of the Bank by purpose at year-end.

	1977	1976
Conventional real estate	$2,457,920	$1,996,170
Commercial and industrial loans	2,242,110	2,325,067
Loans to individuals for household, family and other consumer expenditures	2,703,756	3,029,647
All other loans (including overdrafts)	9,919	25,454
Total loans	$7,413,705	$7,376,338

(6) COMMITMENTS

The Bank leases its premises and certain equipment under operating leases expiring within eight years. The occupancy lease may be renewed at the Bank's option for periods up to ten years. Total rental expense was $49,980 in 1977 and $50,407 in 1976. Future minimum rentals are shown below:

1978	$44,000
1979	$48,000
1980	$43,000
1981	$43,000
1982	$43,000
1983-85	$61,000

(7) NET OPERATING LOSS CARRY-FORWARD

As of December 31, 1977, the Bank has a net operating loss carry-forward for financial reporting purposes of approximately $112,000. The amount of carry-forward for Federal income tax reporting purposes is approximately $13,000, and expires primarily in 1980. The difference in the loss carry-forward for financial reporting and Federal income tax purposes results primarily from timing differences in the recognition of provisions for loan losses.

(8) UNDIVIDED PROFITS

A transfer from surplus to undivided profits of $366,675 was made in 1973 to avoid creating a deficit in undivided profits during the early stages of operations. It is management's intent to restore this amount to the surplus account as rapidly as profitable operations permit. The $254,289 of undivided profits presented in the accompanying financial statements is not available for the payment of dividends.

(9) TRANSACTIONS WITH DIRECTORS

The bank has made a dealer floor plan arrangement with a local car dealership owned by a director. The Bank finances the wholesale cost of cars held in inventory by the dealership which is supported by a repurchase agreement from the manufacturer of all new car inventory. Interest (9% at December 31, 1977) is paid monthly. Outstanding loans under this arrangement were approximately $211,000 at both December 31, 1977 and 1976. Principal advances are repaid as cars are sold.

In addition, certain directors of the Bank and companies in which they are principals have had other loans and transactions with the Bank. Management is of the opinion that such loans and transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other. As of December 31, 1977 and 1976, the amount of such outstanding loans, including direct and indirect amounts, totaled approximately $488,000 and $127,000, respectively. These loans were primarily either guaranteed by the Small Business Administration or secured by real estate or automobiles.

Member FDIC
Member ABA
Member Independent Bankers Association
Member Virginia Bankers Association
Member Military Banking Association

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Chairman of the Board
General, USA (Ret.)

Calvin B. Andringa
Senior Vice President
Finance & Administration
United Nuclear Corporation

D. J. Arone
Editor-Publisher
Arone Publications, Inc.

William W. Behrens, Jr.
Vice Admiral, USN (Ret.)
Business Executive

Ken Elder
Owner & President
Washington Thrifty Rent-a-Car

Marshall H. Groom
President

Donald L. Harlow
CMSAF, USAF (Ret.)

Ted L. Johnson
President, COM-X

Robert C. Moot
Management Consultant

Lola C. Reinsch
Property Management
E. G. Reinsch, Inc.

Anna Smith
Owner & President
Alexandria American Sales Inc.

Founding Directors Emeritus

Leonard F. Chapman, Jr.
General USMC (Ret.)

I. J. Galantin
Admiral USN (Ret.)

Robert A. Carlone
Colonel, USAF (Ret.)

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Prestige Management Corporation

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Attorney at Law

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Bill Burnett
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Burnett Associates, Inc.

Maurice L. Lien
Executive Editor
The Retired Officer Magazine

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President
Heishman BMW, Inc.

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Kurt L. Walitschek
Colonel, USA (Ret.)

Joe Wasson
Information Liaison Assistant
U.S. Navy Department

Officers

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President

Raymond J. Andreno
Vice President

W. James Studebaker
Vice President & Cashier

Karen Peterson
Assistant Cashier

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THE SERVICES NATIONAL BANK

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Chester Groch, President

General F. S. Besson, USA (Ret)

General L. F. Chapman, Jr., USMC (Ret)

Admiral I. J. Galantin, USN (Ret)

CMSAF D. L. Harlow, USAF (Ret)

Calvin C. Andringa

Charles Luria

Dr. Rudolf Modley

Anna Smith

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WORLDWIDE LOAN SERVICE

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the guaranteed line of credit that's insured two ways.

Overdraft . . . embarrassing . . . confusing . . . to you and your family. It happens. We understand. Services National announces the end to overdraft headaches . . . or lets you write your own loan . . . on your Services National checking account . . . with Serv-Matic . . . guaranteed . . . protected credit . . . wherever you are . . . up to an approved $5,000.

Serv★Matic guarantees that money is there when you need it...

If you overdraw or need extra money . . . wherever you are (on business or for pleasure) . . . we insure that your Services National checking account is automatically credited to the extent required in multiples of $100 up to your unused line of established credit . . . no questions asked . . . with absolute privacy. No one knows but you and Services National. Your monthly statement will reflect the overdraft and the amount credited to your account . . . quietly . . . automatically. Interest on the overdraft will be computed at 12% per annum. You pay all of the overdraft or the minimum indicated.

Serv★Matic protects your account...

Services National also insures your protection with Credit Life Insurance on the amount advanced to your account. With Serv-Matic this insurance is included. There will be no additional charges for this coverage. The only thing you pay is the interest on the unpaid balance of your overdraft. Wherever you are . . . in Athens, Greece, or Athens, Georgia . . . you can make emergency purchases or write your own loan and be insured against overdraft in two ways.

Consider for a moment the services of Services National Bank. We are new. Out of 1650 shareholders 95% are DOD, Military and Civil Service. We are a bank organized to serve the military. Our personnel know your needs, appreciate your problems, and understand your goals.

And so wherever you are stationed, we can provide you with all the services offered by a full service bank.

Our savings accounts offer the maximum interest allowed by Federal regulations, computed from the day of deposit to the day of withdrawal. Certificates of Deposit are available paying up to 7¼ percent per $1,000 minimum left four years or longer.

Through our Serv-Matic Plan, all qualified depositors are eligible for an automatic line of credit based on ability to repay and not necessarily on rank or grade. In other words, you have complete overdraft protection whenever and wherever necessary.

Checking accounts are free. There is no service charge. No minimum balance. As many free checks imprinted with your name as you need.

Loans are available for personal, auto, and business purposes at fully competitive rates.

All services are available by mail.

We live in an age of specialization. It is not surprising then, that a bank should be organized primarily to serve the military. When 95% of its shareholders come from all branches of that same military around the world, it would seem it was about time. Come in, write us or phone.

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Checking Account Number

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Worldwide

BRANCH DIRECTORY AND SUMMARY OF DEPOSITS,
Published by Decision Research Sciences, Inc.
300 Axewood East, Ambler, Pa. 19002

COMMERCIAL BANKS	6-30-76	6-30-77	
Arlington Trust Company 2001 Jefferson Davis Highway	$13,741,000	$15,621,000	1,880,000
Bank of Virginia-Potomac 1755 South Jefferson Davis Hwy.	7,121,000	8,921,000	1,800,000
Clarendon Bank & Trust Co. 1930 Jefferson Davis Highway	10,838,000	13,739,000	2,901,000
First Virginia Bank			
419 23rd Street South	10,660,000	11,069,000	
1330 Jefferson Davis Highway	2,897,000	3,117,000	
23rd and Clark Streets	1,263,000	1,632,000	
	14,820,000	15,818,000	998,000
The Services National Bank 2301 South Jefferson Davis Hwy.	6,501,000	8,417,000	1,916,000
Virginia National Bank 1425 South Jefferson Davis Hwy.	4,917,000	5,415,000	498,000
	$57,938,000	$67,931,000	9,993,000

Increase of $9,993,000 in one year or 17.2% of the 1976 total.

CSTB #2

IN THE

STATE CORPORATION COMMISSION

AT RICHMOND

CASE NO. 19967

IN RE: APPLICATION OF BURKE &
HERBERT BANK & TRUST COMPANY
For authority to establish a branch
at 2300 South Eads Street,
Arlington County, Virginia

TESTIMONY OF MARSHALL H. GROOM
PREFILED ON BEHALF OF THE SERVICES NATIONAL BANK

My name is Marshall H. Groom and I reside at 2225 Carmichael Drive, Vienna, Virginia.

I am president and chief executive officer of The Services National Bank and have held that position since December 1, 1977. I attended the University of Alabama, receiving a Bachelor of Science in Business in 1960, and attended the Banking School of the South at Louisana State University, graduating in the class of 1972. I have been employed in the banking industry full time since 1961. I initially worked in the commercial loan department of the old Bank of Commerce (which merged National Savings and Trust in 1966) from 1961 to 1968. In 1968, I joined Old Dominion Bank as a Commerical Loan Officer, and stayed with that bank after its merger with First Virginia Bank in 1969.

EXH. MHG-10

In 1972, I became Vice President in charge of loans of Potomac Bank, and in September of 1973 was elected to the position of Executive Vice President--Chief Executive Officer of Potomac. In June of 1974, I assumed the position of President and Chief Executive Officer of Potomac Bank. Potomac merged with Dominion National Bank on March 4, 1977, and from that date through November 30, 1977, I was Senior Vice President and Commercial Loan Officer of Dominion National Bank.

Services has opposed the application of Burke & Herbert Bank and Trust Company for authority to establish a branch at 2300 South Eads Street in Arlington, because it does not believe that public convenience and necessity will be served by the branch and, more basically, Services is convinced that permitting Burke & Herbert to open a branch at this time, at the particular location involved, will jeopardize Services' financial soundness.

I reviewed the Protest of The Services National Bank prior to the time it was filed with the Commission, with specific reference to all facts recited therein, and, to the best of my knowledge and belief all facts contained in the Protest are accurate. I will testify to all such facts at the hearing on May 17, 1978.

In its pre-filed testimony, Burke & Herbert stresses the fact that Services endeavors to meet the particular needs of military and DoD personnel. While this statement is accurate insofar as it goes, the implication is that Services seeks to build its base of operations on such business and can rely on same to sustain itself as a financial institution. This implication is totally inaccurate. In fact, the Comptroller of the Currency initially rejected Services' application for

a charter because of the emphasis placed upon the military and DoD business. The charter was not granted until the approach had been modified, the Board of Directors restructured to include more local business people and a new economic study was submitted showing that the Bank intended to, and could reasonably rely upon the local trade area for its basic business. At present, Services relies upon the local trade area for over 50% of all of its banking business.

Services' financial progress shown in the attached Financial Statements, covering the period from the beginning of operations up through December 31, 1977, which I submit as exhibits. In its pre-filed testimony, Burke & Herbert implies that the loan charge-offs which precipitated a loss for calendar year 1977 were more or less routinely taken so that new management could evade responsibility for losses if the loans proved to be not recoverable, but take credit for all gains if certain of the loans were ultimately paid. I wish I could say that this is true, but, unfortunately, I can catagorically state that such is not the case. Each charge-off is totally valid and would have been taken regardless of a change in management, and the loss reflected thereby represents a very real loss to the Bank. As is the case with any charge-off, of course, some of the loans may ultimately be recoverable and Services is certainly utilizing every resource at its disposal in an attempt to recoup as much as possible. However, it is my judgment that the maximum recovery which Services can reasonably expect from these loans is 20%. I might also say that these losses are not the result of recklessly making "bad loans" as that term is understood in the banking industry; rather, they represent a restatement of the age-old fact of

the banking industry that a struggling, young institution, seeking to compete with well-established banks, must accept some business which is less than "100% blue chip".

As pointed out in Services' Protest, the immediate trade area in question is presently served by nine banks, three savings and loan institutions and three credit unions. The proposed branch location is approximately 500 feet from Services' office, directly across Jefferson Davis Highway and one block back. In addition to Services, other banks are in immediate proximity to the proposed branch. First Virginia Bank maintains a branch virtually next door to Services' office, and a second branch which is less than 50 feet, lot to lot, from the proposed Burke & Herbert branch. First American Bank of Virginia, formerly Clarendon Bank & Trust, has a branch approximately 1,100 feet from the proposed Burke & Herbert branch on the same side of the highway. The intersection of Jefferson Davis Highway and 23rd Street is adequately controlled by traffic signals, which affords easy access to both Services and First Virginia for those businesses and residents on the "Burke & Herbert side" of Jefferson Davis Highway. In addition, there is adequate parking for the customers of Services and First Virginia. All banking services which can legally be offered by banks in Virginia are currently being offered, not only by nine banks in the immediate trade area, but by four banks within 1100 feet of the proposed Burke & Herbert branch.

I believe it is obvious from the figures in Mr. Marshall's report that the rate of growth in Arlington County lags behind other contiguous jurisdictions. It is true, as Mr. Burke has stated, that a majority of the growth in Arlington in recent years has occurred in the Crystal City area, which makes the figures for this area even more significant. Even with virtually all of the county's recent "growth" occurring in the Crystal City trade area, the figures show a levelling in growth of deposits in established branches and the fact that the branchs in this trade area each still average $7.5 million dollars in deposits below the average branch in Arlington County as a whole. 43

It is not Services' position that Burke & Herbert should never be granted authority to establish a branch in the Crystal City area. It is, however, Services' strong position that establishment of a branch at this time, at the particular location involved, will jeopardize Services' financial soundness. This situation will continue until Services capital account is restored. By "restoration of capital" I refer to the base capital of $2,500,000 received from the shareholders. As shown by the 1977 Annual Report, the book value of this capital as of December 31, 1977, was $2,354,289. The capital account will be restored at such time as the book value of the capital is $2,500,000; that is, Services has cumulative earnings in an amount equal to cumulative losses from the beginning of operations.

I agree with Mr. Dembitz' conclusion that the proposed Pentagon City development is irrelevant with regard to either a need for this particular branch or the prospect of substantial future business for

Services or Burke & Herbert. Utilizing Burke & Herbert's own definition of the primary trade area, the development is outside of such area. In addition, both First & Merchants National Bank and Virginia National Bank have branches in the immediate vicinity of the proposed Pentagon City development, while, with the exception of the First Virginia branch next door to Services, Services and the proposed Burke & Herbert branch would be located at a greater distance from the development than any of the other banks presently servicing the trade area. It is my understanding that completion of any portion of the development is at least two years away, and that we cannot expect it to come to full fruition for at least another five years. More important, however, is the fact that Burke & Herbert is asking the Commission to speculate and predict what may happen in the future, not only with regard to development of the area, but with regard to the effect on existing institutions. Such speculation might be warranted, to a certain degree, were the only affected financial institutions branches of strong existing banks or members of holding companies, whose continued viability in no way depended upon the profitability of Crystal City branch, or if the situation were such that Services had restored its capital account. However, under the set of facts which is presently before the Commission, time is of critical importance to Services and the bank would be severely jeopardized by present competition of Burke & Herbert for the same customers. If the Commission is to consider any future development in the area, it should also consider the fact that by the time Pentagon City comes to full fruition, it is highly likely that both credit unions and savings and loan associations will have authority to establish checking accounts, which would, of course, change the entire picture with regard to banking services offered in the relevant trade area.

At the hearing on May 17, I plan to use an aerial photograph of the trade area as a visual aid for Services' presentation. This photograph is extremely large and mounted, which renders prefiling impossible. However, Services will make the photograph available for inspection by Burke & Herbert or its counsel at any time prior to the hearing.

Marshall H. Groom

STATE OF VIRGINIA

COUNTY OF ARLINGTON, to-wit:

Subscribed and sworn to before me this 9th day of May, 1978.

Helen Ellerni
Notary Public

My Commission Expires:

My Commission Expires January 10, 1982

1974 Annual Report

THE SERVICES NATIONAL BANK
2301 South Jefferson Davis Highway
Arlington, Virginia 22202

To Our Stockholders and Friends:

On February 19, 1974 the Services National Bank opened its doors to the public. Since that time we have had a series of accomplishments that the Stockholders, Directors and Staff can look upon with satisfaction.

The Services National Bank has experienced a commendable rate of growth in its first year of operations. Total resources at the close of business on December 31, 1974 were $5,097,258. Deposits were $2,502,888. We are pleased to include among our depositors a number of Service Academy graduating class members. As our resources permit we intend to expand these affiliations with all the academies. We have advertised in selective media within resource limitations and have budgeted for increased advertising in 1975. Experience has shown, however, especially for new banks, that referrals—word of mouth advertising by stockholders and satisfied customers are most effective in attracting new accounts. With your help we will continue our growth in 1975.

Reflecting our basic concept of providing worldwide services, approximately 60 percent of our business is conducted by mail and is increasing each day. We are hopeful that the recent action to provide free, postage paid, bank-by-mail envelopes to our depositors will further expand the services.

As required, we were examined twice during 1974 by the National Bank Examiners. In addition, the international accounting firm of Arthur Andersen & Co., conducted an audit of the Bank's Financial Statements as of December 31, 1974.

The Bank's Financial Statements as of December 31, 1974 include a reserve for loan loss in excess of the maximum amount allowable under the provisions of the Internal Revenue Code. The loan loss reserve is not based on loan loss experience to date but, in management's opinion, is necessary in light of today's unsettled economy.

It is with a sincere sense of regret that we announce Dr. Rudolf Modley has requested not to seek reelection to the Board of Directors. His efforts and advice during the organizational phase and our first year of the bank's operation are greatly appreciated.

We are pleased to announce that Robert C. Moot has been appointed to the Board of Directors. Mr. Moot, presently Vice President/Finance, National Railroad Passenger Corporation (Amtrak) and formerly Assistant Secretary and Comptroller, U.S. Department of Defense, brings to our Board additional financial and administrative expertise.

Robert A. Carlone
Chairman of the Board

Chester W. Groch
President

Directors

ROBERT A. CARLONE
Chairman of the Board
Colonel, USAF (Ret)

CALVIN B. ANDRINGA
Financial Consultant

FRANK S. BESSON, JR.
General, USA (Ret)

LEONARD F. CHAPMAN, JR.
General, USMC (Ret)

I. J. GALANTIN
Admiral, USN (Ret)

CHESTER W. GROCH
President

DONALD L. HARLOW
CMSAF, USAF (Ret)

CHARLES LURIA
President, Charles Luria Associates

ROBERT C. MOOT
Vice President-Finance
National Railroad Passenger Corporation (AMTRAK)

ANNA SMITH
Owner & President
Alexandria/American Motors

Officers

CHESTER W. GROCH, *President*
KURT L. WALITSCHEK, *Vice President & Cashier*
W. JAMES STUDEBAKER, *Assistant Vice President*

Advisory Board

C. W. BORKLUND
WM. W. BEHRENS, JR.
KENNETH ELDER
MAURICE L. LIEN
ROBERT E. WILLEY

THE SERVICES NATIONAL BANK

Statement of Condition

December 31, 1974

ASSETS

CASH AND DUE FROM BANKS	$ 321,422
SECURITIES (Notes 1 and 4):	
United States Treasury securities	172,565
Federal Reserve Bank stock	63,000
FEDERAL FUNDS SOLD	1,700,000
LOANS (Note 1):	
Consumer loans	1,396,797
Commercial loans, including $269,211 of automotive dealer floor plan loans	823,104
Participation loans	300,000
Mortgage loans	84,961
ACCRUED INTEREST RECEIVABLE	7,902
LEASEHOLD IMPROVEMENTS AND EQUIPMENT, net (Note 1)	213,588
OTHER ASSETS	13,919
	$5,097,258

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:	
Demand deposits	$1,467,838
Time deposits	486,962
Savings deposits	548,088
Unearned discount (Note 1)	138,624
Other liabilities	15,384
Total liabilities	2,656,896
RESERVE FOR LOAN LOSSES (Note 1)	60,000
COMMITMENTS (Note 5)	
STOCKHOLDERS' EQUITY:	
Common stock, $12 par value, 150,000 shares authorized, 125,000 shares outstanding	1,500,000
Surplus	600,000
Undivided profits account, representing transfers from surplus of $366,675 less losses incurred to date of $86,313 (Note 6)	280,362
Total stockholders' equity	2,380,362
	$5,097,258

The accompanying notes are an integral part of this statement.

THE SERVICES NATIONAL BANK

Statement of Changes in Stockholders' Equity

For the period May 10, 1973 to December 31, 1974

	Common Stock	Surplus	Undivided Profits	Total
PROCEEDS FROM STOCK ISSUANCE	$1,500,000	$1,000,000	$ —	$2,500,000
Cost incurred in stock issuance	—	(33,325)	—	(33,325)
Transfer to undivided profits to provide for organizational costs and initial operating deficits (Note 6)	—	(366,675)	366,675	—
Organizational cost, net of revenue earned during organizational period (Note 2)	—	—	(14,382)	(14,382)
BALANCE—				
February 19, 1974	1,500,000	600,000	352,293	2,452,293
Loss for the period of February 19, 1974, to December 31, 1974	—	—	(71,931)	(71,931)
BALANCE—				
December 31, 1974	$1,500,000	$ 600,000	$280,362	$2,380,362

The accompanying notes are an integral part of this statement.

THE SERVICES NATIONAL BANK

Statement of Operations

For the period May 10, 1973 to December 31, 1974

OPERATING REVENUE	
Interest on Federal funds sold	$182,721
Interest and fees on loans	113,615
Interest on U.S. Treasury securities	9,907
Other operating revenue	5,796
	312,039
OPERATING EXPENSES	
Salaries and wages	108,981
Occupancy and equipment	56,754
Printing and advertising	49,901
Provision for loan losses (Note 1)	61,434
Interest on time deposits	25,308
Other operating expenses	81,592
	383,970
NET LOSS FROM OPERATIONS	71,931
ORGANIZATIONAL EXPENSES, net of interest earned during organizational period (Note 2)	14,382
NET LOSS	$ 86,313
NET LOSS PER SHARE	$.69

The accompanying notes are an integral part of this statement.

ACCOUNTANTS' REPORT

To the Board of Directors of
The Services National Bank:

We have examined the statement of condition of THE SERVICES NATIONAL BANK as of December 31, 1974, and the related statements of operations and changes in stockholders' equity for the period May 10, 1973 (date of inception) to December 31, 1974. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Services National Bank as of December 31, 1974, and the results of its operations for the period indicated, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Washington, D.C.,
January 20, 1975.

THE SERVICES NATIONAL BANK

Notes to Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization of $7,656. Leasehold improvements are amortized on the straight-line basis over the term of the lease including renewal options. Equipment is depreciated on the straight-line method over the estimated useful lives of the assets.

Securities

Securities are stated at cost, as adjusted for amortization of premium and accretion of discount.

Reserve for Loan Losses

The provision for loan losses charged to operations is based on management's review of the loan portfolio in light of today's unsettled economy. The loan loss provision in the accompanying financial statements is in excess of the maximum amount deductible for Federal income tax purposes by $45,214.

Unearned Discount

Unearned discount applicable to consumer loans is recognized on an effective yield basis (sum-of-months-digits method).

(2) ORGANIZATIONAL EXPENSES

Organizational costs incurred prior to February 19, 1974, the date the Bank commenced operations, amounted to $84,446. The organizational costs have been expensed for financial reporting purposes. For Federal income tax purposes, the organizational expenses are being amortized over five years from the date the Bank commenced operations. The Bank earned $70,064 of interest during the organizational period.

(3) INVESTMENT TAX CREDITS

Investment tax credits are accounted for on the flow-through method which reduces the provision for income taxes. As of December 31, 1974, investment tax credits amounting to $6,408 are carried forward and are available as reductions of future tax liabilities. The carry-forward period expires in 1981.

(4) SECURITIES

The book value and market value of securities as of December 31, 1974 is summarized as follows:

	Book Value	Market Value
United States Treasury securities		
Maturing within one year	$ 50,439	$ 51,595
Maturing in 1977	122,126	122,834
	172,565	174,429
Stock of Federal Reserve Bank	63,000	63,000
	$235,565	$237,429

The United States Treasury securities were pledged to secure public deposits and for other purposes as required by law.

(5) COMMITMENTS

The Bank leases premises and certain equipment. The occupancy lease may be renewed, at the Bank's option, for periods up to ten years. Total rental expense, including rental of temporary office space, was $43,701 for the ten months ended December 31, 1974.

Future minimum annual rentals are shown below:

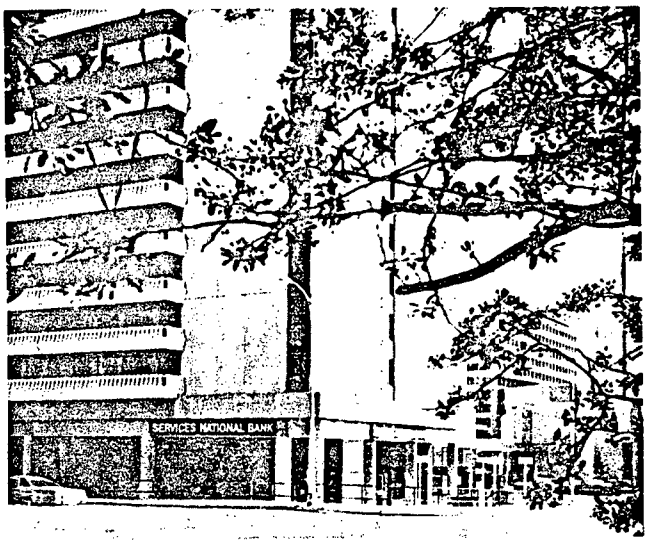
1975	$ 47,163	1978	$ 44,444
1976	45,250	1979	47,579
1977	44,847	1980-1984	190,088

(6) UNDIVIDED PROFITS

The transfer from surplus to undivided profits of $366,675 was made to premit the Bank to avoid creating a deficit in undivided profits during its early stages of operations. It is Management's intent that this amount will be restored to the surplus account as rapidly as profitable operations permit and, accordingly, the $280,362 of undivided profits presented in the accompanying financial statements is not available for the payment of dividends.

(7) OTHER MATTERS

During the ten months ended December 31, 1974, certain directors of the Bank have had loans and other transactions with the Bank. Management is of the opinion that such loans and transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral as those prevailing at the time for comparable transactions and did not involve more than normal risk of collectibility or present other unfavorable features. At December 31, 1974, the amount of such outstanding loans (including direct and indirect amounts) receivable from directors of the Bank totaled approximately $294,000, which includes approximately $213,000 collateralized by dealer automobile inventory.



1975
ANNUAL REPORT

SERVICES NATIONAL BANK
2301 So. Jefferson Davis Highway
Arlington, Virginia 22202
(703) 979-9300

TO OUR STOCKHOLDERS AND FRIENDS:

As 1975 drew to a close, the Services National Bank completed nearly two years of operation. Our growth rate continued favorably during 1975 and the Bank's deposit-base is now better able to support a profitable operation. Compared to December 31, 1974, total resources on December 31, 1975 increased $2,650,616, up 54%; deposits increased $2,706,115, up 108%, and, loans increased $3,037,240, up 126%.

These growth rates are indicative of continued service to those we are dedicated to serve ... not only the local community, but also worldwide Department of Defense personnel, active and retired. Despite acceptable growth, we did not produce an operating profit in 1975. A profit, even a small one, in our second year of operation would have been a welcome if relatively unusual accomplishment. In our June 30, 1975 Statement of Condition we projected a profit for our third year of operation and we continue to support this projection.

In reviewing our past and prospective operations, there are three areas that warrant comment—Advertising, Reserves for Loan Losses and Resource Utilization.

Advertising Expense—An unusually high eight percent of our operating revenue was spent on advertising. Your Board of Directors considered that a heavy investment in advertising was justified on the basis of long term benefits to a new bank. Certainly a 108% growth rate in deposits indicates successful results compared to the local banking industry. During the year, we learned that local advertising programs achieved better results than the more expensive worldwide media efforts. This experience, coupled with anticipated growth based on a more extensive knowledge of the Bank's existence and reputation, will enable reduced spending for advertising in 1976.

Reserve for Loan Losses—The year's severe recession resulted in widespread increased charge-off of loans and increased reserves for future bad loan losses in the banking industry. Our bank was no exception. During the year $71,000 was charged against income to increase our Reserve for Loan Losses. With the continuing improvement in economic conditions your management believes this reserve to be fully adequate.

Resource Utilization—High inflation, during what has been characterized as the worst recession since the depression of the early 1930's, created a most difficult year for banking. High yields on Federal Funds (funds sold to other banks through the Federal Reserve System) induced our Bank to invest heavily in this area during 1974. As yield rates on Federal Funds dropped precipitatively during the first six months of 1975, our estimated revenues were significantly reduced. We moved as rapidly as possible toward a more balanced loan portfolio with more emphasis on higher yielding mortgages, consumer loans and government guaranteed small business loans.

As required, we were examined twice during 1975 by National Bank Examiners. In addition the international accounting firm of Arthur Andersen & Co., conducted an audit of the Bank's Financial Statements as of December 31, 1975.

During 1975 General Leonard F. Chapman, Jr., resigned as a member of the Board of Directors due to the demand on his time incident to his appointment as Commissioner of U.S. Immigration and Naturalization Service. He contributed immeasurably during and since the organization of the Bank and his service to the Bank will be sorely missed.

The vacancy on the Board has been filled by the Board's appointment of Miss Lola Reinsch, an energetic businesswoman active in general property management. She is a long time resident in Arlington County and is in a position to attract new business accounts for the Bank.

As we move into our third year of operation, we continue to rely on your support in deposits, loans and referrals. "Referrals"—word of mouth advertising by our stockholders (and satisfied customers)—are most effective in attracting new accounts so essential to further needed growth.

Frank S. Besson, Jr.
Chairman of the Board

Chester W. Groch
President

Statements of Condition

December 31, 1975 and 1974

ASSETS

	1975	1974
CASH AND DUE FROM BANKS	$ 800,823	$ 321,422
SECURITIES (Notes 1 and 3):		
United States Treasury securities	474,723	172,565
United States Government agencies	400,512	—
Federal Reserve Bank stock	63,000	63,000
Total securities	938,235	235,565
FEDERAL FUNDS SOLD	100,000	1,700,000
LOANS (Notes 1, 4 and 5):		
Consumer loans	2,625,306	1,258,173
Commercial loans, including automotive dealer floor plan loans of $291,697 in 1975 and $269,211 in 1974	1,186,044	823,104
Participation loans	500,000	300,000
Small Business Administration loans	344,636	—
Real estate mortgage loans	873,540	84,961
Less reserve for possible loan losses	(86,048)	(60,000)
Total loans	5,443,478	2,406,238
LEASEHOLD IMPROVEMENTS AND EQUIPMENT, net	217,559	213,588
OTHER ASSETS	49,155	21,821
	$7,549,250	$4,898,634

LIABILITIES AND STOCKHOLDERS' EQUITY

	1975	1974
LIABILITIES:		
Deposits -		
Demand deposits	$2,642,711	$1,467,838
Certificates of deposit	1,238,141	486,962
Time deposits	1,328,151	548,088
Total deposits	5,209,003	2,502,888
ACCRUED INTEREST AND OTHER LIABILITIES	41,053	15,384
Total liabilities	5,250,056	2,518,272
COMMITMENTS (Note 6)		
STOCKHOLDERS' EQUITY:		
Common stock, $12 par value, 150,000 shares authorized, 125,000 shares outstanding	1,500,000	1,500,000
Surplus	600,000	600,000
Undivided profits (Note 8)	199,194	280,362
Total stockholders' equity	2,299,194	2,380,362
	$7,549,250	$4,898,634

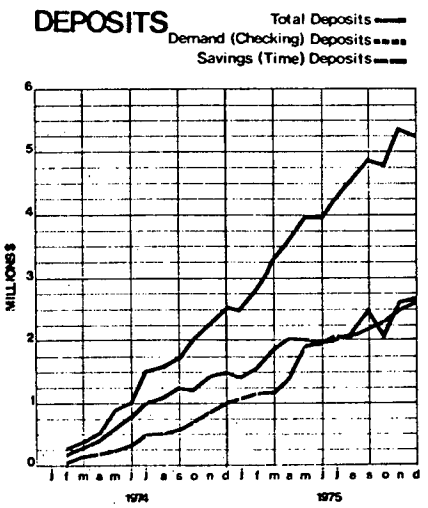
The accompanying notes to financial statements are an integral part of these statements.

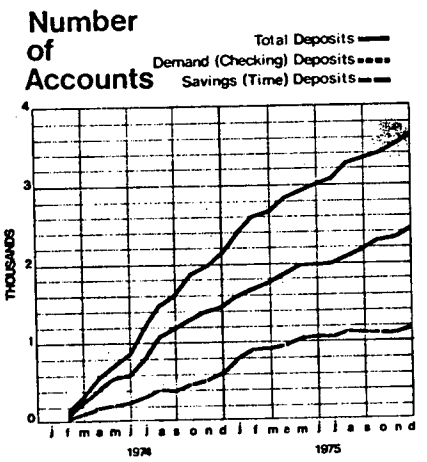
THE SERVICES NATIONAL BANK

Statement of Changes in Stockholders' Equity

For the period May 10, 1973, (inception) to December 31, 1975 (operations commenced February 19, 1974)

	Common Stock	Surplus	Undivided Profits	Total
PROCEEDS FROM STOCK ISSUANCE	$1,500,000	$1,000,000	$ —	$2,500,000
Costs incurred in stock issuance	—	(33,325)	—	(33,325)
Transfer to undivided profits to provide for organizational costs and initial operating deficits	—	(366,675)	366,675	—
	1,500,000	600,000	366,675	2,466,675
Loss for the period May 10, 1973 (date of inception), to December 31, 1974	—	—	(86,313)	(86,313)
BALANCE, December 31, 1974	1,500,000	600,000	280,362	2,380,362
Loss for the year ended December 31, 1975	—	—	(81,168)	(81,168)
BALANCE, December 31, 1975	$1,500,000	$ 600,000	$199,194	$2,299,194





The accompanying notes to financial statements are an integral part of this statement.

Statements of Operations

For the year ended December 31, 1975 and the period May 10, 1973, (inception) to December 31, 1974 (operations commenced February 19, 1974)

	1975	1974
OPERATING REVENUE:		
Interest and fees on loans	$403,126	$113,615
Interest on Federal funds sold	43,807	182,721
Interest on United States Government securities	40,663	9,907
Other operating revenue	29,073	5,796
	516,669	312,039
OPERATING EXPENSES:		
Salaries	143,824	108,981
Employee benefits and related taxes	17,126	11,823
Interest on deposits	108,606	25,308
Occupancy and equipment	78,457	56,754
Provision for loan losses	71,000	61,434
Advertising and promotion	41,183	29,979
Bank stock tax	24,000	--
Data processing services	17,747	11,557
Other operating expenses	95,894	78,134
	597,837	383,970
NET LOSS FROM OPERATIONS	81,168	71,931
ORGANIZATIONAL EXPENSES, net of interest earned during organizational period (Note 2)	—	14,382
NET LOSS	$ 81,168	$ 86,313
NET LOSS PER SHARE, based on 125,000 shares outstanding during the periods	$.65	$.69

The accompanying notes to financial statements are an integral part of these statements.

Statements of Changes in Financial Position

For the year ended December 31, 1975 and the period May 10, 1973, (inception) to December 31, 1974 (operations commenced February 19, 1974)

	1975	1974
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Operations—		
Net loss	$ (81,168)	$ (86,313)
Provision for loan loss	71,000	61,434
Depreciation and amortization	15,367	7,656
Total from operations	5,199	(17,223)
Increase in deposits—		
Demand deposits	1,174,873	1,467,839
Time deposits	1,531,242	1,035,050
Total from deposits	2,706,115	2,502,889
Proceeds from stock issuance	—	2,500,000
Other, net	25,669	15,383
	$2,736,983	$5,001,049
FINANCIAL RESOURCES WERE USED FOR:		
Increase (decrease) in earning assets—		
Loans, before charge-offs	$3,108,240	$2,467,672
Investment securities	702,671	235,565
Federal funds sold	(1,600,000)	1,700,000
Total increase in earning assets	2,210,911	4,403,237
Increase in cash and due from banks	479,400	321,422
Additions to leasehold improvements and equipment	19,338	221,244
Stock issuance costs	—	33,325
Other, net	27,334	21,821
	$2,736,983	$5,001,049

The accompanying notes to financial statements are an integral part of these statements.

To the Board of Directors of
The Services National Bank:

We have examined the statements of condition of THE SERVICES NATIONAL BANK as of December 31, 1975, and December 31, 1974, and the related statements of operations, changes in stockholders' equity and changes in financial position for the year ended December 31, 1975, and for the period May 10, 1973 (date of inception) to December 31, 1974. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Services National Bank as of December 31, 1975, and December 31, 1974, and the results of its operations and the changes in its financial position for the periods indicated, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

1666 K Street, N.W.
Washington, D.C.,
January 22, 1976.

FORM F-2

The Services National Bank files with the Comptroller of the Currency each year an Annual Report on Form F-2. A copy of this report may be obtained by any stockholder upon written request to Kurt L. Walitschek, Vice President and Cashier, The Services National Bank, 2301 South Jefferson Davis Highway, Arlington, Virginia, 22202.

QUARTERLY DETAIL/Per Share High-Low Bid Prices* for The Services National Bank Common Stock

Year	1974			1975			
Quarter	2nd	3rd	4th	1st	2nd	3rd	4th
High Bid	23	23¼	21	22	21¾	21¼	20¾
Low Bid		21	20	18½	20¼	18½	19
Quarter-end Low Bid		21	20	21½	20¾	19¼	19

*Quotations between dealers and not necessarily actual transactions.

Notes to Financial Statements

December 31, 1975

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization of $23,022 in 1975 and $7,656 in 1974. Leasehold improvements are amortized on the straight-line basis over the term of the lease including renewal options. Equipment is depreciated on the straight-line method over the estimated useful lives of the assets.

Securities

Securities are stated at cost, as adjusted for amortization of premium and accretion of discount.

Reserve for Possible Loan Losses

The provision for loan losses charged to operations is based on management's review and evaluation of the loan portfolio.

Unearned Interest Income

Interest applicable to consumer loans is recognized on an effective-yield basis (sum-of-months-digits method). Unearned interest is reflected as a reduction of loans in the accompanying statements of condition and amounts to $254,000 in 1975 and $139,000 in 1974.

Investment Tax Credit

Investment tax credits are accounted for on the flow-through method which reduces the provision for income taxes in the year the asset is placed in service. Investment tax credits amounted to $1,400 in 1975 and $8,572 in 1974. These amounts are available for reduction of future tax liabilities. The carry-forward periods expire in 1981 and 1982.

(2) ORGANIZATIONAL EXPENSES

Organizational costs incurred prior to February 19, 1974 (the date the Bank commenced operations), amounted to $84,446. The organizational costs have been expensed as incurred for financial reporting purposes. For Federal income tax purposes, they are being amortized over five years from the date the Bank commenced operations. At December 31, 1975, $52,070 of organizational expense is available for future amortization for Federal income tax purposes. The Bank earned $70,064 of interest during the organizational period.

(3) SECURITIES

The book value and market value of securities as of December 31 are as follows:

	1975		1974	
	Book Value	Market Value	Book Value	Market Value
United States Treasury:				
Maturing in one year	$224,699	$225,211	$ 50,439	$ 51,595
Maturing after one year but within five years	250,024	257,000	122,126	122,834
United States Government Agencies:				
Maturing after one year but within five years	400,512	399,000	—	—
Federal Reserve Bank Stock	63,000	63,000	63,000	63,000
	$938,235	$944,211	$235,565	$237,429

Securities with a book value of approximately $675,000 at December 31, 1975, were pledged to secure public deposits and for other purposes as required by law.

(4) RESERVE FOR LOAN LOSSES

The Statement of Condition at December 31, 1974, has been restated to reflect the reserve for loan losses as a deduction from loans. The changes in the reserve for loan losses were as follows:

	1975	1974
Balance, beginning of period	$ 60,000	$ —
Loans charged off	(51,233)	(1,434)
Recoveries of charged-off loans	6,281	—
Provision charged to operations	71,000	61,434
Balance, end of period	$ 86,048	$60,000

The loan-loss provision is in excess of the maximum amount deductible for Federal income tax purposes by $9,515 in 1975 and $46,648 in 1974.

(5) LOANS

The following schedule reflects loans extended to the customers of the Bank by purpose at year end:

	1975	1974
Real Estate Loans:		
Insured or Guaranteed by the U.S. Government or its Agencies	$ —	$ —
Other	873,540	84,935
Commercial and Industrial Loans	1,888,510	890,026
Loans to Individuals for Household, Family, and Other Consumer Expenditures	2,729,937	1,490,406
All Other Loans (Including Overdrafts)	37,539	871
Total	$5,529,526	$2,466,238

(6) COMMITMENTS

The Bank leases premises and certain equipment. The occupancy lease may be renewed at the Bank's option for periods up to ten years. Total rental expense, including rental of temporary office space, was $53,439 in 1975 and $43,701 in 1974. Future minimum rentals are shown below:

1976	$ 45,000
1977	$ 45,000
1978	$ 44,000
1979	$ 48,000
1980	$ 43,000
1981-85	$147,000

(7) NET OPERATING LOSS CARRY-FORWARD

As of December 31, 1975, the Bank has a net operating loss carry-forward available for income tax reporting purposes of $58,775 to reduce future taxable income. This loss carry-forward expires in 1980.

(8) UNDIVIDED PROFITS

The transfer from surplus to undivided profits of $366,675 was made in 1973 to avoid creating a deficit in undivided profits during the early stages of operations. It is management's intent to restore this amount to the surplus account as rapidly as profitable operations permit. The $199,194 of undivided profits presented in the accompanying financial statements is not available for the payment of dividends.

(9) TRANSACTIONS WITH DIRECTORS

During 1974 and 1975, certain directors of the Bank have had loans and other transactions with the Bank. Management is of the opinion that such loans were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. As of December 31, 1974 and 1975, the amount of such outstanding loans receivable, including direct and indirect amounts, totaled approximately $294,000 and $384,000, respectively. These loans include approximately $213,000 and $332,000 as of December 31, 1974 and 1975, respectively, which are collateralized by either dealer automobile inventory or automotive fleets.

Directors

FRANK S. BESSON, JR.
Chairman of the Board
General, USA (Ret.)

CALVIN B. ANDRINGA
Vice President Amtrak

D.J. ARONE
Editor-Publisher
Arone Publications Inc.

ROBERT A. CARLONE
Colonel, USAF (Ret.)

KEN ELDER
Owner & President
Washington Thrifty Rent-a-Car

I.J. GALANTIN
Admiral, USN (Ret.)

CHESTER W. GROCH
President

DONALD L. HARLOW
CMSAF, USAF (Ret.)

CHARLES LURIA
President
Charles Luria Associates

ROBERT C. MOOT
Finance Chairman
President Ford Committee

LOLA REINSCH
Property Management

ANNA SMITH
Owner & President
Alexandria American Sales Inc.

Officers

CHESTER W. GROCH
President

KURT L. WALITSCHEK
Colonel, USA (Ret.)
Vice President & Cashier

W. JAMES STUDEBAKER
Assistant Vice President

KAREN PETERSON
Assistant Cashier

Advisory Board

WILLIAM W. BEHRENS. JR.
President, Earth Resources
Applications Institute, Inc.

C. W. BORKLUND
President, Executive Publications, Inc.

BILL BURNETT
President, Burnett Associates, Inc.

MICHAEL COLLINS
Director, Air & Space Museum, Smithsonian Institution

MAURICE L. LIEN
Executive Editor, The Retired Officer Magazine

JOE WASSON
Information Liason Assistant, U.S. Navy Department

ROBERT F. Willey
Retired

SERVICES NATIONAL BANK
2301 So. Jefferson Davis Highway
Arlington, Virginia 22202
(703) 979-9300

1976
ANNUAL REPORT

SERVICES NATIONAL BANK
2301 So. Jefferson Davis Highway
Arlington, Virginia 22202
(703) 979-9300

At the close of 1976, Services National Bank completed nearly three years of operations. Our favorable growth rate continued in 1976. As compared to December 31, 1975, total resources on December 31, 1976 increased $2,259,114, up 29.9%; deposits increased $2,158,216, up 41.4% and total loans increased $1,846,812, up 33.3%.

Our net income increased from a loss of $81,000 in 1975 to a gain of $76,800 in 1976. This favorable trend is primarily due to the fact that operating income increased 40% while expense increased only 8%. Our deposit base is now sufficient to support our fixed operating expenses and with continued growth we expect additional net income increases supported with only a relatively small incremental operating cost.

As required, the bank examined during 1976 by the National Bank Examiners. In addition, the international accounting firm of Arthur Andersen & Co., conducted an audit of the bank's financial statements as of December 31, 1976.

During 1976, Admiral I. J. Galantin, USN (Ret.) one of the organizing directors, retired from the Board because he no longer resides in the Washington area. His efforts on behalf of the bank will be greatly missed.

The vacancy on the Board was filled by William W. Behrens, Jr., D.Sc. Vice Admiral USN (Ret.), Vice President, J. Watson Noah Associates Inc. His business acumen will be a valuable asset to the Board.

In recognition of their past efforts and continuing interest in and support of the bank, Leonard F. Chapman, General USMC (Ret.) and I. J. Galantin, USN (Ret.) have been appointed Founding Directors Emeritus of the Board.

The Directors, officers and employees of your Bank wish to thank our stockholders and depositors for their continued co-operation and confidence.

We pledge to you that we will make every effort to continue to merit your confidence during the coming year.

Frank S. Besson, Jr.
Chairman of the Board

Chester W. Groch
President

THE SERVICES NATIONAL BANK

Statements of Condition

December 31, 1976 and 1975

ASSETS

	1976	1975
CASH AND DUE FROM BANKS	$ 696,569	$ 800,823
SECURITIES (Notes 1 and 3):		
United States Treasury securities	551,215	474,723
United States Government agencies	400,320	400,512
Federal Reserve Bank stock	63,000	63,000
Total securities	1,014,535	938,235
FEDERAL FUNDS SOLD	500,000	100,000
LOANS (Notes 1, 4, and 5):		
Consumer loans	2,858,844	2,625,306
Real estate mortgage loans	1,996,170	873,540
Commercial loans, including dealer floor plan loans of $377,276 in 1976 and $291,697 in 1975	1,559,986	1,186,044
Small Business Administration loans	561,338	344,636
Participation loans	400,000	500,000
Total loans	7,376,338	5,529,526
Less reserve for possible loan losses	(80,000)	(86,048)
Net loans	7,296,338	5,443,478
LEASEHOLD IMPROVEMENTS AND EQUIPMENT, net (Note 1)	212,608	217,559
OTHER ASSETS	88,314	49,155
	$9,808,364	$7,549,250

LIABILITIES AND STOCKHOLDERS' EQUITY

	1976	1975
LIABILITIES:		
Deposits—		
Demand deposits	$3,659,245	$2,642,711
Certificates of deposit	1,717,502	1,238,141
Savings deposits	1,990,472	1,328,151
Total deposits	7,367,219	5,209,003
Accrued interest and other liabilities	65,142	41,053
Total liabilities	7,432,361	5,250,056
COMMITMENTS (Note 6)		
STOCKHOLDERS' EQUITY:		
Common stock, $12 par value, 150,000 shares authorized, 125,000 shares outstanding	1,500,000	1,500,000
Surplus	600,000	600,000
Undivided profits (Note 8)	276,003	199,194
Total stockholders' equity	2,376,003	2,299,194
	$9,808,364	$7,549,250

The accompanying notes to financial statements are an integral part of these statements.

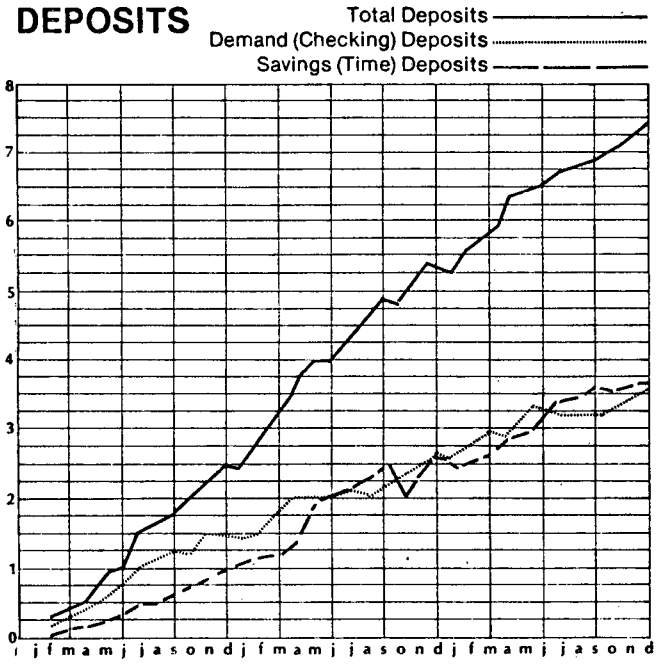
THE SERVICES NATIONAL BANK

Statement of Changes in Stockholders' Equity

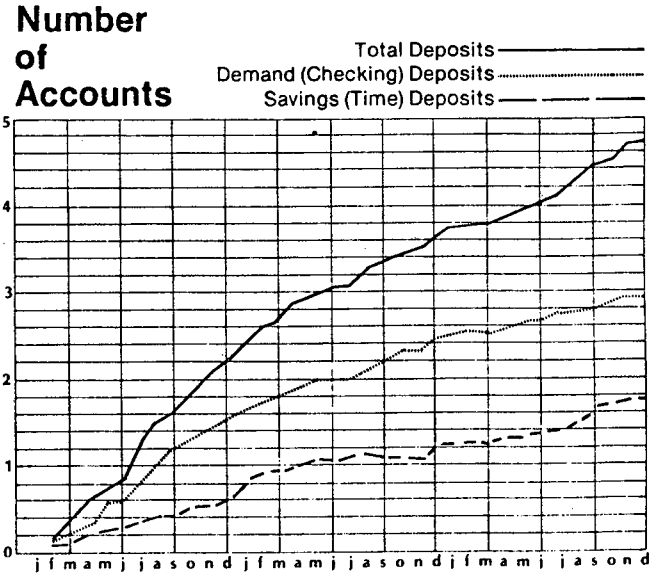
For the years ended
December 31, 1976 and 1975

	Common Stock	Surplus	Undivided Profits	Total
BALANCE, December 31, 1974	$1,500,000	$600,000	$280,362	$2,380,362
Loss for the year ended December 31, 1975	—	—	(81,168)	(81,168)
BALANCE, December 31, 1975	1,500,000	600,000	199,194	2,299,194
Net income for the year ended December 31, 1976	—	—	76,809	76,809
BALANCE, December 31, 1976 (Note 8)	$1,500,000	$600,000	$276,003	$2,376,003

DEPOSITS



Number of Accounts



The accompanying notes to financial statements are an integral part of these statements.

THE SERVICES NATIONAL BANK

Statements of Operations

For the years ended December 31,

	1976	1975
OPERATING REVENUE:		
Interest and fees on loans	$597,020	$403,126
Interest on Federal funds sold	8,783	43,807
Interest on United States Government securities	77,831	40,663
Other operating revenue	40,814	29,073
	724,448	516,669
OPERATING EXPENSES:		
Salaries	147,246	143,824
Employee benefits and payroll taxes	15,370	17,126
Interest on deposits	171,287	108,606
Occupancy and equipment	77,707	78,457
Provision for loan losses	61,497	71,000
Advertising and promotion	18,649	41,183
State tax	22,962	24,000
Data processing services	24,458	17,747
Other operating expenses	108,463	95,894
	647,639	597,837
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY CREDIT	76,809	(81,168)
APPLICABLE INCOME TAXES	22,611	—
INCOME (LOSS) BEFORE EXTRAORDINARY CREDIT	54,198	(81,168)
EXTRAORDINARY CREDIT due to recognition of net operating loss carry-forwards	22,611	—
NET INCOME (LOSS)	$ 76,809	$ (81,168)
NET INCOME PER SHARE, based on 125,000 shares outstanding during the periods—		
Income (loss) before extraordinary credit	$.43	$(.65)
Extraordinary credit	.18	—
Net income (loss)	$.61	$(.65)

The accompanying notes to financial statements are an integral part of these statements.

THE SERVICES NATIONAL BANK

Statements of Changes in Financial Position

For the years ended December 31,

	1976	1975
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Operations—		
Net income (loss)	$ 76,809	$ (81,168)
Provision for loan losses	61,497	71,000
Depreciation and amortization	16,961	15,367
Total from operations	155,267	5,199
Increase in deposits—		
Demand deposits	1,016,534	1,174,873
Time deposits	1,141,682	1,531,242
Total from deposits	2,158,216	2,706,115
Increase in accrued interest and other liabilities	24,089	25,669
	$2,337,572	$2,736,983
FINANCIAL RESOURCES WERE USED FOR:		
Increase (decrease) in earning assets—		
Loans, before charge-offs	$1,914,357	$3,108,240
Investment securities	76,300	702,671
Federal funds sold	400,000	(1,600,000)
Total increase in earning assets	2,390,657	2,210,911
Increase (decrease) in cash and due from banks	(104,254)	479,400
Additions to leasehold improvements and equipment	12,009	19,338
Increase in other assets	39,160	27,334
	$2,337,572	$2,736,983

The accompanying notes to financial statements are an integral part of these statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
The Services National Bank:

We have examined the statements of condition of THE SERVICES NATIONAL BANK as of December 31, 1976 and December 31, 1975, and the related statements of operations, changes in stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Services National Bank as of December 31, 1976, and December 31, 1975, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Washington, D.C.,
January 19, 1977.

FORM F-2

The Services National Bank files with the Comptroller of the Currency each year an Annual Report on Form F-2. A copy of this report may be obtained by any stockholder upon written request to Kurt L. Walitschek, Vice President and Cashier, The Services National Bank, 2301 South Jefferson Davis Highway, Arlington, Virginia, 22202.

QUARTERLY DETAIL/Per Share High-Low Bid Prices*
for The Services National Bank Common Stock

Year	1975				1976			
Quarter	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High Bid	22	21¾	21¼	20¾	21	20¾	20½	20
Low Bid	18½	20¼	18½	19	20½	18	18	19
Quarter-End Low Bid	21½	20¾	19¼	19	19	18	18	18

* Quotations between dealers and not necessarily actual transactions.

THE SERVICES NATIONAL BANK

Notes to Financial Statements

December 31, 1976

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leasehold Improvements and Equipment—

Leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization of $39,983 in 1976 and $23,022 in 1975. Leasehold improvements are amortized on the straight-line basis over the term of the lease including renewal options. Equipment is depreciated on the straight-line method over the estimated useful lives of the assets.

Securities—

Securities are stated at cost, as adjusted for amortization of premium and accretion of discount.

Reserve for Possible Loan Losses—

The provision for loan losses charged to operations is based on management's review and evaluation of the loan portfolio.

Unearned Interest Income—

Interest applicable to consumer loans is recognized on an effective-yield basis (sum-of-months-digits methods). Unearned interest is reflected as a reduction of loans in the accompanying statements of condition and amounts to $255,000 in 1976 and $254,000 in 1975.

Investment Tax Credit—

Investment tax credits are accounted for on the flow-through method which reduces the provision for income taxes in the year the asset is placed in service. Investment tax credits of $1,400 in 1975 and $8,572 in 1974 are available for reduction of future tax liabilities. The carry-forwards expire in 1982 and 1981.

(2) ORGANIZATIONAL EXPENSES

Organizational costs incurred prior to February 19, 1974 (the date the Bank commenced operations), amounted to $84,446. The organizational costs have been expensed as incurred for financial reporting purposes. For Federal income tax purposes, they are being amortized over five years from the date the Bank commenced operations. At December 31, 1976, $35,181 of organizational expense is available for future amortization for Federal income tax purposes.

(3) SECURITIES

The book value and market value of securities as of December 31 are as follows:

	1976		1975	
	Book Value	Market Value	Book Value	Market Value
United States Treasury:				
Maturing in one year	$ 249,976	$ 254,890	$224,699	$225,211
Maturing after one year but within five years	301,239	312,690	250,024	257,000
United States Government Agencies:				
Maturing after one year but within five years	400,320	408,640	400,512	399,000
Federal Reserve Bank Stock	63,000	63,000	63,000	63,000
	$1,014,535	$1,039,220	$938,235	$944,211

Securities with a book value of approximately $752,000 at December 31, 1976, were pledged to secure public depsoits and for other purposes as required by law.

(4) RESERVE FOR LOAN LOSSES

The changes in the reserve for loan losses were as follows:

	1976	1975
Balance, beginning of period	$ 86,048	$ 60,000
Loans charged off	(72,399)	(51,233)
Recoveries of charged-off loans	4,854	6,281
Provision charged to operations	61,497	71,000
Balance, end of period	$ 80,000	$ 86,048

(5) LOANS

The following schedule reflects loans extended to customers of the Bank by purpose at year-end.

	1976	1975
Conventional real estate	$1,996,170	$ 873,540
Commercial and industrial loans	2,325,067	1,888,510
Loans to individuals for household, family, and other consumer expenditures	3,029,647	2,729,937
All other loans (including overdrafts)	25,454	37,539
TOTAL LOANS	$7,376,338	$5,529,526

(6) COMMITMENTS

The Bank leases premises and certain equipment. The occupancy lease may be renewed at the Bank's option for periods up to ten years. Total rental expense was $50,407 in 1976 and $53,439 in 1975. Future minimum rentals are shown below:

1977	$ 45,000
1978	$ 44,000
1979	$ 48,000
1980	$ 43,000
1981	$ 43,000
1982-85	$104,000

(7) NET OPERATING LOSS CARRY-FORWARD

As of December 31, 1976, the Bank has a net operating loss carry-forward available for income tax reporting purposes of $13,100 to reduce future taxable income. This loss carry-forward expires in 1980.

(8) UNDIVIDED PROFITS

A transfer from surplus to undivided profits of $366,675 was made in 1973 to avoid creating a deficit in undivided profits during the early stages of operations. It is management's intent to restore this amount to the surplus account as rapidly as profitable operations permit. The $276,003 of undivided profits presented in the accompanying financial statements is not available for the payment of dividends.

(9) TRANSACTIONS WITH DIRECTORS

During 1976 and 1975, certain directors of the Bank have had loans and other transactions with the Bank. Management is of the opinion that such loans were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. As of December 31, 1976 and 1975, the amount of such outstanding loans receivable, including direct and indirect amounts, totaled approximately $338,000 and $384,000, respectively. These loans include approximately $211,000 and $332,000 as of December 31, 1976 and 1975, respectively, which are collaterialized by either dealer automobile inventory or automotive fleets.

Member FDIC
Member ABA
Member Independent Bankers Association
Member Virginia Bankers Association
Member Military Banking Association

Directors

FRANK S. BESSON, JR.
Chairman of the Board
General, USA (Ret.)

CALVIN B. ANDRINGA
Vice President Amtrak

D.J. ARONE
Editor-Publisher
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Owner & President
Washington Thrifty Rent-A-Car

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ROBERT C. MOOT
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LOLA C. REINSCH
Property Management
E. G. Reinsch, Inc.

ANNA SMITH
Owner & President
Alexandria American Sales Inc.

Founding Directors Emeritus

LEONARD F. CHAPMAN, JR.
General USMC (Ret.)

I. J. GALATIN
Admiral USN (Ret.)

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President

KURT L. WALITSCHEK
Colonel, USA (Ret.)
Cashier

W. JAMES STUDEBAKER
Assistant Vice President

KAREN PETERSON
Assistant Cashier

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Retired

SERVICES NATIONAL BANK
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1977
ANNUAL REPORT

POST OFFICE BOX 2567
2301 SOUTH JEFFERSON DAVIS HIGHWAY
ARLINGTON, VIRGINIA 22202
(703) 979-9300

During the past year, Services National Bank continued a favorable rate of growth. On December 31, 1977 as compared to the end of 1976, total deposits had increased $2,031,926 or 28 percent.

My letter accompanying the September 30, 1977 Third Quarter Statement of Condition stated that a stringent review of our loan portfolio had begun and would continue into the Fourth Quarter. This review revealed that a number of our loans carried as assets were of doubtful value. Those not realistically collectible were charged-off and the provision for loan losses was increased to protect against possible future losses in the loan portfolio. As a result of these actions, despite our favorable growth rate, the Bank experienced a loss of $21,714 or 17 cents per share for the full year period.

Over one-half of the loans charged-off in 1977 originated in our first two years of operation, 1974 and 1975. These loans would not have been made under our more conservative credit standards introduced in 1976. Since then we have imposed even stricter standards for screening loan requests and have added a system of tighter internal controls over the monitoring of outstanding loans.

As indicated in my earlier letter, our President, Mr. Chester W. Groch resigned effective September 30, 1977. The Board after thoroughly reviewing several outstanding candidates, offered the position to Mr. Marshall H. Groom. Mr. Groom assumed the position of President and Chief Executive Officer on December 1, 1977 and joined the Board of Directors at the December meeting. Mr. Groom's broad background of 20 years experience in banking in our metropolitan area, coupled with his realistic approach to the application of sound principles to the management of the Bank's affairs and his dedicat on to his tasks, auger well for the future of the Bank.

As required, the Bank was examined during 1977 by the National Bank Examiners. In addition, the international accounting firm of Arthur Andersen & Co., conducted an audit of the Bank's financial statements as of December 31, 1977.

Since the last Annual Meeting of the Stockholders, the Board of Directors has elected two other new members.

Mr. Ted L Johnson joined the Board in October 1977. Mr. Johnson, President of Dart Services, Inc., Com-X, Inc., and Shirlington Security & Storage is a strong supporter of the Bank, an active businessman in the community, and a retired Army Officer with both enlisted and commissioned service.

Vice Admiral William P. Mack, USN(Ret.) joined the Board at the February meeting. Admiral Mack culminated 38 years of service in the Navy by serving as Superintendent of the U.S. Naval Academy from 1972 to 1975. He brings to the Board not only a unique understanding of military personnel the Bank endeavors to serve, but also a sound education and background in financial management.

With Mr. Groom's selection as President and the thorough review of our entire loan portfolio, your Board of Directors firmly believes the Bank has overcome a temporary setback and can now aggressively pursue our long range growth and profit plan.

Frank S. Besson, Jr.
Chairman of the Board

THE SERVICES NATIONAL BANK

Statements of Condition

December 31, 1977 and 1976

ASSETS

	1977	1976
CASH AND DUE FROM BANKS	$ 1,237,444	$ 696,569
SECURITIES (Notes 1 and 3):		
U.S. Treasury securities	797,086	551,215
Obligations of U.S. Government agencies	1,200,758	400,320
Federal Reserve Bank stock	63,000	63,000
Total securities	2,060,844	1,014,535
FEDERAL FUNDS SOLD	900,000	500,000
LOANS (Notes 1, 4, 5 and 9):		
Consumer loans	2,570,158	2,858,844
Real estate mortgage loans	2,457,920	1,996,170
Commercial loans, including dealer floor plan loans of $513,754 in 1977 and $377,276 in 1976	1,579,814	1,559,986
Small Business Administration loans	805,813	561,338
Participation loans		400,000
Total loans	7,413,705	7,376,338
Less reserve for possible loan losses	(122,000)	(80,000)
Net loans	7,291,705	7,296,338
LEASEHOLD IMPROVEMENTS AND EQUIPMENT, net (Note 1)	202,116	212,608
OTHER ASSETS	107,553	88,314
	$11,799,662	$9,808,364

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:		
Deposits—		
Demand deposits	$ 4,445,835	$3,659,245
Certificates of deposit	2,469,271	1,717,502
Savings deposits	2,484,039	1,990,472
Total deposits	9,399,145	7,367,219
Accrued interest and other liabilities	46,228	65,142
Total liabilities	9,445,373	7,432,361
COMMITMENTS (Note 6)		
STOCKHOLDERS' EQUITY:		
Common stock, $12 par value, 150,000 shares authorized, 125,000 shares outstanding	1,500,000	1,500,000
Surplus	600,000	600,000
Undivided profits (Note 8)	254,289	276,003
Total stockholders' equity	2,354,289	2,376,003
	$11,799,662	$9,808,364

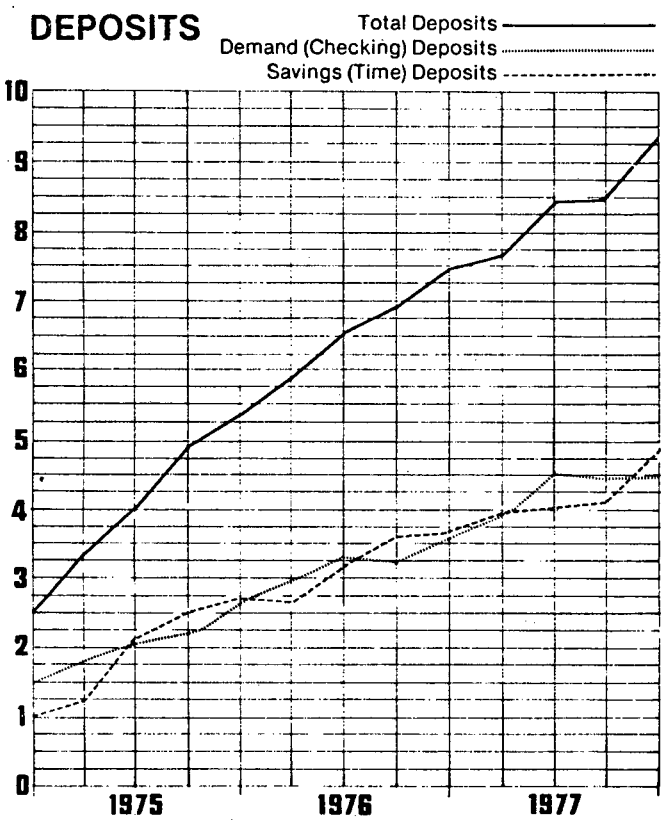
The accompanying notes to financial statements are an integral part of these statements.

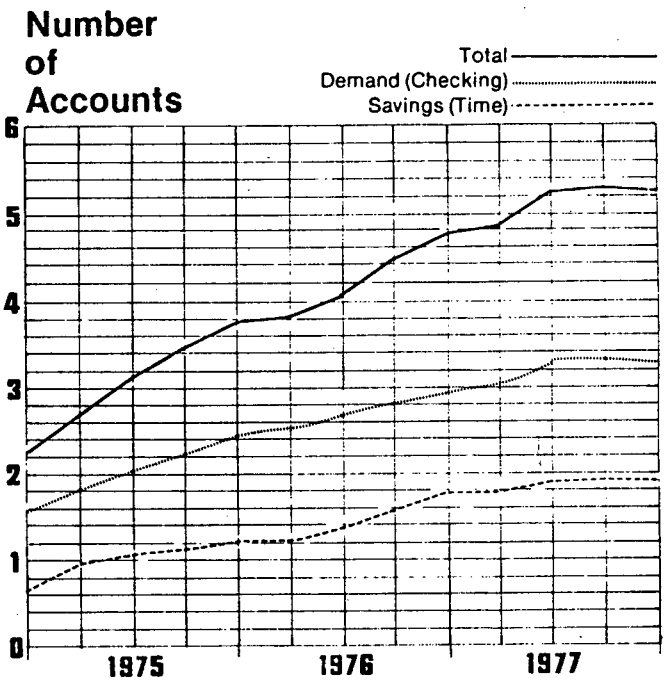
THE SERVICES NATIONAL BANK

Statement of Changes in Stockholders' Equity

For the years ended
December 31, 1977 and 1976

	Common Stock	Surplus	Undivided Profits	Total
BALANCE, December 31, 1975	$1,500,000	$600,000	$199,194	$2,299,194
Net income for 1976	—	—	76,809	76,809
BALANCE, December 31, 1976	1,500,000	600,000	276,003	2,376,003
Net loss for 1977	—	—	(21,714)	(21,714)
BALANCE, December 31, 1977 (Note 8)	$1,500,000	$600,000	$254,289	$2,354,289





The accompanying notes to financial statements are an integral part of these statements.

THE SERVICES NATIONAL BANK

Statements of Operations

For the years ended December 31,

	1977	1976
OPERATING REVENUE:		
Interest and fees on loans	$702,422	$597,020
Interest on Federal funds sold	33,137	8,783
Interest on securities—		
U.S. Treasury securities	38,439	45,643
Obligations of U.S. Government agencies	35,539	28,408
Other	3,780	3,780
Other operating revenue	70,615	40,814
	883,932	724,448
OPERATING EXPENSES:		
Salaries	163,894	147,246
Employee benefits and payroll taxes	19,241	15,370
Interest on deposits (including $49,267 in 1977 on certificates of deposit over $100,000)	223,643	171,287
Occupancy and equipment (Note 6)	79,912	77,707
Provision for loan losses (Notes 1 and 4)	192,700	61,497
Advertising and promotion	21,095	18,649
Stock tax	23,914	22,962
Data processing services	31,604	24,458
Other operating expenses	149,643	108,463
	905,646	647,639
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY CREDIT	(21,714)	76,809
INCOME TAXES	-	22,611
INCOME (LOSS) BEFORE EXTRAORDINARY CREDIT	(21,714)	54,198
EXTRAORDINARY CREDIT, due to recognition of net operating loss carry-forwards	-	22,611
NET INCOME (LOSS)	$(21,714)	$ 76,809
NET INCOME PER SHARE, based on 125,000 shares outstanding during the periods—		
Income (loss) before extraordinary credit	$(.17)	$.43
Extraordinary credit	-	.18
Net income (loss)	$(.17)	$.61

The accompanying notes to financial statements are an integral part of these statements.

THE SERVICES NATIONAL BANK

Statements of Changes in Financial Position

For the years ended December 31,

	1977	1976
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Operations—		
Net income (loss)	$ (21,714)	$ 76,809
Provision for loan losses	192,700	61,497
Depreciation and amortization	21,494	16,961
Total from operations	192,480	155,267
Increase in deposits—		
Demand deposits	786,590	1,016,534
Time deposits	1,245,336	1,141,682
Total from deposits	2,031,926	2,158,216
Increase (decrease) in accrued interest and other liabilities	(18,914)	24,089
	$2,205,492	$2,337,572
FINANCIAL RESOURCES WERE USED FOR:		
Increase (decrease) in earning assets—		
Loans, before net charge-offs	$ 188,067	$1,914,357
Investment securities	1,046,309	76,300
Federal funds sold	400,000	400,000
Total increase in earning assets	1,634,376	2,390,657
Increase (decrease) in cash and due from banks	540,875	(104,254)
Net additions to leasehold improvements and equipment	11,002	12,009
Increase in other assets	19,239	39,160
	$2,205,492	$2,337,572

The accompanying notes to financial statements are an integral part of these statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
The Services National Bank:

We have examined the statements of condition of THE SERVICES NATIONAL BANK as of December 31, 1977, and December 31, 1976, and the related statements of operations, changes in stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Services National Bank as of December 31, 1977, and December 31, 1976, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Washington, D.C.,
January 26, 1978

FORM F-2

The Services National Bank files with the Comptroller of the Currency each year an Annual Report on Form F-2. A copy of this report may be obtained by any stockholder upon written request to W. James Studebaker, Vice President and Cashier, The Services National Bank, 2301 South Jefferson Davis Highway, Arlington, Virginia, 22202.

QUARTERLY DETAIL/Per Share High-Low Bid Prices*
for The Services National Bank Common Stock

Year	1976				1977			
Quarter	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High Bid	21	20¾	20½	20	19	19	19	17
Low Bid	20½	18	18	19	17	17	16	15
Quarter-End Low Bid	19	18	18	18	17	17	16	15

Quotations between dealers and not necessarily actual transactions.

THE SERVICES NATIONAL BANK

Notes to Financial Statements

December 31, 1977

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost, less accumulated depreciation and amortization of $60,231 in 1977 and $39,983 in 1976. Leasehold improvements are amortized using the straight-line method over the term of the lease including renewal options. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets.

Securities

Securities are stated at cost, as adjusted for amortization of premium and accretion of discount.

Reserve for Possible Loan Losses

The provision for loan losses charged to operations is based on management's periodic review and evaluation of the loan portfolio.

Unearned Interest Income

Interest applicable to consumer loans is recognized on an effective-yield basis. Unearned interest is reflected as a reduction of loans in the accompanying statements of condition and amounts to approximately $235,000 in 1977 and $255,000 in 1976.

Investment Tax Credit

Investment tax credits are accounted for on the flow-through method. However, since the Bank has not had current taxable income, no current benefit has been recognized, and these credits (approximately $11,000) have been carried forward to future years. The investment tax credit carry-forwards expire in 1980 through 1984.

(2) ORGANIZATIONAL COSTS

Organizational costs incurred prior to February 19, 1974 (the date the Bank commenced operations), amounted to $84,446. These costs were expensed when incurred for financial reporting purposes. For Federal income tax purposes, they are being amortized over five years from the date the Bank commenced operations. At December 31, 1977, $18,292 of organizational costs remain to be amortized for Federal income tax purposes.

(3) SECURITIES

The book value and market value of securities at year-end are as follows:

	1977		1976	
	Book Value	Market Value	Book Value	Market Value
U.S. Treasury:				
Maturing in one year	$ —	$ —	$ 249,976	$ 254,890
Maturing after one year but within five years	698,202	697,561	301,239	312,690
Maturing after five years but within ten years	98,884	98,094	—	—
U.S. Government agencies:				
Maturing in one year	999,647	1,000,157	—	—
Maturing after one year but within five years	100,736	99,625	400,320	408,640
Maturing after five years but within ten years	100,375	99,875	—	—
Federal Reserve Bank stock	63,000	63,000	63,000	63,000
	$2,060,844	$2,058,312	$1,014,535	$1,039,220

Securities with a book value of approximately $1,100,000 at December 31, 1977, were pledged to secure public deposits and for other purposes as required by law.

(4) RESERVE FOR LOAN LOSSES

The changes in the reserve for loan losses were as follows:

	1977	1976
Balance, beginning of year	$ 80,000	$ 86,048
Provision charged to operations	192,700	61,497
Loans charged off	(169,830)	(72,399)
Less recoveries of amounts previously charged off	19,130	4,854
Net charge-offs	(150,700)	(67,545)
Balance, end of year	$ 122,000	$ 80,000

During the fourth quarter of 1977, the Bank provided $141,700 for possible loan losses. The provision previously reported for the first nine months of the year was $51,000. The fourth quarter provision was, in the opinion of management, necessary to increase the reserve for possible losses in collection of the loan portfolio as of December 31, 1977.

(5) LOANS

The following schedule summarizes loans extended to customers of the Bank by purpose at year-end.

	1977	1976
Conventional real estate	$2,457,920	$1,996,170
Commercial and industrial loans	2,242,110	2,325,067
Loans to individuals for household, family and other consumer expenditures	2,703,756	3,029,647
All other loans (including overdrafts)	9,919	25,454
Total loans	$7,413,705	$7,376,338

(6) COMMITMENTS

The Bank leases its premises and certain equipment under operating leases expiring within eight years. The occupancy lease may be renewed at the Bank's option for periods up to ten years. Total rental expense was $49,980 in 1977 and $50,407 in 1976. Future minimum rentals are shown below:

1978	$44,000
1979	$48,000
1980	$43,000
1981	$43,000
1982	$43,000
1983-85	$61,000

(7) NET OPERATING LOSS CARRY-FORWARD

As of December 31, 1977, the Bank has a net operating loss carry-forward for financial reporting purposes of approximately $112,000. The amount of carry-forward for Federal income tax reporting purposes is approximately $13,000, and expires primarily in 1980. The difference in the loss carry-forward for financial reporting and Federal income tax purposes results primarily from timing differences in the recognition of provisions for loan losses.

(8) UNDIVIDED PROFITS

A transfer from surplus to undivided profits of $366,675 was made in 1973 to avoid creating a deficit in undivided profits during the early stages of operations. It is management's intent to restore this amount to the surplus account as rapidly as profitable operations permit. The $254,289 of undivided profits presented in the accompanying financial statements is not available for the payment of dividends.

(9) TRANSACTIONS WITH DIRECTORS

The bank has made a dealer floor plan arrangement with a local car dealership owned by a director. The Bank finances the wholesale cost of cars held in inventory by the dealership which is supported by a repurchase agreement from the manufacturer of all new car inventory. Interest (9% at December 31, 1977) is paid monthly. Outstanding loans under this arrangement were approximately $211,000 at both December 31, 1977 and 1976. Principal advances are repaid as cars are sold.

In addition, certain directors of the Bank and companies in which they are principals have had other loans and transactions with the Bank. Management is of the opinion that such loans and transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other. As of December 31, 1977 and 1976, the amount of such outstanding loans, including direct and indirect amounts, totaled approximately $488,000 and $127,000, respectively. These loans were primarily either guaranteed by the Small Business Administration or secured by real estate or automobiles.

Member FDIC
Member ABA
Member Independent Bankers Association
Member Virginia Bankers Association
Member Military Banking Association

Directors

Frank S. Besson, Jr.
Chairman of the Board
General, USA (Ret.)

Calvin B. Andringa
Senior Vice President
Finance & Administration
United Nuclear Corporation

D. J. Arone
Editor-Publisher
Arone Publications, Inc.

William W. Behrens, Jr.
Vice Admiral, USN (Ret.)
Business Executive

Ken Elder
Owner & President
Washington Thrifty Rent-a-Car

Marshall H. Groom
President

Donald L. Harlow
CMSAF, USAF (Ret.)

Ted L. Johnson
President, COM-X

Robert C. Moot
Management Consultant

Lola C. Reinsch
Property Management
E. G. Reinsch, Inc.

Anna Smith
Owner & President
Alexandria American Sales Inc.

Founding Directors Emeritus

Leonard F. Chapman, Jr.
General USMC (Ret.)

I. J. Galantin
Admiral USN (Ret.)

Robert A. Carlone
Colonel, USAF (Ret.)

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Prestige Management Corporation

Richard A. Bartl
Attorney at Law

C. W. Borklund
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Executive Publications, Inc.

Bill Burnett
President
Burnett Associates, Inc.

Maurice L. Lien
Executive Editor
The Retired Officer Magazine

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President
Heishman BMW, Inc.

William Paule
Colonel, USAF (Ret.)

Kurt L. Walitschek
Colonel, USA (Ret.)

Joe Wasson
Information Liaison Assistant
U.S. Navy Department

Officers

Marshall H. Groom
President

Raymond J. Andreno
Vice President

W. James Studebaker
Vice President & Cashier

Karen Peterson
Assistant Cashier

MHG EXHIBIT 11 - MAPS

Cannot Be Reasonably Reproduced, but Are On File
in Clerk's Office

IN THE

STATE CORPORATION COMMISSION

AT RICHMOND

CASE NO. 19967

IN RE: APPLICATION OF BURKE &
HERBERT BANK & TRUST COMPANY
For authority to establish a branch
at 2300 South Eads Street,
Arlington County, Virginia

TESTIMONY OF LEWIS N. DEMBITZ
PREFILED ON BEHALF OF THE SERVICES NATIONAL BANK

My name is Lewis N. Dembitz, of 3414 Garfield Street, N.W., Washington, D.C.

I have an A.B. degree from George Washington University and a degree of Master in Business Administration from the Harvard Business School. I was then on the staff of the Board of Governors of the Federal Reserve System for about 30 years, from 1934 through 1965, excluding 2-1/2 years during World War II. During the last 10 years of this period, I held the position of Assistant Director and Associate Adviser in the Board's Division of Research and Statistics, which meant that I was one of a group of senior economists responsible for directing the general research work of the Board and coordinating these functions for the Federal Reserve System as a whole.

LN D-12

Subsequently I joined the firm of Golembe Associates, in which I am now a senior consulting associate. This firm provides professional consulting and research services in the area where economics, law and government meet to affect financial institutions. A significant part of the firm's work deals with matters concerning the financial structure and competitive relationships.

I am a member of the American Economic Association, the American Statistical Association, and the American Finance Association.

In 1962-64, I was assigned to the staff of the President's Committee on Corporate Pension Funds, and was a co-author of its report on "Public Policy and Private Pension Programs" which led eventually to the Employee Retirement Income Security Act of 1974. Part of my work related to the investing of pension trust funds.

One of my recent published writings was a report that was prepared at the request of a committee of the Michigan legislature, dealing with the banking structure in Michigan and setting forth recommendations for legislation in this field. Some other publications of which I was a co-author include a book entitled "The Economic Power of Commercial Banks" which deals with possible control relationships between banks and other corporations; a study on the adequacy of bad debt reserves; a study on capital needs of savings and loan associations for the Federal Home Loan Bank of San Francisco; and an economic study of the State Treasurer's Office for the State of Missouri. I have also been responsible for a number of economic studies relating to charter applications or branch approvals for financial institutions.

An earlier publication of mine was entitled "Investment Companies in the United States," written for Die Aktiengesellschaft, an economic journal published in Hamburg, Germany. Most of my writings while I was at the Federal Reserve took the form of studies for the internal use of the Board or were published by the Board without specific attributions to staff members who prepared them. One exception was my co-authorship of a pioneering study on "The Federal Funds Market."

During an earlier period when I was Assistant Director of the Board's Division of International Finance, publications that appeared under my name included a study on "Adequacy of Import Financing Facilities" and another on "Financial Problems in the Advancement of Underdeveloped Countries." Other works in which my participation was publicly recorded included the Federal Reserve series of books on consumer installment credit, published in 1957, and the book entitled "The Federal Reserve System: Purposes and Functions."

Of the various books by others who have acknowledged my assistance or contributions, I might mention two: "Financial Intermediaries in the American Economy" by Raymond W. Goldsmith, and "Corporate Bond Quality and Investor Experience" by W. Braddock Hickman.

I am neither a customer nor a stockholder of The Services National Bank and have no financial interest of any nature in the Bank with the exception of the fact that the Bank is paying a fee for my work in this matter. I have been retained by Services as an independent consultant with regard to the possible effects on Services of a proposed branch of Burke & Herbert Bank and Trust Company to be located at 2300 South Eads Street, Arlington, Virginia. I am, of course, aware of

Services' position in this matter, and have read its Protest filed with the Commission. The conclusions which follow, however, represent an independent evaluation on my part rather than an attempt to juggle statistical data in order to arrive at a preconceived conclusion.

I agree with Services' position that competition among banks is healthy and should be encouraged to the extent that it does not damage existing institutions. I also understand that it is not Services' position that Burke & Herbert should never be permitted a branch in the Crystal City area, but rather that Services would be damaged by establishment of a branch at this time and at the particular location in question. My conclusion after analysis of the facts is in accord with Services'; the Bank should be protected, for a while longer, from Burke & Herbert's competition. In arriving at my conclusions, I have utilized Mr. Marshall's report of February 23, 1978, with its attached tables, Mr. Burke's pre-filed testimony, facts obtained from Mr. Marshall Groom, President of Services, and information, data and knowledge which I have obtained throughout the course of my career with regard to economics, the banking industry and the trade area involved.

Burke & Herbert's projections for this branch admit that it would have a third year deficit of $14,454. For reasons which I will later outline, I do not believe that the prospective earnings projections are as substantially understated as Mr. Marshall and Mr. Burke imply, nor that any valid adjustment of the deficit figure for "over-conservatism" would raise it to a zero or plus figure. As a general prefatory comment to this analysis, it is my opinion that it would be unfair and contrary to public policy for Burke & Herbert to be permitted

to open an unprofitable branch, which admittedly would be subsidized by the parent bank for at least three years, when the effect is to draw business away from Services before that Bank has been able to restore its capital to its initial level.

Even in cases where affected businesses are well established, the problem of "cross-subsidization" is one of great concern, both in the area of antitrust and the area of regulated industries. The problem becomes particularly acute here when it is considered that Services has only one office and its viability as a financial institution depends entirely upon the performance and growth of that office.

From the figures supplied by Burke & Herbert, it would seem clear that the proposed branch would, in all events, be operating at a deficit throughout the third year and perhaps into the fourth. I will discuss several aspects of the Burke & Herbert projections separately.

1. Mr. Burke suggests that a projection of a gross income for this branch at 7.2% of its deposits is conservative on the ground that the bank currently earns over 8%. This is illogical and seems to me wrong. First, the ability of that bank to earn over 8% on existing deposits is no evidence at all that it could earn over 8% on additional deposits. More relevant, however, is the fact that while the gross income of Burke & Herbert in 1977 was indeed equal to 8.04% of the bank's deposits, the ratio of gross income to the bank's total assets was 7.31%. It is the latter figure which is relevant for this reason: the 8.04% figure is reached by totalling the earnings on <u>all the bank's assets</u> and then ascribing the whole total to its deposits. Whatever the proposed branch earns will arise from the investment not only of its

deposits but also of the other funds which the parent bank will invest in this branch. Incidentally, the 7.31% figure is remarkably close to the 7.2% assumed in the projection. Consequently, I cannot agree that the projection is overly conservative; on the contrary, it appears to be right in line with current figures if one assumes that Burke & Herbert will be able to earn the same return on additional assets as it earns on existing assets.

2. Let me approach the question raised in (1) above from a different angle. Burke & Herbert states that it would spend $85,000 for property improvements and $65,000 for fixtures, etc., for a total of $150,000. First year interest on this amount would be about $11,000, and this interest cost would continue until the $150,000 is written off by amortization. There does not appear any indication that this interest cost is included in the figure for "net occupancy expense." But Burke & Herbert's earnings would be $11,000 higher if this $150,000 were not tied up in the proposed branch. This amount represents an additional cost of the proposed branch which the parent bank would be subsidizing. The extent to which the parent bank would be subsidizing the proposed branch becomes even more striking when it is considered that in addition to the $150,000 cash outlay, the investment of the parent would also include more than $100,000 of estimated branch losses in the first and second years, making a total investment of over $250,000 by the third year, on which the foregone interest would be about $18,000 a year.

The foregoing confirms that the branch would really be operating on a subsidy through its third year and, in fact, I would say that on any realistic basis, the deficits to be covered and the consequent subsidization from the parent bank would be even greater than indicated by

the applicant's projections. The branch would not become profitable until the fourth year at the earliest.

3. The recent decline in population of Arlington County is not some sort of aberration which is likely to reverse in the future. It applies not only to all of the "inner ring" of Virginia communities around Washington, D.C. (Arlington, Alexandria and Falls Church) but also to the corresponding areas in Maryland (such as Silver Spring and Bethesda) and, indeed, to most of the "suburbs" in the inner rings surrounding most large cities. Mr. Burke points out that such growth as has occurred in Arlington in recent years has been in the Crystal City area. This is true, but such growth has levelled and existing banking facilities are more than adequate to service any planned future development. As pointed out in Services' Protest, the average deposits per branch in the Crystal City area on June 30, 1977 were below the average deposit per branch in Arlington County, the difference being approximately $4.5 million per branch.

The proposed development known as "Pentagon City" is irrelevant with regard to a need for this branch, as it is outside the service area of both the proposed branch and Services. The area immediately adjacent to the Pentagon City development is presently served by a branch of First & Merchants National Bank, which had total deposits of $4,700,000 on June 30, 1977, and Virginia National Bank, which had total deposits of $5,400,000 on that date. It is evident that neither of these branches is overburdened with regard to servicing additional accounts in their immediate trade area, particularly when it is considered that the average deposits per branch in Arlington County on June 30, 1977 were $12 million.

It is particularly interesting to note that First & Merchants' deposits on June 30, 1975 were $4,100,000, so deposits increased only $600,000 in two years. This branch, located on Army-Navy Drive, apparently benefited little, if at all, from the Crystal City-National Center development. Since Services and Burke & Herbert are located the greatest distance from the proposed Pentagon City of any of the nine banking offices in the area (with the exception of the First Virginia branch next door to Services) the only reasonable assumption is that Pentagon City, even if completed as planned, will not be the source of any substantial business for either Services or Burke & Herbert.

I am personally familiar with the fact that the Comptroller of the Currency initially denied Services' application for a charter because it was not demonstrated to his satisfaction that the Bank planned to establish a local base of business strong enough to enable it to survive. The charter was granted only after the Board of Directors was augmented by local business people and a revised approach and economic analysis was presented showing the viability of the Bank if a strong local base were established. I have considered and analyzed all the projected "growth" contained in Mr. Burke's testimony and it is my opinion that, even assuming that all comes to fruition (which is not certain by any means) such does not demonstrate a positive need at this time for any banking facility at the proposed location. It goes without saying that more hotel rooms are not a source of banking business nor would be the building of Interstate 595, even if such ultimately occurs. Of greater importance when considering the question of jeopardy to Services' financial soundess is the inescapable fact that, whatever may be the situation in the future, Burke & Herbert would initially be

competing with Services for existing customers. The time factor is critical because Services does not have the luxury of a parent bank or holding company, enjoyed by the other banks in the area and by the proposed branch of Burke & Herbert. Services is a troubled and struggling institution. Services cannot rely upon other branches or a parent bank to show an overall reasonable return, and I have no hesitancy in saying that the establishment of the proposed Burke & Herbert branch at this time would jeopardize Services' ability to earn a reasonable return.

Lewis N. Dembitz

Lewis N. Dembitz

CITY OF WASHINGTON

DISTRICT OF COLUMBIA, to-wit:

Subscribed and sworn to before me this 9th day of May, 1978.

Mary Jane Heath

Notary Public

My Commission Expires:

NOTARY PUBLIC, DISTRICT OF COLUMBIA
MY COMMISSION EXPIRES FEB. 14, 1981