



Public Disclosure

March 9, 1998

Community Reinvestment Act Performance Evaluation

**Grayson National Bank
Charter Number 10834
113 West Main Street
Independence, Virginia 24348**

**Office of the Comptroller of the Currency
Virginia Field Office
3800 Electric Road, Suite 204
Roanoke, Virginia 24018**

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Grayson National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 9, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **Outstanding**.

Grayson National Bank has an outstanding record of meeting the credit needs of its community, including low- and moderate-income individuals. The bank's loan-to-deposit ratio exceeds similarly situated banks operating within the assessment area. The bank extends a substantial majority of its loans within its assessment area and has an excellent penetration of loans to borrowers of different incomes and to businesses of different sizes. The bank's geographic distribution of loans is reasonable and there have been no complaints received from the public since the last CRA Public Evaluation dated September 19, 1994.

The following table indicates the performance level of **Grayson National Bank** with respect to each of the five performance criteria.

Small Institution Assessment Criteria	Grayson National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio	X		
Lending in assessment area	X		
Lending to borrowers of different incomes and to businesses of different sizes	X		
Geographic distribution of loans		X	
Response to complaints	There have been no complaints since the last examination.		

Description of Institution

Grayson National Bank (GNB) is a \$150 million dollar institution located in Independence, Virginia. The bank operates four office locations in Grayson County and one office location in Galax, Virginia. To help meet the credit needs of the community, Grayson National Bank offers a variety of banking products and services including agricultural, residential, consumer, and commercial loans. The bank's primary customers are individuals, small businesses, and small farmers. Through its performance, the bank is considered a leader in serving the credit needs of its customer base. The \$100 million loan portfolio reflects the bank's responsiveness to the lending needs of the community. The following table depicts the loan portfolio mix:

Purpose	Dollar amount (in thousands)	Percent of portfolio
Residential	\$60,030	60%
Commercial	\$21,823	22%
Consumer Retail	\$12,868	13%
Farm Related	\$5,318	5%
Total	\$100,039	100%

GNB has been a mainstay in the community since its formation in 1900. The bank dominates the deposit market share (80%) within Grayson County by operating four of the six commercial bank offices located in the county. To better serve customers in the Galax vicinity, the bank opened a new branch in May 1996, which is located in downtown Galax. The branch is convenient to local customers and the community response has been positive, despite competitive pressures from nine other commercial bank offices located in Galax.

Description of the Assessment Area

GNB's assessment area is Grayson County, the City of Galax, and the Sulphur Springs and Piper Gap districts of Carroll County. The assessment area comprises six Block Numbering Areas (BNAs), including one moderate income area and five middle income areas. There are no low or upper income BNAs in the assessment area. The total population of the assessment area is 31,700, with population growth being stagnate the past three decades. The non-MSA median family income for the area is \$34,800. There are no areas in the region arbitrarily excluded from the assessment area. The following table outlines the BNAs within the assessment area:

County	Block Numbering Area	[Towns] and Districts	Income Designation
Grayson	9901	Old Town, Providence, [Fries], Elk Creek	Moderate
Grayson	9902	Elk Creek, Wilson Creek, [Independence], Providence	Middle
Grayson	9903	Wilson Creek, [Troutdale]	Middle
Galax City	9901.98	Galax City	Middle
Carroll	9903.98	Sulphur Springs	Middle
Carroll	9904	Piper Gap	Middle

The City of Galax serves as the employment and commercial hub of Grayson and Carroll Counties. The economy of the area, particularly Grayson County, is beginning a transformation from a farming community to mixed industry and tourism as the natural beauty of the New River and surrounding mountains draws people. Industrial companies include Vaughn Furniture Company, Basset-Walker, Sara Lee Knitting Products, Webb Furniture Enterprises, and Nautilus. The most recent unemployment figures for the assessment area are 6.3% (Grayson County), 4.8% (Carroll County), and 2.9% (Galax). Historically, the rural character of the assessment area has been a barrier to economic development, most notably in Grayson County. In Grayson County, there have been two recent plant closings that affected approximately 100 workers in the area. In addition, the industrial park site in Independence, which includes a completed shell building, has been vacant since opening in 1995.

We contacted organizations in the assessment area familiar with economic development and community needs of the area. These organizations highlighted the need for improved infrastructure and business creation and retention. The tourism sector of the economy, which is considered to be in the infancy stage of development, has been identified as needing an improved marketing campaign. For consumers, the need for credit counseling and home improvement loans for low- income families were identified as a need within the community.

Conclusions with Respect to Performance Criteria

Loan to Deposit Ratio

The loan to deposit ratio is more than reasonable when compared to other banks in the assessment area. Since December 31, 1995, the bank's average loan to deposit ratio is 74% versus 67% for the local peer group, which comprises three community banks.

Lending in the Assessment Area

Bank supplied data revealed that a substantial majority of loans originated by the bank are within the assessment area. During 1997, the bank extended 1,839 loans totaling \$33 million. Of these loans, 1,726 or 94% were made within the assessment area. The dollar amount for loans made within the assessment area totaled \$30 million or 92%. The accuracy of the bank's data was confirmed during our examination.

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

Based on the demographic and industrial makeup of the assessment area, the bank has an excellent penetration of lending to borrowers of different incomes and to businesses of different sizes. Our sample of auto, residential real estate, and home improvement loans made during 1997 revealed that 31% and 28% were made to low- and moderate- income borrowers, respectively. The percentages for GNB compare favorably with local demographics. The following table illustrates the distribution of loans sampled by borrower incomes and a comparison of the percentage of families in the assessment area:

Loan Type	Low-income	Moderate-income	Middle-income	Upper-income	Total
Auto	24	11	7	3	45
Residential Real Estate	5	17	17	12	51
Home Improvement	6	4	7	1	18
Total Number	35	32	31	16	114
Sample Percentages	31%	28%	27%	14%	100%
Demographic Percentages	25%	22%	27%	26%	100%

Our sample of business loans made during 1997 showed that a substantial majority of these type loans were to small businesses and small farmers. A total of 202 business loans were made amounting to \$5 million, with an average loan size of \$25 thousand. For loans to farmers, there were 263 originations totaling \$4.4 million, with an average loan size of \$17 thousand.

Geographic Distribution of Loans

The Geographic distribution of loans is reasonable. Our review of loan data included an analysis of lending patterns among six BNAs within the assessment area. The distribution of loans sampled is presented in the following table:

	Moderate- Income	Middle- income	Total
Number of loans	121	624	745
Percentage of Loans	16%	84%	100%
Dollar volume of loans (in thousands)	\$2,934	\$13,584	\$16,518
Percentage of dollar volume	18%	82%	100%

According to the most recent U.S. Census figures, the moderate income area and middle income areas represent 24% and 71% of the assessment area, respectively. Considering the branch locations and competition from commercial bank offices in Galax, the bank’s performance meets expectations. With the new branch in close proximity to the moderate income tract, the figures for the moderate- income area should increase as the branch continues to grow in asset size.

Response to Complaints

Since there were no CRA complaints filed since the last examination, this performance factor does not apply.

Compliance with Anti-Discrimination Laws

There were no violations noted of the substantive provisions of anti-discrimination laws and regulations.