

PUBLIC DISCLOSURE

March 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Grundy National Bank
Charter Number 15247**

**Main Street
P.O. Box 1
Grundy, VA 24614**

**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 **Grundy National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 15, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 Code of Federal Regulations, Part 25.

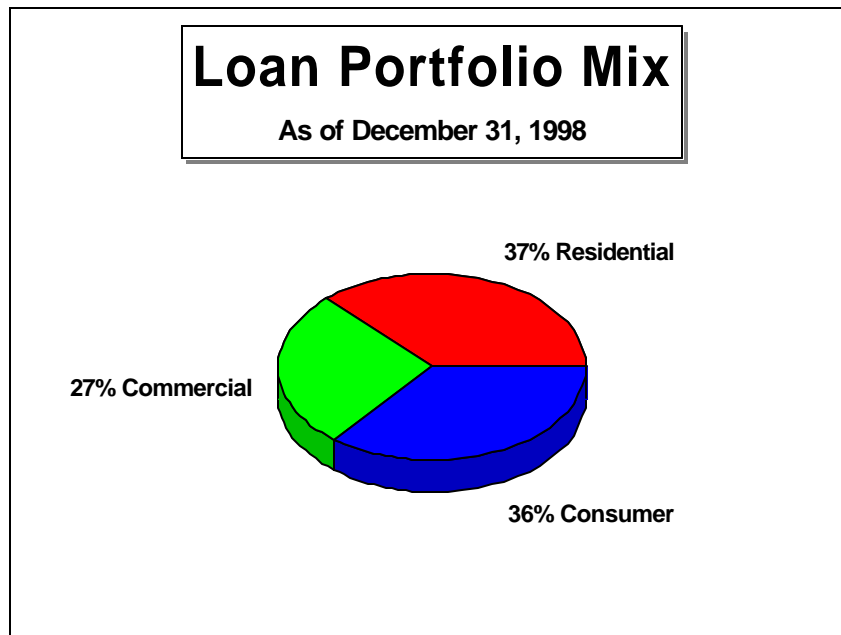
Institution's CRA Rating: This institution is rated **Satisfactory**.

Grundy National Bank has met or exceeded the standards for satisfactory performance for each of the following assessment criteria: loan-to-deposit ratio; lending within the assessment area; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and response to customer CRA complaints. This evaluation is based on an analysis of information covering the period since the bank's last CRA rating dated May 15, 1995 through December 31, 1998.

DESCRIPTION OF INSTITUTION

Grundy National Bank (GNB) is a \$180 million community bank with its main office located in Grundy, Virginia. GNB is a wholly owned subsidiary of Grundy National Bankshares, a one- bank holding company. The institution's five branches are all located in Buchanan County, along with its two automated teller machines: a drive-up ATM at the main office in Grundy and a cash-dispensing ATM at the Vansant Magic Mart. Grundy National is a well-capitalized institution using Federal Deposit Insurance Corporation Improvement Act's (FDICIA) supervisory guidelines. The bank has liquid funds available to meet the community's credit and other funding needs and there are no legal or financial impediments that would inhibit the bank's ability to meet the credit needs of its assessment area. The bank's previous CRA rating was satisfactory as of May 15, 1995.

GNB offers a variety of banking products and services to help meet the credit needs of its community. The type and quantity of loans in the bank's portfolio reflect positively on the bank's efforts to meet the credit needs of its community. The bank's loan portfolio represents 45% of total assets. The following chart shows the composition of the bank's loan portfolio as of December 31, 1998:



DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area of Buchanan County is located in the Appalachian Plateau of southwestern Virginia, adjacent to Kentucky and West Virginia. Characterized by steep ridges and intervening valleys, the total land area of the county is 508 square miles. The Town of Grundy is the county seat.

Buchanan is the largest coal-producing county in Virginia. The mining industry accounts for 30% of total employment in the county. The population in the assessment area approximates 30,000 and has been declining since 1980 due to declining coal production and increased mechanization of the coal mining industry. Projections for Buchanan County forecast a decrease of 10% in population during the 1990's and an additional 7% decrease by the year 2010. Unemployment exceeds 14%, the second highest rate in the state.

Interviews were conducted with community contacts to obtain further information on local economic conditions and to assist in determining the credit requirements of the community. An official with the Municipal Government and another with the County Chamber of Commerce each emphasized the economic depression in the county. Both felt that improvements to the county's infrastructure are needed to attract new industry and both were encouraged by the recently approved flood control measures, which will widen U.S. 460 and relocate Grundy's business district to higher ground.

An analysis of the 7 block numbering areas (BNAs) in Buchanan County disclosed three (3) middle-income, four (4) moderate-income, and zero (0) low-income tracts. The assessment area does not arbitrarily exclude any low- or moderate- income areas. Low-income areas are scattered throughout the assessment area. The median family income for Buchanan County is \$22,500 compared with the Virginia state average of \$35,900. The following table shows the number and percentage of families by income for the assessment area:

Income Level	# of Families	% of Total Families
Low	2,697	29%
Moderate	1,979	21%
Middle	1,771	19%
Upper	2,825	31%
Total	9,272	100%

GNB's primary competitor in Buchanan County is Miners and Merchants Bank & Trust, a \$240 million dollar independent institution headquartered in Grundy. Other competitors include one branch of a multi-national bank, and scattered regional bank branches.

Conclusions with Respect to Performance Criteria

Loan-to-Deposit Ratio

Grundy National's loan-to-deposit ratio compares reasonably with similarly situated local financial institutions. GNB's loan-to-deposit ratio has averaged 59.55% for the last 10 quarters. The ratio at 12/31/98 was 60.85%. The following chart shows loan-to-deposit data for similarly situated banks located in Buchanan and surrounding counties:

LOAN-TO-DEPOSIT RATIO

Similarly Situated Banks	Loan-to-Deposit Ratio as of December 31, 1998
Bank of Tazewell County	50.04%
Miners & Merchants B&T	78.53%
The First Bank & Trust	94.23%
First Community Bank of Southwest Virginia	59.65%
First Sentinel Bank	59.82%

The national peer group's loan-to-deposit ratio for the last ten quarters averaged 72%. Grundy National's loan-to-deposit ratio is satisfactory given the bank's size and financial condition in addition to the credit needs of the assessment area.

Lending in the Assessment Area

Grundy National extends a majority of its loans within its Buchanan County assessment area. Based on internal reports of all loans made between 12/7/97 and 12/7/98, the lending distribution is as follows:

LOANS IN ASSESSMENT AREA

	Percentage of Loans (by number) in Assessment Area	Percentage of Loans (by \$ amount) in Assessment Area
Grundy National Bank	80.89%	51.63%

While the dollar volume of loans in the assessment area is low, this displays Grundy National's commitment to making small dollar loans within Buchanan County.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Based on the demographic and industrial makeup of the assessment area, GNB has an excellent penetration of lending to borrowers of different incomes. Management prepares detailed reports that track the aggregate number of loans and volume of lending by area and income range for all borrowers. The following analysis of all loans made over a one-year period (12/7/97-12/7/98) shows significant extensions of credit to borrowers in the low- and moderate-income ranges:

Income Bracket	# of Loans	Percentage
\$0 - \$20,000	1,219	53.91%
\$20,001 - \$30,000	430	19.02%
\$30,001 - \$40,000	189	8.36%
\$40,001 - \$50,000	67	2.96%
\$50,001 - \$60,000	70	3.10%
\$60,001 - \$70,000	37	1.64%
> \$70,000	249	11.01%

GNB has also done an excellent job of lending to businesses of different sizes. We elected to focus on the size of their business loans as a determinant of the amount of small business credit they are extending. Approximately 86% of the bank's business purpose loans were extended for amounts under \$100,000 and 95% were extended for amounts under \$250,000. This displays an outstanding commitment to small business lending.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout Grundy National's assessment area. As noted above, management prepares detailed reports that track the aggregate number of loans and volume of lending by district for all borrowers. We compared these to the income status of the districts based on mapping information provided by the bank and demographic data provided by our agency. This information indicates a significant number of families below the poverty level, with low employment levels, low education levels, and low median household income levels.

Within Buchanan County, the Block Numbering Areas (BNAs) with the lowest median household income most closely correspond to the Knox, Garden, Prater, and Hurricane Districts. An analysis of loans made between December 7, 1997 and December 7, 1998 showed the two areas with the least lending activity were the Prater (\$218,000) and Hurricane (\$47,000) districts. However, these are the county's smallest and most sparsely populated districts and are also the location of competitor branches. There is significant lending activity in the other low/moderate income areas: the Garden District (\$2,400,000) and the Knox district (\$4,700,000). The middle income areas of Rock Lick (\$3,300,000), South Grundy (\$10,400,000), and North Grundy (\$9,500,000) reflect reasonable penetration as well.

Response to CRA-Related Complaints

The bank has not received any CRA related complaints since the prior exam.

Compliance with Anti-Discrimination Laws

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.