



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**April 17, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The National Bank of Blacksburg  
Charter Number 12229**

**100 South Main Street  
Blacksburg, VA 24060**

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

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

# **INSTITUTION'S CRA RATING**

**This institution is rated SATISFACTORY.**

The Lending Test is rated: **SATISFACTORY**

The Community Development Test is rated: **SATISFACTORY**

The major factors that support this rating include:

- The bank's average loan-to-deposit (LTD) ratio is more than reasonable compared to similarly situated competitors.
- The bank made a substantial majority of its loans within its assessment areas (AAs).
- The distribution of borrowers reflects, given the demographics of the AAs, excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- A majority of the small loans to businesses were for amounts less than \$100,000.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- The bank demonstrates adequate responsiveness to community development needs.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses the bank's performance under the Lending and Community Development Tests. The evaluation under the Lending Test covers the bank's performance from January 1, 2004 through December 31, 2005, excluding community development loans. We reviewed small loans to businesses reported under the Community Reinvestment Act (CRA) for the calendar year 2004 and a sample of 25 small loans to businesses originated during 2005. The sample of small loans to businesses was selected based on OCC numerical sampling guidelines. We reviewed home purchase, home improvement, and refinance loans reported under the Home Mortgage Disclosure Act (HMDA) for the years 2004 and 2005. The evaluation period for community development loans, investments, and services is March 18, 2003 through April 17, 2006.

We conducted Data Integrity reviews of the HMDA and CRA data and found the information to be accurate and reliable for use in this examination. Data for sampled loans was extracted directly from bank records.

## **DESCRIPTION OF INSTITUTION**

The National Bank of Blacksburg (NBB) is a \$489 million intrastate bank headquartered in Blacksburg, Virginia (VA). The bank is solely owned by National Bankshares, Inc. (NBI), an \$842 million holding company. NBI also owns the Bank of Tazewell County, a state-chartered bank, and National Bankshares Financial Services Inc., an investment services company.

NBB is a full service community bank with 15 branches and 12 automated teller machines (ATMs) serving the cities of Radford and Galax, and the counties of Carroll, Giles, Grayson, Pulaski, and Montgomery. NBB purchased a local \$69 million community bank in 2004 and opened two branch offices during the evaluation period; one in Montgomery County and one in Pulaski County. Both branches are located in middle-income geographies. The bank closed no branches during the evaluation period. NBB offers 24-hour banking by telephone and Internet banking.

NBB has three AAs in VA. The Blacksburg AA is a designated metropolitan statistical area (MSA) and is the bank's primary market area. The Blacksburg AA will receive a full-scope review. We selected the non-MSA Carroll-Galax AA for a limited scope review. The non-MSA Grayson AA will not be reviewed at this time.

NBB's business strategy focuses on loans to businesses, residential mortgage loans, and consumer loans. As of December 31, 2005, loans to businesses, including loans secured by non-farm non-residential property, represented approximately 52%, residential mortgages 28%, loans to individuals including credit card loans 11%, and construction and development 6%, of total loans outstanding. For purposes of this evaluation, we considered loans to businesses and residential mortgage loans as primary products, based on the bank's business strategy and balances outstanding.

## **DESCRIPTION OF BLACKSBURG VA ASSESSMENT AREA**

NBB operates 15 bank branches in VA, 14 of which are located in the full-scope AA that includes the city of Radford, and the counties of Giles, Montgomery, and Pulaski. These geographies represent the entirety of the Blacksburg-Christiansburg-Radford MSA 13980. This metropolitan area is located in southwestern Virginia and includes the counties of Giles, Montgomery, and Radford, and the independent City of Radford. Manufacturing has historically been the largest employment sector. However, Virginia Tech, a major public university located in Blacksburg, has a significant effect on the area economy. The unemployment rate for the MSA has only slightly lagged the unemployment rate for the Commonwealth of Virginia since at least 2000.

As of June 30, 2005, NBB had deposits of \$430 million, which represented a 22% deposit market share in the Blacksburg AA and less than a 1% market share in the state of Virginia. NBB ranked 2nd out of 11 financial institutions operating in the AA, and 34<sup>th</sup> out of 169 in the state. NBB's primary competitors in the AA are First National Bank, Wachovia Bank, N.A., and Branch Banking and Trust Company of Virginia. As of December 31, 2005, Tier 1 Capital was \$41.9 million, Tier 1 Risk-based Capital to Risk-weighted Assets equaled 11.6%, and Tier 1 Leverage Capital equaled 8.8%. There are no legal, financial or other factors impeding NBB's ability to help meet the credit needs in its AAs. NBB received a "Satisfactory" rating on its March 2003 CRA Performance evaluation.

We conducted one community contact in the Blacksburg AA with a representative of an organization that supports the development of affordable housing. The contact identified no specific credit needs in the AA.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

NBB's performance in VA is rated **Satisfactory**. Based on a full-scope review, NBB's performance in the Blacksburg, VA AA is reasonable. A limited-scope review indicates NBB's performance in the Carroll-Galax AA area is consistent with their performance in the full-scope area.

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered NBB's business strategy, and the volume of originations and sampled loans. Overall, residential real estate loans and small loans to businesses were considered NBB's primary products. Small loans to businesses and HMDA loan types combined received equal weight in the evaluation process.

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

### **Lending Test**

NBB's performance in VA is rated **Satisfactory**. Based on a full-scope review, NBB's performance in the Blacksburg, VA AA is reasonable. The bank's performance in the limited-scope AA of Carroll-Galax is consistent with that in the full-scope AA.

### **Loan-to-Deposit Ratio**

NBB's average LTD ratio is more than reasonable compared to similarly situated competitors. The bank's quarterly average LTD ratio since the last CRA examination is 72%. This ratio is above the average of 66% for similarly situated banks in the bank's AAs. First National Bank, Mountain National Bank, and Blue Ridge Bank, N.A. were considered to be similarly situated based on total deposits and number of branches in NBB AAs.

### **Lending in Assessment Area**

A substantial majority of loans were inside the bank's AAs. Overall, 90% of loans made during the evaluation period were in the bank's AAs. By loan product, 95% of business loans, and 89% of home mortgage loans were made inside the bank's AAs.

<b>Table 1 - Lending in AAs</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Mortgage Loans	771	88.72	98	11.28	869	68,183	86.73	10,429	13.27	78,612
Small Loans to Businesses	257	94.83	14	5.17	271	14,274	96.60	503	3.40	14,777
Totals	1,028	90.18	112	9.82	1,140	82,457	88.29	10,932	11.71	93,389

Source: Data reported under HMDA, data reported under CRA for calendar year 2004, and a sample of loans to businesses for calendar year 2005.

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

The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among individuals of different income levels and businesses of different sizes. The distribution of HMDA loans is excellent. The bank made 17% of total HMDA loans to low-income borrowers, and 22% to moderate-income borrowers. This compares favorably to the proportion of low- and moderate-income families in the AA (20% and 17% respectively). The distribution of loans to businesses that are small (those with less than \$1 million in gross annual revenues) is excellent. The bank made proportionately more loans to small businesses than those businesses represent in the population.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Blacksburg AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase – 217 Loans	20.15	9.22	17.69	13.82	23.23	22.58	38.93	54.38
Home Improvement – 186 Loans	20.15	29.03	17.69	31.18	23.23	21.51	38.93	18.28
Home Refinance – 226 Loans	20.15	15.04	17.69	22.57	23.23	20.80	38.93	41.59
TOTAL HMDA: 686 <sup>1</sup>	20.15	17.17	17.69	22.10	23.23	21.62	38.93	39.11

<sup>1</sup> Loans for which borrower income was available.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Carroll-Galax AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase – 3 Loans	19.99	33.33	21.20	33.33	24.65	0.00	34.16	33.34
Home Improvement – 3 Loans	19.99	0.00	21.20	33.33	24.65	0.00	34.16	66.67
Home Refinance – 7	19.99	28.57	21.20	28.57	24.65	0.00	34.16	42.86
TOTAL HMDA: - 13	19.99	23.08	21.20	30.77	24.65	0.00	34.16	46.15

Source: Data reported under HMDA; U.S. Census data.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Blacksburg AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	62.64	5.25	32.11	100%
% of Bank Loans in AA by #	70.56	14.92	14.52	100%
% of Bank Loans in AA by \$	54.34	29.64	16.02	100%

<b>Table 2A - Borrower Distribution of Loans to Businesses in Carroll-Galax AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66.54	4.90	28.56	100%
% of Bank Loans in AA by #	44.44	55.56	0.00	100%
% of Bank Loans in AA by \$	25.48	74.52	0.00	100%

Source: CRA Data and Loan sample; Dun and Bradstreet data.

A majority of small loans to businesses were for amounts less than \$100,000.

<b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Blacksburg AA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	218	87.90	5,347	42.02
\$100,001 - \$250,000	24	9.68	3,796	29.83
\$250,001 - \$1,000,000	6	2.42	3,581	28.15

<b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Carroll-Galax AA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	4	44.45	165	10.65
\$100,001 - \$250,000	3	33.33	545	35.16
\$250,001 - \$1,000,000	2	22.22	840	54.19

Source: CRA Data and Loan sample

## Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. The distribution of HMDA loans is reasonable. There are no low-income geographies in the AA. The bank made loans in moderate-income geographies proportionate to the percentage those geographies represent in the AA. The distribution of small loans to businesses is excellent. The bank made proportionately more loans in moderate-income geographies than those geographies represent in the AA. We identified no apparent gaps or areas of low penetration in the bank's lending patterns.

There are no low- or moderate-income census tracts in the Carroll-Galax AA, therefore an analysis of the geographic distribution of loans would not be meaningful.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase – 242	0.00	0.00	4.88	2.90	86.82	83.88	8.30	13.22
Home Improvement – 188	0.00	0.00	4.88	6.91	86.82	87.77	8.30	5.32
Home Refinance –256	0.00	0.00	4.88	2.34	86.82	87.11	8.30	10.55
TOTAL HMDA - 686 <sup>2</sup>	0.00	0.00	4.88	3.79	86.82	86.15	8.30	10.06

Source: Data reported under HMDA; U.S. Census data.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business <sup>3</sup>	0.00	0.00	1.43	6.05	90.86	87.10	6.93	6.05

Source: CRA Data and Loan sample; Dun and Bradstreet data.

## Responses to Complaints

There were no complaints regarding the bank's CRA performance during the evaluation period.

## Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with

<sup>2</sup> Loans for which census tracts were available.

<sup>3</sup> The percent of businesses by income level of geography does not total 100%. Some businesses are located in a census tract with no income designation. The percent of loans by income level of the geography does not equal 100%. One loan was made in a census tract with no income designation.

helping to meet community credit needs.

## **Community Development Test**

The bank's community development performance in the full-scope AA demonstrates adequate responsiveness to community development needs through qualified investments and community development services, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AA. The bank's performance in the limited-scope AA was consistent with its performance in the full-scope AA.

### **Number and amount of community development loans**

The bank made no community development loans during the evaluation period. Opportunities to lend in the AA for community development purposes are limited. The area economy is strong and growing. Although the poverty rate of 19.5% appears high, approximately 20% of area residents are students at two state universities located in the AA. Income from work-study and part-time employment for these temporary residents is factored into the poverty rate. As a result, the rate is not accurately representative of the permanent population. Additionally, the bank originates loans for community development purposes, in amounts less than \$1 million that are considered, by definition in the CRA, small loans to businesses.

NBB participates in two lending programs that support small business and downtown redevelopment. During the evaluation period, the bank originated no loans under these programs. Borrowers typically are drawn to these programs to take advantage of low or subsidized interest rates. However, interest rates on conventional business loans remained low during the evaluation period.

### **Number and amount of qualified investments**

Total qualified investments equal 10% of Tier 1 Capital. The bank made 33 qualified investments and contributions during the evaluation period. These totaled approximately \$122,000 and provide direct benefit to the AA. The bank also made two investments totaling approximately \$2 million that provide benefit to a wider geographic area that included the AA. The bank retained three investments totaling \$2 million from the prior evaluation period. These investments provide benefit to a wide geographic area including the AA. Investments and contributions went to organizations that offer technical support and credit programs for small business, support economic development in distressed geographies and geographies designated for revitalization, and provide health, human services, and housing for low- and moderate-income individuals and geographies.

### **Extent to which the bank provides community development services**

During the evaluation period and across the bank's AAs, seven bank officers and employees provided technical services and support to eight qualified community development organizations.

The bank offers a Free Checking account for consumers and a wide range of consumer and business transaction, savings, and credit products. To broaden access to bank products and services, NBB offers banking by telephone and Internet banking.

**Bank's responsiveness through such activities to community development lending, investment, and services needs**

Based on information provided in comments above, we find the bank is responsive to community development needs in their AAs. We identified no unmet credit needs during the discussion with a community contact in the Blacksburg area.