



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 12, 2010**

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

Franklin Community Bank, National Association  
Charter Number 24260

400 Old Franklin Turnpike, Suite 108  
Rocky Mount, VA 24151

Office of the Comptroller of the Currency

Virginia Field Office  
4419 Pheasant Ridge Road, Suite 300  
Roanoke, VA 24014

**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.**

Summarize the major factors supporting the institution's rating.

- The bank's loan-to-deposit ratio is more than reasonable given the bank's size, lending opportunities, and competitive market.
- A majority of the bank's loans were originated within their assessment area.
- The bank's record of lending to borrowers of different income levels and businesses of different sizes reflects reasonable penetration.

**SCOPE OF EXAMINATION**

This Small Bank Community Reinvestment Act (CRA) Examination assesses the bank's performance under the lending test. The evaluation period was January 1, 2008 through March 31, 2010. Through discussions with bank management and analysis of the bank's loan portfolio, we determined the bank's primary products to be residential real estate mortgage loans and business loans. We selected a statistical sample of 30 business loans originated between January 1, 2008 and March 31, 2010. We used the bank's 2008 and 2009 Home Mortgage Disclosure Act Loan Application Registers (HMDA-LAR) to analyze residential real estate mortgages. We validated the accuracy and reliability of the HMDA-LAR data in February of 2010.

**DESCRIPTION OF INSTITUTION**

Franklin Community Bank N.A. (FCB) is a \$225 million subsidiary of the single bank holding company MainStreet Bankshares. FCB has four branches - Rocky Mount, West Lake, South Lake, and 220N Branch.

FCB is a full service community bank offering traditional loan and deposit services and has experienced significant growth in construction financing for residential home development projects in and around Smith Mountain Lake, their primary lending market. Smith Mountain Lake is located in rural southwestern Virginia and is 40-miles long with 500 miles of shoreline.

As of December 31, 2009, FCB had net loans of \$165 million representing 84% of total assets, total deposits of \$190 million, and Tier One Capital of \$20 million. The bank's loan portfolio consists of: one to four family residential real estate loans (34%), non farm/non residential loans (29%), commercial construction loans (16%), Commercial and Industrial (C&I) loans (8%), residential construction loans (7%), loans to individuals (2%) and other loans (4%).

Based on the bank's 2010 strategy, it is management's plan to grow their loan portfolio by 8.5% while increasing total deposits by 5.5%. There are no legal or financial impediments to the bank's ability to meet the credit needs of its assessment area.

The bank received a rating of Satisfactory at the last Community Reinvestment Act examination completed November 16, 2004.

## DESCRIPTION OF ASSESSMENT AREA

FCB has identified one assessment area (AA), which is comprised entirely of Franklin County (Code- 067). The information in Table 1 provides demographic data of the AA:

Table 1 –Demographic Data for Full Scope Area: Franklin County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	9	0	0	88.89	11.11	0.00
Population by Geography	47,286	0	0	87.48	12.52	0.00
Owner-Occupied Housing by Geography	15,398	0	0	85.49	14.51	0.00
Business by Geography	4,039	0	0	83.29	16.71	0.00
Farms by Geography	220	0	0	87.73	12.27	0.00
Family Distribution by Income Level	13,973	0	0	85.51	14.49	0.00
Household Distribution by Income Level	18,954	0	0	86.18	13.82	0.00
Median Family Income		\$45,473	Median Housing Value		\$115,606	
HUD Adjusted Median Family Income for 2009		\$61,900	Unemployment Rate (02/2010)		9.6%	
Households Below Poverty Level		10.40%				

Source: 2000 US Census. Unemployment Rate –January 2010 Bureau of Labor Statistics.

The county is located in the state of Virginia, is a part of the Roanoke MSA, and includes the communities of Boones Mill, Ferrum, and Rocky Mount.

Based on U.S. Census Data (2000), the AA includes 9 census tracts (8 middle tracts and 1 upper tract) and a total population of 47,286. Within the AA, there are 18,954 households and 13,973 families. The Median Income for the AA was \$45,473, and the HUD Adjusted Median Family Income for 2009 was \$61,900. Ten percent of all households in the AA are below the poverty level.

The AA has 27,836 housing units, of which, 78% are 1-4 family, 4% are multifamily, and 18% are mobile homes/trailers. Within the 1-4 family units, 71% are owner-occupied, 16% are rental, and 13% are vacant. The median housing cost is \$115,606.

The county's largest industry is manufacturing, and the largest employers are MW Manufacturers (wood window/ door units), Trinity Packaging (packaging), and Ronile Incorporated (processed carpet yarn). The county's largest nonmanufacturing employers are Carilion Franklin Memorial Hospital and Ferrum College. Franklin

County's Unemployment rate remains above that of the state average at 9.6% but below the national average.

FCB faces strong competition from local community banks as well as branches of larger regional and national banks in Franklin County. Top competitors in their AA include Branch Banking & Trust Company with 31.06% of the deposit market share and five branches, Carter Bank and Trust with 21.24% and four branches, and SunTrust Bank with 16.52% and two branches. FCB has 21.04% of the deposit market share, ranking 3<sup>rd</sup> out of 9 institutions inside of the AA.

## **Community Contact**

We completed one community contact as part of this Small Bank CRA Examination, contacting Director Mike Burnett of the Franklin County Department of Economic Development. He advised us that the purpose of the organization is to recruit new businesses and assist the expansion of existing businesses in Franklin County. He believes that the current economic conditions are worsening, and the community is struggling. He added that in the past, Franklin County had fared better than neighboring areas, but in 2009 conditions started getting worse. Unemployment has continued to climb, and tax revenues for the county are declining. Mr. Burnett believes that opportunities for bank involvement in the community exist; however, current credit standards are too tight, especially for local businesses. He does not believe that any financial institution stands out as either good or bad and thinks they all need to expand the credit available to the local area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

FCB's performance under the lending test is "Satisfactory." FCB's loan-to-deposit ratio is more than reasonable. The majority of FCB's mortgage and business loans were originated within the AA. FCB's record of lending to borrowers of different incomes reflects reasonable penetration.

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

FCB's loan to deposit ratio (LTD) is more than reasonable considering the bank's size, lending opportunities, financial condition, and competitive market. FCB meets the standard for outstanding performance for the loan to deposit ratio. Over the past twenty one quarters since our last CRA examination, the bank's quarterly average net LTD ratio was 100.05%. The LTD ratio has ranged between 87% and 113% and has been trending downward since September 30, 2008, as loan originations have decreased due to the tightening of credit standards and concentration management at the institution.

A review of bank and peer data reveals that FCB is similarly situated to Hometown Bank and Bank of Botetourt. These institutions are similar in asset and deposit size, as well as loan portfolio composition, and all operate in Franklin County. The quarterly average net LTD for these similarly sized and situated banks was 93.43%. Over the same quarters these banks ranged from a quarterly low of 11% to a quarterly high of 114%.

### Lending in Assessment Area

A majority of mortgage and business loans originated during the evaluation period were inside the AA. Franklin Community Bank meets the standards for satisfactory performance for lending in the AA. Of the initial statistical sample of 30 business loans and 2008-2009 HMDA data, 67% of loans were originated within the AA.

<b>Table 1 - Lending in Franklin County</b>					
Loan Type	Number of Loans				Total
	Inside		Outside		
	#	%	#	%	
Mortgage Loans	146	67.9	69	32.1	215
Business Loans	18	60.0	12	40.0	30
Totals	164	66.9	81	33.1	245

Source: Data reported under HMDA, sample of business loans.

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

The distribution of loans, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. The analysis of lending was completed using all residential real estate loans from the 2008 and 2009 HMDA LARs within the AA, and a sample of 20 businesses located within the AA excluding loans for which income information was unavailable.

Table 2 shows the distribution of residential real estate loans in Franklin County among borrowers of different income levels as compared to the percent of families in each income level in the AA:

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Franklin County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Mortgage Loans	20.4	16.4	19.4	21.9	25.6	16.4	34.6	37.0

Source: Data reported under HMDA; 2000 U.S. Census data. Income data was not available for 8.2% of applicants.

The distribution of residential mortgages to low- and moderate-income borrowers is satisfactory. The bank originated 16.4% and 22.9% of their residential real estate mortgage loans to low- and moderate-income borrowers. Demographics in the AA show that 20.4% of families have low-income levels and 19.4% have moderate income levels. The bank's lending to families of low-income levels remains below the AA demographic.

Table 2A shows the distribution of loans to businesses of different sizes in Franklin County as compared to their distribution in the AA:

<b>Table 2A - Borrower Distribution of Loans to Businesses in Franklin County</b>		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	81.9	3.1
% of Bank Loans in AA by #	75.0	25.0
% of Bank Loans in AA by \$	33.8	66.2

*Source: Loan sample; 2009 Business Geodemographic Data. \*15.0% of AA businesses did not report revenue data*

The distribution of loans to small businesses (businesses with \$1 million or less in gross annual revenues) in the AA was satisfactory. 75% of the sampled business loans were to small businesses, while the comparative demographic shows small businesses make up 81.9% of all businesses in the AA. The bank’s lending to small businesses remains below their AA demographic.

**Geographic Distribution of Loans**

FCB does not have any low or moderate-census tracts in its AA, so the geographic distribution of loans assessment was not applicable.

**Responses to Complaints**

FCB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period. This has a neutral impact on the overall rating.

**Fair Lending or Other Illegal Credit Practices Review**

FNB has not been selected for a full-scope fair lending examination since it opened, but based on activities conducted during our onsite examinations, discussions with bank management, and knowledge of bank practices, we believe that the bank has appropriate processes and systems to promote and support compliance with fair lending laws and regulations. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs..