



PUBLIC DISCLOSURE

June 23, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Franklin Community Bank, National Association
Charter Number 24260

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

Office of the Comptroller of the Currency
Roanoke Field Office
4419 Pheasant Ridge Road
Suite 300
Roanoke, Virginia 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: Satisfactory

Major factors supporting the institution's rating include:

- The bank's average loan-to-deposit (LTD) ratio is reasonable given the bank's size, lending opportunities, and assessment area credit needs.
- The distribution of loans reflects reasonable penetration among borrowers of different income levels, and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different incomes, and a majority of the bank's loans were originated in the assessment area.

SCOPE OF EXAMINATION

Franklin Community Bank, N.A. (FCB) was evaluated under the Small Bank examination procedures, which include a lending test. We selected home mortgage loans and business loans as the primary loan products based on total loans originated during the evaluation period. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities.

This Performance Evaluation assesses the bank's performance under the Lending Test for the period of January 1, 2011 through December 31, 2013. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). HMDA data was used for loans originated between January 1, 2012 and December 31, 2013 as this was representative of the bank's lending strategy since the last CRA evaluation was used to evaluate the bank's home loan performance. To evaluate the bank's business lending performance, we selected a random sample of business loans made from January 1, 2012 through December 31, 2013.

Data Integrity

FCB's public lending information is materially accurate. We performed a data integrity review in September 2013 to validate the accuracy of the bank's HMDA data for January 1, 2011 through June 30, 2013. At that time, we determined that the HMDA data was reliable. We did not find errors in the bank's HMDA data collected and reported on its Loan Application Register.

DESCRIPTION OF INSTITUTION

FCB was established as a national bank in 2002 and has total assets of \$166 million as of March 31, 2014. FCB is headquartered in Rocky Mount, Virginia, and a subsidiary of MainStreet Bankshares. MainStreet Bankshares stock is publicly traded (MREE). The bank operates three intrastate branches, all located in Franklin County Virginia. The

bank closed one branch at 220 North since the previous CRA evaluation. There has been no merger or acquisition activity since the last CRA evaluation.

FCB is a full service community bank offering traditional loan and deposit products. Residential mortgage and business lending are FCB’s primary business focus, with farm and consumer loans comprising a small portion of the loan portfolio.

As of March 31, 2014, the bank’s gross loans totaled \$127 million, representing 76.45 percent of average assets. The bank’s loan portfolio is centered in Commercial and Commercial Real Estate (40.05 percent), Residential Mortgage Loans (37.51 percent), and Construction and Land Development (12.89 percent). Commercial and Industrial Loans, Consumer Loans to Individuals, and Agricultural/Farm/Farmland, comprise less than 10 percent of the total loans in the portfolio.

Table 1 Loan Product Category	Gross Loans as of March 31, 2014*	
	Dollar (\$000's)	% of Total Loans
Commercial and Commercial Real Estate	50,778	40.05
Residential Mortgage Loans	47,560	37.51
Construction & Land Development	16,340	12.89
Commercial and Industrial	10,284	8.11
Individuals	1,304	1.03
Agricultural/Farm/Farmland	339	0.27
All Other	178	0.14
Total	126,783	100.00

*Data obtained from “Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only – FFIEC 041” as of March 31, 2014.

At March 31, 2014, FCB’s deposits totaled \$141 million. Competition for loans and deposits comes from local branches of competitor banks including Carter Bank and Trust, Branch Banking and Trust (BB&T), and SunTrust. There are no legal or financial factors impeding the bank’s ability to help meet the credit needs in its AA. The bank was rated “Satisfactory” at its last CRA evaluation, which was dated April 12, 2010.

DESCRIPTION OF ASSESSMENT AREA (AA)

FCB has identified one AA comprised of Franklin County, Virginia in its entirety. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas. The AA contains four moderate-income, and six middle-income census tracts. No middle-income census tracts are designated as distressed or underserved nonmetropolitan middle income census tracts.

Franklin County is located in the Blue Ridge foothills of Virginia. The census population as of 2010 totaled 56,159, up 18 percent from just ten years earlier. The county’s seat is

located in Rocky Mount Virginia. Franklin County is part of the Roanoke MSA. The AA includes two towns, and ten communities.

Demographic data for Franklin County from the 2010 United States Bureau of the Census reports is presented in table below. This demographic data reported that 20 percent of the total households within the AA were below the poverty level.

The top employers in the county include Ply Gen Manufacturing, Ferrum College, Trinity Packaging, and Walmart. According to the Bureau of Labor Statistics, the April 2014 unemployment rate for Franklin County was 4.6 percent. This rate is lower than the state’s average unemployment rate of 4.7 percent, as well as the national average unemployment rate of 6.3 percent.

Table 2 Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	10	0.00	40.00	60.00	0.00
Population by Geography	56,159	0.00	43.64	56.36	0.00
Owner-Occupied Housing by Geography	18,324	0.00	38.98	61.02	0.00
Business by Geography	4,892	0.00	40.04	59.96	0.00
Farms by Geography	300	0.00	41.67	58.33	0.00
Family Distribution by Income Level	16,665	24.74	20.71	21.67	32.87
Distribution of Low and Moderate Income Families throughout AA Geographies	7,575	0.00	49.02	50.98	0.00
Median Family Income		\$60,547	Median Housing Value		\$201,911
HUD Adjusted Median Family Income for 2013		\$63,600			
Households Below Poverty Level		13%			

Source: 2010 U.S. Census and 2013 HUD updated MFI

FCB ranked third amongst competitor bank’s with 18.21 percent of the market share in the County. The bank’s competitors’ deposit market share and rankings are as follows: Carter Bank & Trust (30.33 percent, 1st), BB&T (27.86 percent, 2nd), SunTrust (12.71 percent, 4th).

COMMUNITY CONTACT

We completed a community contact with a representative of the Office of Economic Development for Franklin County. This institution is involved in helping to provide programs and services to promote area business and job growth. The community contact explained that area banks have been successful in providing credit for local businesses, though tight in their lending practices. The contact mentioned increased small business activity has provided lending opportunities to financial institutions in Franklin County. The contact did not identify any unmet credit needs in the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FCB’s performance under the lending test is “Satisfactory.” The loan-to-deposit ratio is reasonable. A majority of FCB’s mortgage and business loans were originated inside

the AA. 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 bank’s performance exceeds the standard for satisfactory performance, and meets more than reasonable dispersion throughout census tracts of different income levels with regards to geographic distribution.

Loan-to-Deposit Ratio

FCB’s average quarterly loan to deposit ratio is reasonable in light of such circumstances as their capacity to lend, other similarly situated institutions in their AA, demographic and economic facts about the AA, and the lending opportunities available in the bank’s AA. FCB meets the standard for satisfactory performance for the loan to deposit ratio. The bank’s average quarterly loan-to-deposit ratio for the 16 consecutive quarters since the previous CRA evaluation is 85.49 percent. The bank’s quarterly LTD ratios ranged from a quarterly high of 88.51 percent at March 2014, to a quarterly low of 81.95 percent at June 2013.

This ratio has declined since the prior CRA evaluation, which posted an average quarterly LTD ratio of 100.05 percent. This LTD ratio has been reduced over the past four years due to the 22.47 percent reduction in loans and 24.56 percent decrease in deposits.

The Hometown Bank, Roanoke, Virginia and Bank of Botetourt, Buchanan, Virginia were identified as similarly situated institutions to FCB. A review of peer data shows all three institutions are similar in asset size and loan portfolio composition. The Hometown Bank, Bank of Botetourt, and FCB all have branch operations in Franklin County. The average quarterly net LTD ratio for The Hometown Bank for the previous 16 quarters is 84.55 percent, while Bank of Botetourt had an LTD ratio of 87.57 percent during the same period. As presented in the table below, these three banks have similar average quarterly LTD ratios for the time period.

Table 3	
Institution Name	Average Loan to Deposit Ratio, 18 Quarters beginning June 2010
Franklin Community Bank, N.A.	85.49%
Bank of Botetourt	87.57%
Hometown Bank	84.55%

Lending in Assessment Area

A majority of mortgage and business loans originated during the evaluation period were determined to be inside the bank’s AA. The bank meets the standard for satisfactory performance for lending in the AA. Of the initial sample of business loans and HMDA data, 73.20 percent of loans were originated in the AA.

Table 4 - Lending in Franklin County					
Loan Type	Number of Loans				
	Inside		Outside		Total
	#	%	#	%	
Mortgage Loans	122	73.05	45	26.96	167
Business Loans	20	74.07	7	25.93	27
Totals	142		52		194

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

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

The distribution of loans, given the demographics of the AA, reflects reasonable dispersion among borrowers of different income levels and businesses of different sizes. Our analysis was completed using all residential real estate loans from the HMDA data within the AA. We also utilized a sample of 20 business loans located in the bank’s AA.

Home Mortgage Loans

The following table 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.

Table 5 – Borrower Distribution of Home Mortgage Loans in Franklin County AA		
Income Level	% of AA Families	% of Number of Loans
Low	24.74	19.69
Moderate	20.71	20.92
Middle	21.67	25.60
Upper	32.87	33.04

Source: 2010 U.S. Census and FCB HMDA Data.

The percentage of home mortgage loans made to low-income borrowers is near the percentage of low-income families in the AA. The percentage of home mortgage loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

Business Loans

The distribution of business loans reflects excellent penetration among borrowers of different income levels. The bank’s record of lending to borrowers of different incomes exceeds the standard for satisfactory performance. The following table shows the distribution of business loans in Franklin County among businesses of different sizes compared to the percent of business by size.

Table 6 – Borrower Distribution of Loans to Businesses in Franklin County		
Business Revenues	<=\$1,000,000	>\$1,000,000
% of AA Businesses*	77.66%	2.31%
% of Bank Loans in AA by #	80.00%	20.00%
% of Bank Loans in AA by \$	65.55%	34.45%

Source: Loan sample; Business Geodemographic Data. *20.03% 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) exceeds the percentage of businesses in the AA. By dollar amount, loans to businesses with \$1 million or less in gross annual revenues made up for 33.8 percent of loans, while loans to businesses with annual revenues of greater than \$1 million made up for 66.2 percent of loans.

Geographic Distribution of Loans

The geographic distribution of home mortgage loans and business loans reflects excellent dispersion throughout census tracts of different income levels. FCB’s performance exceeds the standard for satisfactory performance. There were no conspicuous gaps identified within the bank’s AA.

The bank’s AA contains four moderate-income, and six middle-income census tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans in the AA reflects excellent dispersion throughout census tracts of different income levels. The bank’s performance exceeds the standard for satisfactory performance.

The percentage of home mortgage loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. None of the six middle-income geographies located in the bank’s AA were designated as a distressed or underserved geography. There are no low-income geographies located in the bank’s assessment area.

Table 7 – Geographic Distribution of Home Mortgage Loans in Franklin County AA		
Income Level	% of AA Owner Occupied Housing Units	% of Number of Loans
Low	0.00	0.00
Moderate	38.98	42.82
Middle	61.02	57.18
Upper	0.00	0.00

Source: 2010 U.S. Census and HMDA Data

Business Loans

The geographic distribution of business loans reflects excellent dispersion throughout census tracts of different income levels. FCB’s performance exceeds the standard for satisfactory performance.

The percentage of FCB’s loans made to businesses in the moderate-income geographies is above the percentage of businesses located in moderate geographies. There are no low-income geographies located in the bank’s assessment area.

Table 8 – Geographic Distribution of Loans to Businesses in Franklin County AA		
Income Level	% of AA Businesses/Farms	% of Number of Loans
Low	0.00	0.00
Moderate	40.44	57.14
Middle	59.56	42.86
Upper	0.00	0.00

Source: 2010 U.S. Census and FCB business Loan Sample

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.