

PUBLIC DISCLOSURE

March 27, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The National Bank of Blacksburg
Charter # 12229
100 South Main Street
Blacksburg, Virginia 24060**

**Comptroller of the Currency
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 Community Reinvestment Act (CRA) performance of **The National Bank of Blacksburg** prepared by **the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 27, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The National Bank of Blacksburg has an outstanding record of meeting the credit needs of its community, including low- and moderate-income individuals. The bank has strong overall lending levels, a high level of lending within its assessment area and to borrowers of different income levels, and a reasonable geographic distribution of loans.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE NATIONAL BANK OF BLACKSBURG</u> 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	No complaints were received since the last CRA examination.		

DESCRIPTION OF INSTITUTION

The National Bank of Blacksburg (NBB) is a wholly-owned subsidiary of National Bankshares, Inc., a \$389 million two-bank holding company. Located in Blacksburg, Virginia, the bank has \$214 million in assets and operates seven branches and 5 automated teller machines throughout Montgomery and Giles Counties. NBB offers a wide variety of products and services, including credit cards and residential real estate loans. The bank's focus, though, is consumer and small business lending, as reflected in its loan mix of 26% residential real estate, 30% instalment, and 44% commercial loans. There are no significant impediments hindering its ability to meet the credit needs of the community .

DESCRIPTION OF ASSESSMENT AREA

The National Bank of Blacksburg has defined its assessment area as the contiguous Southwestern Virginia counties of Montgomery and Giles. This area encompasses nineteen block numbering areas, of which one is low income, one is moderate income, ten are middle income, and seven are upper income.

Both Montgomery and Giles Counties are located in the scenic New River Valley Region of southwest Virginia, approximately 53 miles southwest of Roanoke, VA. Montgomery County is the largest in this four-county region and has a population of 73,913, while Giles county has a population of 16,366. The two major towns in the area are Blacksburg, with a population of 34,590 and Narrows with a population of 2,064.

The town of Blacksburg is home to Virginia Polytechnic Institute and State University, the largest state-supported university in Virginia with approximately 22,000 students. The university's influence is strong, contributing to the county's low median age, strong local economy, and low unemployment rate of 2.8%. The school employs over 25% of the county labor force. The median family income is \$32,500 compared to the statewide, non-metropolitan average of \$33,600.

The Giles County economy is more diverse, with major industries ranging from medicine to manufacturing. The area's largest employer is Hoechst Celanese Corp., whose Narrows plant employs 1,800 people. The Giles County economy is stable, and has a median family income of \$30,041 and unemployment of 5.4%.

Discussions with NBB officials and the Director of Virginia Mountain Housing, Inc. indicate community credit needs include small dollar consumer loans and residential real estate loans. The bank has a number of products to address these needs, including a wide variety of government-sponsored residential mortgage loan programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit Ratio

The National Bank of Blacksburg's loan-to deposit ratio, while slightly lower than its peer average, is more than reasonable given the level of secondary market and community development lending during 1996. Since the last CRA examination in December of 1994, the bank's loan-to-deposit ratio has averaged 69%. During the same period, the bank's national peer group and four other independent banks within the New River Valley have averaged 70% and 74% respectively.

In addition to traditional lending efforts, NBB is an active secondary market real estate lender. This is an identified credit need and during 1996, the bank originated and sold over \$58 million in residential real estate loans to agencies such as the Virginia Housing Development Authority, the Federal Housing Administration, and the Veteran's Administration. This level of lending is especially strong given that \$142 million in total loans were generated during 1996.

Community development lending efforts also indicate a strong commitment to meeting credit needs. Since the last examination, the bank has extended six community development loans totaling \$865,000 at below-market interest rates to Virginia Mountain Housing, one of the state's largest providers of lower income housing. Virginia Mountain Housing has provided single-family homes, multi-family housing, and emergency home repair to hundreds of low- and moderate-income families throughout Montgomery and Giles Counties. This type and level of lending demonstrates a strong willingness to meet identified credit needs and reflects favorably on the bank's overall lending levels.

Lending in the Assessment Area

A substantial majority of all the bank's lending activities are within the bank's assessment area. Bank-supplied data for 1996 shows that 87% of the number and 95% of the dollar volume of all loans were originated within the two-county assessment area. The accuracy of this bank-generated data was confirmed during the examination.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The National Bank has a strong distribution of lending among borrowers of different incomes and to business of different sizes, particularly small businesses. During 1996, the bank collected income information from all borrowers of real estate and consumer purpose loans. This information was verified during the examination and closely approximates ranges for low, moderate, middle and upper-income individuals. During 1996, at least 17% of these loans were granted to low-income borrowers, 30% to moderate-income borrowers, and 25% and 28% to middle- and upper-income borrowers respectively. This penetration is especially strong given that low- and moderate- income individuals account for

17% and 16% of the area's population.

Though the bank has a good distribution of lending through all of its products, the bank offers a "credit line" program specifically designed to meet the credit needs of lower income borrowers. This product was developed in response to community and customer surveys and offers instalment loans of \$2,500 or less for various consumer purposes. In 1996, the bank originated over 1,300 small dollar loans totaling \$1.74 million through this program. Bank-generated information shows that over 53% of these loans were granted to low-income individuals and approximately 32% were granted to moderate-income individuals. This product has apparently been very successful in meeting the community's need for small dollar loans.

NBB's commercial lending is targeted to small businesses. However, NBB has been able to meet the credit needs of businesses of all sizes through loan participations. Bank-supplied information for 1996 revealed that over 90% of the bank's commercial loans were granted to businesses with less than \$1 million in annual revenue. The accuracy of this data was verified during the examination.

The bank has also demonstrated a firm commitment to supporting startup businesses. Senior management has taken a leadership role in several local community development organizations. Through these groups, the bank has provided loans and contributions to provide startup capital and technical assistance to early stage companies. Since the last CRA examination, \$111,000 has been contributed to organizations committed to small business development such as the New Enterprise Fund, MBC Development, and the New River Valley Development Corporation. These efforts have helped to create hundreds of new jobs for the area.

Geographic Distribution of Loans

The geographic distribution of loans within the assessment area is reasonable. The area includes one low-income geography, one moderate-, ten middle-, and seven upper-income geographies. The area's only low-income tract is in a remote, mountainous part of Montgomery County where there is virtually no population. Based on a bank analysis for 1996, no loans were made in this area, 3% of all loans were made in the moderate-income area, 64% were made in the middle-income area, and 33% were originated in the upper-income area. This distribution is reasonable given the demographics of the assessment area.

Response to Complaints

There have been no complaints received since the most recent Community Reinvestment Act evaluation.

Compliance with Anti-Discrimination Laws

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