



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

December 3, 2007

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Grundy National Bank  
Charter Number: 15247

Riverside Drive  
P.O. Box 2080  
Grundy, VA 24614-2080

Office of the Comptroller of the Currency

Virginia Field Office  
3800 Electric Road Suite 204  
Roanoke, VA 24018-0503

**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 supporting the institution's rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, credit needs within the assessment areas, and the bank's market share within the assessment areas.
- The bank made the majority of its loans within its assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels (including low- and moderate-income borrowers and businesses of different sizes).
- The bank's community development performance demonstrates good responsiveness to community development needs in its assessment areas.

## **Scope of Examination**

This Performance Evaluation assesses the bank's performance under the Lending and Community Development Tests for Intermediate Small Banks. The evaluation under the Lending Test covers the bank's performance from September 30, 2003 through November 30, 2007. We sampled consumer, home mortgage, and small business loans originated between October 1, 2006 and September 30, 2007 using the numerical sampling methodology defined in the Comptroller's Handbook, Sampling Methodologies, dated August 1998. Primary loan products were selected based on the bank's business strategy, the volume of originations, and balances outstanding as of November 30, 2007. The Lending Test analysis is based on the bank's performance during the evaluation period using comparative demographic data from the 2000 U.S. Census.

The evaluation period for community development loans, investments, and services is September 30, 2003 through November 30, 2007.

Information regarding the bank's financial performance was as of September 30, 2007, whereas information regarding the bank's market share within the counties comprising its assessment area was as of June 30, 2007.

## Description of Institution

Grundy National Bank is a \$271.4 million intrastate bank, established as a national bank in 1964 and headquartered in Grundy, Virginia. The bank is owned by GNB Bankshares Corporation, a \$271.4 million single-bank holding company. GNB Bankshares stock is closely held and is not listed on any public exchange or over-the-counter (OTC) bulletin.

Grundy National Bank is a full-service community bank serving the counties of Buchanan, Tazewell, and Washington in southwestern Virginia. The bank operates seven full-service branches, all with drive-thru facilities, within its assessment areas. The bank also operates six ATMs: four adjacent to bank branches and two located within supermarkets. The two banking locations within Tazewell County (Richlands and North Tazewell) are operated under the name, "Clinch Valley Bank, a division of Grundy National Bank". This is merely a "doing business as" (d.b.a.) arrangement with the assets and deposits of these two locations being incorporated and reported on the bank's Report of Income and Condition (Call Report).

The bank's primary focus is on retail banking. Products and services include a variety of demand deposits accounts, savings accounts, and loan products. Customers may access information on bank products and services, and conduct certain transactions, by mail, telephone, and through the internet, in addition to access through the bank's network of branches and ATMs. The bank also provides an array of credit and deposit services for businesses.

During this evaluation period, the bank has opened two full-service branches: a branch in Abingdon, Virginia (located in Washington County) and in North Tazewell, Virginia (located in Tazewell County). The bank has closed one banking location during this same period; that being a small retail-only location within a supermarket in Abingdon, Virginia. This location was replaced by the full-service branch located in the same city. While the bank has operated in Washington County for approximately 5 years, it has only operated in that county in a full-service capacity for approximately 18 months.

Based on outstanding balances, loans to businesses are the major product, followed by home mortgages. As of September 30, 2007, net loans totaled \$143.4 million, which represents approximately 53 percent of total assets. Net loans were distributed as follows: 71 percent commercial loans, including commercial real estate, 14 percent secured by residential real estate, 13 percent loans to individuals, and 2 percent construction and development loans. Tier 1 capital was \$53.6 million.

During the evaluation period, there were no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its assessment areas. The bank received a "Satisfactory" rating in its September 2003 CRA Performance Evaluation.

## Description of Assessment Areas

Grundy National Bank has two defined assessment areas: a non-Metropolitan Statistical Area (MSA) assessment area consisting of Buchanan and Tazewell counties and Washington County which is part of the Johnson City-Kingsport-Bristol TN/VA MSA. Buchanan and Tazewell counties are contiguous, while Washington County, located to the south along the Virginia – Tennessee border, is non-contiguous.

Buchanan and Tazewell counties are rural with the major industries being centered on coal production and related support businesses; governmental agencies; and, service businesses. Conversely, Washington County is more urban; being situated along the Interstate 81 corridor that runs diagonally across Virginia from northeast to southwest. Industry in Washington County is predominately service and government related. Recently, higher education has become a “cottage industry” in Buchanan County. The county is home of the Appalachian School of Law and recently became the home of the new University of Appalachia College of Pharmacy. New and renovated student lodging has provided a community development lending opportunity for the bank.

The Buchanan/Tazewell County assessment area consists of 18 income tracts: 7 moderate-income tracts and 11 middle-income tracts. The 2000 U.S. Census information reflects a total population for the two-county area of 71,576. This assessment area is moderately banked with offices of 11 banks operating within the two counties. These banks range from branches of large, nation-wide banks to small locally headquartered community banks. Based on FDIC market share data, Grundy National Bank ranks third in terms of deposits with a market share of 15.7 percent.

The Washington County assessment area, as previously mentioned, is part of the Johnson City-Kingsport-Bristol TN/VA MSA. The county consists of 10 income tracts: 9 middle- and 1 upper-income tract. The county contains no low- or moderate-income tracts. Per the 2000 U.S. Census, the county contained a population of 51,103. This county is more heavily banked with offices or branches of 16 nationally known banks and multi-state regional banks. Of these 16 banks or bank branches, Grundy National Bank ranks 13<sup>th</sup>, in terms of deposits, with a market share of .7 percent.

During our evaluation, we conducted one community contact and reviewed three additional contacts performed during the evaluation period. Loan programs for affordable housing and to capitalize new small businesses within the assessment areas were common themes within these contacts. One community contact, specifically serving low- and moderate-income individuals and families throughout both assessment areas, highlighted the increased need for small dollar loans. This contact supported his contention by citing the drastic reduction in the number of banks offering small dollar loans and the proliferation of “pay day lenders” now operating within the local area. It is worthy of note that Grundy National Bank is one of few banking institutions currently operating within this market area that has no minimum loan amount.

## **Conclusions with Respect to Performance Tests**

Grundy National Bank was evaluated as an Intermediate Small Bank as defined by 12 CFR 25, the implementing regulation for the Community Reinvestment Act.

### **LENDING TEST**

Grundy National Bank's performance under the lending test is satisfactory. The bank's CRA rating was based on the bank's performance in both assessment areas; however, given that the Washington County assessment area contains no low- or moderate-income geographies, lending performance within that assessment area was based solely on lending to low- and moderate-income borrowers. Additionally, within the Washington County assessment area, we assessed the reasonableness of performance in light of the bank's market share within that area and the relatively short period of time that the bank has offered banking services from a full-service location.

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

Grundy National Bank's loan-to-deposit ratio is reasonable, given the competition from other banking institutions and the opportunities to lend within the assessment areas. The bank's quarterly average loan-to-deposit ratio since the last CRA examination is 54%. This loan-to-deposit ratio has been reduced over the past two years due to the inordinately high deposits placed and retained in the bank by a customer who liquidated his coal mining interests. While the bank's loan-to-deposit ratio lags well below the averages of the two most similarly situated competitor banks, it must be noted that the ratio for one of the banks is nearly 150 percent, which renders any direct comparison meaningless.

### **Lending in Assessment Area**

A majority of the loans sampled during our review were found to be inside the bank's assessment areas. For the evaluation period, 90 percent of consumer loans, 89 percent of home mortgage loans, and 100 percent of small business loans were made inside of the bank's assessment area. The blended average of all loans made within the bank's assessment area areas was 93 percent.

The following table depicts the results of the loans sampled during our review:

<b>Table 1 – Lending Bank-wide</b>										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Consumer Loans	72	90	8	10	80	436	89	56	11	492
Mortgage Loans	51	89	6	11	57	4,234	83	889	17	5,123
Business Loans	61	100	0	0	61	5,418	100	0	0	5,418
Totals	184	93	14	7	198	10,088	91	945	9	11,033

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

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The distribution of consumer, home mortgage, and business loans was reasonable. A majority of loans to businesses were for amounts less than \$100,000.

We considered that opportunities to lend to low- and moderate-income borrowers within the assessment area were limited due to the competition among the banking institutions with the assessment areas, Grundy National Bank's market share within its two assessment areas, and the limited amount of time that the bank has operated a full-service location in Washington County.

As mentioned previously, one of the stated credit needs identified by the community contact performed during this evaluation was the need for small dollar consumer loans. Grundy National Bank's lending policy does not restrict the minimum loan amount for consumer loans. As of the date of our evaluation, the bank reflected a total of 1,041 loans with original loan amounts of less than \$1,000. The total current outstanding balance for these loans is \$762,000. This lending practice and philosophy addresses that credit need within the bank's assessment areas.

The following tables depict the bank’s performance in lending to borrowers of different income levels and small businesses with each of the assessment areas (AA):

Table 2A.1 – Borrower Distribution of Consumer Loans within the non-MSA AA								
Income Level	Low		Moderate		Middle		Upper	
	% of House-holds	% of # of Loans	% of House-holds	% of # of Loans	% of House-holds	% of # of Loans	% of House-holds	% of # of Loans
Consumer Loans	33	32	20	27	18	23	29	18

Table 2A.2 – Borrower Distribution of Mortgage Loans within the non-MSA AA								
Income Level	Low		Moderate		Middle		Upper	
	% of Families	% of # of Loans	% of Families	% of # of Loans	% of Families	% of # of Loans	% of Families	% of # of Loans
Mortgage Loans	28	0	22	18	22	13	28	69

Table 2B.1 – Borrower Distribution of Consumer Loans within the MSA AA								
Income Level	Low		Moderate		Middle		Upper	
	% of House-holds	% of # of Loans	% of House-holds	% of # of Loans	% of House-holds	% of # of Loans	% of House-holds	% of # of Loans
Consumer Loans	17	15	14	20	18	30	51	35

Table 2B.2 – Borrower Distribution of Mortgage Loans within the MSA AA								
Income Level	Low		Moderate		Middle		Upper	
	% of Families	% of # of Loans	% of Families	% of # of Loans	% of Families	% of # of Loans	% of Families	% of # of Loans
Mortgage Loans	16	0	19	11	23	0	42	89

Grundy National Bank’s performance in lending to businesses of different sizes has been effective. Because of a lack of definitive information regarding business revenues, we elected to focus on the size of the bank’s business loans as a determinate of the amount of small business credit the bank is extending.

The following tables summarize the bank’s lending to businesses within each assessment area by categorizing loans by size:

Table 2C – Distribution of Loans to Businesses by Loan Size within the non-MSA AA				
Loan Size (\$000s)	# of Loans	% of #	Dollar Volume of Loans (\$000s)	% of Dollar Volume
< \$100,000	37	84	2,281	50
\$100,001 - \$250,000	3	7	497	11
> \$250,000	4	9	1,768	39

Table 2D – Distribution of Loans to Businesses by Loan Size within the MSA AA				
Loan Size (\$000s)	# of Loans	% of #	Dollar Volume of Loans (\$000s)	% of Dollar Volume
< \$100,000	12	71	203	11
\$100,001 - \$250,000	2	12	225	12
> \$250,000	3	17	1,438	77

**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout the Buchanan/Tazewell County assessment area for consumer and home mortgage loans. The distribution of business loans was reasonable. As previously mentioned, the Washington County assessment area does not contain any low- or moderate-income tracts; therefore an analysis of geographic distribution within that area would not be meaningful.

The following tables depict the bank’s geographic distribution within the Buchanan/Tazewell County non-MSA assessment area for each loan type:

Table 3A – Geographic Distribution of Consumer Loans within the non-MSA AA								
Census Tract	Low		Moderate		Middle		Upper	
	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans
Consumer Loans	0	0	38	67	62	33	0	0

Table 3B – Geographic Distribution of Mortgage Loans within the non-MSA AA								
Census Tract	Low		Moderate		Middle		Upper	
	% of Owner Occ. Housing	% of # of Loans	% of Owner Occ. Housing	% of # of Loans	% of Owner Occ. Housing	% of # of Loans	% of Owner Occ. Housing	% of # of Loans
Mortgage Loans	0	0	38	52	62	48	0	0

Table 3C – Geographic Distribution of Business Loans within the non-MSA AA								
Census Tract	Low		Moderate		Middle		Upper	
	% of Businesses < \$1 Million	% of # of Loans	% of Business < \$1 Million	% of # of Loans	% of Businesses < \$1 Million	% of # of Loans	% of Business < \$1 Million	% of # of Loans
Business Loans	0	0	37	21	63	79	0	0

**Responses to Complaints**

There were no complaints regarding the bank’s CRA performance during the evaluation period. This has a neutral impact on the overall CRA rating.

**COMMUNITY DEVELOPMENT TEST**

Grundy National Bank’s community development performance demonstrates a reasonable level of responsiveness to the community development needs of its assessment areas through community development loans and services. The opportunity and availability of qualified community development related investments within the bank’s assessment area is limited.

**Number and Amount of Community Development Loans**

The bank has made six community development loans totaling \$6.6 million during the evaluation period. Proceeds of these loans were used to renovate existing housing and construct affordable housing in Buchanan County. This low cost housing supports the Appalachian School of Law and the new University of Appalachia College of Pharmacy. Buchanan County is listed as an economically distressed area due to poverty and population loss.

### **Number and Amount of Qualified Investments**

As mentioned previously, the opportunity and availability of qualified community development related investments within the bank's assessment areas is limited. The bank has sought to purchase community development investments within southwest Virginia and within the state as a whole. Community development investments presently equate to 2 percent of the bank's Tier 1 capital. The bank has made seven qualified investments totaling approximately \$900,000 within the state of Virginia. These investments went to organizations that provide health, human services, and affordable housing to low- and moderate-income or economically distressed geographies.

### **Extent to Which the Bank Provides Community Development Services**

During this evaluation period, directors, officers and employees of Grundy National Bank have provided technical services and financial support to four qualified community development organizations. In addition to these development activities, the bank has contributed a total of \$30,000 during this evaluation period to the Buchanan County Public Library's Children's Wing. This is noteworthy in that approximately 48 percent of the population lives in low- and moderate-income households.

### **Responsiveness to Community Development Needs**

Grundy National Bank is responsive to community development lending, service, and investment needs. Although, as previously mentioned, such opportunities are limited within the bank's assessment areas, the community development lending, investments, and services demonstrate their performance.

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

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