



INTERMEDIATE SMALL BANK

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

PUBLIC DISCLOSURE

May 18, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 7937**

**105 Arbor Drive
Christiansburg, VA 24068**

**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 average loan-to-deposit (LTD) ratio is more than reasonable compared to similarly situated competitors.
- The bank made a substantial majority of its small loans to businesses within its assessment areas (AAs). However, less than half of residential mortgage loans were originated to borrowers who reside in the bank's AAs. This is primarily due to the bank's secondary mortgage loan operation which includes out of area wholesale loan brokers.
- The distribution of borrowers reflects very good distribution among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- Community development performance in the AAs demonstrates good responsiveness to community development needs through qualified investments and services.

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 for the full calendar years of 2004 and 2005, excluding community development loans. We reviewed a sample of 68 small loans to businesses originated during 2004 and 2005. 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 June 26, 2002 through May 18, 2006.

We conducted a data integrity review of loan information reported under HMDA in 2004 and 2005, and found the information to be accurate and reliable for use in this examination. Likewise, we conducted a data integrity review of small loans to businesses information reported under CRA in 2004 and 2005. We determined that this information was not accurate and could not be relied upon for use in this examination. Therefore, we sampled small loans to businesses originated in 2004 and 2005 directly from bank records. For purposes of this evaluation, we considered small loans to businesses and residential mortgage loans as primary products based on the bank's business strategy and balances outstanding as of year-end 2005. Both loan types were considered equally in the evaluation.

First National Bank (FNB) has two assessment areas (AA), the Blacksburg/Christiansburg/Radford – VA metropolitan statistical area (Blacksburg MSA), and adjacent Wythe County. The Blacksburg MSA received a full-scope review based on the large percentage of AA deposits and loans that come from this area. The Blacksburg MSA accounts for 88% of AA deposits, 89% of the number of AA residential mortgage loans, and 89% of the number of AA small loans to businesses. Wythe County received a limited scope review.

We gave relatively little consideration to the geographic distribution of loans in determining overall performance under the Lending Test. The Blacksburg MSA does not have any low-income census tracts and only one moderate-income tract. Wythe County does not have any low- or moderate-income tracts.

DESCRIPTION OF INSTITUTION

FNB is a \$794 million intrastate bank headquartered in Christiansburg, Virginia. FNB Corporation (FNBC), a \$1.5 billion holding company, is the bank's sole owner. FNBC also owns FNB Salem Bank and Trust, N.A. (a \$402 million bank headquartered in Salem, Virginia) and Bedford Federal Savings Bank, N.A. (a \$306 million bank headquartered in Bedford, Virginia). The two affiliate banks merged into FNB shortly after the date of this Public Disclosure.

FNB is a full service community bank with 13 offices/branches, each of which has a proprietary automated teller machine. The bank did not open or close any branches during the evaluation period. FNB operates two loan production offices (LPO) that target home mortgage loan applications. One LPO is located in Roanoke, Virginia, and the other is located in Greenville, South Carolina. FNB offers 24-hour telephone and Internet banking.

FNB's business strategy focuses on real estate lending. Loans secured by 1-4 family residential properties equaled 39% of average assets as of year-end 2005. Other real estate secured loans, including those for construction and development, equaled 43% of average assets. Loans to businesses not secured by real estate equaled 10% of average assets, while loans to individuals were only 8% of average assets.

There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of its AAs. FNB received a "satisfactory" rating on its June 2002 CRA performance evaluation.

DESCRIPTION OF BLACKSBURG MSA

FNB's primary AA is the Blacksburg MSA. 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.

FNB has the highest deposit market share of any financial institution operating in the AA. FNB's market share, based on total reported deposits as of June 30, 2005, was 32%, followed by NB of Blacksburg with a 22% market share and several larger out-of-area institutions with branch offices in the AA.

We conducted one community contact in the MSA 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

Lending Test

FNB's overall performance under the Lending Test is satisfactory. Based on a full-scope review, FNB's performance in the Blacksburg MSA meets the standards for satisfactory performance. Based on a limited-scope review, the bank's performance in Wythe County is consistent with that in the Blacksburg MSA.

Loan-to-Deposit Ratio

FNB's average Loan-to-Deposit (LTD) ratio is more than reasonable and exceeds that of similarly situated competitors. The bank's average quarterly LTD ratio since the last CRA examination is 83%. National Bank of Blacksburg and Blue Ridge Bank, N.A. are similarly situated based on total deposits, number of branches, and the core center of operations. The average quarterly LTD ratios for National Bank of Blacksburg and Blue Ridge Bank, N.A. for the same time period of June 2002 to March 2006 are 72% and 63%, respectively.

Lending in Assessment Area

A substantial majority of small loans to businesses, as measured by both number and dollars of loans, were made to borrowers operating in the bank's AAs. However, less than half of residential mortgage loans were originated to borrowers who reside in the bank's AAs. This seemingly low performance in the AAs reflects a significant volume of loan applications from a loan production office in Greenville, SC and from out-of-area brokers. Because of this reliance on out-of-area wholesale mortgage lending, the low level of mortgage lending in the AAs does not adversely affect FNB's overall performance under the Lending Test.

| Table 1 - Lending in AAs | | | | | | | | | | |
|----------------------------|-----------------|----|---------|----|-------|-------------------------|----|---------|----|---------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Residential Mortgage Loans | 1,463 | 34 | 2,820 | 66 | 4,283 | 174,215 | 30 | 410,321 | 70 | 584,536 |
| Small Loans to Businesses | 56 | 82 | 12 | 18 | 68 | 2,611 | 74 | 939 | 26 | 3,550 |

Source: Data reported under HMDA and a sample of small loans to businesses for calendar years 2004 and 2005.

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

Given the demographics of the Blacksburg MSA, the distribution of borrowers reflects very good distribution among individuals of different income levels and businesses of different sizes. The distribution of residential mortgage loans is excellent. Twelve percent of total loans reported under HMDA were to low-income individuals. While this percentage lags the percentage of AA families that are low-income, many individuals in this income category have difficulty qualifying for residential mortgage loans or face other barriers in obtaining mortgage financing. The percentage of home improvement loans to low-income homeowners exceeds the percentage of AA families that are low-income. Additionally, the percentage of residential mortgage loans to moderate-income individuals exceeds the percentage of AA families that are moderate-income.

| 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 |
| Home Purchase – 603 Loans | 20.15 | 8.62 | 17.69 | 25.21 | 23.23 | 28.69 | 38.93 | 37.48 |
| Home Improvement – 140 Loans | 20.15 | 30.71 | 17.69 | 27.86 | 23.23 | 22.86 | 38.93 | 18.57 |
| Home Refinance – 512 Loans | 20.15 | 11.72 | 17.69 | 27.73 | 23.23 | 25.78 | 38.93 | 34.77 |
| Total HMDA: 1,255 | 20.15 | 12.35 | 17.69 | 26.53 | 23.23 | 26.85 | 38.93 | 34.26 |

| 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 |
| Home Purchase – 90 Loans | 18.39 | 8.89 | 18.02 | 28.89 | 24.82 | 24.44 | 38.76 | 37.78 |
| Home Improvement – 13 Loans | 18.39 | 23.08 | 18.02 | 23.08 | 24.82 | 23.08 | 38.76 | 30.77 |
| Home Refinance – 52 Loans | 18.39 | 1.92 | 18.02 | 21.15 | 24.82 | 38.46 | 38.76 | 38.46 |
| Total HMDA: - 155 | 18.39 | 8.39 | 18.02 | 25.81 | 24.82 | 29.03 | 38.76 | 36.77 |

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

The distribution of loans to businesses of different sizes is good. The proportion of loans to small businesses with revenues of \$1 million or less approximates the percentage of AA businesses with revenues of \$1 million or less.

| Table 2A - Borrower Distribution of Loans to Businesses in the Blacksburg MSA | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 61.08 | 5.03 | 33.88 | 100% |
| % of Bank Loans in AA by # | 60.00 | 16.00 | 24.00 | 100% |
| % of Bank Loans in AA by \$ | 51.45 | 35.76 | 12.80 | 100% |

| Table 2A - Borrower Distribution of Loans to Businesses in Wythe County | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 0.00 | 0.00 | 100.00 | 100% |
| % of Bank Loans in AA by # | 16.67 | 16.67 | 66.67 | 100% |
| % of Bank Loans in AA by \$ | 38.61 | 13.51 | 47.88 | 100% |

Source: Loan sample; Dun and Bradstreet data.

Borrower distribution of loans in Wythe County is consistent with performance in the Blacksburg MSA.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the Blacksburg MSA. The distribution of HMDA loans is reasonable. There are no low-income census tracts in the AA. The bank made somewhat proportionately fewer loans in the sole moderate-income geography than 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 Wythe County AA. Therefore, an analysis of the geographic distribution of loans in this AA would not be meaningful.

| Table 3 - Geographic Distribution of Residential Mortgage Loans in the Blacksburg MSA | | | | | | | | |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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 – 638 | 0.00 | 0.00 | 4.88 | 2.35 | 86.82 | 91.69 | 8.30 | 5.96 |
| Home Improvement – 141 | 0.00 | 0.00 | 4.88 | 0.00 | 86.82 | 95.04 | 8.30 | 4.96 |
| Home Refinance – 526 | 0.00 | 0.00 | 4.88 | 2.09 | 86.82 | 90.11 | 8.30 | 7.79 |
| TOTAL HMDA – 1,305 ¹ | 0.00 | 0.00 | 4.88 | 1.99 | 86.82 | 91.42 | 8.30 | 6.59 |

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

| Table 3A - Geographic Distribution of Loans to Businesses in the Blacksburg MSA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 ² | 0.00 | 0.00 | 1.43 | 1.99 | 90.86 | 91.35 | 6.93 | 6.58 |

Source: CRA loan sample; Dun and Bradstreet data.

Responses to Complaints

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

Community Development Test

FNB’s overall performance under the Community Development Test is satisfactory. Community development performance in the Blacksburg MSA demonstrates good 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 Wythe County is consistent with its performance in the Blacksburg MSA.

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

¹ Loans for which census tracts were available.

² 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.

part-time employment for these temporary residents is factored into the poverty rate. As a result, the rate does not accurately represent 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.

FNB participates in the Virginia Housing Development Authority First-time Homebuyer Program. The bank originated 54 home mortgage loans totaling approximately \$6 million in 2005 under this program, which is designed to facilitate home ownership for low- and moderate-income Virginia residents. The program contains income, sales price, and loan limits. Thirty of the loans were to residents of the bank's AAs. The remainder of the loans were to residents of surrounding and nearby counties and cities. Although these loans were reported under HMDA and are, therefore, not considered community development loans, they reflect positively on the bank's community development efforts.

Number and amount of qualified investments

Total qualified investments equal 17% of Tier 1 Capital as of December 31, 2005. The majority of qualified investments were bonds issued by the Virginia Housing Development Authority (VHDA). FNB had fourteen prior period investments totaling \$8.0 million, and four current period investments totaling \$2.8 million. The VDHA was created in 1972 by the Virginia General Assembly to help low- and moderate-income Virginia residents attain quality, affordable housing. The bonds support affordable housing development throughout the Commonwealth of Virginia, a broad geographic area that includes the bank's AAs.

Additionally, FNB made qualified grants and donations during the evaluation period totaling \$157,000. These investments benefited organizations operating within the bank's AAs that have economic development, revitalization/stabilization, affordable housing, and community service objectives.

Extent to which the bank provides community development services

FNB employees used their technical skills and knowledge to serve various organizations in the AAs during the evaluation period. Nine of these organizations primarily benefit the AAs by providing economic development, affordable housing, and community services. Additionally, bank employees serve a number of organizations that operate just outside the AAs, but nonetheless provide community development services that benefit the larger regional area.

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

FNB is responsive to community development needs in its AAs based on information outlined in the above comments. We identified no unmet credit needs during the discussion with a community contact in the Blacksburg area. FNB has attempted to expand its community development activities by purchasing qualified investments and providing services that benefit a broader regional or statewide area that include the AAs.

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.