



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 6, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Smith River Community Bank, National Association
Charter Number 23903**

**730 East Church Street, Suite 12
Martinsville, VA 24112**

**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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

This rating is based on the following:

- Smith River Community Bank, N.A.'s loan-to-deposit ratio is strong.
- A majority of the loans originated by Smith River Community Bank, N.A. are in the assessment area.
- Smith River Community Bank, N.A. has a good distribution of loans in comparison to the geographical distribution of owner-occupied and business units within the assessment area.
- Based upon our sample of residential real estate and business loans, lending in the low and moderate-income tracts is minimal; however, this is reasonable given that only 3.76% of owner occupied units and 5.26% of businesses are located in these income tracts.
- There have been no CRA-related complaints during this evaluation period.

DESCRIPTION OF INSTITUTION

Smith River Community Bank, N.A. (Smith River) is located in Martinsville, Virginia and is part of the two-bank holding company, MainStreet BankShares, Inc. The Holding Company, which had approximately \$53 million in assets as of September 30, 2002, also owns Franklin Community Bank, N.A. which opened September 16, 2002. Smith River operates one main office and two branches, with an automated teller machine at each location. The primary office is located in the City of Martinsville in the Patrick Henry Mall and opened in July 2000. The branches are located in Bassett, Virginia and Stuart, Virginia and opened in December, 2000 and August, 2001, respectively. This is the Bank's first CRA evaluation since opening. There are no legal impediments to Smith River's ability to meet the credit needs of its assessment area; however, Smith River does have some financial limitations because it is a new bank. For example, the bank has not yet reached profitability, has a lower legal lending limit than more established banks, and limited capital for expansionary activities.

Smith River offers a variety of banking products including numerous types of deposit accounts and loan products for both consumers and businesses. Smith River's hours of operation include lobby and drive-in hours until 5pm Monday through Friday, and Saturday drive-in hours from 8:30am to 1:00pm.

As of September 30, 2002, loans comprised 70% of Smith River's total assets of \$45.8 million. The bank's primary loan products are commercial small business loans and residential real estate loans. We identified these products through management discussions and using the bank's report of loans by purpose code. The bank's loan portfolio is divided as follows:

Product Category	Average Gross Loans as of September 30, 2002	
	Dollar (in millions)	Percent
Commercial – Other than Real Estate	\$4.1	13
Commercial Real Estate	\$7.3	23
Commercial Construction	\$0.6	2
Commercial LOC	\$3.4	10
Farmland and Agriculture	\$0.3	1
Commercial Mortgages	\$1.4	4
Commercial Single Pay	\$2.4	7
Installment	\$1.2	4
Residential LOC	\$2.1	6
Residential Mortgages	\$9.2	29
Residential Real Estate Construction	\$0.2	1
Total	\$32.2	100%

DESCRIPTION OF ASSESSMENT AREA

Smith River has one assessment area (AA) for CRA evaluation purposes. The AA is a non-MSA and consists of 22 census tracts located in the City of Martinsville and Counties of Henry and Patrick. The assessment area meets the requirements of the CRA regulation.

Smith River's competitors include American National Bank, Patrick Henry National Bank, BB&T, and to a lesser extent SunTrust and First Citizen's Bank, all located in the same AA. To determine the credit needs of the AA, we contacted a representative from the City of Martinsville's Economic Development Division, and made one additional local governmental contact. Both contacts were quick to emphasize depressed local economic conditions, resulting from the downturn in the textile and furniture industries, and the high unemployment rate in the area. The affects of economic conditions on the textile and furniture industries is particularly noteworthy as the largest employers in the Henry/Martinsville area are Stanley Furniture Company, Pillowtex, Inc., American of Martinsville and Bassett Furniture Industries. Additionally, the area's unemployment rate ranks in the top 3 highest in the state and is well above both the state and national unemployment rates. Neither contact had received any complaints regarding the general banking and credit needs of the community. One contact identified the primary credit need of the community as loans to small start-up businesses.

Smith River has defined all of Henry County, Patrick County, and the City of Martinsville as one non-MSA assessment area, consisting of a total of 22 census tracts. There are no low-income tracts, only one moderate income (4.55%), 18 middle-income (81.82%), two upper-income (9.09%), and one undesignated tract (4.55%). The AA had a 1990 Census Median Family Income of \$28,301 with the updated 2001 figure being \$40,800. Within the AA, 18.27% of families are low-income, 18.07% are moderate-income, 24.11% are middle-income, and 39.56% are upper-income. The AA has a population of 90,577, a median housing value of \$52,701, and 69% owner-occupied housing.

Henry County is located in the foothills of the Blue Ridge Mountains in the southwestern part of the state of Virginia. Patrick County borders it to the West, Franklin County to the North, Pittsylvania County to the East and the state of North Carolina to the South. Two incorporated municipalities are within the county's boundaries, the City of Martinsville and the Town of Ridgeway. Other unincorporated communities within the County include Fieldale, Collinsville, Bassett, Stanleytown, Spencer, Laurel Park, Axton, and Chatmoss. Henry County is 50 minutes or less from five interstates, an international airport, and five metropolitan areas, making the area easily accessible for freight hauling. Additional highways through Danville provide quick access to the port of Hampton Roads. The County and Martinsville City have a combined population of 73,346 and boast a workforce of which 50% is trained with a manufacturing skill.

The City of Martinsville lies in the center of Henry County. The City and surrounding County is industrialized and produces textiles, chemicals, furniture, and prefab housing. Established in 1871, the current population of the City totals 16,612.

Patrick County is composed of 483 square miles located at a juncture of the rolling hills of the Southern Piedmont and the crest of the Blue Ridge Mountains. Major cities located nearby include Greensboro, NC (55 miles) and Charlotte, NC (135 miles). Local employers include: Patrick County Public Schools, Liberty Fabrics, and Vaughan Furniture.

All three areas offer a low-cost of living and overall affordable housing; however, all three suffer from depressed economies and high unemployment. With a large presence of textile and furniture industries, and with the downturn in these industries in recent years coupled with increased foreign imports, the economy has suffered and resulted in unemployment rates well in excess of both the state and national levels. The most recent data reports the national unemployment rate at 6% and the state of Virginia at 3.6%. Patrick County, Henry County, and Martinsville City rank as the top 3 highest areas statewide with unemployment rates of 13.6%, 11.7%, and 11.6%, respectively.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Analysis of this performance factor is not meaningful because there are no similarly situated banks to Smith River. Smith River is a newly chartered bank and operates three offices within its assessment area. There are several other established banking institutions operating in Martinsville or the surrounding areas; however, none of these institutions are similar to Smith

River due to their size and branching network. For comparative purposes, we did identify one savings and loan institution operating in Martinsville, First Federal Savings and Loan Association, with assets less than \$100 million as of September 30, 2002. First Federal operates no branches outside of the market area and has only one office within the market area. Deposits and market share are comparable. Smith River’s average quarterly loan-to-deposit ratio since opening is strong at 80% while the savings and loan association has a much lower quarterly loan-to-deposit ratio of 50.86%, over that same time period.

Lending in Assessment Area

Since opening, Smith River has originated a majority of its loans, both in number and dollar, within the assessment area. We selected a sample of 42 loans from July 2000 to September 2002 to evaluate the bank’s performance in this area. The sample covered the bank’s primary loan products and included 21 business loans, and 21 residential real estate loans. The following table provides a synopsis of the sample results:

	Number of Loans	Percent of Number	Dollar of Loans	Percent of Dollar
Inside AA	35	83%	\$4,389,646	71%
Outside AA	7	17%	\$1,809,535	29%
Total Loans Sampled	42	100%	\$6,199,181	100%

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

Non-MSA Assessment Area

Smith River’s lending to borrowers of different incomes and businesses of different sizes is reasonable. The residential real estate sample shows that lending distribution to low- and moderate-income borrowers falls short of area demographics; however, this is not a significant concern. All Bank offices are located in middle-income tracts, and 87% of all housing lies within these same tracts, the majority of which is owner occupied. The majority of all low and moderate-income borrowers reside in these tracts but these tracts remain dominated by families of middle and upper income levels. Proportionately, the demand for home purchase loans by low- to moderate-income individuals is less than the demand by middle- or upper-income individuals. Additionally, there are mitigating circumstances that have resulted in this below average level of performance. The Bank has only been operating for 30 months as of December 31, 2002 and is expanding its customer base and market niche. Consequently, we considered the bank’s performance in this area satisfactory.

The dollar percentage of loans to businesses with revenues less than \$1 million, 54%, does not approximate the percentage of small businesses, 93%, in the assessment area. However, this

figure is easily impacted by large dollar loans, and the number of loans is more closely aligned with the percentage of small business.

Residential Real Estate Loans

Income Level of Borrower	% of Families	Number of Loans	Percent Number	Dollar of Loans	Percent Dollar
Low	18.27%	1	5%	\$25,000	1%
Moderate	18.07%	2	9%	\$102,000	6%
Middle	24.11%	9	41%	\$581,600	33%
Upper	39.56%	10	45%	\$1,074,652	60%
Total	100%	22	100%	\$1,783,252	100%

Loans to Businesses of Different Sizes

	Number of Loans	Percent Number	Dollar of Loans	Percent Dollar	% of Businesses by Revenue Size*
Revenues < \$1 million	16	70%	\$1,948,398	54%	93%
Revenues >\$1 million	7	30%	\$1,650,096	46%	7%
Total	23	100%	\$3,598,494	100%	100%

* Based on 2001 Business Geodemographic Data produced by software program CRA Wiz.

Geographic Distribution of Loans

Smith River has a good distribution of loans in comparison to the geographical distribution of owner-occupied and business units within the assessment area. The sample included 22 residential real estate loans, and 23 business loans. We did not identify any conspicuous gaps or areas of low penetration, but did note that in our sample there were no residential real estate loans made in the moderate-income level tract. This is reasonable given that there is a single moderate tract and only 3.76% of all owner occupied units lie within this tract. The geographical distribution of businesses in our sample closely approximates the geographical distribution of business units within the AA.

Residential Real Estate Loans

Income Level of Tract	% of Owner-Occupied	Number of Loans	% Number of loans	Dollar of loans	% Dollar of Loans
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	Units			originated	
Low	N/A	N/A	N/A	N/A	N/A
Moderate	3.76%	0	0%	\$0	0%
Middle	86.90%	21	95%	\$1,483,252	83%
Upper	9.34%	1	5%	\$300,000	17%
Total	100.00%	22	100%	\$1,783,252	100%

Business Loans

Income Level of Tract	% of Businesses	Number of Loans	% Number of loans	Dollar of loans originated	% Dollar of Loans
Low	N/A	N/A	N/A	N/A	N/A
Moderate	5.26%	1	4%	\$10,000	.3%
Middle	89.10%	22	96%	\$3,588,494	99.7%
Upper	5.64%	0	0%	\$0	0%
Total	100%	23	100%	\$3,598,494	100%

Responses to Complaints

There have been no CRA-related complaints since the bank opened in July, 2000.

Fair Lending Review

We did not perform a fair lending examination in conjunction with this CRA review as Smith River was not selected for examination in the OCC fair lending screening process nor was it selected in the random sample of banks to receive a fair lending examination.