



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 20, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Grundy National Bank
Charter Number 15247**

**Riverside Drive
PO Box 2080
Grundy, VA 24614**

**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.

The rating was assigned based on the following information:

- The quarterly average loan-to-deposit ratio from the past nine quarters of 60.10% is reasonable given the bank's primary market area and competition.
- The majority of loans sampled (75%) were extended to borrowers within the bank's primary assessment area.
- Lending to borrowers of different incomes and businesses of different sizes is satisfactory.
- Geographic distribution of loans in the assessment area is reasonable.
- No public complaints related to CRA have been filed as of this examination date.

DESCRIPTION OF INSTITUTION

Grundy National Bank (GNB) is a \$220 million community bank with its main office located in Grundy, VA. GNB is a wholly owned subsidiary of Grundy National Bankshares, a one-bank holding company. The institution has five branches located in Buchanan County and opened a branch in Abingdon, VA in November of 2001. The bank has three automated teller machines: a drive-up ATM at the main office in Grundy, a cash-dispensing ATM at the Vansant Magic Mart, and a walk-up ATM inside the Food City grocery store where the Abingdon branch is located. GNB is a well-capitalized institution using Federal Deposit Insurance Corporation Improvement Act's (FDICIA) supervisory guidelines. The bank has liquid funds available to meet the community's credit and other funding needs and there are no legal or financial impediments that would inhibit the bank's ability to meet the credit needs of its assessment area (AA). The bank's previous CRA rating was satisfactory as of March 15, 1999.

Net loans represent 49% of the bank's total assets. Based on number of loans originated, the bank's primary loan products are consumer loans and residential real estate. However, as the table below illustrates, the primary loan type based on total outstanding dollar amount is commercial and industrial loans including commercial real estate. The following table reflects the composition of the bank's loan portfolio based on the June 30, 2003 call report:

| Product Category | Gross Loans as of June 30, 2003 | |
|--|---------------------------------|---------|
| | Dollar (000's) | Percent |
| Commercial and Industrial Loans Including Non-Farm Non-residential Real Estate | 75,038 | 67.60 |
| Residential Real Estate | 19,150 | 17.25 |
| Consumer Loans | 14,853 | 13.38 |
| Construction and Development | 875 | 0.79 |
| All Other | 1,085 | 0.98 |
| Total | 110,991 | 100.00 |

DESCRIPTION OF ASSESSMENT AREA

Grundy National Bank has designated two assessment areas: Buchanan County, VA and the Town of Abingdon, VA. We elected to focus our analysis on the bank's primary AA of Buchanan County.

Abingdon

The Abingdon branch opened in November of 2001 and represents less than 2% of overall bank deposits. The bank's performance in the Abingdon AA was inconsistent with their performance in the Buchanan AA because there were not a sufficient number of loans made in this assessment area to perform a meaningful analysis.

Buchanan County

Buchanan County is located in the Appalachian Plateau of southwestern Virginia, adjacent to Kentucky and West Virginia. The total land area of the county is 504 square miles and the Town of Grundy is the county seat. Buchanan remains the largest coal-producing county in Virginia. The population in the assessment area approximates 26,000 and has been declining since 1980 due to declining coal production and increased mechanization of the coal mining industry. Unemployment levels in the county have fallen in the past few years, but remain above state averages at 6.8% as of August 2003.

An analysis of the 7 block numbering areas (BNAs) in Buchanan County indicates three (3) middle-income, four (4) moderate-income, and zero (0) low- or upper- income tracts. The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate- income areas. Demographic data from 1990 United States Bureau of the Census reports indicates the bank's assessment area comprises 11,183 households and 9,272 families. Of the total households within the assessment area, 22% (2,565) are below the poverty level. The following table includes general demographic data describing the assessment area:

| Demographic Characteristics of Buchanan County Assessment Area | | | | |
|---|-----------------------|-------------------|------------------------|------------------------|
| Income Level | #Census Tracts | % of Total | % of Population | % of Households |
| Low | 0 | 0 | 0 | 0 |
| Moderate | 4 | 57.14 | 59.11 | 57.48 |
| Middle | 3 | 42.86 | 40.89 | 42.52 |
| Upper | 0 | 0 | 0 | 0 |
| Median Housing Value | \$42,569 | | | |
| Income Level | | | | |
| 1990 Median Family Income | \$27,236 | | | |
| Updated Median Family Income | \$43,000 | | | |

Grundy National's primary competitors within Buchanan County are Miners and Merchants Bank, a \$383 million institution headquartered in Grundy, and New People's Bank, a \$328 million institution headquartered in Honaker, VA. Other competitors include Wachovia, which has a branch in the Town of Grundy, and several community banks located in contiguous counties.

In assessing the bank's CRA performance, we also considered information from a community contact made with a Buchanan County economic development agency during our examination. They indicated that there is limited development taking place in the county, but that lending opportunities exist for both borrowers and individuals related to the town of Grundy's relocation for flood control purposes.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given its competition and the economy of its primary assessment area. We compared Grundy National Bank's average loan-to-deposit ratio to New Peoples Bank and Miners and Merchants Bank, institutions considered similarly situated based on asset size, product type, and market area. As of June 30, 2003, Grundy National's average loan-to-deposit ratio of 60.10% was in line with the other bank headquartered in Grundy.

| Institution Name | Average Loan to Deposit Ratio Nine quarters ending June 30, 2003 |
|---------------------------|---|
| Grundy National Bank | 60.10 |
| Miners and Merchants Bank | 60.40 |
| New Peoples Bank | 89.52 |

Lending in Assessment Area

The majority of the bank's lending activity is to borrowers within its assessment area. We reviewed a sample of 20 consumer loans and determined that 15 (75%) were made within the assessment area. We did not review small business loans due to complications with geocoding. The table below summarizes our review.

| Assessment Area | Consumer Loans | | | |
|-----------------|------------------------|--------|--------------------------------|--------|
| | Sample Number of Loans | | Sample Dollar of Loans (000's) | |
| | # | % | \$ | % |
| Inside | 15 | 75.00 | 137 | 66.83% |
| Outside | 5 | 25.00 | 68 | 33.17% |
| Total | 20 | 100.00 | 205 | 100.00 |

Our findings support internal bank reports that show 77% of all loans by number and 54% of all loans by dollar volume made since the previous CRA exam were within the assessment area. While the dollar volume of loans in the assessment area is relatively low, this shows Grundy National's commitment to making small dollar loans within Buchanan County.

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

Grundy National Bank has a good distribution of loans among borrowers of different income levels and to businesses of different sizes. The analysis of lending to borrowers of different income levels included a sample of 20 consumer loans made within the Buchanan County assessment area. The following table contains distribution information for the loans sampled and reflects particularly strong penetration among low- and moderate- income individuals.

| Borrower Income Classification Level | Consumer Loans | | | | % of Households in Assessment Area |
|--------------------------------------|---|---------|--|--------|------------------------------------|
| | Sample Number of Loans within the Assessment Area | | Sample Dollar Amount of Loans within the Assessment Area | | |
| Low | 12 | 60.00% | 87 | 51.18% | 0 |
| Moderate | 5 | 25.00% | 12 | 7.06% | 57.48 |
| Middle | 2 | 10.00% | 41 | 24.12% | 42.52 |
| Upper | 1 | 5.00% | 30 | 17.65% | 0 |
| Total | 20 | 100.00% | 170 | 100.00 | 100.00 |

This table also supports the bank’s own internal reports which show that approximately 73% of the bank’s loans are made to borrowers with incomes below \$30,000.

GNB has also done an effective job of lending to businesses of different sizes. Because of a lack of information on business revenues, we elected to focus on the size of the bank’s business loans as a determinant of the amount of small business credit they are extending. We found that approximately 83% of the bank’s business purpose loans were extended for amounts under \$100,000. The following table summarizes GNB’s business loans by size since the previous CRA Examination:

| Loan Size | Number of Business Loans Made Since Prior CRA Examination | % of Business Loans |
|---------------------|---|---------------------|
| < \$100,000 | 838 | 83.47 |
| \$100,000-\$250,000 | 88 | 8.76 |
| > \$250,000 | 78 | 7.77 |
| Total | 1004 | 100.00% |

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout Grundy National’s assessment area. Management tracks the aggregate number of loans (inclusive of business and consumer loans) and volume of lending by voting district for all borrowers. We compared these to the income status of the districts based on mapping information provided by the bank and demographic data provided by our agency. This information indicates a significant number of families below the poverty level, with low employment levels, low education levels, and low median household income levels.

Within Buchanan County, the Block Numbering Areas (BNAs) with the lowest median household income most closely correspond to the Knox, Garden, Prater, and Hurricane Districts. An analysis of loans made since the previous CRA exam showed the two areas with the least lending activity were the Prater and Hurricane districts with \$473,000 and \$151,000 respectively. However, these are the county’s smallest and most sparsely populated districts and are also within the location of competitor branches. There is significant lending activity in the other low/moderate income areas: the Garden District (\$3,335,000) and the Knox district (\$7,591,000). The middle- income areas of Rock Lick (\$3,616,000), South Grundy (\$35,788,000), and North Grundy (\$2,809,000) reflect reasonable penetration as well.

Responses to Complaints

Grundy National Bank has not received any CRA-related complaints since the 1999 examination.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.