



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 8, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Powell Valley National Bank
Charter Number 9924**

**East Main Street
Jonesville, VA 24263**

**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. We assigned the rating based on the following information:

- The bank's loan-to-deposit ratio is reasonable.
- A substantial majority of the bank's loans were originated within their assessment area.
- No public complaints related to the Community Reinvestment Act (CRA) have been filed since the last CRA examination.
- The bank's lending to borrowers of different income levels is reasonable.

DESCRIPTION OF INSTITUTION

Powell Valley National Bank (PVNB) received a Satisfactory rating at its last CRA performance evaluation dated October 13, 1998. The bank is a wholly owned subsidiary of Powell Valley Bankshares, a one-bank holding company with assets of \$195 million located in Jonesville, VA. There are no legal or financial impediments to PVNB's ability to meet the credit needs of its assessment area.

In addition to the main office located in Jonesville VA, PVNB operates three branch offices in the towns of Pennington Gap, Big Stone Gap and Wise. A deposit taking ATM is located at each office and a non-deposit taking ATM is located at Lee Regional Hospital. No branches have opened or closed since the last examination; however, the Big Stone Gap branch relocated into a new building.

As of December 31, 2002, PVNB's assets totaled \$195 million, of which net loans comprise 63%. The following table reflects the composition of PVNB's loan portfolio based on the December 31, 2002 call report:

Product Category	Gross Loans as of December 31, 2002	
	Dollar (000's)	Percent
Commercial & Industrial	\$35,118	28%
Residential Mortgage Loans	\$67,818	54%
Individuals	\$13,221	11%
Construction & Land Development	\$5,840	5%
Farmland & Agriculture	\$576	0%
Other	\$2476	2%
Total	\$125,049	100%

Management does not formally track loan originations by type; therefore primary loan products were chosen based on discussions with management and a review of the Call Report. The bank's primary loan types are residential mortgages and commercial loans, which make up approximately 54% and 28% of the bank's total loan portfolio, respectively.

DESCRIPTION OF ASSESSMENT AREA

PVNB has one assessment area (AA) for CRA evaluation purposes. The AA is a non-MSA and consists of the counties of Lee and Wise, which includes the towns of Jonesville, Big Stone Gap, Pennington Gap, Wise and Norton. The AA meets the requirements of the CRA regulation. PVNB's competitors include Farmers and Miners Bank, First Vantage Bank, Lee Bank and Trust and New Peoples Bank, all located in the same AA.

Wise County is located in the foothills of the Appalachian Mountains in the southwestern part of Virginia. The current population is approximately 42,000. Lee County is adjacent to Wise County in southwest Virginia along the Kentucky and Tennessee border. The current population is approximately 25,000. Both counties are rural with employment centered in coal mining, government and manufacturing.

The AA offers low-cost living and overall affordable housing. Unemployment as of February 2003 was 7% compared to the state unemployment figure of 6%. The decline of the coal mining industry contributes to the higher unemployment level.

The AA includes twelve moderate-income (43%), six middle-income (21%) and one upper-income (4%) tracts as well as nine tracts (32%) without an income designation. There are no low-income tracts in the AA. The total population of the AA is 68,316. Within the AA, 33.70% of families are low-income, 20.13% are moderate-income, 18.61% are middle-income and 27.57% are upper-income. The median household income in the AA is \$43,000. The median home value is \$41,339 with 68.15% owner occupied units. Median gross rent for the area is \$287.

COMMUNITY CONTACT

We conducted two community contacts during this examination. The first was with a representative of a community development group known as Lenowisco, which provides assistance to both Lee County and Wise Counties as well as surrounding communities. The contact indicated that the local banking industry is adequately serving the credit needs of the community. The second community contact was with a representative of the Lee County Industrial Development Authority. This contact stated that the local banking industry is adequately serving the credit needs of the community and local businesses and did not identify any unmet credit needs in the bank's AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

PVNB's loan to deposit ratio is reasonable considering the size and structure of the bank. A review of bank data reveals that PVNB is similarly situated to Farmers and Miners Bank and Lee Bank and Trust. All institutions are similar in asset size, offer similar credit products, operate within similar AAs and are considered small banks under CRA guidelines. The following table reflects the quarterly average loan-to-deposit ratio of PVNB and its similarly situated banks:

Institution Name	Average Quarterly Loan to Deposit Ratio Eighteen quarters beginning July 1, 1998
Powell Valley NB	66%
Farmers and Miners Bank	63%
Lee Bank and Trust Co.	76%

Lending in Assessment Area

PVNB has originated a substantial majority of its loans, both in number and dollar, within the AA. We selected a sample of 40 loans made during July 1998 through December 2002 to evaluate the bank's performance in this area. The sample covered the bank's primary loan products and included 20 home mortgage loans and 20 commercial 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	37	93%	\$2,308,486	92%
Outside AA	3	7%	\$190,481	8%
Total Loans Sampled	40	100%	\$2,498,967	100%

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

PVNB's lending to borrowers of different income levels is reasonable. The residential real estate sample shows that lending distribution to low-income borrowers falls short of area demographics; however, this is not a significant concern. The demand for home mortgage loans by low-income individuals is usually less than the demand by individuals of other income levels, thus limiting the banks opportunity to provide home loans to low-income borrowers. Lending to moderate-income borrowers is reasonable given the percentage of moderate-income families in the AA.

Home Mortgage Loans

Income Level of Borrower	% of Families	Number of Loans	Percent Number	Dollar of Loans	Percent Dollar
Low	34%	3	15%	\$52,923	5%
Moderate	20%	6	30%	\$194,067	17%
Middle	19%	6	30%	\$393,360	35%
Upper	27%	5	25%	\$484,626	43%
Total	100%	20	100%	\$1,124,976	100%

An analysis of loans to businesses of different sizes would not be meaningful because the bank does not consistently collect revenue data on commercial loans. There is no requirement that the bank collect revenue data.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. The sample included 20 home mortgage loans and 20 commercial loans. We did not identify any conspicuous gaps or areas of low penetration. The geographical distribution of businesses in our sample closely approximates the geographical distribution of business units within the AA.

Home Mortgage Loans

Income Level of Tract	% of Owner-Occupied Units	Number of Loans	% Number of Loans	Dollar of Loans Originated	% Dollar of Loans
Low	0%	0	0%	\$0	0%
Moderate	63%	9	45%	\$452,611	37%
Middle	30%	11	55%	\$672,365	63%
Upper	7%	0	0%	\$0	0%
Total	100%	20	100%	\$1,124,976	100%

Commercial Loans

Income Level of Tract	% of Businesses	Number of Loans	% Number of Loans	Dollar of Loans Originated	% Dollar of Loans
Low	0%	0	0%	\$0	0%
Moderate	71%	13	65%	\$1,095,365	77%
Middle	25%	7	35%	\$321,145	23%
Upper	4%	0	0%	\$0	0%
Total	100%	20	100%	\$1,416,510	100%

Responses to Complaints

PVNB has not received any CRA- related complaints since the October 13, 1998 CRA examination.

Fair Lending Review

An analysis of most recent years public comments and consumer complaint information and lending data was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in October 1998.