



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

February 27, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Blacksburg  
Charter Number: 12229

100 South Main Street  
Blacksburg, Virginia 24060

Office of the Comptroller of the Currency

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**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.**

Below is a summary of the major factors supporting the institution's rating:

- The bank's average loan-to-deposit (LTD) ratio is reasonable compared to similarly situated institutions.
- A majority of the loans originated during the evaluation period were inside the bank's assessment areas (AAs).
- The distribution of borrowers, given the demographics of the AAs, reflects an overall reasonable dispersion and satisfactory performance.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- The bank demonstrates adequate responsiveness to community development needs.

## **Scope of Examination**

The National Bank of Blacksburg was evaluated under the Intermediate Small Bank examination procedures, which includes a lending test and a community development test.

The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The Community Development (CD) test evaluates the bank's responsiveness to CD needs in its AAs through CD lending, services and qualified investments. The evaluation period under the Lending Test covers the bank's performance from January 1, 2009 through December 31, 2011. The evaluation period for the community development test was from May 11, 2009 through February 27, 2012.

For the lending test, we reviewed home purchase, home improvement, and home refinance loans reported under the Home Mortgage Disclosure Act (HMDA). We also reviewed a sample of 94 small loans to businesses originated during the evaluation period. The sample of small loans to businesses was selected from the bank's records, using judgmental sampling methods.

We conducted Data Integrity reviews of the HMDA data and found the information to be accurate and reliable for use in this examination. Data for the loan sample was extracted directly from the bank's HMDA data records.

Community development loans, investments and services submitted by bank management were verified to ensure that they met the regulatory definition for community development.

## Description of Institution

The National Bank of Blacksburg (NBB) is a \$1.1 billion intrastate bank headquartered in Blacksburg, Virginia (VA). The bank is solely owned by its holding company, National Bankshares, Inc. (NBI). NBI also owns the National Bankshares Financial Services Inc., an investment services company. As of December 31, 2011, Tier One Capital was \$129 million, Tier One Risk-based Capital to Risk-weighted Assets equaled 19.32 percent, and Tier One Leverage Capital equaled 12.48 percent.

NBB is a full service community bank, with 25 branches and 21 automated teller machines (ATMs) serving the cities of Radford and Galax, and the counties of Bland, Carroll, Giles, Grayson, Montgomery, Pulaski, Smyth, Tazewell, Washington, and Wythe in VA; and the counties of McDowell and Mercer in WV. The bank closed one branch on East Fincastle Avenue, Tazewell, Virginia. This branch was located in a middle-income census tract in Tazewell County, Virginia, and did not open any branches during the evaluation period.

The bank's primary focus is on retail banking. NBB offers a variety of deposit and loan products to meet consumer and commercial banking needs. The bank's Internet website, <http://www.nbbank.com>, provides detailed information on products and services for both consumers and businesses. Banking services are standard, with the addition of on-line banking and 24-hour telephone banking.

There are no legal, financial or other factors impeding NBB's ability to help meet the credit needs in its AAs. NBB received a "Satisfactory" rating on its May 2009 CRA Performance Evaluation.

NBB's business strategy focuses on loans to businesses, residential mortgage loans, and consumer loans. For purposes of this evaluation, we considered loans to businesses and residential mortgage loans as primary products, based on the bank's business strategy and balances outstanding. As a percentage of total loans outstanding as of December 31, 2011, loans to businesses, including loans secured by nonfarm non-residential property, represented approximately 52 percent; residential mortgages, including multi-family were approximately 31 percent. A summary of the Institution's loan types during the evaluation period is shown in the table below.

| <b>2011 Balance Sheet Asset Categories as of Review Period Date*</b> |                                     |                         |
|--|-------------------------------------|-------------------------|
| <b>TYPE OF LOAN</b>  | <b>Balance Outstanding (\$000s)</b> | <b>% OF TOTAL LOANS</b> |
| Construction & Land Development                                      | \$48,528                            | 8.20%                   |
| 1-4 Family Residential   | 152,373                             | 25.76%                  |
| Multi-family (5 or more) Residential                                 | 33,079                              | 5.59%                   |
| Non-Farm/Non-Residential   | 269,756                             | 45.60%                  |
| Commercial & Industrial  | 37,786                              | 6.39%                   |
| Loans to Individuals   | 32,744                              | 5.54%                   |
| Other  | 17,269                              | 2.92%                   |
| Total  | \$591,535                           | 100%                    |

\*Schedule RC-C Part 1 – Loans and Leases as reported in the Consolidated Reports of Condition and Income as of December 31, 2011.

## **Selection of Areas for Full-Scope Review**

In each state where the bank has an office, a sample of AAs within that state is selected for full-scope reviews. NBB does business in three defined AAs within the state of Virginia. The Blacksburg-Christiansburg-Radford MSA AA (“Blacksburg AA”) and the Southwest VA WV non-MSA AA (“Southwest VA AA”) were selected for full scope review based on the majority of the bank’s operations within this AA. The Blacksburg AA accounted for 65 percent of home mortgage loans originated during the evaluation period and approximately 61 percent of the bank’s deposits as of December 31, 2011. The Southwest VA AA accounted for 34 percent of home mortgage loans originated during the evaluation period and approximately 38 percent of the bank’s deposits as of December 31, 2011.

The Kingsport-Bristol VA-Bristol TN MSA AA (“Washington VA AA”) received a limited scope review due to low volume of loan activity and deposits in this AA. This AA accounted for 1 percent of home mortgage loans originated during the evaluation period, and approximately 1 percent of total deposits as of December 31, 2011.

## Description of Assessment Areas

### Assessment Areas Receiving Full-Scope Reviews

#### Blacksburg AA

| Demographic Information for Full Scope Area: Blacksburg AA                 |         |            |                                    |               |              |                      |
|--|---------|------------|------------------------------------|---------------|--------------|----------------------|
| Demographic Characteristics  | #       | Low % of # | Moderate % of #                    | Middle % of # | Upper % of # | Undesignated* % of # |
| Geographies (Census Tracts/BNAs)   | 28      | 0.00       | 3.57                               | 82.14         | 10.71        | 3.57                 |
| Population by Geography  | 151,272 | 0.00       | 3.60                               | 82.76         | 8.18         | 5.45                 |
| Owner-Occupied Housing by Geography  | 35,984  | 0.00       | 4.88                               | 86.82         | 8.30         | 0.00                 |
| Business by Geography  | 12,261  | 0.00       | 2.10                               | 88.58         | 8.56         | 0.77                 |
| Farms by Geography   | 376     | 0.00       | 2.39                               | 89.89         | 7.71         | 0.00                 |
| Family Distribution by Income Level  | 35,057  | 20.15      | 17.69                              | 23.23         | 38.93        | 0.00                 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 13,267  | 0.00       | 6.18                               | 88.51         | 5.31         | 0.00                 |
| Median Family Income   |         | 45,001     | Median Housing Value               |               |              | 94,423               |
| HUD Adjusted Median Family Income for 2011                                 |         | 59,700     | Unemployment Rate (2000 US Census) |               |              | 2.72%                |
| Households Below Poverty Level   |         | 19.50      |                                    |               |              |                      |

\*Data Source: 2000 U.S. Census; Blacksburg-Christiansburg-Radford 13980 MSA

NBB operates 14 of its 25 bank branches in the Blacksburg MSA AA. This AA includes the city of Radford, and the counties of Giles, Montgomery, and Pulaski. These geographies represent the entirety of the Blacksburg-Christiansburg-Radford MSA. This AA consists of 28 census tracts: one moderate income tract, 23 middle-income tracts, three upper-income tracts, and one undesignated income tract. There are no low income tracts and no designated distressed or underserved middle income tracts in this AA.

This MSA is dominated by the presence of Virginia Tech and Radford University. The area, known as the New River Valley (or NRV), has experienced tremendous growth in the last twenty years and continues to be among the fastest growing areas in Virginia. It is bordered by the Allegheny Mountains to the North and the Blue Ridge Mountains to the South, with the New River flowing through the valley itself. The central communities in the area consist of two towns and one city; state law draws a sharp distinction between cities, which are completely separate from counties, and towns, which are contained within counties. Blacksburg, the larger of the towns, is home to Virginia Tech, while Radford, the only city in the group, is home to Radford University. While Christiansburg, a town which lies between Blacksburg and Radford in both population and geographic location, does not have an institution of higher education, it is home to hundreds of stores, restaurants, and a historic downtown. The Town of Blacksburg, located in Montgomery County, ranked #10 in Forbes.com "2008 Best Small Places for Business and Careers".

The area is known for its superb higher education facilities, cutting-edge transportation projects, peaceful quality of life, and favorable cost of living. Virginia Tech is the state's leading research institution and ranks among the nation's top 50 research universities with research funding over \$150 million. Radford University is well known for its innovative use of technology in the learning environment.

Government and Services sectors are the highest percentage of employers in the AA. Virginia Tech and Radford University are the two largest employers in these sectors. Manufacturing, which has historically been the largest employment sector, ranks a distant third. Major employers in the manufacturing sector are: Volvo Trucks North America, Inc.; Alliant Techsystems, Inc.; Moog Components Group; and, Rowe Industries, Inc. According to the Bureau of Labor Statistics, unemployment in the AA was 6.3 percent in December 2011, which is slightly above the state average for Virginia of 6.1 percent; and significantly below the national average of 8.3 percent for that month.

NBB ranks second with 21.81 percent of the deposit market share in the Blacksburg AA, according to the Deposits Market Share Report prepared by the FDIC. The report listed the Bank's primary competitors as StellarOne Bank; Wells Fargo Bank NA, and Branch Banking and Trust Company of Virginia (BB&T), with deposit market share of 26.45 percent, 12.36 percent, and 10.16 percent, respectively.

We conducted a community contact in the AA to determine credit and development needs in the AA. We interviewed representatives of the Economic Development Authority for Montgomery County. The purpose of the organization is to recruit new businesses and assist existing businesses with expansion. The contact identified no specific credit needs in the AA.

**Southwest VA WV non-MSA AA**

| <b>Demographic Information for Full Scope Area: Southwest VA non MSA AA</b> |         |            |                                    |               |              |
|---|---------|------------|------------------------------------|---------------|--------------|
| Demographic Characteristics   | #       | Low % of # | Moderate % of #                    | Middle % of # | Upper % of # |
| Geographies (Census Tracts/BNAs)  | 37      | 0.00       | 16.22                              | 81.08         | 2.70         |
| Population by Geography   | 160,572 | 0.00       | 11.39                              | 86.75         | 1.86         |
| Owner-Occupied Housing by Geography   | 51,275  | 0.00       | 10.63                              | 87.40         | 1.97         |
| Business by Geography   | 12,469  | 0.00       | 10.71                              | 87.32         | 1.97         |
| Farms by Geography  | 598     | 0.00       | 6.02                               | 93.81         | 0.17         |
| Family Distribution by Income Level   | 46,850  | 21.77      | 21.09                              | 23.94         | 33.20        |
| Distribution of Low and Moderate Income Families throughout AA Geographies  | 20,080  | 0.00       | 14.98                              | 84.15         | 0.87         |
| Median Family Income  |         | 35,918     | Median Housing Value               |               | 58,254       |
| HUD Adjusted Median Family Income for 2011                                  |         | 48,541     | Unemployment Rate (2000 US Census) |               | 2.93%        |
| Households Below Poverty Level  |         | 16.36      |                                    |               |              |

\*Data Source: 2000 U. S. Census

This non-MSA is also located in southwestern Virginia, and includes the counties of Bland, Carroll, Grayson, Smyth, Tazewell, Washington, Wythe, and the city of Galax in the state of Virginia. The bank has added two census tracts in McDowell County and six census tracts in Mercer County in the state of West Virginia. These 8 census tracts in WV are contiguous to the counties in Virginia included in the Southwest VA AA. The AA consists of six moderate-income tracts, 30 middle-income tracts and one upper income tract. Four of the 30 middle income tracts are designated distressed or underserved middle income tracts in this AA. There are no low income tracts in this AA. Ten of the bank's branches are located within this AA, with one branch located in a designated distressed/underserved middle income tract.

Southwest Virginia differs from the rest of the commonwealth in that its culture is more closely associated with Appalachia than the other regions of Virginia. While endowed with abundant natural resources, Appalachia has long been associated with and struggled with poverty. In 1965, the Appalachian Regional Commission was created to further alleviate poverty in the region, mainly by diversifying the region's economy and helping to provide better health care and educational opportunities to the region's inhabitants. By 1990, Appalachia had largely joined the economic mainstream, but still lagged behind the rest of the nation in most economic indicators. According to the Virginia Economic Development Partnership, the unemployment rate for the AA as of December 2010 was approximately 9%, which was above the national average of 6.5% at that time period.

This AA is known as the Virginia aCorridor. The region is located along Interstate 81, one of the leading trucking routes in the eastern U.S., and its intersection with Interstate 77 in Wythe County. Fast developing is a cluster of food processing and beverage companies

that take advantage of the aCorridor's strategic East Coast location along the crossroads of two major interstates.

Also in the mix are automotive-related industries that use sophisticated technology to make precision parts for the world's leading automakers, and other businesses that utilize high-tech manufacturing expertise in plastics, furniture-making, defense and distribution. Major employment sectors in this AA are: government; manufacturing; trade; and, services. Major employers are: Utility Trailer of Glade Springs; Royal Mouldings Ltd.; Johnson Memorial Hospital; Magnolia Manufacturing, TRW Automotive; and, Mercer County Board of Education.

NBB ranks third with 7.71 percent of the deposit market share in the Southwest VA AA, according to the Deposits Market Share Report prepared by the FDIC. The report listed the Bank's primary competitors as BB&T, First Community Bank, and Carter Bank and Trust, with deposit market shares of 21.17 percent, 13.51 percent, and 7.04 percent, respectively.

A community contact in the AA was reviewed to determine credit and development needs in the AA. This contact was with a local community service organization. The contact stated that there is a need in this area for consumer credit counseling and for affordable housing.

**Assessment Area Receiving Limited-Scope Review**

**Washington VA AA**

| <b>Demographic Information for Limited Scope Area: Washington VA 28700 AA</b> |        |            |                                       |               |              |
|---|--------|------------|---------------------------------------|---------------|--------------|
| Demographic Characteristics   | #      | Low % of # | Moderate % of #                       | Middle % of # | Upper % of # |
| Geographies (Census Tracts/BNAs)  | 10     | 0.00       | 0.00                                  | 90.00         | 10.00        |
| Population by Geography   | 51,103 | 0.00       | 0.00                                  | 91.53         | 8.47         |
| Owner-Occupied Housing by Geography   | 16,268 | 0.00       | 0.00                                  | 90.90         | 9.10         |
| Business by Geography   | 5,199  | 0.00       | 0.00                                  | 88.86         | 11.14        |
| Farms by Geography  | 297    | 0.00       | 0.00                                  | 94.61         | 5.39         |
| Family Distribution by Income Level   | 14,910 | 16.36      | 19.22                                 | 22.86         | 41.46        |
| Distribution of Low and Moderate Income Families throughout AA Geographies    | 5,305  | 0.00       | 0.00                                  | 94.57         | 5.42         |
| Median Family Income  |        | 39,138     | Median Housing Value                  |               | 83,815       |
| HUD Adjusted Median Family Income for 2011                                    |        | 49,500     | Unemployment Rate (2000 U. S. Census) |               | 2.03%        |
| Households Below Poverty Level  |        | 12.51      |                                       |               |              |

\*Data Source: 2000 U. S. Census

This AA is in a multi-state MSA. The bank's AA is Washington County, which is located in the state of Virginia. NBB has one branch in this AA located in Abingdon, Virginia.



Washington County consists of ten census tracts: nine middle-income tracts and one upper-income tract. There are no low-, or moderate-income tracts and no designated distressed or underserved middle income tracts in this AA.

Major employment sectors in the AA are Trade, Transportation and Utilities; Manufacturing, and Education and Health Services. The top five employers in this AA, according to the Virginia Employment Commission, Quarterly Census of Employment and Wages, Second Quarter 2011 are: Washington County Schools; Food City Grocery Store; Bristol Compressors International; Mountain State Health; and, Carnac Corporation.

According to the Bureau of Labor Statistics, the unemployment rate for Washington County, VA as of December 2011 was 7.1 percent, which was below the national average of 8.3 percent.

NBB has 0.91 percent of the deposit market share in Washington, Virginia AA. NBB's primary competitors in Washington County are Highlands Union Bank, First Bank and Trust Company, and BB&T with deposit market shares of 26.45 percent, 20.12 percent, and 10.39 percent, respectively.

## Conclusions with Respect to Performance Tests

The performance under the Lending Test is considered “Satisfactory.” The bank’s loan-to-deposit ratio is reasonable, and a majority of loans are originated inside the AA. The bank’s borrower distribution reflects reasonable penetration among borrowers of different incomes. Geographic distribution reflects reasonable dispersion throughout the census tracts of different income levels.

NBB’s rating is based on the bank’s performance in the three AAs in Virginia. More weight and consideration was given to lending in the Blacksburg AA as this is the area in which a substantial majority of the bank’s offices are located; and hence the substantial majority of loans are originated. Consideration was also given to lending in the Southwestern VA AA and the Washington VA AA.

The distribution of loans by income level of the borrower received greater consideration than the distribution of loans by income level of the geography. This is due to the limited number of moderate-income tracts in the full-scope AAs. There are no low-income tracts in the AAs, and approximately 11 percent of total tracts are designated as moderate-income. A majority of low- and moderate-income families live in middle-income tracts in the AAs, with four middle-income tracts in the Southwest VA AA designated as distressed or underserved nonmetropolitan middle-income tracts due to the poverty level.

## LENDING TEST

Overall lending levels reflect good responsiveness to meeting AA credit needs. The bank ranked seventh in overall market share among 254 HMDA reporters in the combined three AAs with 3.72 percent of the market share for originated or purchased mortgage loans. NBB ranked ninth for home purchase loans, second for home improvement loans, and tenth for home mortgage refinance loans with respective market shares of 3.00 percent, 14.48 percent, and 2.19 percent. Residential lending market shares reflect strong competition in the AAs.

### Lending Activity

NBB's overall lending performance is satisfactory.

To evaluate NBB's CRA lending performance, we focused on its record of lending in its AAs, loan-to-deposit ratio since the last CRA examination (including a comparison to similarly situated institutions), record of lending to borrowers of different incomes and businesses of different sizes, and the geographic distribution of lending in the bank's AAs.

### Loan-to-Deposit Ratio

NBB's average LTD ratio is reasonable compared to similarly situated competitors. The bank's quarterly average LTD ratio since the last CRA examination is 67 percent. This ratio is below the average of 79 percent for similarly situated banks in the bank's AA. The bank is very conservative in their lending practices, and the LTD ratio has remained fairly

consistent since the last CRA examination. StellarOne Bank is considered to be similarly situated based on total deposits and number of branches in NBB AAs. Competition from large financial institutions and non-traditional mortgage lenders is strong.

### Lending in Assessment Area

The table below reports that a majority of loans were inside the bank's AAs. Overall 86 percent of loans made during the evaluation period were inside the bank's AAs. By loan product, 85 percent of business loans, and 86 percent of home mortgage loans were made inside the bank's AAs.

| <b>Lending in AAs</b>      |                 |       |         |       |       |                         |       |         |       |         |
|----------------------------|-----------------|-------|---------|-------|-------|-------------------------|-------|---------|-------|---------|
| Loan Type                  | Number of Loans |       |         |       |       | Dollars of Loans (000s) |       |         |       |         |
|                            | Inside          |       | Outside |       | Total | Inside                  |       | Outside |       | Total   |
|                            | #               | %     | #       | %     |       | \$                      | %     | \$      | %     |         |
| Residential Mortgage Loans | 1,261           | 85.96 | 206     | 14.04 | 1,467 | 127,912                 | 88.40 | 16,785  | 11.60 | 144,697 |
| Small Loans to Businesses  | 80              | 85.11 | 14      | 14.89 | 94    | 6,941                   | 62.07 | 4,241   | 37.93 | 11,182  |
| Totals                     | 1,341           | 85.91 | 220     | 14.09 | 1,561 | 134,853                 | 86.51 | 21,026  | 13.49 | 155,879 |

*Source: Data reported under HMDA from January 1, 2009 - December 31, 2011 and a sample of loans to businesses for the same period.*

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

NBB's borrower distribution reflects an overall reasonable dispersion and satisfactory performance. The distribution of borrowers reflects reasonable penetration among individuals of different income levels. The distribution of home mortgage loans was reasonable. We considered the lack of affordability for low- and moderate-income individuals to purchase a home in each of the three AAs. Overall, there are no low-income tracts in the bank's three AAs and only seven moderate-income tracts. Demographic data from the 2000 U.S. Census indicated households below the poverty level were 13 percent for the Washington County, VA in the multi-state MSA for Washington VA AA; 16 percent for the Southwest VA Non-MSA AA; and 19 percent for the Blacksburg MSA AA. Another limiting factor to lending opportunities is the unemployment rate in the AAs as was stated in the **Description of Assessment Areas** section of this report.

### **Conclusions for Areas Receiving Full-Scope Reviews**

#### **Blacksburg AA**

Overall lending levels in the Blacksburg AA reflect reasonable responsiveness to meeting AA credit needs. NBB ranked tenth for home purchase loans, second for home improvement loans, and eighth for home mortgage refinance loans with respective market shares of 3.64 percent, 18.81 percent, and 2.70 percent. Residential lending market shares reflect strong competition with approximately 90 residential lenders in the AA, most of which are not financial institutions.

The borrowers' distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes, given the demographics of the AA. The overall distribution of HMDA loans is satisfactory. As reported in Table 6, the percentage of total HMDA loans to low-income borrowers (15.54 percent) is below the percentage of low-income families in the AA (20.15 percent). The percentage of total HMDA loans to moderate-income families (18.10 percent) exceeds the percentage of moderate-income families in the AA (17.69 percent). Please see table below for borrower distribution of home mortgage loan segments.

| <b>Borrower Distribution of Residential Real Estate Loans in Blacksburg AA</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level  | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      |
| Loan Type  | % 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 Loans  | 20.15            | 10.86                | 17.69            | 16.00                | 23.23            | 18.86                | 38.93            | 54.29                |
| Home Improvement Loans   | 20.15            | 32.43                | 17.69            | 30.27                | 23.23            | 18.92                | 38.93            | 18.38                |
| Home Refinance Loans   | 20.15            | 10.21                | 17.69            | 15.32                | 23.23            | 18.72                | 38.93            | 55.74                |
| TOTAL HMDA <sup>1</sup>  | 20.15            | 15.54                | 17.69            | 18.10                | 23.23            | 16.89                | 38.93            | 39.22                |

Source: 2000 U. S. Census. Data reported under HMDA for evaluation period January 1, 2009-December 31, 2011.

The weighted average of median housing values in this AA is \$94,423. According to the 2010 HUD updated median family income, low-income families earn less than \$29,844 and moderate-income families earn between \$29,845 and \$47,754. Additionally, 19 percent of households are below the poverty level. The lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low- and moderate-income individuals. For this reason, it is deemed satisfactory for the number of loans made to low- and moderate-income families to be below the number of families that represent these income tracts.

The distribution of loans to small businesses (those with less than \$1 million in gross annual revenues) is reasonable. By number volume, the percentage of loans to small businesses is proportionate to the percentage of small businesses in the AA as reported in the table below.

| <b>Borrower Distribution of Loans to Businesses in Blacksburg AA</b> |               |              |                         |       |
|--|---------------|--------------|-------------------------|-------|
| Business Revenues (or Sales)   | <=\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total |
| % of AA Businesses   | 66.55         | 2.50         | 30.95                   | 100%  |
| % of Bank Loans in AA by #   | 57.50         | 37.50        | 5.00                    | 100%  |
| % of Bank Loans in AA by \$  | 26.32         | 73.20        | 0.48                    | 100%  |

Source: CRA Data and Loan sample; Dun and Bradstreet data.

## Southwest VA non-MSA AA

<sup>1</sup> Loans for which borrower income was available.

The borrowers' distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The overall distribution of HMDA loans is reasonable. As reported in the "Borrower Distribution" table, the percentage of total HMDA loans to low-income families (13.60 percent) is well below the percentage of low-income families in the AA (21.77 percent). The percentage of total HMDA loans to moderate-income borrowers (26.06 percent) exceeds the percentage to moderate-income families in the AA (21.09 percent). See Table 8 for borrower distribution of home mortgage loan segments.

| <b>Borrower Distribution of Residential Real Estate Loans in Southwest VA non-MSA AA</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level  | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      |
| Loan Type  | % 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 Loans  | 21.77            | 9.41                 | 21.09            | 30.59                | 23.94            | 25.88                | 33.20            | 34.12                |
| Home Improvement Loans   | 21.77            | 20.61                | 21.09            | 27.88                | 23.94            | 23.64                | 33.20            | 27.88                |
| Home Refinance   | 21.77            | 7.69                 | 21.09            | 25.64                | 23.94            | 33.33                | 33.20            | 33.33                |
| TOTAL HMDA**   | 21.77            | 13.60                | 21.09            | 26.06                | 23.94            | 24.65                | 33.20            | 28.61                |

Source: 2000 U. S. Census. Data reported under HMDA for evaluation period January 1, 2009-December 31, 2011.

The weighted average of median housing values in this AA is \$58,254. According to the 2010 HUD updated median family income, low-income families earn less than \$29,121 and moderate-income families earn between \$29,122 and \$46,597. Additionally, 16% of households are below the poverty level. The lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low- and moderate-income individuals. For this reason, it is deemed satisfactory for the number of loans made to low- and moderate-income families to be below the number of families that represent these income tracts.

The distribution of loans to small businesses (those with less than \$1 million in gross annual revenues) is reasonable. By number and dollar volume, the percentage of loans to small businesses is proportionate to the percentage of small businesses in the AA as reported in the following table.

| <b>Borrower Distribution of Loans to Businesses in Southwest VA Non-MSA AA</b> |               |              |                         |       |
|--|---------------|--------------|-------------------------|-------|
| Business Revenues (or Sales)   | <=\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total |
| % of AA Businesses   | 68.21         | 2.72         | 29.07                   | 100%  |
| % of Bank Loans in AA by #   | 65.00         | 30.00        | 20.00                   | 100%  |
| % of Bank Loans in AA by \$  | 66.52         | 30.79        | 2.69                    | 100%  |

Source: CRA Data and Loan sample; Dun and Bradstreet data.

## Conclusions for Areas Receiving Limited-Scope Reviews

### Washington VA AA

The borrowers' distribution of loans, given the demographics of the AA and the bank's market share, reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The overall distribution of HMDA loans is reasonable.

There was one home improvement loan made to a low-income borrower and one home purchase loan made to a moderate-income borrower. As reported in this table, the percentage of HMDA loans to low-income borrowers (9.09 percent) is well below the percentage of low-income families in the AA (16.36 percent). The percentage of total HMDA loans to moderate-income borrowers (9.09 percent) is well below the percentage of moderate-income families in the AA (19.22 percent).

| <b>Borrower Distribution of Residential Real Estate Loans in Washington VA AA</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level   | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      |
| Loan type   | % 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 Loans   | 16.36            | 0.00                 | 19.22            | 50.00                | 22.86            | 50.00                | 41.56            | 0.00                 |
| Home Improvement Loans  | 16.36            | 50.00                | 19.22            | 0.00                 | 22.86            | 0.00                 | 41.56            | 50.00                |
| Home Refinance  | 16.36            | 0.00                 | 19.22            | 0.00                 | 22.86            | 16.67                | 41.56            | 83.33                |
| TOTAL HMDA**  | 16.36            | 9.09                 | 19.22            | 9.09                 | 22.86            | 18.18                | 41.56            | 54.55                |

Source: 2000 U. S. Census. Data reported under HMDA for valuation period January 1, 2009 - December 31, 2011.

The weighted average of median housing values in this AA is \$83,815. According to the 2010 HUD updated median family income, low-income families earn less than \$41,899 and moderate-income families earn between \$41,900 and \$67,044. Additionally, 13 percent of households are below the poverty level. The lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low- and moderate-income individuals. For this reason, it is deemed satisfactory for the number of loans made to low- and moderate-income families to be below the number of families that represent these income tracts.

The distribution of loans to small businesses is reasonable. The table below reports the percentage of loans to small businesses by number volume is well below the percentage of small businesses in the AA. The percentage of loans to small businesses is well below the percentage of small businesses in the AA.

| <b>Borrower Distribution of Loans to Businesses in Washington VA AA</b> |               |              |                         |       |
|---|---------------|--------------|-------------------------|-------|
| Business Revenues (or Sales)  | <=\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total |
| % of AA Businesses  | 70.67         | 2.50         | 26.83                   | 100%  |
| % of Bank Loans in AA by #  | 40.00         | 50.00        | 10.00                   | 100%  |
| % of Bank Loans in AA by \$   | 35.86         | 45.44        | 18.70                   | 100%  |

Source: CRA Data and Loan sample; Dun and Bradstreet data.

## Geographic Distribution of Loans

There are no low-income census geographies in the AAs. Therefore, the evaluation of geographic loan distribution in the AAs reflects performance in seven moderate-income geographies. Consideration is also given to the four designated distressed or underserved middle income tracts in the Southwest VA AA. This designation is given to these four tracts due to the poverty level.

We considered the demographic characteristics of moderate-income geographies in evaluating geographic distribution of mortgage loans in the AAs. We considered the percentage of owner-occupied housing units in these geographies as well as the percentage of rental properties in the AAs. These are limiting factors that impact the bank's ability to make mortgage loans to individuals residing in moderate-income geographies. We also considered the number of competitors making loans in this market.

NBB's geographic distribution of loans reflects reasonable dispersion and is indicative of satisfactory performance. There are seven moderate-income geographies, and no low-income geographies in the AA. Overall, the bank made loans in moderate-income geographies proportionate to the percentage of owner-occupied housing units located in the AA. More weight is given to the bank's performance in the Southwest VA AA due to the number of moderate-income geographies in the area (six), and the presence of four designated distressed or underserved middle income tracts. We identified no apparent gaps or areas of low penetration in the bank's lending patterns.

### **Conclusions for Areas Receiving Full-Scope Reviews**

#### **Blacksburg AA**

There are 28 census tracts located in this AA. There are no low-income census tracts, and one moderate-income tract located in the AA. The percentage of households living below the poverty level is 19.50 percent. The percentage of owner-occupied housing units located in the moderate-income tract totals 69.45 percent (2,527 units).

Overall, the distribution of HMDA loans in the Blacksburg AA reflects reasonable dispersion among the geographic areas. As reported in the below table, the percentage of home purchase loans and the percentage of home improvement loans made in moderate-income geographies are well below the percentage of owner-occupied housing units in the census tract. The percentage of home refinance loans made in moderate-income geographies is proportionate to the ratio of owner-occupied housing units in the census tract.

| <b>Geographic Distribution of Residential Real Estate Loans in Blacksburg AA</b> |                                |                      |                                |                      |                                |                      |                                |                      |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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  | 0.00                           | 0.00                 | 4.88                           | 2.50                 | 86.82                          | 82.00                | 8.30                           | 15.50                |
| Home Improvement   | 0.00                           | 0.00                 | 4.88                           | 2.62                 | 86.82                          | 87.43                | 8.30                           | 9.95                 |
| Home Refinance   | 0.00                           | 0.00                 | 4.88                           | 3.08                 | 86.82                          | 78.46                | 8.30                           | 18.46                |
| TOTAL HMDA   | 0.00                           | 0.00                 | 4.88                           | 2.71                 | 86.82                          | 82.20                | 8.30                           | 15.08                |

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

As reported below, the distribution of loans to businesses reflects reasonable dispersion in the AA. The percentage of loans to businesses exceeds the percentage of businesses located in the moderate-income geography.

| <b>Geographic Distribution of Loans to Businesses in Blacksburg AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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   | 0.00               | 0.00                 | 2.10               | 5.00                 | 88.58              | 95.00                | 8.56               | 0.00                 |

Source: CRA Data and Loan sample: Dun and Bradstreet data.

### Southwest VA non-MSA AA

There are 33 census tracts located in the AA, of which three are moderate-income tracts. In addition, there are four designated distressed or underserved middle-income tracts located in Mercer County, WV which is included in this AA. There are no low-income census tracts in the AA. The percentage of households living below the poverty level is 16.36 percent. The percentage of owner-occupied housing units located in the moderate-income tract totals 60.44 percent (9,019 units).

The distribution of HMDA loans in the Southwest non-MSA AA reflects reasonable dispersion among the geographic areas. As reported in the table below, the percentage of home improvement loans made in moderate-income geographies exceeds the percentage of owner-occupied housings units in the census tract. The percentage of home purchase loans is well below the percentage of owner-occupied units, and the percentage of home refinance loans is proportionate to the percentage of owner-occupied units in moderate-income tracts.



| <b>Geographic Distribution of Residential Real Estate Loans in Southwest VA non-MSA AA</b> |                                |                      |                                |                      |                                |                      |                                |                      |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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  | 0.00                           | 0.00                 | 10.63                          | 5.21                 | 87.40                          | 87.50                | 1.97                           | 7.29                 |
| Home Improvement   | 0.00                           | 0.00                 | 10.63                          | 11.24                | 87.40                          | 86.39                | 1.97                           | 2.37                 |
| Home Refinance   | 0.00                           | 0.00                 | 10.63                          | 10.47                | 87.40                          | 88.37                | 1.97                           | 1.16                 |
| TOTAL HMDA loans <sup>2</sup>  | 0.00                           | 0.00                 | 10.63                          | 9.35                 | 87.40                          | 86.97                | 1.97                           | 3.68                 |

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

As depicted below, the distribution of loans to businesses reflects reasonable dispersion in the AA. The percentage of loans to businesses is well below the percentage of businesses located in the moderate-income geography.

| <b>Geographic Distribution of Loans to Businesses in Southwest VA non-MSA AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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   | 0.00               | 0.00                 | 10.71              | 5.00                 | 87.32              | 95.00                | 1.97               | 0.00                 |

Source: CRA Data and Loan sample; Dun and Bradstreet data.

### Conclusions for Area(s) Receiving Limited-Scope Reviews

#### Washington VA AA

There are no low- or moderate-income census tracts in the Washington VA AA; therefore an analysis of the geographic distribution of loans would not be meaningful.

#### Responses to Complaints

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

### COMMUNITY DEVELOPMENT TEST

The Community Development test is rated satisfactory. In evaluating performance under the Community Development test we considered the bank's capacity to lend and invest in its community, the availability of investment and community development lending opportunities, and the bank's responsiveness in providing services to the communities in which it does business.

The bank's community development performance in the full-scope AAs demonstrates adequate responsiveness to community development needs through qualified investments

<sup>2</sup> Loans for which census tracts were available.

and community development services, considering the bank's capacity, and the need and availability of such opportunities for community development in the bank's AAs. The bank's performance in the limited-scope AA was consistent with its performance in the full-scope AAs.

### **Number and Amount of Community Development Loans**

NBB originated two qualified community development loans totaling \$5.9 million during the evaluation period. Loan proceeds in the amount of \$5.2 million were given to an Economic Development Authority, located in the Southwest VA AA, for construction activities to support permanent job creation, retention, and/or improvement in low- or moderate-income geographies. The remaining loan proceeds were given to an organization to purchase and renovate a commercial building in downtown Radford to provide affordable housing for low- to moderate-income individuals. This loan benefitted the Blacksburg AA. There were no community development loans in the Washington VA AA.

Opportunities to lend in the AA for community development purposes are limited. NBB participates in two lending programs that support small business and downtown redevelopment. During the evaluation period, the bank originated no loans under these programs. Borrowers typically are drawn to these programs to take advantage of low or subsidized interest rates. However, interest rates on conventional business loans remained low during the evaluation period. 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.

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

Total qualified investments equal 10 percent of Tier One Capital. The bank made 45 qualified investments during the evaluation period. These totaled \$2,173,351 and provide direct benefit to the AA. Forty of the investments made were in the Blacksburg AA, and totaled \$317,851. This represents 14.62 percent of all qualified community development investments. Three investments totaling \$5,500, representing 0.25 percent of qualified investments, were made in the Southwest VA AA. One investment totaling \$1 million with direct benefit to the Washington VA AA represented 46.01 percent of total qualified investments. Investments and contributions went to organizations that offer technical support and credit programs for small business, support economic development in distressed geographies and geographies designated for revitalization, and provide health, human services, and housing for low- and moderate-income individuals and geographies.

The bank retained three prior period investments totaling \$800 thousand that provide direct benefit to the Blacksburg AA. The bank also retained five prior period investments totaling approximately \$4.7 million that provide benefit to a wider geographic area that included the AA.

The level of CD investments is considered adequate, based on the performance context. NBB operates in predominantly middle-income geographies. There are no low-income tracts in the bank's AA, and there are only seven moderate-income tracts in all AA: six

located in the Southwest VA AA and one located the Blacksburg AA. Four (4) of the middle-income tracts located in the Southwest VA AA are designated distressed or underserved middle-income tracts.

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

The employees and officers of the NBB provided services and support to nine qualified community development organizations over the evaluation period. Almost all the community development services benefitted the Blacksburg AA. One of the CD services provided benefits the Southwest VA AA.

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

The bank's community development activities demonstrate adequate responsiveness to the community development needs of its AAs. This takes into consideration the bank's capacity, the need, and the availability of such opportunities for community development in the bank's AAs. We did not identify any un-met community development needs during the evaluation period.

## **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.