



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

March 25, 2013

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Grayson National Bank  
Charter Number 10834

113 West Main Street  
Independence, Virginia 24348

Office of the Comptroller of the Currency

Roanoke Field Office  
4419 Pheasant Ridge Road, Suite 300,  
Roanoke, Virginia 24014

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 Outstanding.**

**The Lending Test is rated: Outstanding.**

**The Community Development Test is rated: Satisfactory.**

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

- A substantial majority of the loans originated during the evaluation period were within the bank's assessment areas (AAs);
- The distribution of loans reflects excellent penetration among borrowers of different incomes and businesses of different sizes;
- The bank's average loan-to-deposit (LTD) ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors; and,
- Community development performance demonstrates adequate responsiveness in the assessment area.

## **Scope of Examination**

Grayson National Bank (GNB) was evaluated under the Intermediate Small Bank examination procedures, which includes a lending test and community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through CD lending, services, and qualified investments. The evaluation period for the Lending Test covers the bank's performance from January 1, 2010 through December 31, 2011. The evaluation period for the community development test includes January 1, 2010 through March 25, 2013.

Information regarding the bank's financial performance was as of December 31, 2012, whereas information regarding the bank's deposit market share within its assessment areas was as of June 30, 2012.

## **Determination of Bank's Primary Loan Products**

We analyzed bank-generated reports of loan origination data from January 1, 2010 through December 31, 2011. Based on this analysis, we determined the bank's primary loan products to be Home Mortgage and Small Business Loans, based on the percentage of total dollar amount of loans. Consumer loans were determined to be a primary loan product by total number of loans originated. We sampled Home Mortgage, Consumer, and Small Business Loans originated between January 1, 2010 and December 31, 2011 using the numerical sampling methodology defined in the *Comptroller's Handbook, Sampling Methodologies*, dated August 1998. Please refer to **Table 1** below for loan origination data for each loan type during the evaluation period.

**Table 1. Loan Originations by Loan Type.**

Loan Type	Total Number of loans	% of Number	Total \$ of loans (000)	% of total \$ of loans
Home Mortgage	565	15.32	33,551	35.81
Small Business	435	11.79	30,493	32.55
Small Farm	209	5.66	16,099	17.18
Consumer	2,480	67.23	13,552	14.46
Total loans for evaluation period	3,689		93,695	

\*Institution's Report of New Loans by loan type, total number, and total dollar for the period of January 1, 2010 to December 31, 2011.

## Description of Institution

Grayson National Bank (GNB) is an interstate bank headquartered in Independence, Virginia with operations in Virginia and North Carolina. GNB is wholly owned by Grayson Bankshares, Inc., a \$336 million bank holding company also headquartered in Independence, Virginia and listed on the OTC Bulletin Board under the symbol "GSON."

GNB is a full-service community bank serving the counties of Grayson, Carroll, Wythe, and the City of Galax in Virginia and Alleghany County in North Carolina. GNB operates ten full-service facilities and eleven automated teller machines (ATMs) – one at each branch and one at Grayson County High School, in Independence Virginia. Seven of the ten branches are located in middle-income non-metropolitan distressed or underserved geographies. During this evaluation period, the bank relocated the branch at 150 West Main Street to its new location at 420 North Fourth Street, in Wytheville, Virginia. There are no low- or moderate-income census tracts in either of the bank's two AAs.

GNB branches are open weekdays during normal business hours with the exception of Wednesday. The Wytheville Branch is open all day on Wednesday whereas all other branches close at 12:00 noon on Wednesday. GNB also offers Saturday drive-thru hours at the Galax, Carroll, Hillsville, East Independence, Wytheville, and Sparta locations.

GNB's products include a variety of traditional deposit and loan products, 24-hour telephone banking, and on-line Internet bill payment services. The bank's Internet website, [www.graysonnationalbank.com](http://www.graysonnationalbank.com), provides detailed information on products and services for both consumers and businesses.

As of December 31, 2012, Tier I Capital was \$27.7 million, Tier 1 Risk-Based Capital to Risk-Weighted Assets equaled 12.51 percent and Tier 1 Leverage Capital equaled 8.33 percent.

GNB's gross loans, as of December 31, 2012, totaled \$205.4 million, or 61.13 percent of total assets and total deposits were \$286.2 million or 85.20 percent of total assets. **Table 2** below depicts the loan portfolio by loan product as of December 31, 2012.

**Table 2. Loan Portfolio by Loan Product.**

Loan Product Category	Gross Loans as of December 31, 2012*	
	Dollar Amount Outstanding (000's)	Percent %
Residential Mortgage	\$99,410	48.40
Commercial /Commercial Real Estate	\$49,526	24.11
Secured by Farmland /Agricultural	\$33,156	16.14
Construction & Land Development	\$15,650	7.62
Consumer	\$6,001	2.92
All Other	\$1,691	0.81
<b>Total Gross Loans</b>	<b>\$205,434</b>	<b>100.00</b>

\*Data obtained from Consolidated Reports of Condition and Income for A Bank with Domestic Offices Only - FFIEC 041 as of December 31, 2012.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its AAs. GNB received an overall "Outstanding" rating on its prior CRA Performance Evaluation as of January 11, 2010.

## Selection of Areas for Full-Scope Review

In each state where the bank has an office, a sample of AAs within that state are selected for full-scope reviews. We selected the AA in Virginia and in North Carolina for a full scope review. The counties of Carroll, Grayson and Wythe, and the City of Galax make up the Virginia non-metropolitan statistical area (MSA) assessment area. Alleghany County makes up the North Carolina non-MSA AA. Descriptions of each AA are contained in the respective *State* section of this evaluation.

## Ratings

The bank's overall rating is a blend of the state ratings for Virginia and North Carolina. The Virginia rating weighed most heavily in arriving at the overall bank rating because a majority of GNB's deposits and loans are from Virginia.

GNB's rating is based on the bank's performance in the two assessment areas. There are no low- or moderate-income census tracts (CT) in either of the two AAs. We gave consideration to the CTs in the AAs that are designated as middle-income non-metropolitan distressed or underserved geographies.

## Conclusions with Respect to Performance Criteria

The performance under the Lending Test is excellent. The institution's loan-to-deposit ratio is reasonable and a substantial majority of loans are originated inside the AAs. The institution's borrower distribution reflects excellent penetration among borrowers of

different incomes. GNB has not received any CRA complaints during this evaluation period.

GNB's rating is based on the institution's performance in the Virginia non-MSA AA and the North Carolina non-MSA AA.

## **LENDING TEST**

Overall lending levels reflect excellent responsiveness to meeting AA credit needs. In evaluating performance under the Lending Test, we considered the bank's business strategy and financial condition; the number and types of loans originated, and community credit needs identified through discussions with community contacts. We also considered the amount of competition from lenders located in the AA and competitors not located in the AA.

### **Loan-to-Deposit Ratio**

The bank's average quarterly loan-to-deposit (LTD) ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors. The bank's average quarterly LTD ratio meets the standards for satisfactory performance. The bank's average quarterly loan-to-deposit ratio for the thirteen consecutive quarters (December 31, 2009 to December 31, 2012) since the previous CRA examination is 76.3 percent. GNB's quarterly LTD ratio ranged from a high of 85.03 percent at December 31, 2009 to a low of 69.37 percent at June 30, 2012. The condition of local economy and lack of loan demand factored into the steady decline of the bank's LTD ratio over the past 13 quarters. Peer institutions reported an average low LTD of 51.33 percent and an average high LTD of 90.69 percent.

GNB does not have similarly situated local competitor banks in the AAs to which we may compare its performance. The main competitors in the Virginia non-MSA AA are Branch Banking and Trust (BB&T) and Carter Bank and Trust (Carter Bank). These banks have 38.9 percent of the deposit market share in this AA. The main competitors in North Carolina non-MSA AA are BB&T and First Community Bank with 47.7 percent of the deposit market share in this AA. These competitors have substantially greater resources and lending limits and offer banking services that GNB does not currently provide.

### **Lending in Assessment Area**

GNB originated a substantial majority of its loans inside its AAs. As indicated in **Table 3**, 92.5 percent of the residential mortgage loans, business loans, and consumer loans sampled were originated within the bank's AAs.

Table 3 - Lending in All Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Residential Mortgage Loans	56	90.32	6	9.68	62	2,771	90.52	290	9.48	3,061
Business loans	44	97.78	1	2.22	45	2,990	98.92	32	1.08	3,022
Consumer Loans	61	91.04	6	8.96	67	467	85.65	79	14.35	546
Totals	161	92.53	13	7.47	174	6,228	93.65	401	6.05	6,629

Source: Sample of residential mortgage loans, business purpose loans, and consumer loans from January 1, 2010 - December 31, 2011.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

# State Rating

## State of Virginia

**CRA Rating for Virginia: Outstanding.**  
**The Lending test is rated: Outstanding.**  
**The Community Development test is rated: Satisfactory.**

The major factors that support this rating include:

- The distribution of borrowers reflects excellent penetration among individuals of different income levels (including low- and moderate-income) given the demographics of the AA.
- The bank's community development performance demonstrates adequate responsiveness to community development needs in its AA.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN VIRGINIA**

The Virginia non-MSA AA consists of Grayson, Carroll, and Wythe counties; and the independent City of Galax, which are all located in the southwestern part of Virginia. These counties and city are contiguous, with similar geographies, according to their performance contexts, which allow them to be placed in the same AA.

There are 14 whole CT in the Virginia non-MSA AA (Virginia AA), all of which are middle-income level CTs. Three CTs in Grayson County and the one CT in the City of Galax are designated as Middle-Income Nonmetropolitan Distressed or Underserved Geographies. There are no low- or moderate- income level tracts in this AA. This AA does not arbitrarily exclude any low- or moderate-income tracts. The demographic information in **Table 4** describes the Virginia AA.



TABLE 4						
Demographic Information for Full Scope Area: Grayson NB Virginia non-MSA AA (Virginia)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	14	0.00	0.00	100.00	0.00	0.00
Population by Geography	81,598	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	26,712	0.00	0.00	100.00	0.00	0.00
Business by Geography	7,071	0.00	0.00	100.00	0.00	0.00
Farms by Geography	447	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	33,904	26.66	17.20	19.53	36.61	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	23,950	19.88	20.26	24.75	35.11	0.00
Median Family Income		37,501				65,691
HUD Adjusted Median Family Income for 2011		51,900				
Households Below Poverty Level		14.84%				10.7%
				Median Housing Value		
				Average Unemployment Rate (2013 Bureau of Labor Statistics)		

(\* ) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census and 2011 HUD updated Median Family Income

A substantial majority of the bank's operations are within Virginia. GNB ranked second with 18 percent of the deposit market share in the Virginia AA as of June 30, 2012 based on the FDIC Deposit Market Share Report. Carter Bank ranked first with a 21.2 percent deposit market share. BB&T ranked third with a 17.7 percent deposit market share. Also, the bank's report of loan originations for the evaluation period shows 64.2 percent of the bank's loans are to customers in Virginia. Based on this information, the Virginia AA weighted heavier in our analysis.

A portion of the Virginia AA is located in the Blue Ridge Crossroads region, which is comprised of Carroll County, Grayson County and the City of Galax. In addition, four municipalities include the Towns of Fries, Hillsville, Independence, and Troutdale. The Blue Ridge Crossroads Economic Development Authority has created one of the most successful Small Business Development Centers (SBDC) in Virginia, the creation of The Wired Road Broadband Authority to increase the availability of fiber communications infrastructure, and the development of Wildwood Commerce Park- a 167-acre industrial park located at Exit 19 of Interstate-77. Wildwood is located within the Virginia Enterprise and HUB zones.

Government services employ the largest segment of the population, with manufacturing second, followed by healthcare and retail. Leading employers in the Virginia AA are Vaughn-Bassett Furniture, Consolidated Glass and Mirror Corporation, Parkdale Mills/Magnolia Manufacturing, Pepsi Bottling Company, Wythe County Community Hospital and Twin County Regional Hospital.

We obtained current unemployment rates for the Virginia AA from the U. S. Bureau of Labor Statistics. As of January 31, 2013, the unemployment rate in Carroll County was

10.3 percent, Grayson County was 12.7 percent, Wythe County was 9.6 percent, and the City of Galax was 10.2 percent, which are all well above the Virginia statewide average of 5.6 percent.

Approximately 15 percent of the households in the Virginia AA are below poverty level, according to the 2000 U. S. Census. According to the USDA Report for 2011, 19.9 percent of the total population in Carroll County, 18.6 percent of the total population in Grayson County, 14.3 percent of the total population in Wythe County, and 22.9 percent of the total population of the City of Galax were below the poverty level. Approximately 39 percent of the households in the Virginia AA receive social security or public assistance.

## **SCOPE OF EVALUATION IN VIRGINIA**

The Virginia AA received a full-scope review. The Virginia AA rating weighed most heavily in arriving at the overall bank rating due to a substantial majority of deposits and loans being from this rating area.

Residential mortgage lending, business purpose lending, and consumer loans received equal consideration in arriving at conclusions for the Lending Test due to the volume of loans originated in each product type during the evaluation period. GNB's loan trial balance reported originations of 565 residential mortgage loans, 435 business purpose loans, and 2,480 consumer loans. The analysis of performance under the Community Development Test equally considered loan, investment, and services activity.

We conducted one community contact with a representative for the Twin County Chamber of Commerce located in the bank's Virginia AA. The contact identified the most pressing need in the Virginia AA as workshops to educate the public on the changes to banking regulations and steps to re-build credit history. The contact also stated that there was a need in the area for low-interest loans to homeowners for home repairs or to businesses that would like to expand and grow but lack available operating capital.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN VIRGINIA**

GNB's performance in Virginia AA is rated **Outstanding**.

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered GNB's business strategy, the volume of originations, and community credit needs identified through discussions with the community contact. We also took into consideration the limitations that high rates of unemployment place on the bank's opportunities to lend.

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.

**LENDING TEST**

The bank’s performance under the lending test in Virginia is rated **Outstanding**.

In making this assessment, we considered the number of families that live below the poverty level and the barriers that this may have on home ownership in evaluating the borrower distribution of home mortgage loans. Approximately 15 percent of the households in the Virginia AA live below the poverty level.

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

**Home Mortgage Loans**

The distribution of borrowers reflects excellent penetration among individuals of different income levels, given the demographics of the Virginia AA. To evaluate the bank’s performance in the Virginia AA we used a sample of 36 residential mortgage loans located in the Virginia AA. As indicated in the table below, the percentage of loans to low-income borrowers exceeds the percentage of low-income families in the Virginia AA. The percentage of loans to moderate-income borrowers compares favorably to the percentage of moderate-income families in the Virginia. Please refer to **Table 5** for the facts and data used to evaluate the borrower distribution of the bank’s consumer loan originations and purchases in the Virginia AA.

Table 5 - Borrower Distribution of Residential Real Estate Loans in Virginia AA								
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 Mortgage Loans	19.88	30.56	20.26	19.44	24.75	36.11	35.11	13.89

*Source: U.S. Census data and loan sample.*

**Consumer Loans**

The distribution of borrowers reflects excellent penetration among individuals of different income levels, given the demographics of the Virginia AA. To evaluate the bank’s performance in the Virginia AA we used a sample of 41 consumer loans originated in the Virginia AA.

As indicated in the table below, the percentage of loans to low-income borrowers exceeds the percentage of low-income households in the Virginia AA. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income households in the Virginia AA. Please refer to **Table 6** for the facts and data used to

evaluate the borrower distribution of the bank's consumer loan originations and purchases in the Virginia AA.

Table 6 – Borrower Distribution of Consumer Loans within the Virginia AA								
Income Level	Low		Moderate		Middle		Upper	
	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans	% of Households	% of # of Loans
Consumer Loans	26.66	39.03	17.20	24.39	19.53	21.95	36.61	14.63

Source: U.S. Census data and loan sample.

## Business Loans

GNB's record of originating business purpose loans among the Virginia AA businesses of different sizes reflects excellent distribution considering the demographic context in which GNB operates.

We analyzed data collected from a sample of business loans originated the Virginia AA. The analysis was performed to assess GNB's record of distributing its business loan originations among Virginia businesses of different sizes. Specifically, during the evaluation period we collected and analyzed data from 20 business loans that GNB originated to Virginia AA businesses.

The distribution of borrowers reflects excellent penetration among businesses of different sizes. As indicated in **Table 7** below, the percentage of loans to small businesses (those with less than \$1 million in gross annual revenues) exceeds the percentage of small businesses in the Virginia AA.

Table 7 - Borrower Distribution of Loans to Businesses in Virginia AA				
Business Revenues (or Sales)	<=\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69.69	2.26	28.05	100%
% of Bank Loans in AA by #	90.00	5.00	5.00	100%
% of Bank Loans in AA by \$	90.22	7.74	2.04	100%

Source: U.S. Census data and loan sample.

As indicated in Table 8, a substantial majority of these loans are of a size less than \$100,000.

Table 8 - Borrower Distribution of Loans to Businesses by Loan Size in Virginia AA				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	18	90.00	408,745	49.17
\$100,001 - \$250,000	1	5.00	150,000	18.05
\$250,001 - \$1,000,000	1	5.00	272,500	32.78

Source: U.S. Census data and loan sample

## **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans is not meaningful because there are no low- or moderate-income geographies in the Virginia AA. However, it is worthy to mention that our loan sample results show 19 home mortgage loans (52.78 percent of the home mortgage loan sample), 27 consumer loans (65.85 percent of the consumer loan sample), and 15 business loans (75 percent of the business loan sample) were made in CTs designated as middle-income nonmetropolitan distressed or underserved geographies.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the community development test in Virginia is rated Satisfactory.

The bank's community development performance demonstrates adequate responsiveness to community development needs, considering the bank's capacity, need, and availability of such opportunities for community development in the bank's Virginia AA. GNB's community development activities include community development loans, qualified investments, and community development services.

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

GNB originated four community development (CD) loans with outstanding balances of approximately \$317 thousand in the Virginia AA during the evaluation period. One loan was a line of credit to fund operational expenses for a local organization. This organization provides public water for the Town of Sparta, North Carolina and the Town of Independence, Virginia to provide jobs for low/moderate income households by attracting new industry for underserved/distressed areas. The public water system was a predecessor to attract the Virginia Department of Corrections to locate a new facility in the Virginia AA. Three loans were made to health care facilities in the Virginia AA to provide affordable healthcare to low and moderate income households. GNB has eight prior period CD loans totaling approximately \$2.7 million, which carry forward to this evaluation period.

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

The bank did not have any qualified investments in this Virginia AA during the evaluation period. Management reported that there were minimal to no investments available for purchase that would directly affect the Virginia AA. The bank had one prior period investment, totaling \$1.1 million. The investment is an industrial revenue bond to a local manufacturing company for the purpose of retaining low/moderate income jobs and promoting future growth.

GNB also had qualified donations totaling \$11,600 during the evaluation period. The donations were made to service organizations that provide assistance to low- and moderate-income families in the Virginia AA.

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

During the evaluation period, five officers and employees provided technical services and support to five qualified community development organizations.

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

The bank's community development performance demonstrates adequate responsiveness to community development needs in its Virginia AA. GNB operates in predominantly middle-income geographies. There are no low- or moderate-income tracts in the bank's two assessment areas. Four of the middle-income tracts located in the Virginia AA are designated middle-income nonmetropolitan distressed/underserved middle-income tracts.

### **Responses to Complaints**

GNB did not receive any complaints about its performance in helping to meet credit needs in the Virginia AA during this evaluation period. This has a neutral impact on the CRA rating.

# State Rating

## State of North Carolina

**CRA Rating for North Carolina: Outstanding.**  
**The Lending test is rated: Outstanding.**  
**The Community development test is rated: Satisfactory.**

The major factors that support this rating include:

- The distribution of borrowers reflects excellent penetration among individuals of different income levels (including low- and moderate-income) given the demographics of the North Carolina non-MSA AA; and,
- The bank's community development performance demonstrates adequate responsiveness to community development needs in its North Carolina non-MSA AA.

## DESCRIPTION OF INSTITUTION'S OPERATIONS IN NORTH CAROLINA

The North Carolina non-MSA AA (North Carolina AA) consists of Alleghany County, in its entirety. There are three whole census tracts (CTs) in the AA, all of which are middle-income level tracts. All three CTs are designated as middle-income nonmetropolitan distressed or underserved geographies. The bank has one branch and one ATM in this AA. There are no low- or moderate- income level tracts in the North Carolina AA. This AA does not arbitrarily exclude any low- or moderate- income areas. The demographic information in **Table 9** below describes this area.

TABLE 9						
Demographic Information for Full Scope Area: Grayson NB North Carolina AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	153	0.00	0.00	100.00	0.00	0.00
Population by Geography	10,677	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	3,627	0.00	0.00	100.00	0.00	0.00
Business by Geography	1,036	0.00	0.00	100.00	0.00	0.00
Farms by Geography	91	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	4,601	28.23	16.80	19.82	35.14	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,171	20.06	20.81	24.50	34.63	0.00
Median Family Income		38,519	Median Housing Value			86,056
HUD Adjusted Median Family Income for 2011		49,500	Unemployment Rate (Bureau of Labor Statistics – Jan 2013)			12.6%
Households Below Poverty Level		18.52%				

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census and 2011 HUD updated Median Family Income

A smaller percentage of the bank's operations are in North Carolina. GNB holds a 16.2 percent deposit market share in the North Carolina AA based on the FDIC Deposit Market Share Report as of June 2012. The bank competitors and their respective deposit market share in the North Carolina AA are: BB&T with 32.4 percent; First Community Bank, N.A. with 15.3 percent; and Fifth Third Bank with 14 percent.

Alleghany County is located in the Blue Ridge Mountains of Northwestern North Carolina and is the state's fifth smallest county in land area, encompassing 233 square miles and sixth smallest in population with approximately 10,000 residents. It is bordered by Ashe County on the west, Wilkes County to the south, and Surry County to the east, and Grayson County, Virginia on the north.

Alleghany County has mostly rural population, with only a few small towns. The county seat, Sparta, had about 1,800 inhabitants in the year 2000 census. Historically, most of the "towns" consisted of little more than a post office with perhaps a church, school, or general store to serve the surrounding farm community. For government purposes, such as the census, the county has traditionally been divided into "townships." Sparta, North Carolina is located at the crossroads of the county's two main corridors, U.S. 21 and NC 18. Sparta North Carolina is the physical center as well as the focus of community life for Alleghany County. Sparta is the home to the satellite campus of Wilkes Community College, Alleghany Memorial Hospital and four of the county's largest manufacturers.

Much of the county's residents work in either the education field or the healthcare profession as the school system and hospital are major employers in the region.



Leading employers are Alleghany Board of Education, Parkdale Mills, Alleghany County Public Administration, and Alleghany Memorial Hospital.

We obtained current unemployment rates for the North Carolina AA from the U. S. Bureau of Labor Statistics. As of January 31, 2013, the unemployment rate in Alleghany County was 12.6 percent, which is above the North Carolina statewide average of 9.5 percent. According to the 2000 U. S. Census, 18.5 percent of households in the North Carolina AA live below poverty level. The USDA Report for 2011 reported 20.3 percent of the total population in Alleghany County was below the poverty level.

## **SCOPE OF EVALUATION IN NORTH CAROLINA**

The North Carolina AA received a full-scope review. The North Carolina AA rating was weighted proportionately to the amount of deposits and loans from this rating area, in arriving at the overall bank rating.

Residential mortgage lending received equal consideration to business lending in arriving at conclusions for the Lending Test based on loan volumes in the evaluation period. The bank's trial balance shows 18.4 percent of the bank's loans are to customers in North Carolina. GNB's loan trial balance reported 703 loan originations for the North Carolina AA. The analysis of performance under the Community Development Test equally considered loan, investment, donation, and services activity.

We conducted one community contact with the Mayor of the City of Sparta, North Carolina. The most pressing need in the North Carolina AA identified by the contact was to re-educate the consumer by offering workshops to educate them on the changes to banking regulations; and steps to re-build credit history. The contact also stated there was a credit need for small dollar loans for small businesses wishing to expand or start-up businesses.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NORTH CAROLINA**

GNB's performance in North Carolina is rated **Outstanding**.

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered GNB's business strategy, the volume of originations, and community credit needs identified through discussions with the community contact. We also took into consideration the limitations that high rates of unemployment place on the bank's opportunities to lend.

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.

# LENDING TEST

The bank's performance under the lending test in the North Carolina AA is rated **Outstanding**.

Overall lending to borrowers of different incomes and to businesses of different sizes is excellent. We considered the number of families that live below the poverty level and the barriers that this may have on home ownership in evaluating the borrower distribution of home mortgage loans. Approximately 18 percent of the households in the North Carolina AA live below the poverty level.

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

### Home Mortgage Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels given the demographics of the North Carolina AA. As indicated in **Table 10** below, the percentage of loans to low-income borrowers exceeds the percentage of low-income families in the North Carolina AA. Likewise, the percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families in the North Carolina AA.

Table 10 - Borrower Distribution of Residential Real Estate Loans in NC non MSA AA								
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 Mortgage	20.06	25.00	20.81	30.00	24.50	15.00	34.63	30.00

Source: U.S. Census data and loan sample.

### Consumer Loans

The distribution of borrowers reflects excellent penetration among individuals of different income levels, given the demographics of the North Carolina AA. To evaluate the bank's performance in the North Carolina AA we used a sample of 20 consumer loans originated in the North Carolina AA.

As indicated in the table below, the percentage of loans to low-income borrowers is below the percentage of low-income households in the North Carolina AA. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income households in the North Carolina AA. Please refer to **Table 11** below for the facts and data used to evaluate the borrower distribution of the bank's consumer loan originations and purchases in the North Carolina AA.

Table 11 – Borrower Distribution of Consumer Loans within the North Carolina AA								
Income Level	Low		Moderate		Middle		Upper	
	% of House-holds	% of # of Loans	% of House-holds	% of # of Loans	% of House-holds	% of # of Loans	% of House-holds	% of # of Loans
Consumer Loans	28.23	20.00	16.80	40.00	19.82	30.00	35.14	10.00

Source: U.S. Census data and loan sample.

## Business Loans

GNB’s record of originating business purpose loans among the North Carolina AA businesses of different sizes reflects an excellent distribution considering the demographic context in which GNB operates.

We analyzed data collected from a sample of business loans originated the North Carolina AA. The analysis was performed to assess GNB’s record of distributing its business loan originations among North Carolina businesses of different sizes. Specifically, during the evaluation period we collected and analyzed data from 24 business loans that GNB originated to North Carolina AA businesses.

The distribution of borrowers reflects excellent penetration among businesses of different sizes. As indicated in **Table 12** below the percentage of loans to small businesses (those with less than \$1 million in gross annual revenues) exceeds the percentage of small businesses in the North Carolina AA based on the percentage of the number of loans. The percentage of the dollar amount of loans to small businesses is below the percent of AA businesses, but the size of the loans to small businesses is generally smaller.

Table 12 - Borrower Distribution of Loans to Businesses in North Carolina AA				
Business Revenues (or Sales)	<=\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.63	2.15	25.22	100%
% of Bank Loans in AA by #	87.50	12.50	0.00	100%
% of Bank Loans in AA by \$	44.41	55.59	0.00	100%

Source: U.S. Census data and loan sample.

As indicated in Table 13, a substantial majority of these loans are of a size less than \$100,000.

Table 13 - Borrower Distribution of Loans to Businesses by Loan Size in North Carolina AA				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	20	83.33	628,613	29.12
\$100,001 - \$250,000	3	12.50	530,000	24.55
\$250,001 - \$1,000,000	1	4.17	1,000,000	46.33

Source: US Census data an loan sample

## **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans is not meaningful because there are no low- or moderate-income geographies in the North Carolina AA. However, it is worthy to mention that since all CTs in the bank's North Carolina AA are designated as nonmetropolitan distressed or underserved tracts, all loans in the home mortgage, consumer, and business loan samples were made in CTs designated as middle-income nonmetropolitan distressed or underserved tracts.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the community development test in North Carolina is rated **Satisfactory**.

The bank's community development performance demonstrates adequate responsiveness to community development needs, considering the bank's capacity, need and availability of such opportunities for community development in the bank's North Carolina AA. GNB's community development activities include community development loans, qualified investments, and community development services.

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

GNB originated four community development loans with a total outstanding amount of approximately \$12 thousand in the North Carolina AA during the evaluation period. These four loans were to promote economic development in Alleghany County. The four small businesses received funding from the Miles JOB (Job Opportunity Base) Fund, which was placed in a deposit account with GNB and used as collateral for the CD loans. The Miles JOB Fund provides Start-up money to help local residents of Alleghany County obtain bank financing to buy equipment or tools.

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

The bank did not have any qualified investments in this North Carolina AA during the evaluation period. Management reported that there were minimal to no investments available for purchase that would directly affect the North Carolina AA. GNB had qualified donations totaling \$1,750 during the evaluation period. The donation was made to a service organization that provides assistance to low- and moderate- income families in the North Carolina AA.

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

During the evaluation period and across the bank's North Carolina AA, three officers provided technical services and support to five qualified community development organizations.

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

The bank's community development performance demonstrates adequate responsiveness to community development needs in its North Carolina AA. There are no low- or moderate- income tracts in the AA. The three middle-income tracts located in the North Carolina AA are designated middle-income nonmetropolitan distressed/underserved middle-income tracts.

## **Responses to Complaints**

GNB did not receive any complaints about its performance in helping to meet credit needs in the North Carolina AA during this evaluation period. This has a neutral impact on the CRA rating.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: (01/01/10 to 12/31/11) Community Development Test: (01/01/10 to 03/25/13)	
<b>Financial Institution</b>		<b>Products Reviewed</b>
Grayson National Bank (GNB) Independence, Virginia		Residential Mortgage Loans Business Purpose Loans Consumer Loans
<b>Affiliate(s) None</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
<i>[Instructions: Provide only if affiliate products are reviewed.]</i>  (Name of Affiliate (Abbreviation)) NONE	NONE	NONE
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
State of Virginia Grayson County, Carroll County, Wythe County, City of Galax non-MSA	Full Scope	Census tracts: Grayson County 9901, 9902, 9903 Carroll County 9901, 9902, 9903, 9904, 9905, 9906 Wythe County 9901, 9902, 9903, 9904 City of Galax 9901
State of North Carolina Alleghany County non MSA	Full Scope	Alleghany County 9501, 9502, 9503

## Appendix B: Summary of State Ratings

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Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State Rating*
Grayson National Bank	Outstanding	Satisfactory	Outstanding
<b>State Ratings:</b>			
Virginia	Outstanding	Satisfactory	Outstanding
North Carolina	Outstanding	Satisfactory	Outstanding

(\*) The lending test is weighted more heavily than the community development tests in the overall rating.