



## **PUBLIC DISCLOSURE**

January 27, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Martinsville First Savings Bank  
Charter Number 703881  
25 West Church Street  
Martinsville, Virginia 24112-6217

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.

**INSTITUTION'S CRA RATING: This institution is rated Outstanding.**

We assigned the Community Reinvestment Act (CRA) rating based on the following information:

- The bank's loan-to-deposit ratio is reasonable given the size and complexity of the institution; and the competition in the assessment area (AA);
- A substantial majority of the institution's mortgage loan originations during the review period were within the AA;
- The majority of the loans, given the demographics of the AA, reflect excellent distribution among borrowers of different income levels; and,
- The bank's geographic distribution of loans reflects excellent distribution in comparison to the distribution of owner-occupied housing units in the AA.

**SCOPE OF EXAMINATION**

This Performance Evaluation assesses the bank's performance under the Lending Test for the period August 4, 2008 through December 31, 2013. We sampled loans originated between January 1, 2009 and December 31, 2011. The sample period was representative of the entire evaluation period. We selected home mortgage loans as the primary loan products based on total loans originated during the evaluation period and discussions with bank management. Our analysis was based on the sample of home mortgage loans originated during the evaluation period. The sample was selected based on judgmental sampling guidelines.

The Lending Test analysis is based on the bank's performance during the evaluation period using comparative demographic data from the 2000 U.S. Census.

**DESCRIPTION OF INSTITUTION**

Martinsville Federal Savings Bank (Martinsville FSB) is a federally chartered mutual savings association originally formed in 1924. Martinsville FSB operates as a traditional savings association headquartered in Martinsville, Virginia, which is in Henry County. Martinsville FSB serves its community through its one office located near downtown Martinsville. The bank has not opened or closed any bank offices since the previous evaluation period.

The thrift received an "Outstanding" rating in its August 4, 2008 CRA Performance Evaluation. Although no regulatory or legal impediments were identified that would impact Martinsville FSB's ability to meet community credit needs, the bank faces significant competition from other financial institutions.

Martinsville FSB is a portfolio lender, which offers a limited variety of credit and deposit products. Credit products include fixed-rate mortgage loans for the purchase, refinance, and construction of residential dwellings. In addition, the institution offers second

mortgage loans and savings account loans. Martinsville FSB's deposit products are limited to passbook savings accounts, money market deposit accounts, certificates of deposit ranging from six months to five years, and individual retirement accounts.

Martinsville FSB's hours of operation include lobby and drive-thru hours from 9 a.m. - 4:00 p.m. Mondays, Tuesdays and Thursdays; Wednesdays from 9 a.m.-1 p.m., Fridays from 9 a.m.-5 p.m. and Saturdays from 9 a.m.-noon.

As of December 31, 2013, Martinsville FSB's total assets were \$45.6 million with a net loan portfolio of approximately \$24.5 million, representing 53.66 percent of total assets. Total deposits were \$39.9 million, or 87.68 percent of total assets. Net Tier One Capital is \$5.5 million as of that same date. The composition of the bank's loan portfolio is in the table below.

Product Category	Gross Loans as of December 31, 2013	
	Dollars (\$000)	Percent of Gross Loans
1-4 Family Residential	\$22,889	92.48%
Commercial Real Estate	\$1,508	6.09%
Loans to Individuals	\$141	0.57%
Residential Construction	\$211	0.86%
<b>Total Gross Loans</b>	<b>\$24,749</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, 2013

Martinsville FSB's primary competitors include River Community Bank, N.A. (RCB), Carter Bank & Trust, Branch Banking & Trust (BB&T) and SunTrust Bank. The last three competitors have at least four branches within the bank's primary AA and have total assets greater than \$1 billion. BB&T and SunTrust Bank are regional banks headquartered outside of Virginia. Carter Bank's headquarters are in Virginia. RCB is based in Martinsville.

According to the June 30, 2013 FDIC Summary of Deposits Market Share Report, Martinsville FSB ranked eighth out of ten institutions in the Henry-Martinsville Virginia non-MSA AA with 3.12 percent of deposits. Carter Bank & Trust ranked first with eight offices in the AA and 43.07 percent of the deposits; BB&T ranked second with four offices in the AA and 21.34 percent of the deposits; and SunTrust Bank ranked third with four offices in the AA and 13.52 percent of the deposits. RCB ranked fifth with 4.3% of deposits with one office in Martinsville.

## DESCRIPTION OF ASSESSMENT AREA(S)

Martinsville FSB has designated Henry County, Virginia, and the City of Martinsville, Virginia as the bank's assessment area. The City of Martinsville is considered a

separate political subdivision, which is physically located within Henry County. The assessment area includes the geography of the institution’s sole office.

The AA consists of one county and one independent city in the State of Virginia. Henry County has thirteen middle-income census tracts that are designated as distressed nonmetropolitan middle-income census tracts. The City of Martinsville has three moderate-income census tracts, one middle-income census tract, and one upper-income census tract. The middle-income census tract in the City of Martinsville is designated as a distressed nonmetropolitan middle-income census tract due to high poverty and unemployment rates and population loss.

Demographic data for the AA is in the table below. It indicates that the vast majority of the population within the assessment area resides in the middle-income census tracts. Accordingly, the demographics of the middle-income census tracts drive the assessment area demographics. Therefore, the poverty level in the assessment area is relatively high.

<b>2000 U. S. Census Demographic Information for Full Scope Area: Henry County and City of Martinsville Virginia non MSA-AA*</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	21	0.00	14.29	80.95	4.76
Population by Geography	92,753	0.00	10.13	86.46	3.41
Owner-Occupied Housing by Geography	28,828	0.00	7.77	88.26	3.98
Business by Geography	6,730	0.00	9.52	87.50	2.97
Farms by Geography	219	0.00	1.83	97.26	0.91
Family Distribution by Income Level	26,923	20.14	19.60	23.99	36.28
Distribution of Low and Moderate Income Families throughout AA Geographies	10,698	0.00	13.01	85.13	1.86
Median Family Income		\$38,987	Median Housing Value		\$70,272
2011 HUD Adjusted Median Family Income		\$51,900			
Households Below Poverty Level		14%			

\*Source: 2000 U.S. Census; 2011 HUD updated MFI

Henry County is located in the foothills of the Blue Ridge Mountains in the southwestern part of Virginia. Patrick County borders it to the West, Franklin County to the North, Pittsylvania County to the East, and Rockingham County in North Carolina to the South. Communities within Henry County include the Town of Ridgeway, the independent City of Martinsville, and twelve unincorporated communities. Henry County is 50 minutes or less from five interstates, an international airport, and five metropolitan areas, making the area easily accessible. According to 2000 Census Data, the population in the county is 57,930.

The City of Martinsville is an independent city located in the center of Henry County. The population in the city is 15,416 according to 2000 Census Data. The paperclip shaped Martinsville Speedway, the shortest track in NASCAR stock racing, is located just south of the city in the town of Ridgeway. In previous years, this city was industrialized and home to textile, chemical, furniture, and prefabricated housing businesses. According to 2000 Census Data, the population in the city is 15,416.

Over the past several years, the City of Martinsville and Henry County have faced some of the largest unemployment rates in the state of Virginia. The area employs a large number of people in furniture manufacturing, clothing distribution, call centers, and high-tech polymer manufacturing. Many of the area residents have sought new employment due to the geographical shifts in these core businesses. However, there are several other manufacturing companies coming into the area including Kilgore Enterprises, who produce air space parts, and RTI, who produce forged titanium.

The City of Martinsville area has the highest employment rate in the state of Virginia and Henry County has been ranked in the top five with the highest unemployment rate for several years running. As of December 2013, the unemployment rate for Henry County was 7.2 percent and 12.4 percent for the City of Martinsville.

## **COMMUNITY CONTACT**

To determine the credit needs of the AA, we contacted the President of the Martinsville-Henry County Chamber of Commerce. The Chamber of Commerce's main focus is on economic and workforce development. The Chamber's programs are designed to encourage a strong local economy by creating an environment where businesses thrive and community and commerce work together for the future of Martinsville-Henry County. This has been a challenge, especially over the last few years, given the level of unemployment and economic stress in the area. The contact reiterated that the City of Martinsville has the highest unemployment rate in the state of Virginia, and Henry County has consistently been ranked in the top five for several years. Increased unemployment rates are mainly the result of losing several manufacturing employers in the area. However, the contact did note that Kilgore Enterprises and RTI have moved into the area, creating 150 employment opportunities.

General banking and credit needs of the community consist of machinery and equipment loans, work vehicle loans, and general real estate or car loans. The Chamber has implemented a program called C-PEG, Chamber Partner for Economic Growth, which assists in raising private funds for economic development. The Chamber also has a grant program that provides assistance to small businesses that are Chamber members to help them obtain loan approval at the surrounding community banks. The Chamber also provides a Small Business Investment Forum, geared toward small businesses three years or less in age, where small businesses enter into a business plan competition. Local community banks are encouraged to participate in this event and have been with success and enthusiasm.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Martinsville FSB's performance under the Lending Test is Outstanding. The evaluation period covered lending activity for home mortgage loan originations from January 1, 2009 through December 31, 2011. These loans were the products reviewed as determined by the volume of loan originations during the evaluation period.

### Loan-to-Deposit Ratio

Martinsville FSB's loan-to-deposit (LTD) ratio is reasonable considering the credit needs, the demand for credit, and the level of competition in the assessment area. The bank meets the standards for satisfactory performance.

An analysis of Martinsville FSB's LTD ratios from June 2008 to September 2013 indicated the bank's LTD ratio has trended downward. The bank's average quarterly LTD ratio for these 22 quarters ranged from a quarterly low of 58.32 percent in June 2013 and a quarterly high of 72.58 percent in March 2009. The bank's LTD ratio did not compare favorably to the peer<sup>1</sup> average of 82.66 percent, for the same time period; however, the bank's ratio is satisfactory due to the limited product offerings in comparison to the bank's competitors. Martinsville FSB ranked last out of five institutions in the assessment area as illustrated in the table below.

Institution Name	Average Loan to Deposit Ratio, Twenty-Two Quarters beginning June 30, 2008
Martinsville FSB	66.17%
River Community Bank	97.60%
First State Bank	71.69%
Virginia Bank and Trust	87.74%
Franklin Community Bank	89.36%

Source: Uniform Bank Performance Reports for the quarter ended June 30, 2008 through September 30, 2013.

### Lending in Assessment Area

A substantial majority of the home mortgage loans originated during the evaluation period were inside the assessment area. Martinsville FSB exceeds the standards for satisfactory performance for lending in the assessment area.

In order to determine this, we analyzed a sample of Martinsville FSB's loans originated since the previous CRA examination. The sample covered the bank's primary loan products, which included 20 home mortgage loans. This sample is representative of the bank's lending philosophy and overall lending performance in addressing the needs

<sup>1</sup> LTD Peer group included state and national banks ranging in asset size up to \$175 million in contiguous counties.

within its AA. There were no conspicuous gaps in the bank’s lending patterns. We determined the bank’s ratio of lending inside and outside the AA based on loans in the sample.

The following table shows the distribution of home mortgage loans inside and outside of the bank’s assessment area.

<b>Lending in Henry County-Martinsville non MSA-AA</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>
<b>Business Loans</b>	6	75%	2	25%	8	\$245	61%	\$157	39%	\$402
<b>Residential Loans</b>	14	100%	0	0%	14	\$647	100%	0	0%	\$647
<b>Totals</b>	20	91%	2	9%	22	\$892	85%	\$157	15%	\$1,049

Source: Data above is taken from the sample of loans used for the evaluation periods.

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

The distribution of loans, given the demographics of the assessment area, reflects excellent distribution among borrowers of different income levels. Martinsville FSB exceeded the standards for satisfactory performance. The analysis of lending to borrowers of different income levels was completed using loans made inside the AA from the loan sample discussed above. This sample consisted of twenty mortgage loans originated January 1, 2009 through December 31, 2011 using 2000 Census demographic data. We compared Martinsville FSB’s lending patterns to the distribution of families within the assessment area according to income levels.

To evaluate Martinsville FSB’s record of lending to borrowers of different income levels, we identified specific income categories (low-, moderate-, middle-, and upper-income) using the Department of Housing and Urban Development’s (HUD) updated estimated median family income (MFI) for non-metropolitan statistical areas of Virginia.

The following table reflects HUD’s MFI for non-metropolitan statistical areas in Virginia.

<b>HUD’s MFI Figures For Non-Metropolitan Statistical Areas in Virginia</b>	
<b>Year</b>	<b>HUD Estimated MFI</b>
2009	\$53,100
2010	\$53,300
2011	\$51,900

Source: Department of Housing and Urban Development

## Borrower Distribution of Residential Real Estate Loans

Based upon the data presented in the table below, Martinsville FSB's record of lending to borrowers of different income levels was excellent compared to local demographic characteristics.

<b>Borrower Distribution of Residential Real Estate Loans in the AA*</b>				
<b>Census Tract Income Level **</b>	<b>% of AA Families</b>	<b>Home Purchase Loans</b>	<b>Home Refinance Loans</b>	<b>Total Loans</b>
Low	20.1%	15%	25%	40%
Moderate	19.6%	5%	30%	35%
Middle	24.0%	5%	10%	15%
Upper	36.3%	5%	5%	10%

\* Data Source: Percentages are derived from the sample of loans used for this evaluation.

\*\*Data Source: 2000 U.S. Census

The percentage of home purchase mortgage loans to low-income borrowers is below the percentage of low-income families in the AA. The percentage of home mortgage loans to moderate-income borrowers is significantly less than the percentage of moderate-income families in the AA. When considering the affordability of housing in the AA, this performance is rated as satisfactory. The median cost of housing in the AA is \$70,272, based on 2000 census data. The HUD updated median family income for 2011 is \$51,900. This means that a low-income family earns approximately \$25,945, and a moderate-income family earns \$25,946 – \$41,515. Households below the poverty level are approximately 14 percent. Based on these statistics, it would be difficult for a low- and moderate-income families to purchase housing in the AA. As noted previously, Martinsville FSB faces strong competition within the AA.

The percentage of home mortgage refinance loans made to low-income borrowers exceeds the percentage of low-income families in the AA. The percentage of home mortgage refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. This performance exceeds the standard for satisfactory performance. One reason for the higher percentages of home mortgage refinance loans to low- and moderate-income borrowers may stem from the desire to obtain lower interest rates on the existing mortgage loan. Financial institutions offered competitively low rates to consumers during the past several years, and a large number of borrowers took advantage of these offers.

**Geographic Distribution of Loans**

We performed a geographic distribution analysis on the assessment area. The geographic distribution of home mortgage loans reflects excellent distribution throughout the census tracts of different income levels. Martinsville FSB’s record during the evaluation period exceeds the standard of satisfactory performance. There were no conspicuous gaps identified within the institution’s assessment area.

We compared the institution’s lending in the assessment area’s moderate-income census tracts to area demographics. There are no low-income census tracts in the AA. The table below sets forth this analysis.

<b>Geographic Distribution of Residential Real Estate Loans in the AA*</b>				
<b>Census Tract Income Level **</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Home Purchase Loans</b>	<b>% of Number of Home Refinance Loans</b>	<b>Total Loans</b>
Low	0%	0%	0%	0%
Moderate	7.77%	10%	5%	15%
Middle	88.26%	15%	65%	80%
Upper	3.98%	5%	0%	5%

\* Data Source: Percentages are derived from the sample of loans used for this evaluation.

\*\*Data Source: 2000 U.S. Census

The percentage of home purchase loans made in moderate-income census tracts in the assessment areas exceeds the percentage of owner-occupied units in those census tracts. This demonstrated excellent loan distributions in moderate-income geographies.

The percentage of home mortgage refinance loans to moderate-income geographies is near to the percentage of owner-occupied units in these census tracts of the AA. This performance is reasonable and meets the standard for satisfactory performance.

Since the middle-income census tracts are designated as distressed and underserved middle-income geographies, the bank was given credit for it’s lending efforts in these tracts as well. The percentage of home purchase loans made in middle-income census tracts in the AA is well below the percentage of owner-occupied units in those census tracts. The percentage of home mortgage refinance loans made in middle-income census tracts in the AA is near to the percentage of owner-occupied units in these census tracts.

The higher percentage of home refinance loans in middle income geographies may be reasoned by the fact that approximately 88 percent of owner-occupied housing is within the middle-income census tracts; therefore, the borrowers are homeowners desiring to refinance an existing loan for lower interest rates or other competitive terms. This performance is reasonable and meets the standard for satisfactory performance.

## **Responses to Complaints**

There were no complaints regarding the bank's CRA performance during the evaluation period. This has a neutral impact on the overall CRA rating.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area 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.