



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 03, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 16406**

**400 Franklin Street
Rocky Mount, VA 24151**

**Comptroller of the Currency
Virginia Field Office
3800 Electric Road, Suite 204
Roanoke, VA 24018**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The rating was assigned based on the following information:

- The bank's loan-to-deposit ratio is reasonable.
- A majority of the bank's loans were originated within their assessment areas.
- Analysis reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the Burke and Catawba Counties, North Carolina assessment area.
- No public complaints related to CRA have been filed since the last CRA examination.

DESCRIPTION OF INSTITUTION

First National Bank (FNB) is not a subsidiary of a holding company and there have not been any major changes in the bank's corporate structure since the last CRA examination. FNB received a satisfactory CRA rating at its last CRA performance evaluation dated February 27, 1998. There are no legal or financial impediments to FNB's ability to meet the credit needs of its assessment area.

FNB's main office is located in Rocky Mount, Virginia. The bank operates nine full-service branch offices within the states of Virginia and North Carolina. Virginia branches are located in the towns of Boones Mill, Gretna, Ferrum, and Moneta. North Carolina branches are located in the cities and towns of Hickory, Forest City, Morganton, Shelby, and Bostic. The bank has opened 5 branches since the last examination. No branches have been closed. FNB currently does not have any depository ATMs.

As of March 31, 2002, FNB's assets totaled \$224 million, of which net loans comprise 52%. The following table reflects the composition of FNB's loan portfolio based on the March 31, 2002 call report.

Product Category	Gross Loans as of March 31, 2002*	
	Dollar (000's)	Percent
Commercial & Industrial Including Commercial Real Estate	70,941	60.72
Residential Mortgage Loans	30,715	26.29
Individuals	5,304	4.54
Construction & Land Development	4,884	4.18
All Other	3,797	3.25
Farmland and Agriculture	1,192	1.02
Total	116,833	100.00

* Data obtained from Call report

Management does not formally track loan originations by type; therefore we chose primary loan types based on outstanding balances and discussions with management about loan originations. As indicated in the table above, the bank's primary loan types based on outstanding balances are commercial loans and residential mortgage loans. A third primary loan product is consumer loans. Because most of these loans are small dollar loans, it is not reflected as a primary loan product based on outstanding balances. However, management indicated a significant portion of the number of loans they make are consumer loans so we included it as a primary loan type for evaluation purposes.

DESCRIPTION OF ASSESSMENT AREAS

The bank has three assessment areas (AA):

- Franklin County, Virginia
- Tracts 0101, 0102, and 0103 in Pittsylvania County, Virginia
- Burke and Catawba Counties, North Carolina

Going forward, Rutherford and Cleveland Counties will be included in the Burke and Catawba Counties, North Carolina AA because the bank has branches in both counties. However, for purposes of this evaluation we excluded these counties because the branches in both counties were open less than one year during the evaluation period. All assessment areas meet the requirements of the regulations and do not arbitrarily exclude any low- or moderate-income geographies.

The Franklin County, Virginia AA is a non-MSA located adjacent to the Roanoke MSA in southwest Virginia and west of Smith Mountain Lake. The assessment area consists of 9 middle- and upper-income census tracts with a population of approximately 40,000. The top 3 industries for Franklin County, by distribution of employees are manufacturing, retail trade, and services. Unemployment as of March 2002 is 5.4% compared state average of 4%. Unemployment levels are higher than the state average due the closing of several textile and manufacturing plants in the area. The largest employers (by number of employees) include MW Manufacturing and Franklin County Schools. Competition in Franklin County consists of 19 branches of FDIC-insured institutions representing 7 banks varying in asset size.

The Pittsylvania County, Virginia AA is part of the Danville MSA. The Pittsylvania County AA excludes the city of Danville, which is part of the MSA. FNB does not have any branches in this section of the MSA and therefore did not include it in the assessment area. The population of the AA is approximately 12,500 people. The county is located in the southern piedmont region of Virginia on the North Carolina border. The unemployment rate for the county is 9% compared to the state average of 4%. The top three industries by distribution of employees are manufacturing, services, and retail trade. Major employers for Pittsylvania County include Burlington Industries, Goodyear Tire and Rubber, and Dan River Incorporated. Competition in the county consists of 10 branches of FDIC-insured institutions representing 6 banks varying in asset size.

The third assessment area consists of Burke County and Catawba County in North Carolina.

Catawba County is located in the western portion of North Carolina in the foothills region of the Blue Ridge Mountains. Burke County is adjacent to Catawba County. The population of the combined assessment area is approximately 199,485. The unemployment rate for Burke County is 7.8% and 8.6% for Catawba County, compared to the state average of 6.5%. The top three industries by distribution of employees are manufacturing, government, and services. Competition in the combined counties is strong and consists of 67 branches of FDIC-insured institutions representing 11 banks varying in asset size.

The following table includes general demographic data describing the assessment areas.

Demographic Characteristics of the Assessment Areas				
		Assessment Areas		
		Franklin County	Pittsylvania County	Burke/Catawba
<u>Number of Geographies by Income Level:</u>	Low-Income	0	0	0
	Moderate-Income	0	0	3
	Middle-Income	8	3	25
	Upper-Income	1	0	3
	N/A	0	0	0
<u>Percent of Geographies by Income Level:</u>	Low-Income	0	0	0
	Moderate-Income	0	0	9.68
	Middle-Income	88.89	100	80.64
	Upper-Income	11.11	0	9.68
	N/A	0	0	0
<u>Percent of Population in each Tract</u>	Low-Income	0	0	0
	Moderate-Income	0	0	5
	Middle-Income	90.22	100	85
	Upper-Income	9.78	0	10
<u>Percent of Families by Income Level:</u>	Low-Income	15.84	19.29	16.23
	Moderate-Income	16.38	18.21	18.09
	Middle-Income	26.38	28.26	27.54
	Upper-Income	41.40	34.24	38.14
<u>Median Housing Characteristics</u>	Median Home Value	76,862	44,097	60,010
	Percent Owner Occupied Units	67.86	66.22	68.26
	Median Gross Rent	279	219	352
<u>Median Income Data:</u>	1990 Census Median Family Income	28,301	28,683	31,514
	Updated Median Family Income	40,800	41,100	48,700

Community Contact

We conducted one community contact during this examination with a representative of a low-income housing assistance group serving Franklin County, Virginia. The contact indicated that many jobs have been lost over the last several years due to industry relocations. Given the recent job losses, credit needs include small dollar consumer loans to help consumers until they find other employment.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to Deposit Ratio

Given the bank's size and location, the loan-to-deposit ratio is reasonable. A review of bank

data reveals that FNB is similarly situated to First Virginia Bank Southwest and F&M Bank. All institutions offer similar credit products and operate in at least one of the same assessment areas as FNB. The following table reflects the average loan to deposit ratio of FNB and the similarly situated banks:

Institution Name	Average Loan to Deposit Ratio
	Seventeen quarters beginning January 1,1998
First National Bank	57.66%
First Va. Bank - Southwest	75.48%
F&M Bank - Central Virginia	40.65%

As reflected above, FNB’s loan-to-deposit ratio is above one bank but below the other.

Lending in Assessment Area

The bank originated a majority of its total loans within their assessment areas. The table that follows summarizes the results of our review of loans made in FNB’s assessment areas between January 1, 1998 and March 31, 2002.

Lending Inside/Outside the Assessment Area

Assessment Area:	% of Rated Area Loans (#) in AA	Home Mortgage		Consumer		Small Loans to Businesses		Total Sampled Loans		% of Rated Area Deposits in AA
		%Inside	%Outside	%Inside	%Outside	%Inside	%Outside	%Inside	%Outside	
FNB	100	76	24	84	16	87	13	78	22	100

The analysis of lending in the bank’s assessment areas included a sample of two of the primary loan types, commercial and consumer. Since FNB is a Home Mortgage Disclosure Act (HMDA) reporter, all HMDA reportable loans were used in the analysis of the third primary loan type, home mortgage loans. The table that follows provides details on the loan samples used in our analysis.

Sampled Loans Inside the Assessment Area

Assessment Area:	Total Home Purchase Loans				Total Consumer Loans				Total Small Loans to Businesses			
	#	% of Total	\$	% of Total	#	% of Total	\$	% of Total	#	% of Total	\$	% of Total
Franklin	57	50	3,518	57	24	36	219	38	24	40	701	48
Pittsylvania	45	39	1,775	29	22	32	219	38	22	37	394	27
Burke-Catawba	13	11	900	14	22	32	142	24	14	23	375	25

As indicated in the table above, the sample sizes for home purchase loans and small loans to businesses inside the assessment area did not meet the minimum requirement of 20 loans in the Burke and Catawba Counties, North Carolina AA. FNB did not open branches in this AA until February 2001. Therefore, loans were originated for only one year of four in the evaluation period.

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

The distribution of loans, given the demographics of the assessment areas and the length of time FNB has been operating in North Carolina, reflects reasonable penetration among borrowers of different income levels (including low- and moderate-income) and businesses of different sizes.

The analysis of lending to borrowers of different income levels and businesses of different sizes was completed using all files inside the assessment areas from the lending in the assessment areas sample, excluding loans for which income information was not available. The following tables reflect the results for each primary loan type.

Borrower Distribution of Home Mortgage Loans

Assessment Area:	Low-Income Families			Moderate-Income Families			Middle-Income Families			Upper-Income Families		
	% Families	% BANK # Loans	% BANK \$ Loans	% Families	% BANK # Loans	% BANK \$ Loans	% Families	% BANK # Loans	% BANK \$ Loans	% Families	% BANK # Loans	% BANK \$ Loans
Franklin	16	5	2	16	27	18	26	20	21	42	48	59
Pittsylvania	20	25	7	18	14	9	28	25	16	34	36	68
Burke-Catawba	16	8	5	18	58	44	28	17	35	38	17	16

The table above illustrates the distribution of home mortgage loans within the income levels compared to the percentage of families in each income level. The distribution of mortgage loans to low-income borrowers is poor in the Franklin County, Virginia AA, excellent in the Pittsylvania County, Virginia AA and adequate in the Burke and Catawba Counties, North Carolina AA. The distribution of mortgage loans to moderate-income borrowers is excellent in the Franklin County, Virginia and Burke and Catawba Counties, North Carolina AAs and adequate in the Pittsylvania County, Virginia AA.

Borrower Distribution of Consumer Loans

Assessment Area:	Low-Income Households			Moderate-Income Households			Middle-Income Households			Upper-Income Households		
	% HH	% BANK # Loans	% BANK \$ Loans	% HH	% BANK # Loans	% BANK \$ Loans	% HH	% BANK # Loans	% BANK \$ Loans	% HH	% BANK # Loans	% BANK \$ Loans
Franklin	21	46	44	14	21	17	20	25	28	45	8	11
Pittsylvania	23	45	33	14	32	29	22	18	16	41	5	22
Burke-Catawba	21	62	65	17	38	35	22	0	0	40	0	0

The table above illustrates the distribution of consumer loans within the income levels compared to the percentage of households in each income level. The distribution of consumer loans to low-income borrowers is excellent in all AAs. The distribution of consumer loans to moderate-income borrowers is also excellent in all AAs. As discussed previously, the community contact indicated this is a primary credit need in the Franklin County, Virginia AA.

Borrower Distribution of Small Loans to Businesses

Assessment Area:	Businesses With Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size								
	% of Businesses	% # BANK Loans	% \$ Bank Loans	\$100,000 or less		>\$100,000 to \$250,000		>\$250,000 to \$1,000,000				
				#	\$	#	\$	#	\$			

Franklin	94	100	100	24	701	0	0	0	0
Pittsylvania	96	100	100	22	394	0	0	0	0
Burke-Catawba	90	100	100	13	220	1	155	0	0

The table above illustrates the number and dollar volume of loans by size and the percentage of small loans to businesses compared to the percentage of businesses that are small. All small loans to business in all AAs were made to small businesses (businesses with \$1 million or less in gross annual revenues).

Geographic Distribution of Loans within the Assessment Areas

FNB’s geographic distribution of loans reflects reasonable dispersion throughout their AA. The analysis of the geographic distribution of loans was completed using all files inside the AA from the lending in the AAs sample. The Franklin County, Virginia and Pittsylvania County, Virginia AAs do not contain any low- or moderate-income geographies, therefore an analysis of these assessment areas would not be meaningful. Given this information, our review will focus on the Burke and Catawba Counties, North Carolina AA.

We evaluated the lending distribution in these AAs to determine if any unexplained conspicuous gaps existed. We used reports and maps to compare the geographies where loans were made to the geographies in the AAs. We considered loan distributions, branch locations, competition, market conditions, and demographic information. No unexplained conspicuous gaps were identified. The following tables reflect the results for each primary loan type.

Geographic Distribution of Home Mortgage Loans

Assessment Area:	Low-Income Geographies			Moderate-Income Geographies			Middle-Income Geographies			Upper-Income Geographies		
	% Owner Occ Units	%BANK # Loans	%BANK \$ Loans	% Owner Occ Units	%BANK # Loans	%BANK \$ Loans	% Owner Occ Units	%BANK # Loans	%BANK \$ Loans	% Owner Occ Units	%BANK # Loans	%BANK \$ Loans
Franklin	0	0	0	0	0	0	88	88	87	12	12	13
Pittsylvania	0	0	0	0	0	0	100	100	100	0	0	0
Burke-Catawba	0	0	0	4	0	0	86	100	100	10	0	0

The table above illustrates the geographic distribution of home mortgage loans among geographies of different income levels compared to the percentage of owner occupied housing. There are no low-income geographies in the AAs. FNB did not make any loans in moderate-income geographies. However, only 4% of owner-occupied housing units are located in the moderate-income geographies.

Geographic Distribution of Consumer Loans

Assessment Area:	Low-Income Geographies			Moderate-Income Geographies			Middle-Income Geographies			Upper-Income Geographies		
	% HH	% BANK # Loans	%BANK \$ Loans	% HH	%BANK # Loans	%BANK \$ Loans	% HH	%BANK # Loans	%BANK \$ Loans	% HH	%BANK # Loans	%BANK \$ Loans
Franklin	0	0	0	0	0	0	89	90	93	11	10	7
Pittsylvania	0	0	0	0	0	0	100	100	100	0	0	0
Burke-Catawba	0	0	0	5	14	7	85	68	75	10	18	18

The table above illustrates the geographic distribution of consumer loans among geographies of different income levels compared to the percentage of households in each income tract. The geographic distribution of consumer loans in moderate-income geographies is excellent in the Burke and Catawba Counties, North Carolina AA.

Geographic Distribution of Small Loans to Businesses

Assessment Area:	Low-Income Geographies			Moderate-Income Geographies			Middle-Income Geographies			Upper-Income Geographies		
	% Bus	%BANK # Loans	%BANK \$ Loans	% Bus	%BANK # Loans	%BANK \$ Loans	% Bus	%BANK # Loans	%BANK \$ Loans	% Bus	%BANK # Loans	%BANK \$ Loans
Franklin	0	0	0	0	0	0	86	86	85	14	14	15
Pittsylvania	0	0	0	0	0	0	100	100	100	0	0	0
Burke-Catawba	0	0	0	11	0	0	78	100	100	11	0	0

The table above illustrates the geographic distribution of business loans among geographies of different income levels compared to the percent of businesses located in each tract category. FNB did not make any small loans to businesses in low- or moderate-income geographies. However, the geographic distribution of loans is adequate given the fact that only 11% of businesses are located in moderate-income geographies.

Responses to Complaints

FNB has not received any CRA-related complaints since the February 27, 1998 CRA examination.

Record of Compliance with Antidiscrimination Laws

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