



PUBLIC DISCLOSURE

October 13, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Powell Valley National Bank
Charter Number 9924
East Main Street
P. O. Box 100
Jonesville, Virginia 24263**

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

NOTE: *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.*

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Powell Valley National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 30, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 Code of Federal Regulations, Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

Powell Valley National Bank has met or exceeded the standards for satisfactory performance for each of the following assessment criteria: loan to deposit ratio; lending within the assessment area; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and response to customer complaints. This evaluation is based on an analysis of information covering the period since the bank's last CRA rating dated March 7, 1996 through September 30, 1998.

The following table indicates the performance level of **Powell Valley National Bank** with respect to each of the five performance criteria.

Small Institution Assessment Criteria	<i>Powell Valley National Bank</i> Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio		X	
Lending in assessment area		X	
Lending to borrowers of different incomes and to businesses of different sizes	X		
Geographic distribution of loans		X	
Response to complaints	The bank has received no CRA related complaints		

Powell Valley National Bank is a \$142 million community bank with its main office located in Jonesville, Virginia. It is a well capitalized institution using Federal Deposit

has liquid funds available to meet the communities's credit and other funding needs. Powell Valley National Bank is the largest locally owned bank in the area. There are no needs of its assessment area.

The bank's primary business focus is deposit development and retention, and lending to development of the assessment area. The bank offers a variety of credit products including commercial loans, consumer loans, and loans to purchase or improve residential assets and 63% of total deposits. The bank's loan portfolio consists of 47% real estate loans, 31% commercial loans, 21% loans to individuals, and 1% agricultural loans.

addition to the main office in Jonesville, the bank has branch offices in Wise, Big Stone Gap, and Pennington Gap. The Big Stone Gap office was acquired in 1998.

providing a banking location between Pennington Gap and Wise.

Description of Assessment Area

adjacent to Kentucky and Tennessee, and includes Lee and Wise Counties. Most of the area consists of steep ridges and intervening valleys. The northern parts of Lee and Wise

impediments to economic development. Jonesville is the county seat for Lee County. Norton, Big Stone Gap, and Wise are the largest towns in the assessment area.

39,500 in Wise County) and it has been declining since 1950. Projections for both

Unemployment exceeds 8% in Lee County and 11% in Wise County. An analysis of

(10) moderate income, and zero (0) low income tracts. There are five (5) BNAs in Wise County classified "N/A" which are located in the Jefferson National Forest and are

sparsely populated. The minority population in Lee County is 1% and in Wise County 3%. Approximately 15% of the population in both counties is age 65 or over. For both counties, approximately 50% of the population derives some portion of their income from social security or public assistance.

The assessment area is one of the most economically depressed areas in the state. The median household income in Lee County is \$14,600 compared with the Virginia state average of \$35,900. The average for Wise County is \$20,000. The median age of housing units in the assessment area is over thirty years old. The local economy is weak and has been stagnant for the past several years. Economic activity consists primarily of agriculture (cattle and tobacco), light industry, local government, and coal mining. Most coal mining activity is centered in Wise County, however, this industry has been in decline. Economic growth and development is hindered by the limited access to the area, poor infrastructure, below average wage scale, and a lack of technical skills in the work force.

Two state prisons were constructed recently and a federal prison is under construction. These facilities are expected to provide 1300 jobs in the local area. This is expected to have a positive impact on the local economy by generating development of support businesses as well.

There are six other banks in Powell Valley National Bank's market area. They range in size from \$28 to \$110 million in total assets.

Discussion with local community leaders indicates concern related to the area's infrastructure. Also, it was indicated that an affordable, new home construction loan product would be beneficial in assisting families to upgrade from manufactured housing to traditional residential real estate.

Conclusions with Respect to Performance Criteria

Loan-to-Deposit Ratio

Powell Valley National Bank's loan to deposit ratio has averaged 62% for the last ten quarters and was 62.7% as of June 30, 1998. Loan growth is consistent with deposit growth.

LOAN-TO-DEPOSIT RATIO COMPARISON

Similarly Situated Banks	Loan-to-Deposit Ratio as of June 30, 1998
Powell Valley National Bank	62.70
The People's Bank	57.38
Lee Bank and Trust	60.11
Farmers and Miners of Lee County	60.49
Miners Exchange Bank	63.63
First Commonwealth Bank	59.46

Powell Valley National Bank's loan-to-deposit ratio compares favorably with other local financial institutions. Peer banks' loan-to-deposit ratios for the last ten quarters averaged 57%. The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the community.

Lending in Assessment Areas

Since December 31, 1996, approximately 87% of the bank's new loan originations and purchases based on dollar volume were within its assessment area. Based on the number of loans, 89% of new originations and purchases are within the assessment area. This includes 47% in Wise County and 39% in Lee County by dollar volume. This compares favorably with Lee Bank and Trust (approximately 81% by number and dollar volume) and The People's Bank (68% by number and 36% by dollar amount), per their most recent CRA Performance Evaluations. A sample of 347 residential real estate loans originated since December 1996 reflected that 315 or 91% were within the bank's assessment area.

LOANS IN ASSESSMENT AREA

	Percentage of Loans (\$ Amount) in Assessment Area	Percentage of Loans (by number) in Assessment Area
Powell Valley National Bank	87%	89%
Lee Bank and Trust	81%	81%
The People's Bank	36%	68%

This assessment was based on an analysis of borrowers with zip codes included in the banks' assessment area. The percentage of loans within the assessment area appear to be relatively consistent with historical experience. A majority of the bank's loans and other lending activity is within the assessment area.

Lending to Borrowers of Different Income Levels

A sample of consumer loans originated since December 31, 1996 was reviewed to determine the level of lending activity to low- or moderate-income borrowers. Of these loans, 23 (41%) were made to low-income borrowers and 14 (25%) were made to moderate-income borrowers. A sample of fifteen residential real estate loans originated or purchased since December 31, 1996 was also reviewed. Of these loans, two (13%) were made to low-income borrowers and four (33%) were made to moderate-income borrowers. The percentage of low income households in the assessment area by census tract ranges from 17% to 43%.

LOAN DISTRIBUTION BY INCOME LEVEL

	Percentage of consumer loan sample	Percentage of residential real estate loan sample	Percentage of population in assessment area
Low-Income	44%	13%	28%
Moderate-Income	27%	33%	17%
Middle-Income	17%	27%	32%
Upper-Income	12%	27%	23%
Total	100%	100%	100%

A sample of 71 commercial loans originated since December 31, 1996 in the Jonesville zip code of 24263 included 53 loans for amounts of less than \$25,000. This represents 71%. As a percentage of the dollar amount the percentage was 18%. This performance is consistent with previous evaluations. It is also consistent with the portion of loans of less than \$25,000 in the entire existing portfolio of commercial loans. These small loans represent 53% by number and 9% by dollar amount. This indicates that the bank makes a substantial amount of loans to small businesses.

The bank's distribution of borrowers reflects excellent penetration among individuals of different income levels (including low- and moderate-income) given the demographics of the assessment area and businesses of different sizes.

Geographic Distribution of Loans

An analysis was performed identifying loan originations and purchases since December 31, 1996 by zip code to determine the level of lending in different areas of the assessment area. There are 21 zip code areas in the bank's assessment area. Seventeen of those zip code areas have at least \$200,000 in loan originations or purchases.

The four zip codes which do not have substantial lending activity were all located in Wise County. These areas are Andover (24215), Dante (24237), Nora (24272), and Stonega (24285). These zip code areas are sparsely populated and also are the most distant from

the bank's branch offices.

There is significant lending activity in low-income areas such as St. Charles (\$430,000), Rose Hill (\$900,000), Coeburn (\$2,100,000), and Appalachia (\$1,400,000). This lending activity includes originations and purchases since December 1996. The income status of the geographic areas is based on demographic mapping information provided by the bank and other demographic data provided by our agency. This information indicates a significant number of families below the poverty level, with low employment levels, low education levels, and low median household income. Also, the demographic data indicates that the Coeburn BNAs have the lowest median income in Wise County. In Lee County, the BNAs with the lowest median household income are in the Jonesville area and in Rose Hill. There is substantial lending activity in both of these areas. Jonesville had \$9 million and Rose Hill had \$900,000 in loan originations since December 1996.

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

Response to Complaints

No complaints regarding Community Reinvestment Act issues were received by the bank since the prior evaluation.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

No violations of the substantive provisions of the anti-discrimination laws and regulations were noted during this examination.