



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 23, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 22982**

**222 Main Street
South Boston, VA 24592**

**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.

We assigned the rating based on the following information:

- A substantial 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 bank's assessment areas.
- No public complaints related to CRA have been filed since the last CRA examination.

DESCRIPTION OF INSTITUTION

Community National Bank (CNB) 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. CNB received a satisfactory CRA rating at its last CRA performance evaluation dated February 12, 1998. There are no legal or financial impediments to CNB's ability to meet the credit needs of its assessment areas.

CNB's main office is located in South Boston, Virginia. The bank operates eight full-service interstate branch offices, four in Virginia and four in North Carolina. Virginia branches are in the following locations: Chase City, Clarksville, South Boston, and South Hill. North Carolina branches are in the following locations: Henderson, Louisburg, Roxboro, and Durham. The bank opened three branches since the last examination. They have not closed any branches. CNB currently does not have any depository ATMs.

As of March 31, 2002, CNB's assets totaled \$221 million, of which net loans comprise 45%. The following table reflects the composition of CNB'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	52,244	52.01
Residential Mortgage Loans	23,244	23.14
Individuals	9,553	9.51
Construction & Land Development	9,472	9.43
All Other	3,938	3.92
Financial Institution	1,436	1.43
Farmland and Agriculture	562	0.56
Total	100,449	100

* 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 THE ASSESSMENT AREAS

The bank has four assessment areas. All assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies. Since two of the assessment areas, Person County and Vance County, do not include MSAs and are homogenous, we combined these for analysis purposes.

The first assessment area consists of the counties of Halifax and Mecklenburg, Virginia. Both counties are located in the south central Piedmont region of Virginia, contiguous to the State of North Carolina. The total population for both counties is approximately 69,735. Unemployment in Halifax is 10.9% and Mecklenburg is 11.0%, compared to the state average of 4.0%. The increase is due mainly to recent lay-offs in the textile industry. The dominant industry in both counties is manufacturing followed by retail trade and services. Competition in the combined assessment area is strong and consists of 23 branches of FDIC-insured institutions representing 9 banks varying in asset size.

The second assessment area consists of the counties of Durham and Franklin Counties in North Carolina. Durham County is located at the apex of the Research Triangle Park, the world's largest and most successful university-related research and development business park. Franklin County is located in the Piedmont region of North Carolina, 35 miles from North Carolina's Research Triangle Park. The combined population is approximately 253,125. Unemployment

for Durham County is 4.3% and Franklin County is 3.6%, compared to the state average of 6.5%. The area's top three industries by distribution of employees are services, manufacturing, and retail trade. Competition in assessment area is strong and consists of 77 branches of FDIC-insured institutions representing 11 banks varying in asset size.

The third assessment area combines two assessment areas, Person County and Vance County. Both counties are located in the state of North Carolina. Person County is located in the Northern Piedmont section of North Carolina, 60 miles from Raleigh. Vance County is also located in the Northern Piedmont section of North Carolina, 45 miles from Raleigh. Population for both counties is approximately 78,708. Unemployment in Vance County is 10.6% and Person County is 5.7%, compared to state average of 6.5%. The area's top three industries by distribution of employees are manufacturing, services, and retail trade. Competition in the assessment area consists of 16 branches of FDIC-insured institutions representing 8 banks varying in asset size.

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

Demographic Characteristics of the Assessment Area				
		Assessment Area		
		Halifax-Mecklenburg	Franklin	Person-Vance
<u>Number of Geographies by Income Level:</u>	Low-Income	0	0	0
	Moderate-Income	2	5	0
	Middle-Income	12	3	5
	Upper-Income	0	0	1
	N/A	3	0	0
<u>Percent of Geographies by Income Level:</u>	Low-Income	0	0	0
	Moderate-Income	11.76	62.50	83.33
	Middle-Income	70.59	37.50	16.67
	Upper-Income	0	0	0
	N/A	17.65	0	0
<u>Percent of Population in each Tract</u>	Low-Income	0	0	0
	Moderate-Income	14.77	63.10	77.99
	Middle-Income	85.23	36.90	22.01
	Upper-Income	0	0	0
<u>Percent of Families by Income Level:</u>	Low-Income	22.46	31.37	15.9
	Moderate-Income	19.75	23.36	16.39
	Middle-Income	21.84	25.07	21.22
	Upper-Income	35.95	20.20	46.49
<u>Median Housing Characteristics</u>	Median Home Value	48,600	55,295	54,980
	Percent Owner Occupied Units	61.81	68.15	66.02
	Median Gross Rent	235	309	309
<u>Median Income Data:</u>	1990 Census Median Family Income	28,301	39,723	27,206
	Updated Median Family Income	40,800	66,100	41,500

Community Contact

We conducted one community contact during this examination with a representative of the Virginia Employment Commission serving Mecklenburg County, Virginia. The contact indicated that a number of local financial institutions are involved in the community, including CNB. The contact was unaware of any unmet credit needs in the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan to deposit ratio is less than reasonable considering their size, financial condition, and deposit market share in their AAs. A review of bank data reveals that CNB is similarly situated to Mechanics and Farmers Bank and Mutual Community Savings Bank. All institutions are similar in asset size, offer similar credit products, and operate in at least one of the same assessment areas as CNB. The following table reflects the average loan to deposit ratio of CNB and the similarly situated banks.

Institution Name	Average Loan to Deposit Ratio Seventeen quarters beginning January 1,1998
Community National	61.13
Mechanics and Farmers Bank	81.33
Mutual Community Savings Bank	79.67

As reflected above, CNB's loan-to-deposit ratio is well below the similarly situated banks. Bank management attributes the lower loan-to-deposit ratio to conservative credit underwriting and interest rate risk management practices.

Lending in Assessment Area

The bank originated a substantial majority of its total loans within their assessment areas. The table that follows summarizes the results of our review of loans made in CNB'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	
Community NB	100	95	5	95	5	93	7	94	6	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 CNB 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	\$ (000)	% of Total	#	% of Total	\$ (000)	% of Total	#	% of Total	\$ (000)	% of Total
Franklin	31	34	2,484	41	22	36	169	35	22	29	366	23
Halifax-Mecklenburg	50	55	3,164	53	15	25	169	35	24	31	828	52
Person-Vance	10	11	371	6	24	39	149	30	31	40	409	25

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

The distribution of loans, given the demographics of the assessment areas, 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. Bank management considers consumer lending their business focus so more emphasis was placed on performance in consumer lending (HMDA and consumer loans). 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	32	21	15	23	29	33	25	29	28	20	21	24
Halifax-Mecklenburg	23	6	4	20	23	16	21	26	20	36	45	60
Person-Vance	16	10	8	17	10	5	21	40	44	46	40	43

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 home mortgage loans to low-income borrowers is adequate in the Franklin and Person-Vance AAs but poor in the Halifax-Mecklenburg AA. The distribution of home mortgage loans to moderate-income borrowers is excellent in the Franklin and Halifax-Mecklenburg AAs and adequate in the Person-Vance 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	33	81	80	18	5	2	22	5	7	27	9	11
Halifax-Mecklenburg	28	60	57	16	20	28	18	20	15	38	0	0
Person-Vance	24	26	13	15	48	43	19	22	32	42	4	12

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 excellent in the Halifax-Mecklenburg and Person-Vance AAs but poor in the Franklin 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 (000)					
	% of Businesses	% # BANK Loans	% \$ Bank Loans	\$100,000 or less		>\$100,000 to \$250,000		>\$250,000 to \$1,000,000	
				#	\$	#	\$	#	\$
Franklin	93	93	93	22	366	0	0	0	0
Halifax-Mecklenburg	94	76	85	23	482	0	0	1	347
Person-Vance	94	100	100	31	409	0	0	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. The distribution of loans to small businesses (businesses with \$1 million or less in gross annual revenues) is adequate in the Halifax-Mecklenburg AA and excellent in the Franklin and Person-Vance AAs. All but one loan in the Halifax-Mecklenburg AA were for amounts less than \$100 thousand.

Geographic Distribution of Loans

CNB’s geographic distribution of loans reflects reasonable dispersion throughout their AAs. The analysis of the geographic distribution of loans was completed using all files inside the AAs from the lending in the AAs sample. None of the AAs contain any low-income geographies, therefore our review will focus on the lending in moderate-income geographies.

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	59	71	63	41	29	37	0	0	0
Halifax-Mecklenburg	0	0	0	13	4	4	87	96	96	0	0	0
Person-Vance	0	0	0	12	11	10	64	56	59	24	33	31

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. The distribution of home mortgage loans in moderate-income geographies is excellent in the

Franklin AA, poor in the Halifax-Mecklenburg AA and good in the Person-Vance AA.

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	62	86	89	38	14	11	0	0	0
Halifax-Mecklenburg	0	0	0	13	15	12	87	85	88	0	0	0
Person-Vance	0	0	0	19	4	5	60	83	87	21	13	8

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 distribution of consumer loans in moderate-income geographies is excellent in the Franklin and Halifax-Mecklenburg AAs and poor in the Person-Vance 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	62	80	73	38	20	27	0	0	0
Halifax-Mecklenburg	0	0	0	12	9	44	88	91	56	0	0	0
Person-Vance	0	0	0	28	26	23	53	74	77	19	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. The distribution of small loans to businesses in the moderate-income geographies is excellent in the Franklin AA, adequate in the Halifax-Mecklenburg AA, and good in the Person-Vance AA.

Responses to Complaints

CNB has not received any CRA-related complaints since the February 12, 1998 CRA examination.

Fair Lending Review

An analysis of the years the most recent years public comments, 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.