



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Public Disclosure

February 26, 2001

**Community Reinvestment Act
Performance Evaluation**

**First National Exchange Bank
Charter Number 23534**

**1722 Hershberger Road
Roanoke, VA 24012**

Office of the Comptroller of the Currency

**Comptroller of the Currency
Virginia Field Office
3800 Electric Road
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, and should not 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 First National Exchange Bank, Roanoke, VA prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of February 26, 2001. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**. We assigned the rating based on the following information:

- The bank's loan to deposit ratio is reasonable at 60.69% as of December 31, 2000. The quarterly average since the bank's May 1998 opening is 55.54%.
- First National Exchange Bank provides for the credit needs of the community with 87% of the dollar volume of consumer loans sampled extended to borrowers within the assessment areas.
- Lending to borrowers of different incomes, given the demographics of the assessment areas, is satisfactory.
- Geographic distribution of loans in the Roanoke assessment area is reasonable.
- No public complaints have been filed during the current assessment period.

Description of Institution

First National Exchange Bank (FNEB), Roanoke, VA was formed May 1, 1998 as a result of a spin-off from First National Bank (formerly First National Bank of Rocky Mount). The bank is one of ten in a chain bank system. This is FNEB’s first CRA examination. There are no legal or financial impediments to the bank’s ability to meet the credit needs of its assessment areas.

FNEB has its main office in Roanoke, Virginia. The bank also operates ten intrastate branch offices, all in Virginia. Two of the branches are located in the City of Roanoke, one is in the City of Salem, two are in Roanoke County, two are in the City of Bedford, one is in Bedford County, one is in Botetourt County, and one is in Craig County. During this evaluation period of May 1, 1998 through December 31, 2000, the bank opened five branches. They opened two additional offices on February 2, 2001. They have not closed any branches. FNEB currently does not have any depository ATMs.

As of December 31, 2000, the bank’s assets totaled \$195 million, of which net loans comprise 57 percent. The composition of the bank’s loan portfolio is as follows:

Product Category	Lending Activity for the Period January 1, 2000 to December 31, 2000*				Gross Loans as of December 31, 2000**	
	Number	Percent	Dollar (000’s)	Percent	Dollar (000’s)	Percent
Commercial and Commercial Real Estate	151	26.9%	35,017	87.6%	84,058	75.4
Residential Real Estate	32	5.7%	1,874	4.7%	16,757	15.0
Other	1	.2%	375	.9%	4,910	4.4
Consumer	374	66.5%	2,498	6.3%	4,384	3.9
Agriculture and Agricultural Real Estate	4	.7%	204	.5%	1,389	1.3
Total	<i>562</i>	<i>100.0%</i>	<i>39,968</i>	<i>100.0%</i>	<i>111,498</i>	<i>100.0%</i>

* Data obtained from analysis of bank records

** Data obtained from Call report

A substantial majority of both the number and dollar volume of the commercial and commercial real state loans listed in the above chart are originated at other institutions within FNEB’s chain bank system and purchased by FNEB. These participation loan sizes range from \$100M to \$9MM with most in excess of \$2MM. The sizes of the participated portions range from \$30M to \$1.5MM with most just over \$1MM. Given this information, commercial and commercial real estate loans are not considered a primary loan product at FNEB. Therefore, the report will focus on consumer loans, which represents 65% of the number of loans originated during 2000 and 3.9% of the total outstanding loan balance.

Description of Assessment Areas

The bank has three assessment areas. All assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

The Roanoke assessment area consists of the Cities of Roanoke and Salem and the Counties of Botetourt and Roanoke. Roanoke, VA is located midway between New York City and Atlanta, Georgia on Interstate 81, 168 miles west of Virginia's state capital, Richmond. The city is the center of one of Virginia's largest metropolitan regions, and a hub of transportation, finance, and industry for the southwestern part of the state. This assessment area is comprised of 20 Block Numbering Areas (BNAs) and 32 census tracts, all of which are included in the Metropolitan Statistical Area (MSA). The population of the Roanoke MSA is approximately 228,000 and is characterized by a low cost of living, affordable housing, and low unemployment.

Unemployment as of October 2000 was 1.6 percent compared to the state average of 2.3 percent. The area's top three industries by distribution of employees are services, retail trade, and construction. Largest employers (by number of employees) include First Union National Bank, Carilion Health System, Allstate Insurance, and Hanover Direct. Competition in this assessment area is high consisting of commercial banks, credit unions, mortgage banking firms, consumer finance companies, brokerage firms, etc.

The Bedford assessment area is part of a larger MSA and consists of Bedford City and County. The Bedford Assessment area excludes the City of Lynchburg and several surrounding counties which are located in the larger Bedford MSA. FNEB does not have any branches located in these sections of the MSA therefore did not include them in their assessment area. Bedford County consists of 765 square miles in the west-central portion of Virginia's central plateau. Its boundaries include the Blue Ridge Mountains on the west, the James River, on the northeast, and Smith Mountain Lake to the south. This assessment area is comprised of 18 BNAs, all of which are included in the MSA. The Population of Bedford County and City is approximately 64,000. Unemployment as of October 2000 was 3.6 percent in Bedford City and 2% in Bedford County compared to the state average of 2.3 percent. The area's top three industries by distribution of employees are services, retail trade, and construction. Major employers include Allen Telecom, Inc., Barr Laboratories, Sam Moore Furniture Industries, and Piedmont Label Company. Competition in this assessment area is moderate with four regional bank branch offices and one mortgage bank branch.

The third assessment area consists of Craig County. This assessment area is comprised of 3 BNAs. Craig County is a non-MSA and is adjacent to the Roanoke MSA. The population of Craig County is approximately 5,000. Unemployment as of October 2000 is 2% compared to the state average of 2.3%. The area's top three industries by distribution of employees are services, retail trade, and agriculture, forestry and fishing. The largest employers (by number of employees) include Craig Botetourt Electric Co-op and Craig County Schools. Competition located in Craig County is limited to one mortgage bank branch and one branch of Farmers and Merchant Bank. However, Craig County borders Roanoke County where the competition is very strong.

The following table reflects the demographic characteristics of the assessment areas:

Demographic Characteristics of the Assessment Areas				
		Assessment Area		
		Roanoke	Bedford	Craig
<u>Number of Tracts by Income Level:</u>	Low-Income	3	0	0
	Moderate-Income	8	0	0
	Middle-Income	25	6	1
	Upper-Income	11	1	0
	N/A	5	11	2
<u>Percent of Tracts by Income Level:</u>	Low-Income	5.77%	0.00%	0.00%
	Moderate-Income	15.38%	0.00%	0.00%
	Middle-Income	48.08%	33.33%	33.33%
	Upper-Income	21.15%	5.56%	0.00%
	N/A	9.62%	61.11%	66.67%
<u>Percent of Families by Income Level:</u>	Low-Income	18.62	14.83	16.50
	Moderate-Income	18.42	18.09	19.01
	Middle-Income	24.80	25.15	24.26
	Upper-Income	38.16	41.93	40.23
<u>Percent of Families by Level of the Geography:</u>	Low-Income	5.77	0.00	0.00
	Moderate-Income	15.38	0.00	0.00
	Middle-Income	48.08	33.33	33.33
	Upper-Income	21.15	5.56	0.00
	N/A	9.62	61.11	66.67
<u>Median Housing Characteristics</u>	Median Home Value	\$68,166	\$76,904	\$50,800
	Percent Owner Occupied Units	63.61	73.60	69.89
	Median Gross Rent	\$356	\$315	\$278
<u>Median Income Data:</u>	1990 Census Median Family Income	\$34,942	\$31,863	\$28,301
	Updated Median Family Income	\$51,200	\$46,300	\$39,800

Two new community contact interviews were conducted during this examination. Representatives from the Department of Economic Development in Bedford County and Habitat for Humanity in the Roanoke Valley were contacted. Overall, these representatives felt that the performance of local financial institutions was satisfactory. No unmet credit needs were identified by the community contacts.

Conclusions with Respect to Performance Criteria

Loan-to Deposit Ratio

FNEB's loan to deposit ratio, while low, is reasonable considering the level of competition in the assessment areas and the age of the bank.

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A review of bank data reveals that FNEB is similarly situated to Salem Bank and Trust, Bank of Botetourt, and Valley Bank. All institutions are similar in asset size, offer similar credit products, operate in at least one of the same assessment areas as FNEB, and are considered small banks under CRA guidelines. The following table reflects the loan to deposit ratio of FNEB and the similarly situated banks:

Institution Name	Average Loan to Deposit Ratio Eleven quarters beginning June 30,1998
First National Exchange Bank	55.5%
Salem Bank and Trust	71.3%
Bank of Botetourt	78.6%
Valley Bank	82.4%

Branching activity has a significant impact on FNEB's loan to deposit ratio. New branches observe significant deposit growth upon opening as they offer attractive rates to encourage deposit growth. Loan growth lags behind deposit growth because of the strong competition and the bank's conservative lending nature. Of the four branches opened during our CRA assessment period, all were opened from November 1998 to January 1999. The following table shows the high deposit growth occurring during that time period:

	As of December 31, 1998 (\$000's)	As of March 31, 1999 (\$000's)	Dollar Change (\$000's)	Percent Change
Net Loans	74,600	81,699	7,099	8.7%
Total Deposits	147,788	176,210	28,422	16.1%

No branching activity occurred during 2000 and FNEB's quarterly loan to deposit ratio improved significantly moving from 54.6% at December 31, 1999 to 60.9% at December 2000. This is due mainly to continued loan growth and slight deposit run-off.

Lending in Assessment Area

The bank originated a substantial majority of its consumer loans within its assessment areas. Bank records reveal that management originated a total of 374 consumer loans during 2000. The analysis of lending in the bank's assessment areas included a sample of 57 consumer loans totaling \$851,903 originated during the sample period.

Consumer Loans	Sample Number of Loans		Sample Dollar Amount of Loans	
Inside Assessment Areas	53	93%	\$741,068	87%
Outside Assessment Areas	4	7%	\$110,835	13%
Totals	57	100%	\$851,903	100%

The table above reflects a substantial majority of both the total number and total dollar of the consumer loans sampled were made within the bank's assessment area.

To supplement the bank's consumer lending in the assessment, management purchased a

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Virginia Housing Development Authority Bond totaling \$127,350. This bond provides loan funds for affordable housing which benefits low- and moderate-income families in Virginia, including those in the bank's assessment areas.

Lending to Borrowers of Different Incomes

The distribution of loans, given the demographics of the assessment areas, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income).

The analysis of consumer loans was based upon the Department of Housing and Urban Development (HUD) updated median family income (MFI) for the Roanoke and Bedford MSAs and Craig County. The following table provides information on how each income level is defined:

Borrower Income Levels for Calendar Year 2000	2000 Updated MFI Roanoke MSA		2000 Updated MFI Bedford MSA		2000 Updated MFI Craig County	
	Low Range	High Range	Low Range	High Range	Low Range	High Range
Low-income borrowers 0 to 50 percent of MFI	\$0	\$25,600	\$0	\$23,150	\$0	\$19,900
Moderate-income borrowers 50 to 80 percent of MFI	\$25,601	\$40,960	\$23,151	\$37,040	\$19,901	\$31,840
Middle-income borrowers 80 to 120 percent of MFI	\$40,961	\$61,440	\$37,041	\$55,560	\$31,841	\$47,760
Upper-income borrowers Above 120 percent of MFI	\$61,441	Above	\$55,561	Above	\$47,761	Above

The analysis of lending to borrowers of different income levels included a sample of 52 consumer loans totaling \$708,514. The bank does not track loan originations by assessment area. The examiner selected a random sample of 60 loans. Of those loans, 53 were located in the bank's assessment areas. One loan located in the bank's assessment area did not contain income information. The remaining 52 loans were used to determine the distribution of loans to borrowers of different income in each assessment area.

Borrower Income Classification Level	Roanoke Assessment Area					
	Sample Number of Loans Within the Assessment Area		Sample Dollar Amount of Loans Within the Assessment Area		Number of Families Within the Assessment Area	
Low-income	9	25.71%	\$129,056	25.56%	41,798	18.62%
Moderate-income	12	34.29%	\$126,154	24.98%	41,349	18.42%
Middle-income	6	17.14%	\$70,055	13.87%	55,670	24.80%
Upper-income	8	22.86%	\$179,699	35.59%	85,660	38.16%
Total	35	100.00%	\$504,964	100.00%	224,477	100.00%

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Borrower Income Classification Level	Bedford Assessment Area					
	Sample Number of Loans Within the Assessment Area		Sample Dollar Amount of Loans Within the Assessment Area		Number of Families Within the Assessment Area	
Low-income	3	25.00%	\$39,707	26.93%	7,671	14.83%
Moderate-income	4	33.33%	\$57,316	38.87%	9,358	18.09%
Middle-income	2	16.67%	\$13,237	8.98%	13,010	25.15%
Upper-income	3	25.00%	\$37,177	25.22%	21,690	41.93%
Total	12	100.00%	\$147,437	100.00%	51,729	100.00%

Borrower Income Classification Level	Craig County Assessment Area					
	Sample Number of Loans Within the Assessment Area		Sample Dollar Amount of Loans Within the Assessment Area		Number of Families Within the Assessment Area	
Low-income	2	40.00%	\$14,772	26.33%	721	16.50%
Moderate-income	2	40.00%	\$19,736	35.17%	831	19.01%
Middle-income	1	20.00%	\$21,605	38.50%	1,061	24.26%
Upper-income	0	0.00%	\$0.00	0.00%	1,759	40.23%
Total	5	100.00%	\$56,113	100.00%	4,372	100.00%

As depicted in the tables above, the bank’s lending activities, by total number and dollar amount, to low- and moderate-income individuals exceeds the percentage of the low- and moderate-income families residing in each of the bank’s three assessment areas.

Geographic Distribution of Loans within the Assessment Areas

An analysis of the geographic distribution of loans within two of the three assessment areas would not be meaningful. Neither the Bedford nor the Craig County assessment areas have low- or moderate-income geographies. However, we conducted an analysis of the geographic distribution of loans within the Roanoke assessment area.

Based on our sample of 25 loans totaling \$355,631, the geographic distribution of loans reflects reasonable dispersion throughout the Roanoke assessment area. The following table illustrates the geographic distribution of consumer loans within these income tracts in comparison to the percent of population in each tract:

Tract Income Level	Number of Tracts	Percent of Population In Each Tract	Number of Loans	Percent of Number	Dollar Amount of Loans	Percent of Amount
Low	3	3.43%	1	4.00%	\$22,981	6.46%
Moderate	8	13.14%	4	16.00%	\$38,469	10.82%
Middle	25	55.95%	10	40.00%	\$146,181	41.10%
Upper	11	27.48%	10	40.00%	\$148,000	41.62%
N/A	5	0.00%	0	0.00%	0	0.00%

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Loans have been extended in most census tracts. An analysis of lending activity indicates that loans are concentrated in those tracts nearest the bank's offices and efforts to extend credit do not exclude any particular geographies. Given the small percentage of population in low- and moderate-income tracts, the number of loans in these areas is reasonable.

Responses to Complaints

First National Exchange Bank has not received any complaints during this evaluation period.

Record of Compliance with Antidiscrimination Laws

An analysis of public comments and consumer complaint information during this evaluation period and 2000 HMDA information was performed according to the OCC's risk based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. A comprehensive fair lending examination has not been performed at this bank.