



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**August 23, 2002**

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

**Mountain National Bank  
Charter Number 23084**

**543 East Stuart Drive  
Galax, VA 24333**

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

## DESCRIPTION OF INSTITUTION

Mountain National Bank (MNB) 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. MNB received a satisfactory CRA rating at its last CRA performance evaluation dated February 27, 1998. There are no legal or financial impediments to MNB's ability to meet the credit needs of its assessment area.

MNB's main office is located in Galax, Virginia. The bank operates six full-service branch offices within its assessment areas. Virginia branches are located in the following areas: Galax, Hillsville and Independence. North Carolina branches are located in Mt. Airy, Wilkesboro and Jonesville. The bank opened four branches since the last examination. No branches have been closed. The bank does not currently have any depository ATMs.

As of March 31, 2002, MNB's assets totaled \$215 million, of which net loans comprise 55%. The following table reflects the composition of MNB'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	61,622	54.14
Residential Mortgage Loans	35,955	31.59
Individuals	8,582	7.54
Construction & Land Development	6,761	5.94
All Other	512	0.45
Farmland and Agriculture	387	0.34
<i>Total</i>	<i>113,819</i>	<i>100</i>

\* 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. All assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

The first assessment area consists of Carroll and Grayson Counties and Galax City, Virginia, all non-MSAs. Carroll and Grayson Counties are contiguous with the City of Galax residing in both counties. The area is nestled in the heart of the Blue Ridge Mountains in the southwestern portion of Virginia. The combined population is approximately 54,000. The area's top industries by distribution of employees are manufacturing, government, services and retail trade. The largest employers by number of employees include Grayson Nursing & Rehab Center, Vaughan-Bassett Furniture Company, Twin County Regional Hospital, Cross Creek Apparel, Inc., Magnolia Manufacturing Company, Inc. and Independence Lumber, Inc. Unemployment rates vary slightly in the different areas. Unemployment estimates for 2002 are 6% for Galax City, 6.4% for Grayson County and 7.1% for Carroll County, compared to for the state average of 4%. Competition in the assessment area consists of 19 branches of FDIC-insured institutions representing 8 banks varying in asset size.

Surry County and Wilkes County, North Carolina is the second assessment area. Both counties are non-MSAs. Wilkes County is adjacent to Surry County and both counties are approximately 30 to 50 miles from Winston-Salem, a major city of over 100,000 people. Surry and Wilkes Counties are located in the upper western portion of North Carolina within the Blue Ridge Mountains. The combined population of the AA is approximately 135,000. The area's top industries by distribution of employees are manufacturing, retail trade, services and government. The largest employers by number of employees include Kentucky Derby Hosiery, Renfro Corporation, Surry County Schools, Tyson Foods, Lowe's Companies and American Drew. Wilkes County unemployment is 2.6% and Surry County is 6.5%, compared to the state average of 6.5%. Competition in the assessment area is strong and consists of 45 branches of FDIC-insured institutions representing 11 banks varying in asset size.

The third assessment area is Yadkin County, North Carolina. The Yadkin County assessment area is an MSA located in North Carolina. It is located in the foothills of Yadkin Valley near the Blue Ridge Mountains. The Yadkin River serves as the northern and eastern boundaries of the county. The population of Yadkin County is approximately 38,000. Unemployment for 2000 was 3.3%, compared to the state average of 6.5%. The area's top industries by distribution of employees are manufacturing, retail trade, services and government. The largest employers by number of employees include Unifi, Inc., Phillips-Van Heusen, Lydall Thermal Acoustical, Inc. and Austin Company. Competition in the assessment area consists of 9 branches of FDIC-

insured institutions representing 7 banks varying in asset size.

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

<b>Demographic Characteristics of the Assessment Areas</b>				
		Assessment Areas		
		Carroll-Grayson-Galax	Surry-Wilkes	Yadkin
<u>Number of Geographies by Income Level:</u>	Low-Income	0	0	0
	Moderate-Income	1	1	1
	Middle-Income	9	23	4
	Upper-Income	0	0	0
	N/A	2	0	0
<u>Percent of Geographies by Income Level:</u>	Low-Income	0	0	0
	Moderate-Income	8.33	4.17	20
	Middle-Income	75	95.83	80
	Upper-Income	0	0	0
	N/A	16.67	0	0
<u>Percent of Population in each Tract</u>	Low-Income	0	0	0
	Moderate-Income	15.17	2.06	17.38
	Middle-Income	84.83	97.94	82.62
	Upper-Income	0	0	0
<u>Percent of Families by Income Level:</u>	Low-Income	24.69	19.05	25.27
	Moderate-Income	21.56	18.75	20.09
	Middle-Income	26.89	24.73	25.79
	Upper-Income	26.86	37.47	28.85
<u>Median Housing Characteristics</u>	Median Home Value	42,251	51,793	52,858
	Percent Owner Occupied Units	69.97	72.28	75.81
	Median Gross Rent	260	292	294
<u>Median Income Data:</u>	1990 Census Median Family Income	28,301	27,206	34,869
	Updated Median Family Income	40,800	41,500	53,100

## Community Contact

We conducted one community contact during this examination with a representative of a regional planning organization located in the Carroll-Grayson-Galax AA. They identified low-cost, small-business loans as a credit need in the area. They stated that local financial institutions tend to be very conservative and are reluctant to offer small business loans due to paper work requirements.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

Given the bank's size and deposit market share in their assessment areas, MNB's loan-to-deposit ratio is less than reasonable. A review of bank data reveals that MNB is similarly situated to Community Bank and Grayson National Bank. All institutions are similar in asset size, offer similar credit products, operate in at least one of the same assessment areas as MNB, and are

considered small banks under CRA guidelines. The following table reflects the average loan to deposit ratio of MNB and the similarly situated banks:

Institution Name	Average Loan to Deposit Ratio Seventeen quarters beginning January 1,1998
Mountain National	53.77%
Community Bank	75.65%
Grayson National Bank	77.89%

As reflected above, the bank's loan-to-deposit ratio is well below both 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 MNB'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	
MNB	100	95	5	93	7	97	3	95	5	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 MNB 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
Carroll-Grayson-Galax	59	79	2,098	72	34	61	462	81	21	55	451	25
Surry-Wilkes	14	19	668	23	19	34	90	16	17	45	1,388	75
Yadkin	2	2	135	5	3	5	16	3	0	0	0	0

As indicated above, MNB's lending activity in the Yadkin AA is poor. This is somewhat mitigated by the fact that they did not open branches in this AA until August 2000 (over two years into the evaluation period). Historically, loan growth at MNB significantly lags deposit growth at new branches.

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

The distribution of loans 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
Carroll-Grayson-Galax	25	28	13	21	19	19	27	30	31	27	23	37
Surry-Wilkes	19	7	4	19	21	19	25	43	31	37	29	46
Yadkin	25	0	0	20	0	0	26	100	100	29	0	0

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 excellent in the Carroll-Grayson-Galax AA and adequate in the Surry-Wilkes AA. The distribution of mortgage loans to moderate-income borrowers is good in the Carroll-Grayson-Galax AA and excellent in the Surry-Wilkes AA. Both mortgage loans originated in the Yadkin AA were to middle-income borrowers. However, as discussed previously, the bank did not open branches in this AA until August 2000 so the level of lending in this area is low.

**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
Carroll-Grayson-Galax	30	47	32	16	29	16	22	6	4	32	18	48
Surry-Wilkes	24	68	58	16	11	11	19	16	26	41	5	5
Yadkin	29	100	100	17	0	0	20	0	0	34	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 three AAs. The distribution of consumer loans to moderate-income borrowers is excellent in the Carroll-Grayson-Galax AA, adequate in the Surry Wilkes AA, and poor in the Yadkin AA. However, as stated previously, the bank did not open branches in this AA until August 2000 so the level of lending in this area is low.

**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	
				#	\$	#	\$	#	\$
Carroll-Grayson-Galax	94	100	100	21	451	0	0	0	0
Surry-Wilkes	93	100	100	14	322	2	216	1	850
Yadkin	94	0	0	0	0	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. There were no small loans to businesses identified during the sampling process for the Yadkin AA. All small loans to businesses in the Carroll-Grayson-Galax and Surry-Wilkes AAs were to small businesses (businesses with less than \$1 million in annual gross revenues). The community contact identified small business loans as a credit need in the Carroll-Grayson-Galax AA.

### Geographic Distribution of Loans

MNB’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 have low-income geographies, therefore the analysis will focus on 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
Carroll-Grayson-Galax	0	0	0	16	10	14	84	90	86	0	0	0
Surry-Wilkes	0	0	0	2	0	0	98	100	100	0	0	0
Yadkin	0	0	0	16	100	100	84	0	0	0	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. The geographic distribution of home mortgage loans is excellent in the Yadkin AA and adequate in the Carroll-Grayson-Galax AA. We did not identify any home mortgage loans made in the moderate-income geography in the Surry-Wilkes AA. However, opportunities to lend in the moderate-income geography in the Surry-Wilkes AA are limited with only 2% of owner-occupied units in this geography.

**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
Carroll-Grayson-Galax	0	0	0	15	0	0	85	100	100	0	0	0
Surry-Wilkes	0	0	0	3	0	0	97	95	95	0	5	5
Yadkin	0	0	0	19	67	67	81	33	33	0	0	0



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 is poor in the Carroll-Grayson-Galax AA and excellent in the Yadkin AA. We did not identify any consumer loans made in the moderate-income geography in the Surry-Wilkes AA. However, opportunities to lend in the moderate-income geography in the Surry-Wilkes AA are limited with only 3% of households located in this geography.

**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
Carroll-Grayson-Galax	0	0	0	5	22	22	95	78	78	0	0	0
Surry-Wilkes	0	0	0	8	50	28	92	50	72	0	0	0
Yadkin	0	0	0	20	0	0	80	0	0	0	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 geographic distribution of small loans to businesses is excellent in the Carroll-Grayson-Galax and Surry Wilkes AAs when considering the percentage of small businesses located in moderate-income tracts. There were no small loans to businesses identified during the sampling process for the Yadkin AA.

### **Responses to Complaints**

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

### **Fair Lending Review**

An analysis of 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.