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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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## **PUBLIC DISCLOSURE**

**February 10, 2006**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Exchange Bank  
Charter Number 23534**

**1722 Hershberger Road  
Roanoke, VA 24012**

**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.**

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

The major facts that support this rating include:

- FNEB's average loan-to-deposit (LTD) ratio is reasonable compared to similarly situated competitors.
- The bank made a substantial majority of its loans within its AAs.
- The distribution of borrowers reflects, given the demographics of the AAs, excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- A majority of the small loans to businesses were for amounts less than \$100,000.
- The geographic distribution of loans reflects excellent dispersion throughout the AAs.

## **DESCRIPTION OF INSTITUTION**

First National Exchange Bank (FNEB) is an intrastate bank headquartered in Roanoke, Virginia (VA). The bank is not owned by a holding company. FNEB is a full service community bank with 15 branches serving the cities of Roanoke, Salem, and Bedford, and the counties of Roanoke, Craig, Botetourt, Bath, and Bedford. The bank opened two branch offices during the evaluation period; one in the city of Salem (March 2002) and one in Bath County (February 2005). As of June 30, 2005, FNEB had deposits of \$208 million, which represented less than a 1% deposit market share in Virginia. FNEB ranked 76th out of 169 financial institutions operating in the state.

FNEB's business strategy focuses on loans to businesses, construction and development, residential mortgage loans, and consumer loans. As of December 31, 2005, loans to businesses, including loans secured by non-farm non-residential property, represented approximately 68%, construction and development 6%, residential mortgages 6%, and loans to individuals 1% of total loans outstanding. For purposes of this evaluation, we considered loans to businesses and residential mortgage loans as primary products based on the volume of originations and balances outstanding. Loans to individuals are a primary product in terms of volume, but not dollars outstanding. Loans for construction and development are a primary product based on dollars outstanding, but not by number of originations.

The evaluation period for the Lending Test is January 1, 2004 through December 31, 2005. We reviewed all home mortgage loans originated and reported under the Home Mortgage Disclosure Act (HMDA) for calendar years 2004 and 2005. We also reviewed a sample of 35 small loans to businesses originated during calendar years 2004 and 2005. We selected loans in accordance with OCC sampling guidelines from lists provided by FNEB.

As of December 31, 2005, Tier 1 Capital was \$19.6 million, Tier 1 Risk-based Capital to Risk weighted Assets equaled 14.4%, and Tier 1 Leverage Capital equaled 9.2%. There are no legal, financial or other factors impeding FNEB's ability to help meet the credit needs in its AAs. FNEB received a "Satisfactory" rating on its February 2001 CRA Performance evaluation.

## **DESCRIPTION OF ASSESSMENT AREAS**

FNEB operates 15 bank branches in three AAs in VA, eleven of which are located in the Roanoke MSA 19260 (Roanoke AA). The bank also has one branch in Bath County (Bath AA), and three branches in the Bedford area (Bedford AA). The Bedford AA includes Bedford City and Bedford County. Both are located in the Lynchburg, VA MSA 31340. The Roanoke AA includes the cities of Roanoke and Salem, and the counties of Botetourt, Craig and Roanoke.

We are required to assess performance in AAs that consist of, or a part of, an MSA with a population of 250,000 or greater, and at least one non-MSA AA, where applicable, in each state where the bank offices are located. As of the 2000 Census, the population of the Roanoke MSA was 288,309. The population of the Lynchburg MSA was 228,616. We performed a full-scope evaluation of the Roanoke AA. The Bath County AA was not established until February 2005. Branch deposits as of June 2005 were approximately \$29,000, equaling 0.4% of the AAs total deposits. Enough time has not elapsed for the bank to produce a sufficient amount of lending activity to perform a fair evaluation of the bank's performance in the non-MSA AA.

As of June 30, 2005, FNEB had deposits of \$149 million in the Roanoke AA, which represented a 3.6% deposit market share. FNEB ranked 8th out of 13 financial institutions operating in the AA. FNEB's primary competitors in the Roanoke AA are Valley Bank, FNB Salem Bank & Trust N.A., and Bank of Botetourt. There are 50 census tracts in the AA; three low-income, nine moderate-income, 25 middle-income, 12 upper-income, and one tract has no income designation. The 2003 poverty rate for the AA of 13% was significantly higher than the rate of 9.9% for the state of VA. The City of Roanoke had the highest rate (16.9%) and largest population of persons in poverty. Remaining geographies in the AA had rates lower than that for the state of VA. Unemployment in the AA was 3% in January 2006, slightly lower than the state unemployment rate of 3.2% for the same period. Retail and service industries make up the largest number of business concerns in the AA.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered FNEB's business strategy and the volume of originations. We held a discussion with an organization that provides financing, counseling, and other related services for low- and moderate-income, and first-time homebuyers. This organization identified no specific credit needs. Small loans to businesses and HMDA loan types combined received equal weight in the evaluation process.

We took into consideration FNEB's business strategy and types of credit offered. FNEB does not advertise when entering new markets, nor do they market bank products and services for new or established branches. The bank offers basic credit products. They do not offer home-equity lines of credit, participate in government loan guarantee programs, or offer debit or credit cards. These factors, coupled with competition from large regional, national, and community banks, have a negative impact on FNEB's ability to grow deposits and loans. We also considered the bank's branch locations. FNEB typically establishes branches in facilities vacated by larger

banks. These locations may not be ideal for generating new business, but do permit the bank to return service to un-served or under-served neighborhoods and rural areas.

## Lending Test

FNEB’s performance in VA is rated **Satisfactory**. Based on a full-scope review, FNEB’s performance in the Roanoke, VA AA is reasonable.

## Loan-to-Deposit Ratio

FNEB’s average loan-to-deposit (LTD) ratio is reasonable compared to similarly situated competitors. The bank’s quarterly average LTD ratio since the last CRA examination is 60%. This ratio is below that of similarly situated banks in the Roanoke AA (91%) but considered reasonable within the context of competitive factors previously discussed.

## Lending in Assessment Area

A substantial majority of loans and other lending related activities were inside the bank’s AAs. For the evaluation period, 97% of business loans and 93% of home mortgage loans, a blended average of 95%, were made inside the bank’s AAs.

<b>Table 1 - Lending Bank-wide</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Loans to businesses	34	97.14	1	2.86	35	1,794	87.77	250	12.23	2,044
HMDA Loans	42	93.33	3	6.67	45	1,564	62.51	938	37.49	2,502
<b>Totals</b>	<b>76</b>	<b>95.00</b>	<b>4</b>	<b>5.00</b>	<b>80</b>	<b>3,358</b>	<b>73.87</b>	<b>1,188</b>	<b>26.13</b>	<b>4,546</b>

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

The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among individuals of different income levels and businesses of different sizes. The distribution of HMDA loans is excellent. The bank made 17% of total HMDA loans to low-income borrowers, and 29% to moderate-income borrowers. This compares favorably to the proportion of low- and moderate-income families in the AA (18% and 19% respectively). The distribution of loans to businesses that are small (those with less than \$1 million in gross annual revenues) is excellent.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in the Roanoke VA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home purchase	17.52	0.00	18.90	33.33	23.74	66.67	39.84	0.00
Home improvement	17.52	80.00	18.90	20.00	23.74	0.00	39.84	0.00
Home refinance	17.52	0.00	18.90	31.25	23.74	56.25	39.84	12.50
<b>Total HMDA</b>	<b>17.52</b>	<b>16.67</b>	<b>18.90</b>	<b>29.17</b>	<b>23.74</b>	<b>45.83</b>	<b>39.84</b>	<b>8.33</b>

<b>Table 2A - Borrower Distribution of Loans to Businesses in the Roanoke VA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63.62	6.38	30.00	100.00
% of Bank Loans in AA by #	65.22	8.70	26.08	100.00
% of Bank Loans in AA by \$	55.86	11.99	32.15	100.00

A majority of the small loans to businesses were for amounts less than \$100,000.

<b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in the Roanoke VA AA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	19	82.61	802	51.00
\$100,001 - \$250,000	4	17.39	771	49.00
\$250,001 - \$1,000,000	0	0.00	0	0.00

## Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the AA. The distribution of HMDA loans is excellent. The distribution of small loans to businesses is reasonable. Although the bank made no HMDA or business loans in low-income geographies, we considered the few number of owner-occupied dwellings and businesses located in those geographies. Additionally, the bank made a larger proportion of loans in moderate-income geographies than those geographies represent in the AA.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in the Roanoke VA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home purchase	2.46	0.00	12.22	25.00	51.43	50.00	33.89	25.00
Home improvement	2.46	0.00	12.22	20.00	51.43	60.00	33.89	20.00
Home refinance	2.46	0.00	12.22	25.00	51.43	68.75	33.89	6.25
<b>Total HMDA</b>	<b>2.46</b>	<b>0.00</b>	<b>12.22</b>	<b>24.00</b>	<b>51.43</b>	<b>64.00</b>	<b>33.89</b>	<b>12.00</b>

<b>Table 3A - Geographic Distribution of Loans to Businesses in the Roanoke VA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	4.65	0.00	18.40	21.74	50.35	56.52	26.60	21.74

## Responses to Complaints

There were no complaints regarding the bank's CRA performance during the evaluation period.

## Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.