

PUBLIC DISCLOSURE

March 16, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Carroll

05511379

P.O. Box 699

Hillsville, Virginia 24343

Federal Reserve Bank of Richmond

P. O. Box 27622

Richmond, Virginia 23261

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 Bank of Carroll, Hillsville, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of March 9, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

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

The bank's loan-to-deposit ratio appears reasonable in relation to demand for credit in the assessment area. A substantial majority of loans sampled during the examination were provided to residents of the assessment area. The institution's level of lending to low- and moderate-income borrowers and the geographic distribution of lending appear reasonable given the institution's size, branch locations, and demographics of the area.

DESCRIPTION OF INSTITUTION

Bank of Carroll operates three offices located in Carroll County, Virginia. As of December 31, 1997, the bank had total assets of \$71 million, of which \$41 million (57%) were loans. Various deposit and loan products are available through the institution including residential mortgage, consumer, business, and agricultural loans. The loan portfolio as of December 31, 1997, was comprised of 73% real estate secured (consumer and business), 17% consumer, and 10% commercial/agricultural. Based on the number and dollar amounts of loans extended during the previous six months, unsecured consumer loans and residential mortgage loans were identified as the principal credit products offered by the bank. The institution's previous CRA rating was satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The Bank of Carroll's assessment area is comprised of Carroll County, Virginia, including the City of Galax. The area also includes portions of Grayson County, Virginia (block numbering areas 9901 and 9902) and Surry County, North Carolina (block numbering areas 9903, 9905, and 9907).

According to the 1990 census data, the assessment area has a population 62,518 and contains 14 block numbering areas (BNAs). Two of the BNAs are considered low-income, one is moderate-income, and 11 are middle-income; no upper-income BNAs are included within the bank's market. The two low-income areas are unpopulated. Twelve percent and 88% of the population reside in moderate- and middle-income BNAs, respectively. The 1997 median family income for nonmetropolitan areas of Virginia is \$34,800.

Several large businesses in the area provide employment opportunities including: Vaughan Furniture Company, Twin County Regional Hospital, Sara Lee Knit Products, Consolidated Glass and Mirror, Dixon Lumber Company, Galax Apparel Corporation, and Webb Furniture Enterprises. January 1998 unemployment rates ranged from 2.9% in the City of Galax to 6.3% in Grayson County. The jobless rate for the Commonwealth was 3.7%.

A community contact was made with a representative from a local trade association to further assist in evaluating the bank's CRA performance. The contact indicated that local financial institutions are adequately meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

The institution is responsive to area loan demand. During the six-quarter period ending December 1997, the quarterly average loan-to-deposit ratio for all banks headquartered in nonmetropolitan areas of Virginia and of similar asset size to Bank of Carroll ranged from 67% to 72%. The institution's average loan-to-deposit ratio for a six-quarter period ending December 1997 is 67% and meets standards for satisfactory performance given the institution's financial capacity, size, and current local economic conditions.

LENDING IN ASSESSMENT AREA

To determine the institution’s volume of lending within the assessment area, 100 of 205 consumer unsecured loans and 49 of a total of 69 residential mortgage loans extended during the previous six months were reviewed. The lending distribution is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	127	22	149
Percentage of Total Loans	85%	15%	100%
Total Amount of Loans (000's)	\$2,730	\$373	\$3,103
Percentage of Total Amount	88%	12%	100%

As illustrated above, a substantial majority of the number and dollar amounts of the sampled loans were provided to residents of the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

A review of the 84 consumer unsecured and 43 residential mortgage loans extended within the assessment area was conducted to analyze borrower income characteristics. The following charts illustrate the distribution of the sampled loans by the income level of the borrower.

Distribution of Loans by Income Level of the Borrower

Consumer Unsecured Loans

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	26	28	19	11	84
Percentage of Total Loans	31%	33%	23%	13%	100%
Total Amount of Loans (000's)	\$56	\$72	\$68	\$55	\$251
Percentage of Total Loans	22%	29%	27%	22%	100%

Residential Mortgage Loans

	Low- Income	Moderate -Income	Middle- Income	Upper- Income	Total
Total Number of Loans	2	8	10	23	43
Percentage of Total Loans	5%	19%	23%	53%	100%
Total Amount of Loans (000's)	\$143	\$259	\$438	\$1,639	\$2,479
Percentage of Total Loans	6%	10%	18%	66%	100%

For purposes of comparison, the chart below depicts the distribution of families residing in the assessment area according to low-, moderate-, middle-, and upper-income levels.

Percentage of Families in Assessment Area by Income Level

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percent of Families	22%	21%	26%	31%	100%

The volume of consumer unsecured loans extended to low- and moderate-income residents (64%) substantially exceeds the representation of such families within the assessment area (43%).

The percentage of residential mortgage loans extended to moderate-income residents (19%) closely corresponds to the proportion (21%) of moderate-income families residing in the market. The portion of residential mortgage loans extended to low-income applicants (5%) is significantly lower than the percentage (22%) of such families within the assessment area. With 11% of families in the market area living below the poverty level, however, the effective demand for residential mortgage loans by these borrowers may be limited.

Overall, the distribution of consumer unsecured and residential mortgage loans is considered reasonable given local economic conditions and relative to estimated demand for these loans, using area demographics as a proxy.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files also included an analysis of lending among BNAs within the assessment area. As previously mentioned, there are no upper-income or populated low-income BNAs within the assessment area. The distribution of loans sampled is presented in the following tables.

Distribution of Loans in Assessment Area by Income Level of BNA

Consumer Unsecured Loans

	Moderate-Income	Middle-Income	Total
Total Number of Loans	3	81	84
Percentage of Total Loans	4%	96%	100%
Total Amount of Loans (000's)	\$5	\$246	\$251
Percentage of Total Loans	2%	98%	100%

Distribution of Loans in Assessment Area by Income Level of BNA

Residential Mortgage Loans

	Moderate-Income	Middle-Income	Total
Total Number of Loans	2	41	43
Percentage of Total Loans	5%	95%	100%
Total Amount of Loans (000's)	\$120	\$2,359	\$2,479
Percentage of Total Loans	5%	95%	100%

Overall, the percentage of sampled loans provided in moderate-income areas (4%) is somewhat lower than the percentage of population residing in such areas (12%). As noted earlier, of the 12 populated BNAs in the assessment area, only one is considered moderate-income. This BNA is located in Grayson County. All three of the bank's offices are located in Carroll County, Virginia. As a result, higher loan volume is distributed in Carroll County. Based on the branch locations and area demographics, the geographic distribution of the sampled loans is considered reasonable.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No credit practices inconsistent with the substantive provisions of fair housing and fair lending laws and regulations were identified. A technical violation of the Equal Credit Opportunity Act's Regulation B was noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending and credit activities.