

**PUBLIC DISCLOSURE**

May 13, 2013

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Citizens Community Bank

2847432

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South Hill, VA 23970

**Federal Reserve Bank of Richmond**

**P. O. Box 27622**

**Richmond, Virginia 23261**

**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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## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

The major factors supporting this rating include:

- The bank's loan to deposit ratio is considered more than reasonable given the bank's size, financial condition and demand for credit within the assessment areas.
- A majority of the institution's residential mortgage and small business loans were originated within the bank's assessment areas.
- The bank's lending to borrowers of different income levels and businesses of different sizes is excellent in the Commonwealth of Virginia and reasonable in the State of North Carolina. Its overall performance is considered excellent given the bank's larger presence in the Commonwealth of Virginia.
- The bank's geographic distribution performance overall and in the State of North Carolina is considered reasonable. Because of a lack of diversity among the income levels of census tracts in the assessment area in the Commonwealth of Virginia, no assessment of the geographic distribution of lending was made in the commonwealth.
- There have been no complaints regarding the bank's CRA performance since the previous CRA evaluation.

### **SCOPE OF EXAMINATION**

The institution was evaluated using the interagency examination procedures developed by the Federal Financial Institutions Examination Council (FFIEC). Consistent with these procedures and based on the institution's recent loan volume, residential mortgage and small business loans were identified as the bank's primary credit products and were considered in the evaluation. The analysis included all (64) residential mortgage loans (home purchase and refinance) totaling \$8.6 million originated during 2011 and all (86) small business loans totaling \$8.6 million also originated during 2011. Given the equal dollar volume of lending of the two products, the performance associated with each product was equally weighted in the overall analysis.

Based on the FFIEC's evaluation procedures, ratings are assigned to the institution, the Commonwealth of Virginia, and the State of North Carolina. Because the bank's branches are located in a single assessment area in each state, the statewide ratings are each based only on the bank's performance in the assessment area located in each state. Appendix B includes information detailing the lending volume, branch locations, and deposit volume by assessment area.

### **DESCRIPTION OF INSTITUTION**

Citizens Community Bank (CCB) is headquartered in South Hill, Virginia, and operates three full service branches in the Commonwealth of Virginia and one full service branch in the State of North Carolina. Additionally, CCB operates one loan production office located in Oxford, North Carolina. The bank is not owned by a holding company and has no other affiliates or subsidiaries. The bank received a Satisfactory rating at its prior CRA evaluation dated March 2, 2009. No known legal impediments exist that would prevent the bank from meeting the credit needs of its assessment area.

As of March 31, 2013, CCB held \$161 million in assets, of which 79.3% were net loans. Various deposit and loan products are available through the institution including loans for residential mortgage, consumer, and business purposes. The composition of the loan portfolio (reflecting gross loans) is represented in the following table:

**Composition of Loan Portfolio**

Loan Type	3/31/2013	
	\$(000s)	%
Secured by 1-4 Family dwellings	53,448	41.1
Multifamily	635	0.5
Construction and Development	13,831	10.6
Commercial & Industrial/ NonFarm NonResidential	53,158	40.8
Consumer Loans and Credit Cards	5,026	3.9
Agricultural Loans/ Farmland	3,723	2.9
All Other	298	0.2
<b>Total</b>	<b>130,119</b>	<b>100.0</b>

As indicated in the preceding table, the bank is an active residential mortgage and commercial/small business lender. The bank offers other loans, such as consumer and farm loans; however, the volume of such lending is relatively small in comparison to the residential mortgage and commercial lending.

The bank serves two assessment areas located in southside Virginia and central northern North Carolina. The assessment areas are contiguous and each is located in a rural, nonmetropolitan (NonMSA) portion of each state.

Assessment Area Names	County	State	Census Tracts Included
Mecklenburg, VA NonMSA	Brunswick County	VA	All
	Lunenburg County	VA	All
	Mecklenburg County	VA	All
Halifax, NC NonMSA	Halifax County	NC	All
	Northampton County	NC	All

During May 2011, the bank closed one branch office located in Gaston, North Carolina (Halifax, NC NonMSA assessment area). Because the bank continues to serve this assessment area from another nearby branch, the bank did not alter or amend its Halifax, NC NonMSA assessment area following the branch closure.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

An analysis of lending during the review period is discussed in greater detail in subsequent sections of this evaluation. Area demographic, available market aggregate, and Dun & Bradstreet (D&B) business data are used as proxies for demand when evaluating the bank’s performance. Demographic data are from the 2000 census, the D&B business data are from 2011, and the aggregate residential mortgage and small business data are from 2011. Because CCB is not subject to data collection and reporting of data under the HMDA (residential mortgages) or the CRA (small business loans), its lending activity is not included in the aggregate data. The aggregate data, however, includes all home purchase and refinance and small business loans from all reporting institutions that originated and/or purchased such loans within the bank’s assessment areas and thus serves as a proxy for effective credit demand.

When evaluating the borrower and the geographic distribution for a specific loan category within an assessment area, primary emphasis is placed on the number of loans originated. To arrive at an overall assessment area level conclusion regarding the distribution of lending, performance in each loan category is then generally weighted by the dollar volume of such loans in the assessment area. Because the bank operates branches in two states, CRA performance ratings are required for each state, as well as for

the institution overall. The institution’s statewide ratings are based on its performance in the assessment areas subject to full-scope review, and each of the bank’s assessment areas were subject to a full-scope review. The institution’s overall rating is based on its performance in each state, and primary consideration is given to the dollar volume each assessment area contributes to the overall activity considered in the evaluation when weighting performance.

Overall, the bank’s performance is rated Satisfactory. This rating considers the bank’s loan-to-deposit ratio, level of lending in its assessment areas, borrower distribution performance, and geographic distribution performance. Each component is discussed in the following sections.

**Loan-To-Deposit Ratio**

The bank’s current (March 31, 2013) loan-to-deposit ratio equals 92.3% and averaged 91.8% for the 17–quarter period ending March 31, 2013. In comparison, the quarterly average loan-to-deposit ratios for all banks headquartered in nonmetropolitan areas of Virginia and of similar asset size to CCB ranged from 72.1% to 84.4% during the same 17-quarter period. Since December 31, 2008, the bank’s assets, loans, and deposits have increased by 4.3%, 1.7%, and 4.1% respectively. The bank’s loan-to-deposit ratio is considered more than reasonable given the institution’s size, financial condition, and local credit needs.

**Lending In Assessment Area**

To determine the institution’s volume of lending within its assessment areas, the geographic location of the bank’s residential mortgage and small business loans originated during 2011 were considered. The lending distribution inside and outside of the bank’s assessment areas is represented in the following table.

**Comparison of Credit Extended Inside and Outside of Assessment Area(s)**

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Residential Mortgage Loans	49	76.6	6,806	79.1	15	23.4	1,800	20.9
Small Business	68	79.1	7,259	84.7	18	20.9	1,314	15.3
<b>TOTAL LOANS</b>	<b>117</b>	<b>78.0</b>	<b>14,065</b>	<b>81.9</b>	<b>33</b>	<b>22.0</b>	<b>3,114</b>	<b>18.1</b>

As indicated in the preceding table, a majority of the number and dollar amount of the residential mortgage and small business loans were extended to borrowers of the bank’s assessment areas. Overall, the institution’s level of lending within its assessment areas is considered responsive to community credit needs.

**Lending To Borrowers of Different Incomes and To Businesses of Different Sizes**

Within the bank’s market areas, a high level of small business lending activity has been reported by specialized lenders, who often originate small business loans in the form of credit cards. These loans, however, tend to be much smaller in size than the traditional small business bank loans, and revenue data is often not reported for a majority of these loans. The presence of these lenders is reflected in a smaller market share for traditional lenders and tends to understate lending to businesses with annual revenues of \$1 million or less. These factors were considered as an aspect of performance context when evaluating the level and distribution of small business lending.

The bank’s borrower distribution performance is considered excellent in the Commonwealth of Virginia and reasonable in the State of North Carolina. The bank’s overall borrower distribution performance is considered excellent. This conclusion reflects the greater weight placed on the bank’s performance in the commonwealth because the bank’s operations (loans, deposits, and branches) are concentrated in the Commonwealth of Virginia. The bank’s performance, which varies by assessment area, is discussed in greater detail later in this evaluation.

### **Geographic Distribution of Loans**

CCB's geographic distribution performance is considered reasonable in the State of North Carolina. The bank's geographic distribution performance in the Commonwealth of Virginia was not evaluated because all of the census tracts in the commonwealth have the same income level (middle-income) classification. The bank's overall geographic distribution performance is considered reasonable.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

## COMMONWEALTH OF VIRGINIA

### CRA RATING FOR VIRGINIA: Outstanding

Major factors supporting the rating include:

- The bank's borrower distribution performance is considered excellent for its residential mortgage and small business lending.
- Because the assessment area within the Commonwealth of Virginia contains only middle-income census tracts, the bank's geographic distribution performance was not considered.

### SCOPE OF EXAMINATION

Residential mortgage (home purchase and refinance) and small business loans were analyzed to determine the bank's performance regarding the borrower and the geographic distribution of lending. All of the bank's residential mortgage and small business loans originated by the bank during 2011 were included in the evaluation.

The bank has delineated one nonmetropolitan assessment area (Mecklenburg, VA NonMSA) in the Commonwealth of Virginia. Statewide ratings for the commonwealth are based solely on the bank's performance in this assessment area.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN MECKLENBURG, VA NONMSA ASSESSMENT AREA

The assessment area is located in central southern Virginia and includes all of Brunswick, Lunenburg, and Mecklenburg counties, Virginia. The bank operates three full-service branches within this market area. As of June 30, 2012, CCB ranked fourth out of eight institutions in deposit market share having 12.2% of the assessment area's available FDIC insured deposits.

According to 2000 census data, the assessment area has a population of 63,945 and a median housing value of \$69,339. The owner-occupancy rate for the assessment area (59.9%) is lower than the owner-occupancy rates for the nonmetropolitan areas of Virginia (65.4%) and the Commonwealth of Virginia (63.3%). Within the assessment area, 12.7% of families are considered below the poverty level, which exceeds the rates for both nonmetropolitan areas of Virginia (10.7%) and the commonwealth (7%). The 2011 HUD estimated median family income for nonmetropolitan areas of Virginia equaled \$51,900. The following table includes pertinent demographic data for the assessment area.

**Assessment Area Demographics**

<b>Mecklenburg, VA NonMSA</b> <i>(Based on 2000 Census Boundaries and 2011 D&amp;B information)</i>								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	3,659	22.0
Moderate	0	0.0	0	0.0	0	0.0	2,990	18.0
Middle	14	100.0	16,650	100.0	2,114	12.7	3,927	23.6
Upper	0	0.0	0	0.0	0	0.0	6,074	36.5
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>14</b>	<b>100.0</b>	<b>16,650</b>	<b>100.0</b>	<b>2,114</b>	<b>12.7</b>	<b>16,650</b>	<b>100.0</b>
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	6,489	26.9
Moderate	0	0.0	0	0.0	0	0.0	3,801	15.7
Middle	18,389	100.0	24,159	100.0	4,191	17.3	4,727	19.6
Upper	0	0.0	0	0.0	0	0.0	9,142	37.8
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>18,389</b>	<b>100.0</b>	<b>24,159</b>	<b>100.0</b>	<b>4,191</b>	<b>17.3</b>	<b>24,159</b>	<b>100.0</b>
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	3,124	100.0	2,911	100.0	115	100.0	98	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
NA	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>3,124</b>	<b>100.0</b>	<b>2,911</b>	<b>100.0</b>	<b>115</b>	<b>100.0</b>	<b>98</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				93.2		3.7		3.1

\*NA-Tracts without household or family income as applicable

According to data published by the FFIEC in 2011, all 14 middle-income census tracts in the assessment area are classified as being distressed and/or underserved. All (three) of the census tracts in Brunswick County are classified as distressed because of comparatively high poverty rates, while all (eight) of the census tracts in Mecklenburg County are classified as underserved. Underserved census tracts are typically located in rural communities that may lack certain community services/infrastructure and are also distant from more urban population centers. All (three) of the census tracts in Lunenburg County are classified as being both distressed and underserved.

The assessment area benefits from employment opportunities in a variety of industries, including health services, education, and retail, as well as in local and state government. Major area employers include Community Memorial Health, Lunenburg Correctional Center, Southside Virginia Community College, Virginia Marble Manufacturing, G4S Secure Solutions (security services), Wal-Mart stores, local governments, and area school systems. Some area residents also commute outside of the local community for employment opportunities. Recent periodic unemployment rates are included in the following table.

Unemployment Rate Trend								
Geographic Area	2009		2010		2011		2012	
	June	Dec	June	Dec	June	Dec	June	Dec
Brunswick County	11.6%	12.9%	12.1%	11.7%	10.7%	10.8%	10.7%	10.1%
Lunenburg County	9.7%	10.4%	10.5%	9.4%	9.8%	8.3%	9%	8.1%
Mecklenburg County	11.5%	11.8%	11.7%	11.2%	11%	9.9%	10.1%	9.4%
Commonwealth of Virginia	7.4%	7.2%	7.2%	6.6%	6.7%	6.1%	6.2%	5.5%

Area unemployment rates have declined since June 2009. Nonetheless, the rates remain elevated in relation to the statewide rate. High unemployment rates can result in fewer qualified credit applicants.

An individual knowledgeable of the local market area was contacted during the evaluation to discuss local economic conditions and community credit needs. The contact stated that approximately 1,200 jobs have been lost since October 2012 in Mecklenburg County and the surrounding area when the Mecklenburg Corrections facility closed and Peebles (department store) relocated its corporate headquarters to Texas. The contact suggested that the local economy would benefit from additional financial education targeted to entrepreneurs and other start-up businesses. The contact stated that area financial institutions are reasonably serving the needs of their communities despite challenging local economic conditions.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

During 2011, CCB originated \$5.5 million in residential mortgage loans and \$5.5 million in small business loans within the assessment area. Accordingly, the bank’s residential mortgage performance and its small business lending performance are accorded approximately equal weight when considering the bank’s overall lending distribution performance.

**Lending To Borrowers of Different Incomes and To Businesses of Different Sizes**

The bank’s borrower distribution performance is considered excellent for both its residential mortgage and small business lending.

**Distribution of Residential Mortgage Loans by Income Level of Borrower**

Mecklenburg, VA NonMSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
<b>Residential Mortgage Loans</b>								
Low	4	13.3	377	7.6	45	5.5	3,358	2.6
Moderate	5	16.7	607	12.2	134	16.5	12,937	10.1
Middle	5	16.7	527	10.6	167	20.5	20,200	15.7
Upper	16	53.3	3,466	69.6	468	57.5	92,098	71.6
<b>Total</b>	<b>30</b>	<b>100.0</b>	<b>4,977</b>	<b>100.0</b>	<b>814</b>	<b>100.0</b>	<b>128,593</b>	<b>100.0</b>
Unknown	5		516		112		17,263	

*Percentage's (%) are calculated on all loans where incomes are known*

During 2011, the bank’s lending to low-income borrowers (13.3%) lagged the percentage of area low-income families (22%) but substantially exceeded the aggregate level of lending (5.5%) to such borrowers. CCB’s lending to moderate-income borrowers (16.7%) also lagged the percentage of area moderate-income families (18%) but approximated the aggregate lending level (16.5%). The bank’s overall residential mortgage performance is considered excellent, in large part, because of the strength of its low-income borrower performance.

**Distribution of Lending by Loan Amount and Size of Business**

Mecklenburg, VA NonMSA (2011)								
<i>by Revenue</i>	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	39	73.6	4,667	85.2	299	49.8	11,967	47.3
Over \$1 Million	7	13.2	446	8.2	NA	NA	NA	NA
Unknown	7	13.2	364	6.6	NA	NA	NA	NA
<i>by Loan Size</i>								
\$100,000 or less	36	67.9	1,057	19.3	550	91.7	9,075	35.8
\$100,001-\$250,000	11	20.8	1,611	29.4	30	5.0	5,845	23.1
\$250,001-\$1 Million	6	11.3	2,808	51.3	20	3.3	10,404	41.1
<b>Total</b>	<b>53</b>	<b>100.0</b>	<b>5,476</b>	<b>100.0</b>	<b>600</b>	<b>100.0</b>	<b>25,324</b>	<b>100.0</b>

\* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

D&B data indicate that 93.2% of all local businesses have revenues that do not exceed \$1 million per year. According to 2011 aggregate small business data, 49.8% of reported loans were to businesses with annual revenues of \$1 million or less. The remaining loans were to businesses that either had revenues exceeding \$1 million or revenues were unknown. As part of the performance context, the aggregate data from 2011 was also considered after excluding certain specialty credit card lenders. Of the remaining small business loans originated by traditional bank lenders, 60.5% were made to businesses with annual revenues of \$1 million or less. During 2011, 73.6% of the bank’s small business loans were to businesses with annual revenues of \$1 million or less. CCB’s small business lending performance is considered excellent.

**Geographic Distribution of Loans**

As indicated in the demographic table, there are no low-, moderate-, or upper-income census tracts within the assessment area. A geographic distribution performance analysis is not applicable because the entire assessment consists of 14 middle-income census tracts.

## STATE OF NORTH CAROLINA

### CRA RATING FOR NORTH CAROLINA: Satisfactory

Major factors supporting the rating include:

- The bank's borrower distribution performance is considered reasonable for both residential mortgage lending and small business lending.
- The bank's geographic distribution performance is excellent for residential mortgage lending and marginally reasonable for small business lending. The bank's overall geographic distribution performance is considered reasonable.

### SCOPE OF EXAMINATION

Residential mortgage (home purchase and refinance) and small business loans were analyzed to determine the bank's performance regarding the borrower and the geographic distribution of lending. All of the bank's residential mortgage and small business loans originated by the bank during 2011 were included in the evaluation.

The bank has delineated one nonmetropolitan assessment area (Halifax, NC NonMSA) in the State of North Carolina. Statewide ratings for North Carolina are based solely on the bank's performance in this assessment area.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN HALIFAX, NC NONMSA ASSESSMENT AREA

The assessment area is located in central northern North Carolina and includes all of Halifax and Northampton counties, North Carolina. The bank operates one full service branch and a loan production office within this market area. As of June 30, 2012 the bank ranked eighth out of nine institutions in deposit market share having 2.8% of the assessment area's available FDIC insured deposits.

According to 2000 census data, the assessment area has a population of 79,456 and a median housing value of \$57,763. The owner-occupancy rate for the assessment area (60.1%) approximates the owner-occupancy rates for nonmetropolitan areas of the state (62.7%) and the statewide area (61.6%). Within the assessment area, 18.8% of families are considered below the poverty level, which exceeds the rate for nonmetropolitan areas of North Carolina (11.3%) and the statewide rate (9%). The 2011 HUD estimated median family income for the nonmetropolitan areas of North Carolina equals \$49,500. The following table includes pertinent demographic data for the assessment area.

**Assessment Area Demographics**

<b>Halifax, NC NonMSA</b> <i>(Based on 2000 Census Boundaries and 2011 D&amp;B information)</i>								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	6,426	30.1
Moderate	6	40.0	7,483	35.0	1,860	24.9	3,850	18.0
Middle	9	60.0	13,868	65.0	2,136	15.4	4,371	20.5
Upper	0	0.0	0	0.0	0	0.0	6,704	31.4
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>21,351</b>	<b>100.0</b>	<b>3,996</b>	<b>18.7</b>	<b>21,351</b>	<b>100.0</b>
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	10,442	33.9
Moderate	7,171	33.4	10,681	34.7	3,120	29.2	5,154	16.7
Middle	14,331	66.6	20,131	65.3	4,051	20.1	5,267	17.1
Upper	0	0.0	0	0.0	0	0.0	9,949	32.3
NA	0	0.0	0	0.0	0	0.0		
<b>Total</b>	<b>21,502</b>	<b>100.0</b>	<b>30,812</b>	<b>100.0</b>	<b>7,171</b>	<b>23.3</b>	<b>30,812</b>	<b>100.0</b>
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	968	30.2	872	30.0	49	34.5	47	30.9
Middle	2,237	69.8	2,039	70.0	93	65.5	105	69.1
Upper	0	0.0	0	0.0	0	0.0	0	0.0
NA	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>3,205</b>	<b>100.0</b>	<b>2,911</b>	<b>100.0</b>	<b>142</b>	<b>100.0</b>	<b>152</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				90.8		4.4		4.7

\*NA-Tracts without household or family income as applicable

According to data published by the FFIEC in 2011, all nine middle-income census tracts in the assessment area are classified as being distressed. Five of the nine middle-income census tracts are located in Halifax County and the remaining four are located in Northampton County. All of the middle-income census tracts are distressed because of comparatively high poverty rates.

The area economy is based on a variety of health care, retail, manufacturing, and agricultural industries. Major area employers include Lowes Home Centers, Halifax Regional Medical Center, Kapstone Kraft Paper, Meherrin Agricultural & Chemical, State of North Carolina Department of Corrections, Reser's Fine Foods, local governments, and area local school systems. Recent periodic unemployment rates are included in the following table.

Unemployment Rate Trend								
Geographic Area	2009		2010		2011		2012	
	June	Dec	June	Dec	June	Dec	June	Dec
Northampton County	11%	11.5%	11.6%	12.3%	11.9%	11.5%	11.1%	10.7%
Halifax County	14%	13.7%	13.8%	13.9%	13.9%	13.6%	13.5%	13.6%
State of North Carolina	10.8%	11%	10.8%	10.4%	10.7%	9.8%	9.8%	9.4%

Since June 2009, within the bank’s assessment area unemployment rates have remained generally stable; but, compared to historical rates immediately preceding the recent recession the rates are elevated. On a comparative basis, the North Carolina statewide unemployment rate has improved slightly more than the unemployment rates within the assessment area since 2009. Nonetheless, unemployment rates within the North Carolina assessment area are higher than the rates in the bank’s Virginia assessment area. Persistently elevated unemployment rates can result in fewer qualified credit applicants.

An individual knowledgeable of the local market area was contacted during the evaluation to discuss local economic conditions and community credit needs. The contact suggested that the local economy would benefit from the creation or attraction of new jobs in the local community that would help lower the area’s overall unemployment rate. According to the contact, area financial institutions actively seek opportunities to lend to area businesses and support a local nonprofit community development organization. The contact stated that area financial institutions are reasonably meeting the credit needs of the local community.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

During 2011, CCB originated \$1.3 million in residential mortgage loans and \$1.8 million in small business loans within this assessment area. Accordingly, the bank’s small business lending performance is given slightly more weight when determining the bank’s overall lending distribution performance.

**Lending To Borrowers of Different Incomes and To Businesses of Different Sizes**

CCB’s borrower distribution performance is considered reasonable for both its residential mortgage and small business lending within the Halifax, NC NonMSA assessment area.

**Distribution of Residential Mortgage Loans by Income Level of Borrower**

Halifax, NC NonMSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
<b>Residential Mortgage Loans</b>								
Low	0	0.0	0	0.0	61	7.1	4,000	3.4
Moderate	2	22.2	180	21.8	147	17.2	11,186	9.6
Middle	1	11.1	27	3.3	212	24.8	20,680	17.8
Upper	6	66.7	620	74.9	434	50.9	80,536	69.2
<b>Total</b>	<b>9</b>	<b>100.0</b>	<b>827</b>	<b>100.0</b>	<b>854</b>	<b>100.0</b>	<b>116,402</b>	<b>100.0</b>
<i>Unknown</i>	5		486		103		13,915	

*Percentage's (%) are calculated on all loans where incomes are known*

During 2011, the bank did not originate any residential mortgage loans to low-income borrowers in the assessment area. However, although within the assessment area 30.1% of area families are low-income, only 7.1% of the home purchase and refinance loans reported by the aggregate lenders within the assessment area were to low-income borrowers. Nonetheless, this does indicate that there is viable loan demand from such residents. The bank’s lending to moderate-income borrowers (22.2%) exceeded both the percentage of area moderate-income families (18%) as well as the aggregate lending level (17.2%). The bank’s performance during 2011 is considered reasonable because of the strength of its moderate-income borrower lending performance.

**Distribution of Lending by Loan Amount and Size of Business**

Halifax, NC NonMSA (2011)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	10	66.7	942	52.9	357	55.5	19,960	57.0
Over \$1 Million	3	20.0	779	43.7	NA	NA	NA	NA
Unknown	2	13.3	61	3.4	NA	NA	NA	NA
by Loan Size								
\$100,000 or less	9	60.0	174	9.8	569	88.5	10,258	29.3
\$100,001-\$250,000	5	33.3	858	48.2	42	6.5	7,319	20.9
\$250,001-\$1 Million	1	6.7	750	42.1	32	5.0	17,410	49.8
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>1,783</b>	<b>100.0</b>	<b>643</b>	<b>100.0</b>	<b>34,987</b>	<b>100.0</b>

\* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

D&B data indicate that 90.8% of all local businesses have revenues that do not exceed \$1 million per year. According to 2011 aggregate small business data, 55.5% of reported loans were to businesses with annual revenues of \$1 million or less. The remaining loans were to businesses that either had revenues exceeding \$1 million or revenues were unknown. When excluding large specialty credit card lenders, 73.6% of reported small business loans were to businesses having annual revenues of \$1 million or less. During 2011, 66.7% of the bank’s small business loans were to businesses with annual revenues of \$1 million or less. CCB’s small business lending performance is considered reasonable.

**Geographic Distribution of Loans**

Within the Halifax, NC NonMSA assessment area, the bank’s geographic distribution performance is excellent for residential mortgage lending and marginally reasonable for small business lending. The bank’s overall geographic distribution performance is reasonable. In determining its overall performance, slightly more weight was placed on the bank’s small business lending performance because of the comparatively larger dollar volume of such lending within the assessment area. There are no low- or upper-income census tracts within the assessment area.

**Distribution of Residential Mortgage Loans by Income Level of Census Tract**

Halifax, NC NonMSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
<b>Residential Mortgage Loans</b>								
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	4	28.6	228	17.4	184	19.2	16,971	13.0
Middle	10	71.4	1,085	82.6	773	80.8	113,346	87.0
Upper	NA	NA	NA	NA	NA	NA	NA	NA
NA*	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>14</b>	<b>100.0</b>	<b>1,313</b>	<b>100.0</b>	<b>957</b>	<b>100.0</b>	<b>130,317</b>	<b>100.0</b>

NA\*-Tracts without household or family income as applicable

During 2011, the bank’s level of lending in moderate-income census tracts (28.6%) slightly lagged the proportion of owner-occupied housing units located in moderate-income census tract (33.4%) but substantially exceeded the aggregate lending level (19.2%) in such tracts. The bank’s performance is considered excellent.

**Distribution of Small Business Loans by Income Level of Census Tract**

Halifax, NC NonMSA (2011)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	3	20.0	73	4.1	198	31.9	16,218	46.5
Middle	12	80.0	1,709	95.9	422	68.1	18,687	53.5
Upper	NA	NA	NA	NA	NA	NA	NA	NA
NA*	NA	NA	NA	NA	NA	NA	NA	NA
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>1,782</b>	<b>100.0</b>	<b>620</b>	<b>100.0</b>	<b>34,905</b>	<b>100.0</b>

\*NA-Tracts without household or family income as applicable

Loans where the geographic location is unknown are excluded from this table.

D&B data indicates that 30.2% of all area businesses are located in moderate-income tracts. As shown in the preceding table, the bank's small business lending during 2011 in moderate-income tracts (20%) lagged the percentage of area business in those areas and the aggregate level of small business lending in such tracts (31.9%). The bank's performance is considered marginally reasonable.

**CRA APPENDIX A**  
**SCOPE OF EXAMINATION**

<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<b>ASSESSMENT AREA</b>	<b>TYPE OF EXAMINATION</b>	<b>BRANCHES VISITED<sup>1</sup></b>	<b>OTHER INFORMATION</b>
Mecklenburg, VA NonMSA	Full Scope	800 N. Mecklenburg Ave South Hill, VA	None
Halifax, NC NonMSA	Full Scope	778 Old Farm Road South Roanoke Rapids, NC	None

**SUMMARY OF STATE RATINGS**

<b>State Names</b>	<b>Overall Rating</b>
Commonwealth of Virginia	Outstanding
State of North Carolina	Satisfactory

<sup>1</sup> There is a statutory requirement that the written evaluation of a multistate institution’s performance must list the individual branches examined in each state.

**CRA APPENDIX B**

**LOAN, BRANCH, AND DEPOSIT VOLUME BY ASSESSMENT AREA**

The following table includes the distribution of branch offices, along with deposit and loan volume. The loan volume includes all the residential mortgage and small business loans considered in the evaluation, while the deposit volume includes all bank deposits and is current as of June 30, 2012.

Assessment Area	Loan Volume				Full-Service Branches		Deposit Volume	
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Mecklenburg, VA NonMSA	88	75.2%	\$10,969	78%	3	75%	\$96,352	83.6%
Halifax, NC NonMSA	29	24.8%	\$3,096	22%	1	25%	\$18,870	16.4%
Total	117	100%	\$14,065	100%	4	100%	\$115,222	100%

## CRA APPENDIX C

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full-scope review:** Performance under the Lending Test (and if applicable, consideration of investments and services) is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance under the Lending Test (and if applicable, consideration of investments and services) is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.