

**PUBLIC DISCLOSURE**

October 13, 1998

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Community Bank of Southwest Virginia

05512851

643 East Riverside Drive

Tazewell, Virginia 24651

**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.

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**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 Community Bank of Southwest Virginia, Inc., Tazewell, Virginia, prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency, as of October 13, 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 is considered reasonable given its financial capacity, location, and demand for credit in the area. A substantial majority of loans sampled during the examination were provided to residents of the assessment area, a portion of which were extended to low- and moderate-income borrowers. Furthermore, the distribution of

lending by the income level of geographies in the assessment areas appears responsive to the community credit needs.

## **DESCRIPTION OF INSTITUTION**

First Community Bank of Southwest Virginia, Inc.,(FCBSWV) operates six full service branches and two automated teller machines (ATMs) throughout Southwest Virginia. The institution is headquartered in Tazewell, Virginia, and is a subsidiary of First Community Bancshares, Inc., located in Princeton, West Virginia. As of June 30, 1998, the bank had total assets of approximately \$103 million, of which 55% were loans. On July 25, 1997, FCBSWV acquired from Premier Bank the Fort Chiswell Branch in Wythe County, Virginia and the Pound Branch in Wise county, Virginia. Additionally, the Clintwood Branch in Dickenson County, Virginia was acquired from First Virginia Bank. The bank purchased only the deposits from these offices. On August 1, 1997, FCBSWV opened a new branch in Wytheville, Virginia (Wythe County). No branches have been closed since the previous evaluation. The bank's CRA assessment area has been expanded to include geographies contiguous to these offices. Deposits have increased 98% since the previous evaluation. While loans have also increased substantially, the majority of loans continue to be in Tazewell County. It is expected that lending activity will continue to increase in the new market areas over time.

Various credit products are available through the institution including residential mortgage, home improvement, consumer, business, and agricultural loans. The loan portfolio as of June 30, 1998, was comprised of the following: 54% real estate secured loans (both consumer and business), 7% commercial/agricultural loans, 37% consumer loans, and 2% other. Based on the volume of total lending during 1997 and 1998, consumer loans were identified as the principal credit product offered by the bank. Additionally, real estate loans extended during 1998 were sampled. The bank's previous CRA rating was satisfactory.

## **DESCRIPTION OF ASSESSMENT AREAS**

### Wise and Dickenson Counties Assessment Area

The first assessment area includes Wise and Dickenson Counties, Virginia, as well as the City of Norton. This market contains two branches and is not part of a Metropolitan Statistical Area (MSA). This assessment area contains 26 block numbering areas (BNAs) of which 17 (65%) are populated. Of the geographies, nine (35%) are low-income, 11 (42%) are moderate-income, five (19%) are middle-income, and one (4%) is upper-income. None of the low-income BNAs are populated.

According to 1990 census data, the assessment area has a population of 61,440 and a median housing value of \$42,946.

The owner-occupancy rate for the market is 70% which is slightly higher than the rate for nonmetropolitan areas of Virginia (65%). The 1997 median family income for nonmetropolitan areas of Virginia is \$34,800. The following table provides demographics for the assessment area by the income level of families and the percentage of population living in BNAs of varying income levels. The percentage of owner-occupied housing units for each type of geography is also

provided.

	Low - Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	31%	21%	19%	29%	100%
Percentage of Population Residing in BNAs by Income Level	0%	66%	27%	7%	100%
Percentage of Owner-Occupied Housing Units	0%	66%	27%	7%	100%

Tazewell County Assessment Area

The second assessment area includes Tazewell County, Virginia. Two branches serve this nonmetropolitan market. This assessment area contains 11 populated BNAs. Five of the geographies (45%) are moderate-income and six (55%) are middle-income. There are no low- or upper-income areas within this assessment area.

According to 1990 census data, the assessment area has a population of 45,960 and a median housing value of \$48,425. The owner-occupancy rate for the market is 71%. The following table provides demographics for the assessment area by the income level of families and the percentage of population living in BNAs of varying income levels. The percentage of owner-occupied housing units is also depicted.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	28%	21%	21%	30%	100%
Percentage of Population Residing in BNAs by Income Level	N/A	47%	53%	N/A	100%
Percentage of Owner- Occupied Housing Units	N/A	47%	53%	N/A	100%

Wythe County Assessment Area

The third assessment area encompasses all of Wythe County, Virginia, and is served by two branches and two automated teller locations. This nonmetropolitan market contains four populated BNAs. Of these geographies, one (25%) is

moderate-income and three (75%) are middle-income. There are no low- or upper-income geographies within this assessment area.

According to 1990 census data, the assessment area has a population of 25,466 and a median housing value of \$49,094. The owner-occupancy rate for the market is 71%. The following table provides demographics for the assessment area by the income level of families and the percentage of population living in BNAs of varying income levels. Owner-occupied housing unit percentages are also provided for each type of BNA.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	24%	22%	20%	34%	100%
Percentage of Population Residing in BNAs by Income Level	N/A	29%	71%	N/A	100%
Percentage of Owner- Occupied Housing Units	N/A	31%	69%	N/A	100%

The assessment areas are mostly rural and located in the southwestern portion of the Commonwealth, bordering West Virginia. The market economies are primarily comprised of small businesses related to the coal mining industry. Other local employers include light manufacturing, electronic, and service companies. Over the last few years, increased mining automation and downsizing have led to layoffs and fewer employment opportunities for local residents.

The table below depicts the August 1998 unemployment rates of the counties and city within the assessment areas. The jobless rate for the Commonwealth was 3.0%

City or County	Unemployment Rate as of August 1998
Dickenson	16.5%
Tazewell	8.7%
Wise	11.7%
Wythe	3.2%
Norton	7.8%

A community contact was made during the examination to further assist in evaluating the bank's CRA performance. The contact indicated that economy would benefit from additional education provided by the local financial institutions with regard to small business financing.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **LOAN-TO-DEPOSIT RATIO**

During a six-quarter period ending June 30, 1998, the quarterly average loan-to-deposit ratio for all banks headquartered in nonmetropolitan areas of Virginia and of similar asset size to First Community Bank of Southwest Virginia, Inc., ranged from 72% to 74%. The bank's average loan-to-deposit ratio for the previous six quarters is 66%. This figure is consistent with local demand for credit which may be somewhat depressed due to the area's high unemployment rate. Furthermore, considering the substantial increase in deposits through branch acquisitions, the bank's loan-to-deposit ratio is considered reasonable.

### **LENDING IN ASSESSMENT AREAS**

To determine the volume of lending within the institution's assessment areas, a sample of 224 of 3,300 consumer loans extended from March 1997 through March 1998 and 51 of 69 real estate secured loans extended during 1998 was reviewed. The lending distribution for the three assessment areas is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Areas

	Inside Assessment Areas	Outside Assessment Areas	Total
Total Number of Loans	221	54	275
Percentage of Total Loans	80%	20%	100%
Total Amount of Loans (000's)	\$2,686	\$620	\$3,306
Percentage of Total Amount	81%	19%	100%

As illustrated above, a substantial majority of the number and dollar amounts of the sampled loans have been provided to borrowers residing within the assessment areas.

### **LENDING TO BORROWERS OF DIFFERENT INCOMES**

A review of the 179 consumer loans extended within all assessment areas was conducted to analyze borrower income characteristics. The following charts illustrate the distribution of the sampled consumer loans by income level of the borrower.

Distribution of Loans in Wise and Dickenson Counties Assessment area  
By Income Level of Borrower

Consumer Loans

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Consumer Loans	8	7	3	1	19
Percentage of Total Loans	42%	37%	16%	5%	100%
Total Amount of Consumer Loans (000's)	\$32	\$76	\$38	\$16	\$162
Percentage of Total Amount	20%	47%	23%	10%	100%

Distribution of Loans in Tazewell County Assessment Area  
by Income Level of Borrower

Consumer Loans

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Consumer Loans	78	42	25	15	160
Percentage of Total Loans	49%	26%	16%	9%	100%
Total Amount of Consumer Loans (000's)	\$408	\$251	\$196	\$112	\$967
Percentage of Total Amount	42%	26%	20%	12%	100%

The percentage of both the number and dollar amount of sampled consumer loans in these two assessment areas extended to low- and moderate-income borrowers substantially exceeds the proportion of such families residing within each assessment area.

As noted previously, the bank began operating its offices in Wise, Dickenson, and Wythe Counties near the end of the

third quarter of 1997. As shown in the tables above, the overwhelming majority of the 179 sampled consumer loans were extended in Tazewell County. Only 19 of the sampled loans were in the Wise and Dickenson Counties assessment area and none was in Wythe County. The sample period included a large number of loans extended prior to the operation of these new offices. Additionally, since only deposits were purchased with the acquisition of branch locations, the majority of the bank's loans continue to be in Tazewell County. Given these factors, the distribution of consumer loans to borrowers of different incomes is considered responsive to community credit needs. Several real estate secured loans, from a sample of such loans originated during 1998, were extended in Wythe County and are discussed in the analysis below.

The sample of 42 real estate secured loans extended within the assessment areas was also reviewed to determine lending by borrower income level. These loans consist of those for home purchase, refinance, and home improvement purposes and are secured by one- to four-family dwellings. The following charts show the distribution of these loans by borrower income level for the Tazewell and Wythe County assessment areas. Only one sampled loan secured by real estate was extended in the Wise and Dickenson Counties assessment area.

Distribution of Loans in Tazewell County Assessment Area  
by Income Level of Borrower

Loans Secured by Real Estate

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	1	2	10	8	21
Percentage of Total Loans	5%	9%	48%	38%	100%
Total Amount of Loans (000's)	\$5	\$77	\$307	\$295	\$684
Percentage of Total Amount	1%	11%	45%	43%	100%

The percentage of real estate loans provided to low- and moderate-income borrowers (14%) is lower than the proportion of such families (49%) within this assessment area. As previously mentioned, 28% and 21%, respectively, of the assessment area families are considered low- and moderate-income.

Distribution of Loans in Wythe County Assessment Area  
by Income Level of Borrower

Loans Secured by Real Estate

	Low-	Moderate-	Middle-	Upper-	Total
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	Income	Income	Income	Income	
Total Number of Loans	1	3	12	4	20
Percentage of Total Loans	5%	15%	60%	20%	100%
Total Amount of Loans (000's)	\$7	\$66	\$466	\$316	\$855
Percentage of Total Amount	1%	8%	54%	37%	100%

The percentage of real estate loans extended to low- and moderate-income borrowers (20%) is lower than the percentage of low- and moderate-income families residing within the local community (24% and 22%, respectively).

Although real estate secured lending to low- and moderate-income borrowers is somewhat low relative to the percentage of such families within the assessment areas, the bank does routinely extend mobile home loans which are not secured by real estate; these loans are not included in the sampled loans illustrated above. Mobile home loans often meet the needs of low- and moderate-income residents. Furthermore, the sample of real estate loans for both assessment areas is relatively small and small changes in the number of loans would result in large percentage changes. Considering these factors and the high percentage of consumer loans extended to low- and moderate-income borrowers, the overall distribution of lending to borrowers of varying incomes is reasonable.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The review of loan files also included an analysis of lending among various geographies within the assessment areas. The following charts illustrate the distribution of the sampled loans by income level of geography. The sampled loans are presented separately for each assessment area.

### Distribution of Loans in Wise and Dickenson Counties Assessment Area by Income Level of BNA

#### Consumer and Real Estate Loans

	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	20	0	0	20
Percentage of Total Loans	100%	0%	0%	100%
Total Amount of Loans (000's)	\$179	\$0	\$0	\$179
Percentage of Total Amount	100%	0%	0%	100%

As previously noted, there are no populated low-income geographies within the Wise and Dickenson County assessment area. Overall, 100% of the sampled loans were extended to moderate-income geographies. This level of lending is



significantly higher than the percentage of the population residing in such areas (66%). Only one loan secured by real estate was extended within this assessment area and is included in the table above.

Distribution of Loans in Tazewell County Assessment Area  
by Income Level of BNA

Consumer Loans

	Moderate-Income	Middle-Income	Total
Total Number of Loans	97	63	160
Percentage of Total Loans	61%	39%	100%
Total Amount of Loans (000's)	\$605	\$362	\$967
Percentage of Total Amount	63%	37%	100%

Distribution of Loans in Tazewell County Assessment Area  
by Income Level of BNA

Loans Secured by Real Estate

	Moderate-Income	Middle-Income	Total
Total Number of Loans	11	10	21
Percentage of Total Loans	52%	48%	100%
Total Amount of Loans (000's)	261	\$423	\$684
Percentage of Total Amount	38%	62%	100%

Overall, 60% (108/181) of the sampled loans in the Tazewell County assessment area were extended in moderate-income geographies within this assessment area. The distribution of consumer loans in moderate-income geographies (61%) exceeds the percentage of the population residing in such areas (47%). The percentage of real estate secured loans made within moderate-income BNAs (52%) also exceeds the population percentage, as well as the proportion of owner-occupied housing units in such BNAs (47%).

Distribution of Loans in Wythe County Assessment Area  
by Income Level of BNA

Loans Secured by Real Estate

	Moderate-Income	Middle-Income	Total
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	Moderate-Income	Middle-Income	Total
Total Number of Loans	7	13	20
Percentage of Total Loans	35%	65%	100%
Total Amount of Loans (000's)	\$360	\$495	\$855
Percentage of Total Amount	42%	58%	100%

Thirty-five percent of the sampled real estate loans were extended within the moderate-income BNAs. This percentage compares favorably to the proportion of the assessment area population (29%) residing in these areas and to the percentage of owner-occupied housing units in moderate-income BNAs (31%). None of the consumer loans sampled were made within the Wythe County assessment area.

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

No credit practices inconsistent with the fair housing and fair lending laws and regulations were identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending and credit activities.