



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**November 05, 2001**

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

**Hometown Bank, N.A.  
Charter Number 15593**

**1801 45th Street  
Galveston, TX 77550**

**Comptroller of the Currency  
Houston Field Office  
1301 McKinney Street, Suite 3750  
Houston, TX 77010**

**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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## 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 **Hometown Bank, N. A., Galveston, Texas**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 5, 2001. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

### **This institution is rated “Outstanding.”**

Hometown Bank is responsive to the credit needs of its community including low- and moderate-income individuals and areas. The following factors support this conclusion:

- A substantial majority of loans, 97.4 percent in number and 98.2 percent in dollar volume, are made in Hometown Bank’s assessment area (AA).
- The distribution of loans to borrowers of different incomes reveals an excellent penetration of consumer loans to low- and moderate-income individuals. Residential real estate loans also exceed the standard for satisfactory performance.
- The geographic distribution of loans reveals that loans have been made in each income level census tract. The penetration of consumer and residential real estate loans in low- and moderate-income census tracts reflects a level that substantially exceeds the standard for satisfactory performance.
- Hometown Bank is responsive to community development needs of the AA and has originated loans to finance affordable housing, a women’s crisis center, and a daycare that serves all low-income families.
- The loan-to-deposit ratio is reasonable given Hometown Bank’s size and financial condition, and the credit needs of its AA. Hometown Bank’s loan-to-deposit ratio has averaged 54.05 percent for the 19 quarters since the last CRA evaluation and the loan portfolio has steadily increased over the past three years.
- No consumer complaints regarding the bank’s CRA performance were received during this evaluation period.

## DESCRIPTION OF INSTITUTION

Hometown Bank (HB) is part of a two-bank holding company headquartered in Galveston, Texas. The Moody National Bank is the other bank in the holding company. Hometown Bank operates in Texas and has three locations: the main bank, one branch in Galveston and one branch in Friendswood. Hometown Bank's main location is in a low-income census tract, the branch in Galveston is in a moderate-income census tract, and the Friendswood branch is located in a middle-income census tract. Banking hours reasonably meet community needs with lobby hours Monday through Saturday and extended Friday hours. Motor banking is available at all locations and two locations have Automated Teller Machines. As of June 30, 2001, assets totaled \$148 million and the Tier I Capital Ratio was 10.05 percent. Loans represent the largest portion of the balance sheet at 56 percent of total assets. Investments and cash are the next largest portion at 41 percent of total assets. The loan portfolio mix is displayed in the table below:

| <b>Loan Category</b>          | <b>\$ (000)</b> | <b>%</b>      |
|-------------------------------|-----------------|---------------|
| Residential Real Estate Loans | 39,731          | 48.08         |
| Commercial Real Estate Loans  | 21,686          | 26.24         |
| Consumer Loans                | 15,696          | 19.00         |
| Commercial Loans              | 4,446           | 5.38          |
| Other Loans                   | 1,072           | 1.30          |
| <b>Total</b>                  | <b>82,631</b>   | <b>100.00</b> |

A wide range of deposit and loan products is available and no variances exist between locations. Residential real estate loans are a primary loan product. Consumer lending and commercial real estate loans are also lending focuses. No financial or legal impediments exist that prevent Hometown Bank from meeting its community's credit needs.

Hometown Bank obtained a Satisfactory rating at the prior CRA evaluation on November 18, 1996.

## DESCRIPTION OF ASSESSMENT AREA

The defined assessment area (AA) includes all of the 67 census tracts in Galveston County. Another 18 census tracts from bordering Brazoria and Harris counties are part of the bank's AA. Two of the bank's offices are in the City of Galveston, which is part of Galveston County and occupies most of a 32 mile long island located two miles off the Texas mainland and 50 miles southeast of Houston. The bank's third office is on the mainland in Friendswood, which is approximately 25 miles North toward Houston. All banking offices are located in the Houston-Galveston-Brazoria Consolidated MSA.

The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA includes the census tracts close to and between the bank's offices in Galveston and Friendswood. Communities such as Alvin, Texas City, Pearland, League City, and Pasadena are included in the AA.

The Galveston County economy relies largely on tourism with employment primarily associated with retail trade and food services. Most tourism is in the warmer months with some events that attract tourists to the island during winter. Some employers are not reliant on tourism, such as manufacturing companies located in the mainland and providers of health care. The University of Texas Medical Branch in the City of Galveston operates a large medical school and hospital complex with several thousand employees. The unemployment rate in Galveston County is above the national average at 9.1 percent.

Friendswood is primarily a bedroom community for employees of neighboring aerospace and petrochemical industries. Therefore, the Friendswood economy relies upon these industries for its own economy. Retail trade and food service providers are the largest employers. The unemployment rate in Friendswood is 3.5 percent. The census tracts around the Friendswood branch are mostly designated as middle- to upper-income.

An interview with a community member familiar with credit needs in Galveston revealed home purchase and rehabilitation financing opportunities exist in the area for qualifying persons. A summation of the assessment area demographics is detailed below.

| <b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b> |         |
|---|---------|
| <i>Population</i>                                     |         |
| Number of Families*                                   | 91,832  |
| Number of Households*                                 | 127,409 |
| <i>Geographies</i>                                    |         |
| Number of Census Tracts/BNA*                          | 85      |
| % Low-Income Census Tracts/BNA*                       | 10.59%  |
| % Moderate-Income Census Tracts/BNA*                  | 20.00%  |
| % Middle-Income Census Tracts/BNA*                    | 41.18%  |
| % Upper-Income Census Tracts/BNA*                     | 23.53%  |
| <i>Median Family Income (MFI)</i>                     |         |
| 1990 MFI for AA*                                      | 40,706  |
| 2001 HUD-Adjusted MFI                                 | 53,639  |
| <i>Economic Indicators</i>                            |         |
| Unemployment Rate - Galveston County                  | 9.1%    |
| Unemployment Rate - Friendswood                       | 3.5%    |
| 2000 Median Housing Value - Galveston County**        | 99,800  |
| % of Households Below Poverty Level                   | 11.51%  |
|   |         |

\* 1990 U.S. Census

\*\* 2000 U.S. Census

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Hometown Bank substantially exceeds the standard for satisfactory performance in meeting the credit needs of its AA, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

### **Loan-to-Deposit Ratio**

Performance for the loan-to-deposit ratio is good. The ratio averaged 54.05 percent for the 19 quarters since the last CRA evaluation and experienced an increasing trend throughout the review period. As of December 31, 1996, the ratio was 46.48 percent and it increased to 62.01 percent as of June 30, 2001. Hometown Bank began offering 15-year fixed rate residential real estate loans just prior to this review period and most of the loan growth is attributed to this type of lending. The ratio indicates that Hometown Bank extends a reasonable amount of credit given its size and capacity.

Hometown Bank competes with many branches of significantly larger institutions such as Bank of America, Frost National Bank, and Wells Fargo. Two similarly situated institutions are located in Galveston, Texas and ratios are displayed in the table below. These banks are the only others headquartered in Galveston. Texas First Bank is the most similar to Hometown Bank and has a comparable average loan-to-deposit ratio over the review period.

| <b>Institution</b>      | <b>Assets (as of 6-30-2001)</b> | <b>Average LTD Ratio</b> |
|-------------------------|---------------------------------|--------------------------|
| Texas First Bank        | \$109,067                       | 54.24%                   |
| The Moody National Bank | \$365,588                       | 31.85%                   |
| <i>Hometown Bank</i>    | <i>\$141,403</i>                | <i>54.05%</i>            |

Hometown Bank has originated five community development loans that totaled \$635,000. Three loans were to finance affordable housing, one loan provided financing for a women’s crisis center, and financing was provided for a daycare center that serves low-income families.

### **Lending in Assessment Area**

Hometown Bank substantially exceeds standards for satisfactory performance for lending within its AA both in number and in dollar volume. Consumer loans and residential real estate loans comprise 67.08 percent of the loan portfolio and they are primary lending focuses. Our analysis included loans reported on the 1999, 2000, and 2001 Home Mortgage Disclosure Act Loan Application Registers (HMDA-LAR) and a sample of 33 consumer loans. Loans reviewed revealed 97.4 percent of the number and 98.2 percent of the dollar amount were within the AA. Performance for each category reviewed demonstrated a substantial portion of loans are made in the AA as reflected on the following table.

| TOTAL LOANS REVIEWED (November 18, 1996 - October 31, 2001) |                    |      |           |      |                        |      |           |      |
|---|--------------------|------|-----------|------|------------------------|------|-----------|------|
| LOAN TYPE   | IN ASSESSMENT AREA |      |           |      | OUT OF ASSESSMENT AREA |      |           |      |
|   | #                  | %    | \$ (000s) | %    | #                      | %    | \$ (000s) | %    |
| Consumer  | 29                 | 87.9 | 190       | 73.9 | 4                      | 12.1 | 67        | 26.1 |
| Real Estate   | 579                | 98.0 | 36,300    | 98.4 | 12                     | 2.0  | 598       | 1.6  |
| Total Reviewed  | 608                | 97.4 | 36,490    | 98.2 | 16                     | 2.6  | 665       | 1.8  |

## Lending to Borrowers of Different Incomes

Overall, performance for lending to borrowers of different incomes is excellent. Consumer and residential real estate lending represent primary lending focuses. Both consumer and residential real estate loans had a significant impact on assessing performance for lending to borrowers of different incomes and performance exceeded standards for satisfactory performance for both loan types.

### *Lending to Individuals*

Consumer lending to persons of different incomes exceed standards for satisfactory performance with 60.7 percent of number and 51.5 percent of amount extended to low- and moderate-income borrowers.

To assess the distribution of loans to borrowers of different incomes, we reviewed 29 consumer loans originated during the evaluation period. Income was not available for 1 consumer loan.

The table below displays both the distribution of 28 consumer loans that have been originated and the number of assessment area households in each income level. Income levels are based on the Housing & Urban Development (HUD)-adjusted median family income for 2001, which was \$53,639 for the AA.

| CONSUMER (November 18, 1996 - October 31, 2001) |             |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level                           | LOW         |             | MODERATE    |             | MIDDLE      |             | UPPER       |             |
| % of AA Households                              | 20.9        |             | 14.1        |             | 18.0        |             | 47.0        |             |
| LOANS BY PRODUCT                                | % of Number | % of Amount |
| Consumer  | 46.4        | 30.3        | 14.3        | 21.2        | 21.4        | 18.6        | 17.9        | 29.9        |

Lending to low- income households is substantially higher than the demographic comparator. The bank extended 46.4 percent in number and 30.3 percent in dollar amount of consumer loans to low-income households. Consumer loans to moderate-income individuals are good when compared to the demographic comparator.

Residential real estate lending to persons of different incomes exceed standards for satisfactory performance.

To assess the distribution of loans to borrowers of different incomes, we reviewed loan originations on the 1999, 2000, and 2001 HMDA-LAR. Lending performance is compared with AA families in each income level.

| RESIDENTIAL REAL ESTATE (January 1, 1999 - October 5, 2001) |             |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level                                       | LOW         |             | MODERATE    |             | MIDDLE      |             | UPPER       |             |
| % of AA Families  | 18.7        |             | 15.5        |             | 20.4        |             | 45.3        |             |
| LOANS BY PRODUCT  | % of Number | % of Amount |
| Purchase  | 8.3         | 3.0         | 16.2        | 8.4         | 17.9        | 12.5        | 57.2        | 76.1        |
| Home Imp.   | 21.6        | 12.3        | 23.4        | 14.0        | 18.9        | 17.5        | 36.1        | 56.2        |
| Refinance   | 4.0         | 4.1         | 18.0        | 7.2         | 24.0        | 15.3        | 54.0        | 73.4        |
| Multi-family  | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Total   | 12.3        | 3.9         | 18.5        | 7.5         | 18.5        | 11.8        | 45.8        | 61.6        |

Home improvement loans to low-income families substantially exceeded the percentage of AA families with 21.6 in number of home improvement loans made to low-income families. Performance for purchase, home improvement, and refinance loans to moderate-income families is also strong as each exceeds the percentage of moderate-income AA families. Lending to low-income families is adequate for home purchase and refinance loans.

### Geographic Distribution of Loans

Overall, the geographic distribution of loans exceeds standards for satisfactory performance. Both consumer and residential real estate lending had a significant impact on assessing performance for geographic distribution and performance exceeded standards for satisfactory performance for both loan types.

The geographic distribution of loans was analyzed by reviewing the distribution of 29 consumer loans compared with percent AA households. The distributions are displayed in the table below. Income levels for census tracts were derived from the 1990 Census.

| CONSUMER (November 18, 1996 - October 31, 2001) |             |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level                       | LOW         |             | MODERATE    |             | MIDDLE      |             | UPPER       |             |
| % of AA Households                              | 5.1         |             | 14.3        |             | 49.0        |             | 31.6        |             |
| LOANS BY PRODUCT                                | % of Number | % of Amount |
| Consumer  | 20.7        | 20.5        | 37.9        | 22.7        | 37.9        | 51.6        | 3.5         | 5.2         |

Hometown Bank substantially exceeds standards for satisfactory performance in geographic distribution of consumer loans to low- and moderate-income households. The bank's loans substantially exceeded the percentage of households in low- and moderate-income census tracts.

The geographic distribution of residential real estate loans to low- and moderate-income areas is excellent in both number and dollar amount for home purchase, home improvement, refinance, and multi-family.

| RESIDENTIAL REAL ESTATE (January 1, 1999 - October 5, 2001) |             |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level                                   | LOW         |             | MODERATE    |             | MIDDLE      |             | UPPER       |             |
| % of AA Owner Occupied                                      | 3.1         |             | 13.1        |             | 47.8        |             | 36.1        |             |
| LOANS BY PRODUCT  | % of Number | % of Amount |
| Home Purchase   | 9.2         | 4.4         | 26.6        | 18.0        | 37.1        | 28.3        | 27.1        | 49.3        |
| Home Improvement  | 11.7        | 12.7        | 41.9        | 34.7        | 28.4        | 28.2        | 18.0        | 24.4        |
| Refinance   | 12.0        | 6.6         | 43.0        | 25.3        | 20.0        | 23.0        | 25.0        | 45.1        |
| Multi-family  | 17.9        | 12.1        | 57.1        | 46.8        | 21.4        | 40.6        | 3.6         | 0.5         |
| Total   | 11.1        | 7.0         | 36.8        | 25.9        | 30.0        | 29.1        | 22.1        | 38.0        |

Geographic distribution for total residential real estate lending is excellent for low-income areas with 11.1 percent of number and 7.0 percent of dollar amount dispersed in low-income areas. Performance exceeds the percentage of owner occupied units in the low-income census tracts in the AA. Geographic distribution for moderate-income areas substantially exceed the standards for satisfactory performance with 36.8 percent of number and 25.9 percent of dollar amount dispersed in moderate-income areas and this exceeds the percentage of moderate-income owner occupied units in the AA census tracts.

### Qualified Investments and CD Services

Investments and services were not reviewed.

### Responses to Complaints

No complaints relating to the bank's CRA performance have been made since the last CRA examination.

### Fair Lending Review

A comprehensive fair lending review was conducted during this evaluation period. Home improvement loans were used to test for compliance with anti-discrimination laws. A comparative file analysis was conducted based upon a sample of 35 approved white and 6 denied Hispanic applicants. There was no evidence of disparate treatment. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified. The institution has policies, procedures, and training programs in place to prevent discriminatory or other illegal credit practices.