



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**February 19, 2008**

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

HomeTown Bank, National Association  
Charter Number 15593

1801 45th Street  
Galveston, TX 77550-0000

Office of the Comptroller of the Currency

Houston Field Office  
1301 McKinney Street, Suite 1410  
Houston, TX 77010-3031

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

HomeTown Bank, N.A. (HomeTown) has an Outstanding record of meeting credit needs within the community. The following supports this rating:

- The geographic distribution of residential loans, loans to businesses, and consumer loans is excellent. Lending in low- and moderate-income census tracts (CT) exceeds the characteristics of the assessment area (AA) for all loan products.
- Lending to low- and moderate-income borrowers for consumer loans is excellent and significantly exceeds the standards for satisfactory performance. More than half of the consumer loans in our sample were originated to low- and moderate-income borrowers. Lending to moderate-income borrowers for home purchase and home refinance loans is excellent.
- Lending in the AA is excellent with a substantial majority of loans originated inside the AA.
- The loan-to-deposit ratio exceeds a peer group of small banks in the AA.

**SCOPE OF EXAMINATION**

We completed a full-scope review of HomeTown's CRA performance. Our review focused on loan originations in 2005, 2006, and 2007. We reviewed the three major loan products: residential, commercial, and consumer.

- For residential loans, we reviewed all owner-occupied loans reported on the Home Mortgage Disclosure Act - Loan Application Register (HMDA-LAR) for this period. Of the 248 loans reported on the HMDA-LAR in the AA, 61 were purchase loans, 96 loans were to refinance, and 91 were home improvement loans.
- For lending to businesses of different sizes and borrowers of different incomes, we selected a statistically valid sample of 20 commercial loans and 30 consumer loans.
- For the geographic distribution of loans, senior management provided reliable information on the CT location of all residential loans including owner and non-owner occupied and business loans originated during the period. This included 248 owner-occupied residential loans, 232 nonowner-occupied residential loans, and 565 business loans.
- For consumer loans, we determined the CT location for the sample of 30 loans.

## DESCRIPTION OF INSTITUTION

HomeTown is headquartered in Galveston, Texas in Galveston County, and it has four branches. One is located in Galveston on the Seawall. A second branch is located in Friendswood, Texas in both Galveston and Harris Counties. The remaining two branches have opened since the prior examination. One branch is in League City, Texas in both Galveston and Harris Counties, and the newest branch is in Alvin, Texas in Brazoria County. HomeTown has not closed any branches. All branches have reasonable operating hours and Drive-Thru facilities. The Seawall branch is the only branch not open on Saturday. All other branches are open until noon.

Total bank assets of \$239 million were reported as of December 31, 2007. At this date, the loan portfolio totaled \$161 million. The primary lending focus is commercial lending at 44 percent of the loan portfolio, residential lending at 31 percent, and consumer loans at 8 percent. Although consumer lending accounts for only 8 percent of the loan portfolio by dollar, it represents 45 percent of loan originations by number, and it is a significant lending focus. A majority of loans were originated in Galveston County.

At the prior examination dated November 5, 2001, the bank received an *Outstanding* rating. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA.

*Please refer to the bank's CRA Public File for more information about this institution.*

## DESCRIPTION OF ASSESSMENT AREAS

The AA is in the Houston-Sugar Land-Baytown Metropolitan Statistical Area (MSA) in Texas. The AA is less than the entire MSA that includes 10 counties, which is too large of an area to effectively serve. The AA is contiguous and includes all 61 CTs in Galveston County, 18 out of 45 CTs in Brazoria County, and 21 CTs in south Harris County out of a total of 649 CTs in Harris County. This equates to 100 CTs in the AA. Only 5 percent of the CTs are low-income, and 29 percent are moderate-income. Middle-income and upper-income are equal at 33 percent each. The total AA population is 487 thousand, and approximately 10 percent of the population lives below the poverty level. The Housing & Urban Development (HUD) adjusted MSA median family income for the AA in 2007 was \$57,300.

We completed two community contacts during examinations of banks in Galveston and Brazoria Counties. In Galveston County, a community leader stated the greatest banking need was asset building for people to get out of poverty. The bank offers an array of savings products and originates numerous loans for asset acquisition secured by savings. In Brazoria County, we spoke with a local economic leader who identified a need for housing and retail small business lending. The bank offers both, and they are primary loan products. Both contacts spoke favorably of local financial institutions.

***Galveston County***

Galveston County has the five low-income CTs in the AA, and it has most of the moderate-income CTs with 26 of the 29 moderate-income CTs. According to 2006 U.S. Census estimates, the county has a population of 284 thousand. The City of Galveston is the county seat with a population of 57 thousand, and League City is the largest city with a population of 61 thousand. Galveston County includes the following cities: Galveston, Bacliff, Bayou Vista, Clear Lake Shores, Crystal Beach, Port Bolivar, Caplen, Gilchrist, High Island, Dickinson, Friendswood, Hitchcock, Jamaica Beach, Kemah, La Marque, League City, Santa Fe, Texas City, and the Village of Tiki Island.

The city of Galveston is a major tourist destination and also a docking port for pleasure cruise ships. The city had approximately 4.4 million visitors in 2002. Also, it is a cargo ship port of entry and a port of call for repairs. The top ten employers in Galveston include: University of Texas Medical Branch (UTMB), American National Insurance Company, Galveston Independent School District (ISD), Landry's Seafood, Inc., Galveston County, Moody Gardens, City of Galveston, Fertitta Hospitality, Texas A&M University at Galveston, and U.S. Army Corp of Engineers. By far, UTMB is the largest with more than 10 thousand employees and a payroll of \$851 million annually. Restaurants are the largest business category in the city.

League City has income levels above the average for the MSA and the City of Galveston. The League City Economic Development Corporation estimates the most recent median household income as \$78,129 per year. Because of its close proximity to Houston, Texas, many of League City's residents work in Houston. The major employers in the area include: American National Insurance, Bayshore Medical Center, Chevron Phillips Chemical Company, Clear Lake Regional Medical Center, Landry's Kemah Restaurants, Lockheed Martin, Lyondell-Citgo Refining, NASA/Johnson Space Center, and United Space Alliance.

As with League City, Friendswood has income levels above the average for the MSA and the City of Galveston. The City of Friendswood estimates the median family income at \$90,232 per year. Recent estimates place the population at 29 thousand. Many residents work in Houston because of the close proximity. The major employers include: Friendswood ISD, Clear Creek ISD, H. E. Butt Grocery Company, Kroger Grocery, and the City of Friendswood.

Banking competition in Galveston County is intense and includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions. The five largest competitors are: Capital One, National Association (NA) Citibank USA, NA, GE Capital Financial, Inc., Chase Bank USA, and Bank of America, NA.

***Brazoria County***

Brazoria County has two of the AA's 29 moderate-income CTs. The county does not have any low-income CTs. As of the 2000 U. S. Census, the county had a population of 242 thousand. The county seat is Angleton and its largest city is Pearland.

Pearland is the fastest growing city south of Houston. Retail, housing, and commercial growth is attributed to several master planned communities in the area. There is vast commercial development in the area including two new outpatient/emergency care hospitals. The top ten employers in Pearland include: Pearland ISD, Wal-Mart, City of Pearland, Kemlon, Weatherford, TurboCare, Super Target, Lowes, Davis-Lynch, and Packaging Service Company.

The bank's branch is located in Alvin, Texas, approximately 10 miles south of Pearland. Alvin has approximately 24 thousand residents. It is about 25 miles southeast of Houston and is near a major highway to Houston. The largest employer is the Alvin ISD. Other major employers include: Dish Network, Wal-Mart, and Alvin Community College.

Banking competition in Brazoria County is intense. The five largest competitors include: Texas Dow Credit Union, Guaranty Bank, Wells Fargo Bank, N.A., Texas Gulf Bank, N.A., and First Community Bank, N.A.

***Harris County***

Harris County is the largest county in Texas and the third largest in the nation in population. According to the U. S. Census Bureau as of 2003, the county had a population of 3.6 million with a growth rate during the last decade of 13.2 percent. Houston is the county seat, the largest city in Texas, and the fourth largest city in the nation. U.S. Census information reflects the population of Houston increased almost 20 percent from 1.6 million in 1990 to 2 million in 2000. Predictions of population growth range from 6 to 13 percent by 2010. Houston has the largest medical center in the world, the Texas Medical Center. The Center's economic impact exceeds \$10 billion annually, and it has approximately 61 thousand employees. Also, Houston is second only to New York City in Fortune 500 company headquarters. Of the tracts included in HomeTown's AA, only one is moderate-income and none are low-income. Harris County presents the most potential for deposit and loan growth in the future.

Banking competition in Harris County is intense. The five largest competitors in the county include: JP Morgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., Amegy Bank, N.A., and Washington Mutual Bank, Federal Savings Bank.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is excellent. Since the prior examination, the quarterly LTD ratio average is 70 percent. It exceeds a 57 percent average LTD ratio of peer group banks with less than \$250 million in assets in Galveston, Brazoria, and Harris Counties. We considered this peer group to be the best comparison. In addition, we compared the bank's ratio to all banks in these three counties, and this second peer group includes several banks much larger in asset size. HomeTown's ratio still exceeds this second peer group that had an average ratio of 66 percent for this period.

### Lending in Assessment Area

Lending in the AA is excellent. A substantial majority of loans were originated both by number and dollar within the AA as shown in the following table:

Table 1 - Lending in HomeTown Assessment Area (AA)											
Loan Type	Number of Loans				Dollars of Loans (000)					Total	
	Inside		Outside		Total	Inside		Outside			
	#	%	#	%		\$	%	\$	%		
Residential	248	94.66	14	5.34	262	24,726	92.38	2,039	7.62	26,765	
Business	565	88.98	70	11.02	635	82,033	88.11	11,072	11.89	93,105	
Consumer	30	76.92	9	23.08	39	292	72.54	110	27.46	402	
Totals	<b>843</b>	<b>90.06</b>	<b>93</b>	<b>9.94</b>	<b>936</b>	<b>107,051</b>	<b>89.01</b>	<b>13,221</b>	<b>10.99</b>	<b>120,272</b>	

Source: Data reported under HMDA, sample of loans, data collected by bank.

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

Overall, lending to borrowers of different incomes and businesses of different sizes reflects excellent penetration and exceeds the standards for satisfactory performance. The excellent record of consumer lending was the most significant factor in supporting this rating.

For residential real estate loans, lending to low-income borrowers is below the characteristics of the AA. However, it is difficult for low-income borrowers to qualify for home loans in the AA as the weighted average median housing cost is \$93 thousand. Lending to moderate-income borrowers exceeds the characteristics of the AA for purchase and refinance loans, and it is close to the characteristics for improvement loans. Loan originations were compared to 2000 U.S. Census data about the AA. The bank's performance is shown in the following table:

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in HomeTown AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	17.74	<b>13.12</b>	15.32	<b>21.31</b>	19.34	21.31	47.60	44.26
Home Refinance	17.74	<b>12.50</b>	15.32	<b>21.88</b>	19.34	28.13	47.60	37.49
Home Improvement	17.74	<b>9.89</b>	15.32	<b>14.29</b>	19.34	23.08	47.60	52.74

*Source: Data reported under HMDA; U.S. Census data.*

The distribution of loans to businesses is satisfactory. The percentage of sampled loan originations was compared to Dunn and Bradstreet data for businesses in the AA reporting business revenues. The bank's performance is similar to the characteristics of the AA for the number of loans and below the characteristics for the dollar amount of loans originated to businesses with less than \$1 million in revenues. The dollar amount is below the characteristics because of several large loans originated to established customers with revenues greater than \$1 million.

<b>Table 2A - Borrower Distribution of Loans to Businesses in HomeTown AA</b>				
Business Revenues (or Sales)	$\leq \$1,000,000$	$> \$1,000,000$	Unavailable/Unknown	Total
% of AA Businesses	<b>69.94</b>	3.69	26.37	100%
% of Bank Loans in AA by #	<b>70.00</b>	20.00	10.00	100%
% of Bank Loans in AA by \$	<b>39.68</b>	59.55	0.77	100%

*Source: Loan sample; Dunn and Bradstreet data.*

The borrower distribution of consumer loans compared to the U.S. Census characteristics of the AA is excellent. The bank's performance significantly exceeds in lending to low- and moderate-income borrowers. Also, more than half of the loans originated in our sample were to low- and moderate-income borrowers. The bank's performance is shown in the following table:

<b>Table 2B - Borrower Distribution of Consumer Loans in HomeTown AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	20.04	<b>30.00</b>	14.87	<b>26.67</b>	17.93	16.67	47.16	26.66

*Source: loan sample; U.S. Census data.*

### **Geographic Distribution of Loans**

Overall, the geographic distribution of loans is excellent and exceeds the characteristics of the AA for lending in low- and moderate-income CTs for all three primary loan products.

The geographic distribution of residential lending shows excellent dispersion in low- and moderate income CTs. The bank's lending is compared to U.S. Census data for owner-occupied loans as shown in the following table:

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in HomeTown AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home								
Purchase	1.24	<b>11.48</b>	18.00	<b>59.02</b>	33.60	4.92	47.16	24.58
Improvement	1.24	<b>10.42</b>	18.00	<b>51.04</b>	33.60	15.63	47.16	22.91
Refinance	1.24	<b>4.40</b>	18.00	<b>47.25</b>	33.60	17.58	47.16	30.77

*Source: data reported under HMDA; U.S. Census data.*

In addition, reliable information was available on the CT location of 232 residential loans that were not owner-occupied (rental properties) originated in 2005, 2006, and 2007 in the AA. A total of 8.62 percent were located in low-income CTs, and 71.55 percent were located in moderate-income CTs. The remaining 19.83 percent of the loans were in middle or upper-income CTs. As with owner-occupied residential real estate lending, this is excellent dispersion.

The geographic distribution of loans to businesses in low- and moderate-income CTs is excellent and significantly exceeds the characteristics of the AA. The sample of the bank's loan originations was compared to Dunn and Bradstreet information about the AA. The bank's performance is shown in the following table:

<b>Table 3A - Geographic Distribution of Loans to Businesses in HomeTown AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business Loans	1.92	<b>10.09</b>	20.46	<b>35.22</b>	33.32	25.49	44.30	29.20

*Source: data collected by bank; Dunn and Bradstreet data.*

The geographic distribution of consumer loans is excellent and significantly exceeds the characteristics of the AA when compared to U.S. Census data. More than half of the bank's loan originations were in low- and moderate-income CTs as shown below:

<b>Table 3B - Geographic Distribution of Consumer Loans in HomeTown AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	2.36	<b>10.00</b>	23.41	<b>56.67</b>	34.71	10.00	39.52	23.33

*Source: loan sample; U.S. Census data.*

## Community Development Loans

We identified loans for 26 properties totaling \$1.8 million for affordable rental housing in Galveston. They are in the HUD Section 8 Housing Assistance Program. Although they are not multi-family properties meeting all elements of the definition under current CRA regulations, they are worthy of mention. These loans provided a significant level of affordable housing for low- and moderate-income residents.

## Qualified Investments and CD Services

We identified 12 qualified donations totaling \$25 thousand to local organizations. The most significant was a \$20 thousand donation to the Salvation Army. Services include a senior officer designing a program for the Galveston Neighborhood Housing Initiative, and bank employees working with the Salvation Army.

### **Responses to Complaints**

The bank did not receive any CRA-related complaints during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.