



PUBLIC DISCLOSURE

September 08, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

HomeTown Bank, National Association
Charter Number 15593

1801 45th Street Galveston, TX 77550

Office of the Comptroller of the Currency

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 Satisfactory.

The Lending Test is rated: Satisfactory.
The Community Development Test is rated: Satisfactory.

HomeTown Bank, National Association (HomeTown or Bank) has a Satisfactory record of meeting community credit needs based on the following:

- HomeTown has maintained a loan-to-deposit (LTD) ratio on a quarterly basis that is reasonable when compared to similarly sized peer banks.
- A substantial majority of the bank's lending is inside the assessment area (AA) by number and dollar amount of loans originated or refinanced.
- The overall distribution of loans reflects reasonable penetration among individuals of different income levels and small businesses with gross annual income of less than \$1 million.
- The overall geographic distribution of loans reflects excellent dispersion among families and households of different income levels and businesses of different sizes.
- The bank's performance under the Community Development (CD) Test is Satisfactory and shows adequate responsiveness to the needs of the AA.

Scope of Examination

We completed a review of HomeTown's Community Reinvestment Act (CRA) performance. HomeTown was evaluated under the Intermediate Small Bank (ISB) CRA procedures, which include a Lending Test and a CD Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AA through lending activities. The CD Test evaluates the bank's responsiveness to CD needs in its AA through qualified CD lending, investments, and services.

HomeTown's primary lending products by dollar amount are residential real estate loans and business loans, and by number, consumer loans. As an ISB, the bank is not required to collect or report loan data for business loans, and management elected not to collect this information during this evaluation period. Therefore, we based our analysis on a valid sample of 60 business loans and 60 consumer loans. For residential real estate loans, we used all of the loans originated and reported. This consisted of 162 loans in number and \$27.6 million by dollar amount. The Lending Test for HomeTown covered the time frame from January 1, 2012 through December 31, 2013.

We completed a data integrity review in March 2014 to determine the accuracy of the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) to be used at this evaluation. The review deemed the HMDA LAR to be reliable. For the CD Test, our review included all CD loans, investments, and services in the AA since the date of the last CRA evaluation, February 19, 2008, through the date of this evaluation, September 8, 2014.

Description of Institution

HomeTown is a full service community bank headquartered at 1801 45th Street, Galveston, Texas. The bank is part of, Moody Bank Holding Company, Inc., which is a two-bank holding company. HomeTown has six other branch locations: one in Galveston, two in Friendswood, one in League City, one in Alvin, and one in Pearland.

Banking hours are reasonable. Lobby hours are generally 9:00 a.m. to 5:00 p.m. with the exception of the home office with hours of 9:00 a.m. to 2:00 p.m. except on Fridays. Motor bank services are offered at all branch and home office locations. All branches, with the exception of the Galveston branch, have Saturday drive through services. All branches, other than the main office, provide access to Automated Teller Machines (ATMs). During the evaluation period, there were no branch closings and two branches openings. The Friendswood branch opened December 2010 and Pearland opened December 2012.

In addition to a variety of business, consumer, and residential loan products, the bank offers various deposit products such as business and personal checking accounts, money market accounts, individual retirement accounts, savings accounts, and certificates of deposit. The bank also offers remote deposit services, debit cards, and online banking services.

Hurricane Ike struck the Galveston area in September 2008, during this evaluation period. To assist its business customers, the bank initiated a Hurricane Ike Recovery Loan Program that provided low-interest business loans for working capital and low-interest loans to individuals.

As of June 30, 2014, HomeTown reported Total Assets of \$491 million and Tier One Capital of \$47 million. The bank received an Outstanding rating at the last CRA evaluation dated February 19, 2008. There are no financial or legal factors that impede the bank's ability to meet the credit needs of its community.

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

Description of Assessment Areas

The bank's AA consists of three contiguous whole counties located within the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA), formally known as the Houston-Baytown-Sugar Land MSA. The counties in the AA are Galveston County, Brazoria County, and Harris County. According to the 2010 U.S. Census data, the total population for the AA is approximately 5 million and an estimated 12.6 percent of the population lives below the poverty level. There are 902 whole Census tracts (CTs) and approximately 128 (15 percent) of the CTs are low-income and 250 (31 percent) are moderate-income. Approximately 227 (25 percent) of the CTs in the AA are middle-income and 262 (29 percent) of the CTs are upper-income. The local economy for the AA is considered relatively good with adjusted MSA median family income for 2013 at \$66,196, according to the Housing and Urban Development (HUD) office. The unemployment rate is 5.3 percent for the MSA. The bank's AA meets the requirements of the regulation, does not arbitrarily exclude any low- or moderate-income areas, and does not reflect illegal discrimination.

Galveston County

Galveston County is HomeTown's headquarters. According to the 2010 U.S. Census, Galveston County has a population of 307 thousand with 8 low-income census tracts and 17 moderate-income census tracts. Galveston is the county seat and is a major docking port for pleasure cruise ships. Approximately 12.8 percent of the population lives below the poverty line. The top employers include University of Texas Medical Branch, Galveston Independent School District, and Landry Restaurants. Major industries include wholesale trade, retail trade, and construction.

Brazoria County

Brazoria County has no low-income census tracts and 10 moderate-income census tracts. The county seat is Angleton. Brazoria County has a population of 313 thousand and approximately 10.9 percent of the population lives below the poverty line. The top employers include The Dow Chemical Company, Pearland Independent School District, Alvin Independent School District, and Texas Department of Criminal Justice. Major business sectors include construction, wholesale trade, and manufacturing.

Harris County

Harris County is the most populated county in Texas and the third most populous county in the United States. There are 128 low-income, 250 moderate-income, 183 middle-income, 225 upper-income, and 3 undesignated CTs. Harris County has a population of approximately 4.3 million with 6 percent growth from 2010 to 2013. Houston is the county seat and the largest city in Texas. It is the fourth largest city in the nation with a 2013 population of 2.2 million. According to the 2010 U.S. Census, Harris County had 17.9 percent of its residents living below the poverty level.

The county is home to two universities including the University of Houston and Rice University. The unemployment rate is 5.4 percent. Houston has the largest medical complex in the world, The Texas Medical Center. It employs 106 thousand individuals and the center's estimated economic impact exceeds \$14 billion annually.

Houston is known as the Global Energy Capital of the oil and gas industry with over five thousand firms doing business in the region. Houston has experienced 17 percent job growth from January 2010 to July 2014. Texas has more Fortune 500 companies than any other state in the nation, and many of those are headquartered in Houston. The top employers include United Airlines, Memorial Hermann Health Care System, and Southwestern Bell. Competition from other financial institutions in the local economy is intense. The bank's competitors include branches of larger regional banks and several local community banks.

Community Contacts

We contacted local organizations to identify the credit needs of the AA. A community contact located in Galveston County indicated there are opportunities to promote Small Business Association (SBA) lending for small businesses. The community leader also indicated the need for affordable housing, particularly in the area of La Marque, Texas. We contacted a community leader in Harris County who indicated that the greatest credit need in the area is for working capital as construction and development has increased in the area. The contact also mentioned that financial institutions in the assessment area are pro-active in developing relationships and offering assistance in the assessment area.

Conclusions with Respect to Performance Tests

LENDING TEST

HomeTown's performance under the Lending Test is Satisfactory.

Loan-to-Deposit Ratio

HomeTown's loan-to-deposit ratio is reasonable given the institution's size and performance context factors. The bank's quarterly loan-to-deposit ratio since the last CRA evaluation averaged 67 percent, ranging from a high of 77 percent in the second quarter of 2008 to a low of 60 percent in the second quarter of 2012. Our analysis included three similarly situated banks (peer group banks) in Harris and Brazoria counties, ranging in total asset size of \$450 to \$515 million. The bank's ratio exceeded the peer group average quarterly ratio of 62 percent over the same period. These average quarterly ratios ranged from a low of 58 percent to a high of 67 percent.

Lending in Assessment Area

Lending in the AA is excellent. A substantial majority of loan originations were inside the Bank's AA. Specifically, of loans originated or refinanced during the evaluation period, 97.16 percent by number and 95.86 percent by dollar volume were in HomeTown's AA. Our analysis included 282 loans originated or refinanced in 2012 and 2013.

The following table details HomeTown's lending in the AA by product type.

Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	160	98.77	2	1.23	162	27,151	98.29	473	1.71	27,624
Consumer	58	96.67	2	3.33	60	853	95.52	40	4.48	893
Commercial	56	93.33	4	6.67	60	9,000	89.24	1,086	10.76	10,086
Totals	274	97.16	8	2.84	282	37,004	95.86	1,599	4.14	38,603

Source: Data reported under HMDA and loan sample.

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

Overall, the distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes given the bank's product offerings, local economic conditions, and performance context.

Residential Real Estate Loans

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels in the HomeTown AA. The bank's penetration of residential real estate loans to low-income families was 6.88 percent compared to the AA census characteristics of 25.80 percent. Penetration of loans to moderate-income families was 16.25 percent compared to the AA census characteristic of 17.15 percent. Loan data reflects poor penetration as it relates to low-income families; however, reasonable penetration when comparing moderate-income families to the number of loans made by the bank. The following table shows the distribution of residential real estate loans compared to families at varying income levels in the AA.

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
Residential RE	25.80	6.88	17.15	16.25	17.47	15.00	39.58	61.87

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

Business Loans

The distribution of business loans reflects excellent penetration among businesses of different sizes in the HomeTown AA. Small business loans are defined as loans to businesses with gross annual revenues of \$1 million or less.

Of the bank's loans to businesses originated and refinanced during the review period, 80.36 percent by number were made to small businesses as compared to 71.30 percent of demographic data for small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses in HomeTown AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.30	4.06	24.64	100%
% of Bank Loans in AA by #	80.36	14.29	5.35	100%
% of Bank Loans in AA by \$	78.67	19.61	1.72	100%

Source: *Dunn and Bradstreet data; loan sample*

Consumer Loans

The distribution of consumer loans to borrowers reflects poor penetration among borrowers of different income levels in the HomeTown AA. The number of loans that income was not relied upon in originating or refinancing loans mitigates the loan penetration. The sampled loans noted 32.76 percent of loans secured with certificates of deposits that did not require income verification. The following table shows the distribution of consumer loans among borrowers of different income levels as compared to the percent of households in each income category.

Table 2B - Borrower Distribution of Consumer Loans in HomeTown AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	25.65	8.62	16.97	10.34	17.06	15.52	40.32	32.76

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

Footnote: *32.76% of sampled loans did not require income verification*

Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects excellent dispersion among families and households of different income levels and businesses of different sizes given the bank's product offerings, local economic conditions, and performance context. There were no conspicuous gaps identified in the geographic distribution.

Residential Real Estate Loans

The distribution of residential real estate loans reflects excellent dispersion among census tracts of different income levels in the HomeTown AA. Distribution of the bank’s residential real estate lending in low- and moderate-income census tracts meets the percentage of owner-occupied housing in the AA. The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Table 3 - Geographic Distribution of Residential Real Estate Loans in HomeTown AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans						
Residential RE	5.41	5.00	23.94	23.75	29.52	26.88	41.13	44.38

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

Business Loans

The bank’s geographic distribution of business loans reflects excellent dispersion of loans to borrowers of different income levels, throughout the census tracts in the Hometown AA. Dispersion of loans in moderate-income CTs is excellent, with reasonable distribution of business loans in low-income tracts. The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 3A - Geographic Distribution of Loans to Businesses in HomeTown AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Business Loans	10.10	7.14	22.54	26.79	24.20	28.57	43.09	37.50

Source: Dunn and Bradstreet data; loan sample.

Footnote: 0.07% of AA businesses did not report income

Consumer Loans

The bank’s geographic distribution of consumer loans reflects excellent dispersion throughout census tracts of different income levels in the HomeTown AA. The bank’s lending in moderate-income tracts significantly exceeded the ratio of households in the AA, while lending in low-income tracts was reasonable. The following table details the bank’s performance compared to the percentage of owner-occupied housing units in each census tract income levels.

Table 3B - Geographic Distribution of Consumer Loans in HomeTown AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	11.91	10.34	27.85	41.38	27.15	27.59	33.09	20.69

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

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

HomeTown's performance under the CD Test is Satisfactory. The level of CD activities reflects adequate responsiveness to the needs in its AA. The bank originated an adequate level of CD loans through disaster relief, affordable housing, and loans to businesses that promote economic development. CD investments and charitable contributions totaled \$2.5 million and bank officers are active in several organizations providing qualifying services that benefit the AA. The bank's CD activities are described below.

Number and Amount of Community Development Loans

During the evaluation period, we qualified 37 loans totaling approximately \$7 million that promoted CD within the bank's AAs. Bank management was instrumental in development of a repair and rehabilitation lending program for individuals and businesses that were affected by Hurricane Ike. There were 27 qualified Hurricane Ike related loans to businesses totaling \$2.4 million. Additionally, there were 15 qualified affordable housing loans, four loans to businesses that promoted economic development, and one loan each, for community services and revitalization and stabilization. Affordable housing loans were primarily for the purchase of, or improvements to, apartment complexes in low and moderate-income (LMI) communities, for the benefit of LMI individuals. Loans to businesses that promoted economic development were through job creation for LMI individuals.

Number and Amount of Qualified Investments

During the evaluation period, we qualified two investments totaling \$2 million and 41 charitable contributions to seventeen organizations totaling \$52 thousand. The investments were in an affordable housing foundation that provides safe and secure living environments for elderly LMI individuals.

The charitable contributions were for organizations that offer community services to LMI individuals.

Notable contributions to Galveston Independent School District (ISD) students, an ISD where 71.4% of its students are economically disadvantaged, included a program that teaches students how to own and operate their own business, local newspapers that supply newspapers and banking guides and booklets to its students. Other programs included organizations that provide housing to the homeless and an organization that provided school supplies, uniforms and books to LMI students.

Extent to Which the Bank Provides Community Development Services

We qualified ten CD services located within the AA. Of the 10 financial services provided during the evaluation period, one service was related to affordable housing and the remaining nine services provided financial services to LMI individuals.

Bank officers and personnel served as Board members for various organizations that provide financial services to LMI individuals. One of the organizations provides financial literacy to LMI children including budgeting, how to run a business, and saving for the future. Board members also served on committees that offer programs for homeless prevention and rental assistance to LMI individuals.

Responsiveness to Community Development Needs

Overall, the bank's responsiveness to CD needs is Satisfactory. The bank has originated a significant level of qualified CD loans for affordable housing, which demonstrates reasonable responsiveness to this need in the community. The level of investments and services is reasonable in the AAs given the bank's performance context.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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