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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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## **PUBLIC DISCLOSURE**

June 3, 1998

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

**Hometown National Bank  
Charter No. 23090  
3131 Grant Line Road  
New Albany, Indiana 47150**

**Office of the Comptroller of the Currency**

**9200 Shelbyville Road, Suite 505  
Louisville, Kentucky 40222**

**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.**

## 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 Community Reinvestment Act (CRA) performance of **Hometown National Bank** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 3, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory Record of Meeting Community Credit Needs. This rating is based on the following:

- o A majority of the bank's loans are made within the assessment area.
- o The geographic distribution of loans made in the assessment area is reasonable.
- o Management's record of lending to borrowers of different income levels, in particular low-income and moderate-income families and small businesses, is good.
- o The bank's loan-to-deposit ratio reflects a satisfactory level of lending activity during the first full year of operation.

## DESCRIPTION OF INSTITUTION

Hometown National Bank (HNB) is a *de novo* community bank located in New Albany, Indiana. It opened on March 22, 1997, and moved into its permanent office in June of that year. The bank is situated in a central location on Grant Line Road, a major thoroughfare in Floyd County. HNB's stock is owned by a one-bank holding company, Hometown Bancshares, Inc. Holding company stock is widely held by local investors. HNB has \$21 million total assets, as of March 31, 1998.

HNB offers traditional banking services and lending products, with a specific focus on small business lending. The composition of the loan portfolio is as follows:

48%	commercial loans
23%	commercial real estate loans
16%	one-to-four family residential loans
8%	loans to individuals
<u>5%</u>	<u>farmland and agriculture loans</u>
100%	

HNB's operations consist of one full service facility, with drive-thru windows and an on-site Automated Teller Machine. Hours of operation are:

Monday thru Thursday	8:30 a.m. to 5:00 p.m.
Friday	8:30 a.m. to 6:00 p.m.
Saturday	8:30 a.m. to 12:00 p.m.

HNB also provides a U.S. Postal Service substation facility in the building, including post office boxes. This service benefits the neighborhoods and businesses in the area, because the nearest post office is several miles away.

There are no legal or financial constraints impacting the bank's ability to help meet the credit needs in its assessment area.

This is the first evaluation of HNB's record of performance under the Community Reinvestment Act.

## DESCRIPTION OF ASSESSMENT AREA

HNB's assessment area consists of Floyd County and Clark County in southern Indiana. Both counties border the Ohio River, and are part of the greater Louisville Metropolitan Statistical Area (MSA). 1990 Census data indicated a population of 64,404 in Floyd County and 87,777 in Clark County. The major towns are New Albany, Clarksville and Jeffersonville. The economy is mixed, and includes heavy and light manufacturing, service industries and agriculture. Many residents commute to Louisville for employment.

The local economy in the assessment area is favorable. Newspapers following commerce in Floyd County and Clark County indicate moderate to strong economic growth. Moreover, the Indiana Cabinet for Workforce Development reports that May 1998 unemployment is just 2.1% in Floyd and 2.4% in Clark.

The strong economy and business expansion are providing banks with lending opportunities in small business loans, construction loans, home mortgage loans and automobile loans. On the other hand, the banking environment is highly competitive for both deposits and loans. HNB shares the market with a number of small independent banks, savings banks, branches of several large regional banks, credit unions and brokerage firms.

As part of the CRA performance evaluation, HNB's lending pattern will be compared to the geographic distribution and income distribution of families in the assessment area. The following demographic information on Floyd and Clark Counties is presented to support that analysis.

The U.S. Census divides Floyd County into 17 census tracts and Clark County into 21 census tracts. Each is classified according to income level, based on the 1990 census. In Floyd County, five of the census tracts are considered upper-income, six are middle-income, five are moderate-income, and one is low-income. In Clark County, two are upper-income, 13 are middle-income, six are moderate-income, and none are low-income.

To evaluate the extent of HNB's lending activity among the different census tracts in Floyd and Clark counties, we classified borrower incomes into four income categories using the same criteria as the census tracts were classified above. The table below shows the income ranges for each category of borrower:

low-income	Under 50% of median family income	\$0 to \$22,300*
moderate-income	50% to 80% of median family income	\$22,300 to \$35,680*
middle-income	80% to 120% of median family income	\$35,680 to \$53,520*
upper-income	120% of median family income and over	\$53,520 and over*

\* Based on the 1998 estimated median family income for the Greater Louisville MSA of \$44,600.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The following sections discuss the findings covering each of the five criteria mandated by the Act for evaluation of performance.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio is a standard measure of a bank's overall lending activity under CRA. HNB's average quarterly loan-to-deposit ratio from inception through March 31, 1998 is 72.7%. This is a reasonable level of lending activity, considering the bank's age, their lending opportunities, the competitive situation in the market, and economic conditions of the assessment area. HNB's loan-to-deposit ratio is higher than that of a similarly-situated new bank in the same market after it completed the same period of initial business activity.

Management anticipates HNB's loan-to-deposit ratio will fluctuate during the startup phase of the bank, but it will eventually stabilize at a level comparable to similarly-situated banks in the Southern Indiana market.

### Lending in Assessment Area

HNB made a majority of its loans inside the assessment area during the evaluation period. A management-prepared report shows 62% of all loans made since the bank's inception are to borrowers inside Floyd and Clark counties. We verified the accuracy of this report. See chart below:

MANAGEMENT GEOCODING REPORT	Number of loans	Loan Amount (000's)
<b>Total Loan Originations</b>	190	\$10,920
<b>Consumer loans inside Assessment Area</b>	77	\$ 1,731
<b>Business loans inside Assessment Area</b>	41	\$ 4,398
<b>Total of Loans inside Assessment Area</b>	118	\$ 6,129
<b>Percent of loans inside Assessment Area</b>	<b>62%</b>	<b>56%</b>

The percentage of loans inside the assessment area is lower than that of a similarly-situated bank that recently opened in the same market. Management's strategy for loan growth during the first year of operation included utilizing business contacts from prior banking experience. Since a significant amount of these businesses lie outside the assessment area, loans to these contacts had an effect on the geographic distribution of originations. Management anticipates future originations will have a much higher concentration inside Floyd and Clark counties.

## Geographic Distribution of Loans

HNB's dispersion of lending inside the assessment area reasonably reflects the distribution of the population, in terms of both numbers and income levels. The first table, **Consumer Loan Originations**, shows 13% of loans are to borrowers located in the low-income and moderate-income census tracts of the area. This is a reasonable level of activity, considering HNB's location on Grant Line Road and the number of other financial institutions competing to meet the credit needs of the community. The second table, **Business Loan Originations**, shows 12% of loans are to borrowers located in the low-income and moderate-income census tracts of the area. This is also a reasonable level of activity.

### CONSUMER LOAN ORIGINATIONS

Census Tracts	Families populating each Census Tract (1990 U.S. Census)		Originations, by NUMBER		Originations, by DOLLAR VOLUME	
	Number of families	Percent	Number of loans	Percent of number	Dollar (000's)	Percent of dollar volume
Low-income	949	2%	1	1%	\$ 14	1%
Moderate-income	7,976	19%	9	12%	\$ 161	9%
Middle-income	23,638	56%	34	44%	\$ 568	33%
Upper-income	9,922	23%	33	43%	\$ 988	57%
<b>Total Assmt Area</b>	<b>42,485</b>	<b>100%</b>	<b>77</b>	<b>100%</b>	<b>\$ 1,731</b>	<b>100%</b>

### BUSINESS LOAN ORIGINATIONS

Census Tracts	Families populating each Census Tract (1990 U.S. Census)		Originations, by NUMBER		Originations, by DOLLAR VOLUME	
	Number of families	Percent	Number of loans	Percent of number	Dollar (000's)	Percent of dollar volume
Low-income	949	2%	0	0%	\$ 0	0%
Moderate-income	7,976	19%	9	12%	\$ 1,008	23%
Middle-income	23,638	56%	19	44%	\$ 2,564	58%
Upper-income	9,922	23%	13	43%	\$ 826	19%
<b>Total Assmt Area</b>	<b>42,485</b>	<b>100%</b>	<b>41</b>	<b>100%</b>	<b>\$ 4,398</b>	<b>100%</b>

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

HNB has a favorable record of lending to borrowers of different incomes and to businesses and farms of different sizes. We analyzed the bank's performance under this criterion by selecting a representative sample of consumer loans made during the two month period ending May 31, 1998. We also evaluated HNB's lending to small businesses and farms (annual sales under \$1 million).

The table below indicates HNB is actively lending to low-income and moderate-income consumers. 81% of the dollar volume and 77% of the number of consumer loans in this sample are to these two income categories. This compares favorably to the overall market, which is 38% low-income and moderate-income families. We examined the underwriting criteria management used to make these loans. It shows HNB is making loans to segments of the market that are not served by lenders that use credit scoring to approve applicants.

We noted HNB's lending opportunities are greatly reduced for borrower groups that qualify for low-rate financing from car dealers. This helps explain the absence of loans to middle income borrowers in the sample. Our analysis of the performance context indicates HNB has a greater opportunity to lend to the low-income and moderate-income person buying a used car than to the middle-income person buying a new car eligible for 2% dealer financing.

Income Level Category	Income Levels of Families within the Assessment Area*	CONSUMER LOANS	
		Number of loans	Dollar volume
<b>Low</b>	19%	31%	21%
<b>Moderate</b>	19%	46%	60%
<b>Middle</b>	24%	0%	0%
<b>Upper</b>	38%	23%	19%
<b>Total</b>	100%	100%	100%

\* Source: 1990 U.S. Census

The distribution of business loans and farm loans by revenue level is also favorable. Of the 41 loans made in the assessment area, 88% are to small businesses and farms (annual revenues under \$1 million). These loans total \$3.6 million, or 82% of the total \$4.4 million in business originations inside Floyd and Clark counties.

**Business and Farm Loans inside the Assessment Area**

	<b>Number of loans</b>	<b>Percent of Number</b>	<b>Dollar Volume (000's)</b>	<b>Percent of Dollar</b>
<b>Loans to small businesses and farms</b>	36	88%	\$ 3,606	82%
<b>Loans to large businesses and farms</b>	5	12%	\$ 792	18%
<b>Total</b>	41	100%	\$ 4,398	100%

**Responses to Consumer Complaints**

No consumer complaints regarding CRA have been received.

**Compliance with Antidiscrimination Laws and Regulations**

We did not identify any violations of the substantive provisions of antidiscrimination laws and regulations.