



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**August 27, 2002**

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

**Hometown National Bank  
Charter Number 23868**

**970 14th Avenue  
Longview, WA 98632**

**Comptroller of the Currency  
1000 Second Avenue, Suite 3300  
Seattle, WA 98104**

**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 National Bank prepared by the Office of the Comptroller of the Currency as of August 27, 2002. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

## **INSTITUTION'S CRA RATING**

This institution is rated "**Satisfactory**".

- Hometown National Bank's average loan-to-deposit ratio of 81% is reasonable given the bank's size, financial condition, and the credit needs of the assessment area.
- A majority of the bank's loan portfolio (70%) was originated within the assessment area.
- The bank provides a reasonable distribution of loans across income levels and geographies.
- There have been no written complaints regarding Hometown National Bank's performance in meeting its community's credit needs.

## **DESCRIPTION OF INSTITUTION**

Hometown National Bank (Hometown) opened for business in May 2000 to help serve the banking needs of the greater Cowlitz County region of Washington State. The bank maintains one office in downtown Longview offering walk-in and drive-up service. There are no ATM locations. Twelve members of the community comprise the Board of Directors and collectively own more than 50% of the bank. Hometown Financial Services is the holding company of the bank.

The bank's stated mission is to provide quality services to local consumers and small businesses. In order to fulfill this mission, the bank offers a complete line of banking products, including deposit accounts, commercial loans, residential real estate loans, consumer loans, home improvement loans, and other traditional banking services. The bank does not offer credit cards or home equity lines of credit.

As of June 30, 2002, the bank had total assets of \$27 million, 83% of which are net loans. Sixty-

three percent of the bank's outstanding loan balances are to small businesses. Thirty-five percent of all loans are residential loans and the remaining 2% are consumer loans not secured by real estate. Table 1 below details the bank's loan portfolio composition as of June 30, 2002.

Table 1

<b>LOAN PORTFOLIO COMPOSITION</b>		
<b>June 30, 2002</b>		
<b>Loan Type</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Commercial Real Estate	9,119	41%
Commercial	4,818	22%
1-4 Family Residential	7,804	35%
Consumer / Other	519	2%
<b>Total:</b>	<b>22,260</b>	<b>100%</b>

Source: 3/31/02 Call Report

There are no financial or legal impediments that affect Hometown's ability to meet the credit needs of its assessment area.

This is Hometown's first CRA examination since its opening in May 2000.

## **DESCRIPTION OF COWLITZ COUNTY, WASHINGTON**

The bank's assessment area consists of Cowlitz County, which is located in southwestern Washington State along the Columbia River. This area lies about 50 miles north of Portland, Oregon and 120 miles south of Seattle, Washington. Interstate 5 travels north and south through the county and is paralleled by State Route 411. State Route 4 travels east and west along the Columbia River and is serviced by a deep water shipping channel. The county covers a geographic area of 1,139 square miles with an elevation range of 10 feet to 4,000 feet. The assessment area meets the requirement of the regulation, and does not arbitrarily exclude low- or moderate-income geographies. This assessment area is not located in a metropolitan statistical area.

The residents of Cowlitz County work in diverse industries, including wood products, dairy farming, metals, and processing. According to the 2001 U.S. Census estimate, the county population has grown 13% to 93,716 since 1990. Longview, the largest city in Cowlitz County, is home to over 34,000 residents.

The forest products and timber industries have been the foundation of the local economy since the pioneer days. Approximately 85% of Cowlitz County is currently forestland. Other industries have also played significant historical roles in the economic development of Cowlitz County with fishing, food processing, agriculture, dairy farming, and aluminum reduction in the forefront. The southern region of Cowlitz County around the town of Woodland has developed a substantial livestock and dairy industry that supplies markets in Vancouver, Washington and Portland, Oregon. Operations in Longview, Kelso, and Castle Rock supply milk to processing plants that produce cheese and cream for local and statewide distribution. According to the

Cowlitz Economic Development Council, the major employers in the area include Longview Fibre, Weyerhaeuser, John Medical Center, and the Longview School District.

There are 24 census tracts in the County with 42% of the families living in the ten upper-income tracts. Thirty-three percent of the families live in the eight middle-income tracts with the remaining 25% in the six moderate-income tracts. There are no low-income tracts in the assessment area. The weighted average median family income of the assessment area is \$39,500. The weighted average median housing value is \$59,632. The table below provides additional demographic and economic data of the assessment area (AA). Unless otherwise stated, the information presented below was obtained from 1990 U.S. Census data.

Table 2

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b>Population</b>	
Number of Families	22,851
Number of Households	31,714
<b>Geographies</b>	
Number of Census Tracts/BNA	24
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	25%
% Middle-Income Census Tracts/BNA	33%
% Upper-Income Census Tracts/BNA	42%
<b>Median Family Income (MFI)</b>	
1990 MFI for AA	29,671
2001 HUD-Adjusted MFI	39,500
<b>Economic Indicators</b>	
Unemployment Rate (1 <sup>st</sup> Quarter 2002, Cowlitz County Economic Council )	11%
2001 HUD Median Housing Value	59,632
% of Households Below Poverty Level	13%

Competition in the county is strong. There are 17 financial institutions doing business in the assessment area, including 10 banks and savings-and-loans, and seven credit unions. Deposits in Cowlitz County offices totaled \$1.3 billion as of June 30, 2001. Credit unions hold \$686 million of these deposits with the remaining \$615 million split among the 10 remaining institutions. Hometown's market share of the \$615 million in remaining deposits is 2.19%.

In conjunction with this CRA examination, we conducted a community contact interview. In addition, we reviewed one other contact interview that was conducted by the FDIC in the bank's assessment area. Community contacts are interviewed to learn about credit opportunities within the community and how well financial institutions address the credit and service needs of the community. The contacts were representatives of two local community development organizations. The organizations indicated the need for affordable housing and how the Longview Housing Authority has had difficulties in obtaining commitments and funding from institutions located in Cowlitz County. Layoffs have contributed to the county having one of the highest unemployment rates in the state.

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

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

Hometown's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of the community. We looked at 12 institutions of similar size and location and found an average quarterly LTD ratio of 60%. Hometown's average LTD ratio is 81%. Peer bank asset sizes ranged from \$13 million to \$90 million and were located in similar markets throughout Washington State. Average LTD ratios were computed for all banks over the last seven quarters (December 2000 to June 2002).

### **Lending in the Assessment Area**

Hometown's lending within the assessment area meets the requirement for a satisfactory rating. A satisfactory CRA rating requires the bank to originate 50% of loans, both in number and dollar value, within the assessment area. A sample of 40 loans, consisting of 20 residential real estate and 20 commercial real estate loans, indicates that 70% of the number of loans are within the bank's assessment area. Sixty-eight percent of total dollars loaned are within the assessment area.

Table 3

<b>TOTAL LOANS REVIEWED</b>								
	<b>INSIDE ASSESSMENT AREA</b>				<b>OUTSIDE OF ASSESSMENT AREA</b>			
<b>LOAN TYPE</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Commercial RE	13	65%	2,590,346	67%	7	35%	1,290,000	33%
Residential RE	15	75%	914,883	71%	5	25%	365,700	29%
<b>Total Reviewed</b>	<b>28</b>	<b>70%</b>	<b>3,505,229</b>	<b>68%</b>	<b>12</b>	<b>30%</b>	<b>1,655,700</b>	<b>32%</b>

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

Lending to borrowers of different incomes and businesses of different sizes is satisfactory given the bank's marketing strategy.

We obtained a random sample of 20 residential real estate loans totaling \$1.2 million and 20 commercial real estate loans totaling \$3.8 million to determine the distribution of loans across income levels. These loans were originated within the assessment area between 2000 through 2002.

Hometown focuses on small business lending. Table 4 shows that 100% of the commercial loan sample was made to businesses that earn less than one million dollars. The bank's relationships with small business clients drive the demand for consumer and residential loans made to existing commercial customers. The majority of the residential real estate portfolio consists of these business borrowers leveraging personal assets for their business and investment needs.

Table 4

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94%	6%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Table 5

<b>RESIDENTIAL REAL ESTATE</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	18%		15%		22%		45%	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Residential RE	0%	0%	10%	4%	15%	12%	75%	85%

**Geographic Distribution of Loans**

The geographic distribution of loans across the assessment area is satisfactory.

Using the same loan sample noted above we determined the geographic distribution of loans across the assessment area.

Table 6

<b>BUSINESS LOAN</b>								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		30%		31%		37%	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Business Loans	0%	0%	60%	52%	10%	20%	30%	28%

With a focus on small businesses, and a majority of local businesses located in moderate income tract areas, it makes sense to see the concentration shown in Table 6 for businesses in moderate income tracts. The sample shows 60% of Hometown’s business loans are to businesses located in moderate-income tracts, well above the 30% census tract level.

Table 7

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	0%		32%		63%		73%	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Residential RE	0%	0%	15%	11%	35%	41%	50%	48%

Residential real estate loans in the moderate-income tract are below the demographic level of 32% owner occupied. As noted in the lending to borrowers of different incomes section, commercial customers obtain loans secured by residential real estate. Residential secured loans are used by small business owners to leverage personal assets for business and investing needs. These commercial customers tend to live in middle- and upper-income tracts.

### **Response to Complaints**

No written complaints concerning Hometown's CRA performance have been received since the bank's opening in May of 2000.

### **Fair Lending Review**

An analysis of 2000-2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.