

PUBLIC DISCLOSURE

March 31, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Clear Lake National Bank
Charter Number 17113

16211 Space Center Boulevard
Houston, Texas 77062

Office of the Comptroller of the Currency

Southwestern District
1600 Lincoln Plaza
500 North Akard Street
Dallas, Texas 75201-3394

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 Clear Lake National Bank prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 31, 1996. 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".

Clear Lake National Bank has satisfactory CRA performance supported by:

- Strong loan-to-deposit of 68%;
- Satisfactory percentage of lending within the assessment areas at 84%;
- Reasonable distribution by income and geography of lending; and,
- Excellent record of lending to small business.

Clear Lake National Bank has granted a significant level of credit, relative to its size and scope of operations. The distribution of loans reflects, given the demographics of the assessment areas, reasonable penetration among census tracts of different income levels, including low- and moderate-income levels, and small businesses. The bank has not received any complaints from the public regarding its CRA performance.

The following table indicates the performance level of Clear Lake National Bank with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | <u>Clear Lake National Bank</u> PERFORMANCE LEVELS | | |
|--|---|--|--|
| | Exceeds Standards for Satisfactory Performance | Meets Standards for Satisfactory Performance | Does not meet Standards for Satisfactory Performance |
| Loan to Deposit Ratio | X | | |
| Lending in Assessment Area | | X | |
| Lending to Borrowers of Different Incomes and to businesses of Different sizes | | X | |
| Geographic Distribution of Loans | | X | |
| Response to Complaints | No complaints were received since the previous examination. | | |
| | | | |

DESCRIPTION OF INSTITUTION

Clear Lake National Bank is a wholly owned subsidiary of Hometown Bancshares Inc., a one bank holding company. The main office is located at 16211 Space Center Boulevard. The Houston branch is located at 1001 Pineloch Drive, and the San Antonio branch is located at 150 North Loop 1604 East at Voight Drive. Automated teller machines are located at the main office and the Houston branch. The bank has total assets of \$59 million and a loan portfolio approximating \$36 million as of March 31, 1996. Lending activity is centered in real estate related loans (69%), commercial and industrial loans (18%), and individual consumer loans (12%). Total deposits are \$53 million and equity capital is \$5 million. The majority of the lending activity has occurred in the Houston area since the San Antonio branch has only been opened since July 1, 1995. The bank offers a wide variety of loan and deposit products. There are no financial conditions, legal constraints, or other factors that hinder the bank's ability to help meet the credit needs of its assessment areas.

A community contact was made during the examination with a local businessperson. This contact indicated that all area financial institutions have been helpful and responsive in meeting the needs of the community. Due to heavy competition, there is no need in the community that is not being adequately addressed.

DESCRIPTION OF HOUSTON ASSESSMENT AREA

The Houston assessment area consists of two complete counties: Harris and Galveston. There are 649 census tracts in the assessment area. Houston is the nation's fourth largest city and is a major cultural center of the southwestern United States. Major employment opportunities are associated with the aerospace, health care, petrochemicals/energy, computer industries, and manufacturing sectors. The Houston metropolitan Statistical Area (MSA) has a population, based on 1990 census information, in excess of 3 million people with 13% living below the established poverty level. The Department of Housing and Urban Development MSA Median estimated family income for Houston in 1996 is \$45,710. Credit needs in the area are diverse and typical of any large metropolitan area. No unique needs are readily apparent.

DESCRIPTION OF SAN ANTONIO ASSESSMENT AREA

The San Antonio assessment area consists of three complete counties: Bexar, Comal and Kendall. There are 237 census tract and 4 block numbering areas in the assessment area. The three counties have a population, based on 1990 census information, in excess of 1.2 million people with 17% living below the established poverty level. San Antonio is approximately 193 miles west of Houston. Major employers in the area include the United States military and

tourism. The Department of Housing and Urban Development MSA Median estimated family income for San Antonio in 1996 is \$35,882. The bank's ascertainment of credit needs identified a strong loan demand for new housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Clear Lake National Bank lends its available funds at a level which demonstrates a commitment to reinvesting deposits in credit accommodations. The average loan-to-deposit ratio for 1995 is 58% and has been steadily increasing throughout the past two years. As of March 31, 1996, the loan-to-deposit ratio is 68%. A majority of residential mortgage loans are sold into the secondary market primarily to make funds available for additional loans. Adjusting for the mortgage loans sold immediately after closing into the secondary market, the loan-to-deposit ratio is 85%.

In 1995, Clear Lake National Bank originated 545 loans. The following table shows the number of loans and the dollar amounts of loans made within and outside of the assessment areas and the corresponding percentages.

| Total 1995 Loans | # | % | \$ | % |
|-------------------------|-----|-----|------------|-----|
| Within Assessment Area | 430 | 79 | 22,735,609 | 84 |
| Outside Assessment Area | 115 | 21 | 4,369,783 | 16 |
| Total Loans | 545 | 100 | 27,105,392 | 100 |

A large portion of the bank's lending activity involves small business loans. Small business loans amounted to 26% by number and 50% by dollar of total loans originated.

| Total Small Business Loans | # | % | \$ | % |
|----------------------------|-----|-----|------------|-----|
| Within Assessment Area | 128 | 91 | 13,039,586 | 97 |
| Outside Assessment Area | 13 | 9 | 451,062 | 3 |
| Total Loans | 141 | 100 | 13,490,648 | 100 |

An analysis of Home Mortgage Disclosure Act (HMDA) reportable residential related loan transactions for 1995 reflects 73% of loans originate from within the bank's assessment areas. The annual income levels recorded for approved home mortgage borrowers, according to 1995 HMDA information, ranges from \$24 thousand to \$407 thousand, with a median of \$77 thousand.

The distribution of lending reflects reasonable penetration within census tracts of different income levels, including low- and moderate-income. The following table represents the distribution of total loans originated in 1995 among census tracts of different income levels within the assessment areas:

| | % of Dollar | % of Number | % of Population |
|-----------------|-------------|-------------|-----------------|
| Low Income | 7.71 | 2.12 | 10.82 |
| Moderate Income | 11.54 | 3.70 | 27.20 |
| Middle Income | 25.18 | 25.93 | 32.82 |
| Upper Income | 55.57 | 68.25 | 29.16 |

The following table shows the distribution of small business loans in 1995 among census tracts of different income levels within the assessment areas:

| | % of Dollar | % of Number | % of Population |
|-----------------|-------------|-------------|-----------------|
| Low Income | 12.93 | 4 | 10.82 |
| Moderate Income | 16.58 | 9 | 27.20 |
| Middle Income | 29.66 | 34 | 32.82 |
| Upper Income | 40.83 | 53 | 29.16 |

The bank's offices are located in and surrounded by middle and upper income census tracts, which explains the larger volume in these tracts. Loan applications are solicited from a cross-section of income levels. Despite the great geographic distances between the office locations and low- and moderate-income tracts, the bank was able to extend over 19% of the total dollar amount of loans within low- and moderate-income census tracts. The San Antonio office has not yet generated adequate loan volume to perform a separate meaningful analysis.

No violations of the substantive provisions of anti-discrimination laws and regulations were identified during the examination conducted in association with the issuance of this Public Disclosure.