



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**June 16, 2008**

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

Hometown National Bank  
Charter Number 23868

970 14th Avenue  
Longview, WA 98632

Office of the Comptroller of the Currency

San Francisco Field Office  
One Front Street, Suite 1000  
San Francisco, CA 94111

**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.

Hometown National Bank (Hometown) satisfactorily meets the credit needs of its assessment area, including low- and moderate-income areas, consistent with its resources and capabilities. The following supports this rating:

- The bank's average loan-to-deposit ratio of 87.83% is good given the bank's size, financial condition, and the credit needs of the assessment area.
- A majority of the bank's loan portfolio (85%) was originated within the assessment area.
- The bank's distribution of loans to businesses of different sizes exceeds the standard for satisfactory performance.
- The bank's geographic distribution of business loans in low- and moderate-income census tracts meets the standard for satisfactory performance.
- There have been no written complaints regarding the bank's performance in meeting its community's credit needs.

## **SCOPE OF EXAMINATION**

This full scope performance evaluation period covered June 30, 2002 through March 31, 2008, and was evaluated using 2000 Census demographic information. Hometown originated approximately 92 business loans out of 237 loans during this evaluation period. We analyzed a random selection of 20 business loans for Lending in the Assessment Area, Lending to Businesses of Different Sizes, and Geographic Distribution of Loans performance criterion.

## **DESCRIPTION OF INSTITUTION**

Hometown is a community bank that 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. There are eight members of the community serving on the Board of Directors and the bank is owned by its holding company, Hometown Financial Services.

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 home equity lines of credit. The bank does not offer credit cards.

The bank's last CRA examination was dated August 27, 2002, with a satisfactory rating. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of its community. As of March 31, 2008, the bank had total assets of \$31.5 million, 77% of which were net loans. The following table reflects the composition of the bank's loan portfolio as of March 31, 2008:

Table 1

<b>HOMETOWN'S LOAN PORTFOLIO COMPOSITION</b>		
<b>Loan Type</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Commercial	20,367	82%
Multifamily RE	1,893	8%
1-4 Family Residential	1,868	8%
Consumer/Other	649	3%
<b>Total Loans</b>	<b>24,777</b>	<b>100%</b>

*Call Report as of 3/31/08*

*Please refer to the bank's CRA public file for more information about the institution.*

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

The bank's assessment area consists of Cowlitz County 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 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 located in the Longview, Washington Metropolitan Statistical Area.

The residents of Cowlitz County work in diverse industries, including wood products, dairy farming, metals, and processing. According to 2008 census data, the population of Cowlitz County is 92,948. The largest city is Longview, which has a population of 34,660.

The forest products and timber industries have been the foundation of the local economy since the pioneer days. The majority of Cowlitz County is forest land. 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 23 census tracts in Cowlitz County with the majority of families, 64%, living in the 14 middle income tracts. Eighteen percent of the families live in the three upper income tracts, 14% of the families live in the five moderate income tracts, and the remaining 4% of families live in the one low income tract. The following table illustrates these statistics:

Table 2

<b>HOMETOWN'S ASSESSMENT AREA COMPOSITION INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES AND FAMILIES</b>						
<b>Income of Census Tract</b>	<b># and % of Census Tracts</b>		<b># and % of Businesses</b>		<b># and % of Families</b>	
Low Income	1	4.35%	91	0.50%	1,094	4.33%
Moderate Income	5	21.74%	1,331	21.88%	3,434	13.60%
Middle Income	14	60.87%	3,924	64.52%	16,107	63.80%
Upper Income	3	13.04%	736	12.10%	4,610	18.26%
N/A	0	0%	0	0%	0	0%
<b>Total:</b>	23	100.00%	6,082	100.00%	25,245	100.00%

*Source: 2000 U.S. Census and 2008 Dun & Bradstreet*

The weighted average median family income for Cowlitz County is \$46,508, while the weighted average median housing value is \$122,524.

Competition in the county is strong. There are ten financial institutions doing business in the assessment area. Deposits in Cowlitz County offices totaled \$856 million as of June 30, 2007. Hometown's market share of \$33.3 million in deposits represents 3.89% of the total.

In conjunction with this CRA examination, we conducted a community contact interview. 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 contact was a representative of a local community development organization. The organization indicated the need for affordable housing and how local banks' involvement in low- and moderate-income areas has improved in recent years. Layoffs have contributed to the county having one of the highest unemployment rates in the state.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on a full scope review, the bank's small business performance in the assessment area is satisfactory. Conclusions to support this rating are based on the following.

### Loan-to-Deposit Ratio

Hometown's loan-to-deposit (LTD) ratio is good given the bank's size, financial condition, and the credit needs of the community. We looked at one similar institution both in size and location and found an average quarterly LTD ratio of 82.46%. Hometown's average LTD ratio is 87.83%. The assets of the peer bank were \$40.5 million and it was located in a similar market. Average LTD ratios were computed over the last 24 quarters (June 2002 to March 2008).

### Lending in Assessment Area

Hometown's lending within the assessment area exceeds 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 20 commercial loans indicates that 85% of the number of loans is within the bank's assessment area. Eighty percent of total dollars loaned are within the assessment area.

Table 3

Hometown Lending in the Longview, WA MSA								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Business Loans	17	85%	3	15%	2,225,663	80%	557,985	20%
<b>Totals</b>	<b>17</b>	<b>85%</b>	<b>3</b>	<b>15%</b>	<b>2,225,663</b>	<b>80%</b>	<b>557,985</b>	<b>20%</b>

Source: Sample of 20 business loans originated from January 1, 2006 to March 31, 2008

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

The bank's distribution of loans to businesses of different sizes exceeds the standard for satisfactory performance. (Businesses with annual revenues of \$1 million or less are deemed to be small businesses.)

Table 4 shows that the percentage of small businesses within the Longview metropolitan statistical area is 69%. Based on our sample, the bank's distribution of business loans to businesses with revenues less than \$1 million exceeded the area demographics by number and dollar. The resulting percentages were 90% and 88%, respectively.

Table 4

Income Distribution of Loans to Businesses in the Longview MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69%	5%	26%	100%
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	88%	12%	0%	100%

Demographic Data Source: 2008 Business Geodemographic Data.

## Geographic Distribution of Loans

The bank's geographic distribution of loans meets the standard for satisfactory performance. The loan distribution reflects satisfactory dispersion throughout the assessment area. We used the same sample of business loans used in the analysis of "Lending to Businesses of Different Sizes". Table 5 details the geographic distribution of the bank's business loans in the assessment area.

Table 5

Geographic Distribution of Loans to Businesses in the Longview MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	1.67%	0%	12.18%	30%	60.41%	45%	24.87%	25%

Demographic Data Source: 2008 Business Geodemographic Data

The above table reflects that 12.18% of small businesses are located in moderate-income census tracts. In comparison, our loan sample reflected that 30% of the bank's business borrowers were located in these tracts, which exceeded the area demographics. The 2008 Business Geodemographic data showed that 1.67% of small businesses were located in the only low-income census tract in the bank's assessment area. In comparison, our loan sample reflected that none of the bank's business borrowers were located in this tract. While this reflects poor penetration, opportunities to lend are limited due to the number of small businesses and competition. Hometown

faces competition with eight other banks that are larger and have more branches. Hometown has only 3.89% of the market share.

### **Responses to Complaints**

No written complaints concerning Hometown's CRA performance have been received since the bank's previous CRA examination dated August 27, 2002.

### **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.