

**Comptroller of the Currency
Administrator of National Banks**

Western District
50 Fremont Street, Suite 3900
San Francisco, California 94105
(415) 545-5900

PUBLIC DISCLOSURE

February 9, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Delta National Bank
Charter Number 16154**

**611 North Main Avenue
Manteca, California 95336**

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 **Delta National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **December 31, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory.**”

Delta National Bank’s CRA performance rating is based on the following factors: (1) a reasonable loan-to-deposit ratio; (2) a sizeable majority of lending within the bank’s assessment area; (3) a reasonable geographic distribution of loans within the assessment area; and (4) a reasonable distribution among businesses, farms, and individuals.

DEFINITIONS OF TERMS USED IN THIS PUBLIC DISCLOSURE

Low - Income Geography:

For a census tract: The median *family* income is less than 50% of the median *family* income for the MSA in which it is located.

Moderate - Income Geography:

For a census tract: The median *family* income is equal to or greater than 50% and less than 80% of the median *family* income for the MSA in which it is located.

Middle - Income Geography:

For a census tract: The median *family* income is equal to or greater than 80% and less than 120% of the median *family* income for the MSA in which it is located.

Upper - Income Geography:

For a census tract: The median *family* income is equal to or greater than 120% of the median *family* income for the MSA in which it is located.

LMI: Abbreviation for “low- or moderate - income”. Characterizes geographies and families.

Median Family Income: As determined by U.S. Census Bureau data in 1990.

1997 HUD Median Family Income: Updated U.S. Census Bureau data, determined by the Department of Housing and Urban Development for 1997.

MSA: Metropolitan Statistical Area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	Delta National Bank 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	N/A		

DESCRIPTION OF INSTITUTION:

Delta National Bank (DNB) is a community bank serving the area south and east of the San Joaquin River Delta region. This area includes the foothills of the Diablo Range in the west, the central valley, and the foothills of the Sierra Nevada Range in the east, all within the southern half of San Joaquin County and all of Stanislaus County. The bank operates full service branches at its headquarters in Manteca (San Joaquin County) and in three locations in Stanislaus County: Denair, Modesto, and Riverbank. The Modesto branch is located in an upper-income census tract, and the other three offices are located in middle-income census tracts. There are no low- or moderate-income (LMI) census tracts in the immediate vicinity of the branches.

As of December 31, 1997, total assets are **\$97 million**, total loans outstanding are **\$54 million**, and total deposits are **\$83 million**. The bank's lending emphasizes residential construction financing and lending to small and medium-size businesses and farms. A smaller portion of its lending is for individual and residential real estate loans. For the exam review period of August 1994 through December 1997, the bank originated 1,303 loans for total commitments of \$114 million. Of these, 570 (44% by number and 65% by dollar volume) were for businesses (including residential construction), and 138 (11% by number and 14% by dollar volume) were for farms. A sizeable majority of these business and farm loans were in amounts of \$100 thousand or less, and to borrowers with annual revenues of \$1 million or less.

For a snap-shot view of the bank's loan portfolio, this table shows loans outstanding as of December 31, 1997:

Loan Type as of 12/31/97	\$ Million	%
Commercial	\$14.0	26%
Commercial Real Estate	\$13.4	24%
Residential Development & Construction	\$12.3	23%
Agricultural	\$10.3	19%
Commercial Development & Construction	\$2.1	4%
Individual	\$1.6	3%
Residential Real Estate	\$0.6	1%
Total Loans	\$54.3 Million	100%

Source: Bank data

The bank received an Outstanding rating for its previous CRA examination during 1994. Performance criteria within CRA were revised during 1995. The bank competes with several community banks based in its area, as well as with branches of several large institutions. We are not aware of any impediments restricting the bank's ability to meet the credits needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA:

The Board and management have defined DNB’s assessment area as all of Stanislaus county plus the adjoining southern half of San Joaquin county. Each of the two counties is an MSA. The assessment area contains 128 contiguous census tracts, with a population of 504,964 based on 1990 Census data. Of these tracts, 26 have only 13 households for whom the income level was not reported in the 1990 Census. The distribution of census tracts, families, and income is described in the tables below. The bank has excluded Stockton and the remaining northern half of San Joaquin County from the assessment area because of the lack of branches and limited number of loans in that area.

Most of the assessment area’s population is concentrated in the communities within ten miles of State Highway 99, as well as in Tracy, which is in southwestern San Joaquin County. The remaining census tracts are sparsely populated and rural, and are primarily agricultural. Overall, the assessment area is relatively affluent. Of the 102 populated census tracts in the assessment area, only one in Modesto, Stanislaus County is classified low-income. There are 16 tracts designated moderate-income, including one in Lathrop, San Joaquin County and 15 in Stanislaus County (primarily in the southern portions of Modesto and Turlock). The remaining 85 census tracts are classified middle- or upper-income.

According to 1990 Census data, the median family income was \$33,853 for all of San Joaquin County and \$34,701 for Stanislaus county. This compares to \$29,947 for the rural, non-MSA portions of the State of California. The Census median housing values were \$124,044 for all of San Joaquin County (3.7 times median family income); and \$124,127 for Stanislaus County (3.6 times median family income). The owner occupancy rates in the 1990 Census for all housing units were 60% for all of San Joaquin County and 58% for Stanislaus County. HUD updated median family income in 1997 to \$42,600 for all of San Joaquin County and \$41,000 for Stanislaus County. The Board and management have identified housing development and loans to small and medium-size businesses and farms as the community’s credit needs.

Census Tracts within the Assessment Area						
Income Category	San Joaquin County		Stanislaus County		Total Assessment Area	
	#	%	#	%	#	%
Low	0	0%	1	0%	1	1%
Moderate	1	3%	15	21%	16	16%
Middle	17	57%	41	57%	58	57%
Upper	12	40%	15	21%	27	26%
Subtotal	30	100%	72	100%	102	100%
NA	0	NA	26	NA	26	NA
Total	30	NA	98	NA	128	NA

Source: 1990 Census data

Middle-income geographies account for the largest geographic classification (57%) within the assessment area. LMI families reside throughout all income classifications of census tracts, but are distributed within the total population at almost exactly the same rates as the corresponding income classifications of the geographies. LMI census tracts account for 17% of total tracts, while LMI families account for 14% of total families, as illustrated in the table below. The number of low-income families represents less than 1% of total families in the assessment area.

Families within the Assessment Area						
Income Category *	San Joaquin County		Stanislaus County		Total Assessment Area	
	#	%	#	%	#	%
Low	0	0%	565	1%	565	0%
Moderate	401	1%	17,050	18%	17,451	14%
Middle	18,692	56%	55,194	58%	73,886	57%
Upper	14,251	43%	22,455	24%	36,706	30%
Total Families	33,344	100%	95,264	100%	128,608	100%
Total Population	134,442		370,522		504,964	

Source: 1990 Census data

* Income category is for the families, regardless of the income category of the census tract in which they reside.

Dun & Bradstreet economic reports show that 15,835 businesses operate within the bank’s assessment area, including 1,171 farms and 14,664 non-farm businesses. Of these, 74% have annual revenues of \$1 million or less. Approximately 66% employ less than five employees. The services sector is the largest employer within the assessment area, followed by retail trade, government, and manufacturing.

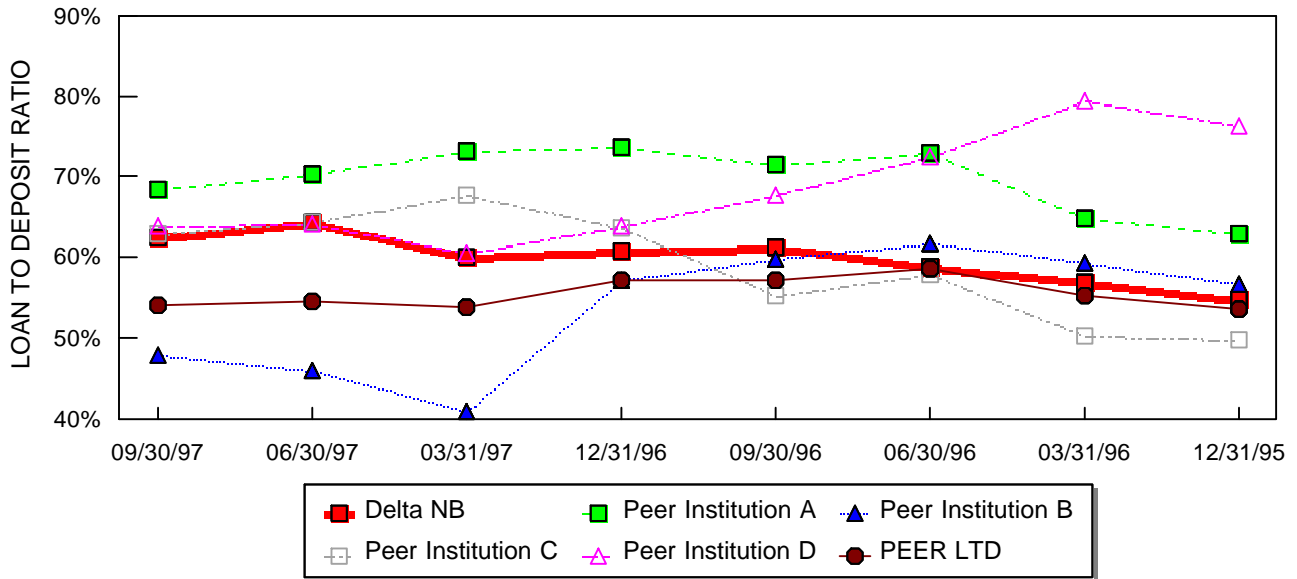
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio:

- **Delta National Bank’s loan to deposit ratio is reasonable compared to local peer bank averages.**

The ratio of net loans and leases to total deposits for the eight quarters ending September 30, 1997 was 61.0%. This is slightly above the peer group average of 55.6% for the same period. The peer group consists of community banks with assets less than \$250 million and headquartered in San Joaquin or Stanislaus Counties. The chart below displays the loan to deposit comparison:

Loan to Deposit Ratio Analysis



Source: Call Report data

Lending in the Assessment Area:

- **A significant majority of the bank's loan originations were made within the bank's assessment area during the assessment period.**

An analysis of DNB's loan originations for the period August 1994 through December 1997 shows that a significant majority of loans were made within the bank's assessment area. The following table reflects the distribution of bank's originations of loans within its assessment area.

Lending Inside and Outside of the Assessment Area Commercial and Instalment Loans & Commitments				
	# of Loans in Assessment Area	% of # of Loans in Assessment Area	Dollar Volume of Loans in Assessment Area (000)	% Dollar Volume of Loans in Assessment Area
Inside Assessment Area	1,112	85%	\$94,168	83%
Outside Assessment Area	191	15%	\$19,356	17%
Total	1,303	100%	\$113,524	100%

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

(1) Business Lending

- **Given the demographics of the bank’s assessment area, DNB’s lending reflects a reasonable penetration among businesses of different sizes.**

Management collected borrower annual sales revenue data for business loans made between August 1994 and December 1997. The following table shows the distribution of lending between businesses with annual sales of \$1 million or less, and annual sales greater than \$1 million. Lending opportunities are strong, based on Dun & Bradstreet data. Approximately one fourth of the loans (29% by number and 21% by dollar volume) were made to small businesses.

Distribution of Business Loans Originations August 1994 thru December 1997					
	# non-farm Businesses *	# of Loans	% of # Loans	\$000 Loans	% of \$ Loans
Loans to Business with sales <= \$1,000,000	10,776	165	29%	15,395	21%
Loans to Businesses with sales > \$1,000,000	1,221	83	15%	26,636	36%
Single Family Residential Construction and Development	NA	308	54%	31,414	42%
Income Not Reported	2,667	14	2%	895	1%
Totals	14,664	570	100%	74,340	100%

* Source: Dun & Bradstreet data for the bank’s defined assessment area.

Residential construction is a significant portion of the bank’s lending, which skews the data noted in the table above. Residential construction loans are extended on a single note per residence basis. Most of the bank’s residential loans were made to ten local real estate developers, all of whom have annual revenues exceeding \$1 million. The bank’s financing of these properties does not include the purchase mortgages.

A substantial majority of the construction loans were for properties located in middle- and upper-income census tracts. During the period of time covered by this analysis, prices of houses financed by the bank ranged from a low of \$80 thousand to a high of \$170 thousand. Based on 1997 HUD median family incomes for the assessment area, an “affordable home” for a moderate-income buyer would be priced at approximately \$116 thousand. The price range of the bank-financed homes under construction is wide, but it does include the “affordable” point for entry-level housing. However, it is noted that there are no contractual restrictions by local government jurisdictions, nor by DNB, which require certain numbers of homes to be built at certain prices nor which require income tests for the buyers.

Collected data for business purpose loans shows that a sizeable majority of the number of loans were for loans of \$100 thousand or less. A distribution by loan size is included in the following table.

Loans to Businesses by Loan Size				
	# of Loans	% of # Loans	\$000 Loans	% of \$ Loans
Originations of \$100,000 or less	423	74%	23,956	32%
Originations from > \$100,000 through \$250,000	85	15%	10,432	14%
Originations from > \$250,000 through \$1,000,000	44	8%	19,381	26%
Originations of more than \$1,000,000	18	3%	20,571	28%
Totals	570	100%	74,340	100%

Also, the bank actively sells participations of its business loans to enhance its ability to make originations. During the assessment period, the bank sold participations in 138 business loans in the amount of \$14 million. Of these, 124 loan originations (\$8.4 million) were for amounts of \$100 thousand or less.

(2) Farm Lending

- **The bank's record of lending to small farms is good.**

Management collected annual revenue data for farm loans extended for the period August 1994 through December 1997. The table below shows that a sizeable majority of farm loans by number were made to farms with annual revenues of \$1 million or less, and 50% by dollar volume. Lending opportunities are strong, based on Dun & Bradstreet data.

Distribution of Farm Loan Originations August 1994 thru December 1997					
	# of Farms *	# of Loans	% of # Loans	\$ 000 Loans	% of \$ Loans
Annual Revenues \$1,000,000 or less	955	107	77%	8,006	50%
Annual Revenues greater than \$1,000,000	129	30	22%	8,055	50%
Income not listed	87	1	1%	27	0%
Totals	1,171	138	100%	16,088	100%

* Source: Dun & Bradstreet data for the bank's defined assessment area.

The information also shows that a significant percentage of these loans were made in amounts of \$250 thousand or less, while the dollar share is more limited. The distribution of farm loans by size of loan is presented on the following table.

Distribution of Farm Loan Originations by Loan Size				
	# of Loans	% of # Loans	\$000 Loans	% of \$ Loans
Originations of \$100,000 or less	90	65%	2,783	17%
Originations from \$100,000 through \$250,000	27	20%	4,167	26%
Originations from \$250,000 through \$1,000,000	19	14%	6,653	41%
Originations of more than \$1,000,000	2	1%	2,485	16%
Totals	138	100%	16,088	100%

(3) Consumer Lending

- **The distribution of consumer lending (primarily automobile and instalment loans) is very good. The small level of activity is in keeping with the bank’s emphasis on construction, business, and farm lending.**

Although consumer lending is not a significant market for Delta National Bank, the data for this type of lending reflects strong performance. During this period, 394 loans were originated for a total dollar volume of \$2.3 million. The distribution of loans to LMI borrowers exceeds the proportion of LMI families to total families in the assessment area (44% by numbers and 32% by dollars, versus the 14% share of LMI families).

Geographic Distribution of Loans:

This criterion and the “different sizes / different incomes” criterion were given the most weight in the determination of the bank’s CRA rating.

- **Loan originations are reasonably well dispersed among census tracts of different income levels throughout DNB’s assessment area.**

Management provided loan and census tract information for all originations made during the period August 1994 through December 1997. The bank data included only those loans made within the assessment area. The following chart shows this distribution. The level of lending to each level of income tract generally corresponds to the number of tracts by income level, although the LMI share of lending is below the LMI proportion of census tracts.

Distribution of Loan Originations by Census Tract						
Income Characteristic	# of Loans	% of # of Loans	\$ of Loans (000)	% of \$ of Loan	Tracts in Assessment Area	% Tracts in Assessment Area
Low-income Tract	0	0%	0	0%	1	1%
Moderate-income Tract	86	8%	10,334	11%	18	18%
Middle-income Tract	712	64%	51,850	55%	59	57%
Upper-income Tract	312	28%	31,872	34%	24	23%
N/A Tracts	2	0%	112	0%	1	1%
Total	1,112	100%	94,168	100%	103	100%

Response to Complaints:

Management has not received any complaints about the bank's CRA performance since the last CRA evaluation conducted in March of 1994.

Other Items:

The bank is in compliance with anti-discrimination laws and regulations. These include the Equal Credit Opportunity Act (ECOA), The Fair Housing Act (FHA), and the Home Mortgage Disclosure Act (HMDA). There was no evidence in our Fair Lending Examination to indicate any discrimination against protected classes.