



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

Washington, DC 20219

PUBLIC DISCLOSURE

July 13, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mission National Bank
Charter Number 17176**

**3060 16th Street
San Francisco, CA 94103**

**Comptroller of the Currency
50 Fremont Street, Suite 3900
San Francisco, California 94105**

<p>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.</p>
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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 Community Reinvestment Act (CRA) performance of **Mission National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of July 13, 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.**”

Mission National Bank’s CRA performance rating is based on the following factors: (1) a weak loan-to-deposit ratio; (2) a sizeable majority of the number of commercial loans and majority of the number of consumer loans were made within the assessment area; (3) a reasonable distribution of loans were made between businesses and individuals of different incomes; and (4) a reasonable geographic distribution of loans within the assessment area.

DEFINITIONS OF TERMS APPLIED 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.

HMDA:

Abbreviation for “Home Mortgage Disclosure Act.”

LMI:

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

Median Family Income:

As determined by U.S. Census Bureau data in 1990.

1998 HUD Median Family Income:

Updated U.S. Census Bureau data, determined by the Department of Housing and Urban Development for 1998.

MSA:

Metropolitan Statistical Area.

DESCRIPTION OF INSTITUTION:

Mission National Bank (MNB) is a community bank established in 1982, with **\$47 million in assets, \$18 million in loans, and \$40 million in deposits as of June 30, 1998**. The bank's main office is located in the Mission District of San Francisco, California. The bank operates a second branch in the Mission District. Both San Francisco offices are in low-income census tracts, which are adjacent to low- and moderate-income census tracts. The bank also has a branch in the Elmwood District of Berkeley, California (upper-income census tract) and one in the Dimond District of Oakland, California (middle-income census tract). Both of the offices in Berkeley and Oakland are adjacent to moderate-income census tracts. The bank does not have any ATM's.

The bank's lending focus is to small businesses, with consumer lending largely supplementing business relationships. By dollar amount, the bank's total loans outstanding at June 30, 1998 are composed of the following types: commercial loans secured by real estate 12%; other commercial loans 34%; residential real estate 17%; non-residential real estate 16%; and consumer installment and revolving credit loans 18%. Management is aware that many of the residential real estate loans were used for business purposes. During the CRA review period of September 1, 1996 through July 13, 1998, the bank originated 109 loans totaling \$7.5 million. Commercial loans represented 55% by number and 77% by dollar volume of these originations. Of the sampled business loans for which borrower income was obtained, 62% were to borrowers with revenues of \$1 million or less. The bank does not make real estate development or construction loans.

The bank received a "Satisfactory" rating in its prior evaluation under CRA, dated August 12, 1996. The bank's branches are located in urban areas, which are highly competitive for deposit and lending customers. These metropolitan areas are dominated by branches of larger regional and multinational financial institutions, which offer consumers a wider variety of products to suit their credit needs.

During the review period, the bank experienced personnel turnover among the executive officers and directors. These personnel changes have caused reduced marketing efforts and a decline in loan volume.

DESCRIPTION OF ASSESSMENT AREA:

Based on the location of the bank's branches, the Board and management have defined the cities of San Francisco, Oakland, and Berkeley as the bank's assessment area. This designation complies with the regulation and does not arbitrarily exclude LMI areas. The city of San Francisco is a portion of the San Francisco MSA. The cities of Oakland and Berkeley are portions of the Oakland MSA. Both MSA's include other cities and counties that are not part of the bank's assessment area. Although the bank's assessment area consists of portions of two MSA's separated by the San Francisco Bay, it is reasonable to consider their combination as one assessment area. The major arterial highway traversing the Oakland Bay Bridge connects the two areas economically.

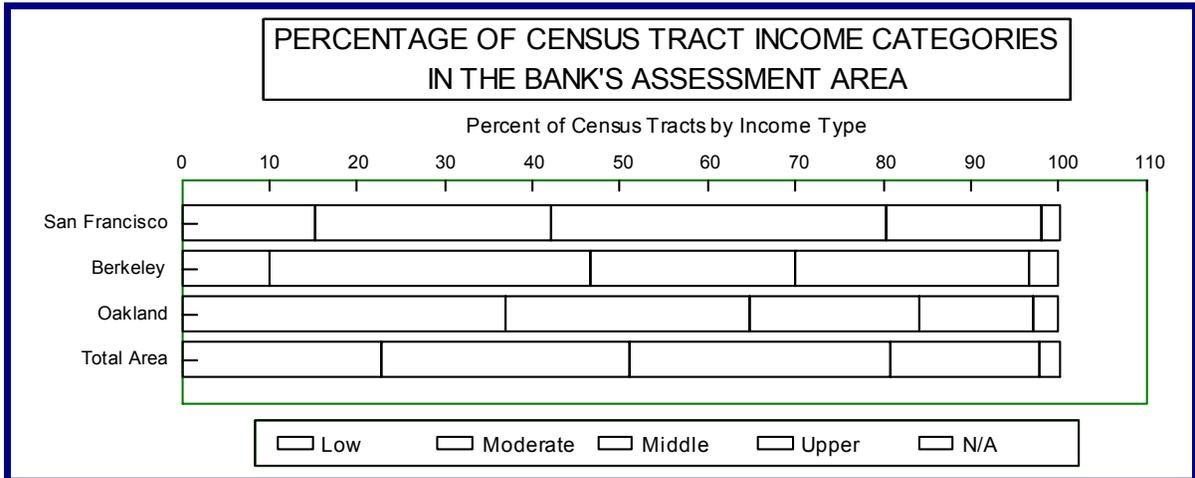
The assessment area consists of 290 census tracts, which are distributed by census tract income categories as illustrated in the following table:

Distribution of Census Tracts by Income Category Within the Bank's Assessment Area				
Income Category of Census Tract	Number of Census Tracts			Percent of Total Census Tracts
	San Francisco	Oakland & Berkeley	Total Assessment Area	
Low Income	23	43	66	23%
Moderate Income	41	41	82	28%
Middle Income	58	28	86	30%
Upper Income	27	22	49	17%
N/A *	3	4	7	2%
Total	152	138	290	100%

Source: 1990 Census data

* Census tracts with no reported income: San Francisco tracts are Golden Gate Park and certain Naval and Coast Guard facilities. Oakland and Berkeley tracts are industrial waterfront.

The following chart illustrates the percentage composition of the census tracts in each city and the bank's total assessment area:



Source: 1990 Census data

Economic activity in recent years supports a high level of affluence in the assessment area. However, based on 1990 Census data, 51% of the population lives in LMI census tracts that represent 51% of total tracts.

- In San Francisco, the low-income tracts are mostly adjacent in the northeastern quadrant of the city, including the Mission, Western Addition, and Tenderloin districts and a portion of Chinatown/ North Beach. There are also three scattered low-income tracts in the southeast. The moderate-income tracts are scattered primarily in the eastern half of the city.
- In Oakland and Berkeley, the principal demographic pattern is that the level of income of the census tracts increases with the distance from the San Francisco Bay. The low-income tracts in each city are closest to the bay, while the moderate-income tracts are mainly adjacent to and east of these tracts.

The distribution of population and families by tract income is shown in the following table:

Distribution of 1990 Population & Families By Census Tract Income Category						
Income Category of Census Tract	Population			Families (Not by Family Income)		
	San Francisco	Oakland & Berkeley	Total Assessment Area	San Francisco	Oakland & Berkeley	Total Assessment Area
Total Population & Families	723,959	478,246	1,202,205	143,818	105,070	248,888
Low Income	14%	29%	20%	12%	28%	19%
Moderate Income	28%	35%	31%	27%	33%	30%
Middle Income	44%	21%	35%	47%	20%	35%
Upper Income	14%	15%	14%	14%	19%	16%
N/A	0% *	0% *	0% *	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Source: 1990 Census data * Population share is < 0.5 % of total. There were no families reported in N/A tracts.

According to 1990 Census data, the median family income was \$49,282 for the San Francisco MSA and \$47,516 for the Oakland MSA. These are both substantially higher than \$41,848 for all MSA's in

California. The Census median housing value for the city of San Francisco was \$319,708, which is a very high 6.5 times the median family income for the MSA. For the cities of Oakland and Berkeley combined, the Census median housing value was \$191,373, which is a high 4.0 times the median family income for the MSA. HUD median family income was updated in 1998 to \$68,600 and \$63,300 for the San Francisco and Oakland MSA's, respectively. Both MSA's also have experienced substantial increases in housing values during the late 1990's. Due to the low affordability of housing in all three cities, rental occupancy represents a majority of housing, with a 1990 Census average of 58% for the three cities combined.

LMI families reside throughout the assessment area. The following table illustrates the distribution of families by family income, based on 1990 Census data:

Distribution of Families within Assessment Area By Family Income (Not by Census Tract Income)						
Income Category *	San Francisco		Oakland & Berkeley		Total Assessment Area	
	#	%	#	%	#	%
Low	40,352	28%	37,380	35%	77,732	31%
Moderate	29,524	21%	20,351	19%	49,875	20%
Middle	57,930	21%	19,571	19%	50,150	20%
Upper	43,362	30%	27,780	26%	71,142	29%
Total Families	143,818	100%	105,070	100%	248,888	100%
Total Population	723,959		478,246		1,202,205	

Source: 1990 Census data

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

Based on additional 1990 Census data not included in the table above, LMI families represent the following share of total families for each income category of the assessment area: 79% of families in low-income tracts, 62% moderate, 42% middle, and 20% upper. As noted earlier, LMI census tracts account for 51% of total tracts and population in the area. LMI families account for the same share of total families (31% low- income and 20% moderate-income). This LMI proportion of total families is substantially higher than the 39% share of families in all MSA's in California.

The economy of the assessment area is dominated by services, with a stronger industrial / manufacturing sector in Oakland and Berkeley. Employment data is available at the MSA level from the State of

California Employment Development Department (EDD) for May 1998. The five largest civilian employment sectors in the San Francisco MSA are business, health, and other services; wholesale and retail trade; finance, insurance, and real estate; state and local education and government; and transportation and public utilities. In the Oakland MSA, the five largest sectors are business, health, and other services; wholesale and retail trade; state and local education and government; manufacturing; and finance, insurance, and real estate.

Also based on EDD data for May 1998, the seasonally non-adjusted unemployment rates for the San Francisco and Oakland MSA's were 3.5% and 3.9%, respectively. These compare favorably to 5.5% for California and 4.2% for the United States.

Dun & Bradstreet economic reports show that 63,979 non-farm businesses operate within the bank's assessment area. Of these, 76% have reported annual revenues of \$1 million or less, including 67% with revenues of \$500,000 or less. Approximately 82% employ fewer than ten employees.

Meetings between federal regulatory agencies and community groups within these urban areas have determined affordable housing and small business financing as the primary credit needs within the San Francisco and Oakland MSA's.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

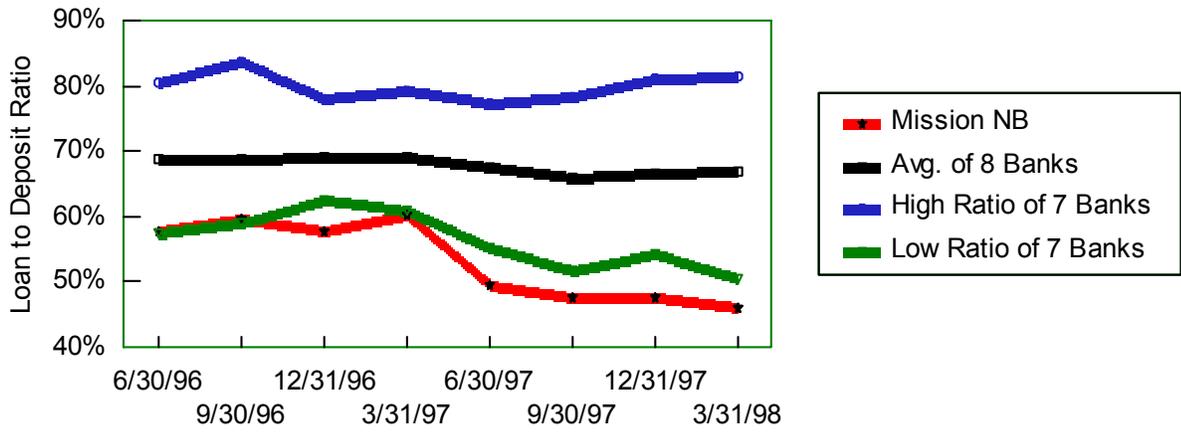
Loan-to-Deposit Ratio

- **MNB's Loan-to-Deposit Ratio *does not meet standards for Satisfactory Performance*. The ratio is weak relative to other similarly-situated institutions, impacted by the bank's reduced marketing efforts related to turnover in management.**

We evaluated the bank's loan-to-deposit ratio for the eight quarters ending March 31, 1998. We then compared this ratio to seven financial institutions with headquarters in the assessment area, and with total assets less than \$100 million. The bank's ratio averaged 53%, while the eight banks averaged 68%, ranging from 66% to 69%. The bank's ratio at March 31, 1998 is 46%, the lowest of the eight quarters evaluated.

In the chart below, MNB's quarterly ratio is compared to the eight-bank average (including MNB), and the quarterly low and high ratios among the seven other banks. MNB has consistently performed at a ratio substantially below the eight-bank average, and at or below the quarterly low ratio among the other banks.

Loan to Deposit Ratio Comparison



Source: Call Report data

Lending within the Assessment Area

- **The proportion of MNB’s lending within its assessment area *meets the standards for Satisfactory Performance*. A sizeable majority of the number of commercial loans and a majority of the number of consumer loans are within the assessment area.**

We collected data from a sample of the bank’s business, real estate, and consumer loans originated during the review period. The sample consisted of 36 of the 109 total loans, for \$1.9 million of a total of \$7.5 million. The sample indicates that 77% by number and 91% by dollar volume of business and real estate loans were within the assessment area. For consumer loans, 57% by number and 51% by dollar volume were within the assessment area. As noted earlier, commercial loans represented 55% by number and 77% by dollar volume of total originations.

The following table reflects the distribution of the bank’s loan originations, based on the results of our sample:

Sampled Loan Originations within Assessment Area: Commercial and Consumer Loans & Commitments			
	Commercial	Consumer	Total
# Sampled	22	14	36
% of Type Sampled (#)	37%	29%	33%
# within area	17	8	25
% within area (#)	77%	57%	69%
\$ 000 within area	\$1,422	\$193	\$1,615
% within area (\$)	91%	51%	83%

Source: Bank data

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

This criterion and the “geographic distribution” criterion were given the most weight in the determination of the bank’s CRA rating.

- **MNB’s lending to businesses of different sizes and individuals of different incomes *meets the standards for Satisfactory Performance*. This conclusion is based on the context of the bank’s size, management resources, and competition.**

(1) Lending to Businesses of Different Sizes

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

The following two tables illustrate the businesses in the assessment area and the performance of the bank compared to these opportunities. The first table indicates that lending opportunities are strong, based on Dun & Bradstreet data. Of the businesses within the area with reported income, 88% had reported revenues of less than \$1 million, including 79% with revenues of less than \$500,000. This sector of the business lending market is a strong focus of most lenders of any size with a presence in the assessment area. The proportion of businesses in LMI census tracts based on the revenue of the businesses is as follows: 58% of businesses with revenues below \$500,000; 63% with revenues \$500,000 to \$1 million; and 59% for the aggregate with revenues below \$1 million.

Businesses & Farms of Different Sizes: Lending Opportunities within Assessment Area							
Businesses & Farms with Reported Income:	Total #	Total %	Percentage by Census Tract Income				
			Low	Moderate	Middle	Upper	N/A
< \$500,000	42,980	79%	33%	25%	25%	17%	0% *
>= \$500,000 to < \$1,000,000	5,164	9%	37%	26%	19%	17%	1%
Subtotal < \$1,000,000	48,144	88%	34%	25%	25%	16%	0% *
>= \$1,000,000	6,680	12%	42%	23%	16%	18%	1%
Total with Reported Income	54,824	100%	35%	25%	23%	17%	0% *

Source: Dun & Bradstreet data

* Share is < 0.5 %

The second of these tables illustrates our sample of the bank’s business loans during the review period. The sampled loans included 46% by number to businesses with revenues below \$500,000 (versus Dun & Bradstreet 79%); 15% for revenues \$500,000 to \$1 million (versus 9%); and 39% for revenues of \$1 million or more (versus 12%). Of the loans to businesses with revenues below \$1 million, 43% were to businesses based in LMI tracts (versus 59% of this size of business in LMI tracts). The level of the bank’s lending to small businesses and within LMI tracts is not commensurate with the reported opportunities. However, the bank’s performance is reasonable in the context of its size, management resources, and competition.

<p>Sampled Business Loans within Assessment Area: Distribution by Reported Income of Borrowers</p>

Sampled Loans to Businesses with Reported Income:	Total #	Total %	Percentage by Census Tract Income				
			Low	Moderate	Middle	Upper	N/A
< \$500,000	6	46%	0%	47%	53%	0%	0%
>= \$500,000 to < \$1,000,000	2	15%	0%	0%	100%	0%	0%
Subtotal < \$1,000,000	8	61%	0%	43%	57%	0%	0%
>= \$1,000,000	5	39%	39%	20%	0%	41%	0%
Total with Reported Income	13	100%	16%	33%	34%	17%	0%

Source: Bank data

(2) Lending to Individuals of Different Incomes

- **The bank’s consumer lending represents a strong distribution among family income types, particularly among LMI families.**

During the review period, the bank originated 49 consumer loans, representing 45% of the number of all originations. This included only one that was reported for compliance with HMDA. In our sample of fourteen loans, eight were within the bank’s assessment area. We collected income data on these loans, which are summarized in the following table. Although the number of loans is small, it is representative of the bank’s consumer lending activity.

While the sample indicates no loans to middle-income families, the distribution among LMI families at 72% of total loans is stronger than the 49% share LMI families represent of total families in the assessment area.

Sampled Consumer Loans within Assessment Area: Distribution of Borrowers with Known Income, by Family Income Category				
Loans & Families	Family Income Category *			
	Low	Moderate	Middle	Upper
San Francisco				
% of Loans (1998 HUD *)	50%	17%	0%	33%
% of Families (1990 Census *)	12%	27%	47%	14%
Oakland & Berkeley				
% of Loans (1998 HUD *)	0%	100%	0%	0%
% of Families (1990 Census *)	29%	33%	20%	18%
Overall Assessment Area				

Sampled Consumer Loans within Assessment Area: Distribution of Borrowers with Known Income, by Family Income Category				
% of Loans (1998 HUD *)	43%	29%	0%	29%
% of Families (1990 Census *)	19%	30%	35%	16%

Source: 1990 Census, Bank data, and 1998 HUD data

* Distribution of loans is based on 1998 HUD Median Family Income. Distribution of families is based on 1990 Census.

Geographic Distribution

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

- **The geographic distribution of loan originations *meets the standards for Satisfactory Performance*. The dispersion of loans is almost evenly matched to the census tract proportions.**

Our sample of the bank’s originations indicates a distribution as illustrated in the following table. The two branches in San Francisco are in low-income tracts adjacent to moderate-income tracts, and generate a sizeable majority of the bank’s loans. This helps to support the bank’s lending strategy, and facilitates a distribution that closely tracks the overall distribution of the census tracts in the assessment area.

Sampled Loan Originations During Review Period: Distribution within Assessment Area by Census Tract						
Census Tract Income Category	# of Loans	% of # of Loans	\$ 000 of Loans	% of \$ of Loans	Tracts in Assessment Area	% of Tracts
Low-income Tract	8	32%	\$449	28%	66	23%
Moderate-income Tract	5	20%	\$415	26%	82	28%
Middle-income Tract	9	36%	\$441	27%	86	30%
Upper-income Tract	3	12%	\$309	19%	49	17%
N/A Tracts	0	0%	\$0	0%	7	2%
Total	25	100%	\$1,614	100%	290	100%

Source: Bank data and Census data

OTHER ITEMS

Response to Complaints:

Management has not received any complaints about the bank's CRA performance since the last CRA evaluation conducted in August 1996.

Anti-Discrimination Laws:

The bank is in compliance with anti-discrimination laws and regulations. These include the Equal Credit Opportunity Act (ECOA), The Fair Housing Act, and the Home Mortgage Disclosure Act (HMDA). There was no evidence in our Fair Lending examination to indicate any discrimination on a prohibited basis.