



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**August 25, 2008**

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

Delta Bank, National Association  
Charter Number 16154

611 North Main Street  
Manteca, CA 95336

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.

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

- DBNA's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the community.
- The bank's lending in its assessment areas meets the standard for satisfactory performance.
- The bank's distribution of loans to businesses of different sizes reflects reasonable penetration among businesses of different sizes, given the demographics of its assessment areas.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- There have been no written complaints regarding the bank's performance in meeting its community's credit needs.

## DESCRIPTION OF INSTITUTION

DBNA was chartered as First National Bank of Riverbank in 1973. In 1975, the name was changed to Delta National Bank when the bank opened a branch and moved the administrative offices to Manteca, CA. Delta National Bancorp, a one-bank holding company located in Manteca, was formed in 1981. At that time, DBNA became the subsidiary. Delta National Bancorp's only asset is the bank. Delta National Bank changed its name to Delta Bank, National Association, on August 23, 2007. As of June 30, 2008, DBNA had total assets of \$156 million, with \$95 million in loans. The bank's net loans represent 61% of total assets.

DBNA is headquartered in Manteca, CA and is located in San Joaquin County. DBNA operates full service branches at its headquarters in Manteca, as well as four other locations: Modesto, Riverbank, Turlock, and Stockton, CA. ATM services are available at each location. The bank has not opened any branch offices since the last CRA examination.

During the period of our review, DBNA's corporate structure did not change. The bank focused its lending activity in commercial real estate and construction, although agricultural, commercial, and other products are also available.

There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of the community. The bank's CRA performance was previously evaluated on May 27, 2003, and found to be satisfactory.

Table 1

<b>DELTA BANK, N.A. LOAN PORTFOLIO COMPOSITION</b>		
<b>Loan Type</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Commercial Real Estate	45,759	46%
Construction	43,760	44%
Commercial	7,144	7%
Residential Real Estate	1,315	1%
Agriculture	595	1%
Other	144	1%
<b>Total Loans</b>	<b>98,717</b>	<b>100%</b>

Source: Call Report as of 6/30/08

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

## **DESCRIPTION OF DBNA'S ASSESSMENT AREAS**

Management and the Board have designated 192 contiguous census tracts located in two counties, in two separate Metropolitan Statistical Areas (MSAs), as their assessment areas (AAs). They designated 103 of the 121 census tracts in San Joaquin County, which is located in the Stockton MSA, as their first AA. Management and the Board did not include the entire County because the resulting area would have been too large for the bank to adequately serve with the two branch offices located in this MSA. The bank's second AA includes all of Stanislaus County, which is located in the Modesto MSA, and is comprised of 89 census tracts. The AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

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 the local city government. The contact felt local banks were doing a good job of getting involved in the community by supporting fundraisers and funding the community's recent retail growth.

### **Stockton MSA Assessment Area**

The first AA consists of 103 census tracts in San Joaquin County, which were determined by the 2000 U.S. Census. San Joaquin County is located east of San Francisco, near the northern end of the Central Valley in California. The city of Stockton serves as the county seat of San Joaquin County. The total population of the AA is 683,000. The majority of businesses and farms in this AA are located in the middle and upper census tracts.

According to Moody's Economy.com from 2008, Stockton's economy is showing signs of stagnation, but is expected to rebound and remain on par with the national economy in the near future. The current stagnation is mainly due to the suffering housing market, which has resulted in few jobs in construction and related industries. However, private service producing industries are expected to lead the economic turn-around as they benefit from moderately healthy demographics. The unemployment rate in Stockton remains higher than the national average at 9%. Major employers include St. Joseph Medical Center, Hedy Homes Staffing Services, Safeway, and Defense Distribution Depot San Joaquin.

The following table highlights the demographic composition of the Stockton AA.

Table 2

<b>STOCKTON MSA AA COMPOSITION</b>						
<b>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	8	7.77%	2,812	11.24%	6,850	6.04%
Moderate Income	27	26.21%	5,670	22.66%	26,724	23.56%
Middle Income	40	38.83%	8,326	33.28%	43,092	37.99%
Upper Income	28	27.18%	8,210	32.82%	36,775	32.42%
N/A	0	0%	0	0%	0	0%
<b>Total:</b>	<b>103</b>	<b>100%</b>	<b>25,018</b>	<b>100%</b>	<b>113,441</b>	<b>100%</b>

Source: 2007 Dun & Bradstreet

The three largest employment sectors in the Stockton MSA employ 64.72% of the civilian workforce: services (34.23%), retail trade (15.53%), and non-classifiable establishments (14.96%), according to the 2007 Business Geodemographic Data. There are 25,018 businesses that operate within this AA. Of those, approximately 65% have reported annual revenues of \$1 million or less. Approximately 68% employ fewer than ten people. The weighted average of median family income is \$48,562, and the weighted average of median housing is \$138,770.

Competition in the area is strong with 27 banks operating within San Joaquin County. DBNA ranks 17<sup>th</sup> in deposit market share with 1.05%. The five largest banks hold 59.75% of the deposit market share. Other area banks include Bank of Stockton, Bank of America, Wells Fargo, Guaranty Bank, and Pacific State Bank.

### **Modesto MSA Assessment Area**

The second AA includes all of Stanislaus County and contains 89 census tracts, which were determined by the 2000 U.S. Census.

Stanislaus County is centrally located within the state of California and occupies a portion of the Northern San Joaquin Valley. It extends from the foothills of the Sierra Nevadas to the principal east/west drainage of the Diablo Range. The cities of Modesto and Ceres account for a large portion of the population. The Stanislaus area is one of the fast growing areas of California, and is ranked in the top ten agricultural counties in the state.

The following table shows the demographics of the Modesto AA.

Table 3

<b>MODESTO MSA AA 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	3	3.37%	2,147	8.58%	2,296	2.08%
Moderate Income	20	22.47%	3,897	15.57%	21,381	19.39%
Middle Income	45	50.56%	12,609	50.37%	58,459	53.02%
Upper Income	21	23.60%	6,380	25.49%	28,113	25.50%
N/A	0	0%	0	0%	0	0%
<b>Total:</b>	<b>89</b>	<b>100%</b>	<b>25,033</b>	<b>100%</b>	<b>110,249</b>	<b>100%</b>

Source: 2007 Dun & Bradstreet

The total population of this AA is 527,300. The majority of businesses and farms are located in the middle and upper census tracts. Owner-occupied housing represents 60% of all housing units in the AA. The weighted average of median family income is \$45,837, while the weighted average of median housing is \$126,505.

According to Moody's Economy.com from 2007, Modesto's economy is struggling, which will continue into the near term. Employment growth is now below both the state and national averages, while the unemployment rate has risen dramatically. Consumer spending is down as household finances continue to deteriorate. The housing market also continues to spiral downward. The major employers in the area include E&J Gallo Winery, Signature Fruit Company, Memorial Medical Center, and Del Monte Foods.

The largest employment sectors in the Modesto MSA employ 64% of the civilian workforce: services (34%), retail trade (15.92%), and non-classifiable establishments (14.27%), according to the 2007 Business Geodemographic Data. There are 25,033 businesses that operate within this AA. Of those, 69% have reported revenues of \$1 million or less. Approximately 70% employ fewer than ten employees.

DBNA faces strong competition with 21 banks operating within the AA. DBNA ranks 16<sup>th</sup> in deposit market share with 1.07%. The five largest banks hold a total of 61.65% of the deposit market share. The competing institutions include: Bank of America, Wells Fargo, Washington Mutual, and Bank of the West.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Scope of Examination**

We evaluated the bank's performance based on loans originated from January 1, 2003, through June 30, 2008. We focused our evaluation on the bank's primary product lines, commercial real estate, construction, and commercial loans (grouped under the title "business loans"), originated since the last CRA examination. We randomly selected 20 loans for our sample to review the bank's lending in its AAs. The bank maintains internal CRA Reports that categorize loans based on revenues of the businesses, and

the locations of where the funds will be used, by census tract income level. Therefore, we used the bank's internal reports to review the bank's geographic and income distribution of loans. We used both the sample and the bank's internal reports to determine the bank's overall CRA performance. Home mortgage and agricultural loan products were not selected in our sample since the bank is not a major mortgage or agricultural lender in this market.

### Loan-to-Deposit Ratio (LTD)

DBNA's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the community. We looked at two similar institutions, both in size and location, and found an average quarterly LTD ratio of 65.70%. DBNA's average LTD ratio is 66.07%. The assets of the peer banks were \$235 million and \$143 million and were located in a similar market. Average LTD ratios were computed over the last 22 quarters (March 2003 to June 2008).

### Lending in Assessment Area

The bank's lending in the AA meets the standard for satisfactory performance.

Table 4

DELTA BANK, N.A. LENDING IN AA								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Business Loans	14	70%	6	30%	5,279,484	57%	4,007,840	43%
<b>Totals</b>	<b>14</b>	<b>70%</b>	<b>6</b>	<b>30%</b>	<b>5,279,484</b>	<b>57%</b>	<b>4,007,840</b>	<b>43%</b>

Source: Sample of 20 business loans originated from January 1, 2003 to June 30, 2008

A majority of the bank's loans and other lending-related activities are made within the bank's designated assessment area. We sampled 20 loans since the last CRA examination, focusing on the bank's primary loan product. Of the 20 loans sampled, the bank originated 14 loans, or 70%, of the number of loans to borrowers within its AA. Based on the dollar volume of loans, the inside ratio was 57%.

(In the next two sections, the bank's primary product lines, commercial real estate and construction, together with commercial loans, were grouped under the title "business loans" to evaluate the bank's performance since the last CRA examination.)

### Lending to Businesses of Different Sizes

The bank's distribution of loans to businesses of different sizes reflects reasonable penetration among businesses of different sizes, given the demographics of the AAs.

Table 5

<b>STOCKTON MSA</b>				
<b>INCOME DISTRIBUTION OF LOANS TO BUSINESSES</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	65.2%	5.6%	29.1%	100%
% of Bank Loans in AA by #	48.5%	48.0%	3.5%	100%
% of Bank Loans in AA by \$	44.4%	52.8%	2.8%	100%

*Demographic Data Source: 2007 Business Geodemographic Data.*

The percentage of businesses with revenues of less than or equal to \$1,000,000 within the Stockton MSA is 65%, with 61% of businesses with revenues of less than \$500,000. Based on internal reports, the bank originated approximately half of their loans by number and dollar volume to these businesses. The resulting percentage of loans to these businesses by number and dollar volume was 49% and 44%, respectively. These percentages indicate the bank's efforts to lend to businesses with revenues of less than or equal to \$1,000,000 are below the area demographics. However, strong competition from larger institutions that are able to offer products to these businesses more cost effectively within this AA were taken into consideration in evaluating the bank's performance. Our analysis found that these results indicate the bank's commitment to addressing the community credit needs of businesses with revenues less than \$1 million. Refer to the table above for details.

Table 6

<b>MODESTO MSA</b>				
<b>INCOME DISTRIBUTION OF LOANS TO BUSINESSES</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	68.1%	5.4%	26.6%	100%
% of Bank Loans in AA by #	41.4%	58.2%	0.5%	100%
% of Bank Loans in AA by \$	37.7%	58.3%	0.0%	100%

*Demographic Data Source: 2007 Business Geodemographic Data.*

The percentage of businesses with revenues less than or equal to \$1,000,000 within the Modesto MSA is 68%, with 64% of businesses with revenues of less than \$500,000. The resulting percentage of loans to these businesses by number and dollar volume was 41% and 38%, respectively. Although the bank's origination of business loans in the AA does not meet area demographics, our analysis indicates the bank's effort to lend to businesses with revenues less than or equal to \$1,000,000 is reasonable. Strong competition from larger institutions that are able to offer products to these businesses more cost effectively affect the bank's ability to meet the area demographics. Refer to the table above for details.

### **Geographic Distribution of Loans**

Based on our sample, the bank's geographic distribution of loans reflects reasonable dispersion throughout the AAs. The bank was not able to penetrate all census tracts within their AAs. However, there were no conspicuous gaps in the bank's distribution of

loans.

### Business Loans – Stockton MSA AA

As shown in the table below, the bank's distribution of business loans originated in the low-income geographies, by the percentage of number of loans and dollar volume of loans, was 3.5% and 6.3%, respectively. While the number and dollar volume of loans in this geography were below the area demographics of 8.6%, the bank is making an effort to meet the credit needs of these businesses. The bank explained that because of the location of its branches, these businesses find it to be a hardship to bank with DBNA. Competition is another factor. DBNA competes with several financial institutions that are located closer to these geographies.

The bank's distribution of business loans originated in the moderate-income geographies, by percentage of number of loans and dollar volume, was 11.1% and 12.2%, respectively, compared to area demographics of 22.7%. While this indicates less than satisfactory penetration, opportunities to lend are limited due to the number of small businesses and competition. DBNA faces competition with sixteen other banks in this AA that are larger and have more branches. DBNA has only 1.05% of the market share.

Table 7

STOCKTON MSA GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Business Loans	11.2%	3.5%	22.7%	11.1%	33.3%	47.4%	32.8%	38.0%

*Demographic Data Source: 2007 Business Geodemographic Data*

### Business Loans – Modesto MSA AA

As shown in the table below, the bank's distribution of business loans originated in the low-income geographies, by the percentage of number of loans and dollar volume of loans, was 1.5% and 1.8%, respectively. While the number and dollar volume of loans does not compare favorably to the area demographics of 8.6%, DBNA faces competition with fifteen other banks that are larger and have more branches. DBNA has only 1.07% of the market share. Also, because of the location of its branches, these businesses find it to be a hardship to bank with DBNA.

The bank's distribution of business loans originated in the moderate-income geographies, by percentage of number of loans and dollar volume, was 11.8% and 15.5%, respectively. The number and dollar volume of loans in this geography are comparable to the area demographics of 15.6%.

Table 8

MODESTO MSA GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Business Loans	8.6%	1.5%	15.6%	11.8%	50.4%	68.5%	25.5%	18.2%

*Demographic Data Source: 2007 Business Geodemographic Data*

### Responses to Complaints

No written complaints concerning DNBA's CRA performance have been received since the bank's previous CRA examination, dated May 27, 2003.

### 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.