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Administrator of National Banks**

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SMALL INSTITUTION EVALUATION

PUBLIC DISCLOSURE

January 28, 1999

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Mt. Diablo National Bank
Charter Number 22511**

**156 Diablo Road
Danville, CA 94526**

**Comptroller of the Currency
Western District
50 Fremont Street, Suite 3900
San Francisco, CA 94105**

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.

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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 CRA performance of **Mt. Diablo National Bank** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **February 2, 1999**. 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.**” The factors supporting the bank's overall rating include the following:

- C A strong loan-to-deposit ratio, exceeding the standards for Satisfactory performance;
- C A majority (56% of the number) of loans are within the assessment area; and,
- C A reasonable distribution of loans to businesses and individuals with different incomes.

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

Mt. Diablo National Bank (MDNB) is a community bank established in January 1993. As of December 31, 1998, the bank had **total assets of \$167 million, loans of \$116 million, and deposits of \$156 million.** The institution provides general banking services through its main office and two branches in the Diablo and San Ramon Valleys of Contra Costa and Alameda Counties.

The main office is located in **Danville**, in an upper-income census tract, surrounded by upper-income census tracts. The **Pleasanton** office was opened October 14, 1997 in a middle-income census tract, surrounded by upper-income census tracts. The **Lafayette** office was opened March 2, 1998 in an upper-income census tract, surrounded by upper-income census tracts. The bank has ATMs at each office, with customer access offered widely through inter-bank networks. The bank is a subsidiary of Mt. Diablo Bancshares, a one bank holding company formed on July 1, 1998.

The bank's lending focus is on commercial real estate loans, loans for small- and medium-size businesses, and commercial construction loans. Consumer lending accounts for 10% of the loan portfolio, consisting of owner-occupied construction loans, home equity lines, vehicle loans, and various unsecured loans.

For a snapshot view of the bank's loan portfolio, the following table shows loans outstanding as of December 31, 1998:

Loan Type as of 12/31/98	\$ Million	Percent
Commercial Real Estate	\$37.9	33%
Commercial	\$35.1	30%
Construction & Development	\$31.1	27%
Real Estate, 1 - 4 Family	\$7.8	7%
Consumer (Vehicle & unsecured)	\$3.5	3%
Real Estate, Multifamily	\$0.6	*
Other	\$0.3	*
Total Loans Outstanding	\$116.3	100%

Source: Call Report data

* Percentages less than 1%.

The bank received a "Satisfactory" rating in its prior CRA evaluation, dated April 12, 1996. The bank's branches are located in a thriving suburban and commercial area, which is highly competitive for deposit and lending customers. This area is dominated by branches of larger regional and multinational financial institutions. There are also several community banks headquartered in the area. The bank has no legal or financial

circumstances impeding its ability to help meet the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

Geographic Description

MDNB's current assessment area consists of the communities along the I-680 corridor in the Diablo and San Ramon Valleys, from Orinda, Lafayette, and Walnut Creek at the north end, southward to Pleasanton and Livermore. The assessment area consists of 68 whole, contiguous census tracts within Contra Costa and Alameda Counties. These counties comprise the Oakland MSA, but the bank's assessment area is significantly smaller than the MSA because of geographic boundaries and limited resources. This designation complies with the regulation and does not arbitrarily exclude LMI areas. The total population of the assessment area was 365,127 in the 1990 Census. The California State Department of Finance estimates that the population of the two whole counties has grown by 2% through 1997.

From the time of the previous CRA exam in April 1996 through mid-May 1998, the bank's assessment area consisted of most of the area within Danville, Alamo, and Walnut Creek, plus a small portion of Concord and all of San Ramon. These communities all are within Contra Costa County. This assessment area was in place for 16 months of the 24-month review period of this CRA exam. It consisted of 28 census tracts with a population of 154,101 in the 1990 Census.

After the opening of the new offices in Pleasanton (October 1997) and Lafayette (March 1998), the bank expanded its defined assessment area in mid-May 1998 by adding 40 census tracts with a 1990 population of 211,026. This area includes the remaining portions of Danville, Alamo, and Walnut Creek. It also includes the Contra Costa County communities of Orinda and Moraga, and the Alameda County communities of Dublin, Livermore, and Pleasanton.

All references in this evaluation to lending within the assessment area account for the effective area at the time the loans were made. The Addendum of this evaluation includes a list of census tracts for the two portions of the review period.

Demographics and Credit Needs

Economic activity in recent years supports a high level of affluence in the assessment area, which consists entirely of middle- and upper-income census tracts. For the first 16 months of the review period, the assessment area included four middle-income tracts and twenty-four upper-income tracts. The current distribution of census tracts by tract income is shown in the following table. The middle-income tracts include five tracts in eastern Walnut Creek, three tracts in central Dublin, one tract in central Pleasanton, and six tracts in northern Livermore.

Census Tracts & Population within Current Assessment Area				
Income category of Census Tract	# of Census Tracts	% of all Census Tracts	1990 Population	% of Population within Tract Income Category
Low	0	0 %	0	0 %
Moderate	0	0 %	0	0 %
Middle	15	22 %	96,030	26 %
Upper	53	78 %	269,097	74 %
Total	68	100 %	365,127	100 %

Source: 1990 Census data

According to 1990 Census data, the median family income was \$47,516. This is substantially higher than \$41,848 for all MSAs in California. The Census median housing value for the current assessment area was \$313,773, which is 6.6 times the median family income for the assessment area. HUD median family income was updated in 1998 to \$63,300. Due to the low affordability of housing in the assessment area, 25% of housing units are rented.

The following table illustrates the distribution of families by family income, based on 1990 Census data:

Families within Current Assessment Area (Distributed by Family Income)		
Family Income Category *	Assessment Area Since 5/14/98	
	# of Families	Percent of Families
Low	7,875	8%
Moderate	11,250	11%
Middle	19,728	20%
Upper	61,734	40%
Total Families	100,587	100%
Total Population	365,127	

Source: 1990 Census data

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

LMI families live throughout the assessment area, although with a smaller share than for all California MSAs. Despite the fact that there are no census tracts designated as LMI, families designated LMI represent 19% of all families in the assessment area. This proportion is significantly below the 39% share of families in all MSAs in California. Based on additional 1990 Census data not included in the table above, LMI families represent 33% of all families in middle-income tracts in the assessment area, and 14% of all families in the upper-income tracts.

Employment data is available at the MSA level from the State of California Employment Development Department (EDD) for December 1998. The five largest civilian employment sectors in the Oakland MSA are services, trade, government, manufacturing, and transportation. Also according to EDD data for December 1998, the seasonally non-adjusted unemployment rate for the Oakland MSA was 3.2%, which is significantly stronger than 5.4% for California and 4.0% for the United States.

Dun & Bradstreet economic reports show that 20,121 businesses (356 farms and 19,765 non-farm businesses) operate within the bank's current assessment area. Of those farms and businesses with reported revenues, 88% have reported annual revenues of \$1 million or less, including 78% with revenues of less than \$500,000. Approximately 82% employ fewer than ten employees.

Meetings between federal regulatory agencies and community groups within the Oakland MSA have determined the primary credit needs to be affordable housing construction and purchase financing, as well as financing and technical expertise for small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Scope of Review

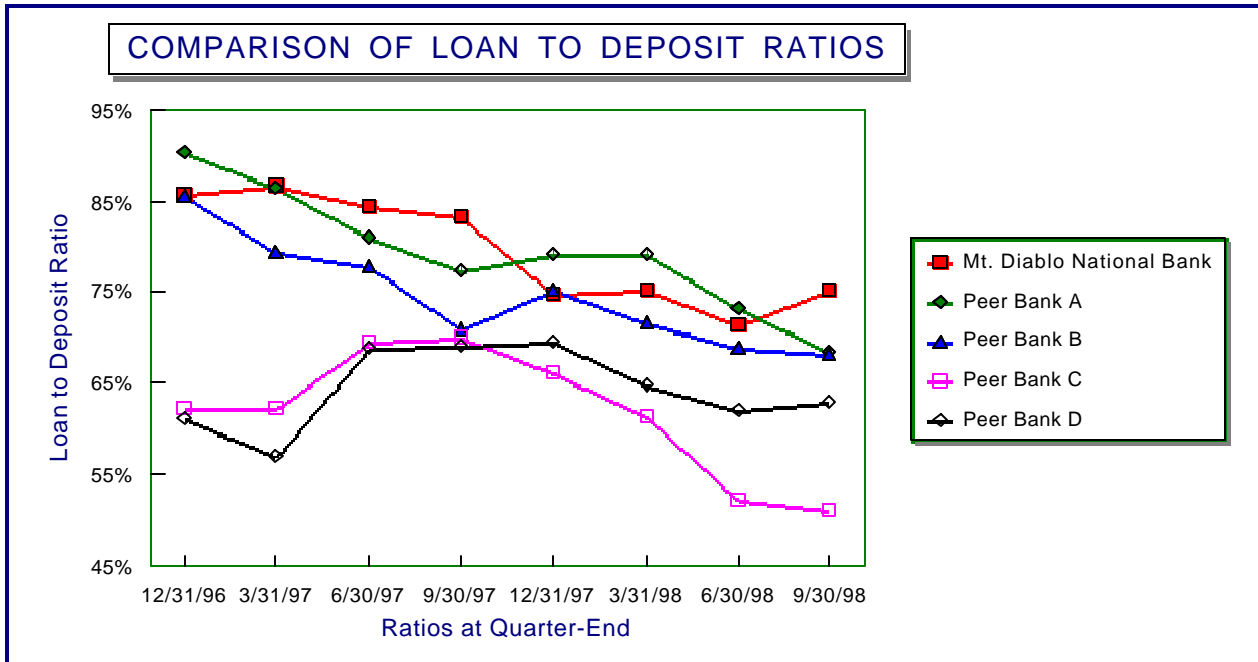
The review period for this evaluation is the period of January 1, 1997 to December 31, 1998. We used bank generated information which we tested for accuracy. The bank is primarily a business lender, with a sizeable proportion of loan originations to consumers. During the review period, 38% of the number and 28% of the dollar volume of originations were for consumer loans. For the purpose of our review, business lending includes commercial real estate loans and business loans.

Loan to Deposit Ratio

C MDNB's Loan-to-Deposit Ratio exceeds the standards for Satisfactory Performance, given the bank's size, financial condition, and assessment area credit needs.

We evaluated the bank's loan-to-deposit ratio for eight quarters ending September 30, 1998. We then compared this ratio to four additional financial institutions headquartered in the assessment area with total assets between \$75 million and \$265 million. The loan-to-deposit ratio for the four banks ranged from 63% to 75%,

and averaged 70% for the eight quarters reviewed. The bank's ratio ranged from



71% to 87%, and averaged 80%. The trend of the ratio has declined for MDNB and the peer institutions during the eight quarters.

The following chart compares MDNB's quarterly loan-to-deposit ratio to each of the four peer institutions:

Source: Call Report data

Lending within the Assessment Area

C The proportion of MDNB’s lending within its assessment area *meets the standards for Satisfactory Performance*. In addition, the bank made a qualifying “community development” loan during the review period.

We reviewed and validated the bank’s data on loan originations for the review period. The effective area at the time of each loan was taken into account to determine whether the loan was in or out of the area. See “Description of Assessment Area.” During our review, we determined that the bank had not geo-coded 26% of the originations. We sampled the uncoded loans, and applied the proportion of the sampled loans that were within the assessment area to the aggregate of the uncoded loans. After this allocation, we found a reasonable 56% of the number and 61% of the dollar volume of loans to be within the assessment area. This is demonstrated in the following table:

Lending Inside and Outside the Assessment Area Commercial, Real Estate, and Consumer Loans & Commitments				
	# of Loans in Assess Area	% of # of Loans in Assess Area	\$000 of Loans in Assess Area	% of \$ of Loans in Assess Area
Inside Assessment Area	633	56 %	160,526	61 %
Outside Assessment Area	496	44 %	102,829	39 %
Total	1,129	100 %	263,355	100 %

Source: Bank data

During the review period, MDNB made one loan commitment that qualifies as a “community development” loan supporting affordable housing or economic development to LMI individuals in the bank’s assessment area. The

bank lent funds for the purchase of a home for rental to developmentally disabled adult tenants.

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

C MDNB’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, resources, age, and competition.

(1) *Lending to Businesses of Different Sizes*

C The proportion of sampled loans to small businesses is slightly below the level of opportunities. However, this performance is reasonable for the context of this bank.

Lending opportunities are strong, based on Dun & Bradstreet data for the assessment area. There are 20,121 businesses within the area, including 356 farms and 19,765 non-farm businesses. Of the farms and businesses with reported revenues, 88% have annual revenues of \$1 million or less, including 78% 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.

To collect data on the revenues of the bank’s business borrowers, we sampled 15 (4%) of the originations of commercial real estate loans and business loans in the assessment area. The following table shows the distribution of business lending opportunities and the bank’s lending performance in this sector:

Businesses & Farms of Different Sizes: Lending Opportunities and the Bank’s Lending Performance within Assessment Area						
Businesses & Farms with Reported Income:	Opportunities Per Dun & Bradstreet		Sampled Loans Originated (By Revenue of Borrower)			
	#	%	# of Loans	% of Total #	Loans (\$000)	% of Total \$
<= \$250,000	NA	NA	7	47%	\$2,118	62%
> \$250,000 to < \$500,000	NA	NA	2	13%	\$112	3%
Subtotal < \$500,000	12,931	78%	9	60%	\$2,230	65%
>= \$500,000 to < \$1,000,000	1,634	10%	2	13%	\$275	8%
Subtotal < \$1,000,000	14,565	88%	11	73%	\$2,505	73%

Businesses & Farms of Different Sizes: Lending Opportunities and the Bank's Lending Performance within Assessment Area						
>= \$1,000,000	2,054	12%	4	27%	\$932	27%
Total with Reported Income	16,619	100%	15	100%	\$3,437	100%

Source: Dun & Bradstreet data and bank data

Of the sampled loans within the bank's assessment area, we found that 73% by number and dollar volume were to small businesses (with revenues of \$1 million or less). Although this level is below the reported level of opportunities, the penetration is reasonable considering the bank's size, age, and competition. Loans to businesses with revenues of \$250,000 or less represented 47% of the number and 62% of the dollar volume. This represents a reasonable effort by the bank to meet this identified credit need.

(2) *Lending to Individuals of Different Incomes*

C The proportion of sampled loans to LMI individuals is reasonable compared to the proportion of LMI families in the assessment area.

During the review period, the bank originated 433 consumer loans, representing 38% by number and 28% by dollar volume of all originations. To collect data on the revenues of the bank's individual borrowers, we sampled ten (4%) of the originations of consumer loans that were in the assessment area.

The following table shows the distribution of individual loans, based on family incomes. The income categories are based on the updated 1998 HUD median family income. The updated income thresholds are up to \$31,650 for low-income families, up to \$50,640 for moderate-income families, up to \$75,960 for middle-income families, and exceeding \$75,960 for upper-income families.

Sampled Consumer Loans within Assessment Area: Distribution by Reported Income of Borrowers					
Number & Amount	Family Income Level (Based on HUD 1998 Median Family Income)				
	Low	Moderate	Middle	Upper	TOTAL
# of Loans	2	2	0	6	10
% of #	20%	20%	0%	60%	100%
\$000 of Loans	\$60	\$59	\$0	\$667	\$786
% of \$	8%	7%	0%	85%	100%
Percent of Families in AA by Family Income (1990 Census)	8%	11%	20%	40%	100%

Source: HUD updated 1998 income data; 1990 Census data; and bank data

The 40% share of the number of loans and 15% share of the dollar volume of loans to LMI families is a strong performance versus the 19% share that LMI families represent of total families in the assessment area. The bank appears to be meeting the credit needs of LMI families considering its size, age, resources, and competition.

The bank also acts as a broker of mortgages that are underwritten and funded primarily by third-party investors. We did not perform an analysis of this activity. The resources of the bank and the land and construction costs in the assessment area limit the bank's ability to be directly involved in the construction of affordable housing.

Geographic Distribution of Loans

Geographic analysis of the bank's performance is not meaningful, due to the lack of LMI census tracts in the bank's assessment area. No consideration was given to this factor in determining the rating of the bank's CRA performance.

OTHER ITEMS

Response to Complaints:

Neither the bank's management nor the Office of the Comptroller of the Currency have received any complaints about the bank's CRA performance since the last CRA evaluation conducted in April 1996.

Fair Lending Examination:

A concurrent fair lending review did not identify any violations of the various anti-discrimination laws and regulations. We analyzed the rates and fees for 45 home equity lines of credit originated during the last seven months of 1998.

ADDENDUM -- CENSUS TRACTS IN THE ASSESSMENT AREA

This examination covers the review period of January 1, 1997 through December 31, 1998. The bank's Assessment Area expanded in mid-May 1998 because of the addition of two branches. The Census Tracts of the two portions of the review period are listed below, in order of Census Tract income category. The tract number designations are based on the 1990 Census.

The "Oakland MSA" is comprised of Contra Costa and Alameda Counties. The bank's current Assessment Area is not the entire MSA.

JANUARY 1, 1997 THROUGH MAY 13, 1998:

Middle Income {4 tracts}

Contra Costa County: 3382.02 3390.00 3430.01 3511.00

Alameda County: No Alameda County tracts in the Assessment Area during this period

Upper Income {24 tracts}

Contra Costa County: 3373.00 3382.01 3383.01 3383.02 3420.00 3430.02 3430.03 3440.00
 3451.01 3451.02 3451.03 3451.05 3451.07 3451.08 3451.09 3451.98
 3452.01 3452.02 3461.01 3461.02 3462.01 3462.02 3551.03 3553.02

Alameda County: No Alameda County tracts in the Assessment Area during this period

AS OF MAY 14, 1998 -- The following tracts were added to the Assessment Area:

Middle Income {11 tracts added; cumulative total 15}

Contra Costa County: 3400.01

Alameda County: 4502.00 4503.00 4504.00 4506.07 4507.21 4512.00 4513.00
 4514.00
 4515.00 4516.00

Upper Income {29 tracts added; cumulative total 53}

Contra Costa County: 3400.02 3410.00 3470.00 3480.00 3490.00 3500.00 3512.00 3521.01
 3521.02 3522.01 3522.02 3530.01 3530.02 3540.01 3540.02

Alameda County: 4501.00 4505.00 4506.01 4506.02 4506.03 4506.04 4506.05
 4506.06
 4507.01 4507.03 4507.04 4507.22 4511.00 4517.00