



Comptroller of the Currency
Administrator of National Banks

SMALL
BANK

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

August 17, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Capital Bank
Charter Number 4107
316 Pennsylvania Avenue, S.E.
Washington, D.C. 20003**

**Office of the Comptroller of the Currency
1025 Connecticut Avenue, NW - Suite 708
Washington, D.C. 20036**

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 National Capital Bank prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 17, 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”.

The primary factors supporting the bank's overall rating include:

- o The loan-to-deposit ratio averaged 65% for the period under review compared to 66% for similarly situated financial institutions.
- o The assessment area contains 85% of the number and 93% of the dollar amount of 1997 loan originations, reflecting a strong record of lending in the assessment area.
- o The distribution of borrowers reflects a reasonable penetration among individuals of different income levels. Additionally, the bank has a strong record of lending to small businesses.
- o The geographic distribution of loans reflects reasonable dispersion throughout the assessment area, with 24% of the number of 1997 residential real estate loans in low- and moderate-income census tracts.
- o The distribution of borrowers reflects a reasonable penetration among individuals of different income levels. Additionally, the bank has a strong record of lending to small businesses.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	NATIONAL CAPITAL 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	No complaints	were received since	the prior examination.

DESCRIPTION OF INSTITUTION

National Capital Bank (NCB) is headquartered near the U.S. Capitol in the District of Columbia (D.C.). It was established in 1889 and is a family controlled institution. As of June 30, 1998, total assets were \$130 million, gross loans were \$69 million, and total deposits were \$106 million. NCB is well positioned to help meet the credit needs of its assessment area. As a percentage of gross loans, 48% are residential mortgage loans, 40% are commercial and commercial real estate loans, and 12% are consumer loans. The bank offers a full range of loan and deposit services.

NCB serves the community from its headquarters location on Pennsylvania Avenue in D.C. and one branch location in Friendship Heights, D.C. The main office and branch are full service and offer convenient hours to accomodate the needs of customers. In addition, both the main office and branch recently installed 24 hour ATMs and a cash dispensing ATM is located in the historic Eastern Market on Capitol Hill.

NCB closed its Highlands, D.C. branch in November 1996 after a robbery attempt resulted in the death of an assistant branch manager. The property, valued at approximately \$600 thousand, was donated to the Foundation for the National Capital Region, which in turn has leased the building to the D.C. Police Department for one dollar a year. At the end of ten years, the City can buy the building or the Foundation can sell it with the income donated to charitable organizations. Recent feedback from the area's D.C. council member indicates that the crime rate has significantly decreased as a result of the additional police presence in the community. This donation was not considered in the assessment of the bank's performance under the CRA, and is provided for informational purposes only.

There is strong competition from other community banks, regional banks, thrifts, and non financial institutions which have many offices in the locality. NCB has no impediments, legal or otherwise, which would hinder their efforts in helping to meet the credit needs of the bank's assessment area.

DESCRIPTION OF ASSESSMENT AREA

NCB has defined its assessment area as the entire Washington MSA. This includes D.C., the counties of Prince Georges and Montgomery in Maryland and the counties of Arlington and Fairfax in Northern Virginia. The assessment area complies with CRA and does not arbitrarily exclude low- or moderate-income census tracts. Based on 1990 Census information, the area population is approximately 3.2 million with an updated (1995) median family income of \$70,300. The demographics and characteristics of the bank's assessment area reflects:

<i>Census Tract Characteristics</i>			<i>Family Income Characteristics</i>	
<i>Tract Type</i>	<i>Number</i>	<i>Percent</i>	<i>Level of Income</i>	<i>Percent</i>
Low	58	7%	Low Income	17%
Moderate	172	21%	Moderate Income	17%
Middle	308	38%	Middle Income	24%
Upper	228	28%	Upper	42%
NA	49	6%	NA	0%
Total	815	100%	Total	100%

The assessment area is comprised of various government entities, retail/commercial businesses, and single/multifamily housing. The area economy is considered stable. The major employer is the federal government. Management and the Board continue to identify the primary credit needs within the bank's assessment area as small businesses and affordable housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-To-Deposit Ratio

NCB's loan-to-deposit ratio is reasonable, indicating a commitment in helping to meet the credit needs of the bank's assessment area. We reviewed the recent twelve quarters since the last CRA examination. Our results reflect NCB's loan-to-deposit ratio averaged 65% during this period in comparison to the 66% average during the same interval for similarly situated financial institutions.

Lending In Assessment Area

A substantial majority of all loan originations are within NCB's assessment area. We tested and relied on management reports. Based on our review of management reports, the assessment area contains 85% of the number and 93% of the dollar amount of 1997 loan originations.

Lending to Borrowers of Different Incomes

The distribution of borrowers reflects a reasonable penetration among individuals of different income levels. Based on our analysis, 29% of the number of 1997 residential real estate loans were made to low- and moderate- income individuals. These percentages compare reasonably to the family income characteristics noted in the table under *Description of Assessment Area* above.

Lending To Businesses of Different Sizes

NCB has a strong record of lending to small businesses. We tested and relied on management reports, including the June 30, 1998 Call Report. Based on our sample, 96% of the number of commercial and commercial real estate loans are less than \$1 million in size. Additionally, 75% of the number of commercial and commerical real estate loans were to businesses that have annual revenues of \$1 million or less. The following reflects the distribution of small business loans as of June 30th:

NCB's Commercial Loans To Small Businesses

<u>Loan Size</u>	<u># of Loans</u>	<u>\$ (000's)</u>
Less than \$100M	23	1,090
\$100M - \$250M	38	8,215
<u>\$250-\$1MM</u>	<u>16</u>	<u>4,676</u>
Total	77	13,981

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

NCB's Commercial Real Estate Loans To Small Businesses

<u>Loan Size</u>	<u># of Loans</u>	<u>\$ (000's)</u>
Less than \$100M	169	2,071
\$100M - \$250M	11	1,156
<u>\$250M - \$1MM</u>	<u>8</u>	<u>4,088</u>
Total	188	7,315

Geographic Distribution Of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Based on our analysis, 24% of the number of 1997 residential real estate loans were made in low- and moderate- income census tracts. This percentage reasonably compares to the census tract characteristics noted in the table under *Description of Assessment Area* above.

Response To Complaints

No complaints were received since the prior examination.

Compliance With Antidiscrimination Laws

No violations involving illegal discrimination or discouragement were noted during the concurrent Fair Lending examination.