



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**May 27, 2003**

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

**Delta National Bank  
Charter Number 16154**

**611 North Main Street  
Manteca, CA 95336**

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

**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.**

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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 Delta National Bank, prepared by The Office of the Comptroller of the Currency, as of **May 27, 2003**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

### **INSTITUTION'S CRA RATING - This institution is rated Satisfactory.**

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

- The bank has a reasonable loan-to-deposit ratio.
- The bank's lending in the assessment area meets the standard for satisfactory performance. A majority of its loans by dollar and volume are within its assessment area.
- The bank's distribution of loans to businesses of different sizes reflects, given the demographics of the assessment areas, reasonable penetration among businesses of different sizes. The majority of the bank's loans are to businesses with less than \$1 million in revenues, which confirms the bank's commitment to small businesses.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas

## DESCRIPTION OF INSTITUTION

Delta National Bank (DNB) 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. Delta National Bancorp, a one-bank holding company located in Manteca, was formed in 1981. At that time, DNB became the subsidiary. Delta National Bancorp's only asset is the bank. As of December 31, 2002, DNB had total assets of \$142 million with \$80 million in loans. The bank's net loans to total assets represents 56%.

DNB, headquartered in Manteca, CA is located in San Joaquin County. DNB operates full service branches at its headquarters in Manteca as well as four other locations: Stockton, Modesto, Turlock and Riverbank. ATM services are available at each location. Since the last examination, the bank opened a branch office in Stockton (October 1998), a branch office in Turlock (January 1999), and closed a branch office in Denair (January 1999).

DNB's corporate structure has not changed. The bank focuses its lending activity in commercial real estate, although construction, agricultural, commercial, consumer 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 in February 9, 1998 and found to be "Satisfactory".

**Types of Loans Outstanding**

<b>Loan Type</b>	<b>\$(000's)</b>	<b>Percent</b>
Construction	26,916	33%
Commercial Real Estate Loans	25,703	32%
Agricultural loans	13,849	17%
Residential Real Estate	7,158	9%
Commercial	4,576	6%
Consumer Loans	1,237	2%
Other Loans	1,042	1%
<b>Total</b>	<b>80,481</b>	<b>100%</b>

Source: 12/31/02 Report of Condition

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

Management and the board have designated two assessment areas consisting of 194 contiguous census tracts. The first assessment area consists of all of Stanislaus County, which is located in

the Modesto Metropolitan Statistical Area (MSA) and is comprised of 98 census tracts. San Joaquin County, which is located in the Stockton-Lodi MSA, is the second assessment area. The bank designated 96 of the 114 census tracts in this county. Management and the board did not include the entire Stockton-Lodi MSA, as the resulting area would have been too large for the bank to adequately serve with only two offices. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

**Modesto MSA Assessment Area**

The first assessment area includes all of Stanislaus County and contains 98 census tracts, which were determined by the 1990 U.S. Census.

Stanislaus County, is centrally located within the state of California and occupies a portion of the Northern San Joaquin Valley, extending across it from the foothills of the Sierra Nevada to the principal east to west drainage of the Diablo Range. The cities of Modesto and Ceres account for a large population of the county. The University of California Cooperative Extension indicates that Stanislaus County is one of the fastest growing areas of California and is ranked in the top ten agricultural counties in the United States.

The following table shows the demographics of the assessment area:

<b>Demographic Information for DNB’s Assessment Area: Modesto Metropolitan Statistical Area (MSA)</b>						
<b>Demographic Characteristics by Number</b>	<b>#</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>NA *</b>
<b>Geographies (Census Tract #)</b>	<b>98</b>	<b>1</b>	<b>15</b>	<b>41</b>	<b>15</b>	<b>26</b>
<b>Demographic Characteristics by %</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
<b>Geographies (Census Tract %)</b>	<b>98</b>	<b>1%</b>	<b>15%</b>	<b>42%</b>	<b>15%</b>	<b>27%</b>
<b>Population by Geography</b>	<b>370,522</b>	<b>0.80%</b>	<b>19.56%</b>	<b>57.51%</b>	<b>22.08%</b>	<b>0.04%</b>
<b>Owner-Occupied Housing by Geography</b>	<b>76,129</b>	<b>0.27%</b>	<b>14.34%</b>	<b>57.80%</b>	<b>27.58%</b>	<b>0.00%</b>
<b>Business by Geography</b>	<b>19,350</b>	<b>1.08%</b>	<b>22.30%</b>	<b>56.60%</b>	<b>19.87%</b>	<b>0.00%</b>
<b>Farms by Geography</b>	<b>1,786</b>	<b>0.03%</b>	<b>9.01%</b>	<b>58.79%</b>	<b>31.85%</b>	<b>0.00%</b>
<b>Family Distribution by Income Level</b>	<b>95,264</b>	<b>20.97%</b>	<b>17.19%</b>	<b>21.42%</b>	<b>40.42%</b>	<b>0.00%</b>
<b>Median Family Income</b>		<b>\$33,853</b>	<b>Median Housing Value</b>		<b>\$124,127</b>	
<i>Updated HUD Adjusted Median Family Income</i>		<b>\$46,500</b>	<b>Unemployment Rate (1990 US Census)</b>		<b>5%</b>	
<b>Households Below Poverty Level</b>		<b>11%</b>				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 1990 U.S. Census and 2002 HUD updated MFI.

The total population of the assessment area is 370,522. The majority of businesses and farms are located in middle and upper census tracts. Owner-occupied housing represents 57% of all housing units in the assessment area. Only 15% of the owner occupied units are located in low- and moderate- income census tracts reflecting a low rate of home ownership in these tracts.

According to 2002 Economy.com, Modesto’s economy is currently headed toward recovery after suffering a brief downturn. The economy remains burdened by cutbacks in construction, but broad-based, albeit weak, growth in all other industries will support the area’s near-term

recovery. As such, employment growth is anticipated in 2003 with the rebound in local manufacturing. However, Modesto's large agricultural base is suffering. Farming employment continues its downward trend, with payrolls declining at rates much faster than the state average. The unemployment rate in Modesto is currently at 10.9%. Major employers of the area include E&J Gallo Winery, Doctor's Medical Center, Foster Farms, and Memorial Hospital Association.

The three largest employment sectors in the Modesto MSA employ 65% of the civilian workforce: services (34%), retail trade (18%), and nonclassifiable establishments (13%), according to the 2002 Business Geodemographic Data. Business lending opportunities are good. The 2002 Business Geodemographic data show that 19,350 businesses operate within the bank's current assessment area. Of those with reported revenues, 74% have reported annual revenues of \$1 million or less. Approximately 69% employ fewer than ten employees.

DNB faces strong competition from 22 banks operating within the assessment area. DNB ranks 15th in deposit market share with 1.40%. The four largest banks hold a total of 54% of the deposit market share. The competing institutions include, in part, Wells Fargo Bank, NA; Bank of America, NA; Washington Mutual Bank, FA; World Savings Bank; Bank of the West; Guaranty Bank; and Modesto Commerce Bank.

### **Stockton-Lodi MSA**

The second assessment area consists of 96 census tracts in San Joaquin County, which were determined by the 1990 U.S. Census. San Joaquin County is located near the northern end of the Central Valley in California, east of San Francisco. The city of Stockton serves as the county seat for San Joaquin County. The total population of the assessment area is 403,033. The majority of businesses and farms are located in middle and upper census tracts. While owner-occupied housing represents 54% of all housing units in the assessment area, 63% of the owner occupied units are located in low- and moderate- income census tracts. This reflects a high rate of home ownership in these tracts.

According to 2002 Economy.com, Stockton continues to outshine most other California metro areas, and is even among the leading metro areas nationwide. Stockton was so far behind the booming tech economy in nearby Silicon Valley during the '90s that the remains of that boom are sufficient fuel for Stockton as it plays catch-up. The unemployment rate in Stockton is currently at 9.7%. Major employers of the area include St. Joseph's Regional Health System, Hedy Homes Staffing Services, Defense Distribution Depot San Joaquin, Safeway Stores, and Pacific Gas and Electric Company.

The following table highlights the demographic composition of the bank's assessment area.

<b>Demographic Information for DNB's Assessment Area: Stockton-Lodi Metropolitan Statistical Area (MSA)</b>
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Demographic Characteristics by Number	#	Low	Moderate	Middle	Upper	NA *
Geographies (Census Tract #)	96	5	26	38	26	1
Demographic Characteristics by %	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tract %)	96	5%	27%	40%	27%	1%
Population by Geography	403,033	3.38	28.94	41.06	26.61	0.00
Owner-Occupied Housing by Geography	74,238	1.33	22.28	43.97	32.42	0.00
Business by Geography	18,575	7.81	21.19	39.39	31.60	0.00
Farms by Geography	1,095	0.91	10.31	58.35	30.41	0.00
Family Distribution by Income Level	97,817	2.79%	26.31%	42.11%	28.80%	0.00
Median Family Income		\$34,987	Median Housing Value	\$122,351		
Updated HUD Adjusted Median Family Income		\$47,500	Unemployment Rate (1990 US Census)	4.04%		
Households Below Poverty Level		13%				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 1990 U.S. Census and 2002 HUD updated MFI

The three largest employment sectors in the Stockton-Lodi MSA employ 65% of the civilian workforce: services (34%), retail trade (18%), and nonclassifiable establishments (13%), according to the 2002 Business Geodemographic Data. Business lending opportunities are good. The 2002 Business Geodemographic data show that 18,575 businesses operate within the bank's current assessment area. Of those with reported revenues, 75% have reported annual revenues of \$1 million or less. Approximately 66% employ fewer than ten employees.

DNB faces strong competition from 26 banks operating within the assessment area. DNB ranks 17th in deposit market share with 0.44%. The four largest banks hold a total of 78% of the deposit market share. The competing institutions include, in part, Washington Mutual Bank, FA; Bank of Stockton; Bank of America, NA; Wells Fargo Bank, NA; and Union Safe Deposit Bank.

During the examination we made two community contacts with representatives of two community development corporations. The representatives believe there is a need for small business lending and homebuyer education seminars.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Scope of Examination

We evaluated the bank's performance based on loans originated from January 1, 1998, through December 31, 2002. We focused our evaluation on the bank's primary product line, commercial real estate, originated since the last CRA examination. We randomly selected 40 loans for our sample. We used the sampled loans to review the bank's lending in its assessment areas, its geographic and income distribution of loans, and its 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. Construction loans were not selected since these loans did not represent a significant portion of loans originated/purchased since the last CRA examination.

## Loan-to-Deposit Ratio

**DNB's quarterly average loan-to-deposit ratio is reasonable compared to local peer bank averages.**

Since the last examination, the bank's quarterly loan-to-deposit ratio averaged 59% for the 21 quarters ending December 31, 2002. The quarterly average ratio of similarly situated peer banks in its assessment area was 57% over the same time period. At the last examination, DNB's eight-quarter loan-to-deposit ratio average was 61%, and their peer group loan-to-deposit ratio average was 56%. While DNB's quarterly average loan-to-deposit ratio slightly decreased since the last examination, DNB exceeded the quarterly average of similarly situated peer banks in its assessment area. For purposes of this examination, we consider similarly situated banks to mean banks located in the same MSA that offer similar products and services.

## Lending in Assessment Area

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

### Lending Within Assessment Area (AA)

Primary Loan Product	Total # of Loans Sampled	# of Loans in AA	% of Number in AA	Total Dollar of Loans Sampled	Dollar Volume of Loans in AA	% of Dollar Volume in AA
Commercial RE	20	17	85%	\$6,841,525	\$4,092,525	60%
Totals	20	17	85%	\$6,841,525	\$4,092,525	60%

Source: Sample of 20 loans originated from January 1, 1998 to December 31, 2002

A majority of the bank's loans and other lending-related activities are made to customers who reside 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 sampled, the bank originated 18 loans or 85% of the number of loans to borrowers within their assessment area. Based on the dollar volume of loans, the inside ratio was 60%.

(In the next two sections, the bank's primary product line, commercial real estate, was 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, given the demographics



of the assessment areas, reasonable penetration among businesses of different sizes.

**Revenue Distribution – Commercial Real Estate Loans (Stanislaus County)**

Gross Revenues	Businesses in AA		Number of Loans Originated within AA		Dollar Volume of Loans Originated within AA	
	# of Businesses	% of Businesses	# of Loans	% of Number	Dollar Volume	% of \$ Volume
<\$1,000,000	14,319	74%	18	90%	\$5,389,492	99%
>\$1,000,000	1,209	6%	2	10%	\$80,000	1%
Not reported	3,822	20%	0	0	0	0%
<b>Totals</b>	<b>19,350</b>	<b>100%</b>	<b>20</b>	<b>100%</b>	<b>\$5,469,492</b>	<b>100%</b>

Source: 2002 Business Geodemographic Data and Sample of 20 loans originated within AA from January 1, 1998 to December 31, 2002

Businesses with annual revenues of \$1 million dollars or less are deemed to be small business. The percentage of small businesses within the Modesto MSA is 74%. Our analysis of business loans in this assessment area indicates the bank’s effort to lend to small businesses exceeds the area demographics. Based on our sample, the bank originated a majority of loans by number and dollar volume to small businesses. The resulting percentage of loans to small businesses by number and dollar volume was 90% and 99%, respectively. These results confirm the bank’s commitment to meeting the community credit needs of businesses with revenues less than \$1 million, as well as those summarized by the community contacts under the description of the assessment area. Refer to the table above for details.

**Revenue Distribution - Business Loans (San Joaquin County)**

Gross Revenues	Businesses in AA		Number of Loans Originated within AA		Dollar Volume of Loans Originated within AA	
	# of Businesses	% of Businesses	# of Loans	% of Number	Dollar Volume	% of \$ Volume
<\$1,000,000	13,871	75%	13	65%	\$6,507,525	74%
>\$1,000,000	1,278	7%	7	35%	\$2,240,868	26%
Not reported	3,426	18%	0	0	0	0%
<b>Totals</b>	<b>18,575</b>	<b>100%</b>	<b>20</b>	<b>100%</b>	<b>\$8,748,393</b>	<b>100%</b>

Source: 2002 Business Geodemographic Data and Sample of 20 loans originated within AA from January 1, 1998 to December 31, 2002

The percentage of small businesses within the Stockton-Lodi MSA is 75%. Our analysis of business loans in this assessment area indicates the bank’s effort to lend to small businesses meets the area demographics. Based on our sample, the bank originated a majority of loans by number and dollar volume to small businesses. The resulting percentage of loans to small businesses by number and dollar volume was 65% and 74%, respectively. These results confirm the bank’s commitment to meeting the community credit needs of businesses with revenues less than \$1 million, as well as those summarized by the community contacts under the description of the assessment area. 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 assessment areas. There are no gaps in the bank's distribution of loans. The analysis reflects lending in all tracts in the bank's assessment area.

**Business Loans - San Joaquin County**

As shown in the table below, the bank's distribution of business loans by the percentage of number of loans, and dollar volume of loans originated in the low- income geographies was 5% and 1%, respectively. While the number and dollar volume of loans in this geography was below the area demographics of 8%, the bank is making an effort to meet the credit needs of these businesses. For example, the bank recently paired up with a local organization that reaches out to businesses in low- to moderate- income geographies. Senior management is confident this will create additional lending opportunities for the bank as well as meet the credit needs of these businesses. Finally, to ensure the bank is targeting businesses in low- to moderate- income geographies, senior management made a change in its marketing staff during the first quarter of 2003 to ensure the bank is targeting these types of businesses.

The bank's distribution of business loans by percentage of number of loans, and dollar volume originated in the moderate- income geographies was 30% and 48%, respectively. This exceeded the area demographics of 21%.

**Geographic Distribution of Business Loans (San Joaquin County)**

Tract Income Type	Businesses in Assessment Area		Number of Loans Originated within AA		Dollar Volume of Loans Originated within AA	
	# of Businesses	% of Businesses	# of Loans	% of Number	Dollar Volume	% of Dollar Volume
Low	1,451	8%	1	5%	\$98,000	1%
Moderate	3,937	21%	6	30%	\$4,216,525	48%
Middle	7,317	39%	7	35%	\$2,637,000	30%
Upper	5,870	32%	6	30%	\$1,796,868	21%
Totals	18,575	100%	20	100%	\$8,748,393	100%

Source: 2002 Business Geodemographic Data and Sample of 20 loans originated within AA from January 1, 1998 to December 31, 2002

**Business Loans – Stanislaus County**

As shown in the table below, the bank's distribution of business loans by the percentage of number of loans, and dollar volume of loans originated in the low- income geographies was 0%.

While the number and dollar volume of loans does not compare favorably to the area demographics of 1%, the bank has made several efforts to lend to these businesses, but because of the location of its branches, these businesses find it to be a hardship to bank with DNB. Competition is another factor. DNB competes with several financial institutions that are located closer to these geographies. While DNB faces several challenges to lend to businesses in these geographies, senior management will continue to put forth an effort to target these businesses.

The bank's distribution of business loans by percentage of number of loans and dollar volume originated in the moderate- income geographies was 20% and 17%, respectively. The number and dollar volume of loans in this geography closely mirrors the area demographics of 22%.

**Geographic Distribution of Business Loans (Stanislaus County)**

Tract Income Type	Businesses in Assessment Area		Number of Loans Originated within AA		Dollar Volume of Loans Originated within AA	
	# of Businesses	% of Businesses	# of Loans	% of Number	Dollar Volume	% of Dollar Volume
Low	154	1%	0	0%	\$0.00	0%
Moderate	3,182	22%	4	20%	\$908,000	17%
Middle	8,250	57%	11	55%	\$3,799,492	69%
Upper	2,715	20%	5	25%	\$762,000	14%
Totals	14,319	100%	20	100%	\$5,469,492	100%

Source: 2002 Business Geodemographic Data and Sample of 20 loans originated within AA from January 1, 1998 to December 31, 2002

**Responses to Complaints**

No consumer complaints associated with the bank's performance under the provisions of the CRA have been made since the last examination.

**Record of Compliance with Antidiscrimination Laws**

An analysis of five years of public comments and consumer complaint information was performed based on our risk-based assessment of Fair Lending. Based on our analysis of this information, we determined that a comprehensive fair lending examination would not need to be conducted in connection with this CRA evaluation. The latest comprehensive fair lending examination was performed in 1998. This was a targeted exam. The objective of this examination was to determine the bank's compliance with fair lending laws and regulations. There were no violations of the substantive provisions of the anti-discrimination laws and regulations identified. Based on this review, it was determined that the bank's compliance with fair lending laws is satisfactory.