

SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 5, 2004

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Merchants Bank of California, N.A.
Charter Number 21371**

**One Civic Plaza Drive, Suite 100
Carson, California 90745**

**Office of the Comptroller of the Currency
Southern California South Field Office
1925 Palomar Oaks Way, Suite 202
Carlsbad, California 92008**

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.**"

Merchants Bank of California, N.A. (Merchants) satisfactorily meets the credit needs of the assessment area (AA).

- ❑ The quarterly average loan-to-deposit (LTD) ratio is reasonable.
- ❑ The bank originated a majority of its loans in the AA.
- ❑ The distribution of loans reflects reasonable penetration among businesses of different sizes.
- ❑ The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- ❑ There were no public complaints about the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Merchants Bank of California, N.A. is an independent community bank that opened in 1989. The bank operates one full service branch in Los Angeles County. The bank's office is located near the Civic Plaza of Carson, approximately 16 miles south of downtown Los Angeles. The bank does not have any Automatic Teller Machines (ATMs).

The bank's primary focus is providing cash management services to check cashing businesses throughout Los Angeles County, providing international wire transfer of funds, and providing loans to customers. Management believes that providing cash management services to check cashers promotes the availability of cash to low- and moderate-income individuals. As of our examination date, the bank provides this service to over 70 check cashers.

The bank's loan customers include small and middle-market businesses as well as individuals. Loan products include multi-family, consumer, small business, residential construction, commercial (both construction and lines of credit), and international lending. Please see **Determination of Primary Loan Products** section of this performance evaluation for the overall lending focus as of March 31, 2004.

There are no financial or legal impediments that hinder the bank's ability to meet the credit needs of its community. As of December 31, 2003, total assets were \$55 million and net loans were \$27 million.

The bank received a "Satisfactory" rating at the prior CRA examination, dated October 13, 1998.

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

DESCRIPTION OF ASSESSMENT AREA

The bank's AA meets the regulation's requirements and does not arbitrarily exclude low- or moderate-income geographies. It includes all 2,054 census tracts located in the Los Angeles-Long Beach Metropolitan Area (MA). The 1990 and 2000 U.S. Census data indicate the percentage of low- and moderate-income tracts in the AA is 32% and 37%, respectively. This area's population is approximately 9.5 million according to the 2000 U.S. Census data. The bank is located in a moderate-income tract.

Competition within the AA is strong. Other financial institutions include branches of large multi-national banks, savings and thrift associations, credit unions, and larger community banks.

In conjunction with this CRA examination, we conducted a community contact interview to learn about credit opportunities within the community and whether financial institutions address the credit and service needs of the community. The contact stated the most pressing need in the community was a more active SBA 504 lending program, which provides small business financing to acquire property or equipment with relatively small equity investments. The contact views this lending program as important to the creation of new jobs and the preservation of existing jobs. The contact stated there are gaps of unmet credit needs in certain geographical areas or in some communities, particularly in the South Los Angeles area.

DETERMINATION OF PRIMARY LOAN PRODUCTS

Table 1 lists the outstanding balance of the bank's major loan products as of March 31, 2004.

Table 1

Merchants Bank of California Loan Portfolio Composition as of March 31, 2004				
Loan Type	Number	Percentage	Dollar (000)*	Percentage
Commercial	111	70%	34,891	77%
Residential Real Estate	28	18%	9,799	21%
Consumer	20	12%	890	2%
Total	159	100%	45,580	100%

*Reflects total commitment amount.

The table shows the bank's primary loan product is commercial loans. Therefore, for this examination we reviewed a sample of loans originated from January 1, 1999 to December 31, 2003. The percentage of the bank's assessment area defined as LMI according to the U.S.

Census increased from 32% in 1990 to 37% in 2000. The 2000 census data became effective in January 2003 and changed boundaries and income levels of many existing census tracts, deleted some census tracts, and created new ones. In order to improve the accuracy of our results and compensate for that change, we compared loans originated between 1999 and 2002 to the 1990 Census data, and loans originated during 2003 to the 2000 Census data.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN TO DEPOSIT RATIO

The loan-to-deposit (LTD) ratio is an indicator of a bank's willingness to lend. The bank's degree of lending is reasonable given its size, the credit needs of the AA, and the competitive banking market within the AA. We analyzed the bank's quarterly LTD ratio from December 1998 to December of 2003. During this period, the LTD ratio ranged from a low of 29% to a high of 68%, with an average of 53%.

We compared the bank's LTD ratio to peer banks of comparable asset size, including banks that operate in Merchants' AA or other areas with similar demographics within the Los Angeles MA. The peer group consists of 14 financial institutions, ranging in total asset size from \$29 million to \$100 million. We analyzed the peer group's quarterly LTD ratio over the same time period, and the group average was 58%. The bank's LTD ratio is fairly consistent with peer; consequently, the bank's LTD meets the standard for satisfactory performance.

LENDING IN THE ASSESSMENT AREA

A majority of loans and other lending-related activities are in the bank's AA.

Analysis for lending in the assessment area included a sample of all commercial and industrial loans outstanding as of March 31, 2004. We found the bank originated 72% of loans (by number) and 55% (by dollar volume) within the AA. In order to meet the standard in this performance criterion, the bank needs to originate at least 50% of its loans within its AA. The bank's lending to businesses within the assessment area meets the standard for satisfactory performance.

LENDING TO BUSINESSES OF DIFFERENT SIZES

The bank's distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among businesses of different sizes and meets the standards for a satisfactory rating.

We selected a random sample of 40 commercial loans to evaluate the bank's performance because the bank is primarily a commercial lender. These loans were originated between

January 1999 and December 2003, and were within the bank's AA.

We compared the bank's lending to businesses in the AA to the demographics of small businesses of the assessment area. Small businesses are those with gross revenues of \$1 million or less.

Table 2 displays the bank's lending practices based on our sample of 1999 through 2002 business borrowers.

Table 2

Income Distribution - Loans to Businesses Loan Originated Between 1999 and 2002 Los Angeles-Long Beach MA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	66%	7%
% of Bank Loans in AA by #	68%	32%
% of Bank Loans in AA by \$	66%	34%

* Demographic Data Source: 2002 Dun & Bradstreet, 27% of AA businesses did not report revenue data

Table 2 shows that 68% (number of loans) and 66% (dollar volume) of the bank's business borrowers generated gross annual revenues of \$1 million or less. This compares reasonably to 2002 Dun & Bradstreet data that shows 66% of reporting businesses had gross annual revenues of \$1 million or less.

Table 3 displays the bank's lending practices based on our sample of 2003 business borrowers.

Table 3

Income Distribution - Loans to Businesses Loans Originated During 2003 Los Angeles-Long Beach MA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	62%	6%
% of Bank Loans in AA by #	61%	39%
% of Bank Loans in AA by \$	44%	56%

*Demographic Data Source: 2003 Dun & Bradstreet, 32% of AA businesses did not report revenue data

As table 3 indicates, 61% (number of loans) and 44% (dollar volume) of the bank's 2003 business lending customers generated gross annual revenues of \$1 million or less. This is slightly below the 2003 Dun & Bradstreet data of 62%; however, we place more emphasis on the number of loans percentage, which focuses on the bank's performance in actually making loans

to small businesses rather than the amount of the loan.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects excellent dispersion throughout the AA.

We reviewed the pattern for geographic distribution of lending in low- and moderate-income tracts within the AA. Dun & Bradstreet demographics track where businesses are located based on U.S. Census information. Table 4 details the bank's commercial lending activity within the assessment area. We used the same sample of commercial loans from the **Lending to Businesses of Different Sizes** section of this performance evaluation.

Table 4

Geographic Distribution - Loans to Businesses Loans Originated Between 1999 and 2003 Los Angeles-Long Beach MA								
Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses
1999 - 2002 Sample	9%	9%	23%	17%	41%	32%	27%	42%
2003 Sample	11%	8%	50%	20%	6%	26%	33%	46%

**Demographic Data Source: 2002 & 2003 Dun and Bradstreet*

The table above indicates that the bank's lending in low-income tracts is consistent with the Dun & Bradstreet demographics. Lending in the moderate-income tracts is significantly above the demographics for 2003 loan originations, with 50% of the lending compared to 20% of businesses located in this area. This reflects excellent penetration in LMI tracts and for the performance criterion; the bank exceeds the standard for satisfactory performance.

RESPONSE TO COMPLAINTS

Merchants Bank of California, N.A. has not received any written complaints associated with its performance under the Community Reinvestment Act.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

We found no evidence of illegal discrimination or other illegal credit practices.

COMMUNITY DEVELOPMENT SERVICES AND LOANS

The bank encourages its lending and management personnel to join community-based organizations that afford an opportunity to reach out to the credit needs of the assessment area. Some of the organizations to which the bank and/or its employees participate in are as follows:

- ❑ Carson Chamber of Commerce
- ❑ South Bay Area Board of Realtors
- ❑ The City of Carson and the Carson Redevelopment Agency

Affiliation with these organizations helps bank management understand the credit needs of small businesses, borrowing needs of people seeking residential housing, and participate in the redevelopment of low- and moderate-income areas through economic development and revitalization of the AA.

In addition, the bank has originated three loans totaling \$6.35 million to an organization that provides community service targeted to assist LMI individuals.