



PUBLIC DISCLOSURE

April 06, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Merchants Bank of California, National Association
Charter Number 21371

One Civic Plaza, Suite 100
Carson, CA 90745

Office of the Comptroller of the Currency

1551 North Tustin Avenue
Suite 1050
Santa Ana, CA 92705

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.

The major factors that support this rating include:

- The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and business strategy.
- The bank originated a substantial majority of its loans within its delineated assessment area.
- The geographic distribution of loans reflects excellent dispersion.
- Lending among borrowers of different income levels reflects poor penetration.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) assesses the Community Reinvestment Act (CRA) performance of Merchants Bank of California, N.A. using the lending test criteria for small bank examinations. To assess the bank's lending performance, we evaluated a random sample of commercial loans originated or purchased from January 1, 2013, through December 31, 2014 (sample period), as this was most representative of the bank's lending strategy since the last CRA examination. We focused our review on commercial loans because they represented the bank's primary product based on the number and dollar volume of loan originations during the sample period.

DESCRIPTION OF INSTITUTION

Merchants Bank of California, N.A. (MBOC or bank) is an independent community bank that opened in 1989. The bank has only one branch office located in Carson, California, in a middle-income census tract. The bank has one primary shareholder and no bank holding company.

The bank offers traditional deposit and loan products for both consumers and commercial customers such as checking and savings accounts, commercial real estate (CRE) loans, U. S. Small Business Administration (SBA) loans, mortgage loans, and consumer loans. The bank focuses on two niche markets, the money service business industry and international trade.

As of December 31, 2014, MBOC reported total assets of \$88 million, total loans of \$23 million, total deposits of \$60 million, and total equity capital of \$20 million. Total loans represented approximately 26 percent of total assets. The chart on the following page summarizes the loan portfolio by major product types.

Merchants Bank of California, N.A. Outstanding Balances by Major Product Type as of December 31, 2014		
Loan Type	(\$000's)	Percent
Commercial RE	16,455	72.3%
Commercial-Industrial	5,579	24.5%
1-4 Family Residential RE	320	1.4%
Multifamily Residential RE	75	0.3%
Other	332	1.5%
Total	22,761	100.0%

During the evaluation period, the bank operated under formal enforcement actions relating to safety and soundness concerns. The enforcement actions required time, staff effort, and financial resources to correct certain deficiencies. We considered these factors when reaching our conclusions concerning the bank's CRA performance.

MBOC received a "Satisfactory" rating under the "Small Bank" rating criteria at the prior CRA examination dated October 19, 2009.

DESCRIPTION OF ASSESSMENT AREA

MBOC has designated Los Angeles County as its assessment area (AA). The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. It includes the 2,346 census tracts in the Los Angeles-Long Beach-Glendale Metropolitan Division (MD). Nine percent of the census tracts are low-income, 28 percent are moderate-income, 27 percent are middle-income, 34 percent are upper-income, and 2 percent of the census tracts have not been assigned an income classification. MBOC helps meet community credit needs in the Los Angeles AA through its office in Carson.

The AA is part of the Los Angeles-Long Beach-Anaheim Metropolitan Statistical Area (MSA). Los Angeles County is located in southern California and covers over 4,000 square miles. It has an extensive transportation network, including seaports and airports, freeway systems, mass transit systems, rail systems, and cross-country railroads. The neighboring counties include Orange to the southeast, Kern to the north, San Bernardino to the east, and Ventura to the northwest. There are 88 incorporated cities in Los Angeles County and many unincorporated areas. The northern half of the county is lesser populated in inland areas; however, the southern half of the county is heavily urbanized. Based on the 2010 U.S. Census, the population in the Los Angeles County AA is 9.8 million.

The banking environment in the AA is highly competitive. The June 30, 2014 FDIC Deposit Market Share Report indicates that 111 institutions with 1,811 offices compete for deposits in Los Angeles County. The major competing institutions include Bank of America, N.A., Wells Fargo Bank, N.A., MUFG Union Bank, N.A., JPMorgan Chase Bank, N.A., City National Bank, N.A., and Citibank, N.A. These banks collectively hold

67 percent of the deposit market share. MBOC ranks 98th and holds a market share of 0.01 percent. The banks that compete for deposits in the AA also compete for loans. In addition, there are numerous other institutions in the AA that do not collect deposits but do compete for loans in the AA, making it even more difficult for banks to compete for loans than deposits.

Los Angeles County has a diverse economic base. Historically, the leading industry clusters were tourism and hospitality, professional and business services, entertainment (motion picture and TV production), wholesale distribution, and health services and biomedical. More recently, the Los Angeles County economy has been largely technology driven, specifically the biomedical, digital information technology, and environmental technology sectors, all of which build on the vibrant technical research capabilities in the county. The county also is the largest manufacturing center in the United States, and the seaports and airports support international trade. The Port of Los Angeles/Long Beach and the Los Angeles International Airport are two of the busiest transportation networks in the nation. The top employers are Kaiser Permanente; University of California Los Angeles; Northrop Grumman Corporation; University of Southern California; Target Corporation; Kroger Corporation; Cedars Sinai Medical Center; Bank of America Corporation; The Boeing Company; Providence Health Systems, The Home Depot, USA Inc.; Vons; Wells Fargo; Edison International; and AT&T.

The economy in the AA showed strong signs of improvement during the review period. In April 2013, the unemployment rate dropped below 10 percent for the first time in four years. According to the Employment Development Department (EDD), the current unemployment rate for Los Angeles County is 7.5 percent as of December 2014. This is above the 6.7 percent unemployment rate for the State of California and the 5.6 percent national unemployment rate but still a significant improvement since the recent severe recession.

We participated on a conference call with several development organizations that provide credit resources to small businesses in underserved communities in Los Angeles County. We also contacted a national organization that provides capital and solutions to develop affordable housing for LMI persons and communities across the country, an ongoing need in the AA. The representatives stated that high unemployment is still a major issue. Small business financing and technical assistance are a concern and still needed. Entrepreneurship is more visible in this county than in other areas of the state. Affordable housing is a challenge, and the high foreclosure rate remains an issue.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

MBOC's performance under the CRA Lending Test is "Satisfactory." The bank exceeds the standard for satisfactory performance on two tests, meets the standard on one test, and does not meet the standard on one test.

Loan-to-Deposit Ratio

MBOC’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and local economic conditions. We evaluated the bank’s quarterly average LTD ratio for the 23 quarters since the prior CRA examination through December 31, 2014. During this period, the bank’s LTD ratio averaged 59 percent. This ratio ranged from a quarterly low of 30 percent to a quarterly high of 103 percent during the period. The bank’s LTD ratio reasonably compares with the other three banks of similar asset size in the AA. The average LTD ratio for its peer banks was 67 percent over the same period, and the ratio ranged from a quarterly low of 56 percent to a quarterly high of 88 percent. While the bank’s average ratio was lower than the peer bank average, it meets the standard for satisfactory performance.

Lending in Assessment Area

MBOC granted a substantial majority of the number and dollar volume of loans inside its delineated AA and exceeded the standard for satisfactory performance. The bank granted 100 percent of the number of loans and 100 percent of the dollar volume within its delineated AA during our evaluation period. See Table 1 for details.

Table 1 - Lending in Defined AA										
Loan Type	Number of Loans					Dollars of Loans (\$000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	20	100	0	0	20	6,502	100	0	0	6,502

Source: OCC commercial loan sample.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank’s distribution of loans to businesses of different sizes reflects poor penetration compared to area demographics. The percentage of businesses with revenues of \$1 million or less within the AA is 73 percent. Based on our sample of 20 loans within the AA, the bank originated 30 percent of their loans by number and 33 percent by dollar volume to these businesses. While these percentages are significantly below the demographic comparator, 35 percent of the bank’s commercial loans were for \$100,000 or less, indicating responsiveness to the needs of the businesses in the area. See Table 2 for details.

Table 2 - Borrower Distribution of Loans to Businesses in Los Angeles County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	72.92	5.03	22.05	100%
% of Bank Loans in AA by #	30.0	70.0	0.0	100%
% of Bank Loans in AA by \$	33.1	66.9	0.0	100%

Source: 2014 Business Geodemographic Data. OCC commercial loan sample.

Geographic Distribution of Loans

The geographic distribution of MBOC’s commercial loans reflects excellent dispersion throughout the AA compared to area demographics, and exceeds the standard for satisfactory performance. The level of the bank's lending to businesses in LMI census tracts exceeds the area demographics. See Table 3 for details.

Table 3 - Geographic Distribution of Loans to Businesses in Los Angeles County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% 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
Commercial Loans	6.4	20.0	18.1	50.0	25.3	20.0	48.9	10.0

Source: 2014 Business Geodemographic Data. OCC commercial loan sample (Note: 1.3 percent of geographies have not been assigned an income classification.)

Responses to Complaints

The bank has not received any complaints about its performance under the Community Reinvestment Act during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.