

PUBLIC DISCLOSURE

November 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**South Bay Bank, N. A.
Charter No. 23633**

**2200 Sepulveda Boulevard
Torrance, California 90509**

**Comptroller of the Currency
Southern California-North Field Office
550 North Brand Boulevard
Suite 500
Glendale, California 91203-1900**

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 CRA performance of **South Bay Bank, N. A.** prepared by **The Office of the Comptroller of the Currency**, as of **November 15, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA) - A geographic area which consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as countries, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten-year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR §121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography - A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA) - The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily dwelling loans (five or more families), loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Low-Income - Income levels that are less than 50 percent of the median family income.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Middle-Income - Income levels that are at least 80 percent and less than 120 percent of the MFI.

Moderate-Income - Income levels that are at least 50 percent and less than 80 percent of the MFI.

Small Business Loans - Loans with original amounts of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Farm Loans - Loans with original amounts of \$500,000 or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income - Income levels that are 120 percent or more of the MFI.

Scope of Examination

We evaluated the bank's performance based on loans originated from January 1, 1996, through June 14, 1999, for all loans other than those subject to the requirements of the HMDA. For loans subject to the HMDA, we considered 100 percent of these loans for the period from January 1, 1997, through September 30, 1999. In addition to the HMDA loans, our evaluation focused on the commercial real estate and business loans as these are the largest category of loans originated by this bank. We sampled 40 loans (20 commercial real estate and 20 business) to collect revenue information. The bank is not required to collect this information and elected not to do so. We also verified the accuracy of the HMDA information reported by the bank.

Institution's CRA Rating:

This institution is rated **"Satisfactory."**

The following are the major factors that support this rating.

- The bank's loan-to-deposit ratio exceeds the standard for satisfactory performance.
- The majority of the bank's loans were originated within its assessment area.
- The geographic distribution of loans is good.
- The lending to businesses of different sizes is satisfactory.

DESCRIPTION OF INSTITUTION:

South Bay Bank, N. A. (SBB) is a \$160 million community bank established in 1982. SBB's headquarters and main office are located in the city of Torrance, California. The bank has one branch in El Segundo, California. SBB is a full-service commercial bank that offers 24-hour banking through two Automated Teller Machines (ATMs), one each at the main office and branch.

The bank did not open any new offices during this examination period. In July 1999, SBB relocated its Westchester branch two miles south to El Segundo. This relocation was necessary, as the building where the branch was housed had to be demolished.

SBB has one bank affiliate and four non-bank affiliates. SBB's bank affiliate, First National Bank of Pine City (FNBPC) is located in Pine City, Minnesota and is wholly owned by Pine Bancshares, Inc. FNBPC has assets of \$35 million and is its parent's largest asset and main source of cash flow. We did not consider loans originated by SBB's affiliates for this evaluation.

As of September 30, 1999, loans represented 74 percent of total assets. The bank's primary lending focus is commercial real estate, business, and residential real estate loans. Refer to the table below for details regarding the distribution of loans by product lines.

Loan Portfolio Distribution as of September 30, 1999		
Loan Type	Loan Dollars	Percent of Total Loan Dollars
Commercial Real Estate	\$51,820,000	44%
Business	\$26,484,000	22%
Residential Real Estate	\$20,140,000	17%
Construction	\$14,204,000	12%
Consumer	\$4,517,000	4%
Other	\$844,000	0%
Total	\$118,549,000	100%

The bank has no financial or legal impediments that would affect its ability to meet the credit needs of its assessment area. At the bank's last CRA examination conducted in 1995, the Federal Deposit Insurance Corporation (FDIC) rated the bank's CRA performance "Satisfactory." Prior to May 8, 1998, the FDIC was the bank's primary regulator.

DESCRIPTION OF ASSESSMENT AREA

SBB has one assessment area, which includes a number of the political subdivisions within the Los Angeles - Long Beach MSA. The bank elected to serve only portions of the MSA, as it does not have the resources necessary to serve the entire MSA. The cities and communities within the assessment area are Torrance, Los Angeles, San Pedro, Gardena, Culver, Inglewood, West Hollywood, Hawthorne, Beverly Hills, El Segundo, Lomita, Carson, Athens, Ladera Heights, Palos Verdes Estates, Rancho Palos Verdes, Manhattan Beach, Santa Monica, Lennox, Hermosa Beach, Rolling Hills Estates, and Lawndale. SBB does not arbitrarily exclude any low - and moderate-income census tracts. The assessment area complies with the requirements of the law. Refer to the table below for details regarding the characteristics of the assessment area.

The 1990 Census reported a total population of 1,593,984 within the assessment area. Also, the Census reported 8.92 percent of the households living below the poverty line. The unemployment rate calculated by the U. S. Bureau of Labor Statistics was 8.21 percent in 1996. The Department of Housing and Urban Development's (HUD) updated MFI for the MSA for 1999 is \$51,300. According to the 1990 Census, owner occupied housing was 41 percent of total housing units and the median cost of housing was \$325,122. Owner occupied housing in low-income and moderate-income geographies as a percentage of total housing was less than one percent and seven percent, respectively.

Characteristics of Assessment Area				
Income Level of Census Tracts	Number of Census Tracts	Percent of Total Number of Tracts Census	Number of Families in Census Tracts	Percentage of Families in Census Tracts
Low	7	2%	63,488	17%
Moderate	41	12%	53,481	14%
Middle	115	35%	69,064	19%
Upper	159	48%	184,102	50%
N/A*	9	3%	0	0
Total	331	100%	370,135	100%

* 1990 Census reported no income.

Major industries in the assessment area in order of importance are services, retail trade, finance, insurance and real estate, wholesale trade, and manufacturing. There are 88,492 businesses within the area, of those businesses 12,867 or 15 percent did not report revenues. Of those businesses that reported revenues, 87 percent had revenues less than \$1 million. The economy continues to improve from the early 1990s recession.

SBB operates in a very competitive environment. There are a variety of regional banks, credit unions, savings and loan associations, thrifts, and branches of major banks located and operating within the bank's assessment area.

As a part of this examination, we considered information obtained from the community. All of our contacts were made within the last two years. Contacts included a community development corporation, a center for homeless women, a business development department for a local government, and a community-based economic development organization. According to these

contacts, the credit needs in the area are for micro and business start-up and affordable housing loans. Other needs in the area include those for credit education and banking services.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO DEPOSIT RATIO

SBB's average quarterly loan-to-deposit (LTD) ratio of 83 percent for the twelve quarters ended June 30, 1999, exceeds the standard for satisfactory performance. SBB's LTD ratio was better than five similarly situated banks' average ratio for the same period. Those five banks had an average LTD ratio of 68 percent. For the purposes of this examination, we consider similarly situated banks as those banks of a similar asset size located within the bank's assessment area.

LENDING IN ASSESSMENT AREA

SBB's lending within its assessment area meets the standard for satisfactory performance. The bank originated the majority of its loans by number and dollar within its assessment area. The loans reflected in the table below include all loans originated by SBB from January 1, 1996, through June 14, 1999.

Loans Within Assessment Area		
Total Loans by Number and Dollar	Number and Dollar Within the Assessment Area	Percent of Total Loans Made Within Assessment Area
548	374	68%
\$135,255,410	\$86,451,962	64%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

SBB's lending to borrowers of different incomes and businesses of different sizes meets the standard for satisfactory performance.

The distribution of HMDA loans to borrowers of different incomes is reasonable. The bank extended 14 percent by number and 16 percent by dollar of these loans to moderate-income borrowers. This distribution compares favorably with area demographics, where 14 percent of the families within the area have moderate-incomes. SBB did not originate any loans to low-income borrowers. However, considering the limited number of HMDA loans originated by the bank during this review period, this is reasonable. Loans to middle- and upper-income borrowers were consistent with area demographics. Refer to the following table for details.

HMDA Loans to Borrowers of Different Incomes					
Income Level of Families	Percent of Families	Distribution of Loans by Numbers		Distribution of Loans by Dollars	
		Number	Percent	\$ (000's)	Percent
Low	17%	0	0	\$0	0%
Moderate	14%	2	14%	\$155	16%
Middle	19%	3	21%	\$51	5%
Upper	50%	9	64%	\$745	78%
Total	100%	14	100%*	\$951	100%*

*Rounded Number

The bank's origination of commercial real estate loans to businesses of different sizes is good. Of the loans sampled, SBB extended the vast majority of these loans to businesses with revenues less than \$1 million. This distribution exceeded area demographics, where small businesses comprised 87 percent of the total number of businesses that reported revenues. Refer to table below for details.

Commercial Real Estate Loans to Businesses of Different Sizes					
Business Revenue	Percent of Businesses in Area*	Number of Loans Sampled in Area	Percent of Loans Sampled in Area	Dollar Amount of Loans Sampled in Area \$(000's)	Percent of Dollars Sampled in Area
<\$1,000,000	87%	19	95%	\$6,517	98%
>\$1,000,000	13%	1	5%	\$140	2%
Total	100%	20	100%	\$6,657	100%

* Source - Dun & Bradstreet

The distribution of business loans to businesses of different sizes is reasonable. Of the number of loans sampled, 45 percent were extended to businesses with revenues of less than \$1 million. This distribution is less favorable than area demographics. Of the businesses that reported revenues, 87 percent had revenues of less than \$1 million. Refer to the following table for details.

Business Loans to Businesses of Different Sizes					
Business Revenue	Percent of Businesses in Area*	Number of Loans Sampled in Area	Percent of Loans Sampled in Area	Dollar Amount of Loans Sampled in Area \$(000's)	Percent of Dollars Sampled in Area
<\$1,000,000	87%	9	45%	\$1,060	31%
>\$1,000,000	13%	11	55%	\$2,315	69%
Total	100%	20	100%	\$3,375	100%

*Source - Dun & Bradstreet

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's distribution of loans among the geographies exceeds the standard for satisfactory performance. We did not identify any gaps in the bank's loan distribution.

SBB originated 14 percent by number and 3 percent by dollar of the HMDA loans within the moderate-income geographies. No loans were originated to borrowers within the low-income geographies. However, this distribution is reasonable, since 7 percent of occupied housing is in the moderate-income geographies and less than 1 percent is within the low-income geographies. Also, SBB did not originate a significant number of these types of loans. The distribution within the middle- and upper-income geographies was consistent with level of occupied housing. Refer to the table below for details.

Geographic Distribution of HMDA Loans					
Income Level of Census Tract	Percent of Owner Occupied Housing	Distribution of Loans by Numbers		Distribution of Loans by Dollars	
	Percent	Number	Percent	\$000's	Percent
Low	0%*	0	0%	\$0	0%
Moderate	7%	2	14%	\$27	3%
Middle	26%	2	14%	\$104	11%
Upper	66%	10	71%	\$820	86%
N/A***	0%	0	0%	\$0	0%
Total	100%**	14	100%*	\$951	100%

* Less than 1%

**Rounded number

*** 1990 Census reported no income

The distribution of the commercial real estate loans in our sample to businesses within the low- and moderate-income geographies is good. Lending to businesses located in those geographies exceeded the area's demographics. The percentage of loans both by number and by dollar (5 percent each) is greater than the percentage of businesses within the low-income geographies.

Loans originated in the moderate-income geographies also exceeded the area's demographics. Lending within the middle- and upper-income geographies was consistent with the demographics. Refer to the following table for details.

Geographic Distribution of Commercial Real Estate Loans					
Income Level of Census Tract	Percent of Businesses in Tracts**	Distribution of Loans by Numbers		Distribution of Loans by Dollars	
		Number	Percent	\$000's	Percent
Low	1%	1	5%	\$360	5%
Moderate	10%	8	40%	\$1,184	18%
Middle	34%	5	25%	\$3,629	55%
Upper	55%	6	30%	\$1,484	22%
N/A*	0%	0	0%	\$0	0%
Total	100%	20	100%	\$6,657	100%

* 1990 Census reported no income.

** Source - Dun and Bradstreet

Based on our sample, the geographic distribution of business loans is good. Loans originated in the low-income geographies, as well as those originated within the moderate-income geographies exceeded the area's demographics. One percent of the businesses is located in the low-income geographies, and SBB extended 20 percent by number and 32 percent by dollar of loans to these businesses. Although businesses within the moderate-income geographies account for 10 percent of total businesses, SBB extended 35 percent by number and 21 percent by dollar of loans to these businesses. The loan distribution within the middle- and upper-income geographies was reasonable. Refer to the table below for details.

Geographic Distribution of Business Loans					
Income Level of Census Tract	Percent of Businesses in Census Tracts**	Distribution of Loans by Numbers		Distribution of Loans by Dollars	
		Number	Percent	\$000's	Percent
Low	1%	4	20%	\$1,074	32%
Moderate	10%	7	35%	\$716	21%
Middle	34%	2	10%	\$60	2%
Upper	55%	7	35%	\$1,525	45%
N/A*	0%	0	0%	\$0	0%
Total	100%	20	100%	\$3,375	100%

* 1990 Census reported no income.

** Source - Dun and Bradstreet

FAIR LENDING

We did not identify any discriminatory practices or unusual lending patterns. Our Fair Lending examination was conducted concurrently with this examination. We used a sample of 13 automobile loans for the Fair Lending examination. These loans were originated between February 1998 and September 1999. We compared the rates and terms of the loans extended to males against those originated to females.

RESPONSE TO WRITTEN COMPLAINTS

The bank did not receive any complaints associated with its CRA performance.