



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

July 1, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bay Cities National Bank
Charter Number 22654**

**1333 South Pacific Coast Highway
Redondo Beach, CA 90277**

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

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.

Bay Cities National Bank has a satisfactory record of meeting the credit needs within its community. The following supports this rating:

- A majority of the loans were originated within the bank's assessment area.
- The loan to deposit ratio is satisfactory.
- The distribution of business loans by tract income level in low- and moderate-income areas is satisfactory.
- The majority of business loans were made to businesses with revenues of less than \$1 million.
- The amount of small loans to businesses in amounts of less than \$250 thousand is satisfactory.

DESCRIPTION OF INSTITUTION

Bay Cities National Bank ("BCNB" or "the bank") is an independent commercial bank headquartered in Redondo Beach, California, approximately 25 miles southwest of downtown Los Angeles. BCNB is held by a single bank holding company, Peninsula Banking Group, which is 90 percent owned by Community First Financial Group (CFFG). CFFG is a \$660.2 million multi-bank holding company based in English, Indiana.

As of December 31, 2004, BCNB had \$263 million in assets, \$238.6 million in deposits, and \$18.8 million in equity capital. BCNB operates five branches. The main office is located in Redondo Beach where all credit related functions are located. The Rolling Hills Estate branch is an established branch, opened more than 30 years ago, and the Rancho Palos Verdes branch has been open more than 15 years. The King Harbor branch opened in July 2001 to serve the small business community in which it is located, and an office in Torrance was opened in December 2002 as a full service branch.

BCNB is primarily a business bank that lends to small businesses, professionals and developers of commercial properties. The bank participates in the Small Business Administration's (SBA) '7(a) Loan Guaranty Program' and 'Low Doc' loan programs. The bank has originated 45 SBA loans totaling \$10 million during this evaluation period. Competition for loans and deposits is very strong, with branches of large money centers and other financial institutions located in the assessment area. The bank's \$147.0 million loan portfolio is comprised of commercial loans (91 percent), consumer loans (5 percent), residential real estate loans (4 percent), and a negligible amount of loans to others. Even though consumer loans are a small part of the bank's lending, we also reviewed these loans to determine the bank's overall lending performance. The bank does not concentrate its lending efforts in originating residential real estate loans, due to fierce competition of local large mortgage companies and mortgage bankers in the assessment area. As of December 31, 2004, net loans represented 56 percent of total assets. Table 1 shows the composition of the bank's loan portfolio as of December 31, 2004.

Table 1

BANK'S LOAN PORTFOLIO COMPOSITION		
Loan Type	Volume (\$000)	Volume (Percent)
Commercial Real Estate	\$86,891	59%
Commercial/Industrial	\$27,658	19%
Multi-family Real Estate	\$18,652	13%
Residential Real Estate	\$6,898	4%
Consumer	\$6,917	5%
Other	\$13	0%
TOTAL	\$147,029	100%

Source: Bank Call Report - 12-31-04

The bank has no legal, financial, or other factors impeding its ability to help meet the credit needs in its assessment area. At the prior CRA evaluation dated June 4, 2001, the bank received a Satisfactory rating.

DESCRIPTION OF THE SOUTH BAY ASSESSMENT AREA

The bank's assessment area is the South Bay area of Los Angeles County. The cities included in the assessment area are Rolling Hills, Rolling Hills Estates, Palos Verdes Estates, Rancho Palos Verdes, and portions of the cities of Redondo Beach, Manhattan Beach, Hermosa Beach, Torrance, Lomita, and San Pedro. The Palos Verdes peninsula is considered one of the more affluent communities in the county. Of the 89 contiguous census tracts in the assessment area, the majority are middle- and upper-income, with only eight low- and moderate-income tracts. The major employers in the assessment area include Boeing, Northrop-Grumman Corporation, Raytheon Electronics, and Computer Sciences Corporation. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Table 2 gives details regarding the number and percentage of census tracts by income level and families within those tracts.

Table 2

ASSESSMENT AREA CHARACTERISTICS				
Income Level	Number of Census Tracts	Percent of Total Census Tracts	Number of Families	Percent of Families
Low	1	1%	771	0.7%
Moderate	6	7%	6,291	5.8%
Middle	9	10%	13,219	12.2%
Upper	73	82%	87,907	81.3%
Total	89	100%	108,188	100%

Source: 2000 Census Bureau Report

The 2000 Census Bureau reported 418,660 residents within the bank’s assessment area. According to a community contact, this number swells to more than 1.1 million during the week, as more than 50 percent of employed persons in the South Bay area live outside the area. The updated median family income for these census tracts was \$90.5 thousand per the 2004 Department of Housing and Urban Development report.

The median housing costs cited by the 2000 Census Bureau report was \$389.6 thousand, however, in 2003 the median price of a South Bay home was \$457.5 thousand, and home prices continue to rise at an average rate of 13 percent per year. The U.S. Department of Labor Statistics estimated the unemployment rate in Los Angeles County at 5.1 percent, the same as the May 2005 national average.

We reviewed three recent community contacts performed by the OCC. In addition, we performed one additional community contact with a local economic development partnership. These contacts stated that the local financial institutions are meeting the needs of the community. The primary financial needs are small business loans and loans to develop land for multi-family housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is an indication of the bank’s willingness to lend. BCNB’s loan-to-deposit ratio is reasonable given its size, credit needs of the area, and competition by other banks in the area. The bank’s loan to deposit ratio is 58.3 percent as of December 31, 2004. This compares to 47 percent as of the previous evaluation.

We compared the loan-to-deposit ratios for 15 quarters, June 2001 through December 31, 2004, of other financial institutions in the assessment area that were similar in asset size and product offering. The lending ratios of these banks ranged from 52.7 percent to 96.9 percent.

Lending in Assessment Area

The level of lending in its assessment area is satisfactory. BCNB originated the majority of its loans by number and dollar amount within its assessment area. This conclusion is based on loans originated between June 1, 2001 and December 31, 2004. Table 3 shows the distribution of these loans.

Table 3

LOANS ORIGINATED WITHIN THE ASSESSMENT AREA		
Total Loans by Number and Dollar (\$000)	Number and Dollar (\$000) of Loans Made Within Assessment Area	Percent of Total Loans Made Within Assessment Area
563	392	70%
\$142,827	\$89,697	63%

Source: Bank Loan Trial Balance

Geographic Distribution of Loans

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

We reviewed 271 business loans originated by the bank since the previous evaluation to determine the distribution in the assessment area. Geographic distribution equaled or exceeded demographics in the number of loans and in the dollar amount of loans made. The bank originated business loans in both the low- and moderate-income census tracts within its assessment area. Table 4 demonstrates the distribution of all business loans by tract income levels.

Table 4

DISTRIBUTION OF BUSINESS LOANS BY CENSUS TRACT INCOME LEVEL					
Income Level of Tract	Percent of Businesses in Assessment Area	Number of Loans	Percent of Loans	\$000	\$ Percent of Loans
Low	1%	2	1%	\$645	2%
Moderate	7%	14	5%	\$2,421	8%
Middle	11%	22	8%	\$1,907	6%
Upper	81%	233	86%	\$25,162	84%
Total	100%	271	100%	\$30,135	100%

Source: Bank Loan Trial Balance

We also reviewed 96 consumer loans originated during the evaluation period. While consumer lending is not a focus of the bank, these loans are accommodations to depositors.

The low-income tract in the assessment area comprises less than one percent of the families, and a portion of this tract is adjacent to an industrial area and undeveloped land. The bank did not originate any consumer loans in this area; however, the bank originated consumer loans in five of the six moderate-income tracts in its assessment area. Table 5 reflects the bank’s consumer lending by census tract.

Table 5

DISTRIBUTION OF CONSUMER LOANS BY CENSUS TRACT						
Income Level of Tract	Number of Families	Percent of Families	Number of Loans	Percent of Loans	\$000 of Loans	\$ Percent of Loans
Low	771	0.7%	0	0%	\$0	0%
Moderate	6,291	5.8%	5	5%	\$103	1%
Middle	13,219	12.2%	14	15%	\$370	5%
Upper	87,907	81.3%	77	80%	\$7056	94%%
Total	108,188	100%	96	100%	\$7,529	100%

Source: Bank Loan Trial Balance

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

We reviewed 60 business loan originations to determine the revenue size of the businesses. The bank originated a vast majority of its business loans, both by number and dollar amount, to businesses with less than \$1 million in revenues. Table 6 demonstrates the bank's record of lending based on revenue size of business loan originations.

The record of lending to businesses based on loan size demonstrates BCNB's commitment to small businesses. More than half the number of business loan originations were less than \$100 thousand, and the majority of loans by dollar amount were less than \$500 thousand. Table 7 reflects lending to businesses based on loan size.

Table 6

LENDING TO BUSINESSES BASED ON REVENUE SIZE					
Gross Revenues	Percent of Businesses in Assessment Area	Number of Loans	Percent of Loans	\$000 of Loans	Percent of Loans
< \$1 Million	1,797	50	83%	\$16,912	94%
> \$1 Million	194	10	17%	\$1,077	6%
Total	1,991	60	100%	\$17,989	100%

Source: Bank Loan Trial

Table 7

LENDING TO BUSINESSES BASED ON LOAN SIZE				
Loan Size (\$000)	Number of Loans	Percent of Loans	\$000 of Loans	\$ Percent of Loans
< \$100	168	57%	\$4,903	16%
\$101-\$250	69	23%	\$6,837	23%
\$251-\$500	16	5%	\$5,318	18%
> \$500	44	15%	\$13,076	43%
TOTAL	297	100%	\$30,134	100%

Source: Bank Loan Trail Balance

We also reviewed 60 consumer loans to determine the revenue levels of the borrowers. The bank's record of consumer lending to low- and moderate-income individuals exceeds demographics both by number and dollar amount. These numbers are reflected in Table 8.

Table 8

Distribution of Consumer Loans By Income Level

Income Level of Tract	Number of Families in Assessment Area	Percent of Families	Number of Loans	Percent of Loans	\$000 of Loans	\$ Percent
Low	11,971	11%	21	35%	281	16%
Moderate	11,010	10%	12	10%	224	13%
Middle	14,980	14%	10	17%	556	33%
Upper	70,277	65%	17	28%	647	38%
TOTAL	108,188	100%	60	100%	1,708	100%

Source: Bank Loan Trial Balance

Responses to Complaints

BCNB did not receive any written complaints associated with its CRA performance.

Fair Lending or Other Illegal Credit Practices Review

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