



## **PUBLIC DISCLOSURE**

October 13, 1998

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

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

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

**Comptroller of the Currency  
50 Fremont Street, Suite 3900  
San Francisco, California 94105**

**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 Community Reinvestment Act (CRA) performance of **Merchants Bank of California, National Association (N.A.)**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, **as of October 13, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated “**Satisfactory**”.

Merchants Bank of California demonstrates commitment to serving the communities in which it operates based on most performance criteria as outlined below.

- The bank originated a majority of the number and dollar volume of its loans within its assessment area.
- The bank’s lending to businesses of different sizes and borrowers of different income levels is reasonable given the assessment area demographics.
- The bank’s loans are reasonably distributed among the various geographies (census tracts) throughout the assessment area.
- The bank’s loan-to-deposit ratio is lower than similarly situated financial institutions.

**DESCRIPTION OF INSTITUTION:**

Merchants Bank of California, N.A. is a \$21 million commercial bank that opened in 1989. The bank operates one full service branch in Los Angeles County and a loan production office in Orange County. The bank's office and attached ATM are located near the Civic Plaza of Carson, approximately 20 miles south of downtown Los Angeles. The bank's primary focus is providing cash management services to check cashing businesses throughout Los Angeles County. Management believes that providing this service promotes the availability of cash to low- and moderate-income individuals. The bank's loan customers include small and middle-market businesses as well as individuals. Competition within the assessment area comes from branches of large multinational banks, savings and thrift associations, credit unions, and larger community banks.

On August 19, 1992, the bank entered into a Formal Agreement with the OCC which requires the bank to take certain corrective actions to improve their overall financial performance. Additionally, the bank is subject to a Prompt Corrective Action Directive. The bank continues to operate under these formal enforcement actions. The last CRA performance evaluation in September 1996 rated the bank as "Satisfactory."

The following chart reflects the bank's loan portfolio by major product type.

**Loans Outstanding by Major Product Type  
As of September 30, 1998**

<b>Loan Type</b>	<b>\$ Volume</b>	<b>% Loans by \$</b>
<b>Commercial &amp; Industrial</b>	2,470,447	43%
<b>Real Estate - Other</b>	2,278,835	39%
<b>Real Estate -Construction</b>	900,000	16%
<b>Installment/Consumer</b>	144,962	2%
<b>Total</b>	5,794,244	100%

**DESCRIPTION OF MERCHANTS BANK OF CALIFORNIA'S ASSESSMENT AREA:**

The bank's assessment area meets the regulation's requirements and does not arbitrarily exclude low- or moderate-income geographies. The area includes all 1,652 census tracts located in the Los Angeles-Long Beach Metropolitan Statistical Area (MSA). This area's population is approximately 8.9 million according to the 1990 census information. The median family income is \$39,035 and the median housing value is \$246,159. Most sectors of the economy are showing positive trends following a prolonged economic recession. Recovery has been slow in Southern California as a result of spending cutbacks in defense and related industries which severely impacted the real estate market. Recent 1998 economic reports show continued improvement with unemployment decreasing and real

estate values increasing. Job growth in the area is centered in services and construction, followed by manufacturing, and retail/wholesale trade. Recent community outreach activities along with contacts made during our examination indicate that lending needs in Los Angeles County continue to include affordable housing and small loans with flexible underwriting criteria for businesses.

**Assessment Area  
Composition by Income Level of Census Tracts**

<b>Census Tract Type</b>	<b># Tracts</b>	<b>% Tracts by #</b>
<b>Low Income</b>	147	9%
<b>Moderate Income</b>	377	23%
<b>Middle Income</b>	544	33%
<b>Upper Income</b>	565	34%
<b>NA</b>	19	1%
<b>Total</b>	1,652	100%

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The bank's commitment to the Community Reinvestment Act is reflected in the performance criteria explained below.

**Lending in Assessment Area**

The bank originated a majority of the number and dollar volume of its loans within its assessment area. We prepared the following analysis based on our own geocoding along with the bank's data which we tested for accuracy.

**Lending Inside and Outside the Assessment Area  
Loan Originations from July 1996 to September 1998**

	<b># Loans</b>	<b>% Loan by #</b>	<b>\$ Loans</b>	<b>% Loan by \$</b>
<b>In Assessment Area</b>	52	72 %	2,409,972	56 %
<b>Out of Area</b>	20	28 %	1,864,011	44 %
<b>Total</b>	72	100 %	4,273,983	100 %

## Lending to Businesses of Different Sizes and Borrowers of Different Income Levels

The bank's lending to businesses of different sizes and borrowers of different income levels is reasonable given the assessment area demographics. This is reflected in the charts which follow. The bank extended a large majority of its small business loans for amounts under \$100,000. In addition, the bank extended a majority of its business loans to businesses with gross revenues less than \$1 million. We prepared our analysis based on bank provided data and our own geocoding.

### Distribution of Business Lending by Loan Size Loan Originations from July 1996 to September 1998

Business Loan Originations	# Business Loans	% of Business Loans (#)	\$ Business Loans	% of Business Loans (\$)
\$0 - \$50,000	11	41%	243,890	14%
\$50,001 - \$100,000	12	44%	900,195	49%
\$100,001 - \$250,000	4	15%	676,469	37%
<b>Total</b>	<b>27</b>	<b>100%</b>	<b>1,820,554</b>	<b>100%</b>

### Lending to Businesses of Different Sizes Loan Originations from July 1996 to September 1998

	# Business Loans	% Loans by #	\$ Business Loans	% Loans by \$
Loans to Small Businesses (Revenue < \$1 Million)	21	78%	1,379,085	76%
Loans to Large Businesses (Revenue >\$1 Million)	6	22%	441,469	24%
<b>Total Business Loans</b>	<b>27</b>	<b>100%</b>	<b>1,820,554</b>	<b>100%</b>

**Consumer Lending by Borrower Income Level Within the Assessment Area  
Loan Originations from July 1996 to September 1998**

<b>Income Level</b>	<b>% of Area</b>	<b># Loans</b>	<b>% of Loans (#)</b>	<b>\$ Loans</b>	<b>% of Loans (\$)</b>
<b>Low Income</b>	23%	4	16%	20,300	3%
<b>Moderate Income</b>	17%	9	36%	61,995	11%
<b>Middle Income</b>	20%	5	20%	12,631	2%
<b>Upper Income</b>	40%	7	28%	494,492	84%
<b>Total Loans</b>	100%	25	100%	589,418	100%

**Geographic Distribution of Loans**

The bank's loans are reasonably distributed among the various geographies (census tracts) throughout the assessment area. Lending activity in different income-level census tracts is comparable to demographic information. We used the bank's internal analysis, which we verified for accuracy, and also geocoded loans originated during 1998. The chart below compares the bank's lending with the percentage of various income-level census tracts in the assessment area.

**Lending in Assessment Area - By Census Tract Type  
Loan Originations from July 1996 to September 1998**

<b>Census Tract Income Type</b>	<b>% of Area</b>	<b>Loans in Tracts (#)</b>	<b>% of Loans (#)</b>	<b>Loans in Tracts (\$)</b>	<b>% of Loans (\$)</b>
<b>Low</b>	9%	5	10%	355,000	15%
<b>Moderate</b>	23%	8	15%	532,600	22%
<b>Middle</b>	33%	12	23%	451,071	19%
<b>Upper</b>	34%	27	52%	1,071,301	44%
<b>NA</b>	1%	0	0	0	0
<b>TOTALS</b>	100%	52	100%	2,409,972	100%

**Loan-to-Deposit Ratio**

The bank's loan-to-deposit ratio is lower than similarly situated financial institutions. The bank's average loan-to-deposit ratio over the eight quarters ending June 30, 1998 is 32%. During the same

period, other Los Angeles County financial institutions with assets less than \$50 million reported average loan-to-deposit ratios of 61%. However, this is a result of several factors relating to the bank's strategy, products and services, location, and financial recovery. The bank continues to face competitive and financial constraints which have impacted its ability to generate new loans.

### **Responses to Complaints**

The bank has received no CRA-related complaints since the last CRA performance evaluation.

### **Fair Lending Analysis**

The bank is in compliance with Fair Lending laws and regulations. Our fair lending review, conducted along with this examination, found no unusual patterns or discriminatory lending practices.