



**Comptroller of the Currency
Administrator of National Banks**

Western District
50 Fremont Street, Suite 3900
San Francisco, California 94105
(415) 545-5900

PUBLIC DISCLOSURE

March 2, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**MERCANTILE NATIONAL BANK
Charter Number 17220**

**1840 Century Park East
Los Angeles, CA 90067**

<p>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.</p>

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 **MERCANTILE NATIONAL BANK** prepared by **The Office of the Comptroller of the Currency, (OCC)** the institution's supervisory agency, as of March 2, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- A majority (54%) of the bank's loan dollars are within its assessment area.
- Loans are reasonably distributed among businesses of different sizes.
- Loans are reasonably distributed among the geographies.
- The bank's loan-to-deposit ratio meets the standard for satisfactory performance.

DESCRIPTION OF INSTITUTION:

Mercantile National Bank (MNB) is a \$114 million community bank, which was established in June 1982. MNB is wholly-owned by National Mercantile Bancorp, a one-bank holding company. All offices of the bank and its parent are located in Los Angeles, California. The bank operates one Automated Teller Machine (ATM), which is attached to its main office.

As of December 31, 1997, MNB had \$60 million in loans, comprising 53 percent of the bank's total assets. The loan portfolio is comprised of: 62 percent business; 28 percent commercial real estate; and 10 percent residential real estate loans. MNB is a participant in the Small Business Administration (SBA) loan program. MNB is primarily a business lender within the entertainment industry.

In 1991, both MNB and its parent were placed under Formal Administrative documents by their primary regulators. These documents required the bank to improve asset quality and increase capital. As a result, the bank's ability to lend at previous levels was severely challenged. In the second half of 1997, the regulators terminated the Administrative documents. We previously evaluated the bank's CRA performance as of September 9, 1996, and assigned the bank a "satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA:

MNB designated 57 census tracts in Los Angeles County as its assessment area (AA). Los Angeles County is located within the Los Angeles County Metropolitan Statistical Area (MSA). The AA includes Century City, Westwood, West Los Angeles, West Hollywood, and Beverly Hills. Within the AA, 33 or 58 percent of the tracts are upper-income; 23 or 40 percent of the tracts are middle-income; and one or 2 percent of the tracts are moderate-income. The AA does not include any low-income census tracts. However, 9 percent of the households live below the poverty level.

According to the Department of Housing and Urban Development (HUD), the median family income for the AA is \$47,800. Real estate prices are high and housing costs continue to grow each year. The local economy relies on tourism, retail trade, services, and real estate. Within MNB's AA, there are 19,886 businesses with sales of less than \$1 million.

The bank operates in an extremely competitive environment. There are a number of commercial banks, thrifts, credit unions, and other financial service providers competing for the available business within the AA. Competitors range from independent community financial institutions to branches of large financial organizations. Additionally, some of the large financial institutions are owned by out-of-state companies.

As part of this examination, we considered information obtained from a minority nonprofit economic development organization, a local chamber of commerce, a business trade organization,

and a fair housing council. Our contacts identified the need for the following types of loans: affordable housing; small business; micro business; and first-time home buyer. Additionally, there are needs for financial grants, technical assistance, bank branches or ATMs, as well as culturally sensitive credit education.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Our conclusions are based on the bank's lending activity from January 1, 1997, through December 31, 1997. We used loan data developed by the bank and sampled a number of the loans to confirm the accuracy of the information. The sample included 29 of the business loans funded within the AA, or 50 percent.

Definitions:

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 census tracts.

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

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

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

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

LENDING IN THE ASSESSMENT AREA:

MNB's record of lending within its AA meets the standard for satisfactory performance. A majority of the loans were made to borrowers within the AA. Of the total loans funded, 44 percent by number and 54 percent by dollar volume were extended within the AA. Refer to the table below for details.

Lending Within Assessment Area

Total Loans by Number and Dollar Amount	Total Loans Made Within the Assessment Area	Percent of Total Loans Made Within the Assessment Area
131	58	44%
\$26,071,200	\$14,057,181	54%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES:

The bank's loans are reasonably distributed among businesses of different sizes within the AA. MNB originated 58 business loans within the AA during the period under review. We sampled 29 of the loans funded, of which 69 percent by number were extended to businesses with revenues of less than \$1 million. Fifty (50) percent of the loans by number were for amounts of less than \$100,000. Refer to the table below for details.

Distribution of Business Loans By Size Within Assessment Area

Origination Sizes of Business Loans	Number of Business Loans	Percent of Business Loans
Loans < \$100,000	29	50%
Loans > \$100,000 < \$250,000	8	14%
Loans > \$250,000 < \$500,000	10	17%
Loans > \$500,000 < \$1,000,000	5	9%
Loans > \$1,000,000	6	10%
Total	58	100%

GEOGRAPHIC DISTRIBUTION OF LOANS:

The bank's loans are reasonably disbursed within the AA when considering that lending activities were restricted by the bank's troubled condition. MNB funded loans in 16 tracts or 28 percent of the total tracts within the AA. MNB extended loans to borrowers in four middle-income and 12 upper-income census tracts in the AA. Except for one moderate-income tract, all of the tracts

without loans were middle- and upper-income. The moderate-income tract was not arbitrarily excluded. There are no low-income tracts within the AA.

LOAN TO DEPOSIT RATIO:

MNB's loan-to-deposit ratio meets the standard for satisfactory performance. The bank's average loan-to-deposit ratio for the eight quarters ended June 30, 1997, was 63 percent. The average ratio for three similarly situated banks for the same period was 63 percent. For purposes of this evaluation, we consider similarly situated banks as those banks which are located within the MNB's AA.

RESPONSE TO COMPLAINTS:

There were no complaints associated with the bank's performance under the provisions of the CRA since our last examination.

RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATORY LAWS:

The bank's compliance with the anti-discriminatory laws and regulations is satisfactory. In conjunction with this examination, we performed a Fair Lending examination, which did not identify any disparate treatment or discrimination.