



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

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PUBLIC DISCLOSURE

September 12, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Merchants Bank of California, N. A.
(formerly Rancho Dominguez Bank, N. A.)
Charter Number 21371

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

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

<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 **Merchants Bank of California, N. A.** (formerly **Rancho Dominguez Bank, N.A.**) prepared by **The Office of the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 12, 1996. 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.**”

- The bank's loan to deposit ratio is reasonable given the bank's operating constraints, size, financial condition, and the area's limited credit needs.
- A majority of the bank's loans are within its assessment area.
- The bank is lending to individuals of different incomes and to businesses of all sizes including small businesses.
- The geographic distribution of credit reflects a reasonable dispersion throughout the bank's assessment area.

The following table indicates the performance level of *Merchants Bank of California, N. A.* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Merchants Bank of California, N. A. Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		x	
Lending in Assessment Area		x	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		x	
Geographic Distribution of Loans		x	
Response to Complaints	No complaints were received since the last examination		

DESCRIPTION OF INSTITUTION:

Merchants Bank of California, N.A. (MBC) is a \$19 million commercial bank that opened in 1989. The bank's one office and attached ATM is located near the Civic Plaza of Carson, CA. The city of Carson is approximately 20 miles south of downtown Los Angeles.

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. The bank continues to operate under this Agreement.

MBC also faces intense competition from branches of large multinational banks, savings and thrift associations, credit unions and larger community banks. Further, lending potential is limited by weak loan demand in Los Angeles County. Over the past several years, the bank has shifted its primary focus from commercial lending to providing cash management services to check cashing companies located throughout the Los Angeles County area. Management believes that providing this service facilitates the availability of cash to low- and moderate-income individuals.

Management's efforts to meet the credit needs of its community have historically been concentrated in small business lending. Consumer lending has declined. Local auto dealers and larger banks can offer below market interest rates that the MBC cannot match. The loan portfolio has declined sharply and as of June 30, 1996 included 149 loans, centered in commercial real estate (65%), commercial (20%), and consumer (15%). In April 1996, the bank established a mortgage loan production office which originated 36 home mortgage loans totaling \$5.3 million. These loans were sold to the secondary market.

The last CRA examination was May 7, 1993, at which time the bank was rated Satisfactory.

DESCRIPTION OF Merchants Bank of California's ASSESSMENT AREA:

The bank's assessment area (AA) includes all 1,652 census tracts located in the Los Angeles County Metropolitan Statistical Area (MSA). The assessment area is based on the geographic territory that includes the preponderance of the bank's lending activity and service area for the check cashing companies. It does not arbitrarily exclude low or moderate-income census tracts.

The following table identifies 524 tracts as low- and moderate-income areas, which represent 32% of the assessment area. Low- and moderate-income families, representing 40% of the population reside in these areas.

Income Distribution of Assessment Area Census Tracts

Income Category	# Tracts by Income	% of AA	# Families by Income	% AA
Low	147	9%	464,693	23%
Moderate	377	23%	342,997	17%
Middle	544	33%	401,184	20%
Upper	565	34%	827,271	40%

Note: 19 (1%) of the 1652 census tracts are considered "other tracts"

Based on 1990 U.S. Census data, total persons residing in the bank's assessment area is approximately 9 million. The median family income is \$39,035. The California Association of Realtors (CAR) reports that the current median monthly gross rent is \$652, and the current median housing value is \$172,000. According to CAR, the median price of existing 1-4 family homes in the area declined 20% from March 1992 through March 1996. They estimate that 37% of Californians who purchased homes in 1991 and 41% in 1992, currently owe more than the current value of their home. Despite declining values, the cost of residential property still exceeds reasonable lending criteria for the area's median family income.

Although real estate values have not improved, southern California is beginning to show signs of economic recovery from the recession. Southern California is experiencing a structural change in its economy. In the early 1990's, major cutbacks in the aerospace and defense industries resulted in the loss of over 500,000 jobs. Additionally, the consolidation of the financial industry contributed to job losses in the banking, finance, insurance and real estate industries. Over the past year, service industries created 131,000 new jobs, with the most significant area of growth seen in the entertainment industry. Wholesale and retail trade have also increased, reflecting the significant growth in international trade activities, which grew by 70% in the past five years. Exports increased by 18% in 1995, with major business with South Korea and Japan. The ports of Long Beach and Los Angeles are now considered the busiest in the nation.

Recent community outreach activities indicate that lending needs in Los Angeles County continue to include affordable housing and assistance for very low income individuals. Housing cost burden is high, with 67% of renters paying over half their monthly income for housing. Of great concern is the need for housing for the homeless. The ratio of nightly homeless people to available shelter is 5:1. Several community development projects are in process. Community and economic development priorities include increasing job opportunities and increasing accessibility to venture capital for small businesses. Other needs include business loans for working capital and fixed asset financing. MBC's lending focus has been to small businesses throughout the area. Overall, our contacts indicate that local banks generally do a good job of meeting community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

MBC's loan-to-deposit ratio is satisfactory, given the bank's operating constraints.

As of June 30, 1996, the bank's average loan-to-deposit ratio of 49% is reasonable, when evaluated in light of the bank's overall condition. Please refer to DESCRIPTION OF INSTITUTION section for detail. For the same time period, the average loan-to-deposit ratios for three banks of similar asset size and within the local market area range from 37% to 64%, and average 55%. These banks are not subject to the same operating constraints as MBC, but have experienced declining trends in their loan-to-deposit ratios over the past eight quarters, as has

MBC. This decline is due to intense competition in a limited market during a period of economic recession. MBC has had a particularly difficult time competing for new loans as a result of its need to increase capital and to focus on addressing regulatory concerns. Nevertheless, the bank's loan-to-deposit ratio compares favorably to its peers, given the limitations imposed by its performance context.

The bank's assessment area concentration is satisfactory. The majority of its loans are within its assessment area.

The following chart reflects that 79% (by number) and 73% (by dollar) of the bank's loans are within its assessment area. The analysis includes the original amount of all loans outstanding as of June 30, 1996. Originations date back to 1991. In addition, we included all 36 loans originated and sold by the bank's new mortgage loan production office from April 1996 to August 1996. Of these 36 loans, 16 were within the bank's assessment area.

Loans Made Within the Bank's Assessment Area

# Loans in AA	% of Total (#)	Loans in AA (000's)	% of Total (\$)
146	79%	\$13,260	73%

The distribution of the bank's loans to borrowers of different income levels and to businesses of different sizes is satisfactory.

The bank makes loans to small and medium sized businesses and to individuals of varying income levels. Our conclusions are based on bank supplied information. We tested the accuracy of the loan portfolio information with a 7% random sampling of commercial, consumer and mortgage loans.

The bank's loan originations (including mortgage loan production office activity) within the bank's assessment area are comprised primarily of business loans, representing 70% of the total amount of \$13.2 million. The number of consumer loans represent 53% of originations, but these loans tend to be smaller in dollar amount in proportion to those made to businesses.

The following table reflects the distribution of all business loans made to borrowers within the bank's assessment area since 1991. The majority of the bank's business loans are to small businesses. Additionally, 53% of these loans are for amounts less than \$100,000.

One loan in the amount of \$190,000 was excluded from this analysis because it is a qualifying Community Development loan. It was funded through the City of Carson's neighborhood revitalization program which improves the general community area.

Business Loans by Revenue Category Within the Bank's Assessment Area

Revenue Category	# Loans	% of Total (#)	Loans (000's)	% of Total (\$)
< or equal to \$1 million (Small Businesses)	53	78%	\$7,512	83%
> \$1 million (Large Businesses)	15	22%	\$1,535	17%
Total Business Loans	68	100%	\$9,047	100%

The following table reflects the distribution of all consumer loans originated within the bank's assessment area since 1991. Also included are the 16 loans originated within the assessment area by the new mortgage loan production office through August 15, 1996. The distribution of loans to low- and moderate-income individuals is reasonable, with 33% (by number) and 10% (by dollar) of all consumer loans to these individuals, representing 40% of the assessment area.

Consumer Loans by Income Level Within the Bank's Assessment Area

Income Level	% of AA	# Loans	% of Total (#)	Loans (000's)	% of Total (\$)
Low	23%	12	16%	\$151	4%
Moderate	17%	13	17%	\$222	6%
Middle	20%	11	14%	\$1,925	48%
Upper	40%	41	53%	\$1,725	43%
Total	100%	77	100%	\$4,023	100%

MBC's geographic distribution of credit within its assessment area is satisfactory.

The bank's loans are reasonably dispersed throughout its assessment area. The following table reflects the geographic composition of census tracts of different income levels and the distribution of the bank's loans in those areas. Of the 1,652 census tracts in the bank's assessment area, 524 or 32% are designated low- and moderate-income areas. Of the bank's total loans within its assessment area, 25% by dollar and 21% by number, are in these areas. The percentage of loans in middle and upper income areas is proportionate to the number of census tracts in these income categories.

Lending in the Assessment Area by Census Tract Type

Census Tract Type	% of AA	# Loans	% of Total (#)	Loans (000's)	% of Total (\$)
Low	9%	8	6%	\$996	7%
Moderate	23%	21	15%	\$2,365	18%
Middle	33%	46	31%	\$4,328	33%
Upper	34%	70	48%	\$5,571	42%
Total	99%	145	100%	\$13,260	100%

Note: 19 (1%) of the 1,652 census tracts are considered "other tracts".

The bank is in compliance with all anti-discrimination laws.

We found no evidence of prohibited discrimination practices during our August 26, 1996 Fair Lending examination. The bank complies with the provisions of anti-discrimination laws and regulations.

The bank has received no complaints regarding Community Reinvestment issues since the last examination.

There are no complaints in the bank's Community Reinvestment Act Public File.