



BEACH BUSINESS BANK

1230 ROSECRANS AVENUE, LOBBY LEVEL MANHATTAN BEACH, CALIFORNIA 90266

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Robert M. Franko, President & CEO

February 16, 2009

Special Inspector General – TARP
By mail & by email to SIGTARP.response@do.treas.gov
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, DC 20220

Gentlemen:

I am writing in response to your letter to me of February 6, 2009.

Beach Business Bank (the "Bank") received \$6,000,000 under the Capital Purchase Plan (the "CPP Funds") and issued 6,000 5% Preferred shares and 300 9% Preferred shares to the US Treasury (total of \$6,300,000 Preferred Stock) on January 30, 2009.

(1) (a) Anticipated Use of TARP Funds

While the Bank rarely makes consumer or residential mortgage loans, the Bank has always been a very active participant in the programs offered by the US Small Business Administration (the "SBA") and the US Department of Agriculture under its Business and Industry ("B&I") program.

It is our intention to dedicate the CPP Funds to making new loans to small businesses in the communities that we serve, especially SBA and B&I loans. These loans help American entrepreneurs put hard working Americans back to work in their local communities. The businesses that will be funded with these loans provide jobs, services and manufactured goods to the American public and for export. Using the CPP Funds as primary equity,

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(b) (4) These are incremental loans from the level originally approved by the Bank's board of directors (the "Board") in December 2008.

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This updated Budget reflecting the impact of the incremental CPP Funds was approved at the Bank's Board meeting on January 29, 2009.

As you know, each loan has to be individually underwritten for its credit quality, the value of the collateral owned by the borrower, and most importantly, the ability of the borrower to repay the obligation. Neither our Board nor our regulators, the State of California Department of Financial Institutions ("DFI") and the Federal Deposit Insurance Corporation ("FDIC"), will tolerate poorly underwritten credits. For that reason, our forecast is naturally dependent on well-qualified borrowers applying for, qualifying for, and being accepted for such loans.

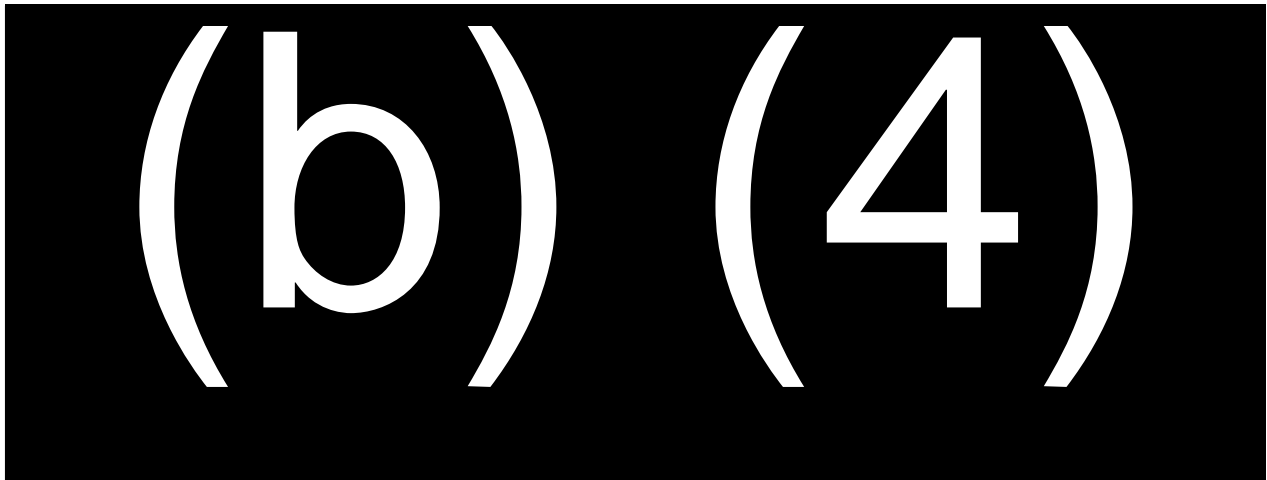
I am proud to report to you that our Bank did not participate in the sub-prime lending programs which have been so harmful to this country. The Bank's total risk-based capital ratio stood at 17% at December 31, 2008, which means the Bank was well capitalized, significantly above the regulatory minimums for Well Capitalized as defined by the FDIC. We did not choose to take the CPP Funds to take any action that we would not have been able to take absent the infusion of those funds, but rather to allow us to continue to leverage those funds in the form of loans to small businesses, businesses which provide jobs, services and manufactured goods.

(1) (b) Segregation of the TARP funds

We have recorded the CPP Funds as Preferred Stock under the Equity portion of our General Ledger and we have retained those funds in our available liquidity as either cash, funds due from other banks or fed funds sold (individually and collectively, "Available Liquidity"). In this way, the CPP Funds can be readily available to fund good quality loans to meet the objectives we have stated above. As you are no doubt aware, a loan, especially a small business loan, is not funded until all of the myriad of underwriting and processing matters have been fully completed or properly waived. Keeping the CPP Funds at hand in Available Liquidity means that they can be used on one or two days notice. We expect to deploy our first use of those funds in an SBA loan of about \$1,497,500 prior to the end of February, which funds will be taken from our Available Liquidity.

(1) (c) Actual use of TARP funds to date

(1) (d) Expected Use of TARP funds



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As you can clearly see from the paragraph above, the Bank is working tirelessly with borrowers to get their businesses funded with the necessary loan capital to get the country back to work. We have held the CPP Funds in Available Liquidity, so that as soon as those loans are ready to be funded we can use the CPP Funds to make those loans immediately.

(2) Executive Compensation Requirements

As of the date of this writing, this issue is still in a state of flux. We have always managed our executive compensation, particularly as to loan risks and their relationship to executive compensation, to protect our depositors and our shareholders. The Board and the Compensation Committee of the Board monitor and manage our compensation programs to assure that they take into account credit and default risk. Once the Treasury Department issues final guidance on what the executive compensation programs for TARP participants must entail, the Bank will assure that the Bank's programs meet those guidelines. In so far as the guidelines have been continuously changing, it has been difficult to begin that effort with specificity. At this time, the Board sees no difficulty complying with all of the final guidance. I will write to you again as soon as we have the final guidance and have had an opportunity to review all of our executive compensation programs in light of that guidance.

Supporting Documentation

As you know, the Bank is subject to strict privacy and disclosure requirements about borrowers and the Bank's financial information. Since you have not indicated that this response will be kept confidential, the documentation relating to the matters referenced in this letter, including the Budget information, most recent general ledger information and the names of the loans being underwritten is available in our files at the Bank's headquarters, and will be available for inspection by the Inspector General, the DFI and/or the FDIC. The relevant information, which I will hold aside in a separate confidential file for your inspection relating to this response is the following:

- I. Bank's original Budget for 2009-2011 approved at the December 2008 Board Meeting
- II. Bank's modified Budget reflecting the CPP Funds approved at the January 29, 2009 Board Meeting
- III. General Ledger as of the first business day of February 2009 for the Bank demonstrating more than \$12 million in Fed Funds Sold (the largest category of Available Liquidity), evidencing the availability of the CPP Funds for immediate deployment in new small business loans.
- IV. Listing of the following loans in underwriting:
 - a. Two lines of credit - \$25,000 each
 - b. Office purchase - \$885,000
 - c. Office Condo Refi - \$210,000
 - d. SBA 7(a) real estate purchase steel fabrication facility - \$1,497,500
 - e. SBA 7(a) gas station refinance - \$860,000
 - f. Commercial Line of credit - \$350,000 for Purchase Order financing
 - g. Commercial Line of credit - \$300,000 increase to fund a short-term working capital requirement to build windows for delivery
 - h. Commercial Line of credit - \$200,000 increase for working capital to a local restaurant

I am the President of the Bank and its Chief Executive Officer. I hereby certify to you that, to the best of my knowledge, this letter and all of the statements, representations, and supporting information (which information is being maintained in a separate confidential file at the Bank for your review at any time) are accurate. I make this representation subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely yours,

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(b) (6) Robert M. Franko
President & Chief Executive Officer **(b) (6)**

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