



SMALL BANK

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

PUBLIC DISCLOSURE

April 19, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**South Bay Bank, National Association
Charter Number 23633**

**2200 Sepulveda Blvd
Torrance, CA 90501**

**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.

This rating is based on the following factors of the bank's lending performance:

- The bank's loan-to-deposit ratio is excellent.
- A majority of the bank's loans is within the assessment area.
- Lending to businesses of different sizes is satisfactory
- Community development loans had a neutral impact on the overall evaluation performance.

DESCRIPTION OF INSTITUTION

South Bay Bank, N.A. (SBB) is a \$163 million community bank established in 1982. SBB's headquarters and main office are located in the city of Torrance, California. The bank has one branch in El Segundo, California. SBB is a full-service commercial bank that offers 24-hour banking through two Automated Teller Machines (ATMs), one each at the main office and branch. As of December 31, 2003, SBB reported assets of \$163 million, of which \$130 million or 80 percent were centered in loans.

In December 2001, National Mercantile Bancorp (NMB) acquired SBB. NMB is a holding company whose principal assets are the capital stock of Mercantile National Bank (Mercantile) and SBB. As of December 31, 2003, NMB reported total assets of \$355 million. To date NMB has not engaged in lending activities separate from the banks. We did not consider loans originated by Mercantile for this evaluation.

Approximately 91 percent of SBB's lending is for business purposes. Since the acquisition by NMB, the bank has increased emphasis on business banking. At December 31, 2003, the bank's loan portfolio consisted of the following: \$93 million (70 percent) in commercial real estate, \$27 million (20 percent) in business, \$12 million (9 percent) in residential real estate, and \$332 thousand (0.25 percent) in consumer loans.

The bank has no legal or financial impediments that would affect its ability to meet the credit needs of its assessment area. SBB did not open or close any branches during this evaluation period. SBB opened a loan production office in Costa Mesa, California to expand lending services into Orange County, California. The bank received a "Satisfactory" rating at the previous CRA performance evaluation in November 1999.

DESCRIPTION OF LOS ANGELES ASSESSMENT AREA

SBB has one assessment area, which includes a number of political subdivisions within the Los Angeles-Long Beach Metropolitan Statistical Area (MSA). The bank elected to serve only portions of the MSA, as it does not have the resources necessary to serve the entire MSA. The cities and communities within the assessment area are Torrance, Los Angeles, San Pedro, Gardena, Culver, Inglewood, West Hollywood, Beverly Hills, El Segundo, Lomita, Carson, Athens, Ladera Heights, Palos Verdes Estates, Rancho Palos Verdes, Manhattan Beach, Santa Monica, Lennox, Hermosa Beach, Rolling Hills Estates, and Lawndale. The assessment area complies with the requirements of the law and does not arbitrarily exclude low- and moderate-income geographies.

The assessment area population was 4.5 million in 1990, and increased to 4.7 million in 2000. The Census Bureau reported 13 percent of the households living below the poverty line in 1990 and 16 percent in 2000. The Department of Housing and Urban Development's (HUD) adjusted Median Family Income for the MSA was \$50,300 in 2003.

The bank's assessment area has not changed since the previous evaluation in 1999. However, the number of census tracts in the assessment area increased from 920 to 1,051 as a result of the 2000 census. Refer to the bank's Public File for more details.

Major industries in the assessment area in order of importance are services, retail trade, finance, insurance and real estate, wholesale trade, and manufacturing. The 2000 census data reported 404,384 businesses within the area; of those businesses 131,336 or 32 percent did not report revenues. Of those businesses that reported revenues in 1990 and 2000, 91 percent had revenues less than \$1 million for both time frames. The economy has leveled off and is no longer in recession. The unemployment rate reported by the U. S. Bureau of Labor Statistics was seven percent in 2003. Land constraints for residential development add to the price appreciation in the housing market.

The banking industry in SBB's market area is highly competitive. SBB competes for loans and deposits with 1,566 branches of financial institutions located within the assessment area.

As a part of this evaluation, we considered information obtained from the community. We performed four contacts, which included three community development corporations and one government agency. According to these contacts, the main need in the community is for loans to small businesses. Other needs identified through these contacts include training programs with emphasis on business development.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Scope of Examination:

We evaluated the bank's performance based on a sample of 36 business loans originated from January 1, 2000, to December 31, 2002, using 1990 census data, and 42 business loans originated from January 1, 2003, to December 31, 2003, using 2000 census data. We collected the business revenue information used in the analysis. The bank was not required to collect revenue information and elected not to do so.

Loan-to-Deposit Ratio:

The bank's average loan-to-deposit (LTD) ratio is excellent. The bank's LTD ratio for 17 quarters ended December 31, 2003, was 93 percent. This compares favorably to the average LTD ratio of 73 percent for five similarly situated banks for the same period.

Lending in Assessment Area:

SBB's lending in its assessment area is satisfactory. A majority of the loans originated by the bank is within its assessment area. Refer to Table 1 below for details.

Table 1 - Lending in Los Angeles Assessment Area (AA)										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Commercial RE & Business Loans	56	72%	22	28%	78	\$30,215	59%	\$21,242	41%	\$51,457

Source: Data reported in bank records

Lending to Businesses of Different Sizes:

The bank's origination of loans to businesses of different sizes is satisfactory.

Using 1990 data, the percentage of bank loans in the assessment area for businesses with revenue less than \$1 million was consistent with assessment area demographics.

According to the 2000 census data, the percentage of businesses with revenue less than \$1 million in the assessment area remained at 91 percent. The bank's performance declined due to a change in management and business strategy. Refer to Tables 2 and 3 below for further details.

Table 2 - Borrower Distribution of Loans to Businesses in Los Angeles AA		
Loans Originated 2000 – 2002		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	91%	9%
% of Bank Loans in AA by #	84%	16%
% of Bank Loans in AA by \$	89%	11%

Source: Dun & Bradstreet and Loan Sample

**28% of businesses did not report revenue data*

Table 3 – Borrower Distribution of Loans to Businesses in Los Angeles AA		
Loans Originated 2003		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	91%	9%
% of Bank Loans in AA by #	58%	42%
% of Bank Loans in AA by \$	47%	53%

Source: Dunn & Bradstreet and Loan sample

** 32% of AA businesses did not report revenue data*

Geographic Distribution of Loans:

The geographic distribution of loans in the bank’s assessment areas does not meet the standard for satisfactory performance.

Using 1990 census data, the bank's origination of loans in the low-income tracts was less than area demographics. Lending in moderate-income geographies was consistent with area demographics.

Using 2000 census data, SBB’s lending in the low- and moderate-income geographies declined. The reduction in lending in 2003 in low-and moderate-income areas is due to a change in the bank’s business strategy. Refer to Table 4 below for further details

Table 4 - Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Loans Originated 1/1/00 – 12/31/02								
Business Loans*	12%	4%	15%	12%	27%	24%	46%	69%
Loans Originated 1/1/03 – 12/31/03								
Business Loans*	11%	0%	19%	6%	21%	19%	49%	74%

Source: Data collected from Dunn & Bradstreet and Loan sample

*Percentage of businesses that reported revenues

Other Factors:

The bank originated two qualifying affordable housing community development loans for \$2 million. One is a loan for single-family homes for moderate-income households in the City of Los Angeles, and the other is for a redevelopment project in the City of Alhambra.

The bank is also an active participant in the California Community Reinvestment Corporation (CCRC) loan pool. Founded in 1989, the CCRC is a nonprofit multi-bank lending group. The CCRC has provided over \$200 million in mortgages to developers of housing for low-income families and seniors throughout the state to respond to the statewide shortage of affordable housing.

RESPONSES TO COMPLAINTS

The bank has not received any complaints regarding its CRA performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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