



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 23, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bay Cities National Bank  
Charter Number: 22654

1333 South Pacific Coast Highway  
Redondo Beach, CA 90277

Office of the Comptroller of the Currency

Southern California North Field Office  
550 North Brand Boulevard, Suite 500  
Glendale, CA 91203-1900

**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.

**This institution is rated: Satisfactory**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Satisfactory**

Bay Cities National Bank's (BCNB) rating is supported by the following:

- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans within its assessment area.
- BCNB's lending to businesses of different income levels and the geographic distribution of loans are reasonable.
- BCNB demonstrates satisfactory responsiveness to meeting community development needs.

## **Scope of Examination**

This Community Reinvestment Act (CRA) examination covers BCNB's lending performance from July 1, 2005 to December 31, 2007. The Community Development Test evaluated the bank's performance covering July 1, 2005 to April 23, 2008. BCNB is a commercial bank with the majority of business loans secured by business assets (commercial loans) or by commercial real estate. These commercial loan proceeds provide business working capital to fund operations or to improve real estate. Under the Lending Test, we evaluated a sample of commercial business loans secured by both business assets and commercial real estate.

We used bank prepared loan origination data. We conducted a separate data integrity review of the loan data and found it to be reliable.

## **Description of Institution**

BCNB is an independent commercial bank headquartered in Redondo Beach, California, approximately 25 miles southwest of downtown Los Angeles. BCNB is held by a single bank holding company, Peninsula Banking Group, which is 90 percent owned by Community First Financial Group (CFFG). CFFG is a \$660 million multi-bank holding company based in English, Indiana.

The main office is in Redondo Beach where all credit related functions are located. The Rolling Hills Estate branch is an established branch, opened over 30 years. The Redondo Beach and Rancho Palos Verdes branches have been open more than 15 years. The Torrance branch has been operating for over five years. The King Harbor branch was relocated to Manhattan Beach during the first quarter of 2007.

BCNB offers business loans and deposit products, with less emphasis on consumer loans and deposits. Other services include automatic teller machines at all branches, online banking, wire transfer services, and safe deposit boxes. As of December 31, 2007, BCNB operated five full service branches with \$328 million in assets, \$265 million in deposits, and \$248 million in equity capital.

BCNB is focused on serving the banking needs of small businesses, professionals and local commercial real estate developers. In addition to offering traditional commercial loans, the bank participates in the Small Business Administration's (SBA) 7(a), 504, and 'Low Doc' loan guaranty programs. The loan portfolio is concentrated in commercial business loans secured by real estate and business assets. Please refer to the following table containing loan data from the December 31, 2007 Call Report.

<b>BAY CITIES NATIONAL BANK</b>		
<b>LOAN TYPES</b>	<b>\$(000's</b>	<b>Percent</b>
Commercial - real estate	\$147,213	85%
Commercial - business assets	\$24,424	14%
Consumer	\$2,008	1%
Other	\$12	0%
<b>TOTAL LOANS</b>	<b>\$173,519</b>	<b>100%</b>

The bank has no legal, financial, or other factors impeding its ability to help meet the credit needs in its assessment area. At the prior CRA evaluation dated July 1, 2005, the bank received a Satisfactory rating.

## **Description of Assessment Area**

BCNB's assessment area (AA) meets regulatory requirements. It does not arbitrarily exclude low- and moderate-income geographies. The AA includes whole census tracts and consists of contiguous political subdivisions.

BCNB has defined its AA as the south-western portion of the Los Angeles - Long Beach Metropolitan Statistical Area (MSA), also known as the South Bay. South Bay cities include Redondo Beach, Palos Verdes, Rolling Hills Estates, Manhattan Beach, and Torrance. The AA contains 151 contiguous census tracts, of which one is low-income and 28 are moderate-income.

BCNB's AA is part of Los Angeles (LA) County, which is a complex, highly diverse urban area that includes 88 cities and a number of unincorporated areas. LA County is the largest and fastest growing metropolitan region in the entire country.

The major industries that contribute to employment are diverse and are concentrated in wholesale and retail trade, manufacturing, government, financial service, tourism, transportation, utilities and construction. The largest employers are Kaiser Permanente, Northrop Grumman, The Boeing Company, The Kroger Company and the University of Southern California.

Additionally, the combined Ports of Los Angeles and Long Beach rank first in the nation in volume. Los Angeles airport, located several miles north of the South Bay is one of the country's busiest international airports.

The Los Angeles Economic Development Corporation economic outlook for 2008 projects declines in the real estate markets, particularly residential real estate. Tourism and international trade are expected to show positive growth in the region. As of December 31, 2007, the LA County unemployment rate was 5.8 percent, which was less than the State of California rate of 6.2 percent.

Banking competition is strong within the Los Angeles area and within BCNB's AA. A significant number of large and regional commercial banks, savings associations, credit unions, credit card companies, and non-bank institutional investors compete for the available commercial lending business. Other non-bank financial institutions also compete for deposit accounts.

There are significant opportunities in LA County and surrounding communities to participate in community development activities. Active, non-profit organizations are numerous and local governments promote and assist a variety of community development and redevelopment activities. Community contacts indicate community development needs include affordable rental and owner-occupied housing, as well as SBA financing and financial support for the non-profit organizations. There is also a need for bankers to serve on advisory boards and for financial literacy education.

## **Conclusions with Respect to Performance Tests**

This is BCNB's first evaluation under the Intermediate Small Bank CRA examination process.

### **LENDING TEST**

BCNB's performance under the Lending Test is satisfactory.

#### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio (LTD) is reasonable and meets the standards for satisfactory performance.

BCNB's 10 quarter average LTD ratio of 61 percent is less than the 81 percent average for four similarly situated banks located in the greater Los Angeles area that have similar asset size, loan products, and competitive factors.. The average LTD ratio for these banks ranges from 60 percent to 95 percent for the same time period.

BCNB has maintained a stable 60 percent ratio, while one similar bank's LTD has been declining. This is indicative of the strong competition in the local market place for quality loans.

### Lending in Assessment Area

The level of lending inside BCNB’s AA meets the standard for satisfactory performance. A majority of the bank's loans, by number and dollar amount, were originated within the AA. Refer to Table 1.

<b>Table 1 - Lending in South Bay Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000's)
	#	%	#	%		\$(000's )	%	\$(000's )	%	
<b>Commercial loans</b>	<b>162</b>	<b>69</b>	72	31	234	<b>37,873</b>	<b>64</b>	21,051	36	58,924

Source: Bank loan originations

### Lending to Businesses of Different Sizes

BCNB's lending to businesses of different sizes meets the standard for satisfactory performance.

The volume of lending to small businesses is adequate. The bank originated 60 percent of loans to small businesses, which is below the area demographic of 70 percent. However, of those loans 42 percent were in amounts of less than \$100 thousand, and 27 percent were in amounts of between \$100 thousand and \$250 thousand. This supports BCNB’s financing of working capital to small businesses. Refer to Table 2.

<b>Table 2 - Distribution of Loans to Businesses in South Bay Assessment Area</b>			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Total
% of AA Businesses *	70%	30%	100%
% of Bank Loans in AA by #	<b>60%</b>	40%	100%
% of Bank Loans in AA by \$	<b>58%</b>	42%	100%

\* Source: 2007 Dunn & Bradstreet and Bank data

### Geographic Distribution of Loans

The geographic distribution of loans meets the standard for satisfactory performance.

BCNB originated five loans or 5 percent of the total number of loans to businesses in low-income geographies. This exceeds the area demographics. Loans originated in moderate-income geographies were 8 percent of the total number of loans, which is below the area demographics. The bank made fewer loans in moderate-income geographies, as BCNB faces strong competition from other financial institutions. Refer to table 3.

<b>Table 3 - Geographic Distribution of Loans to Businesses in South Bay Assessment Area</b>								
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
Commercial loans	1%	<b>5%</b>	15%	<b>8%</b>	25%	11%	59%	76%

\* Source: 2007 Dunn & Bradstreet and Bank data

### Responses to Complaints

The bank has not received any CRA related complaints since the previous CRA examination.

### COMMUNITY DEVELOPMENT TEST

BCNB demonstrates satisfactory responsiveness to meeting community development needs within its AA, considering the bank's capacity and the AA's community development needs. BCNB's written Community Development strategy emphasizes participation in Community Development Lending and Services. Management considers lending to and serving in community based organizations more responsive to meeting community credit needs than investing in community investments.

### Community Development Loans

BCNB's Community Development Lending is satisfactory. BCNB originated 10 loans totaling \$8.8 million to five non-profit organizations that provide services to low- and moderate-income individuals and to two companies involved in revitalizing the AA.

Listed below is additional information supporting the Community Development Lending activity during the review period.

- Three real estate loans totaling \$4.5 million to finance the expansion of a non-profit children's learning center. The organization supports the public school system by accepting students with learning disabilities. Special education services and learning programs are provided mainly to low- and moderate-income children.
- Two working capital lines of credit totaling \$960 thousand to a California charter high school within a low-income geography in the bank's AA. Attendance is extended to students who reside in the Los Angeles Unified School District, especially those attending schools designated as under-performing per the charter school legislation.

- Two working capital lines of credit totaling \$550 thousand that benefit two local non-profit organizations providing social programs directed toward local low- and moderate-income individuals. Programs include job placement, drop out prevention, and day care.
- Two loans totaling \$2.7 million originated as Small Business Administration "7A" loans that provided working capital and helped create jobs in the bank's AA.
- One \$30 thousand working capital line of credit to a local non-profit organization focused on helping people with psychiatric disabilities. Services are focused on job placement and personal financial management.

### **Qualified Investments**

BCNB's Community Development Investments reflect adequate responsiveness to meeting the community's needs. The bank donated \$29 thousand to community based organizations that provide educational and community development services targeted toward low- and moderate-income individuals.

### **Community Development Services**

BCNB has excellent responsiveness in providing Community Development Services within its AA. Bank directors, executive management, and employees support community development through active involvement in numerous activities. Participation includes providing financial management expertise and supporting local non-profit groups that have social services directed toward low- and moderate-income individuals.

Below are examples of the Community Development Services provided during the review period.

- BCNB is a Preferred Lender under the SBA loan program. Loans originated under the program include SBA Express, 7(a), and 504 loans.
- A substantial number of executive, branch, and administrative employees volunteer a significant amount of time to local community based organizations providing services to local low- and moderate-income individuals and families.
- One board member is an active mentor with a local program that assists "at risk" high school students in preparing for college, job training assistance, and financial literacy education. Also, the bank hired two "interns" from the program.
- One executive officer volunteers time and serves in the capacity of CFO to a non-profit specialized children's learning center.

- One executive officer volunteers time providing financial expertise as a board member of local high school in the capacity of Vice President-Finance.
- One executive officer serves as a board member of a non-profit organization providing small businesses and individual financial literacy education, job placement assistance, and career guidance to "at-risk" youth from low- and moderate-income families.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.