

FEDERAL RESERVE SYSTEM

Bank of Orange County
Fountain Valley, California

Order Approving Merger of Banks and Establishment of Branches

Bank of Orange County (“Bank”),¹ a state member bank, has applied under section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(c)) (“Bank Merger Act”) to merge with Cerritos Valley Bank, Artesia, California (“Cerritos”),² also a state member bank, with Bank as the surviving institution. Bank has also applied under section 9 of the Federal Reserve Act (12 U.S.C. § 321) (“FRA”) to establish branches at the former locations of Cerritos.³

Notice of the transaction, affording interested persons an opportunity to submit comments, has been given in accordance with the Bank Merger Act and

¹ All but one share of Bank is owned by Southland Capital Co. (“Southland”), a bank holding company. The remaining share is owned by Placer Capital Co. II (“Placer”), also a bank holding company. Southland and Placer are wholly owned subsidiaries of California Community Financial Institutions Fund Limited Partnership (the “Fund”). Belvedere Capital Partners LLC (“Belvedere”) is the general partner of the Fund. These organizations are all in San Francisco, California.

² Cerritos is a wholly owned subsidiary of Cerritos Valley Bancorp, also in Artesia (“CVB”). The Fund owns 51 percent of the outstanding common stock of CVB. On consummation of this proposal, the Fund would receive preferred stock of Bank in exchange for the Fund's common stock of Cerritos. Other shareholders of Cerritos would receive cash. The merger of Cerritos and Bank would occur immediately after consummation of the merger of CVB with and into Cerritos.

³ Cerritos operates branches at 18300 Pioneer Boulevard, Artesia; 411 North Central Avenue, Glendale; 3508 East Florence Avenue, Huntington Park; and 12100 Firestone Boulevard, Norwalk, all in California.

the Board's Rules of Procedure (12 C.F.R. 262.3(b)). As required by the Bank Merger Act, reports on the competitive effects of the merger were requested from the United States Attorney General and the other federal banking agencies. The time for filing comments has expired, and the Board has considered the applications and all the facts of record in light of the factors set forth in the Bank Merger Act and section 9 of the FRA.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving an application if the proposal would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking.⁴ The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of the communities to be served.⁵

The proposed merger of Bank and Cerritos is a consolidation of two banks under common ownership and, therefore, would not lessen competition in any relevant banking market. The Board has received no objections to the proposal from the Department of Justice or the other federal banking agencies. Accordingly, the Board concludes that consummation of the proposed transaction would not be likely to result in a significantly adverse effect on competition or on the concentration of banking resources in any banking market, and that competitive factors are consistent with approval.

⁴ 12 U.S.C. § 1828(c)(5)(A).

⁵ 12 U.S.C. § 1828(c)(5)(B).

Financial, Managerial, and Other Supervisory Factors

The Bank Merger Act requires the Board to consider the financial and managerial resources and future prospects of the institutions involved in this proposal. The Board has reviewed these factors in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial resources of Bank and Cerritos, and information provided by Bank.⁶ Based on these and all the facts of record, including a commitment made by Southland, the Fund, and Belvedere, the Board concludes that the financial and managerial resources and future prospects of the institutions involved and other supervisory factors are consistent with approval of the proposal.

Convenience and Needs Considerations

The Bank Merger Act also requires the Board to consider the convenience and needs of the communities to be served. The Board has carefully

⁶ As part of this review, the Board has considered a comment by a former director and current minority shareholder of Cerritos ("Protestant"). Protestant alleges that, through poor performance, the current management has depressed the book value of Cerritos, thus reducing the share acquisition price offered by Bank to minority shareholders. The Board has carefully reviewed the performance of the current management of Cerritos, using confidential supervisory information and information provided by Bank and Cerritos. The current management of Cerritos assumed control in April 2001, following the resignation of the previous board of directors. The Board notes that current management has taken steps to improve the condition of Cerritos. Protestant raises an issue regarding the adequacy of the share acquisition price; however, adequacy of share acquisition price is not a factor the Board is required to consider under the Bank Merger Act. Cf. Western Bancshares Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973)) (finding that matters concerning shareholders' rights are generally not among those the Board is authorized to consider under the Bank Holding Company Act).

reviewed the effect of the proposal on the convenience and needs of the communities to be served in light of all the facts of record, including the records of performance of the relevant depository institutions under the Community Reinvestment Act (“CRA”).⁷ The Board notes that Bank and Cerritos received “satisfactory” ratings at their most recent examinations for CRA performance.⁸ Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs factor are consistent with approval of the proposal.

Bank has also applied under section 9 of the FRA to establish branches at the former locations of Cerritos. The Board has considered the factors it is required to consider,⁹ and for the reasons discussed in this order, finds those factors to be consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the applications should be, and hereby are, approved. Approval of the applications is specifically conditioned on compliance by Bank, Southland, the Fund, and Belvedere with all the commitments made in connection with this proposal and on receipt of all required regulatory approvals. For purposes of this action, the commitments and conditions relied on in reaching this decision are conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

⁷ 12 U.S.C. § 2901 *et seq.*

⁸ Bank received a "satisfactory" rating from the Federal Reserve Bank of San Francisco, as of June 14, 1999, and Cerritos received a "satisfactory" rating from the Federal Deposit Insurance Corporation, as of January 29, 1999.

⁹ See 12 U.S.C. § 322.

The merger may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁰ effective July 31, 2002.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁰ Voting for this action: Chairman Greenspan and Governors Gramlich, Bies, and Olson. Absent and not voting: Vice Chairman Ferguson.