PUBLIC DISCLOSURE

January 27, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Merchants and Manufacturers Bank
Certificate Number: 20040

601 East Cass Street
Joliet, Illinois 60432

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Chicago Regional Office

300 South Riverside Plaza, Suite 1700
Chicago, Illinois 60606

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Needs to Improve.**

An institution in this group needs to improve its overall record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.

- The bank made a substantial majority of its loans outside the assessment area.

- The geographic distribution of loans reflects a poor dispersion throughout the assessment area.

- The distribution of loans to borrowers reflects poor penetration among individuals of different income levels and businesses of different sizes, given the demographics of the assessment area.

- The bank has not received any complaints about its performance in meeting assessment area credit needs.

DESCRIPTION OF INSTITUTION

Background

Merchants and Manufacturers Bank (MMB) is a $283 million dollar institution that is wholly-owned by Merchants and Manufacturers Bank Corporation, a one-bank holding company. MMB does not have any affiliates or subsidiaries. MMB received a Satisfactory rating at its previous FDIC Performance Evaluation dated January 7, 2014, based on Interagency Small Institution CRA Examination procedures.

Operations

MMB's main office is located in a low-income census tract in Joliet, Illinois. The bank also operates four branch offices, all in Illinois. One branch is located in a moderate-income census tract in Joliet, one is located in a middle-income census tract in Joliet, one is located in a middle-income census tract in Oakbrook Terrace, and one is located in an upper-income census tract in Channahon. Deposit taking ATMs are located at the main office and at all branch offices except Oakbrook Terrace. Customers also have access to nearly 32,000 ATMs in the MoneyPass network free of charge. Drive-up facilities have extended hours and are operated at the Channahon branch, the main office, and the moderate-income Joliet branch. The bank's hours of operation provide reasonable access to banking services. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

MMB offers traditional retail deposit products consisting of checking, savings, certificates of deposit, and money market accounts. The bank also offers internet banking, bill payment services, and mobile banking services. MMB offers an array of individual traditional commercial and consumer loan products including commercial and residential mortgage, home equity, and consumer loans. Additionally, MMB has provided cash value lending solutions through its life equity loan program since 2003. This program continues to be a focus of growth for the bank and life equity revolving lines of credit (LELOCs) have become a major lending product of the bank. A majority of these loans are consumer purpose in nature and classified as consumer loans on the Call Report. MMB currently has relationships with close to 350 insurance agents located across 31 different states.

Ability and Capacity

Assets totaled approximately $283 million as of September 30, 2019, and included total loans of $247 million and securities totaling $8 million. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 09/30/19		
Loan Category	**$(000s)**	**%**
Construction and Land Development	4,592	1.85
Secured by Farmland	2,000	0.81
Secured by 1-4 Family Residential Properties	21,298	8.61
Secured by Multifamily (5 or more) Residential Properties	12,374	5.00
Secured by Nonfarm Nonresidential Properties	33,820	13.67
Total Real Estate Loans	**74,084**	**29.94**
Commercial and Industrial Loans	71,826	29.03
Agricultural Loans	0	0.00
Consumer Loans	100,725	40.71
Other Loans	794	0.32
Less: Unearned Income	0	0.00
Total Loans	**247,429**	**100.00**
Source: Reports of Condition and Income		

Commercial lending, represented by loans secured by non-farm non-residential properties and commercial and industrial loans, represents 42.7 percent of the bank's portfolio. While this is slightly higher than consumer loans at 40.7 percent, the volume of lending activity by both number and dollar volume reflects consumer lending as the bank's major product line. Specifically, during the time period from January 1, 2017 through December 31, 2019, the bank originated or renewed 3,232 LELOC consumer loans compared to 442 small business loans.

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance is evaluated. MMB's assessment area contains six counties; four counties (Cook, DuPage, McHenry, and Will) in the Chicago-Naperville-Arlington Heights, IL Metropolitan Division (MD) (Chicago MD); one county (Kane County) in the Elgin, IL MD (Elgin MD); and one county (Lake County) in the Lake County-Kenosha County, IL-WI MD (Kenosha MD). This assessment area has changed since the previous CRA examination with the addition of McHenry County and Lake County. The assessment area meets the requirements of the regulation. The following sections discuss demographic and economic information for the assessment area.

<u>Economic and Demographic Data</u>

Examiners use demographic data from the 2015 American Community Survey (ACS) to draw comparisons for the lending performance during the review period. The following sections discuss demographic and economic information for the assessment area.

Based on the 2015 ACS demographic data, the assessment area's 1,975 census tracts reflect the following income designations:

- 281 low-income tracts,
- 475 moderate-income tracts,
- 558 middle-income tracts,
- 644 upper-income tracts, and
- 17 census tracts have no income designation due to nominal population.

The following table illustrates select 2015 ACS demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts)	1,975	14.2	24.1	28.3	32.6	0.9
Population by Geography	8,385,941	10.2	24.0	30.8	34.7	0.2
Housing Units by Geography	3,334,182	10.5	22.8	30.9	35.5	0.3
Owner-Occupied Units by Geography	1,933,214	4.6	18.0	34.5	42.8	0.1
Occupied Rental Units by Geography	1,095,864	17.6	29.8	26.2	25.7	0.7
Vacant Units by Geography	305,104	22.6	27.9	24.7	24.3	0.5
Businesses by Geography	477,157	4.9	15.6	29.9	49.1	0.5
Family Distribution by Income Level	1,985,710	23.5	16.3	18.5	41.7	0.0
Household Distribution by Income Level	3,029,078	25.4	15.2	17.0	42.4	0.0
Median Family Income MSA - 16974 Chicago-Naperville-Arlington Heights, IL MD		$75,350	Median Housing Value			$248,020

Demographic Information of the Assessment Area (Continued)			
Median Family Income MSA - 20994 Elgin, IL MD	$79,687	Median Gross Rent	$1,055
Median Family Income MSA - 29404 Lake County-Kenosha County, IL-WI MD	$87,137	Families Below Poverty Level	10.5%
Source: 2015 ACS Census and 2018 D&B Data *Due to rounding, totals may not equal 100.0* *(*) The NA category consists of geographies that have not been assigned an income classification.*			

There are over three million households located in the assessment area with 25.4 percent of them being low-income and 15.2 percent of them being moderate-income. These demographic figures show there is opportunity to make consumer loans to low-and moderate-income borrowers within the assessment area.

Approximately 40 percent of the families in the assessment area earn a low- or moderate-income. Demographic data further shows that approximately 10 percent of the families residing in the assessment area earn an income below the poverty level and are, therefore, less likely to afford a home. Income classifications are based on Median Family Income (MFI), as defined by the Federal Financial Institutions Economic Council (FFIEC). The below table summarizes MFI figures for the assessment area.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
Chicago-Naperville-Arlington Heights, IL MD (16974)				
2017 ($77,500)	<$38,750	$38,750 to <$62,000	$62,000 to <$93,000	≥$93,000
2018 ($82,400)	<$41,200	$41,200 to <$65,920	$65,920 to <$98,880	≥$98,880
Elgin, IL MD (20994)				
2017 ($84,400)	<$42,200	$42,200 to <$67,520	$67,520 to <$101,280	≥$101,280
2018 ($86,100)	<$43,050	$43,050 to <$68,880	$68,880 to <$103,320	≥$103,320
Lake County-Kenosha County, IL-WI MD (29404)				
2017 ($91,600)	<$45,800	$45,800 to <$73,280	$73,280 to <$109,920	≥$109,920
2018 ($96,500)	<$48,250	$48,250 to <$77,200	$77,200 to <$115,800	≥$115,800
Source FFIEC				

According to 2018 D&B data, there were 477,157 non-farm businesses in the assessment area. The GARs for these businesses are below:

- 80.8 percent have $1 million or less,
- 8.2 percent have more than $1 million, and
- 11.0 percent have unknown revenues.

Service industries represent the largest portion of businesses in the assessment area at 44.5 percent; followed by retail trade (12.9 percent); finance and insurance (9.3 percent); and construction (6.6

percent). In addition, 63.6 percent of assessment area businesses have four or fewer employees. These figures highlight the significant presence of small businesses within the assessment area.

Competition

The assessment area reflects a highly competitive market for financial services. According to the FDIC Deposit Market Share data from 2018, there were 283 financial institutions operating 2,387 offices within the assessment area. Competition is comprised of local community banks, regional, and national banks. Of these institutions, MMB ranked 65th with 0.05 percent deposit market share.

There is a high level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders. In 2018, 933 lenders reported a total of 355,562 residential mortgage loans originated or purchased. MMB ranked 441st out of this group of lenders, with a market share of 0.01 percent. The five most prominent home mortgage lenders accounted for 29.9 percent of the total market share.

Community Contacts

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners contacted a representative of a community consumer credit counseling service organization and a county economic development center in the assessment area. The credit counseling contact identified a significant need in the community for financial literacy education, affordable housing supply, and debt management counseling regarding student loan and credit card debit. The county economic development center contact identified primary credit needs in the area for small and medium size business expansions, who have seen success over the past few years and need funding to expand. The contact also stated that there is an ongoing societal issue effecting the need for financial education both at a consumer level and at a business level, indicating that part of this may be attributable to the State of Illinois' lack of support for small business development centers, creating a gap in financial literacy and education. Overall, the contacts stated that financial institutions have been adequately responsive to the area's credit and community development needs.

Credit Needs

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that small business loans and financial literacy education are the primary credit needs for the assessment area. The significant percentage of businesses with GARs of $1 million or less and the large number of businesses with four or fewer employees support this conclusion. Small business lending opportunity and demand are significant throughout the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated January 7, 2014, to the current evaluation dated January 27, 2020. Examiners used the Interagency Small Institution CRA Examination Procedures to evaluate MMB's CRA performance according to the following criteria.

- Loan-to-deposit ratio,
- Assessment area concentration,
- Geographic distribution,
- Borrower profile, and
- Response to CRA-related complaints.

Activities Reviewed

Examiners determined that the bank's major product lines are consumer loans (LELOCs), small business loans, and home mortgage loans. This conclusion considered the bank's business strategy, the loan portfolio concentrations, and the number and dollar volume of loans originated, renewed, or purchased during the evaluation period.

Consumer loans represent $99.4 million by dollar volume, or 40.7% of the bank's loan portfolio; this is the largest loan category of the bank's loan portfolio, as of September 30, 2019. The total universe of LELOCs originated or renewed by the bank during the review period was 1,151 loans totaling $237.0 million in 2017, 1,152 loans totaling $286.0 million in 2018, and 929 loans totaling $200.6 million in 2019. Examiners sampled those loans to assess the institution's performance within this product segment. This sample included 67 loans totaling $8.4 million in 2017, 67 loans totaling $13.4 million in 2018, and 63 loans totaling $12.6 million in 2019. ACS/Census data for 2015 was used as a standard comparison for LELOCs.

Examiners also sampled small business loans originated or renewed in 2017, 2018, and 2019. The total universe of small business loans originated during the review period was 162 loans in 2017 totaling $49.1 million, 147 loans totaling $47.1 million in 2018, and 133 loans totaling for $38.3 million in 2019. The sample included 51 loans in 2017 totaling $17.7 million, 47 loans in 2018 totaling $23.5 million, and 47 loans in 2019 totaling $13.0 million. D&B data for 2017 and 2018 were used as a standard comparison for the sampled small business loans.
This evaluation considers all home mortgage loans reported on the bank's 2017 and 2018 Home Mortgage Disclosure Act (HMDA) Loan Application Registers. The bank originated or purchased 93 loans totaling $17.6 million in 2017 and 19 loans totaling $12.1 million in 2018. Home mortgage data for 2019 was not available for review at the time of the evaluation. Examiners used aggregate HMDA data for 2017 and 2018 and ACS/Census data for 2015 as standard comparisons for home mortgage loans.

Of the three loan products reviewed, LELOCs contributed the most weight to the overall conclusions and rating, due to the much larger volume of originations and renewals during the review period when compared to small business and home mortgage loans. While examiners reviewed and present the number and dollar volume of all loans, examiners emphasized performance by number of loans because the number is a better indicator of the number of individuals and businesses served.

During the review period, MMB did not originate any small farm loans; therefore, the review did not consider small farm lending in the examination. No other loan types represent a major product line or provide material support to conclusions or the rating.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

MMB demonstrated poor performance under the Lending Test. Poor assessment area concentration, geographic distribution, and borrower profile performance support this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable given the institution's size, financial condition, and loan portfolio concentrations. The bank's net LTD ratio, calculated from CALL Report Data, averaged 109.6 percent over the past 23 calendar quarters from March 31, 2014 to September 30, 2019. The ratio was highest at 116.4 percent on September 30, 2016, and lowest at100.89 as of September 30, 2014. The following table shows MMB's net LTD ratio compares favorably to similarly-situated institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	**Total Assets as of 09/30/2019 ($000s)**	**Average Net LTD Ratio (%)**
Merchants and Manufacturers	**283,490**	**109.58**
Similarly-Situated Institution #1	332,791	53.38
Similarly-Situated Institution #2	205,202	78.03
Similarly-Situated Institution #3	187,042	71.59
Similarly-Situated Institution #4	230,251	71.97
Similarly-Situated Institution #5	274,254	94.13
Source: Reports of Condition and Income 03/31/2014 through 09/30/2019		

Assessment Area Concentration

A majority of the bank's lending has occurred outside the assessment area. As a result, the bank's assessment area concentration does not meet the standards for satisfactory performance. As noted in the following table, the bank originated a majority of its LELOCs outside of its assessment area (66.5 percent). Further, the amount of loans outside the assessment area increased from 64.2 percent to 69.8 percent over the last three years. As previously noted, this lending makes up the largest portion of the bank's lending activity and loan portfolio, and examiners weighted it more heavily during this evaluation.

The bank's assessment area concentration for small business lending is 57.9 percent over the last three years, down from the last CRA evaluation in 2014 when MMB made 70 percent of their small business loans within the assessment area. In the most recent year of 2019, MMB made just 48.9 percent of their small business loans in the assessment area.

The majority of home mortgage loans originated in 2017 were outside the assessment area. This is due to a substantial majority of loans purchased and secured by properties outside of the assessment area. The loans were typically purchased at a discount and resold soon thereafter with the proceeds invested. 2017 was the only year during this evaluation period that loans were purchased. However, although 95 percent of home mortgage loans in 2018 were inside the assessment area, 28.6 percent of the total home mortgage loans made in 2017 and 2018 combined were in the assessment area and this has negatively impacted the bank's assessment area concentration of loans.

Lending Inside and Outside of the Assessment Area

Loan Category	Number of Loans				Total	Dollar Amount of Loans $(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	$	%	$	%	$(000s)
Consumer										
2017	24	35.8	43	64.2	67	2,780	33.1	5,631	66.9	8,411
2018	23	34.3	44	65.7	67	4,981	37.1	8,447	62.9	13,428
2019	19	30.2	44	69.8	63	3,202	25.3	9,444	74.7	12,646
Subtotal	**66**	**33.5**	**131**	**66.5**	**197**	**10,963**	**31.8**	**23,522**	**68.2**	**34,485**
Small Business										
2017	29	56.9	22	43.1	51	9,235	52.2	8,458	47.8	17,693
2018	32	68.1	15	31.9	47	10,839	46.2	12,637	53.8	23,476
2019	23	48.9	24	51.1	47	7,098	54.5	5,921	45.5	13,019
Subtotal	**84**	**57.9**	**61**	**42.1**	**145**	**27,172**	**50.1**	**27,016**	**49.9**	**54,188**
Home Mortgage										
2017	14	15.1	79	84.9	93	7,629	43.3	10,010	56.7	17,639
2018	18	94.7	1	5.3	19	10,691	88.1	1,443	11.9	12,134
Subtotal	**32**	**28.6**	**80**	**71.4**	**112**	**18,320**	**61.5**	**11,453**	**38.5**	**29,773**

Source: Evaluation Period: 1/1/2017 - 12/31/2019 Bank Data
Due to rounding, totals may not equal 100.0

Geographic Distribution

The geographic distribution of loans reflects a poor dispersion throughout the assessment area. This is based on the poor dispersion of LELOC lending, which is given greater weighting when arriving at overall conclusions. The level of such lending negatively affected this performance criterion. The distribution of small business loans is reasonable, while the distribution of home mortgage loans is excellent. Only loans originated in the assessment area are considered in this analysis. Separate analysis for each loan product follows.

Consumer Loans

The geographic distribution of LELOC lending is poor. As previously noted, the bank originated a substantial majority of LELOC lending outside of the bank's assessment area and loans within the assessment area represent only 33.5 percent of such loans.

Geographic Distribution of Life Equity Consumer Loans					
Tract Income Level	**% of Households**	**#**	**%**	**$(000s)**	**%**
Low					
2017	9.3	0	0.0	0	0.0
2018	9.3	0	0.0	0	0.0
2019	9.3	0	0.0	0	0.0
Moderate					
2017	22.3	0	0.0	0	0.0
2018	22.3	0	0.0	0	0.0
2019	22.3	0	0.0	0	0.0
Middle					
2017	31.5	1	4.2	50	1.8
2018	31.5	4	17.4	428	8.6
2019	31.5	3	15.8	138	4.3
Upper					
2017	36.6	23	95.8	2,730	98.2
2018	36.6	19	82.6	4,553	91.4
2019	36.6	16	84.2	3,064	95.7
Not Available					
2017	0.3	0	0.0	0	0.0
2018	0.3	0	0.0	0	0.0
2019	0.3	0	0.0	0	0.0
Totals					
2017	**100.0**	**24**	**100.0**	**2,780**	**100.0**
2018	**100.0**	**23**	**100.0**	**4,981**	**100.0**
2019	**100.0**	**19**	**100.0**	**3,202**	**100.0**
Source: 2015 ACS Census; 1/1/2017 - 12/31/2019 Bank Data. *Due to rounding, totals may not equal 100.0*					

The bank did not originate any LELOC loans in low- and moderate-income census tracts during the review period of 2017, 2018, and 2019. Approximately 32 percent of households are located in low- and moderate-income census tracts in the assessment area. This indicates that there are opportunities to originate consumer loans in the aforementioned census tracts.

Small Business Lending

The geographic distribution of small business loans reflects overall reasonable dispersion throughout the assessment area. Businesses located in low-income (4.9 percent) and moderate-income (15.6 percent) census tracts demonstrate the limited opportunities available for small business lending in the assessment area. This data includes the total number of small businesses that exist in the area and not necessarily the percentage that are seeking or qualify for financing.

Geographic Distribution of Small Business Loans					
Tract Income Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
Low					
2017	4.9	0	0.0	0	0.0
2018	4.9	1	3.1	301	2.8
2019	--	2	8.7	750	10.6
Moderate					
2017	15.6	14	48.3	2,723	29.5
2018	15.6	11	34.4	3,941	36.4
2019	--	4	17.4	2,398	33.8
Middle					
2017	30.0	6	20.7	3,669	39.7
2018	29.9	10	31.2	2,182	20.1
2019	--	3	13.0	1,320	18.6
Upper					
2017	48.9	9	31.0	2,843	30.8
2018	49.1	9	28.1	3,065	28.3
2019	--	14	60.9	2,630	37.1
Not Available					
2017	0.5	0	0.0	0	0.0
2018	0.5	1	3.1	1,350	12.5
2019	--	0	0.0	0	0.0
Totals					
2017	**100.0**	**29**	**100.0**	**9,235**	**100.0**
2018	**100.0**	**32**	**100.0**	**10,839**	**100.0**
2019	**--**	**23**	**100.0**	**7,098**	**100.0**

Source: 2017 & 2018 D&B Data; 1/1/2017 - 12/31/2019 Bank Data; 2017 & 2018 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0

The bank did not originate any small business loans in low-income census tracts in 2017. The bank trailed the percentage of businesses operating in low-income census tracts in 2018 and made only one loan in these tracts. In addition, the bank made only two small business loans in such tracts in 2019. Within a two-mile radius circle from the bank's main office, there are six low-income census tracts. There are two additional low-income census tracts within a three-mile radius circle. There are 925 small businesses located in these eight low-income census tracts, providing opportunities for the bank to lend in these geographies. The fact that the bank extended only three loans in a low-income tract over a three-year period represents poor performance.

The bank's small business lending in moderate-income census tracts was more than reasonable. The bank's lending in moderate-income census tracts was more than triple the percentage of businesses operating in these tracts in 2017, and double the percentage of businesses operating in these tracts in 2018. The bank's performance also compares favorably to similarly-situated institutions (SSIs) located in MMB's assessment area who made on average 18.2 percent of their loans in moderate-income census tracts in 2017 (four SSIs) and 16.5 percent in 2018 (two SSIs). The bank's small business lending declined to four loans in moderate-income census tracts in 2019.

Home Mortgage Lending

The bank's performance in originating home mortgage loans reflects excellent dispersion of loans throughout the assessment area.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	**% of Owner-Occupied Housing Units**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2017	4.6	3.5	3	21.4	1,939	25.4
2018	4.6	3.8	2	11.1	375	3.5
Moderate						
2017	18.0	15.3	6	42.9	3,201	42.0
2018	18.0	15.8	7	38.9	4,962	46.4
Middle						
2017	34.5	34.2	1	7.1	149	2.0
2018	34.5	34.0	4	22.2	2,776	26.0
Upper						
2017	42.8	46.9	4	28.6	2,340	30.7
2018	42.8	46.3	5	27.8	2,578	24.1
Not Available						
2017	0.1	0.1	0	0.0	0	0.0
2018	0.1	0.1	0	0.0	0	0.0
Totals						
2017	**100.0**	**100.0**	**14**	**100.0**	**7,629**	**100.0**
2018	**100.0**	**100.0**	**18**	**100.0**	**10,691**	**100.0**

Source: 2015 ACS Census; 1/1/2017 - 12/31/2018 Bank Data, 2017 & 2018 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0

The geographic distribution of the institution's home mortgage lending reflects excellent dispersion of lending in both low- and moderate-income census tracts. This conclusion is based upon a review of home mortgage lending in low- and moderate-income census tracts in 2017, 2018, and 2019; aggregate lending data in 2017 and 2018; and 2015 ACS census data.

The bank's lending in low-income census tracts was more than six times the aggregate performance in 2017 and nearly three times the aggregate performance in 2018. In addition, the bank's performance compared very favorably to the percentage of owner-occupied housing units in such tracts during the review period. The bank's performance in moderate-income census tracts was significantly higher than aggregate (almost three times the aggregate in 2017 and over twice the aggregate in 2018) and the percentage of owner-occupied housing units in such tracts (more than double in both years). This analysis is based on 32 home mortgage loans originated during the review period. Home mortgage lending overall reflected the least amount of weight in overall conclusions due to the bank's significantly lower activity compared to LELOCs and small business lending.

Considering all of the above factors, the bank's geographic distribution of its home mortgage loans reflects excellent reasonable dispersion of lending throughout the assessment area.

While the bank's geographic distribution of home mortgage loans is excellent and small business loans is considered reasonable; overall this criterion is considered poor. Again, the fact that the bank has spent a substantial majority of its resources on LELOC loans outside its assessment area puts a negative effect on this criterion. As previously noted, LELOC loans are weighted more heavily during this evaluation. Therefore, the bank is not meeting the needs of its assessment area.

Borrower Profile

The distribution of borrowers reflects poor penetration among individuals of different income levels (including low- and moderate-income) and reasonable penetration to businesses of different sizes, given the demographics of the assessment area. This is based on the poor distribution of LELOC lending, which is given greater weighting when arriving at overall conclusions. The bank's overall low level of LELOC lending inside the assessment area negatively affected this performance criterion. The distribution of small business loans is considered reasonable. The home mortgage loans in 2017 and 2018 were originated to commercial borrowers. Therefore, this criterion is not applicable as incomes are not collected. Only loans originated in the assessment area are considered in this analysis. Separate analysis for each loans product follows.

Life Equity Consumer Loans

The bank's record of LELOC lending reflects poor penetration among individuals of different income levels. This conclusion is based upon the fact that only one such loan was originated to a low-income borrower in 2019 and one loan was originated to a moderate-income borrower in 2017. As reflected in the following table, approximately 41 percent of the households in the assessment area are low- and moderate-income borrowers indicating that there are lending opportunities.

The fact that a substantial majority of LELOC lending occurred outside the bank's assessment area negatively affected the performance rating. Additionally, the LELOC loan product is typically sought by upper-income borrowers, as these individuals can afford life insurance policies.

Distribution of Consumer Loans by Borrower Income Level					
Borrower Income Level	**% of Households**	**#**	**%**	**$(000s)**	**%**
Low					
2017	25.4	0	0.0	0	0.0
2018	25.4	0	0.0	0	0.0
2019	25.4	1	5.3	83	2.6
Moderate					
2017	15.2	1	4.2	51	1.8
2018	15.2	0	0.0	0	0.0
2019	15.2	0	0.0	0	0.0
Middle					
2017	17.0	1	4.2	196	7.1
2018	17.0	1	4.3	144	2.9
2019	17.0	2	10.5	73	2.3
Upper					
2017	42.4	22	91.7	2,533	91.1
2018	42.4	21	91.3	4,486	90.1
2019	42.4	16	84.2	3,046	95.1
Not Available					
2017	0.0	0	0.0	0	0.0
2018	0.0	1	4.3	351	7.0
2019	0.0	0	0.0	0	0.0
Totals					
2017	**100.0**	**24**	**100.0**	**2,780**	**100.0**
2018	**100.0**	**23**	**100.0**	**4,981**	**100.0**
2019	**100.0**	**19**	**100.0**	**3,202**	**100.0**
Source: 2015 ACS Census; 1/1/2017 - 12/31/2019 Bank Data. *Due to rounding, totals may not equal 100.0*					

Small Business Lending

The borrower distribution of the bank's small business loans reflects reasonable penetration among businesses of different sizes. Small business loans were evaluated based on the lending concentrations to businesses with GARs of $1 million or less originated during the evaluation period. Of the 84 small business loans originated within the assessment area during the review period, 61.9 percent were granted to businesses with GARs of $1 million or less. This is made up of 65.5 percent in 2017 and 71.9 percent in 2018. These percentages are below the demographic of 80.7 percent of businesses with GARS below $1 million. The bank's performance is similar though to SSIs located in MMB's assessment area who made on average 57.4 percent of their loans to businesses with GARs below $1 million in 2017 (four SSIs) and 69.9 percent in 2018 (two SSIs). In addition, although the bank's distribution of small business loans lies below the percentage of businesses that report revenues at or below $1 million inside the assessment area by number and in most instances by dollar amount, it should be noted that the demographics (approximately 81 percent) indicate the total number of small businesses that exist and not necessarily the percentage that are seeking financing or that may qualify for financing. As such, actual small business lending opportunities typically lag the percentage of small businesses in the market area. As previously stated, according to FDIC Deposit Market Share data from 2018, there were 283 financial institutions operating 2,387 offices operating within the assessment area. The bank has achieved a reasonable lending penetration among businesses of different sizes as reflected in the table.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000					
2017	80.7	19	65.5	5,046	54.6
2018	80.8	23	71.9	9,141	84.3
2019	--	10	43.5	1,299	18.3
>1,000,000					
2017	8.4	10	34.5	4,189	45.4
2018	8.2	9	28.1	1,698	15.7
2019	--	13	56.5	5,799	81.7
Revenue Not Available					
2017	10.9	0	0.0	0	0.0
2018	11.0	0	0.0	0	0.0
2019	--	0	0.0	0	0.0
Totals					
2017	**100.0**	**29**	**100.0**	**9,235**	**100.0**
2018	**100.0**	**32**	**100.0**	**10,839**	**100.0**
2019	**--**	**23**	**100.0**	**7,098**	**100.0**

Source: 2017 & 2018 D&B Data; 1/1/2017 - 12/31/2019 Bank Data; 2017 & 2018 CRA Aggregate Data; "--" data not available.
Due to rounding, totals may not equal 100.0

Home Mortgage Lending

All home mortgage loans were originated to commercial customers and therefore borrower income information is not required. This criterion will not be considered in regards to the overall rating.

Although small business lending is reasonable in regards to businesses of various revenue sizes, the overall assessment of this criterion is poor. The bank's substantial focus on LELOC lending, which is primarily outside the assessment area, is weighted more heavily in this evaluation.

Community Development Lending

MMB originated or renewed nine SBA 504 loans totaling $14.5 million since the previous performance evaluation of 2014, which provide economic development in the assessment area. Specifically, the bank originated one loan for $1.4 million to a business located in a low-income census tract and one loan for $1.5 million to a business located in a moderate-income census tract.

SBA 504 loans by their nature promote economic development and if greater than $1 million are not considered small business loans for CRA purposes. Additional community development lending throughout the review period included 12 affordable housing loans totaling $5.8 million that provides affordable housing to low- and moderate-income borrowers in the assessment area.

The bank's involvement in SBA lending programs and additional community development lending supplemented their small business lending performance, and were given community development consideration in the overall lending performance rating.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore this criterion did not affect the rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
3) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
4) The geographic distribution of the bank's loans; and
5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.
Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA):** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.