

PUBLIC DISCLOSURE

July 24, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Montecito Bank & Trust
Certificate Number: 21956

1000 State Street
Santa Barbara, California 93101

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

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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.

TABLE OF CONTENTS

INSTITUTION RATING	1
DESCRIPTION OF INSTITUTION	3
DESCRIPTION OF ASSESSMENT AREAS.....	4
SCOPE OF EVALUATION.....	6
CONCLUSIONS ON PERFORMANCE CRITERIA.....	7
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	16
SANTA BARBARA ASSESSMENT AREA – Full-Scope Review	16
VENTURA ASSESSMENT AREA – Limited-Scope Review	31
APPENDICES	36
LARGE BANK PERFORMANCE CRITERIA	36
SCOPE OF EVALUATION	38
GLOSSARY	41

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Outstanding**.

An institution in this group has an outstanding record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

The Lending Test is rated High Satisfactory.

- Lending levels reflect good responsiveness to AA credit needs.
- A high percentage of loans are made in the institution's AAs.
- The geographic distribution of loans reflects adequate penetration throughout the AAs.
- The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among business customers of different revenue size and retail customers of different income levels.
- The institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its AAs, low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.
- The institution made a relatively high level of community development (CD) loans.
- The institution uses innovative and/or flexible lending practices in order to serve the AAs' credit needs.

The Investment Test is rated Outstanding.

- The institution has an excellent level of qualified CD investments and grants, often in a leadership position, particularly those that are not routinely provided by private investors.

- The institution exhibits excellent responsiveness to credit and CD needs.
- The institution occasionally uses innovative and/or complex investments to support CD initiatives.

The Service Test is rated Outstanding.

- Delivery systems are reasonably accessible to essentially all portions of the institution's AAs.
- To the extent changes have been made, the institution's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals.
- Services (including, where appropriate, business hours) do not vary in a way that inconveniences certain portions of the AAs, particularly LMI geographies and/or individuals.
- The institution is a leader in providing CD services.

DESCRIPTION OF INSTITUTION

Montecito Bank & Trust (MBT) is headquartered in Santa Barbara, California and is owned by Montecito Bancorp, a one-bank holding company also located in Santa Barbara. MBT does not have any affiliates or subsidiaries. MBT was previously evaluated using Large Bank Procedures during the FDIC CRA Performance Evaluation (prior PE) dated September 8, 2020, and received an overall Outstanding rating.

MBT currently operates 15 full-service branches in 2 counties within the central coast region of California. Of the 15 branches, one branch (Santa Maria) in the Santa Barbara AA is new since the prior evaluation. Three of the branches are located in retirement home communities in Santa Barbara County. MBT has one loan production office in Goleta, California. The bank offers a range of lending products including commercial, construction, home mortgage, non-profit, hobby farm, and consumer loans, primarily focusing on commercial lending. The bank also offers personal and business credit cards. MBT offers Small Business Administration (SBA)-guaranteed loans and is a designated SBA Preferred Lender. The bank provides a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. In addition, MBT offers wealth management and investment services.

MBT's assets totaled approximately \$2.1 billion as of March 31, 2023, and included total loans of \$1.2 billion and total securities of \$781.1 million. The bank reported deposits of \$1.9 billion. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 3/31/2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	7,263	0.6
Secured by Farmland	2,054	0.2
Secured by 1-4 Family Residential Properties	269,755	23.0
Secured by Multifamily (5 or more) Residential Properties	204,930	17.4
Secured by Nonfarm Nonresidential Properties	547,338	46.6
Total Real Estate Loans	1,031,340	87.8
Commercial and Industrial Loans	114,261	9.7
Agricultural Production and Other Loans to Farmers	2,216	0.2
Consumer Loans	14,780	1.2
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	15,269	1.3
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(2,519)	(0.2)
Total Loans	1,175,347	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the institution's ability to meet the credit needs of its AAs.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more AAs within which its CRA performance will be evaluated. MBT continues to designate two AAs: Santa Barbara and Ventura. Although the two counties are contiguous, they are not combined within the same combined statistical area; therefore, the two AAs are assessed individually. The two AAs are described below:

- Santa Barbara AA – includes all of Santa Barbara County; wholly contained within the Santa Maria-Santa Barbara Metropolitan Statistical Area (MSA) #42200
- Ventura AA – includes all of Ventura County; wholly contained within the Oxnard-Thousand Oaks-Ventura MSA #37100

The Census Bureau released the updated 2020 U.S. Census data during the evaluation period. The update included changes to the total number of census tracts (CTs) within each AA, as well as income tract designations. From the 2015 ACS Census to 2020 U.S. Census data, the total number of tracts in the Santa Barbara AA increased from a total of 90 to 109. Changes included an overall increase in the number of tracts, with one less low-income, and five additional moderate-income tracts. In the Ventura AA, the total number of tracts increased from 174 to 190. While overall the number of tracts increased, there were no significant change to low-income, and four less moderate-income tracts. The following table details the changes of CTs below:

Santa Barbara AA	2015 ACS CTs		2020 U.S Census CTs	
	#	%	#	%
Low	8	8.9	7	6.4
Moderate	23	25.6	28	25.7
Middle	23	25.6	30	27.5
Upper	32	35.5	38	34.9
N/A	4	4.4	6	5.5
Total	90	100.0	109	100.0
<i>Source: 2015 ACS, 2020 U.S. Census</i>				

Ventura AA	2015 ACS CTs		2020 U.S Census CTs	
	#	%	#	%
Low	9	5.2	9	4.7
Moderate	50	28.7	46	24.2
Middle	61	35.1	77	40.5
Upper	51	29.3	55	28.9
N/A	3	1.7	4	1.6
Total	174	100.0	190	100.0
<i>Source: 2015 ACS, 2020 U.S. Census</i>				

The following table details the counties and number of CTs and branches located within each AA based on 2015 American Community Survey (ACS) census data.

Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	# of CTs	# of Branches
Santa Barbara AA	Santa Barbara	90	12
Ventura AA	Ventura	174	3
Total		264	15
<i>Source: Bank Records</i>			

The following table details the counties and the number of CTs and branches located within each AA based on 2020 U.S. Census data.

Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	# of CTs	# of Branches
Santa Barbara AA	Santa Barbara	109	12
Ventura AA	Ventura	190	3
Total		299	15
<i>Source: Bank Data</i>			

The AAs comply with the technical requirements of the CRA and do not arbitrarily exclude LMI neighborhoods. Management selected these geographies based on the location of the bank's offices and the expectation of attracting and retaining a customer base within these geographies. Refer to the individual AA sections of this evaluation for details on the bank's operations in each AA and relevant economic, demographic, and competition information.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated September 8, 2020, to the current evaluation dated July 24, 2023. Examiners used the Large Interagency Institution Examination Procedures to evaluate MBT's CRA performance. Examiners relied on records provided by the institution, public financial and loan information, demographic data, community contacts, and reported loan information.

Examiners used full-scope examination procedures for the Santa Barbara AA and limited-scope examination procedures for the Ventura AA. The Santa Barbara AA represents the largest AA based on the number of banking locations, loans, and deposits. As a result, examiners placed more weight on the performance in the Santa Barbara AA. The Ventura AA was evaluated using full-scope examination procedures at the prior two evaluations; therefore, this AA is evaluated using limited-scope procedures for this evaluation.

Activities Reviewed

Examiners determined that the bank's major product lines are small business and home mortgage loans. Examiners considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. No other loan types, such as small farm loans or consumer loans, represent a major product line. Therefore, they provided no material support for conclusions or ratings and were not analyzed or presented.

Examiners considered the entire universe of small business loans originated or purchased from January 1, 2020 through December 31, 2022. During the review period, the bank originated 4,570 small business loans totaling \$484.7 million. This total includes 2,185 loans for \$228.4 million in 2020, 1,975 loans for \$177.7 million in 2021, and 410 loans for \$78.7 million in 2022. MBT was required to collect and report home mortgage loan data subject to the Home Mortgage Disclosure Act (HMDA) during the evaluation period. As a result, examiners considered the entire universe of home mortgage loans originated or purchased from January 1, 2020 to December 31, 2022. During the review period, the bank originated or purchased 698 home mortgage loans totaling approximately \$534.5 million. This total includes 279 loans for \$217.1 million in 2020, 256 loans for \$179.3 million in 2021, and 163 loans for \$138.1 million in 2022. Examiners placed more weight on small business loans due to the higher volume of loans originated during the review period.

Examiners analyzed and presented 2020, 2021 and 2022 data within this PE. The substantial increase in small business loan originations in 2020, 2021 and 2022 is important to present, as it is a significant anomaly from the 2022 lending performance. This is largely the result of the origination of the SBA's Paycheck Protection Program (PPP) loans.

For the Lending Test, examiners reviewed the number and dollar volume of small business and home mortgage loans. While number and dollar volume of loans are presented, examiners

emphasized performance by number of loans because it is a better indicator of the number of businesses and individuals served. For home mortgage loans, 2020 and 2021 lending performance is compared to the 2015 ACS Census data and aggregate performance, and 2022 lending performance is compared to the updated 2020 U.S. Census data. Small business comparable data included 2020 through 2022 D&B data for small business lending, and 2020 and 2021 small business aggregate data. Other information gathered as part of the evaluation process included community contacts. Aggregate performance for 2022 was not available at the time of writing this evaluation. Examiners also compared current lending performance against the bank's prior CRA performance and noted any differences within the evaluation. There are no similarly-situated institutions to compare MBT's performance during this evaluation period.

The CD Test includes all qualified CD loans, qualified investments and grants/donations, and CD services from September 8, 2020 to June 30, 2023. The evaluation also includes prior-period qualified investments still outstanding as of July 24, 2023. Examiners evaluated CD activities quantitatively based on the financial capacity of the bank, and qualitatively based upon the impact to the AAs. Similar to the prior PE, no peer institutions were identified to use for comparison purposes. As such, examiners compared current CD activities against the prior CRA performance.

Finally, examiners reviewed retail banking products and services targeted to LMI individuals or small businesses that are tailored to meet the needs of the AAs. Examiners also reviewed retail delivery systems, such as branch offices and alternative delivery systems, including the effect of applicable branch openings.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The overall Lending Test performance is rated "High Satisfactory." Lending performance in both the Santa Barbara and Ventura AAs is consistent with the overall conclusions. Refer to each AA for a detailed analysis.

Lending Activity

MBT's lending levels reflect good responsiveness to the AAs credit needs. This conclusion is supported by good responsiveness in both the Santa Barbara and Ventura AAs. During the review period, the bank made 4,174 small business loans totaling \$427.5 million in the AAs. This represents a significant increase in small business lending by both number and dollar volume of loans, compared to the prior evaluation where the bank made 797 loans totaling \$139.4 million. This increase is largely attributed to the bank's SBA Paycheck Protection Program (PPP) lending activity in 2020 and 2021. MBT originated 3,229 of the 3,381 total SBA PPP loans inside its AAs during the evaluation period. Furthermore, MBT originated 551 home mortgage loans totaling \$442.6 million within its AAs, representing a significant increase in home mortgage lending by both number and dollar volume, compared to the prior evaluation where the bank originated 303 residential loans totaling \$216.9 million. Refer to each AA for lending activity and market share details.

MBT maintained an average net loan-to-deposit ratio of 61.9 percent during the evaluation period. The ratio fluctuated between a low of 51.7 percent as of June 30, 2022, and a high of 78.5 percent as of September 30, 2020. There are no similarly situated institution to compare the bank's performance in the AA.

Assessment Area Concentration

During the evaluation period, MBT originated or purchased a high percentage of its small business and home mortgage loans by number and dollar volume within its AAs. Overall, the AA concentration has declined since the prior evaluation where the bank originated 94.0 percent by number and 86.8 percent by dollar volume inside the AAs. The following table shows the current performance by year and loan category.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business										
2020	1,995	91.3	190	8.7	2,185	205,177	89.8	23,244	10.2	228,421
2021	1,802	91.2	173	8.8	1,975	152,667	85.9	25,013	14.1	177,680
2022	377	92.0	33	8.0	410	69,685	88.6	8,988	11.4	78,673
Subtotal	4,174	91.3	396	8.7	4,570	427,529	88.2	57,245	11.8	484,774
Home Mortgage										
2020	232	83.2	47	16.8	279	182,418	84.0	34,692	16.0	217,110
2021	200	78.1	56	21.9	256	151,873	84.7	27,432	15.3	179,305
2022	119	73.0	44	27.0	163	108,285	78.4	29,856	21.6	138,141
Subtotal	551	79.0	147	21.0	698	442,576	82.8	91,980	17.2	534,556
Total	4,725	89.7	543	10.3	5,268	870,105	85.4	149,225	14.6	1,019,330
Source: Bank Data Due to rounding, totals may not equal 100.0%										

Geographic Distribution

The geographic distribution of loans reflects adequate penetration throughout the AAs. Examiners noted no conspicuous lending gaps in the geographic distribution of loans. MBT's performance in the Ventura limited-scope AA was consistent in the Santa Barbara full-scope AA. Refer to each AA's geographic distribution criteria section for details.

Borrower Profile

The distribution of borrowers reflects, given the product lines of the institution, good penetration among businesses of different revenue sizes and retail customers of different income levels.

MBT's performance in the Ventura limited-scope AA was consistent with the performance in the Santa Barbara full-scope AA. Refer to each AA's borrower profile criteria section for details.

Innovative or Flexible Lending Practices

MBT uses innovative and/or flexible lending practices in order to serve the AA credit needs. The performance was consistent in the AAs. MBT offers and participates in several lending programs in support of economic development for small businesses and consumers and businesses affected by the COVID-19 pandemic. The bank's bank-wide innovative and/or flexible loan programs are listed below:

- Small Business Loan Fund (SBLF) of Santa Barbara – MBT helped to establish the SBLF of Santa Barbara, a certified Community Development Financial Institution (CDFI), through partnership with Women's Economic Ventures (WEV). SBLF offers loans of \$5,000 to \$25,000 to local entrepreneurs who are considered too risky to obtain traditional financing. SBLF loans may be used for the purchase of fixed assets, equipment, working capital, and rehabilitation of the physical plant. The bank's business loan application allows for applicants to indicate that they would like to be referred to a community lending organization, such as WEV, if the bank is unable to meet the applicant's credit needs. WEV promotes women-owned small businesses by offering free courses, seminars, and workshops to educate the participants about the logistics of owning their own business with a majority of clients being LMI. The bank's partnership with this organization produced 17 loans during the review period however, the organization was unable to provide the total dollar volume of lending.
- Emergency Lines of Credit – During the 2018 and 2019 fires and mudslide disasters affecting Santa Barbara County, MBT developed business and personal line of credit to help people impacted by those disasters. The program has also been re-activated for 2020 in response to COVID-19. The bank made one loan totaling \$5,000 during the review period.
- Business Maximizer Product Suite – The bank offers multiple credit solutions for small businesses to assist with short-term working capital needs, seasonal and inventory purchases, payroll and other business needs. In addition to lines of credit, a term loan product for long-term working capital, consolidation of existing debt, and inventory and equipment purchases is also offered. Since the prior evaluation, MBT made 604 loans totaling \$62.9 million.
- Numerated Loan Application System is a streamlined online business loan application that was utilized for PPP loans. It was later expanded for the PPP forgiveness phase as well as line of credit and other credit card products. The collection of revenue during the PPP forgiveness phase also supported more accurate reporting of the different sizes of small businesses assisted by the PPP program.
- All-in-One Business Credit Application – Business customers can apply for credit card, business maximizer loan products, and/or term loan all in one application. This helps streamline credit requests for prospective borrowers and existing customers particularly for those that may be seeking credit for multiple purposes. In addition, the application includes a referral section in case the bank is unable to approve an applicant, they may be referred to a community-based lending organization. Business Credit Card – Convenient and geared

towards small businesses with credit lines up to \$50,000 subject to credit approval. The product offers more flexibility to businesses including very small businesses which may be more useful than the other line of credit or term loan products. Since the prior evaluation, the institution made 108 loans totaling \$2.6 million.

- Business Ready Cash Reserve (RCR) is a flexible overdraft line of credit and small dollar line of credit designed to offer customers the ability to advance funds to the bank's account when funds are needed and helps to protect against inadvertent overdrafts of checking accounts. The product can be linked to business checking accounts for ease of use. The bank made 19 loans totaling \$167,500 since the prior evaluation.

These programs offer flexible features that allow the bank to better serve credit needs in its AAs. Since these programs are offered bank-wide, they will not be separately addressed in full-scope AA sections.

Community Development Loans

MBT made a relatively high level of CD loans. During the evaluation period, MBT originated 88 CD loans totaling \$76.2 million. This level of CD lending represents a decrease from the prior PE where MBT was a leader in making CD loans and originated 151 CD loans totaling \$110.4 million. By year, MBT's CD loan activity consisted of 2 CD loans totaling \$1.8 million in 2020, 67 CD loans totaling \$39.7 million in 2021, 11 CD loans totaling \$17.8 million in 2022, and 8 CD loans totaling \$16.9 million in year-to-date (YTD) 2023.

MBT's CD lending represents 3.5 percent of average total assets and 6.1 percent of average total loans since the prior evaluation, which is a decrease from the prior PE's CD lending ratios of 7.3 percent of average total assets and 11.2 percent of average total loans. While performance decreased, examiners considered additional performance context. During the review period the bank made 50 CD loans totaling \$14.4 million as part of the SBA PPP in response to the coronavirus pandemic. At the prior examination, MBT originated 86 CD qualified PPP loans totaling \$34.2 million. The decrease during this evaluation period is, in part, due to the significant demand for loans during the initial offering of SBA PPP. The following table illustrates MBT's CD lending by AA and CD purpose. CD loans were responsive to the needs of the AAs. MBT's performance in the Ventura limited-scope AA was consistent in the Santa Barbara full-scope AA

Community Development Lending by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Santa Barbara	3	900	21	22,960	43	13,267	0	0	67	37,127
Ventura	2	6,400	10	6,550	6	1,079	0	0	18	14,029
Statewide Activities	2	25,000	0	0	1	16	0	0	3	25,016
Regional Activities	0	0	0	0	0	0	0	0	0	0
Total	7	32,300	31	29,510	50	14,362	0	0	88	76,172
<i>Source: Bank Data</i>										

In addition to CD lending within the bank's AAs, MBT originated 3 CD loans totaling \$25.0 million in the broader California statewide area that benefits both AAs. Given that MBT has been responsive to the CD needs and opportunities in each AA, the institution received CD consideration for these activities. One of the statewide CD loans was a \$15.0 million revolving line of credit to a multi-family affordable housing lender to support the lender's mortgage loan programs.

Refer to each AA section for more information and notable examples.

INVESTMENT TEST

The Investment Test is rated "Outstanding." MBT's overall performance with investments, grants and donations is consistent with conclusions throughout all AAs. Refer to each AA section for detailed information and analysis.

Investment and Grant Activity

MBT has an excellent level of qualified CD investments and grants, often in a leadership position, particularly those that are not routinely provided by private investors. The combined qualified investments, including grants and donations, total approximately \$28.2 million. This total dollar amount is higher than the prior PE where MBT was a leader in providing qualified investments, and made \$20.5 million in investments and donations.

By year, MTB's CD investment activity consisted of 1 qualified investments totaling \$1.2 million from the prior period, 7 totaling \$10.5 million in 2021, 4 totaling \$11.5 in 2022, and 1 totaling \$1.0 million YTD 2023. By year, MTB's CD donation activity consisted of 145 qualified donations totaling \$561,000 in 2020, 272 totaling \$1.1 million in 2021, 344 totaling \$1.7 million in 2022, and 145 totaling \$492,891 YTD 2023.

The current dollar amount equals to 1.3 percent of average total assets and 4.2 percent of average total securities since the prior PE. These ratios are comparable to the prior PE's ratios of 1.4 percent and 4.8 percent, respectively.

Total qualified investments include 10 new debt/equity investments of approximately \$19.3 million and \$3.9 million in grants and donations. In addition to the qualified investments within the AAs, MBT made 3 new investments totaling approximately \$5.0 million and 5 donations totaling \$15,000 to support the broader statewide and regional area's CD needs. The statewide investment consisted of a \$10.0 million bond to a California multi-family affordable housing lender. The regional investments consisted of two bonds for a low-cost primary health care organization, with special emphasis on the medically underserved population in adjacent San Luis Obispo County.

The following table presents MBT's number and dollar volume of qualified investments and donations by AA and CD purpose.

Qualified Investments by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Santa Barbara	24	107	716	9,301	7	30	0	0	747	9,438
Ventura	17	1,106	145	2,640	2	2	0	0	164	3,748
Statewide Activities	1	10,000	0	0	0	0	0	0	1	10,000
Regional Activities	1	5	6	5,000	0	0	0	0	7	5,005
Total	43	11,218	867	16,941	9	32	0	0	919	28,191
<i>Source: Bank Data</i>										

Refer to each AA section for more information and notable examples.

Responsiveness to Credit and Community Development Needs

The institution exhibits an excellent responsiveness to credit and CD needs. MBT's investments, by dollar volume, primarily assist the affordable housing needs of the AAs, while the donations primarily support community services to LMI individuals. Both are identified CD needs of the AAs.

Community Development Initiatives

The institution occasionally uses innovative and/or complex investments to support CD initiatives. The bank's qualified investments are useful and help promote CD; however, most are not innovative or complex. MBT's management explained that there are limited investment opportunities in the area and those opportunities are highly competitive amongst other national banks in the area. As such, MBT's donation and grant efforts compensate for its non-complex investments. The institution is involved in the following initiatives to help promote CD in its local community.

Community Dividends

Created in 2003, the Community Dividends program awards a total of \$1.0 million annually to hundreds of non-profit organizations or individual programs that primarily serve LMI individuals and families in Santa Barbara and Ventura Counties. The program also awards dividends to organizations that serve the arts, youth and education, social services, and medical and health services sectors. This program occurs at Thanksgiving time when many non-profits face a budget shortfall. One representative from each selected non-profit organization is invited to a luncheon, giving them a chance to network and receive the award. The bank celebrated the 20th anniversary of the Community Dividends program in 2022 by doubling the donation made and awarded \$2.0 million to local non-profits. Approximately 78.0 percent of the awards provided during the evaluation period was CRA qualified.

Anniversary Grants

Each year, MBT celebrates its anniversary by giving \$2,000 grants to local non-profit organizations serving LMI families. MBT associates vote for 10 organizations to receive the grant. For the 20th Anniversary Grants in 2022, the grant award was increased to \$3,000. Bank leadership voted to make this increase permanent in 2023. In addition to the grant, each of the 10 non-profits is assigned to one month during the year where the bank internally promotes the organization to associates by sharing current volunteer opportunities and facts about the organization. MBT also creates promotional videos for each of the winners that can be used by the organization in future fundraising efforts benefiting LMI.

Scholarship Fund

The MBT scholarship fund for high school seniors has been in existence for close to 30 years, funding hundreds of thousands of dollars in scholarships through the Scholarship Foundation of Santa Barbara. Primary criteria for scholarship selection are financial need, motivation, and potential. Each year, the Scholarship Foundation selects the recipients to receive scholarships. Today, the Scholarship Foundation is the largest community provider of scholarships in the nation targeted to LMI students.

SERVICE TEST

The Service Test is rated “Outstanding.” MBT’s overall service performance is consistent with conclusions throughout all AAs. Refer to each AA for more detailed information and analysis.

Accessibility of Delivery Systems

Delivery systems are reasonably accessible to essentially all portions of the institution’s AAs. MBT’s performance is generally consistent throughout the AAs. The following table illustrate the bank’s distribution of CTs, branch locations, and ATMs within the AAs by tract income level.

Branch and ATM Distribution by Geography Income Level								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	16	5.4	72,195	5.6	0	0.0	0	0.0
Moderate	74	24.7	329,037	25.5	2	13.3	1	5.3
Middle	107	35.8	494,395	38.3	4	26.7	5	26.3
Upper	93	31.1	386,386	29.9	9	60.0	11	57.9
NA	9	3.0	10,059	0.8	0	0.0	2	10.5
Totals	299	100.0	1,292,072	100.0	15	100.0	19	100.0
<i>Source: 2020 U.S. Census & Bank Data</i> <i>Due to rounding, totals may not equal 100.0%</i>								

MBT currently operates 15 branches and 19 ATMs within its AAs. The bank has no branches in low-income CTs and 2 branches in moderate-income CTs, representing 13.3 percent of the bank's branch network. This is below the 3.0 percent and 26.6 percent of branches located in LMI tracts, respectively, which are operated by all institutions in the bank's AAs. MBT's ATM network includes 14 ATMs at its branches, two at the Santa Barbara Airport, and one each at a school, medical clinic, and zoo. The ATMs at the school and zoo only dispense cash while the others are full-service ATMs.

Additional alternative systems for delivering retail services include online banking and bill pay, mobile banking, 24-hour telephone banking, and remote deposit capture. The bank offers the same alternative delivery systems throughout its AAs; therefore, alternative delivery systems will not be discussed at the individual AA level.

Changes in Branch Locations

To the extent changes have been made, MBT's opening and closing branches has not adversely affected the accessibility of delivery systems, particularly in LMI geographies and/or to LMI individuals. The bank has not closed or relocated any branches during the review period, but it has opened one new branch in Santa Barbara AA. Refer to the Santa Barbara AA section for additional information.

Reasonableness of Business Hours and Services

Services (including, where appropriate, business hours) do not vary in a way that inconveniences certain portions of the AAs, particularly LMI geographies and/or individuals. All of the bank's branches are full-service and open for reasonable hours during the week. The 12 traditional branches are open from 9:00 a.m. to 5:00 p.m. Monday to Friday while the three branches in the retirement home communities serving LMI senior citizens are open from 9:00 a.m. to 1:00 p.m. Tuesday to Thursday. In addition, three of the branches in Santa Barbara offers drive-up services with the same business hours as the branch hours.

Community Development Services

MBT is a leader in providing CD services in its AAs. The following table shows the total hours of services by AA and purpose.

Community Development Services by Assessment Area					
Assessment Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
Santa Barbara	1,042	3,996	72	0	5,110
Ventura	77	703	13	0	793
Statewide Activities	78	163	92	0	333
Regional Activities	0	30	0	0	30
Total	1,197	4,892	177	0	6,266
<i>Source: Bank Data</i>					

MBT management and employees provided 6,266 hours of CD services in the AAs and its broader statewide and regional areas, largely focusing on community services to LMI individuals. Of the total hours, 535 hours of service were provided in 2020; 2,218 hours of service were provided in 2021; 2,534 hours of service were provided in 2022; and 979 hours of service were provided YTD 2023.

This total includes services completed by 115 different employees with 116 different organizations. MBT has 277 full-time employees, which equates to 22.6 qualified CD service hours per employee. The significant majority of CD services benefitted the Santa Barbara AA. Although the total hours are less than the prior evaluation's total of 7,261 CD service hours with 30.8 qualified CD service hours per employee, MBT is still considered a leader in providing CD services. The current evaluation period is approximately four months shorter than the prior evaluation period, resulting in less time for MBT to offer CD qualified services. In addition, COVID-19 significantly impaired the bank's ability to perform CD service hours. CD services were responsive to the CD needs in the AA.

In addition to service hours provided within the AAs, MBT provided 363 CD service hours benefitting statewide California and the surrounding regional area. Those services include being Board or committee members of a multi-family affordable housing lender, small business and farm lender, university foundation, and non-profit supporting LMI individuals and communities.

Refer to the full-scope AA for more information and notable examples.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The institution's record of complying with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and The Equal Credit Opportunity Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping meet community credit needs was identified.

SANTA BARBARA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE SANTA BARBARA ASSESSMENT AREA

The Santa Barbara AA is located on the central coast of California and comprises the entirety of the Santa Maria-Santa Barbara, California MSA #42200. MBT currently operates 13 branches in this AA. This includes one newly opened branch in Santa Maria, California. Changes to the AA during the review period are fully discussed in the Description of Assessment Area section above.

Economic and Demographic Data

Based on the 2020 U.S. Census, the AA consist of 109 CTs of which 7 are low-, 28 are moderate-, 30 are middle-, 38 are upper-, and 6 do not have income designation. The following table illustrates demographic information within the AA.

Demographic Information of the Assessment Area						
Assessment Area: Santa Barbara AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	109	6.4	25.7	27.5	34.9	5.5
Population by Geography	448,229	6.8	28.4	30.4	32.6	1.8
Housing Units by Geography	159,317	5.9	24.6	30.9	38.6	0.1
Owner-Occupied Units by Geography	77,504	1.3	16.7	36.0	46.1	0.0
Occupied Rental Units by Geography	70,805	11.0	34.4	25.7	28.8	0.1
Vacant Units by Geography	11,008	4.6	17.8	28.8	48.3	0.6
Businesses by Geography	45,601	3.2	18.5	27.4	50.3	0.7
Farms by Geography	1,826	2.1	14.6	31.0	52.0	0.3
Family Distribution by Income Level	97,397	22.0	18.1	18.4	41.5	0.0
Household Distribution by Income Level	148,309	23.7	16.6	17.6	42.0	0.0
Median Family Income MSA - 42200 Santa Maria-Santa Barbara, CA MSA		\$89,549	Median Housing Value			\$731,508
			Median Gross Rent			\$1,758
			Families Below Poverty Level			7.1%
Source: 2020 U.S. Census and 2022 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.						

According to the 2022 D&B data, the 45,601 businesses in the AA reported gross annual revenues (GARs) as follows:

- 88.4 percent reported \$1.0 million or less
- 3.9 percent reported more than \$1.0 million
- 7.7 percent did not report revenues

The Santa Barbara AA contains a total of 47,427 businesses, comprised of 45,601 non-farm businesses and 1,826 farm businesses. Services represent the largest industry at 39.2 percent of businesses followed by non-classifiable establishments at 18.5 percent; retail trade at 11.0 percent and finance, insurance, and real estate at 10.7 percent. Approximately 91.7 percent of businesses operate from a single location and 65.0 percent of business have 4 or fewer employees.

The FFIEC publishes annual estimates of updated median family incomes by MSA. The following table shows FFIEC-estimated median family incomes in the Santa Barbara AA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Santa Maria-Santa Barbara, CA MSA Median Family Income (42200)				
2022 (\$100,100)	<\$50,050	\$50,050 to <\$80,080	\$80,080 to <\$120,120	≥\$120,120
Source: FFIEC				

Examiners obtained the following economic information from Moody's Analytics as of March 2023. The Santa Maria-Santa Barbara economy continues to recover. The area's latest broad-based, employment expansion has exceeded both the state and national rates. The healthcare, leisure, and hospitality industries have led job gains while job creation in office-using industries has recently flattened. The area's labor force participation rate and unemployment rate have each returned to pre-pandemic levels. The area continues to experience housing affordability challenges. The area's scarcity of high-wage employment, limited land available for development, restrictive zoning regulations, and elevated demand are contributing factors that have caused the area's house prices to exceed both the state and national average by a substantial margin. Using the ratio of household income to costs of living, the Santa Barbara area is the fifth least affordable metropolitan area in the U.S. The major strengths of the area include an above average per capita income, well-educated workforce, a large research university, a stable student consumer base, and desirable coastal location and weather. Area weaknesses include high employment instability, very high living costs, weak migration trends, and reliance on the defense industry. The top three employers for the area are Vandenberg Air Force Base; Dignity Health Central Coast; and the University of California, Santa Barbara.

Competition

The Santa Barbara AA has a moderate level of competition for financial services. According to the June 30, 2022 FDIC Deposit Market Share Report, the AA contains 20 financial institutions operating 90 branches with a total of \$18.0 billion in deposits. A number of regional and large national financial institutions operate in the AA. The five largest financial institutions include Wells Fargo Bank, National Association (NA); Bank of America, NA; JPMorgan Chase Bank, NA; MUFG Union Bank, NA; and MBT. Collectively, these financial institutions account for 68.9 percent of total deposit market share within the AA. MBT maintains \$2.0 billion in deposits, representing 11.0 percent of the AA deposit market share, and ranks 5th among competing financial institutions.

Community Contact(s)

Examiners reviewed one existing community contact that serves the Central Coast region, including Santa Barbara County. The contact is a non-profit corporation that services the financial needs of small businesses and farmers by providing direct loans and loan guarantees to these businesses. The contact stated there is a lack of affordable housing for the underserved population in the area. The contact noted there is a huge opportunity for banks to participate in state loan guarantee programs to support small businesses that do not qualify for SBA lending. Other opportunities or

needs in the area include referrals of declined loans to the organization, financial education to the unbanked population, and Spanish-speaking tellers to assist the Hispanic population. The contact indicated that many of the regional community banks have been responsive to the credit needs of the area.

Credit and Community Development Needs and Opportunities

Examiners determined that alternative small business lending and affordable housing initiatives represent the primary credit needs for the Santa Barbara AA. CD needs and opportunities include financial education and resources for the unbanked population, including other community service oriented CD needs.

CONCLUSIONS ON PERFORMANCE CRITERIA IN SANTA BARBARA ASSESSMENT AREA

LENDING TEST

Lending levels reflect good responsiveness, the geographic distribution of loans reflects adequate penetration, the distribution of borrowers reflects good penetration, and MBT made a relatively high level of CD loans in the AA.

Lending Activity

MBT's lending levels reflect good responsiveness to the Santa Barbara AA credit needs. During the evaluation period, the bank originated or purchased 3,244 small business loans totaling \$322.0 million within this AA. This total includes 1,588 loans for \$153.7 million in 2020, 1,377 loans for \$117.4 million in 2021 and 279 loans for \$51.0 million in 2022. At the previous evaluation MBT originated 639 small business loans totaling \$101.3. After accounting for the varying evaluation timeframes, MBT's level of small business lending increased in 2020 and 2021 due to a significant amount of loan origination under the SBA PPP lending, which accounted for 2,537 small business loans totaling \$158.2 million. During the review period, the bank originated 440 home mortgage loans totaling \$355.0 million. This total includes 18 loans for \$134.7 million in 2020, 166 loans for \$128.7 million in 2021 and 96 loans for \$91.6 million in 2022. MBT's home mortgage lending significantly increased when compared to the prior evaluation when the bank originated 227 home mortgage loans totaling \$181.1 million. The increase is attributed to low interest rates during the review period. Although the current evaluation included 2-year home mortgage lending activity compared to the prior evaluation's 1-year lending activities, annualized home mortgage loans have still increased by both number and dollar volume since the prior evaluation.

There is a high level of competition for small business loans in the Santa Barbara AA. In 2021, the most recent year data available, 136 large lenders reported 14,473 small business loans. Of these institutions, MBT ranked 3rd by number of loans with a market share of 9.92 percent and a market share of 20.5 percent by dollar volume. Large small business lenders in the AA include American Express National Bank; Chase Bank USA, NA; Bank of America, NA; Wells Fargo Bank, NA; and Citibank, NA. There's no similarly situated institution to compare the bank's lending activity

performance during this evaluation period. Together, these 5 institutions account for 52.1 percent market share.

There is a strong level of competition for home mortgage loans in the AA. In 2021, 547 lenders reported 32,547 home mortgage loans. Of these institutions, MBT ranked 41st, by number of loans with a market share of less than 0.5 percent and a market share of 0.7 percent by dollar volume. Large home mortgage lenders in the AA include United Wholesale Mortgage; Rocket Mortgage; LoanDepot.com; Wells Fargo Bank, NA; and JPMorgan Chase Bank, NA. Together, these 5 institutions account for 23.7 percent market share.

Geographic Distribution

MBT's geographic distribution reflects adequate penetration throughout the Santa Barbara AA. This conclusion is supported by adequate performance in small business lending and home mortgage lending. Examiners noted no conspicuous lending gaps in the geographic distribution of loans.

Small Business Loans

The geographic distribution of small business loans reflects adequate penetration throughout the AA. The following table illustrates the distribution of MBT's small business lending in the Santa Barbara AA by year and tract income level.

Geographic Distribution of Small Business Loans Assessment Area: Santa Barbara AA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2020	5.2	3.7	7	0.4	644	0.4
2021	5.1	3.7	8	0.6	1,044	0.9
2022	3.2	-	1	0.4	50	0.1
Moderate						
2020	29.3	31.1	519	32.7	60,976	39.7
2021	28.9	29.7	427	31.0	43,623	37.2
2022	18.5	-	48	17.2	8,024	15.7
Middle						
2020	25.3	25.1	322	20.3	33,998	22.1
2021	25.0	25.5	270	19.6	20,758	17.7
2022	27.4	-	65	23.3	8,037	15.8
Upper						
2020	39.8	39.6	727	45.8	54,752	35.6
2021	40.5	40.6	665	48.3	50,474	43.0
2022	50.3	-	163	58.4	34,559	67.7
Not Available						
2020	0.5	0.6	13	0.8	3,281	2.1
2021	0.5	0.4	7	0.5	1,511	1.3
2022	0.7	-	2	0.7	350	0.7
Totals						
2020	100.0	100.0	1,588	100.00	153,651	100.0
2021	100.0	100.0	1,377	100.0	117,410	100.0
2022	100.0	-	279	100.0	51,021	100.0
<i>Source: 2020, 2021, and 2022 D&B Data; Bank Data; 2020 & 2021 CRA Aggregate Data, "--"aggregate data not available. Due to rounding, totals may not equal 100.0%</i>						

MBT lending performance in low-income CTs in 2020, 2021, and 2022 were below the demographic data and aggregate data; however, both demographic and aggregate data demonstrate limited opportunity to lend in low-income areas. MBT's lending in moderate-income CTs in 2020 and 2021 exceeded both the demographic data and aggregate data. In 2022, lending in moderate-income CTs shows comparable to the demographic data. Aggregate data in 2022 was not available during this evaluation for comparison.

Examiners considered additional performance context. During the evaluation period, changes to the U.S. census resulted in fewer businesses located in low- and moderate-income geographies in the AA. Examiners also noted that there are limited small business lending opportunities in low-income tracts, as reflected by the percentage of businesses located in these geographies.

Home Mortgage Loans

The geographic distribution of home loans reflects adequate penetration throughout the Santa Barbara AA. The following table illustrates the geographic distribution of home mortgage loans in the Santa Barbara AA by year and tract income level.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Santa Barbara AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2020	3.1	2.9	4	2.2	3,874	2.9
2021	3.1	3.5	4	2.4	6,702	5.2
2022	1.3	--	2	2.1	3,264	3.6
Moderate						
2020	15.6	17.0	29	16.3	17,399	12.9
2021	15.6	17.2	18	10.8	12,016	9.3
2022	16.7	--	10	10.4	5,476	6.0
Middle						
2020	34.1	35.6	30	16.9	14,744	10.9
2021	34.1	36.0	30	18.1	17,500	13.6
2022	36.0	--	27	28.1	28,208	30.8
Upper						
2020	47.2	44.6	115	64.6	98,696	73.3
2021	47.2	45.6	114	68.7	92,501	71.2
2022	46.1	--	57	59.4	54,638	59.7
Not Available						
2020	0.0	0.0	0	0.0	0	0.0
2021	0.0	0.0	0	0.0	0	0.0
2022	0.0	--	0	0.0	0	0.0
Totals						
2020	100.0	100.0	178	100.0	134,713	100.0
2021	100.0	100.0	166	100.0	128,719	100.0
2022	100.0	--	96	100.0	91,586	100.0
Source: 2015 ACS & 2020 U.S. Census; Bank Data, 2020 & 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

MBT's lending performance in low-income geographies is comparable with the percentage of owner-occupied housing units and aggregate data, and performance remained consistent across the review period. Lending in moderate-income geographies in 2020 exceeded the percentage of owner-occupied housing units, and was comparable to aggregate performance. In 2021 and 2022, performance declined below the percentage of owner-occupied units and aggregate data. As demonstrated by the percent of owner-occupied housing units and aggregate levels of lending, there is limited opportunity to lend in low-income geographies. In addition, changes to the U.S. census resulted in a decrease in owner-occupied units in low-income areas. While the change decreased opportunity in low-income areas, the percent of owner-occupied housing units in moderate-income tracts slightly increased.

Borrower Profile

Overall, the bank's lending to businesses of different revenue sizes and borrowers of different income levels is good. This conclusion is primarily supported by good performance for small business loans and good performance for home mortgage loans. The following sections describe the performance by loan type.

Small Business Loans

The distribution of borrowers reflects good penetration among business customers of different revenue sizes in the Santa Barbara AA.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Assessment Area: Santa Barbara AA						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2020	86.7	32.3	163	10.3	18,646	12.1
2021	87.7	43.9	809	58.8	43,382	36.9
2022	88.4	-	126	45.2	17,882	35.0
>\$1,000,000						
2020	4.8	-	136	8.6	33,621	21.9
2021	4.3	-	276	20.0	62,562	53.3
2022	3.9	-	148	53.0	30,929	60.6
Revenue Not Available						
2020	8.5	-	1,289	81.2	101,384	66.0
2021	8.1	-	292	21.2	11,466	9.8
2022	7.7	-	5	1.8	2,210	4.3
Totals						
2020	100.0	100.0	1,588	100.0	153,651	100.0
2021	100.0	100.0	1,377	100.0	117,410	100.0
2022	100.0	-	279	100.0	51,021	100.0
<i>Source: 2020, 2021, and 2022 D&B Data; Bank Data; 2020 & 2021 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Lending performance to small businesses is below the demographic data for all years. Although MBT's lending performance shows below the aggregate data in 2020, it exceeded the aggregate data in 2021 by 14.9 percentage points. While the percent of small businesses reflects the proportion of small businesses in the AA, many small businesses may not have credit needs or be creditworthy. Examiners gave greater consideration on bank performance compared to aggregate data, which reflects actual lending in the area and is a better indicator of the demand for small business credit.

The decreasing performance trend between 2021 and 2022 is the result of the discontinuation of the SBA PPP in May 31, 2021, which was a substantial portion of MBT's small business lending in the AA. The bank originated 1,372 SBA PPP loans totaling \$96.1 million by dollar volume in 2020 and 1,165 SBA PPP loans totaling \$62.0 million by dollar volume in 2021. The SBA did not require, nor did the bank collect revenue information for all PPP borrowers for the most part in 2020 and 2021. As such, GARs were not available for 1,289 loans totaling \$101.4 million by dollar volume in 2020 and 292 loans totaling approximately \$11.5 million in 2021. To neutralize the impact of PPP lending, examiners adjusted the performance ratio by excluding PPP loans from the total lending. When PPP loans were excluded from the analysis for 2020 and 2021, lending penetration improved to 54.5 percent and 74.5 percent, respectively.

Overall, the performance compared favorably to the prior evaluation's adequate performance where the bank made 47.0 percent by number and 31.7 percent by dollar volume in 2018.

Home Mortgage Loans

As shown in the following table, the distribution of borrowers reflects good penetration among borrowers of different income levels in the Santa Barbara AA.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Santa Barbara AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2020	23.4	2.4	7	3.9	3,669	2.7
2021	23.4	3.4	5	3.0	1,997	1.6
2022	22.0	--	2	2.1	1,575	1.7
Moderate						
2020	16.8	9.8	12	6.7	3,752	2.8
2021	16.8	10.9	13	7.8	4,004	3.1
2022	18.1	--	11	11.5	2,272	2.5
Middle						
2020	18.2	19.9	12	6.7	4,979	3.7
2021	18.2	18.7	21	12.7	6,536	5.1
2022	18.4	--	12	12.5	3,485	3.8
Upper						
2020	41.6	50.9	73	41.0	60,942	45.2
2021	41.6	50.1	78	47.0	71,440	55.5
2022	41.5	--	44	45.8	45,444	49.6
Not Available						
2020	0.0	16.9	74	41.6	61,371	45.6
2021	0.0	16.9	49	29.5	44,742	34.8
2022	0.0	--	27	28.1	38,810	42.4
Totals						
2020	100.0	100.0	178	100.0	134,713	100.0
2021	100.0	100.0	166	100.0	128,719	100.0
2022	100.0	--	96	100.0	91,586	100.0
Source: 2015 ACS & 2020 U.S. Census; Bank Data, 2020 & 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

While MBT's lending performance to low-income borrowers is significantly below the percentage of families, performance is comparable to aggregate levels of lending in 2020 and 2021, and remained relatively consistent across the review period. Similarly, lending performance to moderate-income borrowers lagged the percentage of families. While performance was slightly below aggregate, there is an upward trend of lending to moderate-income borrowers across the review period. Examiners also considered additional performance context. Santa Barbara is considered a high-cost of living area. According to the California Association of Realtors, in 2022

the minimum qualifying income for a first-time home buyer in the Santa Barbara market was \$195,300. According to the FFIEC median family income, LMI families earn \$80,080 or less. The significant cost to live in the AA contributes to the challenges the bank faces when lending to LMI borrowers. Moreover, MBT faces competition from large national lenders and mortgage companies, who are able to offer more flexible terms to LMI borrowers.

Innovative or Flexible Lending Practices

MBT uses innovative and/or flexible lending practices in order to serve Santa Barbara AA credit needs. Refer to the institution level for details.

Community Development Loans

MBT has made a relatively high level of CD loans in the Santa Barbara AA. The following table illustrates the CD loans by year and purpose.

Community Development Lending – Santa Barbara AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020	0	0	2	1,750	0	0	0	0	2	1,750
2021	1	300	10	15,730	43	13,267	0	0	54	29,297
2022	1	300	5	4,530	0	0	0	0	6	4,830
YTD 2023	1	300	4	950	0	0	0	0	5	1,250
Total	3	900	21	22,960	43	13,267	0	0	67	37,127
<i>Source: Bank Data</i>										

MBT made 67 CD loans totaling \$37.1 million, which is a decrease from the prior evaluation's 112 CD loans totaling \$68.8 million. The majority by number of CD lending supported economic development activities and all represents loans made under the SBA PPP, which was responsive to identified CD needs in the AA. The majority by dollar volume of CD lending supported community services to LMI individuals and/or families.

The following are notable examples of CD loans originated in the Santa Barbara AA.

- In 2022, MBT provided a \$300,000 operating line of credit to a non-profit organization dedicated to eliminating poverty housing and to the building of simple, low-cost homes for low-income families.
- In 2021, MBT originated a \$9.5 million commercial real estate term loan to a non-profit organization with a mission to eliminate hunger by providing food supplies, education, and other resources to the community. The funds went to acquire and improve a new property to be used as the organization's administration center.

- In 2021, the bank renewed a revolving line of credit used for operating expenses for a non-profit organization with a mission to promote early childhood education and provide development programs for LMI families in Carpinteria Valley.

INVESTMENT TEST

MTB has an excellent level of qualified investments and grants, excellent responsiveness to credit and community needs, and occasionally uses innovative and/or complex investments.

Investment and Grant Activity

MBT has an excellent level of qualified CD investments and grants, often in a leadership position, particularly those that are not provided by private investors in the Santa Barbara AA. During the evaluation period, MBT made a total of 747 investments and donations totaling approximately \$9.4 million. This total includes 5 new debt/equity investments totaling \$6.0 million and 742 grants and donations totaling \$3.4 million. This is higher than the prior evaluation's total investments and donations of \$4.5 million.

All new investments were tax-exempt municipal bonds for school districts where a majority of the students are from LMI families. These investments supported community services to LMI individuals in the AA. In addition to these equity investments, MBT continues to provide an excellent level of CD donations. The dollar volume of donations at this evaluation was higher than the prior PE's donation total of \$2.5 million.

The following table shows the bank's qualified investments made during the evaluation period by year and purpose.

Qualified Investments – Santa Barbara AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
2020	0	0	1	1,225	0	0	0	0	1	1,225
2021	0	0	3	3,783	0	0	0	0	3	3,783
2022	0	0	0	0	0	0	0	0	0	0
YTD 2023	0	0	1	1,029	0	0	0	0	1	1,029
Subtotal	0	0	5	6,037	0	0	0	0	5	6,037
Qualified Grants & Donations	24	107	711	3,264	7	30	0	0	742	3,401
Total	24	107	716	9,301	7	30	0	0	747	9,438
<i>Source: Bank Data</i>										

The following are notable examples of CD grants and donations made within the Santa Barbara AA.

- During the evaluation period, MBT donated a total of \$103,000 to a non-profit organization that provides free, volunteer medical care for the most vulnerable individuals of Santa Barbara County. The volunteers provide medicine in austere environments such as in the field, on the street, in mobile vans, in shelters, and during times of disaster.
- MBT donated a total of \$110,000 during 2020 to 2022 to a non-profit housing initiative whose mission is to expand affordable housing opportunities for low- to middle- income residents and workers of the county.
- During the evaluation period, MBT donated nearly \$90,000 to a non-profit food bank working to eliminate hunger by providing food, education, and other resources to the community.

Responsiveness to Credit and Community Development Needs

MBT exhibits excellent responsiveness to credit and community economic development needs in the Santa Barbara AA. Refer to the institution level for details.

Community Development Initiatives

MBT occasionally uses innovative and/or complex investments to support CD initiatives. Refer to the institution level for details.

SERVICE TEST

Delivery systems are reasonably accessible to essentially all portions of the AA. The record of opening and closing branches has not adversely affected the accessibility of delivery systems, particularly in LMI geographies and/or to LMI individuals, business hours and services do not vary in a way that inconveniences certain portions of this AA, particularly LMI geographies and/or LMI individuals, and MBT is a leader in providing CD services in the Santa Barbara AA.

Accessibility of Delivery Systems

Delivery systems are reasonably accessible to essentially all portions of the Santa Barbara AA. The distribution of branches and ATMs by CT income level is described in the following table.

Branch and ATM Distribution by Geography Income Level								
Assessment Area: Santa Barbara								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	7	6.4	30,549	6.8	0	0.0	0	0.0
Moderate	28	25.7	127,369	28.4	1	8.3	1	5.9
Middle	30	27.5	136,109	30.4	3	25.0	4	23.5
Upper	38	34.9	146,317	32.6	8	66.7	10	58.8
NA	6	5.5	7,885	1.8	0	0.0	2	11.8
Totals	109	100.0	448,229	100.0	12	100.0	17	100.0
<i>Source: 2020 U.S. Census & Bank Data</i> <i>Due to rounding, totals may not equal 100.0%</i>								

MBT currently operates 12 branches and 17 ATMs within the Santa Barbara AA. The bank has no branches in low-income CTs and one branch in a moderate-income CT, representing 8.3 percent of the bank's branch network in the AA. This is below the 4.4 percent and 18.5 percent of branches located in LMI tracts, respectively, which are operated by all institutions in the bank's Santa Barbara AA.

Changes in Branch Locations

MBT's record of opening and closing branches has not adversely affected the accessibility of delivery systems, particularly in LMI geographies and/or to LMI individuals. The bank has not closed or relocated any branches during the review period in Santa Barbara AA, but it has opened one new branch located within a moderate-income CT in this AA.

Reasonableness of Business Hours and Services

Business hours and services do not vary in a way that inconveniences certain portions of this AA, particularly LMI geographies and/or LMI individuals. Business hours and services for the AA are consistent with those discussed at the overall institution level.

Community Development Services

MBT is a leader in providing CD services in the Santa Barbara AA. The following table shows the total hours of services by year and purpose.

Community Development Services – Santa Barbara AA					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2020	2	421	1	0	424
2021	84	1,668	52	0	1,804
2022	28	1,905	19	0	1,952
YTD 2023	928	2	0	0	930
Total	1,042	3,996	72	0	5,110
<i>Source: Bank Data</i>					

MBT management and employees provided 5,110 hours of CD services in the Santa Barbara AA, largely focusing on community services to LMI individuals. This total includes services completed by 96 different employees with 92 different organizations. Although the total reflects a decrease from the 6,002 hours at the prior evaluation, MBT is still considered a leader in providing CD services given its sizable level of CD service hours. Service hours are responsive to identified CD needs in the AA.

The following are notable examples of CD services provided in the Santa Barbara AA.

- Every summer, MBT partners with a local non-profit to provide an enriching summer learning collaborative program to LMI students and their families. MBT employees teach the students about banking, spending, saving, and investing. In addition, the program has expanded to include three financial education workshops for parents.
- A vice president serves as a Board member for an organization that helps the homeless population secure and retain permanent housing through its network of private landlords.

In 2022, after pandemic-related restrictions were lifted, the bank formed a new partnership with a retirement home for low-income seniors to provide elder financial abuse prevention education. A couple of bank employees provides bi-monthly courses for the residents and monthly meetings for the staff to help them better protect the residents.

VENTURA ASSESSMENT AREA – Limited-Scope Review

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE VENTURA ASSESSMENT AREA

The following table summarizes the conclusions for the Ventura AA. Examiners drew conclusions regarding the institution's CRA performance from reviewing available facts and data, including performance figures, economic data, competition, and demographic information. The conclusions from the limited-scope review did not alter the bank's overall CRA performance rating.

Assessment Area	Lending Test	Investment Test	Service Test
Ventura	Consistent	Consistent	Consistent

Facts and data supporting conclusions for the limited-scope AA follow, including a summary of MBT's operations and activities. Economic and demographic data as well as deposit market share information for the limited-scope AA are included in the Appendices of this Performance Evaluation.

Ventura AA

Ventura AA includes all of Ventura County; wholly contained within the Oxnard-Thousand Oaks-Ventura MSA #37100. MBT operates three full-service branches and two ATMs in the Ventura AA. During the evaluation period, MBT did not close or open any branches in this AA.

Controlling for asset size and the length of the evaluation period, the current CD loans, qualified investments and grants, and CD services performance are all consistent with the performance at the prior evaluation in this AA.

Activity	#	\$ (000s)
Small Business Loans	523	53,922
Home Mortgage Loans	57	39,853
Community Development Loans	18	14,029
Investments (New)	5	3,243
Investments (Prior Period)	0	0
Donations	164	3,748
Community Development Services – hours	793	-
<i>Source: Bank Data</i>		

Geographic Distribution

Small Business Loans

Geographic Distribution of Small Business Loans						
Assessment Area: Ventura AA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2020	5.0	5.3	30	7.4	7,559	14.7
2021	4.8	4.8	27	6.4	5,786	16.4
2022	2.9	--	4	4.1	2,085	11.2
Moderate						
2020	19.6	18.7	67	16.5	6,512	12.6
2021	19.6	19	82	19.3	4,686	13.3
2022	16.7	--	16	16.3	1,991	10.6
Middle						
2020	39.5	40.6	194	47.7	25,940	50.3
2021	39.2	39.9	209	49.2	18,189	51.6
2022	44	--	56	57.1	11,792	63.2
Upper						
2020	35.4	34.9	106	26	9,090	17.6
2021	35.8	35.8	101	23.8	6,116	17.3
2022	36	--	21	21.4	2,772	14.9
Not Available						
2020	0.5	0.5	10	2.5	2,425	4.7
2021	0.5	0.4	6	1.4	479	1.4
2022	0.4	--	1	1	25	0.1
Totals						
2020	100	100	407	100	51,526	100
2021	100	100	425	100	35,256	100
2022	100	100	98	100	18,665	100
Source: 2020 & 2021 D&B Data; Bank Data; 2020 & 2021 CRA Aggregate Data, "--" data not available.						
Due to rounding, totals may not equal 100.0%						

Home Mortgage Loans

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Ventura AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2020	1.4	0.9	1	1.9	1,000	2.1
2021	1.4	1.2	2	5.9	822	3.6
2022	1.8	--	1	4.3	96	0.6
Moderate						
2020	19.2	17.1	13	24.1	28,011	58.7
2021	19.2	18.2	12	35.3	12,510	54.0
2022	16.6	--	8	34.8	2,472	14.8
Middle						
2020	40.6	40.6	27	50.0	11,486	24.1
2021	40.6	40.3	8	23.5	3,196	13.8
2022	43.4	--	10	43.5	11,791	70.6
Upper						
2020	38.7	41.4	13	24.1	7,208	15.1
2021	38.7	40.1	11	32.4	5,686	24.6
2022	38.0	--	4	17.4	2,340	14.0
Not Available						
2020	0.1	0.2	0	0.0	0	0.0
2021	0.1	0.2	1	2.9	940	4.1
2022	0.2	--	0	0.0	0	0.0
Totals						
2020	100.0	100.0	54	100.0	47,705	100.0
2021	100.0	100.0	34	100.0	23,154	100.0
2022	100.0	--	23	100.0	16,699	100.0
Source: 2015 ACS & 2020 U.S. Census; Bank Data, 2020 & 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Borrower Profile

Small Business Loans

Distribution of Small Business Loans by Gross Annual Revenue Category						
Assessment Area: Ventura AA						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2020	87.5	37.2	52	12.8	7,508	14.6
2021	88.6	45.2	263	61.9	10,024	28.4
2022	89.4	--	43	43.9	3,788	20.3
>\$1,000,000						
2020	4.7	--	58	14.3	17,273	33.5
2021	4.2	--	81	19.1	21,907	62.1
2022	3.7	--	55	56.1	14,877	79.7
Revenue Not Available						
2020	7.8	--	297	73	26,745	51.9
2021	7.3	--	81	19.1	3,325	9.4
2022	6.9	--	0	0	0	0
Totals						
2020	100	100	407	100	51,526	100
2021	100	100	425	100	35,256	100
2022	100	100	98	100	18,665	100
Source: 2020 & 2021 D&B Data; Bank Data; 2020 & 2021 CRA Aggregate Data; "--" data not available.						
Due to rounding, totals may not equal 100.0%						

Home Mortgage Loans

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Ventura AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2020	22.2	2.5	4	7.4	637	1.3
2021	22.2	3.3	2	5.9	347	1.5
2022	22.0	--	4	17.4	528	3.2
Moderate						
2020	17.1	10.7	3	5.6	242	0.5
2021	17.1	10.9	6	17.6	985	4.3
2022	16.5	--	3	13.0	622	3.7
Middle						
2020	19.9	22.6	11	20.4	2,530	5.3
2021	19.9	21.0	2	5.9	895	3.9
2022	20.8	--	6	26.1	2,225	13.3
Upper						
2020	40.8	47.5	18	33.3	9,507	19.9
2021	40.8	47.6	10	29.4	5,490	23.7
2022	40.7	--	6	26.1	3,229	19.3
Not Available						
2020	0.0	16.7	18	33.3	34,789	72.9
2021	0.0	17.3	14	41.2	15,437	66.7
2022	0.0	--	4	17.4	10,095	60.5
Totals						
2020	100.0	100.0	54	100.0	47,705	100.0
2021	100.0	100.0	34	100.0	23,154	100.0
2022	100.0	--	23	100.0	16,699	100.0
Source: 2015 ACS & 2020 U.S. Census; Bank Data, 2020 & 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

APPENDICES

LARGE 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) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
 - i. The proportion of the bank's lending in the bank's assessment area(s);
 - ii. The dispersion of lending in the bank's assessment areas(s); and
 - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
 - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
 - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
 - iii. Small business and small farm loans by loan amount at origination; and
 - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

Investment Test

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

Service Test

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

SCOPE OF EVALUATION

Montecito Bank & Trust	
Scope of Examination: Full-scope review was performed on the following AA within the noted rated area: State of California: <ul style="list-style-type: none"> • Santa Barbara AA 	
Time Period Reviewed:	09/08/2020 to 07/24/2023
Products Reviewed: Small Business Loans: (01/01/2020 – 12/31/2022) Home Mortgage Loans: (01/01/2020 – 12/31/2022)	

List of Assessment Areas and Type of Evaluation			
Rated Area/ Assessment Area	Type of Evaluation	Branches Visited	Other Information
State of California: Santa Barbara Ventura	Full-Scope Limited-Scope	One None	None None

DESCRIPTION OF LIMITED-SCOPE ASSESSMENT AREA

California

Ventura Assessment Area

The Ventura AA includes all of Ventura County and comprises the entirety of the Oxnard-Thousand Oaks-Ventura, California MSA #37100. MBT currently operates three branches and two ATMs in this AA. Changes to the AA during the review period are fully discussed in the Description of Assessment Area section above.

Economic and Demographic Data

Based on the 2020 U.S. Census data, the Ventura AA contains 9 low-, 46 moderate-, 77 middle-, 55 upper-income, and 3 CTs with no income designation. The following table shows select demographic, housing, and business information within the Ventura AA.

Demographic Information of the Assessment Area						
Assessment Area: Ventura AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	190	4.7	24.2	40.5	28.9	1.6
Population by Geography	843,843	4.9	23.9	42.5	28.4	0.3
Housing Units by Geography	289,425	3.4	21.7	44.1	30.3	0.5
Owner-Occupied Units by Geography	172,037	1.8	16.6	43.4	38.0	0.2
Occupied Rental Units by Geography	99,602	6.0	30.1	46.3	17.0	0.6
Vacant Units by Geography	17,786	3.8	24.8	38.9	29.2	3.2
Businesses by Geography	85,338	2.9	16.7	44.0	36.0	0.4
Farms by Geography	2,350	3.8	21.5	40.9	33.7	0.1
Family Distribution by Income Level	196,312	22.0	16.5	20.8	40.7	0.0
Household Distribution by Income Level	271,639	23.6	15.7	19.4	41.3	0.0
Median Family Income MSA - 37100 Oxnard-Thousand Oaks-Ventura, CA MSA		\$101,160	Median Housing Value			\$616,364
			Median Gross Rent			\$1,886
			Families Below Poverty Level			6.1%
Source: 2020 U.S. Census and 2022 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.						

The AA's 77,881 businesses reported gross annual revenues as follows:

- 88.6 percent had \$1 million or less,
- 4.1 percent had more than \$1 million, and
- 7.3 percent did not report revenue information

Services represent the largest industry at 42.2 percent of businesses followed by non-classifiable establishments at 15.9 percent; retail trade at 11.4 percent; and finance, insurance, and real estate at 9.5 percent.

The FFIEC publishes annual estimates of updated median family incomes by MSA or MD. The following table shows the 2020 and 2021 FFIEC-estimated median family incomes in the Ventura AA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Oxnard-Thousand Oaks-Ventura, CA MSA Median Family Income (37100)				
2022 (\$115,400)	<\$57,700	\$57,700 to <\$92,320	\$92,320 to <\$138,480	≥\$138,480
Source: FFIEC				

Competition

The Ventura AA has a low level of competition for financial services. According to the June 30, 2022 FDIC Deposit Market Share Report, the AA contains 20 financial institutions operating 135 branches with a total of \$27.4 billion in deposits. A number of regional and large national financial institutions operate in the AA. The five largest financial institutions include Wells Fargo Bank, NA; JPMorgan Chase Bank, NA; Bank of America, NA; Citibank, NA; and MUFG Union Bank, NA. Collectively, these financial institutions account for 80.4 percent of total deposit market share within the AA. MBT maintains \$305.8 million in deposits, representing 1.1 percent of the AA deposit market share, and ranks 13th among competing financial institutions.

There is a high level of competition for small business loans in the Ventura AA. In 2021, 166 lenders reported 31,960 small business loans. Of these institutions, MBT ranked 13th by number of loans with a market share of 1.3 percent by count and 3.2 percent by dollar volume. The top 5 small business lenders accounted for 62.1 percent of the small business market share by number of loans with all being nationwide lenders.

There is also a high level of competition for home mortgage loans in the Ventura AA. In 2021, 625 lenders reported 56,665 home mortgage loans. MBT ranked 215th by number of loans with a market share of less than 0.1 percent by both number and dollar. The top 5 home mortgage lenders accounted for 27.2 percent by number of the home mortgage market share with all being large mortgage companies.

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

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.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

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 Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

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.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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.