

PUBLIC DISCLOSURE

January 11, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mission Community Bank
RSSD #2640530**

**3380 Higuera Street
San Luis Obispo, California 93401**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

Institution's CRA Rating

Mission Community Bank is rated "OUTSTANDING"

The major factors supporting the institution's rating include:

- A reasonable loan to deposit ratio;
- A substantial majority of loans made within the assessment area;
- An excellent geographic distribution of small business loans, with particular strength in penetrating moderate-income census tracts in the San Luis Obispo assessment area;
- A reasonable level of lending to businesses of difference sizes that is enhanced by the bank's Small Business Administration (SBA) lending programs;
- Community development lending that targets affordable housing and small business credit needs;
- Investments that provide funds to a broad range of organizations that promote community development; and
- Delivery systems that enhance the bank's ability to serve assessment area credit needs.

INSTITUTION

Description of Institution

Mission Community Bank (MCB), a subsidiary of Mission Community Bancorp, is headquartered in San Luis Obispo, California and reported total assets of \$219.4 million as of June 30, 2009. Formerly a national bank, MCB became a state member bank on December 29, 2003. The bank operates four branches in Arroyo Grande, Paso Robles, San Luis Obispo, and Santa Maria (which opened December 2, 2008). With the addition of the Santa Maria branch, the bank expanded its primary area to include not only San Luis Obispo County, but also portions of Santa Barbara County. In addition to its branch locations, the bank operates a loan production office in the city of San Luis Obispo and four off-site ATMs throughout the San Luis Obispo area.

MCB is a community bank with a focus on providing banking products to small- and medium-sized businesses located in the California Central Coast Region. Commercial products include term loans, lines of credit, commercial real estate and construction loans. The bank is also one of the leading SBA lenders in its market. While MCB does offer consumer loans, these credits are limited and typically offered to the bank's commercial customers. Products consist of credit cards, auto and unsecured loans, and home equity lines of credit. The bank also extends mortgage loans reportable under the Home Mortgage Disclosure Act (HMDA). However, the level of HMDA reportable activity is nominal centered primarily in home improvement loans.

MCB also operates a subsidiary, Mission Community Development Corporation (MCDC). During the review period, MCDC serviced loans for the Economic Vitality Corporation of San Luis Obispo and the San Simeon Earthquake Relief Fund.

Below is the bank's June 30, 2009, loan portfolio as stated in the Consolidated Reports of Condition and Income, which reflects the bank's commercial banking focus.

EXHIBIT 1		
LOANS AND LEASES AS OF JUNE 30, 2009		
Loan Type	\$ ('000s)	%
Commercial/Industrial & Non-Farm Non-Residential Real Estate	103,628	68.3
Construction & Land Development	15,396	10.2
Secured by 1-4 Family Residential Real Estate	18,156	12.0
All Other	9,495	6.3
Consumer Loans & Credit Cards	3,405	2.2
Leases	1,580	1.0
Total (Gross)	151,660	100.0

MCB currently has two assessment areas, an increase from the single San Luis Obispo assessment area at its previous Community Reinvestment Act (CRA) examination conducted as of December 6, 2004. The two assessment areas described below are located in the Central California Coast Region:

- **San Luis Obispo Assessment Area** is comprised of San Luis Obispo County in its entirety, which is also known as the San Luis Obispo-Paso Robles Metropolitan Statistical Area (MSA).
- **Northern Santa Barbara Assessment Area**, established with the opening of the Santa Maria branch in December 2008, is the portion of Santa Barbara County bordered on the north by San Luis Obispo County, west and southwest by the Pacific Ocean, and on the east and southeast by Los Padres National Forest. The area consists of 39 census tracts and is part of the Santa Barbara-Santa Maria-Goleta MSA.

The bank received an outstanding rating at its previous CRA examination in 2004. There are no legal or financial impediments that would prevent the bank from meeting the credit needs of its assessment area consistent with its size, financial resources, and local economic conditions.

Scope of Examination

The CRA performance was evaluated using the Interagency Small Bank CRA Examination Procedures. The evaluation was based on the following performance criteria:

- Loan volume in comparison to deposits (Loan-to-Deposit Ratio);
- Lending inside and outside the assessment area (Lending in Assessment Areas);
- Dispersion of lending throughout the assessment area (Lending Distribution by Geography); and
- Distribution of lending to businesses with different revenue sizes (Lending Distribution by Business Revenue).

Responsiveness to consumer complaints was not evaluated since the bank did not receive any complaints related to its CRA performance during the review period. At the bank's option, community development investments and services were also considered in an effort to enhance an otherwise satisfactory lending record.

The evaluation was based on small business loan originations from July 1, 2007 to June 30, 2009. During this period, the bank originated 336 small business loans. All 336 loans were used to evaluate the *Lending in Assessment Areas*. A sample of 70 small business loans in the San Luis Obispo assessment area and 32 small business loans in the Northern Santa Barbara assessment area were used to evaluate the *Lending Distribution by Geography* and the *Lending Distribution by Business Revenue* criteria.

The San Luis Obispo assessment area was reviewed using full-scope examination procedures; while a limited scope review of the Northern Santa Barbara assessment area was conducted.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is reasonable. The average LTD ratio since the previous evaluation was 98.1 percent, as of June 30, 2009, and compares reasonably to state and national peer averages of 88.4 and 83.5 percent, respectively.

Lending in Assessment Areas

A substantial majority of loans were extended inside the bank's assessment areas. As seen in Exhibit 2 below, the bank extended over 90.0 percent of small business loans by number and dollar volume within the assessment areas, indicating that lending activities are focused on the local assessment area.

EXHIBIT 2								
LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREAS								
JULY 1, 2007 TO JUNE 30, 2009								
Loan Type	Inside				Outside			
	#	%	\$ (‘000s)	%	#	%	\$ (‘000s)	%
Small Business	322	95.8	50,726	93.9	14	4.2	3,290	6.1

Geographic and Borrower Distribution

The geographic distribution of loans reflects excellent dispersion throughout the assessment areas. The distribution of small business lending in moderate-income tracts in San Luis Obispo was particularly strong, while distributions in the Northern Santa Barbara area were reasonable.

Lending distributions by business revenue are reasonable. The level of small business lending to small businesses, while substantially lower than the percentage of small businesses, compared favorably to aggregate lending levels. Particular strength was noted in the level of small business lending in the Northern Santa Barbara assessment area.

The bank also enhances its lending performance through its SBA lending and multiple community development loans. These loans and programs are further described below:

- *SBA Lending* - MCB has a Preferred Lender status allowing it to make SBA guaranteed loans under several programs (SBA 504, 7(a), Express, and preferred lender programs). According to origination data obtained through the SBA Fresno District Office, MCB

was the second largest SBA 7(a) lender in the Fresno District during the 2009 FYE. Given the downturn in the economy and tightening of lending standards, the bank's continued provision of SBA loans meets a critical need for lending within its market.

- *Housing Trust Fund (HTF)*– MCB leadership was instrumental in the creation of the San Luis Obispo County HTF. The bank was one of the two original institutions to provide a \$1.0 million Equity Equivalent Investment that facilitated the initial capitalization of the fund.¹ In addition to financial support, MCB management has also provided leadership in the HTF. A member of bank management chaired the Trust Fund's initial board of directors and has maintained a position on the board since inception. Since its creation, the HTF has originated eight loans totaling \$4.25 million; creating or preserving 180 units of affordable rental and ownership housing.² Given the high cost of housing in the area, the bank's participation in the HTF meets a critical need for affordable housing in the area.

Community Development Investments and Services

MCB made a number of highly impactful community development investments. Since 2005, the bank has provided approximately \$250,000 in grants and donations to local community based organizations that provide a variety of services, including day support programs for developmentally disabled adults, provision of medical services to uninsured/under-insured women, and employment training to low- and moderate-income individuals. In addition to the provision of grants, a number of bank employees play active roles in these organizations.

The availability of retail services also enhances the bank's performance. Three of the bank's four branches are located in moderate income geographies. The penetration into these geographies is particularly noteworthy, since there are limited low- and moderate-income geographies in either of the bank's assessment areas. For example, in San Luis Obispo County, there are no low-income tracts and only 18.2 percent of the tracts are moderate-income geographies; however, two of the three branches in the San Luis Obispo assessment area are in moderate-income areas, far exceeding the concentration of these tracts.³

Response to Complaints

There were no complaints related to CRA received during the review period. Consequently, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

¹ San Luis Obispo County Housing Trust Fund, *Financial Supporters*, available from <http://www.sloctf.org/> (accessed on February 1, 2010).

² San Luis Obispo County Housing Trust Fund, *Housing for All, Fall 2009, Volume 7, Issue 3*, available from <http://www.sloctf.org/> (accessed on February 1, 2010).

³ See Exhibit 3.

Fair Lending or Other Illegal Practices Review

Limited violations of the substantive provisions of Regulation B (Equal Credit Opportunity Act) were identified during the fair lending review that was performed concurrently with this examination. The violations were isolated in nature and did not adversely affect the availability of credit within the local community or elsewhere. Generally, fair lending policies, procedures, and training programs were found to be adequate and designed to ensure compliance with fair lending and other credit practices, rules, laws, and regulations.

FULL-SCOPE ASSESSMENT AREA CONCLUSIONS

For each assessment area where a full-scope review was performed using the examination procedures.

San Luis Obispo

DESCRIPTION OF OPERATIONS IN SAN LUIS OBISPO

The San Luis Obispo assessment area consists of San Luis Obispo County in its entirety, which is also known as the San Luis Obispo-Paso Robles MSA. San Luis Obispo County is bordered by Monterey County to the north, Kern County to the east, Santa Barbara County to the south and the Pacific Ocean lies along its western border. According to data available through the State of California, the county had approximately 270,000 residents in 2008.⁴

MCB has a somewhat limited presence in this competitive assessment area. As of June 30, 2009, the bank held \$142.8 million in deposits, representing 2.9 percent of the market share and ranking 12th out of 16 institutions insured by the Federal Deposit Insurance Corporation that are operating 81 offices in this assessment area.⁵ In addition, according to 2008 CRA aggregate data on small business loans, there were 52 lenders that extended 13,829 CRA-reportable business loans in the market and this represents only a portion of the overall market. Given the number of institutions that operate in this area, a number being large institutions, competition for loan and deposit products is significant.

The exhibit on the following page presents key demographic and business information, based on the 2000 U.S. Census and 2008 Dun & Bradstreet data, used to help develop a performance context for the assessment area.

⁴ State of California Employment Development Department, *San Luis Obispo County Profile*; available from www.labormarketinfo.edd.ca.gov, (accessed on January 8, 2010).

⁵ Federal Deposit Insurance Corporation, Institution Directory, Summary of Deposits, June 30, 2009, (accessed on January 8, 2010); available at: <http://www3.fdic.gov/sod>.

EXHIBIT 3								
ASSESSMENT AREA DEMOGRAPHICS ⁶								
SAN LUIS OBISPO COUNTY								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	10,972	18.6
Moderate-income	8	18.2	8,120	13.8	1,043	12.8	11,149	18.9
Middle-income	30	68.2	43,255	73.4	2,686	6.2	13,360	22.7
Upper-income	5	11.4	7,579	12.9	262	3.5	23,473	39.8
Tract not reported	1	2.3	0	0.0	0	0.0	0	0.0
Total AA	44	100.0	58,954	100.0	3,991	6.8	58,954	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%-tract	%-units	#	%	#	%
Moderate-income	15,270	5,852	10.3	38.3	8,563	56.1	855	5.6
Middle-income	76,418	42,987	75.4	56.3	25,324	33.1	8,107	10.6
Upper-income	10,579	8,153	14.3	77.1	1,852	17.5	574	5.4
Tract not reported	8	0	0.0	0.0	8	100.0	0	0.0
Total AA	102,275	56,992	100.0	55.7	35,747	35.0	9,536	9.3
Income Categories	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Moderate-income	2,989	20.5	2,697	20.2	209	21.9	83	26.1
Middle-income	9,812	67.2	9,019	67.6	596	62.4	197	61.9
Upper-income	1,807	12.4	1,619	12.1	150	15.7	38	11.9
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	14,608	100.0	13,335	100.0	955	100.0	318	100.0
Percentage of Total Businesses		91.3		6.5		2.2		
2004 MSA Median Family Income			\$52,528	June 2009 Median Housing Value ⁷			\$390,000	
2009 HUD Adjusted Median Family Income			\$70,800	June 2009 Unemployment Rate ⁸			8.7%	

San Luis Obispo County, located along the Central Coast of California, is comprised of 17 coastal communities with locations in or near beaches, coastal hills, and mountain ranges.⁹ The natural scenery, outdoor recreation, wineries, and public attractions, such as Hearst Castle have made tourism the dominant industry in the area. According to the Economic Vitality Corporation, an economic development services and business resource provider in San Luis Obispo County, tourism spending reached \$1.1 billion in 2007, with spending dispersed

⁶ 2000 U.S. Census and 2008 Dun & Bradstreet Data.

⁷ Trends in California Real Estate, Volume 30, Number 7, July 2009, California Association of Realtors.

⁸ Bureau of Labor Statistics (Haver Analytics), available from <http://www2.fdic.gov/recon>.

⁹ Economic Vitality Corporation, Community Profiles, available from <http://www.sloevc.org/community/> (accessed on January 28, 2010).

throughout the county.¹⁰ According to the study, travel industry expenditures affect a variety of retail and service businesses, with the largest impact to eating and drinking establishments (\$302.0 million in 2007), accommodations (\$257.0 million), and retail shopping (\$233.0 million).¹¹

The wine industry is also a leading industry within the area that has helped to drive tourist activity. With over 200 wineries operating in San Luis Obispo County, wine, vineyards and related industries and services generate \$1.8 billion in economic value to the area, including more than \$86.0 million in state and local taxes.¹² The wine industry has also had a significant impact on the area's manufacturing. Roughly 18.0 percent of manufacturing jobs in San Luis Obispo are concentrated in the beverage manufacturing industry.¹³ Despite the weakened economy, stable demand for wine has boosted related sectors such as manufacturing and wholesale trade, both of which are outperforming their state and national counterparts.¹⁴

As the tourism and wine industries impact wide segments of the San Luis Obispo County economy, small businesses, particularly retail and service businesses, play a significant role in the economy. According to the Dun & Bradstreet information shown in Exhibit 3 above, approximately 91.0 percent of all assessment area businesses have gross annual revenues of \$1.0 million or less. It is generally accepted that small dollar loans are a need for the average business. Given the preponderance of businesses with annual revenues of less than \$1.0 million, these small dollar loans are likely needed in this area as well.

During the review period of July 1, 2007 to June 30, 2009, the economy in the assessment area transitioned from an above average expansion to a full recession. The downturn in the economy was driven largely by the housing recession. Consistent with the overall downturn in the California housing market, median home prices during the review period declined from \$545,000 in June 2007 to \$390,000 in June 2009.¹⁵ The effects of the housing recession had a significant impact on consumer income in the area. At the peak of the housing boom, equity extraction represented 28.0 percent of personal income for local residents, far exceeding the national average of 9.0 percent.¹⁶ While lower prices have made homes more affordable, San Luis Obispo County has ranked consistently, over the past two years, as the least affordable small metropolitan area in the nation with only 32.1 percent of homes sold being affordable to a family earning the median family income.¹⁷ San Luis Obispo also faced higher exposure from the

¹⁰ Economic Vitality Corporation, Economic Impact Studies, available from <http://www.sloevc.org/studies/> (accessed on January 28, 2010).

¹¹ Economic Vitality Corporation, San Luis Obispo County Tourism Analysis Report 2008, available from <http://www.sloevc.org/studies/> (accessed on January 28, 2010).

¹² Economic Vitality Corporation, SLO County Wine Industry Study, available from <http://www.sloevc.org/studies/> (accessed on January 28, 2010).

¹³ Moody's Economy.com Precis METRO, San Luis Obispo, December 2007.

¹⁴ Moody's Economy.com Precis METRO, San Luis Obispo, April 2009.

¹⁵ Trends in California Real Estate, Volume 29, Number 7, July 2008 and Volume 30, Number 7, July 2009, California Association of Realtors.

¹⁶ Moody's Economy.com Precis METRO, San Luis Obispo, December 2007.

¹⁷ California Building Industry Association, "California Housing Affordability Continues Slide in Fourth Quarter, CBIA Announces", available from <http://www.cbia.org> (accessed on February 24, 2010).

jumbo mortgage market that was especially impacted by tightening in underwriting standards and the collapse of mortgage securitizations.¹⁸

While San Luis Obispo's economy had grown at an above average pace in 2007, the market began to see the strains in 2008 from record gas prices, falling home values, weakening labor markets and restricted availability of credit, which impacted consumers' willingness and ability to spend.¹⁹ The overall weakening of San Luis Obispo County's economy was in line with statewide and national trends. The unemployment rate in San Luis Obispo rose from 4.3 percent in 2007 to 9.5 percent at the end of 2009.²⁰ The weakening labor market was centered in the construction industry, which suffered the greatest from the housing recession, losing almost 30.0 percent of their positions since 2006.²¹ Additionally, retail spending declined sharply, causing taxable sales to decline more than \$262.0 million from 2007 when taxable sales reached \$1.14 billion.²² The cutbacks in consumer spending have resulted in layoffs to the tune of 8.3 percent of the retail workforce.²³ While the labor market experienced broad weaknesses, unemployment levels remained significantly below the state average of 12.1 percent.²⁴

The declining economic conditions during the review period resulted in financial institutions nationwide generally tightening lending standards and terms on all major loan products. The move toward more stringent lending policies has been a trend throughout 2008 and 2009. The July 2009 Senior Loan Officers Opinion Survey on Bank Lending Practices conducted by the Board of Governors of the Federal Reserve System, indicated that domestic banks continued to tighten standards; however, the net percentage of respondents tightening credit continued to fall from their late-2008 highs.²⁵ Many of the respondents cited less favorable or more uncertain outlook, and large majorities cited a reduced tolerance for risk.²⁶ Also, survey results highlighted weakening loan demand from both businesses and households during the review period.²⁷ Although there has been some decline in demand, community representatives indicated that there is a continuing need for loans to tourism-based businesses, particularly accommodation based businesses such as hotels. The representative also highlighted lower levels of lending by community banks due to weakened capital positions, highlighting a need for non-profit lending and small business development centers, which have experienced cutbacks because of the recession.

¹⁸ Moody's Economy.com Prescis METRO, San Luis Obispo, December 2007.

¹⁹ Moody's Economy.com Prescis METRO, San Luis Obispo, April 2008.

²⁰ Moody's Economy.com Prescis METRO, San Luis Obispo, December 2009.

²¹ Mike Hodgson, "Economic Recovery Forecast for County," *The Adobe Press*, November 14, 2009, available from <http://www.theadobepress.com/articles/2009/11/13/news/news02.txt> (accessed on February 10, 2010).

²² Ibid.

²³ Ibid.

²⁴ Bureau of Labor Statistics (Haver Analytics), available from <http://www2.fdic.gov/recon>.

²⁵ Board of Governors of the Federal Reserve System, "The July 2009 Senior Loan Officer Lending Survey on Bank Lending Practices" (accessed on February 24, 2010) available at <http://www.federalreserve.gov/boarddocs/snloansurvey/200908/>.

²⁶ Ibid.

²⁷ Ibid.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN SAN LUIS OBISPO

The bank's lending performance in the San Luis Obispo Area is strong. The strength in the performance is centered in the penetration of lending in moderate-income areas. Additionally, the level of lending to small businesses is better than aggregate performance. As mentioned earlier, the bank's SBA lending programs contributed to the record of lending to small businesses. The bank's policy of lending regardless of loan size further enhances its effectiveness in meeting the need for small dollar loans. The bank also funded a number of community development loans during the review period that further enhances its performance in the area, including the following:

- MCB extended a line of credit for \$500,000 to a multiservice agency that provides foster care services, including transitional housing for kids aging out of the child welfare system, delinquency prevention programming and family preservation services. The short term financing was particularly impactful as the organization was facing cash flow shortages due to delays in government funding. The organization has provided services to approximately 125 foster kids since its inception. This credit meets specific needs highlighted by community representatives for non-profit financing.
- The bank also extended two credits totaling \$350,000 to a local non-profit that provides entrepreneurship and career development training, as well as microloans to start-up businesses. The organization provides programs in the areas of employment, economic literacy, and personal finance. In 2008, the organization provided services to approximately 1,300 clients and provided nine loans totaling \$210,000 through its microloan pool. In addition to provision of funds to a non-profit agency, the loan meets the articulated need for business development center financing.

Lending Distribution by Geography

The geographic distribution of small business loans in the assessment area is excellent, with particularly strong performance in moderate-income census tracts. As shown in Exhibit 4 below, small business lending in moderate-income tracts significantly exceeds both the number of business entities and the level of aggregate lending. Moreover, lending was disbursed throughout the assessment area with no conspicuous gaps in lending patterns.

EXHIBIT 4			
GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS			
Census Tract Income Category	Bank Lending (%)	Business Concentration (%)	Aggregate Lending (%)
Moderate	27.1	20.5	16.5
Middle	62.9	67.2	67.6
Upper	10.0	12.4	15.9

Lending Distribution by Business Revenue

The level of lending to small businesses is reasonable. As shown in Exhibit 5 below, the percentage of loans made to small businesses, while lower than the percentage of small businesses in the area, comprise a substantial portion of the bank’s lending and also exceed the level of aggregate lending to such businesses. In addition, 60.0 percent of the bank’s small business loans were in dollar amounts less than or equal to \$100 thousand. These small dollar loans were particularly responsive to credit needs in the community.

EXHIBIT 5						
BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS						
Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size by Loan Amount			Aggregate Lending	
Bank Lending (%)	All Businesses (%)	<=\$100K (%)	> \$100K and <=\$250K (%)	> \$250K and <=\$1M (%)	All Loans	Revenue <= \$1 Million (%)
44.3	91.3	60.0	25.7	14.3	13,829	29.7

LIMITED-SCOPE ASSESSMENT AREA CONCLUSIONS

For each assessment area where a limited-scope review was performed using the examination procedures.

The results of the limited scope review indicate that MCB's performance in the Northern Santa Barbara assessment area is generally consistent in all categories of the lending test with the performance in the assessment area receiving a full scope review. Due to the bank's lower level of lending activities and deposit generation, this area received less weight than the full-scope assessment review. Consequently, performance in this area did not materially affect the bank's overall rating.

ASSESSMENT AREA	LENDING TEST
Northern Santa Barbara	Consistent

The bank's CRA performance in the Northern Santa Barbara assessment area was consistent with the performance in the full-scope assessment area. The bank's distribution of small business loans to borrowers of different revenues was particularly strong. While lending levels to small businesses were below the concentration of such businesses in the assessment area, the bank's level of lending to small business was more than double the aggregate lending levels.

The bank's geographic distribution of small business lending was reasonable. The bank's level of lending in moderate-income census tracts was reasonable and in line with business concentrations and aggregate lending. While no loans were made in low-income geographies, the lack of penetration in these areas is reasonable given the bank's recent entry into the market, the limited number of loan originations, and the small number of low-income geographies which are limited to two census tracts or 5.1 percent of tracts in the assessment area.

APPENDIX A

GLOSSARY OF TERMS

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.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on:
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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.

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, which 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).

Full-scope review: Performance under the lending and community development tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, 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 applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the lending and community development tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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

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

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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 percent 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 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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 qualified investment is defined as any 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.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): 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, or are classified as loans to finance agricultural production and other loans to farmers.

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

APPENDIX B

LIMITED-SCOPE ASSESSMENT AREAS MARKET PROFILE

Northern Santa Barbara Assessment Area

The Northern Santa Barbara assessment area includes the western portion of Santa Barbara County bordered on the north by San Luis Obispo County, west and southwest by the Pacific Ocean, and on the east and southeast by Los Padres National Forest. Located on the Central Coast of California, the assessment area is home to Vandenberg Air Force Base and the Santa Barbara County wine country.

In this assessment area, the bank operates one branch located in the city of Santa Maria, which it opened in December 2008. As of June 30, 2009, the bank's one deposit taking office held \$19.3 million in deposits, representing 0.2 percent of the market share and ranking 23rd out of 24 financial institutions insured by the FDIC operating 107 offices in Santa Barbara County.²⁸ The bank also faced competition for small business loans given that there were 37 lenders that originated 4,653 CRA reportable small business loans; these lenders represent only a portion of the overall market.

The following exhibits present key demographic and business information as well as the bank's lending distributions for the assessment area.

²⁸ Federal Deposit Insurance Corporation (FDIC), Institution Directory, Summary of Deposits, June 30, 2009, available from <http://www3.fdic.gov/sod>, (accessed March 24, 2010).

EXHIBIT 6								
ASSESSMENT AREA DEMOGRAPHICS ²⁹								
NORTHERN SANTA BARBARA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	5.1	2,824	6.8	844	29.9	10,545	25.5
Moderate-income	15	38.5	16,184	39.2	2,683	16.6	9,101	22.0
Middle-income	19	48.7	19,074	46.2	1,013	5.3	9,115	22.1
Upper-income	3	7.7	3,193	7.7	108	3.4	12,514	30.3
Total AA	39	100.0	41,275	100.0	4,648	11.3	41,275	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%-tract	%-units	#	%	#	%
Low-income	3,818	730	2.2	19.1	2,920	76.5	168	4.4
Moderate-income	22,730	9,234	28.1	40.6	12,408	54.6	1,088	4.8
Middle-income	25,540	19,582	59.5	76.7	5,275	20.7	683	2.7
Upper-income	4,217	3,358	10.2	79.6	733	17.4	126	3.0
Total AA	56,305	32,904	100.0	58.4	21,336	37.9	2,065	3.7
Income Categories	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	400	6.9	366	6.9	23	5.7	11	8.5
Moderate-income	2,337	40.2	2,138	40.5	144	35.6	55	42.3
Middle-income	2,734	47.0	2,459	46.6	217	53.6	58	44.6
Upper-income	343	5.9	316	6.0	21	5.2	6	4.6
Total AA	5,814	100.0	5,279	100.0	405	100.0	130	100.0
Percentage of Total Businesses		90.8		7.0		2.2		
2004 MSA Median Family Income			\$54,109	June 2009 Median Housing Value ³⁰			\$316,500	
2009 HUD Adjusted Median Family Income			\$70,400	June 2009 Unemployment Rate ³¹			7.8%	

²⁹ 2000 U.S. Census and 2008 Dun & Bradstreet Data.

³⁰ Trends in California Real Estate, Volume 30, Number 7, July 2009, California Association of Realtors.

³¹ Bureau of Labor Statistics (Haver Analytics), available from <http://www2.fdic.gov/recon>.

EXHIBIT 7			
GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS			
Census Tract Income Category	Bank Lending (%)	Business Concentration (%)	Aggregate Lending (%)
Low	0.0	6.9	4.9
Moderate	37.5	40.2	31.2
Middle	46.9	47.0	55.8
Upper	15.6	5.9	8.1

EXHIBIT 8						
BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS						
Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size by Loan Amount			Aggregate Lending	
Bank Lending (%)	All Businesses (%)	<=\$100K (%)	> \$100K and <=\$250K (%)	> \$250K and <=\$1M (%)	All Loans	Revenue <= \$1 Million (%)
71.9	90.8	25.0	68.8	6.2	4,653	29.8