PUBLIC DISCLOSURE

June 1, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Mechanics Bank
Certificate Number: 29011

2 South Main Street
Mansfield, Ohio, 44902

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

300 South Riverside Plaza, Suite 1700
Chicago, Illinois 60606

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: This institution is rated **Satisfactory.**

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The current rating is unchanged from the previous FDIC evaluation, conducted as of July 23, 2018 using the Interagency Intermediate Small Institution Community Reinvestment Act (CRA) Examination Procedures. Mechanics Bank's (Mechanics) satisfactory CRA performance under the Lending Test and Community Development Test supports the overall rating. The following points summarize the institution's performance under the Lending and Community Development Tests.

The Lending Test is rated Satisfactory.

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, economic conditions, and the credit needs of the AA.
- The institution made a majority, by number and dollar volume, of its home mortgage and small business loans within the AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among borrowers of different income levels and businesses of different sizes.
- The geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the AA.
- There were no CRA-related complaints during the evaluation period; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- The institution's community development performance demonstrates adequate responsiveness to community development needs in its AA through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's AA.

DESCRIPTION OF INSTITUTION

Mechanics is a $726.2 million community bank headquartered in Mansfield, Ohio (Richland County). Mechanics operates eight additional full service branches throughout Richland County. It is a wholly-owned subsidiary of Mechanics Financial Corporation, also located in Mansfield, Ohio. Mechanics does not have any affiliates or subsidiaries relevant to the CRA evaluation. Additionally, no merger, acquisition, or office closure activities occurred since the previous evaluation.

The following table provides information on the institution's main office and branch locations.

Office Locations					
Address	**City**	**County**	**Census Tract Income Level**	**Drive Thru**	**ATM**
2 South Main Street	Mansfield	Richland	Low-Income	Yes	Yes
980 Ashland Road	Mansfield	Richland	Middle-Income	Yes	Yes
256 Main Street	Mansfield	Richland	Upper-Income	Yes	Yes
140 Mansfield Avenue	Shelby	Richland	Middle-Income	No	Yes
674 Free Road	Shiloh	Richland	Middle-Income	No	Yes
971 Lexington Avenue	Mansfield	Richland	Middle-Income	Yes	Yes
2103 Park Avenue West	Mansfield	Richland	Upper-Income	Yes	Yes
490 North Trimble Road	Mansfield	Richland	Low-Income	Yes	Yes
65 Main Street	Bellville	Richland	Upper-Income	Yes	Yes
Source: Bank records, 2015 ACS Data					

Mechanics offers loan products including home mortgage, commercial, consumer, and agricultural loans. The bank's primary lending focus is residential real estate lending. The institution also offers multiple deposit products including checking and savings accounts, certificates of deposit, and Individual Retirement Accounts. Mechanics offers a unique "Be the Change" checking account for high school students, with features such as automated teller machine (ATM) fee forgiveness and a free, customized debit card. Mechanics also offers trust services. Additionally, Mechanics offers electronic banking via the institution's website and a mobile banking application. The institution maintains 24-hour deposit-taking ATMs at each location and a single additional off-site, non-deposit taking ATM at Gorman Rupp Co. in Mansfield.

Mechanics' branch hours differ slightly. A majority of branches offer lobby hours Monday through Friday 8:30 a.m. to 6:00 p.m. and Saturday 8:30 a.m. to 1:00 p.m. The majority of drive-thru hours are Monday through Friday 7:30 a.m. to 6:00 p.m. and Saturday 8:30 a.m. to 1:00 p.m.

As of the March 31, 2021 Call Report, the institution reported total assets of $726.2 million, total loans of $528.4 million, total securities of $90.5 million, and total deposits of $666.7 million. The following table provides the loan portfolio composition as of March 31, 2021.

Loan Portfolio Distribution as of 03/31/2021		
Loan Category	**$(000s)**	**%**
Construction, Land Development, and Other Land Loans	5,716	1.1
Secured by Farmland	5,698	1.1
Secured by 1-4 Family Residential Properties	452,892	85.7
Secured by Multifamily (5 or more) Residential Properties	4,276	0.8
Secured by Nonfarm Nonresidential Properties	20,263	3.8
Total Real Estate Loans	**488,845**	**92.5**
Commercial and Industrial Loans	25,406	4.8
Agricultural Production and Other Loans to Farmers	6,506	1.2
Consumer Loans	6,600	1.3
Obligations of State and Political Subdivisions in the U.S.	35	0.0
Other Loans	973	0.2
Total Loans	**528,365**	**100.0**
Source: Reports of Condition and Income		

There are no financial, legal, or other impediments affecting the institution's ability to meet the credit needs of its AA.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires institutions to define one or more AAs within which examiners will evaluate its CRA performance. Mechanics' AA includes all of Richland County, which makes up the entire Mansfield, OH Metropolitan Statistical Area (MSA). Mechanics' main office and branches are all located within Richland County. Mechanics' AA remains unchanged since the previous evaluation.

The AA conforms to the CRA regulatory requirements, contains whole geographies where the institution's offices are located, and it does not arbitrarily exclude any low- or moderate-income census tracts (CTs).

Economic and Demographic Data

Mechanics' AA consists of the entirety of Richland County (Mansfield, Ohio MSA). Richland County consists of 30 CTs. Data from the 2015 American Community Survey (ACS) determines the CT income levels. The AA includes 2 low- (6.7 percent), 7 moderate- (23.3 percent), 16 middle- (53.3 percent), and 5 upper-income (16.7 percent) CTs. The following table illustrates select demographic data of the AA.

Demographic Information of the Assessment Area					
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**
Geographies (Census Tracts)	30	6.7	23.3	53.3	16.7
Population by Geography	122,312	3.9	16.8	57.4	21.8
Housing Units by Geography	54,353	4.9	19.6	54.1	21.3
Owner-Occupied Units by Geography	33,004	2.2	13.6	57.9	26.3
Occupied Rental Units by Geography	15,099	8.6	26.2	50.2	15.0
Vacant Units by Geography	6,250	10.4	35.8	43.5	10.3
Businesses by Geography	6,803	9.2	15.0	48.3	27.5
Farms by Geography	359	1.4	7.2	62.4	29.0
Family Distribution by Income Level	30,471	20.6	18.5	20.9	40.0
Household Distribution by Income Level	48,103	22.1	17.4	18.6	41.8
Median Family Income MSA - 31900 Mansfield, OH MSA	$54,044	Median Housing Value			$98,415
		Median Gross Rent			$619
		Families Below Poverty Level			12.5%

Source: 2015 ACS and 2020 D&B Data
Due to rounding, totals may not equal 100.0%

The Geographic Distribution criterion compares the institution's home mortgage lending to the distribution of owner-occupied housing units in the AA. There are 54,353 housing units in the AA, of which 60.7 percent are owner-occupied, 27.8 percent are rental units, and 11.5 percent are vacant.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of the institution's small business loans by gross annual revenue (GAR) of the business. According to Dun and Bradstreet (D&B) data, the AA contains 6,803 non-farm businesses with the following GAR levels:

- 78.9 percent have revenues of $1.0 million or less
- 5.8 percent have revenues greater than $1.0 million
- 15.3 percent have unknown revenues

The 2020 D&B data indicates the largest industries in the AA include Services (39.9 percent), Retail Trade (14.7 percent), Non-Classifiable (10.8 percent), Construction (7.8 percent), Finance, Insurance, and Real Estate (7.7 percent), and Agriculture (5.0 percent). Additionally, 84.1 percent of businesses operate from a single location and 85.5 percent have nine or fewer employees. Major employers within the AA include MedCentral Health System, AK Steel Holding Corp., Century Link, Gorman-Rupp Co., and the Richland County Government.

Examiners consider unemployment data when evaluating an institution's ability to lend within its AA. Data obtained from the U.S. Bureau of Labor and Statistics, as illustrated in the following table, indicates unemployment rates within the AA declined from 2018 to 2019, then increased in

2020 due to the COVID-19 pandemic. Overall, the unemployment rates within the AA have been higher than both the State of Ohio and national averages.

Unemployment Rates			
Area	**2018**	**2019**	**2020**
	%	**%**	**%**
Richland County	4.9	4.6	9.0
Ohio	4.5	4.2	8.1
National Average	3.9	3.7	8.1
Source: Bureau of Labor Statistics			

Examiners utilized the FFIEC-adjusted median family income figures to evaluate home mortgage lending under the Borrower Profile criterion. The following table indicates the low-, moderate-, middle-, and upper-income categories for the AA during the evaluation period.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
Mansfield, OH MSA Median Family Income (31900)				
2019 ($56,700)	<$28,350	$28,350 to <$45,360	$45,360 to <$68,040	≥$68,040
2020 ($66,300)	<$33,150	$33,150 to <$53,040	$53,040 to <$79,560	≥$79,560
Source: FFIEC				

Competition

There is a high level of competition for financial services within the AA. According to FDIC Market Share report data as of June 30, 2020, 14 financial institutions operate 45 offices within the AA with $2.2 billion in total deposits. Of these institutions, Mechanics ranked second with 26.3 percent of the deposit market share. The top five institutions hold 82.5 percent of the deposit market share.

Additionally, there is a high level of competition in the AA for home mortgage lending from local, regional, and national financial institutions. Based on 2019 aggregate Home Mortgage Disclosure Act (HMDA) data, 164 lenders originated 2,757 home mortgage loans within the AA. The top ten lenders account for 66.5 percent of the home mortgage lending market share. Mechanics ranked first with 18.1 percent of the home mortgage lending market share.

A high level of competition also exists in the AA for small business lending from regional and national institutions. Although Mechanics is not required to collect small business lending data, aggregate data provides examiners with useful insight about loan demand and competition. In 2019, 66 lenders originated 6,347 small business loans within the AA. The top nine institutions account for 82.5 percent of the small business lending market share.

Community Contact

As part of the evaluation process, examiners contacted an organization within the AA to identify local credit needs and the responsiveness of local financial institutions to those needs. Examiners contacted the Director of a local organization focused on economic development within the City of Mansfield, Ohio.

The contact stated that the local economic condition is improving since the beginning of the COVID-19 pandemic. Specifically, the major industries that are doing well include both healthcare and manufacturing. Both industries grew through the pandemic, but the hotel and food industries continue to recover as the pandemic had a significant impact on those industries. A challenge primarily affecting the food industry is the level of pay when compared to manufacturing opportunities. Both industries continue to try to expand their workforce; however, they are competing for the same portion of the workforce.

The contact stated that local competition between financial institutions provides options to many small businesses so that they may determine the best financing option. Additionally, although the availability of credit to low- and moderate-income borrowers has improved, the contact stated there is always the opportunity to increase accessibility to funds for those borrowers.

Credit and Community Development Needs and Opportunities

Considering information from the community contact and the demographic and economic data, examiners determined that opportunities exist within the AA to provide funding to low- and moderate-income individuals.

SCOPE OF EVALUATION

General Information

Examiners utilized the Interagency Intermediate Small Institution CRA Examination Procedures to evaluate Mechanics' performance since the previous evaluation dated July 23, 2018. The procedures consist of the Lending and Community Development Tests. The first appendix to this evaluation contains descriptions of the criteria for each test.

Activities Reviewed

Examiners analyzed Mechanics' loan portfolio composition, business strategy, and loan records and determined that the major product lines are home mortgage and small business loans. Examiners determined that no other loan types, such as small farm or consumer loans, comprised major product lines and were not included in the evaluation.

The loan portfolio is primarily composed of residential real estate (85.7 percent) and commercial loans (8.6 percent). Based upon the institution's business strategy along with the number and dollar volume of loans, examiners placed greater emphasis on home mortgage lending activities in the overall conclusions.

Mechanics' home mortgage and small business lending indicated largely similar performance in 2018 and 2019, but increased significantly in 2020. Examiners presented the 2019 and 2020 data for both product lines, later in this evaluation,

Based on the HMDA data, Mechanics originated 674 home mortgage loans totaling $95.0 million in 2019 and 965 home mortgage loans totaling $148.6 million in 2020. Examiners compared 2019 aggregate HMDA data to institution performance. Aggregate data consists of all reporters subject to the HMDA data collection requirements within the AA. As 2020 aggregate HMDA data is not yet available, examiners compared 2020 performance to demographic data obtained from the 2015 ACS.

Mechanics originated 113 small business loans totaling $15.4 million in 2019 and 423 loans totaling $30.4 million in 2020. The large increase in 2020 is due mainly to the bank's participation in the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which provided aid to businesses, self-employed workers, sole proprietors, non-profit organizations, and tribal businesses so they could continue paying their workers during the COVID-19 pandemic. In 2020, Mechanics originated 294 PPP loans totaling $9.7 million that did not have a community development purpose and thus were included in this evaluation as small business loans. Examiners compared Mechanics' record of small business lending to demographic and aggregate data.

For the Community Development Test, examiners reviewed applicable community development loans, qualified investments, and services for the period from July 23, 2018, through June 1, 2021. Examiners also considered applicable prior investments that remained on the bank's balance sheet during the current review period. Bank management provided data for all qualified community development activities.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Overall, the institution's performance reflects reasonable responsiveness to the credit needs within the AA.

Loan-to-Deposit Ratio

The institution's LTD ratio is more than reasonable given its size, financial condition, and local lending opportunities. Mechanics' average LTD ratio was 88.7 percent based on the 11 quarterly Reports of Condition and Income from September 30, 2018, through March 31, 2021. The LTD ratio decreased slightly since the previous evaluation, when it was 91.7 percent. The LTD ratio fluctuated from a low of 78.4 percent as of March 31, 2021 to a high of 92.6 percent as of September 30, 2018. Examiners compared Mechanics' LTD ratio to two similarly-situated institutions (SSI), chosen based on their product lines, asset sizes, and geographic locations. As shown in the following table, Mechanics' LTD ratio exceeded both SSIs.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	**Total Assets as of 03/31/2021 ($000s)**	**Average Net LTD Ratio (%)**
Mechanics Bank	**726,236**	**88.7**
Similarly-Situated Institution #1	475,682	80.5
Similarly-Situated Institution #2	560,786	58.5
Source: Reports of Condition and Income 09/30/2018 – 03/31/2021		

Assessment Area Concentration

As shown in the following table, Mechanics made a majority of its loans by number and dollar volume within the AA for both home mortgage and small business loans.

Lending Inside and Outside of the Assessment Area										
Loan Category	**Number of Loans**				**Total**	**Dollar Amount of Loans $(000s)**				**Total**
	Inside		**Outside**			**Inside**		**Outside**		
	#	**%**	**#**	**%**	**#**	**$**	**%**	**$**	**%**	**$(000s)**
Home Mortgage										
2019	499	74.0	175	26.0	674	66,431	70.0	28,525	30.0	94,956
2020	701	72.6	264	27.4	965	103,232	69.5	45,406	30.5	148,637
Subtotal	**1,200**	**73.2**	**439**	**26.8**	**1,639**	**169,663**	**69.7**	**73,930**	**30.4**	**243,593**
Small Business										
2019	101	89.4	12	10.6	113	14,577	94.9	791	5.1	15,369
2020	340	80.4	83	19.6	423	25,319	83.3	5,076	16.7	30,395
Subtotal	**441**	**82.3**	**95**	**17.7**	**536**	**39,896**	**87.2**	**5,867**	**12.8**	**45,763**
Total	**1,641**	**75.4**	**534**	**24.6**	**2,175**	**209,559**	**72.4**	**79,797**	**27.6**	**289,356**
Source: Bank Data *Due to rounding, totals may not equal 100.0%*										

Borrower Profile

The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes. Examiners primarily focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers and small businesses with GARs of $1.0 million or less.

Home Mortgage Loans

As shown in the following table, lending to low-income borrowers in 2019 was slightly below the aggregate HMDA data. While lending to low-income borrowers was well below the percentage of low-income families within the AA in 2020, it is reasonable given the AA's poverty level of 12.5

percent. Families with incomes below the poverty level likely face difficulty qualifying for and/or servicing debt in amounts necessary to finance homes in the AA.

While Mechanics trailed the percentage of moderate-income families in 2019, the institution performed similarly to the aggregate data, which is a better indicator of market demand. In 2020, Mechanics' lending exceeded the percentage of moderate-income families within the AA. Overall, the institution's performance is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	**% of Families**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2019	20.6	5.6	27	5.4	1,312	2.0
2020	20.6	--	54	7.7	3,582	3.5
Moderate						
2019	18.5	17.6	85	17.0	6,225	9.4
2020	18.5	--	134	19.1	13,262	12.8
Middle						
2019	20.9	24.6	104	20.8	10,637	16.0
2020	20.9	--	147	21.0	18,842	18.3
Upper						
2019	40.0	38.5	260	52.1	44,958	67.7
2020	40.0	--	321	45.8	62,044	60.1
Not Available						
2019	0.0	13.8	23	4.6	3,300	5.0
2020	0.0	--	45	6.4	5,503	5.3
Totals						
2019	**100.0**	**100.0**	**499**	**100.0**	**66,431**	**100.0**
2020	**100.0**	**--**	**701**	**100.0**	**103,232**	**100.0**
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Small Business Loans

The distribution of small business loans reflects reasonable penetration among businesses of different sizes. In 2019, Mechanics' lending to businesses with GARs of $1.0 million or less was well below the percentage of businesses in the AA. In 2020, Mechanics' lending to small businesses with GARs of $1.0 million or less increased.

Although Mechanics' lending to small businesses with GARs of $1.0 million or less fell below the percentage of businesses within the AA in both 2019 and 2020, many local businesses are the smallest businesses, with 85.5 percent having nine or fewer employees. These smaller businesses may pursue alternative financing options, including credit cards or home equity lines of credit.

Additionally, in 2019, the vast majority of Mechanics' loans to businesses with GARs of $1 million or less were actually to businesses with GARs less than $500,000. Lending to these smaller businesses demonstrates Mechanics' willingness to lend to the smallest businesses within the AA. Overall, examiners determined Mechanics' performance to be reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000					
2019	79.0	59	58.4	7,566	51.9
2020	78.8	256	75.3	10,679	42.2
>$1,000,000					
2019	6.0	38	37.6	5,692	39.0
2020	5.8	71	20.9	12,818	50.6
Revenue Not Available					
2019	15.0	4	4.0	1,320	9.1
2020	15.3	13	3.8	1,822	7.2
Totals					
2019	**100.0**	**101**	**100.0**	**14,578**	**100.0**
2020	**100.0**	**340**	**100.0**	**25,319**	**100.0**
Source: 2019 & 2020 D&B Data; Bank Data; Due to rounding, totals may not equal 100.0%					

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA.

Home Mortgage Loans

In 2019, Mechanics' performance in low-income CTs essentially matched the aggregate data. Examiners noted lower lending in low-income CTs in 2020. As shown in the following table, the percentage of Mechanics' lending in low-income CTs trailed the percentage of owner-occupied housing units. Mechanics' lending in moderate-income CTs trailed the percentage of owner-occupied housing units in both 2019 and 2020, and slightly trailed the aggregate data in 2019.

Overall, examiners considered the bank's performance reasonable. The percentages of owner-occupied housing units is relatively low in both low- and moderate-income CTs, with only 2.2 percent in low-income CTs and 13.6 percent in moderate-income CTs. Additionally, 58.0 percent of the housing units within the moderate-income CTs are non-owner-occupied, further limiting lending opportunities.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	**% of Owner-Occupied Housing Units**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2019	2.2	0.9	5	1.0	779	1.2
2020	2.2	--	2	0.3	61	0.1
Moderate						
2019	13.6	9.1	37	7.4	2,471	3.7
2020	13.6	--	46	6.6	3,441	3.3
Middle						
2019	57.9	57.2	285	57.1	37,168	55.9
2020	57.9	--	395	56.3	56,192	54.4
Upper						
2019	26.3	32.8	172	34.5	26,013	39.2
2020	26.3	--	258	36.8	43,538	42.2
Not Available						
2019	0.0	0.0	0	0.0	0	0.0
2020	0.0	--	0	0.0	0	0.0
Totals						
2019	**100.0**	**100.0**	**499**	**100.0**	**66,431**	**100.0**
2020	**100.0**	**--**	**701**	**100.0**	**103,232**	**100.0**
Source: 2015 ACS; Bank Data, 2019 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. The following table details the geographic distribution of small business loans by CT income level.

Mechanics' lending in low-income CTs by number of loans exceeded the percentage of businesses in 2019, but trailed the percentage of businesses in 2020. The institution's lending in moderate-income CTs by number of loans fell below the percentage of businesses in 2019 and 2020.

Mechanics was a substantial participant in the PPP. Excluding all PPP loans in 2020, 10.6 percent of small business loans were in low-income CTs and 8.7 percent in moderate-income CTs. Additionally, 82.5 percent of businesses within moderate-income tracts have nine or less employees. As noted earlier, small businesses of this size may pursue alternative forms of financing, further limiting lending opportunities within the moderate-income tracts. Therefore, examiners determined Mechanics' performance to be reasonable.

Geographic Distribution of Small Business Loans					
Tract Income Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
Low					
2019	9.0	11	10.9	1,421	9.7
2020	9.2	11	3.2	1,633	6.5
Moderate					
2019	15.0	10	9.9	1,139	7.8
2020	15.0	11	3.2	1,209	4.8
Middle					
2019	48.4	52	51.5	7,438	51.0
2020	48.3	190	55.9	13,114	51.8
Upper					
2019	27.6	28	27.7	4,580	31.4
2020	27.5	128	37.6	9,363	37.0
Not Available					
2019	0.0	0	0.0	0	0.0
2020	0.0	0	0.0	0	0.0
Totals					
2019	**100.0**	**101**	**100.0**	**14,578**	**100.0**
2020	**100.0**	**340**	**100.0**	**25,319**	**100.0**
Source: 2019 & 2020 D&B Data; Bank Data; Due to rounding, totals may not equal 100.0%					

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

The institution's community development performance demonstrates adequate responsiveness to community development needs in its AA through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's AA.

Community Development Loans

Mechanics originated 277 community development loans totaling approximately $30.0 million during the evaluation period. This level of activity represents 4.1 percent of total assets and 5.7 percent of net loans as of March 31, 2021.

As discussed earlier, the CARES Act created the PPP loan program in 2020 to provide assistance to businesses due to the economic crisis resulting from the pandemic. PPP loans extended by the bank that promoted job retention for low- and moderate-income persons and/or in low- and moderate-income census tracts may be considered community development loans. In total, Mechanics originated 213 PPP loans totaling $15.9 million in 2020 and 2021 that are community development loans. These 213 loans are separate from the PPP loans considered in the Lending Test.

Excluding PPP loans, the bank extended 64 community development loans totaling $14.1 million, representing 1.9 percent of total assets and 2.7 percent of net loans. Many of these non-PPP loans supported job creation and job retention in low- and moderate-income areas. As shown in the following table, the bank's community development loans focused on community services and economic development, and demonstrate responsiveness to identified, community development needs in the AA.

The bank's performance represents an increase by number and dollar volume since the previous evaluation (15 loans totaling $2.7 million). Examiners reviewed the CRA Performance Evaluations for three SSIs that operate in Ohio. The SSIs' community development loans to total assets ratios ranged from a low of 0.4 percent to a high of 1.6 percent. Mechanics' ratio (excluding PPP loans) of 1.9 percent was comparable to the SSIs. In addition, the SSIs' community development loans to net loans ratios ranged from a low of 0.5 percent to a high of 2.1 percent. Mechanics' ratio (excluding PPP loans) of 2.7 percent was comparable to the SSIs. The ratios used for these comparisons also excluded PPP loans.

Community Development Lending

Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)
2018	2	273	4	677	6	657	--	--	**12**	**1,607**
2019	4	746	6	1,566	15	3,564	--	--	**25**	**5,876**
2020	4	444	5	1,620	4	572	6	920	**19**	**3,556**
YTD 2021	--	--	1	500	4	767	3	1,815	**8**	**3,082**
Total	**10**	**1,463**	**16**	**4,363**	**29**	**5,560**	**9**	**2,735**	**64**	**14,121**

Source: Bank Data; Review Period: 7/26/2018 to 6/1/2021; excludes PPP loans that qualify for community development

Notable examples of community development loans extended in the AA include:

- $264,000 to finance affordable multi-family housing for low- and moderate-income residents.
- $1.0 million to a business in a moderate-income CT, which helped retain jobs.
- $1.0 million to revitalize a low-income CT.

<u>Qualified Investments</u>

Mechanics' qualified investments totaled $5.1 million, as shown in the following table. This figure includes investments made prior to the evaluation period, but which remain on the bank's books, and $377,500 in current donations within the AA. The dollar volume increased from the previous evaluation, when qualified investments totaled $2.9 million.

The dollar amount of qualified investments represented 0.7 percent of the bank's total assets and 5.7 percent of the bank's total securities as of March 31, 2021. The bank's level of investment and grant activity is comparable to three SSIs. The SSIs had total qualified investments to total asset ratios ranging from a low of 0.3 percent to a high of 0.7 percent. Mechanics' ratio of 0.7 percent was comparable to the SSIs. The SSIs had total qualified investments to total securities ratios ranging from a low of 2.8 percent to a high of 5.7 percent. Mechanics' ratio of 5.7 percent is comparable to the SSIs.

Qualified Investments										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	#	**$(000s)**	#	**$(000s)**	#	**$(000s)**	#	**$(000s)**
Prior Period	1	500	4	807	1	100	3	1,714	**9**	**3,121**
2018	--	--	--	--	--	--	1	619	**1**	**619**
2019	--	--	2	500	--	--	--	--	**2**	**500**
2020	--	--	1	250	--	--	--	--	**1**	**250**
YTD 2021	--	--	1	250	--	--	--	--	**1**	**250**
Subtotal	**1**	**500**	**8**	**1,807**	**1**	**100**	**4**	**2,333**	**14**	**4,740**
Qualified Grants & Donations	1	<1	84	126	11	137	7	114	**103**	**377**
Total	**2**	**500**	**92**	**1,933**	**12**	**237**	**11**	**2,447**	**117**	**5,117**
Source: Bank Data; Review Period: 7/23/2018 to 6/1/2021.										

Notable examples of the bank's community development investments include:

- $250,000 certificate of deposit at a minority-owned institution.
- Over $35,000 in donations to a local nonprofit, membership-based organization whose mission is to stimulate economic development.
- Over $75,000 in donations to a local development organization, that promotes revitalization and development in low- and moderate-income areas.

Community Development Services

During the evaluation period, bank staff provided 237 community development services within the AA. This was an increase from the previous evaluation when the bank extended 211 community development services. Services include serving on committees and boards of qualified community development purpose organizations. This level of services was higher than all of the SSIs, which ranged from a low of 72 to a high of 121. The following table details the community development services by year and community development purpose.

Community Development Services					
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Revitalize or Stabilize**	**Totals**
	#	#	#	#	#
2018	2	41	7	6	**56**
2019	2	52	7	6	**67**
2020	2	37	7	6	**52**
YTD 2021	2	47	7	6	**62**
Total	**8**	**177**	**28**	**24**	**237**
Source: Bank Data; Review Period: 7/23/2018 to 6/1/2021.					

Notable examples include:

- During each year of the review period, a bank employee served on the Board of a local community development organization.
- During each year of the review period, a bank employee served on the Board of a community improvement organization that aims to provide affordable housing to low- and moderate-income individuals.
- A bank employee provides financial literacy classes for low- and moderate-income individuals.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The examination included a review of the institution's compliance with the laws relating to discrimination and other illegal credit practices, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

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

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

Community Development Test

The Community Development Test considers the following criteria:

1) The number and amount of community development loans;
2) The number and amount of qualified investments;
3) The extent to which the bank provides community development services; and
4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

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. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution 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 institution:
 (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution'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 institution's assessment area(s) or a broader statewide or regional area including the institution'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 institution'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.

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.