

Santa Barbara Bank & Trust - 1/27/2009

"For immediate release"

IRS SCRUTINY

As many of you who have industry experience know, the IRS has a Revenue Protection Strategy (RPS) program in which tax returns they feel are higher risk for unsubstantiated claims of refunds or credits will get pulled from the refund disbursement cycle and be reviewed. This causes a significant delay in the refund disbursement (provided the taxpayer can provide additional information to substantiate the claim), or as we've seen in most cases, part or no funding whatsoever.

Some returns involve questionable W-2 information among other things, but the majority of returns pulled for review contain the Earned Income Credit (EIC). These returns that are in a higher risk category would include factors such as the Head of Household filing status, large EIC amounts, lower income levels, certain EIC dependent claims among other factors they have seen making the EIC claim questionable.

As we at SBBT witnessed last year and in prior years, prior year history and subsequent funding is not always an indicator in determining that the IRS will not pull a return for review this year. The fact that a prior year return was funded with questionable conditions may in fact increase the chance the return will be reviewed this year. We do not know exactly which returns the IRS will pull for review so we must use current and previous year IRS funding patterns as a basis for our loan criteria.

We believe that the IRS screens will affect all industry participants, including other lending banks, in a similar manner. We are also confident that the Santa Barbara Bank & Trust RAL Program will remain among the most competitive available.

OVERTURNS

Please keep in mind that denied loan decisions are final. We provide only a few exceptions to that, and they can be found on the cover sheet of the overturn request form and our User Manual. You need to follow the overturn procedure in the manual and the overturn request cover page in order to preserve the privilege of being able to submit overturn requests. The form and the User Manual can be downloaded from our website. Overturn requests that do not have supporting documentation will be discarded.

REFUND TRANSFER CHECKS

Regardless of when we receive IRS notification of deposits on any given week (usually Wednesdays), and for compliance purposes we cannot release check print records until Thursdays at noon (PST) since we do not receive the actual funds from the IRS until Friday. This is of course contingent upon receiving the IRS notification before Thursday at noon PST.

Team SBBT