

PUBLIC DISCLOSURE

October 2, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers State Bank
Certificate Number: 14578

220 S Detroit St
LaGrange, Indiana 46761

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.

TABLE OF CONTENTS

INSTITUTION RATING	1
DESCRIPTION OF INSTITUTION	1
DESCRIPTION OF ASSESSMENT AREAS.....	3
SCOPE OF EVALUATION.....	4
CONCLUSIONS ON PERFORMANCE CRITERIA.....	5
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	9
INDIANA – Full-Scope Review.....	10
DESCRIPTION OF INSTITUTION’S OPERATIONS IN INDIANA.....	10
SCOPE OF EVALUATION – INDIANA.....	10
CONCLUSIONS ON PERFORMANCE CRITERIA IN INDIANA	10
Indiana Non-MSA AA – Full-Scope Review	12
Elkhart-Goshen, IN MSA AA – Full-Scope Review.....	19
MICHIGAN – Full-Scope Review	26
DESCRIPTION OF INSTITUTION’S OPERATIONS IN MICHIGAN	26
SCOPE OF EVALUATION - MICHIGAN	28
CONCLUSIONS ON PERFORMANCE CRITERIA IN MICHIGAN	29
APPENDICES	35
INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA.....	35
SUMMARY OF RATINGS FOR RATED AREAS	36
GLOSSARY	37

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 Lending Test is rated Satisfactory.

The following points summarize Farmers State Bank's (FSB) Lending Test Performance:

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and AA credit needs.
- A majority of loans are inside the institution's AAs.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- The distribution of borrowers reflects, given the demographics of the AAs, reasonable penetration among individuals of different income levels, and businesses and farms of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

The Community Development Test is rated Satisfactory.

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

DESCRIPTION OF INSTITUTION

FSB is a full-service, inter-state community bank headquartered in LaGrange, Indiana, and is a wholly owned subsidiary of FS Bancorp, a one-bank holding company also located in LaGrange, Indiana. The bank operates branches in the States of Indiana and Michigan.

FSB and FS Bancorp maintain affiliate and subsidiary relationships with other entities; however, those entities do not offer credit products or banking-related activities considered in this evaluation. FSB received a Satisfactory rating at its previous FDIC CRA Performance Evaluation dated August 24, 2020, based on Interagency Intermediate Small Institution Examination Procedures.

In addition to its main office, which functions as an operations center, FSB operates 11 branch offices. With the exception of a branch office in St. Joseph County, Michigan, all other locations are in Indiana. FSB maintains Automated Teller Machines (ATMs) at all offices as well as four additional locations. The bank did not open or close any office locations during the review period. The following table includes additional details about the bank’s offices and ATMs.

Office Locations					
Address	City	State	County	ATM	Tract Income Level
220 S. Detroit St. (Main)	LaGrange	Indiana	LaGrange	Y	Middle
516 S. Detroit St.	LaGrange	Indiana	LaGrange	Y	Middle
107 N. Main St.	Wolcottville	Indiana	LaGrange	Y	Middle
100 N. Main St.	Stroh	Indiana	LaGrange	Y	Middle
109 N. Main St.	Topeka	Indiana	LaGrange	Y	Middle
5485 N. State Rd. 9	Howe	Indiana	LaGrange	Y	Middle
110 W. Walnut St.	Shipshewana	Indiana	LaGrange	Y	Upper
1800 N. Wayne St.	Angola	Indiana	Steuben	Y	Middle
3840 E. Bellefontaine Rd.	Hamilton	Indiana	Steuben	Y	Upper
105 S. Wayne St.	Fremont	Indiana	Steuben	Y	Middle
400 N. Benton St.	Millersburg	Indiana	Elkhart	Y	Upper
809 W. Chicago Rd.	Sturgis	Michigan	St. Joseph	Y	Moderate
ATM Locations					
115 W. State St.	Ashley	Indiana	Steuben		Upper
9520 W. State Rd. 120	Orland	Indiana	Steuben		Middle
720 Thunder Dr.	Angola	Indiana	Steuben		Middle
280 S. Wayne St.	Waterloo	Indiana	DeKalb		Middle

Source: Bank Records, 2020 US Census

The bank offers traditional loan products including residential, commercial, agricultural, and consumer loans, primarily focusing on the first three aforementioned products. The institution provides a variety of deposit products including checking, savings, health savings, certificates of deposit, and individual retirement accounts. Alternative banking services include online and mobile banking, bill pay, telephone banking, ATMs, and drive-up facilities.

During the review period, FSB participated in the Small Business Administration’s Paycheck Protection Program (PPP), which provided loans to businesses during the COVID-19 pandemic to cover wages and other operating expenses. In 2021, the bank originated 293 PPP loans totaling \$14.1 million.

According to the bank’s Call Report dated June 30, 2023, the bank’s assets totaled approximately \$1.1 billion and included total loans of \$753.3 million and securities of \$262.9 million. Deposits totaled \$1.0 billion as of the same date. While the bank’s total assets rose by 22.2 percent since the prior evaluation, total deposits increased by a slightly more substantial 27.7 percent, stemming from government stimulus programs in 2020 and 2021, while total loans increased by only 13.5 percent. Total securities increased by 102.3 percent over the evaluation period, as management placed excess liquidity in the securities portfolio due to flat loan demand. The following table illustrates the bank’s loan portfolio distribution.

Loan Portfolio Distribution as of 6/30/2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	35,904	4.8
Secured by Farmland	113,576	15.1
Secured by 1-4 Family Residential Properties	420,065	55.8
Secured by Multifamily (5 or more) Residential Properties	3,309	0.4
Secured by Nonfarm Nonresidential Properties	100,453	13.3
Total Real Estate Loans	673,307	89.4
Commercial and Industrial Loans	44,142	5.9
Agricultural Production and Other Loans to Farmers	12,712	1.7
Consumer Loans	19,819	2.6
Obligations of State and Political Subdivisions in the U.S.	0	0
Other Loans	3,301	0.4
Lease Financing Receivable (net of unearned income)	0	0
Less: Unearned Income	0	0
Total Loans	753,281	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that would limit FSB’s ability to meet the credit needs of its AAs.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more AAs within which examiners will evaluate its CRA performance. FSB designated three contiguous AAs that span two states. Within Indiana, FSB designated two separate AAs. The first is the Indiana Non-Metropolitan Statistical Area (MSA) AA, which consists of the entirety of LaGrange and Steuben Counties, four census tracts in Noble County, and two census tracts in DeKalb County. The second is the Elkhart-Goshen, IN MSA AA, which consists of five census tracts in Elkhart County. FSB designated one AA in Michigan, which consists of six census tracts in St. Joseph County.

While FSB made no changes to the AAs since the previous evaluation, the 2020 U.S. Census revised the number, income designation, and boundaries of some census tracts contained within the AAs. Those census tract revisions and their overall impact are minimal. The AAs conform to CRA requirements, consist of contiguous whole geographies in which the bank has offices and operates, do not reflect illegal discrimination, and do not arbitrarily exclude any low- or moderate-income geographies.

The following table presents a brief description of each AA, showing the counties, and numbers of census tracts and offices. Separate sections for each AA later in this evaluation contain detailed descriptions of the individual AAs.

Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	# of Census Tracts	# of Offices
Indiana Non-MSA	LaGrange, Steuben, Noble (partial), DeKalb (partial)	24	10
Elkhart-Goshen, IN MSA	Elkhart (partial)	5	1
Michigan Non-MSA	St. Joseph (partial)	6	1
<i>Source: Bank Records</i>			

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated August 24, 2020, to the current evaluation dated October 2, 2023. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate FSB’s CRA performance. These procedures include the Lending Test and the Community Development Test. Performance criteria for each of these tests are contained in the Appendix. Banks must achieve a rating of at least Satisfactory under each test to obtain an overall Satisfactory rating.

The FDIC assigns overall CRA ratings to an inter-state bank, as well as separate ratings for each state in which the bank has branches. As noted earlier, FSB has offices in Indiana and Michigan. As a result, examiners assigned an overall rating as well as separate ratings for the bank’s performance in Indiana and Michigan. The vast majority of the bank’s offices, and lending and deposit operations are within Indiana; therefore, performance in Indiana received significantly more consideration in the overall ratings. Between FSB’s two AAs in Indiana, examiners placed greater emphasis on the performance in the Indiana Non-MSA AA, as the majority of lending and community development activities occurred in that AA.

Examiners conducted full-scope reviews of all three AAs. This evaluation contains separate sections for each AA, which contain the various data and analyses of the bank’s performance in each.

Activities Reviewed

Examiners determined the bank’s major product lines are home mortgage, small business, and small farm loans. This conclusion considered the loan portfolio composition, the number and dollar volume of loans originated during the evaluation period, and the bank’s business strategy. Examiners did not consider consumer loans, as they are not a major product line and do not represent a significant portion of the bank’s loan portfolio. In evaluating performance, examiners placed the most weight on home mortgage loans, as they represent the highest number of originations and dollar volume during the evaluation period, and the largest percentage of the bank’s loan portfolio. Following home mortgage loans, examiners placed more weight on small business loans over small farm loans based on the number of originations, dollar volume, and percentage of loan portfolio. Bank records indicate that the lending focus and product mix remained relatively consistent throughout the evaluation period.

Examiners considered all home mortgage loans that the bank reported on its 2020, 2021, and 2022 Home Mortgage Disclosures Act (HMDA) Loan Application Registers. FSB originated 1,941 home mortgage loans totaling \$412.0 million during these three years. Examiners used aggregate HMDA data, as well as census demographic data, to assess the bank's performance. The aggregate data consists of all loan originations and purchases in the AAs by all lenders subject to HMDA data collection requirements. In general, the aggregate data helps better illustrate market demand and lending opportunities. As lending performance was consistent through the three years reviewed, examiners presented only the 2022 activities in the Geographic Distribution and Borrower Profile sections of this evaluation, as it is the most recent year for which aggregate data is available.

Examiners used bank records to identify and analyze the universe of small business and small farm loans that the bank originated in 2022. FSB originated 274 small business loans totaling \$46.0 million and 218 small farm loans totaling \$20.6 million. D&B data provided a standard of comparison for the small business and small farm loans.

While this evaluation includes the number and dollar volume of loans, examiners emphasized performance by number of loans, because it is a better indicator of the number of individuals, businesses, and farms served.

For the Community Development Test, examiners considered data provided by bank management on community development loans, qualified investments, grants and donations, and community development services since the prior CRA evaluation dated August 24, 2020.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Overall, FSB demonstrated reasonable performance under the Lending Test.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and AA credit needs. The LTD ratio, calculated from Call Report data, averaged 71.1 percent over the past 12 calendar quarters since the prior performance evaluation. This is a decrease from the prior evaluation when the LTD ratio averaged 85.9 percent. The ratio ranged from a high of 83.3 percent on September 30, 2020, to a low of 65.8 percent on September 30, 2021.

As shown in the following table, FSB's LTD ratio exceeds, or is close to, two of four similarly-situated institutions, which examiners identified based on asset size, loan composition, and location. The ratio declined at the end of 2020 and through the third quarter of 2021 due to an influx of deposits associated with COVID-19 stimulus packages. The institution's deposit growth of 26.9 percent outpaced net loan growth of 11.1 percent, causing the LTD ratio to contract. The similarly-situated institutions also experienced declining net LTD ratios over the same period.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 6/30/2023 (\$000s)	Average Net LTD Ratio (%)
Farmers State Bank	1,144,127	71.1
Similarly-Situated Institution #1	463,170	52.3
Similarly-Situated Institution #2	1,413,578	75.8
Similarly-Situated Institution #3	756,383	81.8
Similarly-Situated Institution #4	894,260	90.3
<i>Source: Reports of Condition and Income 9/30/2020 - 6/30/2023</i>		

Assessment Area Concentration

As shown in the following table, FSB originated a majority of its home mortgage, small business, and small farm loans by number and dollar volume within the AAs during the evaluation period.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2020	516	90.1	57	9.9	573	121,794	91.5	11,322	8.5	133,116
2021	454	90.1	50	9.9	504	113,886	90.2	12,404	9.8	126,290
2022	772	89.4	92	10.6	864	137,707	90.2	14,902	9.8	152,609
Subtotal	1,742	89.7	199	10.3	1,941	373,387	90.6	38,628	9.4	412,015
Small Business										
2022	253	92.3	21	7.7	274	40,432	88.0	5,536	12.0	45,968
Small Farm										
2022	183	83.9	35	16.1	218	15,249	74.0	5,360	26.0	20,609
Total	2,178	89.5	255	10.5	2,433	429,068	89.7	49,524	10.3	478,592
<i>Source: Bank Data</i>										
<i>Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

Overall, the geographic distribution of home mortgage, small business, and small farm loans reflects reasonable dispersion throughout the AAs. The AAs in the State of Indiana do not include any low- and moderate-income census tracts; therefore, a review of the Geographic Distribution criterion in those AAs would not result in meaningful conclusions. Examiners based the overall conclusion for this criterion on the bank's performance in the AA in Michigan.

Borrower Profile

Overall, the distribution of home mortgage, small business, and small farm loans reflects reasonable penetration among individuals of different income levels, and businesses and farms of different

sizes. Examiners analyzed and presented this criterion separately for each AA in subsequent sections of this evaluation. Performance is consistent throughout the rated areas.

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

Overall, the bank's community development performance demonstrates adequate responsiveness to the community development needs of the AAs through community development lending, qualified investments, and community development services. While the State of Indiana rated area received the most weight, overall performance is consistent between the two rated areas. Examiners considered the institution's capacity and the need and availability of such opportunities. The following sections present overall conclusions, and the separate AA discussions later in this evaluation contain additional details.

Community Development Loans

The bank originated 27 community development loans totaling \$11.6 million during the evaluation period. A majority of these community development loans were in the Indiana Non-MSA AA, which contains a substantial portion of the bank's lending and deposit activity. Additionally, of the total community development lending, nine loans totaling \$634,000 were PPP loans. As noted earlier, the federal government established PPP loans to provide emergency assistance to businesses during the COVID-19 pandemic.

The bank's community development lending represents 1.6 percent of net loans and 1.0 percent of total assets as of June 30, 2023. In terms of these ratios, the bank's performance was below the performance of four similarly-situated banks. However, examiners noted that community development lending opportunities are comparatively less plentiful within the bank's AAs. For example, the Indiana Non-MSA and Elkhart-Goshen, IN MSA AAs do not contain any low- or moderate-income tracts, which limits the ability to originate community development loans in those areas. Additionally, examiners determined that the community development loans that the bank did originate were responsive to specific needs in the AAs, including numerous loans with relatively small dollar amounts. These included loans that supported affordable housing and necessary community services, and loans to various nonprofit organizations serving low- and moderate-income individuals.

Overall, the total level of community development lending declined from the \$50.4 million originated during the previous evaluation period. However, the prior evaluation included more than 400 PPP loans, whereas the current evaluation includes only nine PPP community development loans, as the program ended in 2021. By number, the bank's non-PPP community development lending increased from nine loans during the previous evaluation period to 18 loans during the current evaluation period.

The following table details the bank’s community development lending by year and purpose.

Community Development Lending- Overall										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020*	0	0	0	0	0	0	0	0	0	0
2021	0	0	6	5,215	1	300	9	634	16	6,149
2022	2	120	3	140	1	410	0	0	6	670
YTD 2023**	3	1,033	0	0	1	60	1	3,720	5	4,813
Total	5	1,153	9	5,355	3	770	10	4,354	27	11,632
<i>Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023</i>										

In addition to loans originated inside the AAs, the previous table includes seven community development loans totaling nearly \$3.9 million that benefitted a broader statewide or regional area that includes the bank’s AAs. All of these loans supported revitalization or stabilization of low- or moderate-income areas. For example, in 2023, the bank originated a \$3.7 million loan to finance the purchase and remodel of a hotel in a moderate-income area of Fort Wayne, Indiana. Additionally, in 2021, the bank originated six PPP loans totaling \$170,000 in moderate-income tracts throughout Indiana.

Qualified Investments

FSB’s qualified investments and donations during the evaluation period totaled \$4.3 million. The dollar volume decreased from the previous evaluation, where investments and donations totaled \$10.0 million. FSB made no investments within the bank’s AAs; however, the bank made six investments totaling \$4.1 million and three donations totaling \$30,000 that benefitted a larger regional area. Those investments supported affordable housing and economic development efforts. For example, during the evaluation period, FSB invested \$1.8 million in bonds that facilitated the purchase of low- and moderate-income housing in Indiana and Michigan. Grants and donations supported affordable housing, medical care, and shelter services for individuals and families in need, and economic development and community growth opportunities throughout the AAs.

FSB’s investments and donations amounted to 0.4 percent of the bank’s total assets and 1.6 percent of its total securities as of June 30, 2023. In terms of these ratios, the bank’s performance was below the performance of two similarly-situated banks and on par with the performance of the other two similarly-situated banks. The following table provides details on the investments and donations. The discussions within the separate AAs later in this evaluation contain additional details.

Qualified Investments- Overall										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
2020*	1	500	0	0	0	0	0	0	1	500
2021	2	775	0	0	0	0	0	0	2	775
2022	2	2,500	0	0	1	298	0	0	3	2,798
YTD 2023**	0	0	0	0	0	0	0	0	0	0
Subtotal	5	3,775	0	0	1	298	0	0	6	4,073
Qualified Grants & Donations	14	47	77	108	21	50	0	0	112	205
Total	19	3,822	77	108	22	348	0	0	118	4,278

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

Community Development Services

During the evaluation period, bank staff provided 82 instances of community development services within the AAs, and four instances at a regional level that included the AAs. This was a decrease from the previous evaluation when the bank provided 104 instances of community development services. Services include serving on committees and boards of qualified community development purpose organizations. FSB’s level of services exceeded two similarly-situated banks and trailed the performance of the other two similarly-situated banks. The discussions within the separate AAs later in this evaluation contain additional details.

Community Development Services- Overall					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2020*	5	1	8	0	14
2021	4	8	13	0	25
2022	3	10	15	0	28
YTD 2023**	2	7	10	0	19
Total	14	26	46	0	86

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

In addition to the community development services noted above, the institution also offers a free checking account, which many community banks in its AAs discontinued over the last few years.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners reviewed the bank’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 discriminatory or other illegal credit practices.

INDIANA – Full-Scope Review

CRA RATING FOR INDIANA: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

DESCRIPTION OF INSTITUTION’S OPERATIONS IN INDIANA

FSB designated two AAs within the State of Indiana. The Indiana Non-MSA AA includes the entirety of LaGrange and Steuben Counties, as well as the four northernmost census tracts in Noble County and two census tracts in northern DeKalb County. The Elkhart-Goshen, IN MSA AA includes five census tracts in eastern Elkhart County. FSB’s main office and ten branch offices are located within the state. Additionally, 15 of the bank’s 16 ATMs are located in Indiana. As of June 30, 2023, the bank derived 97.2 percent of its deposits in Indiana. In 2022, the bank originated 98.2 percent of all home mortgage loans and 98.4 percent of all small business and small farm loans within the overall AA in Indiana.

SCOPE OF EVALUATION – INDIANA

This Performance Evaluation bases the rating for the State of Indiana on the performance in the Indiana Non-MSA AA and the Elkhart-Goshen, IN MSA AA. Both AAs received full-scope reviews; however, the Indiana Non-MSA AA received vastly more weight in the rating, as the majority of lending and community development activities occurred in that AA. Consistent with the scope of the evaluation described for the overall bank, the Lending Test for Indiana included home mortgage, small business, and small farm loans. The Community Development Test included the bank’s community development lending, qualified investments, and community development services.

CONCLUSIONS ON PERFORMANCE CRITERIA IN INDIANA

LENDING TEST

Overall, FSB demonstrated reasonable performance under the Lending Test in the State of Indiana.

Geographic Distribution

The AAs in the State of Indiana do not include any low- and moderate-income census tracts, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, examiners did not assess this criterion for the bank’s performance in Indiana.

Borrower Profile

Overall, the distribution of home mortgage, small business, and small farm loans reflects reasonable penetration among individuals of different income levels, and businesses and farms of different sizes. Examiners analyzed and presented this criterion separately for each AA in the State of Indiana.

COMMUNITY DEVELOPMENT TEST

The bank’s community development activities demonstrate adequate responsiveness to the needs of the AAs through a blend of community development loans, donations, and community development services, considering the institution’s capacity and the availability of such opportunities within the AAs. The following sections provide summaries of community development activities for the combined Indiana AAs.

Community Development Loans

FSB participated in 13 community development loans totaling \$5.9 million during the evaluation period within the AAs in the State of Indiana. The separate AA discussions later in this evaluation contain additional details. The following table contains the bank’s community development lending within the AAs by year and purpose.

Community Development Lending- Indiana										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020*	0	0	0	0	0	0	0	0	0	0
2021	0	0	5	3,999	1	300	0	0	6	4,299
2022	0	0	3	140	1	410	0	0	4	550
YTD 2023**	2	1,013	0	0	1	60	0	0	3	1,073
Total	2	1,013	8	4,139	3	770	0	0	13	5,922

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

Qualified Investments

FSB made 70 donations totaling \$142,000 during the evaluation period within the AAs in the State of Indiana. The separate AA sections later in this evaluation contain additional details. The following table contains the bank’s community development donations within the AAs by purpose.

Qualified Investments- Indiana										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Qualified Grants & Donations	7	36	55	91	8	15	0	0	70	142

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

Community Development Services

FSB provided 74 instances of community development services during the evaluation period to community development-related organizations serving the AAs located in Indiana. The following table illustrates community development services by year and purpose. The separate AA sections later in this evaluation contain additional details.

Community Development Services- Indiana					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2020*	4	1	6	0	11
2021	3	8	11	0	22
2022	2	10	13	0	25
YTD 2023**	1	7	8	0	16
Total	10	26	38	0	74

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

INDIANA NON-MSA AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN INDIANA NON-MSA AA

The Indiana Non-MSA AA consists of the entirety of LaGrange and Steuben Counties, as well as the four northernmost census tracts in Noble County and two census tracts in northern DeKalb County. FSB’s main office and nine branch offices are located within in this AA. Additionally, 14 of the bank’s 16 ATMs are located in the counties that are within this AA. As of June 30, 2023, the bank derived 95.4 percent of its deposits in this AA. In 2022, the bank originated 87.5 percent of all of its home mortgage, small business, and small farm loans within the overall AA in this AA.

Economic and Demographic Data

Based on 2020 U.S. Census data, the AA contains 24 census tracts with the following income designations: 18 middle-income and six upper-income. The following table illustrates select economic and demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Indiana Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	24	0.0	0.0	75.0	25.0	0.0
Population by Geography	102,431	0.0	0.0	75.3	24.7	0.0
Housing Units by Geography	47,064	0.0	0.0	75.2	24.8	0.0
Owner-Occupied Units by Geography	30,361	0.0	0.0	75.2	24.8	0.0
Occupied Rental Units by Geography	7,216	0.0	0.0	82.0	18.0	0.0
Vacant Units by Geography	9,487	0.0	0.0	69.9	30.1	0.0
Businesses by Geography	10,111	0.0	0.0	72.0	28.0	0.0
Farms by Geography	875	0.0	0.0	68.3	31.7	0.0
Family Distribution by Income Level	26,789	13.6	18.6	24.9	43.0	0.0
Household Distribution by Income Level	37,577	16.4	16.0	20.1	47.5	0.0
Median Family Income Non-MSAs - IN		\$67,032	Median Housing Value			\$169,618
			Median Gross Rent			\$732
			Families Below Poverty Level			6.2%
<i>Source: 2020 U.S. Census and 2023 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2020 U.S. Census data, there are 47,064 housing units within the AA. Of these, 64.5 percent are owner-occupied, 15.3 percent are rental units, and 20.2 percent are vacant.

D&B data from 2023 shows the AA contains 10,111 non-farm businesses. Of those businesses, 88.0 percent have revenues of less than \$1.0 million, 64.2 percent employ four or fewer employees, and 93.4 percent operate from a single location. The largest industries in the AA are services (28.1 percent); retail trade (10.9 percent); and finance, insurance, and real estate (9.7 percent). Major employers include K-Z Inc., Nishikawa Cooper LLC, Tenneco Inc., Cameron Memorial Community Hospital, Steel Dynamics Inc., and Dexter Axle.

Examiners also consider unemployment data when evaluating a bank's ability to lend in its AAs. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows unemployment levels in the AA steadily decreased from 2020 to 2022 consistent with state and national unemployment rates. Like most of the country, unemployment rates in the AA experienced a sharp increase in 2020 due to the COVID-19 pandemic.

Unemployment Rates				
Area	2020	2021	2022	July 2023
	%	%	%	%
LaGrange County	6.5	2.2	2.2	2.2
Steuben County	6.4	2.8	2.2	2.3
Noble County	8.5	3.6	2.8	2.9
DeKalb County	7.0	3.0	2.6	2.9
State	7.3	3.9	3.0	3.3
National Average	8.1	5.3	3.6	3.5

Source: U.S. Bureau of Labor Statistics

Examiners used the FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the 2022 low-, moderate-, middle-, and upper-income categories for the AA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Indiana Non-MSA AA Median Family Income (99999)				
2022 (\$74,500)	<\$37,250	\$37,250 to <\$59,600	\$59,600 to <\$89,400	≥\$89,400

Source: FFIEC

Competition

FSB operates in a competitive market for financial services. According to FDIC market share data as of June 30, 2023, 18 FDIC-insured institutions have \$3.4 billion in deposits and operate 52 offices within the full counties that are part of the AA. Of these institutions, FSB ranked first with 28.9 percent of the market share.

There is a high level of competition for home mortgage loans. Based on 2022 HMDA aggregate data, 161 lenders originated 3,058 home mortgage loans in the AA. Of these lenders, FSB ranked first with 22.0 percent of the market share.

There is also a high level of competition for small business loans. FSB is not required to collect or report small business loan data and is not included in the following numbers. As such, analysis of small business loans does not include comparisons to aggregate data within the Lending Test. However, aggregate data is useful in identifying the level of demand for such loans. In 2021, the most recent year for which data is available, 66 lenders originated 2,131 small business loans in the AA. The top five lenders accounted for 51.0 percent of the market share.

There is a moderate level of competition for small farm loans. Similar to small business loan data, FSB is not required to collect or report data on small farm loans, and the analysis does not include comparisons to aggregate data. In 2021, the most recent year for which data is available, 22 lenders originated 272 small farm loans in the AA. The top five lenders accounted for 59.9 percent of the market share.

Community Contact

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

Examiners referred to a previously completed contact with a representative of an economic development organization in the AA. The contact identified a need for additional housing and small business loans in the AA.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that the primary credit and community development needs revolve around the need for additional housing, both in financing the construction of new units throughout the assessment area, as well as financing for the housing currently available. Furthermore, the AA needs more small business lending.

CONCLUSIONS ON PERFORMANCE CRITERIA IN INDIANA NON-MSA AA

LENDING TEST

Overall, FSB demonstrated reasonable performance under the Lending Test in the Indiana Non-MSA AA.

Borrower Profile

Overall, the bank's lending in all three product lines reviewed reflects reasonable penetration among borrowers of different income levels, and businesses and farms of different sizes.

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels. As shown in the following table, the bank's lending performance to low- and moderate-income borrowers slightly trailed aggregate performance in 2022. While not shown in the table, the bank's 2020 and 2021 performance to low-income borrowers slightly exceeded aggregate performance. The bank's 2020 and 2021 performance to moderate-income borrowers slightly trailed aggregate performance. Considering the close proximity to aggregate performance for both low- and moderate-income borrowers, the distribution of loans reflects reasonable penetration overall.

Distribution of Home Mortgage Loans by Borrower Income Level						
Indiana Non-MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2022	13.6	8.2	52	7.7	3,244	2.8
Moderate						
2022	18.6	16.9	102	15.2	11,250	9.6
Middle						
2022	24.9	23.9	189	28.1	32,332	27.5
Upper						
2022	43.0	41.1	302	44.9	65,316	55.5
Not Available						
2022	0.0	9.9	27	4.0	5,464	4.6
Totals						
2022	100.0	100.0	672	100.0	117,606	100.0
<i>Source: 2020 U.S. Census; Bank Data, 2022 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%</i>						

Small Business Loans

The distribution of small business loans reflects reasonable penetration among businesses of different sizes. As shown in the following table, the bank’s lending to businesses with gross annual revenues of \$1.0 million or less trailed the percentage of businesses. However, the business population represents only the businesses in that revenue range and not the actual population of businesses seeking a loan. Given that some smaller businesses may tend to seek alternative forms of financing, such as home equity lines of credit or credit card cards, it is expected that the bank’s performance would trail the percent of businesses reporting revenues of \$1.0 million or less. In addition, the AA contains a large Amish population whose business owners tend to seek financing within their families and communities over traditional financial institutions.

As an additional point of reference, the aggregate large bank CRA data for small business loans provides an indication of demand, as noted earlier. This data shows that in 2021, approximately 43.2 percent of the small business loans granted by large banks were to businesses with gross annual revenues of \$1.0 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Indiana Non-MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2022	86.8	111	48.9	7,266	20.0
>\$1,000,000					
2022	3.8	112	49.3	28,810	79.3
Revenue Not Available					
2022	9.4	4	1.8	238	0.7
Totals					
2022	100.0	227	100.0	36,314	100.0
<i>Source: 2022 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Small Farm Loans

The distribution of small farm loans reflects reasonable penetration among farms of different sizes. As shown in the following table, the bank’s lending to farms with gross annual revenues of \$1.0 million or less trailed the percentage of farms. Similar to the comparable demographic data discussed in the small business loans section, the farm population represents only the farms in that revenue range and not the population seeking a loan. Also similar to small businesses, small farms may seek credit through alternate forms of financing.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Indiana Non-MSA AA					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000					
2022	98.4	139	88.0	9,177	73.4
>\$1,000,000					
2022	1.1	16	10.1	3,147	25.2
Revenue Not Available					
2022	0.5	3	1.9	185	1.5
Totals					
2022	100.0	158	100.0	12,509	100.0
<i>Source: 2022 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

COMMUNITY DEVELOPMENT TEST

FSB demonstrated adequate responsiveness to the community development needs of the AA through community development loans, donations, and community development services. Examiners considered the institution’s capacity, the need and availability of such opportunities, and

information provided by the community contact. The following sections provide descriptions of community development activities in this AA.

Community Development Loans

The bank made 12 community development loans totaling nearly \$5.8 million in this AA, which represents nearly half of the bank’s total community development lending. Most of the community development loans in this AA supported community services for low- and moderate-income individuals, with other loans supporting affordable housing and economic development.

The following table details the bank’s community development lending in the Indiana Non-MSA AA by year and purpose.

Community Development Lending- Indiana Non-MSA AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020*	0	0	0	0	0	0	0	0	0	0
2021	0	0	5	3,999	1	300	0	0	6	4,299
2022	0	0	3	140	1	410	0	0	4	550
YTD 2023**	1	863	0	0	1	60	0	0	2	923
Total	1	863	8	4,139	3	770	0	0	12	5,772

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

Notable examples of the bank’s community development loans in this AA include:

- \$3.0 million line of credit to an organization that provides financial assistance to low- and moderate-income families for medical expenses.
- \$863,000 to purchase apartment buildings with 18 total units, of which a majority provided affordable housing with below-market rents.
- \$154,000 to a nonprofit organization that provides services to low- and moderate-income individuals in the AA who are recovering from drug and alcohol abuse.

Qualified Investments

FSB made 67 donations totaling \$137,000 to organizations focused on affordable housing and assisting low- and moderate-income individuals, families, and small businesses serving this AA. The following table illustrates community development donations by purpose.

Qualified Investments- Indiana Non-MSA AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Qualified Grants & Donations	7	36	52	86	8	15	0	0	67	137

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

Notable donations include:

- \$55,000 to a community health clinic that supports affordable health services.
- \$10,000 to a LaGrange County affordable housing project.
- \$11,180 to two rural critical care hospital foundations that provide funding for patient programs, medical technology advancements, and financial assistance for those in need.

Community Development Services

During the evaluation period, bank management and employees provided 71 instances of financial expertise or technical assistance to community development-related organizations serving this AA. The following table illustrates community development services by year and purpose.

Community Development Services- Indiana Non-MSA AA					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2020*	4	1	6	0	11
2021	3	8	10	0	21
2022	2	10	12	0	24
YTD 2023**	1	7	7	0	15
Total	10	26	35	0	71

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

Notable examples of community development services include:

- Two employees served as treasurer and Board members of a LaGrange County economic development organization.
- An employee served as treasurer for a LaGrange County organization focused on building and repairing affordable homes.
- An employee served as president and a Board member of an economic development organization that strives to attract new or retain existing businesses within the City of Angola.

ELKHART-GOSHEN, IN MSA AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN ELKHART-GOSHEN, IN MSA AA

The Elkhart-Goshen, IN MSA AA consists of five census tracts in eastern Elkhart County. FSB maintains one branch office, which includes an ATM, in this AA. As of June 30, 2023, the bank derived 1.8 percent of its deposits in this AA. In 2022, the bank originated 10.8 percent of all of its home mortgage, small business, and small farm loans within the overall AA in this AA.

Economic and Demographic Data

Based on 2020 U.S. Census data, the AA contains five census tracts with the following income designations: one middle-income and four upper-income. The following table illustrates select economic and demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Elkhart-Goshen, IN MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.0	0.0	20.0	80.0	0.0
Population by Geography	21,266	0.0	0.0	17.4	82.6	0.0
Housing Units by Geography	6,212	0.0	0.0	18.5	81.5	0.0
Owner-Occupied Units by Geography	5,179	0.0	0.0	18.9	81.1	0.0
Occupied Rental Units by Geography	793	0.0	0.0	16.1	83.9	0.0
Vacant Units by Geography	240	0.0	0.0	17.1	82.9	0.0
Businesses by Geography	2,268	0.0	0.0	21.4	78.6	0.0
Farms by Geography	181	0.0	0.0	15.5	84.5	0.0
Family Distribution by Income Level	5,167	9.2	11.7	26.0	53.2	0.0
Household Distribution by Income Level	5,972	9.7	10.1	17.2	63.0	0.0
Median Family Income MSA - 21140 Elkhart-Goshen, IN MSA		\$70,610	Median Housing Value			\$248,357
			Median Gross Rent			\$799
			Families Below Poverty Level			2.3%
<i>Source: 2020 U.S. Census and 2023 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2020 U.S. Census data, there are 6,212 housing units within the AA. Of these, 83.4 percent are owner-occupied, 12.8 percent are rental units, and 3.8 percent are vacant.

D&B data from 2023 shows the AA contains 2,268 non-farm businesses. Of those businesses, 91.7 percent have revenues of less than \$1.0 million, 66.4 percent employ four or fewer employees, and 95.7 percent operate from a single location. The largest industries in the AA are services (26.9 percent); finance, insurance, and real estate (11.2 percent); and retail trade (10.3 percent). Major employers include Norfolk Southern, Always in Stone Monument Co., Keystone RV Co., and Elkhart General Hospital.

Examiners also consider unemployment data when evaluating a bank's ability to lend in its AAs. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows unemployment levels in the AA steadily decreased from 2020 to 2022 consistent with state and national unemployment rates. Like most of the country, unemployment rates in the AA experienced a sharp increase in 2020 due to the COVID-19 pandemic.

Unemployment Rates				
Area	2020	2021	2022	July 2023
	%	%	%	%
Elkhart County	7.7	2.8	2.5	2.6
State	7.3	3.9	3.0	3.3
National Average	8.1	5.3	3.6	3.5

Source: U.S. Bureau of Labor Statistics

Examiners used the FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the 2022 low-, moderate-, middle-, and upper-income categories for the AA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Elkhart-Goshen, IN MSA AA Median Family Income (21140)				
2022 (\$83,600)	<\$41,800	\$41,800 to <\$66,880	\$66,880 to <\$100,320	≥\$100,320

Source: FFIEC

Competition

FSB operates in a competitive market for financial services. According to FDIC market share data as of June 30, 2023, 16 FDIC-insured institutions have \$4.8 billion in deposits and operate 52 offices within the entirety of Elkhart County. Of these institutions, FSB ranked 13th with 0.4 percent of the market share. The top five institutions account for 90.4 percent of the market share.

There is a high level of competition for home mortgage loans. Based on 2022 HMDA aggregate data, 75 lenders originated 726 home mortgage loans in the AA. Of these lenders, FSB ranked second with 11.9 percent of the market share. The top lender accounted for 34.0 percent of the market share.

There is also a high level of competition for small business loans. FSB is not required to collect or report small business loan data and is not included in the following numbers. As such, analysis of small business loans does not include comparisons to aggregate data within the Lending Test. However, aggregate data is useful in identifying the level of demand for such loans. In 2021, the most recent year for which data is available, 63 lenders originated 3,248 small business loans in the AA. The top five lenders accounted for 58.4 percent of the market share.

There is a moderate level of competition for small farm loans. Similar to small business loan data, FSB is not required to collect or report data on small farm loans, and the analysis does not include comparisons to aggregate data. In 2021, the most recent year for which data is available, 12 lenders originated 128 small farm loans in the AA. The top five lenders accounted for 82.0 percent of the market share.

Community Contact

Examiners utilized the annual action plan, and annual performance and evaluation report from the City of Goshen's Community Development Block Grant to assist in identifying credit and community development needs and opportunities. The plan and report noted opportunities related to housing, access to services, and neighborhood revitalization. Housing opportunities include supporting affordable housing creation and preservation, expanding housing options and assistance, and increasing the quality of rental housing. Access to service opportunities include increasing access to affordable healthcare, supporting nutrition programs and food assistance, providing emergency shelter and permanent supportive housing for homeless, and supporting life skill development. Neighborhood revitalization opportunities include improving owner-occupied housing through rehabilitation, supporting public infrastructure projects, and addressing vacant and foreclosed houses.

Credit and Community Development Needs and Opportunities

Considering information from the action plan and evaluation report, bank management, and demographic and economic data, examiners determined there are opportunities within the AA for affordable housing, housing and rental improvements, services directed toward homeless and low-income families, and public infrastructure projects.

CONCLUSIONS ON PERFORMANCE CRITERIA IN ELKHART-GOSHEN, IN MSA AA

LENDING TEST

Overall, FSB demonstrated reasonable performance under the Lending Test in the Elkhart-Goshen, IN MSA AA.

Borrower Profile

Overall, the bank's lending in all three product lines reviewed reflects reasonable penetration among borrowers of different income levels, and businesses and farms of different sizes.

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels. As shown in the following table, the bank's lending to low- and moderate-income borrowers trailed aggregate performance. The percentage of low- and moderate-income families in the AA at 9.2 and 11.7 respectively, is considerably less than the other income levels. Additionally, intense competition exists with several other lenders in the AA. The 2022 HMDA aggregate data shows that all lenders made a combined total of 38 loans to low-income borrowers. The five lenders with the largest overall market share were responsible for 73.7 percent of the 38 loans to low-income borrowers. Further, low- and moderate-income borrowers in this AA are less likely to be able to service a loan in an amount sufficient to afford a home in the AA, as the median home value is

\$248,357. Given the bank’s limited market presence and competition, overall performance is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level						
Elkhart-Goshen, IN MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2022	9.2	5.1	0	0.0	0	0.0
Moderate						
2022	11.7	16.1	10	11.6	1,507	8.2
Middle						
2022	26.0	35.4	32	37.2	5,094	27.9
Upper						
2022	53.2	38.0	44	51.2	11,676	63.9
Not Available						
2022	0.0	5.5	0	0.0	0	0.0
Totals						
2022	100.0	100.0	86	100.0	18,277	100.0

*Source: 2020 U.S. Census; Bank Data, 2022 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. As shown in the following table, the bank’s lending to businesses with gross annual revenues of \$1.0 million or less trailed the percentage of businesses. However, the business population represents only the businesses in that revenue range and not the actual population of businesses seeking a loan. Given that smaller businesses tend to seek alternative forms of financing such as home equity lines of credit or credit cards, it is expected that the bank’s performance would trail the percent of businesses reporting revenues of \$1.0 million or less.

As an additional point of reference, the aggregate large bank CRA data for small business loans provides an indication of demand, as noted earlier. This data shows that in 2021, approximately 47.4 percent of the small business loans granted by large banks were to businesses with gross annual revenues of \$1.0 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Elkhart-Goshen, IN MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2022	90.6	12	57.1	1,056	32.1
>\$1,000,000					
2022	4.0	9	42.9	2,232	67.9
Revenue Not Available					
2022	5.4	0	0.0	0	0.0
Totals					
2022	100.0	21	100.0	3,288	100.0
<i>Source: 2022 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

Small Farm Loans

The distribution of small farm loans reflects reasonable penetration among farms of different sizes. As shown in the following table, the bank’s lending to farms with gross annual revenues of \$1.0 million or less trailed the percentage of farms. Similar to the comparable demographic data discussed in the small business loan section, the farm population represents only the farms in that revenue range and not the population seeking a loan. Also similar to small businesses, small farms may seek credit through alternate forms of financing.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Elkhart-Goshen, IN MSA AA					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000					
2022	98.2	21	91.3	1,999	84.0
>\$1,000,000					
2022	1.8	2	8.7	381	16.0
Revenue Not Available					
2022	0.0	0	0.0	0	0.0
Totals					
2022	100.0	23	100.0	2,380	100.0
<i>Source: 2022 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

COMMUNITY DEVELOPMENT TEST

FSB demonstrated adequate responsiveness to the community development needs of the AA considering its limited presence and opportunities. Examiners considered the institution’s capacity, the need and availability of such opportunities, and information provided by the community contact. The following sections provide descriptions of community development activities in this AA.

Community Development Loans

The bank made one community development loan totaling \$150,000 that supported affordable housing in the AA during the evaluation period.

Qualified Investments

The bank provided three community development donations totaling \$4,500 to a community-based organization that provides emergency services, medication, and education programs to low- and moderate-income individuals.

Community Development Services

During the evaluation period, a bank employee continuously served as a Board member and/or President of an organization promoting economic development along with growth and revitalization of the downtown area of a small town located in the AA.

MICHIGAN – Full-Scope Review

CRA RATING FOR MICHIGAN: SATISFACTORY

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

DESCRIPTION OF INSTITUTION’S OPERATIONS IN MICHIGAN

FSB designated one AA within the State of Michigan. The Michigan Non-MSA AA includes six census tracts in the southeastern corner of St. Joseph County. FSB maintains one branch office, which includes an ATM, within the state. As of June 30, 2023, the bank derived 2.8 percent of its deposits in Michigan. In 2022, the bank originated 1.7 percent of all its home mortgage, small business, and small farm loans within its overall AAs, in the Michigan AA.

Economic and Demographic Data

Based on 2020 U.S. Census data, the AA contains six census tracts with the following income designations: two moderate-income and four middle-income. The following table illustrates select economic and demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Michigan Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.0	33.3	66.7	0.0	0.0
Population by Geography	20,746	0.0	30.4	69.6	0.0	0.0
Housing Units by Geography	8,975	0.0	32.1	67.9	0.0	0.0
Owner-Occupied Units by Geography	5,610	0.0	22.8	77.2	0.0	0.0
Occupied Rental Units by Geography	2,458	0.0	50.1	49.9	0.0	0.0
Vacant Units by Geography	907	0.0	40.8	59.2	0.0	0.0
Businesses by Geography	1,181	0.0	45.6	54.4	0.0	0.0
Farms by Geography	87	0.0	8.0	92.0	0.0	0.0
Family Distribution by Income Level	5,382	22.5	22.0	23.6	31.9	0.0
Household Distribution by Income Level	8,068	22.3	18.5	20.5	38.6	0.0
Median Family Income Non-MSAs - MI		\$64,965	Median Housing Value			\$113,309
			Median Gross Rent			\$730
			Families Below Poverty Level			13.6%

*Source: 2020 U.S. Census and 2023 D&B Data
Due to rounding, totals may not equal 100.0%
(*) The NA category consists of geographies that have not been assigned an income classification.*

According to 2020 U.S. Census data, there are 8,975 housing units within the AA. Of these, 62.5 percent are owner-occupied, 27.4 percent are rental units, and 10.1 percent are vacant.

D&B data from 2023 shows the AA contains 1,181 non-farm businesses. Of those businesses, 79.4 percent have revenues of less than \$1.0 million, 67.0 percent employ four or fewer employees, and 85.5 percent operate from a single location. The largest industries in the AA are services (38.3 percent); retail trade (16.0 percent); and finance, insurance, and real estate (7.9 percent). Major employers in the AA include Lakeland Hospital, Michigan Pizza Hut, LECO, and Knead Bread LLC.

Examiners also consider unemployment data when evaluating a bank’s ability to lend in its AAs. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows unemployment levels in the AA steadily decreased from 2020 to 2022 consistent with state and national unemployment rates. Like most of the country, unemployment rates in the AA experienced a sharp increase in 2020 due to the COVID-19 pandemic.

Unemployment Rates				
Area	2020	2021	2022	July 2023
	%	%	%	%
St. Joseph County	9.3	5.1	4.3	4.8
State	10.0	5.8	4.2	3.6
National Average	8.1	5.3	3.6	3.5

Source: U.S. Bureau of Labor Statistics

Examiners used the FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the 2022 low-, moderate-, middle-, and upper-income categories for the AA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Michigan Non-MSA AA Median Family Income (99999)				
2022 (\$71,500)	<\$35,750	\$35,750 to <\$57,200	\$57,200 to <\$85,800	≥\$85,800

Source: FFIEC

Competition

FSB operates in a competitive market for financial services. According to FDIC market share data as of June 30, 2023, nine FDIC-insured institutions have \$1.0 billion in deposits and operate 22 offices within the entirety of St. Joseph County. Of these institutions, FSB ranked eighth with 2.7 percent of the market share. The top five institutions account for 85.7 percent of the market share.

There is a high level of competition for home mortgage loans. Based on 2022 HMDA aggregate data, 69 lenders originated 365 home mortgage loans in the AA. Of these lenders, FSB ranked sixth with 3.8 percent of the market share. The top five lenders account for 59.7 percent of the market share.

There is also a high level of competition for small business loans. FSB is not required to collect or report small business loan data and is not included in the following numbers. As such, analysis of small business loans does not include comparisons to aggregate data within the Lending Test. However, aggregate data is useful in identifying the level of demand for such loans. In 2021, the most recent year for which data is available, 44 lenders originated 577 small business loans in the AA. The top five lenders accounted for 55.3 percent of the market share.

There is a moderate level of competition for small farm loans. Similar to small business loan data, FSB is not required to collect or report data on small farm loans and analysis does not include comparisons to aggregate data. In 2021, the most recent year for which data is available, 11 lenders originated 56 small farm loans in the AA. The top five lenders accounted for 83.9 percent of the market share.

Community Contact

Examiners referred to previously completed contacts with representatives from a rural development organization and two economic development organizations active in the AA. The contacts stated that there are opportunities for revitalization in the downtown areas of larger communities in the AA, and there is demand for small business loans due to improving economic stability and business growth in the area.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that opportunities exist for economic revitalization and small business lending.

SCOPE OF EVALUATION - MICHIGAN

The ratings for the State of Michigan are based on the bank's performance in the Michigan Non-MSA AA. Examiners performed a full-scope review of the bank's performance in this AA. Consistent with the scope of the evaluation described for the overall bank, the Lending Test for Michigan included home mortgage, small business, and small farm loans. The Community Development Test included the bank's community development lending, qualified investments, and community development services.

The bank's performance in Michigan contributed significantly less weight in the overall bank ratings, as only small portions of the bank's offices, lending, and community development activities, relative to the entire bank, occurred within Michigan.

CONCLUSIONS ON PERFORMANCE CRITERIA IN MICHIGAN

LENDING TEST

Overall, FSB demonstrated reasonable performance under the Lending Test in the State of Michigan.

Geographic Distribution

The geographic distribution of lending reflects reasonable dispersion throughout the AA across all three product lines reviewed. The AA contains no low-income tracts and two moderate-income tracts, which is a decline from the prior evaluation when the AA contained three moderate-income tracts. The 2020 Census revised some of the tract income level designations.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. As shown in the table below, the bank did not fund any loans in moderate-income tracts in 2022. While not shown in the table, the bank's 2020 and 2021 performance in moderate-income tracts was also below aggregate lending and the owner-occupied housing level as the bank originated two loans in 2020 and one loan in 2021 in these moderate-income tracts. Overall, the bank's performance is considered reasonable primarily due to competition from other lenders.

In 2022, HMDA aggregate data showed 82 originated and purchased loans in the moderate-income tracts. There were 93 lenders reporting HMDA data in the AA in 2022, evidencing significant competition. The five lenders with the largest overall market share were responsible for 67.0 percent of the loans in the moderate-income tracts. Further magnifying the level of competition is that 55.6 percent of the housing units in the moderate-income census tracts are either occupied rental units or vacant. The intense competition leaves a much smaller market share for the remaining institutions.

Geographic Distribution of Home Mortgage Loans						
Michigan Non-MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate						
2022	22.8	26.6	0	0.0	0	0.0
Middle						
2022	77.2	73.4	14	100.0	1,824	100.0
Totals						
2022	100.0	100.0	14	100.0	1,824	100.0
<small>Source: 2020 U.S. Census; Bank Data, 2022 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</small>						

Small Business Loans

The distribution of small business loans reflects reasonable dispersion throughout the AA. As shown in the following table, the bank's lending in the moderate-income census tracts is consistent with the percentage of businesses.

Geographic Distribution of Small Business Loans					
Michigan Non-MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate					
2022	45.5	2	40.0	430	51.8
Middle					
2022	54.5	3	60.0	400	48.2
Totals					
2022	100.0	5	100.0	830	100.0

*Source: 2022 D&B Data; Bank Data; "--" data not available.
Due to rounding, totals may not equal 100.0%*

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion throughout the AA. The bank granted only two small farm loans totaling \$360,000 in the AA in 2022. Both loans were to farms in middle-income census tracts. The moderate-income census tracts contain only eight farms, which significantly limits the lending opportunities available.

Borrower Profile

The bank's performance for this criterion is considered reasonable overall in this AA, primarily due to home mortgage lending to borrowers of different income levels. As discussed further in the following sections, examiners noted weaker performance relative to small business lending.

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels. As shown in the following table, the bank's lending to low-income borrowers trailed aggregate performance, while lending to moderate-income borrowers exceeded aggregate performance in 2022. While not shown in the table, the bank's 2020 performance to low- and moderate-income borrowers exceeded aggregate performance, while the bank's 2021 performance to low- and moderate-income borrowers trailed aggregate performance.

As previously mentioned, FSB has one office in this AA and maintains a small deposit market share. Intense competition exists, with the presence of several other bank branches. Based on the 2022 HMDA aggregate data, all reporting lenders made a combined total of 45 loans to low-income borrowers. The five lenders with the largest overall market share were responsible for 69.0 percent of the loans to low-income borrowers.

In addition, the low-income category includes the 13.6 percent of AA families with incomes below the poverty level. These families in particular, may lack the financial resources to qualify and/or service debt in amounts necessary to finance homes in the AA.

Given the bank’s limited market presence, strong competition, and the limited financial resources of low-income families in the AA, examiners consider performance throughout the evaluation period reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level						
Michigan Non-MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2022	22.5	11.2	0	0.0	0	0.0
Moderate						
2022	22.0	28.0	5	35.7	323	17.7
Middle						
2022	23.6	25.6	3	21.4	659	36.1
Upper						
2022	31.9	26.6	5	35.7	792	43.4
Not Available						
2022	0.0	8.7	1	7.1	50	2.7
Totals						
2022	100.0	100.0	14	100.0	1,824	100.0

*Source: 2020 U.S. Census; Bank Data, 2022 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 poor penetration among businesses of different sizes. As shown in the following table, the bank’s lending to businesses with gross annual revenues of \$1.0 million or less trailed the percentage of businesses. While the business population represents only the businesses in that revenue range and not the actual population of businesses seeking a loan, the bank’s performance significantly trails the comparable demographic data.

As an additional point of reference, the aggregate large bank CRA data for small business loans provides an indication of demand, as noted earlier. This data shows that in 2021, approximately 44.5 percent of the small business loans granted by large banks were to businesses with gross annual revenues of \$1.0 million or less. This suggests that there are opportunities to lend to small businesses in the AA.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Michigan Non-MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2022	78.8	1	20.0	250	30.1
>\$1,000,000					
2022	6.1	3	60.0	530	63.9
Revenue Not Available					
2022	15.1	1	20.0	50	6.0
Totals					
2022	100.0	5	100.0	830	100.0
<i>Source: 2022 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

Small Farm Loans

The distribution of loans reflects reasonable penetration among farms of different sizes. Approximately 97.4 percent of the farms in the AA have gross annual revenues of \$1 million or less. In 2022, the bank granted only two small farm loans totaling \$360,000 in the AA, of which one was to a small farm. Given the limited lending opportunities and activities, and competition from numerous other lenders, the bank’s performance is reasonable.

COMMUNITY DEVELOPMENT TEST

FSB demonstrated adequate responsiveness to the community development needs of the AA through community development loans, donations, and community development services. Examiners considered the institution’s capacity, the need and availability of such opportunities, and information provided by the community contact. The following sections provide descriptions of community development activities in this AA.

Community Development Loans

The bank made seven community development loans totaling \$1.8 million in this AA. Three of these loans totaling \$465,000 were PPP loans. In comparison, the bank did not originate any non-PPP community development loans in this AA during the previous evaluation period. Community development loans in this AA supported affordable housing, critical community services, and revitalization/stabilization of moderate-income areas.

The following table details the bank’s community development lending in the Michigan Non-MSA AA by year and purpose.

Community Development Lending- Michigan Non-MSA AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020*	0	0	0	0	0	0	0	0	0	0
2021	0	0	1	1,216	0	0	3	465	4	1,681
2022	2	120	0	0	0	0	0	0	2	120
YTD 2023**	1	20	0	0	0	0	0	0	1	20
Total	3	140	1	1,216	0	0	3	465	7	1,821

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

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

- \$1.2 million loan to fund the purchase of a firetruck for a fire department in and surrounded by moderate-income census tracts in downtown Sturgis.
- Three PPP loans totaling \$465,000 to businesses located in moderate-income tracts in the AA, supporting revitalization and stabilization of those areas.
- \$100,000 line of credit to an emergency housing facility that provides services to individuals facing homelessness in St. Joseph County.

Qualified Investments

FSB made 39 donations totaling \$33,000 to organizations focused on affordable housing and assisting low- and moderate-income individuals, families, and small businesses serving this AA. The following table illustrates community development donations by purpose.

Qualified Investments- Michigan Non-MSA AA										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Qualified Grants & Donations	7	11	22	17	10	5	0	0	39	33

*Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023*

Notable donations include:

- \$10,000 to a local high school in which a majority of students receive free or reduced cost lunch.
- \$5,000 to a nonprofit organization with a mission to improve living conditions in Sturgis, Michigan by providing quality, affordable housing and home ownership opportunities.
- \$5,000 to a nonprofit organization that builds and improves affordable housing for low-and moderate-income families.

Community Development Services

During the evaluation period, a bank employee provided eight instances of financial expertise or technical assistance to community development-related organizations serving this AA. The following table illustrates community development services by year and purpose.

Community Development Services- Michigan Non-MSA AA					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2020*	1	0	1	0	2
2021	1	0	1	0	2
2022	1	0	1	0	2
YTD 2023**	1	0	1	0	2
Total	4	0	4	0	8
<i>Source: Bank Data, *8/24/2020-12/31/2020; **1/1/2023-10/2/2023</i>					

Notable examples of community development services include:

- A bank employee served as a Board member on a nonprofit organization with a mission to improve living conditions in Sturgis, Michigan by providing quality, affordable housing and home ownership opportunities.
- A bank employee served as an ambassador on a local Chamber of Commerce located in a moderate-income area to facilitate business opportunities and improve quality of life for area residents.

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.

SUMMARY OF RATINGS FOR RATED AREAS

Rated Area	Lending Test	Community Development Test	Rating
STATE OF INDIANA	Satisfactory	Satisfactory	Satisfactory
STATE OF MICHIGAN	Satisfactory	Satisfactory	Satisfactory

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

Community Development Loan: A loan that:

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

Community Development Service: A service that:

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

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

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

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

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

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

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

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

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

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

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

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

Limited-Scope Review: A limited-scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

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

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

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

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

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

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

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

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.