

PUBLIC DISCLOSURE

June 13, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Fairmount State Bank
RSSD# 503547

101 North Main Street
Fairmount, Indiana 46928

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, Illinois 60604-1413

NOTE: This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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BANK'S CRA RATING

The Fairmount State Bank is rated Satisfactory.

The Fairmount State Bank's CRA-related lending is responsive to the credit needs of its assessment area. The Fairmount State Bank originates a substantial majority of consumer loans, home mortgages, and small farm loans within its assessment area. The bank's loan-to-deposit ratio is reasonable considering the bank's size, financial condition, and assessment area credit needs. The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. The bank's borrower distribution within the assessment area reflects excellent penetration among individuals of different income levels, including to low-and-moderate income borrowers, and to farms of different sizes. Additionally, there were no CRA-related complaints received by the institution or this Reserve Bank within the evaluation period.

SCOPE OF EXAMINATION

The Fairmount State Bank's performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC) Small Institution CRA Examination Procedures. The bank's performance was evaluated in the context of information about the institution and its delineated assessment area comprised of a single non-metropolitan area. The performance context considered the bank's asset size, financial condition, competition, and the economic and demographic characteristics of the assessment area. Products selected for the full scope review of the assessment area included consumer loans, home mortgage loans, and loans to small farms.

Performance in the assessment area was evaluated using a streamlined assessment method for small banks based on the following performance criteria:

- ***Loan-to-Deposit Ratio*** – A 17-quarter average loan-to-deposit ratio ending December 31, 2021, was calculated for the bank, and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – A sample of the bank's consumer and home mortgage loans originated from January 1, 2021 through December 31, 2021, and small farm loans originated from May 15, 2018 through December 31, 2021, was reviewed to determine the percentage of loans originated in the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – A sample of the bank's consumer and home mortgage loans originated from January 1, 2021 through December 31, 2021, and small farm loans originated from May 15, 2018 through December 31, 2021, was analyzed to determine the extent to which the bank is making loans in geographies of different income levels, particularly those designated as moderate-income.

- ***Lending to Borrowers of Different Income and Farms of Different Sizes*** – A sample of the bank’s consumer and home mortgage loans originated from January 1, 2021 through December 31, 2021, and small farm loans originated from May 15, 2018 through December 31, 2021, was reviewed to determine the distribution among borrowers of different income levels, particularly those considered low- or moderate-income, and to farms with different revenue sizes.
- ***Response to Substantiated Complaints*** – Complaints were reviewed to determine if any were related to the bank’s record of helping to meet community credit needs and its responses to any received were evaluated for appropriateness.

In addition, two community representatives were contacted to provide information regarding local economic and socio-economic conditions in the assessment area. The organizations contacted provided insight into the credit needs of low- and moderate-income borrowers and small farms within the assessment area.

DESCRIPTION OF INSTITUTION

The Fairmount State Bank, located in Fairmount, Indiana reported total assets of \$57.4 million as of December 31, 2021. The bank is a subsidiary of Fairmount Banking Company and is located one hour northeast of Indianapolis in Grant County. The bank operates one office in a middle-income census tract in the town of Fairmount. There is no automated teller machine (ATM) at the bank’s office, although there is a stand-alone cash-only ATM located within the same census tract. The bank has not opened or closed any branches or ATMs since the previous evaluation. The bank also maintains a website (www.fairmountstatebank.com) that allows customers to view account balances and transfer funds between accounts at the bank.

As shown in the following table, the bank’s loan portfolio is primarily comprised of residential real estate and agricultural loans as of December 31, 2021. The bank also has a substantial consumer loan portfolio, although these loans are significantly smaller by dollar volume.

Loan Portfolio Composition December 31, 2021		
Loan Type	Dollar Volume (\$ in 000s)	% of Portfolio
Agricultural	14,750	41.5
Residential Real Estate	12,914	36.3
Consumer	5,360	15.1
Commercial	1,991	5.6
Other	560	1.6
Total	35,575	100.0%
<i>Note: Percent may not total to 100.0 due to rounding.</i>		

According to the Federal Deposit Insurance Corporation (FDIC) Market Share Report, as of June 30, 2021, the bank held 5.0 percent of total insured deposits in Grant County, ranking seventh of the seven FDIC-insured banks in the county. Star Financial Bank, with four offices in the county, was the market leader with 27.8 percent of insured deposits.

There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its communities.

The bank was rated Satisfactory under the CRA at its previous evaluation conducted on May 14, 2018.

DESCRIPTION OF ASSESSMENT AREA

The bank's non-metropolitan assessment area is comprised of Grant County and census tract 101 in adjacent Madison County for a total of 17 census tracts, including eight moderate-income and nine middle-income census tracts. None of the middle-income census tracts are currently distressed or underserved, although Grant County's middle-income tracts were designated as distressed in 2018 due to poverty. The assessment area is unchanged since the 2018 performance evaluation.

Additional demographic information about the bank's assessment area is provided in the following chart.

Assessment Area: 2021 IN Non MSA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	4,348	23.9
Moderate-income	8	47.1	7,331	40.3	1,640	22.4	3,705	20.4
Middle-income	9	52.9	10,857	59.7	956	8.8	4,030	22.2
Upper-income	0	0.0	0	0.0	0	0.0	6,105	33.6
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	17	100.0	18,188	100.0	2,596	14.3	18,188	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	15,036	7,301	37.6	48.6	5,243	34.9	2,492	16.6
Middle-income	16,614	12,138	62.4	73.1	2,976	17.9	1,500	9.0
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	31,650	19,439	100.0	61.4	8,219	26.0	3,992	12.6
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	1,093	49.0	969	48.3	108	58.7	16	39.0
Middle-income	1,137	51.0	1,036	51.7	76	41.3	25	61.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,230	100.0	2,005	100.0	184	100.0	41	100.0
	Percentage of Total Businesses:			89.9		8.3		1.8
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	5	3.0	5	3.0	0	0.0	0	0.0
Middle-income	164	97.0	163	97.0	1	100.0	0	0.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	169	100.0	168	100.0	1	100.0	0	0.0
	Percentage of Total Farms:			99.4		0.6		0.0
2021 FFIEC Census Data & 2021 Dun & Bradstreet information according to 2015 ACS								
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>								

The bank’s assessment area is predominantly rural, with moderate-income census tracts located in the communities of Marion and Gas City. Marion is the county seat and largest city in Grant County, with a population of 29,948 as of the 2010 U.S. Census. Gas City’s population as of the 2010 U.S. Census equaled 5,965. Given the assessment area is primarily comprised of Grant County, with only one of its 17 census tracts located in Madison County, Madison County demographic information will not be discussed separately in the analysis provided below.

Population Change

The following table presents changes in population within the counties comprising the assessment area, as well as the state of Indiana from 2010 and 2015, according to the 2011 to 2015 U.S. Census Bureau American Community Survey (ACS). The assessment area’s population is 71,895 based on the U.S. Census Bureau’s 2011-2015 ACS data; the slight increase relative to Grant County’s population in the following table is due to the inclusion of the single tract in Madison County. Grant County’s population declined by 1.7 percent relative to the 2010 U.S. census, which was a greater rate of decline than the aggregate of Non-metropolitan statistical area (Non-MSA) Indiana’s 0.4 percent population loss. The population loss also compared unfavorably to the state of Indiana’s total population growth of 1.3 percent. A community representative indicated that the decline in population can be attributed to the closure of several large manufacturing plants over the years. Representatives also shared that during the COVID-19 pandemic, there have been efforts to increase assessment area population using State, local, and private grants. These grants, which include mortgage down payment assistance and moving expenses, are available to new residents and to students from the three colleges in the county to encourage them to remain in the area after graduation.

Population Change			
Area	2010 Population	2015 Population	Percent Change
Grant County, IN	70,061	68,896	-1.7%
Madison County, IN	131,636	130,280	-1.0%
Non-MSA Indiana	1,481,934	1,475,951	-0.4%
Indiana	6,483,802	6,568,645	1.3%

*Source: 2010 U.S. Census Bureau Decennial Census
2011 - 2015 U.S. Census Bureau American Community Survey*

Income Characteristics

The following table compares the median family income (MFI) for families living in the assessment area counties, the Non-MSA Indiana, and the state of Indiana. According to the 2011-2015 U.S. Census Bureau’s ACS, Grant County’s 2015 MFI of \$49,160 declined, on an inflation adjusted basis, by 9.5 percent compared to 2006-2010 data, which is significantly steeper than the declines for Non-MSA Indiana and the State overall. The assessment area is comprised of 18,188 families, of which 23.9 percent are designated as low-income, 20.4 percent are moderate-income, 22.2 percent

are middle-income, and 33.6 percent are upper-income based on 2021 FFIEC Census Data. Additionally, there are 14.3 percent of families that are living below the poverty line. Community representatives noted MFI changes could be attributed to previous years' elimination of higher paying manufacturing jobs offset by the more recent increase of lower wage service-related jobs. Grant County continues to experience challenges and wage gaps as the community recovers from the closure of a large manufacturing plant and the COVID-19 pandemic.

Median Family Income Change			
Area	2010 Median Family Income	2015 Median Family Income	Percent Change
Grant County, IN	\$54,295	\$49,160	-9.5%
Madison County, IN	\$58,701	\$55,141	-6.1%
Non-MSA Indiana	\$57,143	\$55,715	-2.5%
Indiana	\$64,187	\$61,119	-4.8%

*Source: 2006-2010 U.S. Census Bureau American Community Survey
2011-2015 U.S. Census Bureau American Community Survey
Median Family Incomes have been inflation-adjusted and are expressed in 2015 dollars.*

Housing Characteristics

The bank's assessment area includes 31,650 housing units, 61.4 percent of which are owner-occupied, 26.0 percent are rental units, and 12.6 percent are vacant. The following table presents the recent housing cost burden within the counties that comprise the assessment area, the Non-MSA Indiana, and the state of Indiana. The cost burden is a measure of affordability via a comparative analysis of individuals of different income levels that spend 30.0 percent or more of their income on housing costs. Low-income owners and renters in Grant County experience this burden at 57.4 and 68.8 percent of households, respectively. While Grant County's moderate-income renters' housing costs approximated the level of Non-MSA Indiana, moderate-income owners had a lower housing cost burden, at 18.1 percent, than Non-MSA Indiana at 23.7 percent. Due to their lower incomes, there are substantially higher housing costs burdens, regardless of geography, for low-income renters and owners. Both community representatives stated that affordable housing is available within Grant County, while one representative noted there is a desire for more market rate housing due to new hospitals being built along with a performing arts center. A representative stated that market rate homes and rentals are limited, and homes available for purchase within the assessment area have increased in price due to a shortage across the market.

Housing Cost Burden						
Area	Cost Burden - Renters			Cost Burden - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Grant County, Indiana	68.8%	27.2%	41.3%	57.4%	18.1%	14.6%
Madison County, Indiana	74.4%	35.7%	44.0%	59.5%	31.8%	17.8%
Non-MSA Indiana	67.2%	25.6%	35.5%	55.1%	23.7%	15.2%
Indiana	74.3%	33.4%	41.9%	59.5%	28.0%	16.1%

Cost Burden is housing cost that equals 30 percent or more of household income
Source: U.S. Department of Housing and Urban Development (HUD), 2013-2017 Comprehensive Housing Affordability Strategy

Employment Conditions

The following table presents the unemployment rates from 2016 to 2021 in the counties that comprise the assessment area, Non-MSA Indiana, and the state of Indiana. Based on the Bureau of Labor Statistics’ Local Area Unemployment Statistics, unemployment rates in all geographies steadily declined until they experienced a surge in 2020. Unemployment rate increases in 2020 can be attributed to the effects of the COVID-19 pandemic, but rates declined again in 2021 to nearly pre-pandemic levels. According to community representatives, many businesses are now experiencing growth and are struggling to fill job openings, as wages are lower than in the past when the county had a higher level of manufacturing employment. Additionally, the difficulty in hiring employees, has negatively impacted the revenue of small businesses and farms.

Unemployment Rates						
Area	2016	2017	2018	2019	2020	2021
Grant County, Indiana	4.9%	3.8%	3.8%	3.6%	6.3%	3.7%
Madison County, Indiana	5.0%	3.9%	3.8%	3.6%	7.9%	4.1%
Non-MSA Indiana	4.2%	3.3%	3.2%	3.1%	6.5%	NA
Indiana	4.4%	3.5%	3.4%	3.2%	7.1%	3.6%

Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics

Industry Characteristics

Large employers in Grant County include those in the manufacturing, healthcare, education, and distribution industries.

Community Representatives

Two community organizations were contacted to provide information and insight regarding local economic and demographic conditions and the lending needs of small farms and low-and-moderate income individuals in the assessment area. In addition to the comments mentioned in previous sections, representatives noted the expansion of a local hospital in Grant County, and the

overall strength of the small business community. A representative also noted that supply chain issues have greatly impacted the manufacturing industry within the assessment area. Financial institutions work well within the community to drive growth. Community representatives also mentioned small farms have access to capital through banks and state funding, although they are experiencing supply chain issues and difficulties in finding steady farm labor. A representative noted that small farms in the area could also benefit from business plan assistance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

The Fairmount State Bank’s performance relative to the lending test is rated Satisfactory. Overall, the bank is meeting the credit needs of its assessment area based on an analysis of the bank’s lending activities. The loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. A substantial majority of the bank’s lending activity occurs within the assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and lending activity reflects an excellent penetration among individuals of different income levels and to small farms of different revenue sizes. Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

Loan-to-Deposit Ratio

The Fairmount State Bank's loan-to-deposit (LTD) ratio is reasonable given its size, financial condition, and its assessment area’s credit needs. The bank has an average LTD ratio for the 17-quarter period ending December 31, 2021, of 69.0 percent, which represents an increase from the 52.6 percent ratio noted at the bank’s previous evaluation. Although the bank’s 17-quarter average is lower than its competitors, all competitors are larger by asset size. The following table summarizes the bank's LTD ratio and compares this data to the bank's local competitors.

Comparative Loan-to-Deposit Ratios	
Institution	Loan-to-Deposit Ratio (%)
	17 – Quarter Average
The Fairmount State Bank	69.0
Competitors	
Grant County State Bank	105.8
First Farmers Bank and Trust Company	89.0
Star Financial Bank	76.6

Assessment Area Concentration

During the evaluation period, The Fairmount State Bank originated a substantial majority of consumer, home mortgage, and small farm loans within its assessment area. The bank originated

88.9 percent of total loans by number and 85.4 percent by dollar inside the assessment area. Residential real estate loans made up a larger percentage of loans within the assessment area than both consumer and small farm loans, with 93.9 percent of loans by number and 95.6 percent of loans by dollar. The high percentage of loan originations within the assessment area indicates the bank is helping meet the credit needs of the assessment area.

Assessment Area Concentration								
Loan Type	Inside				Outside			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	123	88.5	784	90.4	16	11.5	83	9.6
Residential Real Estate	46	93.9	3,991	95.6	3	6.1	185	4.4
Small Farm	40	85.1	4,441	77.3	7	14.9	1,304	22.7
TOTAL LOANS	209	88.9	9,217	85.4	26	11.1	1,571	14.6

Note: Percentages may not add to 100.0 percent due to rounding.

Geographic Distribution of Loans

When considering the location of the bank’s sole office, competitive environment, and demographic characteristics of the assessment area, the bank’s geographic distribution of consumer, home mortgage, and small farm loans reflects a reasonable dispersion throughout the assessment area. Samples of the bank’s consumer loans, home mortgage, and small farm loans originated inside the assessment area were analyzed to determine the extent to which the bank is making loans in geographies of different income levels. The analysis focused on loan penetration in moderate-income census tracts since there are no low-income census tracts in the bank’s assessment area. A gap analysis was also completed as part of the evaluation. Although the bank has no locations within the moderate- income tracts, it made consumer and home mortgage loans in each of the assessment area’s moderate-income tracts. Small farm loans were not extended in the moderate-income tracts, which is not unexpected since only 3.3 percent of small farms are located in the moderate-income tracts.

Consumer Loans

The bank’s geographic distribution of consumer loans is reasonable. Although assessment area moderate-income census tracts are not located near the bank, during the evaluation period, the bank’s loan sample of 123 loans included 30 loans within the moderate-income tracts, accounting for 24.4 percent of loans. This lending pattern is below the area demographics, considering 45.4 percent of households in the area are within the moderate-income tracts. However, the penetration is notable due to the distance to communities with the moderate-income census tracts. Bank management indicated that they have been successful in lending in these areas in part because they offer low dollar loans that their competitors do not.

The following table illustrates the bank’s consumer lending activity across all income tracts in the review period.

Geographic Distribution of Consumer Loans						
Assessment Area: 2021 IN Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				Households
		2021				
		Count Bank		Dollar Bank		
		#	%	\$ (000s)	\$ %	%
Totals	Low	0	0.0	0	0.0	0.0
	Moderate	30	24.4	151	19.3	45.4
	Middle	93	75.6	633	80.7	54.6
	Upper	0	0.0	0	0.0	0.0
	Unknown	0	0.0	0	0.0	0.0
	Total	123	100.0	784	100.0	100.0

2021 FFIEC Census Data
Note: Percentages may not add to 100.0 percent due to rounding

Home Mortgage Lending

Home mortgage lending reflects reasonable dispersion among census tracts of differing income levels. During the review period, the bank’s loan sample included seven loans, accounting for 15.2 percent of the sample of home mortgage loans, to borrowers in moderate-income census tracts. This lending pattern is below the assessment area demographics, as 37.6 percent of households are in moderate-income census tracts. However, considering the location of the moderate-income tracts relative to the bank’s office and local competition, lending represents a reasonable dispersion of home mortgage loans throughout the assessment area.

The following table illustrates the bank’s home mortgage lending activity across all income tracts in the review period.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: 2021 IN Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				Owner Occupied % of Units
		2021				
		Count Bank		Dollar Bank		
		#	%	\$ (000s)	\$ %	
Totals	Low	0	0.0	0	0.0	0.0
	Moderate	7	15.2	326	8.2	37.6
	Middle	39	84.8	3,665	91.8	62.4
	Upper	0	0.0	0	0.0	0.0
	Unknown	0	0.0	0	0.0	0.0
	Total		46	100.0	3,991	100.0

2021 FFIEC Census Data
Note: Percentages may not add to 100.0 percent due to rounding

Small Farm Loans

The bank’s geographic distribution of small farm loans is reasonable. During the evaluation period, none of the loans the bank originated were in moderate-income census tracts, with all loans in the sample originated in middle-income census tracts. The absence of lending in moderate-income census tracts is consistent with the demographic measure of small farms located in moderate-income census tracts of 3.3 percent of small farms. The moderate-income census tracts are located in less rural areas of the assessment area, in Marion and Gas City.

The following table illustrates the bank’s small farm lending activity across all income tracts in the review period.

Geographic Distribution of Small Farm Loans						
Assessment Area: 2018-2021 IN Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				Total Farms
		May 14, 2018 through December 31, 2021				
		Count Bank		Dollar Bank		
		#	%	\$ 000s	\$ %	%
Small Farm	Low	0	0.0	0	0.0	0.0
	Moderate	0	0.0	0	0.0	3.3
	Middle	40	100.0	4,442	100.0	96.7
	Upper	0	0.0	0	0.0	0.0
	Unknown	0	0.0	0	0.0	0.0
	Total		40	100.0	4,442	100.0

2021 FFIEC Census Data & Average 2018-2021 Dun & Bradstreet information according to 2015 ACS
Note: Percentages may not add to 100.0 percent due to rounding

Lending to Borrowers of Different Income Levels and to Farms of Different Sizes

The Fairmount State Bank’s distribution of loans reflects excellent penetration among individuals of different income levels and farms of different sizes. The bank’s loan distribution is reflective of the assessment area incomes and farm sizes and indicates the bank is serving the assessment area’s credit needs.

Consumer Loans

The bank’s consumer lending reflects excellent penetration among individuals of different income levels. The bank originated 58.5 percent of its consumer loans to low-income borrowers and 30.9 percent to moderate-income borrowers; these level of credit extensions was substantially above the demographic measures of low- and moderate-income households in the assessment area, at 26.6 percent and 19.0 percent, respectively. The bank’s consumer closed-end loan products include low dollar amount loans, which assists in serving the credit needs of low- and moderate-income borrowers as management indicated that its competitors do not routinely offer such loans.

The following table illustrates the bank’s borrower distribution of consumer lending during the review period.

Borrower Distribution of Consumer Loans						
Assessment Area: 2021 IN Non MSA						
	Borrower Income Levels	Bank & Demographic Comparison 2021				Households by Household Income %
		Count		Dollar		
		#	%	\$ (000s)	\$ %	
Totals	Low	72	58.5	314	40.1	26.6
	Moderate	38	30.9	258	32.9	19.0
	Middle	10	8.1	199	25.4	19.3
	Upper	2	1.6	12	1.5	35.0
	Unknown	1	0.8	1	0.1	
	Total	123	100.0	784	100.0	100.0
2021 FFIEC Census Data						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Home Mortgage

Home mortgage lending demonstrates excellent penetration among individuals of different income levels. The bank’s sample of home mortgage loans included originations of 17 loans to low-income borrowers, or 37.0 percent of total home mortgage loans, which is substantially above the level of low-income families in the assessment area of 23.9 percent. Further, 17.4 percent of total loans in the sample were originated to moderate-income borrowers, just slightly below the demographic measure of 20.4 percent of assessment area families with moderate-income. The

bank’s level of home-mortgage lending to low-income individuals is particularly supportive of assessment area credit needs.

The following table illustrates the bank’s borrower distribution of home mortgage lending during the review period.

Borrower Distribution of Home Mortgage Loans						
Assessment Area: 2021 IN Non MSA						
	Borrower Income Levels	Bank & Demographic Comparison 2021				Families by Family Income %
		Count		Dollar		
		#	%	\$ (000s)	\$ %	
Totals	Low	17	37.0	1,269	31.8	23.9
	Moderate	8	17.4	450	11.3	20.4
	Middle	14	30.4	1,381	34.6	22.2
	Upper	7	15.2	891	22.3	33.6
	Unknown	0	0.0	0	0.0	0.0
	Total	46	100.0	3,991	100.0	100.0
2021 FFIEC Census Data						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Small Farm Loans

The bank’s lending performance to small farms represents excellent penetration to farms of different sizes. Overall, the bank originated 97.5 percent of small farm loans to farms with revenues of \$1 million or less during the evaluation period. The bank’s performance is comparable to the presence of small farms operating within the assessment area of 99.4 percent. Of small farm loans with revenues of \$1 million or less, 61.5 percent were made in amounts of \$100,000 or less. These loans are considered most beneficial to small farms, indicating the bank’s willingness to meet the credit needs of small farms.

The following table illustrates the bank’s borrower distribution of small farm loans during the review period.

Small Farm Lending By Revenue & Loan Size							
Assessment Area: 2018-2021 IN Non MSA							
Product Type		Bank & Demographic Comparison May 14, 2018 through December 31, 2021					
		Count Bank		Dollar Bank		Total Farms	
		#	%	\$ 000s	\$ %	%	
Small Farm	Revenue	\$1 Million or Less	39	97.5	4,386	98.7	99.4
		Over \$1 Million	1	2.5	56	1.3	0.6
		Unknown	0	0.0	0	0.0	0.0
		Total	40	100.0	4,442	100.0	100.0
	Loan Size	\$100,000 or Less	25	62.5	844	19.0	
		\$100,001 - \$250,000	9	22.5	1,375	31.0	
		\$250,001 - \$500,000	6	15.0	2,223	50.0	
		Total	40	100.0	4,442	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	24	61.5	788	18.0	
		\$100,001 - \$250,000	9	23.1	1,375	31.3	
		\$250,001 - \$500,000	6	15.4	2,223	50.7	
		Total	39	100.0	4,386	100.0	
Originations & Purchases							
2021 FFIEC Census Data & Average 2018-2021 Dun & Bradstreet information according to 2015 ACS							
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>							

Response to Complaints

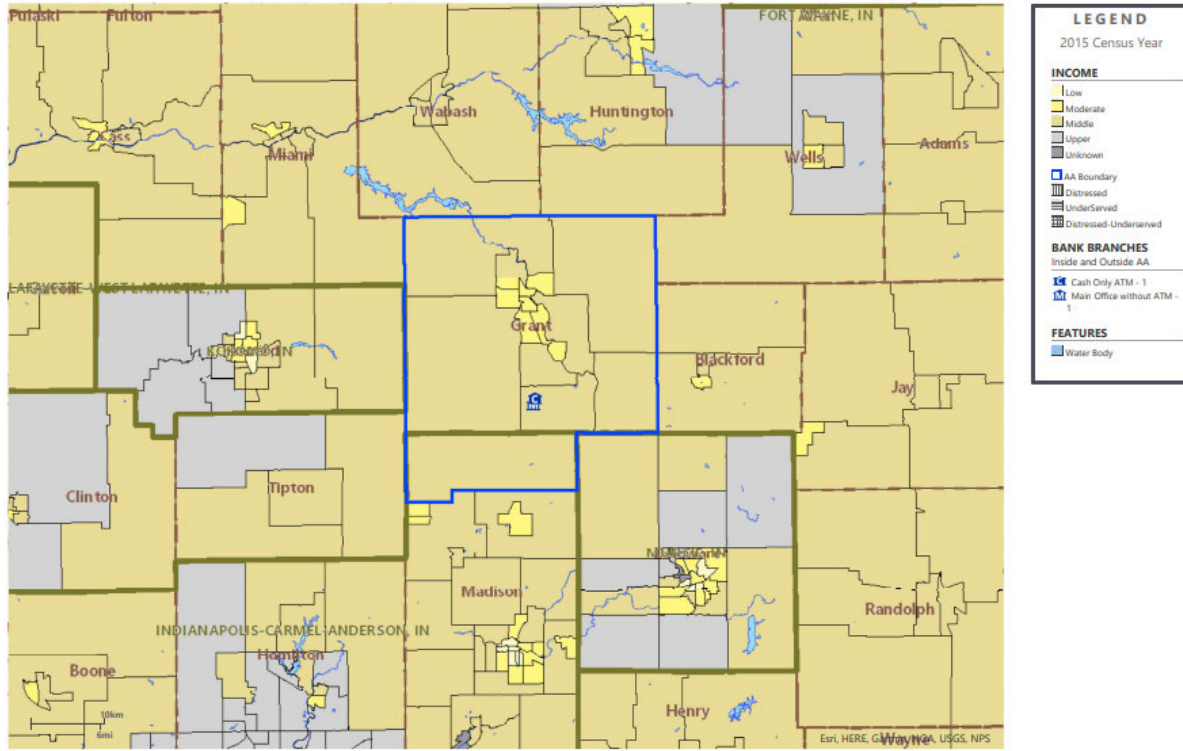
Neither the bank nor this Reserve Bank have received any CRA-related complaints since the previous examination.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – Map of Assessment Area

The Fairmount State Bank 503547
IN Non MSA



APPENDIX B – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED		Consumer and home mortgage loans originated January 1, 2021, through December 31, 2021, and small farm loans originated from May 15, 2018, through December 31, 2021.	
FINANCIAL INSTITUTION		PRODUCTS REVIEWED	
The Fairmount State Bank		Consumer, home mortgage, and small farm loans.	
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED	
None	N/A	N/A	
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
A non-metropolitan area, consisting of Grant County and one census tract (101.0) in Madison County	Full Scope	None	N/A

APPENDIX C – Glossary

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Affordability ratio: To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

American Community Survey Data (ACS): The American Community Survey (ACS) data is based on a nationwide survey designed to provide local communities with reliable and timely demographic, social, economic, and housing data each year. The Census Bureau first released data for geographies of all sizes in 2010. This data is known as the “five-year estimate data.” The five-year estimate data is used by the FFIEC as the base file for data used in conjunction with consumer compliance and CRA examinations.¹

Area Median Income (AMI): AMI means –

1. The median family income for the MSA, if a person or geography is located in an MSA, or for the metropolitan division, if a person or geography is located in an MSA that has been subdivided into metropolitan divisions; or
2. The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment area: Assessment area means a geographic area delineated in accordance with section 228.41

Automated teller machine (ATM): An automated teller machine means an automated, unstaffed banking facility owned or operated by, or operated exclusively for, the bank at which deposits are received, cash dispersed or money lent.

Bank: Bank means a state member as that term is defined in section 3(d)(2) of the Federal Deposit Insurance Act (12 USC 1813(d)(2)), except as provided in section 228.11(c)(3), and includes an

¹ Source: FFIEC press release dated October 19, 2011.

uninsured state branch (other than a limited branch) of a foreign bank described in section 228.11(c)(2).

Branch: Branch refers to a staffed banking facility approved as a branch, whether shared or unshared, including, for example, a mini-branch in a grocery store or a branch operated in conjunction with any other local business or nonprofit organization.

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

Combined Statistical Area (CSAs): Adjacent metropolitan statistical areas/metropolitan divisions (MSA/MDs) and micropolitan statistical areas may be combined into larger Combined Statistical Areas based on social and economic ties as well as commuting patterns. The ties used as the basis for CSAs are not as strong as the ties used to support MSA/MD and micropolitan statistical area designations; however, they do bind the larger area together and may be particularly useful for regional planning authorities and the private sector. Under Regulation BB, assessment areas may be presented under a Combined Statistical Area heading; however, all analysis is conducted on the basis of median income figures for MSA/MDs and the applicable state-wide non-metropolitan median income figure.

Community Development: The financial supervisory agencies have adopted the following definition for community development:

1. Affordable housing, including for multi-family housing, for low- and moderate-income households;
2. Community services tailored to meet the needs of low- and moderate-income individuals;
3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or
4. Activities that revitalize or stabilize low- or moderate-income geographies.

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

- 1) Low- or moderate-income geographies;
- 2) Designated disaster areas; or
- 3) Distressed or underserved nonmetropolitan middle-income geographies

designated by the Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency based on:

- a. Rates of poverty, unemployment or population loss; or
- b. Population size, density and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density and dispersion if they help to meet essential community services including the needs of low- and moderate-income individuals.

Community Development Loan: A community development loan means a loan that:

- 1) Has as its primary purpose community development; and
- 2) Except in the case of a wholesale or limited purpose bank –
 - a. Has not been reported or collected by the bank or an affiliate for consideration in the bank’s assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family housing loan (as described in the regulation implementing the Home Mortgage Disclosure Act); and
 - b. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

Community Development Service: A community development service means a service that:

- 1) Has as its primary purpose community development; and
- 2) Is related to the provision of financial services.

Consumer loan: 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 of loans: motor vehicle, credit card, other consumer secured loan, including a home improvement loan not secured by a dwelling, and other consumer unsecured loan, including a loan for home improvement not secured.

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

Fair market rent: Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to

permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

Full review: Performance under the Lending, Investment and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and amount of qualified investments) and qualitative factors (for example, innovativeness, complexity and responsiveness).

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

Home Mortgage Disclosure Act: The statute that requires certain mortgage lenders that do business or have banking offices in metropolitan statistical areas to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender and income of the applicant(s) and the disposition of the application(s) (for example, approved, denied, and withdrawn).

Home mortgage loans: Are defined in conformance with the definitions of home mortgage activity under the Home Mortgage Disclosure Act and include closed end mortgage loans secured by a dwelling and open-end lines of credit secured by a dwelling. This includes loans for home purchase, refinancing and loans for multi-family housing. It does not include loans for home improvement purposes that are not secured by a dwelling.

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

Income Level: Income level means:

- 1) Low-income – an 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 census tract;
- 2) Moderate-income – an individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a census tract;

- 3) Middle-income – an individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a census tract; and
- 4) Upper-income – an individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent in the case of a census tract.

Additional Guidance: .12(m) Income Level: The median family income levels (MFI) for census tracts are calculated using the income data from the United States Census Bureau's American Community Survey and geographic definitions from the Office of Management and Budget (OMB) and are updated approximately every five years (.12(m) Income Level).

Limited-purpose bank: This term refers to a bank that offers only a narrow product line such as credit card or motor vehicle loans to a regional or broader market and for which a designation as a limited-purpose bank is in effect, in accordance with section 228.25(b).

Limited review: Performance under the Lending, Investment and Services test is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, amount of investments and branch office distribution).

Loan location: Under this definition, a loan is located as follows:

- 1) Consumer loan is located in the census tract where the borrower resides;
- 2) Home mortgage loan is located in the census tract where the property to which the loan relates is located;
- 3) Small business and small farm loan is located in the census tract where the main business facility or farm is located or where the loan proceeds have been applied as indicated by the borrower.

Loan production office: This term refers to a staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications.

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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

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

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

Nonmetropolitan area: This term refers to any area that is not located in a metropolitan statistical area or metropolitan division. Micropolitan statistical areas are included in the definition of a nonmetropolitan area; a micropolitan statistical area has an urban core population of at least 10,000 but less than 50,000.

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: This term refers to any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: This term refers to a state or multistate metropolitan area. For institutions with domestic branch offices in one state only, the institution's CRA rating is the state's rating. If the institution maintains domestic branch offices in more than one state, the institution will receive a rating for each state in which those branch offices are located. If the institution maintains domestic branch offices in at least two states in a multistate metropolitan statistical area, the institution will receive a rating for the multistate metropolitan area.

Small Bank: This term refers to a bank that as of December 31 of either of the prior two calendar years, had assets of less than \$1.252 billion. Intermediate small bank means a small bank with assets of at least \$313 million as of December 31 of both of the prior two calendar years and less than \$1.252 billion as of December 31 of either of the prior two calendar years.

Annual Adjustment: The dollar figures in paragraph (u)(1) of this section shall be adjusted annually and published by the Board, based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for each 12-month period ending in November, with rounding to the nearest million.

Small Business Loan: This term refers to a loan that is included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. The loans have original amounts of \$1 million or less and are either secured nonfarm, nonresidential properties or are classified as commercial and industrial loans.

Small Farm: This term refers to a loan that is included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income. These loans have original amounts of \$500 thousand 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.

Wholesale Bank: This term refers to a bank that is not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers, and for which a designation as a wholesale bank is in effect, in accordance with section 228.25(b).