

PUBLIC DISCLOSURE

November 4, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers State Bank
RSSD# 571443

309 South Prairie Street
Brookston, Indiana 47923

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.

TABLE OF CONTENTS

PERFORMANCE EVALUATION	2
SCOPE OF EXAMINATION	2
DESCRIPTION OF INSTITUTION	3
DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE ASSESSMENT AREA	4
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA	8
LENDING TEST	8
FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	13
APPENDIX A – SCOPE OF EXAMINATION	14
APPENDIX B - GLOSSARY	15

BANK'S COMMUNITY REINVESTMENT ACT (CRA) RATING

The Farmers State Bank is rated Satisfactory. The bank provides credit within its assessment area in a manner that is consistent with its size, location, and local economic conditions. The bank's average loan-to-deposit ratio is reasonable. A majority of the bank's loans are made inside its assessment area. The bank's geographic distribution of loans indicates a reasonable dispersion within the assessment area, and it reasonably penetrates borrowers of different income levels and businesses and farms of different revenues. In addition, no CRA-related complaints were received by the bank or the Federal Reserve Bank of Chicago since the previous evaluation.

SCOPE OF EXAMINATION

A review of The Farmers State Bank's CRA performance was conducted using the Interagency Small Bank CRA Evaluation Procedures within the context of the institution's assessment area, asset size, financial condition, competition, and economic and social demographics. The bank's assessment area includes three census tracts in White County, Indiana and three census tracts in Tippecanoe County, Indiana. Tippecanoe County is located within the Lafayette, Indiana Metropolitan Statistical Area (MSA) 29140. The bank's level of performance was assessed based on Home Mortgage Disclosure Act (HMDA) reportable loans, small business, and small farm loans made during the period beginning January 1, 2012 and ending December 31, 2012.

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

- ***Loan-to-Deposit Ratio*** – A 16-quarter average loan-to-deposit ratio was calculated for the bank and compared to its national peer and a sample of local competitors.
- ***Lending in the Assessment Area*** – The bank's HMDA-reportable, small business, and small farm loans originated from January 1, 2012 through December 31, 2012 were reviewed to determine the percentage of loans originated in the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – All HMDA-reportable, small business, and small farm loans originated in the assessment area from January 1, 2012 through December 31, 2012 were reviewed to assess the dispersion of loans within the assessment area. The assessment area, however, only includes middle-income census tracts. As a result, a limited analysis was performed to ensure low- or moderate-income tracts were not arbitrarily excluded from the assessment area.
- ***Lending to Borrowers of Different Income and to Businesses and Farms of Different Sizes*** – The bank's HMDA-reportable, small business, and small farm loans originated in the assessment area from January 1, 2012 through December 31, 2012 were reviewed to determine the distribution among borrowers of different income levels, particularly those

considered low- or moderate-income, and to businesses and farms with different revenue sizes.

- **Response to Substantiated Complaints** – Neither The Farmers State Bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

In addition to the above criteria, two community representatives were interviewed to gain a better understanding of the credit needs of the community.

DESCRIPTION OF INSTITUTION

The Farmers State Bank is an independent financial institution located in Brookston, Indiana. The bank serves the local community primarily as a residential real estate and agricultural lender. The bank offers secured and unsecured consumer loans, commercial loans, construction loans, and home equity lines of credit. The bank offers a variety of deposit products including checking, money market, health savings, Christmas club, IRA, and certificate of deposit accounts.

As of the September 30, 2013 Uniform Bank Performance Report (UBPR), The Farmers State Bank reported total assets of \$67.2 million. The bank’s largest loan categories by dollar amount as a percentage of gross loans and leases are residential real estate (60.1 percent) and agricultural loans, including farmland (21.5 percent).

Composition of Loan Portfolio as of September 30, 2013			
(000's)			
Category	Type	\$	%
Real Estate Secured	1-4 Family and Multi-Family Residential	27,478	60.1
	Farmland	5,019	11.0
	Non-farm, Non-residential	3,727	8.2
	Total Real Estate Secured	36,224	79.3
Agricultural	Agricultural	4,811	10.5
Commercial	Commercial and Industrial	2,709	5.9
Consumer	Loans to Individuals	1,950	4.3
	Total	45,710	100.0

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

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 November 2, 2009.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE ASSESSMENT AREA

The Farmers State Bank's assessment area consists of six census tracts within two counties. Three census tracts are located in Tippecanoe County, Indiana, which is part of the Lafayette, Indiana MSA - 29140. The other three census tracts are located in White County, Indiana, a non-metropolitan area. All six census tracts are middle-income. Prior to the current evaluation period, the bank's assessment area included one census tract in White County. The bank added two additional tracts based on its internal CRA lending analysis.

The bank operates two offices. The Brookston main office is located in White County while the Battle Ground branch is located in Tippecanoe County. The Battle Ground branch is approximately 10 miles south of the main office. Both offices have cash-dispensing only automated teller machines (ATMs). The main office is full service. The Battle Ground branch offers all deposit products and consumer and residential products, but requests for commercial and agricultural products must be made by appointment. The bank has not opened or closed any branches since the previous evaluation.

As of June 30, 2013, The Farmers State Bank ranked 11th out of 22 institutions, with 2.1 percent of the area's deposit market share, in Tippecanoe and White Counties combined. The institutions with the largest deposit market shares include First Merchants Bank, JPMorgan Chase Bank, Lafayette Savings Bank, and Regions Bank, totaling 65.6 percent of all deposits in the two counties.

According to the 2010 Census, 28.5 percent of assessment area families are low- to moderate-income. The percentage of families living below the poverty line represents 6.2 percent of all families. Additional selected demographic information regarding the assessment area is provided in the table below.

Assessment Area Demographics 2010 Census									
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	1,004	14.0	
Moderate-income	0	0.0	0	0.0	0	0.0	1,043	14.5	
Middle-income	6	100.0	7,181	100.0	444	6.2	1,722	24.0	
Upper-income	0	0.0	0	0.0	0	0.0	3,412	47.5	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	6	100.0	7,181	100.0	444	6.2	7,181	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	0	0	0.0	0.0	0	0.0	0	0.0	
Middle-income	10,454	7,374	100.0	70.5	2,328	22.3	752	7.2	
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	10,454	7,374	100.0	70.5	2,328	22.3	752	7.2	
	Total Businesses by Tract	Businesses by Tract & Revenue Size							
		Less Than or =			Over \$1		Revenue Not		
		#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0	
Middle-income	1,026	100.0	949	100.0	36	100.0	41	100.0	
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	1,026	100.0	949	100.0	36	100.0	41	100.0	
Percentage of Total Businesses:			92.5		3.5		4.0		
	Total Farms by Tract	Farms by Tract & Revenue Size							
		Less Than or =			Over \$1		Revenue Not Reported		
		#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0	
Middle-income	270	100.0	269	100.0	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	270	100.0	269	100.0	1	100.0	0	.0	
Percentage of Total Farms:			99.6		.4		.0		

Based on 2012 D&B information according to 2010 ACS Boundaries.
 Note: Percentages may not add to 100.0 due to rounding.

Population Characteristics

According to the 2010 Census, the population in the assessment area is 26,788. The following table reflects the change in population from 2000 to 2010 within the assessment area, the state, the individual counties, and the Lafayette MSA. The assessment area population grew significantly in comparison to the population growth within the other jurisdictions. Many families are moving to the rural areas served by the bank due to preferences in high quality school systems and the availability of relatively affordable housing.

Population Change 2000 and 2010			
Area	2000 Population	2010 Population	Percentage Change
Assessment Area	21,646	26,788	23.8%
Tippecanoe County	148,955	172,780	16.0%
White County	25,267	24,643	-2.5%
Lafayette, IN MSA	178,541	201,789	13.0%
Indiana	6,080,485	6,483,802	6.6%

*Source: 2000—U.S. Census Bureau: Decennial Census
 2010—U.S. Census Bureau: Decennial Census*

Income Characteristics

The table below compares income levels for the assessment area to that of its individual counties, the state, and the Lafayette MSA. The assessment area experienced a 25.1 percent increase in median family income, which was greater than the increase in Tippecanoe and White Counties (16.6 and 13.3 percent, respectively) and the state’s increase of 17.3 percent. The assessment area has seen an increase in smaller employers offering skilled labor positions at better salaries than are found outside the assessment area, but within the two-county region. As noted previously, the assessment area consists of 14.0 percent low-income, 14.5 percent moderate-income, 24.0 percent middle-income and 47.5 percent upper-income families according to 2010 Census demographics data.

Median Family Income Change 2000 and 2010			
Area	2000 Median Family Income	2006-2010 Median Family Income	Percentage Change
Assessment Area	52,493	65,665	25.1%
Tippecanoe County	51,791	60,367	16.6%
White County	46,436	52,626	13.3%
Lafayette, IN MSA	51,029	60,301	18.2%
Indiana	50,261	58,944	17.3%

*Source: 2000—U.S. Census Bureau: Decennial Census
 2006-2010—U.S. Census Bureau: American Community Survey*

Housing Characteristics

The table below compares trends in housing costs in the assessment area to that of its individual counties, the state, and the Lafayette MSA. Within the assessment area, 70.5 percent of the housing units are owner-occupied. The median housing value for the assessment area grew by 22.0 percent since 2000, which was less than the 33.0 percent in the state over the same time period.

Conversely, median gross rent for the assessment area increased by 42.4 percent, while the state experienced an increase of 31.1 percent. The increases could be attributed to the population increase in the assessment area, contributing to a greater demand for housing.

A common method to compare the relative affordability of housing across geographic area is use of the affordability ratio. The affordability ratio definition can be found in Appendix B. Based on 2010 Census demographics data, the assessment area's affordability ratio is 43.8 percent, above the state's affordability ratio of 38.8 percent. This suggests that housing is more affordable in the assessment area than the state of Indiana as a whole.

Trends in Housing Costs 2000 and 2010				
Location	2000 Median Housing Value	2006-2010 Median Housing Value	2000 Median Gross Rent	2006-2010 Median Gross Rent
Assessment Area	106,119	129,503	573	816
Tippecanoe County	110,100	128,900	565	729
White County	85,800	111,000	526	664
Lafayette, IN MSA	102,953	123,000	556	719
Indiana	92,500	123,000	521	683

Source: 2000—U.S. Census Bureau: Decennial Census
 2006-2010—U.S. Census Bureau: American Community Survey

Employment Conditions

Since 2009, unemployment rates for the counties in the assessment area trended downward. The unemployment rate in Tippecanoe County dropped from 9.2 percent in 2009 to 7.4 percent in 2012. The rate in White County dropped from 11.2 percent to 8.1 percent. The unemployment rates in both counties are now lower than the rate for the state, which decreased from 10.4 percent to 8.4 percent over the same period.

Unemployment Rates				
Region	2009	2010	2011	2012
Tippecanoe County	9.2%	9.1%	7.7%	7.4%
White County	11.2%	10.7%	8.9%	8.1%
Lafayette, IN MSA	9.4%	9.2%	7.8%	7.4%
Indiana	10.4%	10.2%	9.0%	8.4%
United States	9.3%	9.6%	8.9%	8.1%

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

The largest industry in Tippecanoe County is education due to the presence of Purdue University in West Lafayette. The table below lists the largest employers in Tippecanoe and White Counties by number of employees.

Largest Employers in the Assessment Area		
Company	Number of Employees	Industry
Purdue University W Lafayette	15,304	Colleges, Universities & Professional Schools
Subaru-Indiana Automotive Inc	2,200	Automobile Manufacturing
Caterpillar Inc	1,900	Construction Machinery Manufacturing
Home Hospital Rehab	1,500	Freestanding Ambulatory Surgical & Emergency Ctrs
Fairfield Manufacturing CO Inc	1,233	Mechanical Power Transmission Equipment Mfg
St Elizabeth Medical Ctr	1,230	General Medical & Surgical Hospitals
Alcoa Lafayette	1,000	Metal Service Ctrs & Other Metal Merchant Whls
Fairfield Manufacturing Corp	1,000	Power, Distribution & Specialty Transformer Mfg
Indiana Beach Amusement Resort	700	Amusement & Theme Parks
State Farm Operations Ctr	700	Insurance Agencies & Brokerages
<i>Source: America's Labor Market Information System (ALMIS) - A United States Department of Labor employment and training initiative.</i>		

Community Contacts

Two community representatives were interviewed during the evaluation to gain a better understanding of the credit needs of the assessment area. Representatives indicated that affordable housing continues as a credit need in the assessment area, especially in the portion of the assessment area in White County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

The Farmers State Bank's performance relative to the lending test is rated Satisfactory based on the bank's loan-to-deposit (LTD) ratio, the percentage of loans originated in the bank's assessment area, and the record of lending to borrowers of different income levels and businesses of different sizes. The geographic distribution of loans was not considered a major factor in the lending test because of the homogeneity of income levels amongst all six census tracts within the assessment area, all of which are middle-income tracts.

Loan-to-Deposit Ratio

The Farmers State Bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition and the credit needs of the assessment area. As of June 30, 2013 the bank's LTD ratio was 77.6 percent, and its 16-quarter average was 79.1 percent. The bank's LTD ratio is higher than

its national peer group and one if its local competitors, but it's lower when compared to another local competitor. The Farmers State Bank's national peer group's 16-quarter average LTD ratio is 64.5 percent, while its two competitors range from 68.0 percent to 82.5 percent. The bank's LTD ratio is 14.6 percent higher than the national peer group LTD ratio, indicating reasonable lending activity in relation to the bank's deposit share.

The table below includes the 16-quarter average LTD ratio for the bank, its national peer group, and a sample of local competitors.

Comparative Loan-to-Deposit Ratios	
Institution	Loan-to-Deposit Ratio (%) 16 - Quarter Average
The Farmers State Bank	79.1
National Peer Group 11	64.5
Competitors	
Bank of Wolcott	82.5
Lafayette Community Bank	68.0

Assessment Area Concentration

A majority of the bank's HMDA-reportable, small business, and small farm loans were originated inside the assessment area. The table below summarizes the bank's lending inside and outside the assessment area by product. The distribution of loans illustrates that 72.7 percent of loans by volume, and 69.4 percent by dollar, were originated inside the assessment area, indicating the bank serves the credit needs of its assessment area.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	%	\$	%	#	%	\$	%
Home Purchase Loans	4	30.8	393	39.4	9	69.2	604	60.6
Refinanced Loans	27	69.2	2,600	67.7	12	30.8	1,238	32.3
Home Improvement Loans	7	70.0	549	67.0	3	30.0	271	33.0
Multi-Family Loans	0	0.0	0	0.0	0	0.0	0	0.0
Total HMDA-Reportable Loans	38	61.3	3,542	62.6	24	38.7	2,113	37.4
Total Small Business Loans	48	76.2	2,720	61.9	15	23.8	1,675	38.1
Total Small Farm Loans	39	83.0	4,416	82.9	8	17.0	914	17.1
Total Loans	125	72.7	10,678	69.4	47	27.3	4,702	30.6

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

Geographic Distribution of Loans

HMDA-reportable, small business, and small farm loans were reasonably dispersed throughout the assessment area. While the bank's assessment area does not encompass any low- or moderate-income census tracts, no low- or moderate-income census tracts were arbitrarily excluded from the

assessment area.

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

An analysis of HMDA-reportable, small business, and small farm loans was conducted to determine the level of lending to borrowers of different income levels and businesses and farms of varying revenues. Loan distribution reflects a reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers, and businesses and farms of different sizes.

HMDA-Reportable Loans

The Farmers State Bank originated 23.7 percent by volume and 14.1 percent by dollar of its HMDA-reportable loans to low- and moderate-income borrowers in 2012. The bank's performance is reasonable given that 28.5 percent of families in the assessment area are low- and moderate-income. Moreover, the bank's performance exceeds the aggregate of all lenders by volume (20.0 percent) and dollar (11.9 percent).

Home Mortgage Lending, 2012 Borrower Distribution (000s)							
Income Level of the Borrower	Bank Loans		Bank Loans		Aggregate of All Lenders		Families by Family Income Level
	#	%	\$	%	# %	\$ %	%
Home Purchase Loans							
Low	0	0.0	0	0.0	10.1	5.0	14.0
Moderate	0	0.0	0	0.0	21.3	16.0	14.5
Middle	2	50.0	184	46.8	21.3	20.4	24.0
Upper	2	50.0	209	53.2	37.7	50.4	47.5
Unknown	0	0.0	0	0.0	9.6	8.2	0.0
Total	4	100.0	393	100.0	100.0	100.0	100.0
Refinanced Loans							
Low	4	14.8	244	9.4	4.0	1.9	
Moderate	3	11.1	244	9.4	8.8	5.6	
Middle	6	22.2	590	22.7	19.7	14.6	
Upper	12	44.4	1,454	55.9	51.3	61.5	
Unknown	2	7.4	68	2.6	16.2	16.4	
Total	27	100.0	2,600	100.0	100.0	100.0	
Home Improvement Loans							
Low	1	14.3	2	0.4	4.2	0.1	
Moderate	1	14.3	11	2.0	18.3	4.6	
Middle	2	28.6	147	26.8	21.1	7.5	
Upper	3	42.9	389	70.9	50.7	86.0	
Unknown	0	0.0	0	0.0	5.6	1.8	
Total	7	100.0	549	100.0	100.0	100.0	
Multifamily Loans							
Low	0	0.0	0	0.0	0.0	0.0	
Moderate	0	0.0	0	0.0	0.0	0.0	
Middle	0	0.0	0	0.0	0.0	0.0	
Upper	0	0.0	0	0.0	0.0	0.0	
Unknown	0	0.0	0	0.0	100.0	100.0	
Total	0	0.0	0	0.0	100.0	100.0	
Total Home Mortgage Loans							
Low	5	13.2	246	6.9	6.2	2.8	
Moderate	4	10.5	255	7.2	13.8	9.1	
Middle	10	26.3	921	26.0	20.3	16.1	
Upper	17	44.7	2,052	57.9	46.3	57.5	
Unknown	2	5.3	68	1.9	13.4	14.5	
Total	38	100.0	3,542	100.0	100.0	100.04	

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

Small Business Loans

Small business lending reflects reasonable penetration among businesses of different sizes. As indicated in the table below, businesses with \$1 million or less in revenue comprise 92.5 percent of

businesses in the assessment area. The bank originated 85.4 percent of small loans by volume and 67.6 percent by dollar to businesses with revenues of \$1 million or less. Further, the bank originated 81.3 percent by volume and 37.9 percent by dollar of small business loans in the amount of \$100,000 or less. Loans in these amounts are often considered most beneficial to smaller businesses. When adjusted to focus on businesses with revenues of \$1 million or less, a large majority of loans (87.8 percent) were made in the amount of \$100,000 or less, indicating the bank's responsiveness to the needs of very small businesses.

Small Business Loan Distribution, 2012						
By Revenue and Loan Size						
(000s)						
Category	Bank Loans				Businesses By Annual Revenues	
	#	%	\$	%	#	%
By Revenue						
\$1 Million or Less	41	85.4	1,838	67.6	949	92.5
Over \$1 Million	7	14.6	882	32.4	36	3.5
Not Known	0	0.0	0	0.0	41	4.0
Total	48	100.0	2,720	100.0	1,026	100.0
By Loan Size						
\$100,000 or less	39	81.3	1,030	37.9		
\$101,000 - \$250,000	7	14.6	1,090	40.1		
\$251,000 - \$1 Million	2	4.2	600	22.1		
Total	48	100.0	2,720	100.0		
By Loan Size and Revenue \$1 Million or Less						
\$100,000 or less	36	87.8	899	48.9		
\$101,000 - \$250,000	4	9.8	639	34.8		
\$251,000 - \$1 Million	1	2.4	300	16.3		
Total	41	100.0	1,838	100.0		

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

Small Farm Loans

Small farm lending reflects reasonable penetration among farms of different sizes. As indicated in the table below, farms with \$1 million or less in revenue compose 99.6 percent of farms in the assessment area. The bank originated 97.4 percent of small loans by volume and 95.5 percent by dollar to farms with annual revenues of \$1 million dollars or less. Furthermore, the bank originated 59.0 percent by volume and 18.8 percent by dollar of small farm loans in the amount of \$100,000 or less. Similar to business loans, smaller amounts are often considered most beneficial to small farms. When adjusted to focus on farms with revenues of \$1 million or less, a majority of loans (60.5 percent) were made in the amount of \$100,000 or less, indicating the bank's responsiveness to the needs of very small farms.

Small Farm Loan Distribution, 2012 By Revenue and Loan Size (000s)						
Category	Bank Loans				Farms By Annual Revenues	
	#	%	\$	%	#	%
By Revenue						
\$1 Million or Less	38	97.4	4,216	95.5	269	99.6
Over \$1 Million	1	2.6	200	4.5	1	0.4
Not Known	0	0.0	0	0.0	0	0.0
Total	39	100.0	4,416	100.0	270	100.0
By Loan Size						
\$100,000 or less	23	59.0	829	18.8		
\$101,000 - \$250,000	11	28.2	1,697	38.4		
\$251,000 - \$500,000	5	12.8	1,890	42.8		
Total	39	100.0	4,416	100.0		
By Loan Size and Revenue \$1 Million or Less						
\$100,000 or less	23	60.5	829	19.7		
\$101,000 - \$250,000	10	26.3	1,497	35.5		
\$251,000 - \$500,000	5	13.2	1,890	44.8		
Total	38	100.0	4,216	100.0		
<i>Note: Percentages may not add to 100.0 percent due to rounding.</i>						

Response to Complaints

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

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 – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED		1/1/2012 – 12/31/2012	
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
The Farmers State Bank			HMDA-reportable loans, small business loans, 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
Indiana Portions of White County and Tippecanoe County	Full scope review	N/A	None

APPENDIX B - 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.

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.

Consumer loan: A loan 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, home equity, other secured loan, and other unsecured loan.

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.

Geography: A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

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

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

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

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/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 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 (MMSA). Performance within

each MMSA is analyzed separately as a full-scope review and receives its own ratings under the Lending, Investment and Service Tests provided the financial institution has its main office, branch, or deposit-taking ATM located in each applicable state making up the MMSA.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

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

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.

Small loans to business: 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 loans to farms: 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 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.

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