

PUBLIC DISCLOSURE

February 26, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Chelsea State Bank
RSSD# 711548

1010 South Main Street
Chelsea, Michigan 48118

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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INSTITUTION'S CRA RATING

Chelsea State Bank is rated: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

Chelsea State Bank is meeting the credit needs of its community based on an analysis of lending and community development activities. The loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, and assessment area credit needs. A majority of loans are in the assessment area. Loan distribution reflects reasonable penetration among businesses of different sizes. Neither Chelsea State Bank nor this Reserve Bank has received any Community Reinvestment Act (CRA)-related complaints since the previous evaluation.

Chelsea State Bank's community development performance demonstrates adequate responsiveness to the needs of its assessment area through community development loans, investments, and community development services. This performance is appropriate, considering the bank's capacity, its needs and availability of such opportunities for community development in the bank's assessment area.

SCOPE OF EXAMINATION

Chelsea State Bank's CRA performance was evaluated using the Intermediate Small Institution Examination Procedures issued by the Federal Financial Institutions Examination Council (FFIEC). Performance was evaluated in the context of information about the institution and its assessment areas, including the bank's asset size, financial condition, competition, and the economic and demographic characteristics.

The evaluation included a full review of the bank's assessment area in the Ann Arbor, Michigan MSA #11460 (Ann Arbor MSA), which is a one county MSA consisting of Washtenaw County. The bank's assessment area consists of 17 of the 107 census tracts within western Washtenaw County.

The level of performance within the assessment area was assessed based on a sample of small business loans originated during the period beginning January 1, 2023, and ending December 31, 2023. This product is considered the bank's primary business line based on volume of loan originations by number and dollar amount.

Performance within the designated assessment areas was evaluated using intermediate-small bank examination procedures based on the following performance criteria:

- ***Loan-to-Deposit Ratio*** – A 23-quarter average loan-to-deposit ending December 31, 2023, was calculated for the bank, and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – The bank’s small business loans originated from January 1, 2023, to December 31, 2023, were reviewed to determine the percentage of loans originated within the bank’s assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – The bank’s small business loans originated within the assessment area, from January 1, 2023, to December 31, 2023, were analyzed to determine the extent to which the bank is making loans in geographies of different income levels, particularly those designated as low- and moderate-income.
- ***Lending to Businesses of Different Revenue Sizes*** – The bank’s small business loans originated within the assessment area, from January 1, 2023, to December 31, 2023, were reviewed to determine the distribution of loans to businesses of 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.
- ***Community Development Activities*** – The bank’s responsiveness to community development needs through community development loans, qualified investments, and community development services, from November 13, 2018, through February 26, 2024, were reviewed considering the capacity, need, and availability of such opportunities within the assessment area.

In addition, two community representatives were contacted in connection with this examination to provide information regarding local economic and socio-economic conditions in the assessment area. The following types of organizations were contacted: affordable housing and economic development.

DESCRIPTION OF INSTITUTION

Chelsea State Bank operates its main office in Chelsea, Michigan and two branch locations in Chelsea and Dexter. The main office and each branch have a full-service automated teller machine (ATM), along with three cash-only ATMs in Chelsea. The main office and one branch are located in a middle-income census tract while the other branch is located in an upper-income census tract. In addition, the bank has three cash dispensing ATMs in Chelsea, Michigan, of which, two are located in retirement communities and one is located in a hospital. The bank’s products and services do not vary across location. The institution has neither opened nor closed any branch locations since the previous evaluation.

According to the Uniform Bank Performance Report (UBPR), the bank reported total assets of \$403.6 million as of December 31, 2023. Chelsea State Bank is primarily a commercial lender, given commercial loans comprised 84.4 percent of the loan portfolio. The bank offers standard, non-complex, mortgage, consumer, commercial, and agricultural credit products to meet the financial needs of consumers, businesses, and other entities in the assessment area. Additionally, Chelsea State Bank offers loans guaranteed by the U.S. Small Business Administration. Deposit products include savings, money market deposit account (MMDA), negotiable order of withdrawal accounts (NOW), checking accounts, certificates of deposit (CD), and overdraft protection lines of credit. Details of the allocation of the bank’s loan portfolio are provided in the following table:

Composition of Loan Portfolio as of December 31, 2023 (\$ are in 000's)		
Type	\$	%
Residential Real Estate	25,995	10.6
Commercial	206,758	84.4
Agriculture	4,134	1.7
Consumer	4,290	1.8
Other	3,815	1.6
Total	244,992	100.0
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

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 12, 2018.

DESCRIPTION OF ASSESSMENT AREA

Chelsea State Bank’s assessment area is comprised of 17 of 107 census tracts in Washtenaw County, which is a single county Metropolitan Statistical Area (MSA), the Ann Arbor, Michigan MSA #11460. The Ann Arbor MSA includes Washtenaw County in its entirety. The assessment area’s 17 census tracts are located in the western portion of Washtenaw County, and include the cities of Chelsea, Michigan and Dexter, Michigan, where the bank’s main office and branches are located. Based on the 2020 population reflected in the upcoming Population Characteristics section, this portion of the county comprises 18.5 percent of the full county population, driven by the city of Ann Arbor, which is not part of the assessment area. The assessment area has not changed since the previous evaluation.

As a result of the 2020 Decennial Census and the American Community Survey for the period of 2016-2020 the bank's assessment area changed from 15 census tracts to 17 census tracts. This impacted the number of low- and moderate-income census tracts within the bank's assessment area, which previously included one moderate-income census tract that has since been designated as a middle-income census tract. Additional census tract designation changes are reflected in the following table.

Tract Designation Change Data

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). The income data used to calculate geographic income designations changed between 2021 and 2022. Accordingly, lending activity that took place in calendar years up to and including 2021 are evaluated based on ACS income level definitions from the five-year survey data set 2011-2015. Lending activity performed in 2022 and beyond are evaluated based on ACS income level definitions from the five-year survey data set 2016-2020.

Census Tract Designation Changes American Community Survey Data (ACS)			
Tract Income Designation	2021 Designations (#)	2022 Designations (#)	Net Change (#)
Low	0	0	0
Moderate	1	0	-1
Middle	10	10	0
Upper	4	7	+3
Unknown	0	0	0
Total	15	17	+2
<small>Source: U. S. Census Bureau: Decennial Census: American Community Survey Data: 2011-2015 U.S. Census Bureau: Decennial Census: American Community Survey Data: 2016-2020</small>			

The Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report dated June 30, 2023, ranks Chelsea State Bank 10th out of 17 FDIC-insured institutions in Washtenaw County. The bank held \$373.5 million in deposits, representing 3.1 percent of the total deposit market share in the county. Among the 17 institutions operating across the whole county, Chelsea State Bank is the third smallest by asset size, with 11 institutions exceeding \$17.0 billion in assets as of June 30, 2023. Based on the deposit market share, the largest competitor in the assessment area is JP Morgan Chase Bank, representing 21.0 percent of the total deposit market share. Additional assessment area demographic information is provided in the following table.

¹ Census tract designations are based on American Community Survey income data. For years 2022 and after, the designations are based on 2016-2020 ACS data. For years 2021 and before, the designations are based on 2011-2015 ACS data. For examinations that include performance before and after 2022, both sets of data have been used to perform the analysis of bank activity in the respective timeframes.

2023 Ann Arbor, MI MSA 11460 AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	2,566	13.2
Moderate	0	0.0	0	0.0	0	0.0	3,331	17.2
Middle	10	58.8	9,310	48.0	184	2.0	4,211	21.7
Upper	7	41.2	10,103	52.0	298	2.9	9,305	47.9
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	17	100.0	19,413	100.0	482	2.5	19,413	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	14,632	11,311	49.2	77.3	2,301	15.7	1,020	7.0
Upper	13,845	11,695	50.8	84.5	1,264	9.1	886	6.4
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	28,477	23,006	100.0	80.8	3,565	12.5	1,906	6.7
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	1,853	48.2	1,659	47.4	169	54.7	25	61.0
Upper	1,995	51.8	1,839	52.6	140	45.3	16	39.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	3,848	100.0	3,498	100.0	309	100.0	41	100.0
Percentage of Total Businesses:				90.9		8.0		1.1
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	152	74.5	150	74.6	2	100.0	0	0.0
Upper	52	25.5	51	25.4	0	0.0	1	100.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	204	100.0	201	100.0	2	100.0	1	100.0
Percentage of Total Farms:				98.5		1.0		0.5
Source: 2023 FFIEC Census Data 2023 Dot & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.								

Population Characteristics

According to the 2020 U.S. Census Bureau demographic data, the assessment area’s population is 68,757. The assessment area increased in population by 3.6 percent between 2015 and 2020, while the state of Michigan grew by slightly less at 1.8 percent. The population of Washtenaw County saw a greater increase than the state at 5.1 percent. According to community representatives, the area’s higher rate of growth in Washtenaw County is due to the attractive school districts and the access to jobs in the area. The community representative stated that western Washtenaw County, where Chelsea State Bank is located, is a more affluent area of the county where new housing developments are currently being built. The representative also stated that the nearby city of Ann Arbor is growing due to attractive school districts and job opportunities. The following table presents the population trends for the assessment area, Washtenaw County, as well as the state of Michigan from 2015 to 2020.

Population Change			
Area	2015 Population	2020 Population	Percentage Change (%)
Assessment Area	66,394	68,757	3.6
Washtenaw County, MI	354,092	372,258	5.1
Michigan	9,900,571	10,077,331	1.8

Source: 2011-2015 U.S. Census Bureau American Community Survey and 2020 U.S. Census Bureau Decennial Census

Income Characteristics

According to the U.S. Census Bureau, the assessment area is comprised of 19,413 families, of which 13.2 percent are designated as low-income, 17.2 percent are moderate-income, 21.7 percent are middle-income, and 47.9 percent are upper income. Additionally, 2.5 percent of families residing within the assessment area live below the poverty line, which is a lower rate compared to the state of Michigan’s poverty rate of 9.2 percent. According to the 2016-2020 ACS, the median family income (MFI) for the assessment area is \$121,393, which supports the community representative’s reference above that the bank’s 17-census tract assessment area is in the more affluent portion of the county. The assessment area also experienced an increase of 17.5 percent. Among the other comparable geographies, the MFI in Washtenaw County is \$105,224 with an increase of 10.3 percent, while the Ann Arbor MSA MFI was significantly below at \$75,470 with an increase of 11.0 percent from 2015-2020. Community representatives noted that business ownership in the Ann Arbor MSA increased during the pandemic, which the representative believes contributed to the rise of income in the area. The following table presents MFI for families living in the counties that comprise the assessment area and the state of Michigan.

Median Family Income Change 2015 and 2020			
Area	2015 Median Family Income (\$)	2020 Median Family Income (\$)	Percentage Change (%)
Assessment Area	103,318	121,393	17.5
Washtenaw County, MI	95,416	105,224	10.3
Michigan	68,010	75,470	11.0
<i>Source: 2011 – 2015 and 2016-2020 U.S. Census Bureau American Community Survey Median Family Incomes have been inflation-adjusted and are expressed in 2020 dollars.</i>			

Housing Characteristics

Within the bank’s assessment area, there are a total of 28,477 housing units. The majority of housing units are owner-occupied at 80.8 percent, whereas rental units comprise 12.5 percent of total units. Within the assessment area, 6.7 percent of housing units are vacant, which is below the number of vacant units within the state of Michigan at 13.7 percent.

As evidenced by the following table, low-income individuals are generally impacted at a higher rate than moderate-income individuals as both renters and owners. The percentages of renters and owners who meet the cost burden criteria in Washtenaw County are at 46.1 percent and 17.7 percent, respectively. Of the cost burdened renters, 76.8 percent are low-income, and 26.8 percent are moderate-income. For homeowners experiencing housing cost burden, the majority are low- and moderate-income owners at 63.8 percent and 28.2 percent, respectfully. The proportion of renters that meet the cost burden criteria in the state of Michigan is 43.0 percent. The proportion of owners that meet the cost burden criteria in the state of Michigan is 17.7 percent, which is on par with Washtenaw County.

Community representatives indicated that there is an affordable housing shortage in Washtenaw County. During the pandemic, the overall housing market in Washtenaw County was highly competitive; however, recent housing demand has softened. The representative stated that demand for affordable housing remains very high due to the lack of affordable housing in the Ann Arbor MSA. Finally, the representative stated that the area lost a number of affordable units, as units that were previously affordable rental units are now going for market rate.

2022 MI Non MSA Housing Cost Burden						
Area	Cost Burden (%) - Renters			Cost Burden (%) - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Washtenaw County, MI	76.8	26.8	46.1	63.8	28.2	17.7
Michigan	74.8	32.5	43.0	61.2	26.1	17.7
<i>Cost Burden is housing cost that equals 30 percent or more of household income</i>						
<i>Source: U.S. Department of Housing and Urban Development (HUD), 2015-2019 Comprehensive Housing Affordability Strategy</i>						

Employment Conditions

According to the Bureau of Labor Statistics, after increasing to 6.7 percent in 2020, during the height of COVID-19 pandemic, the unemployment rate in Washtenaw County decreased to 3.6 percent, which is slightly lower than the state of Michigan at 4.2 percent. According to community representatives, Washtenaw County has experienced both significant job growth and job shortages. Within the pharmaceutical field, the area has experienced an increased demand for training programs in order to develop a pipeline of talent for employers. The representative also stated that larger companies have increased hiring; however, smaller, longstanding businesses such as restaurants within the area have gone out of business after the pandemic. The following table shows unemployment statistics for Washtenaw County and the State of Michigan from 2019-2022:

Unemployment Rates (%)				
Region	2019	2020	2021	2022
Washtenaw County, MI	2.9	6.7	4.3	3.6
Michigan	4.1	10.0	5.8	4.2
<i>Source: Bureau of Labor Statistics: Local Area Unemployment Statistics</i>				

Industry Characteristics

According to the U.S. Bureau of Labor Statistics, the assessment area contains a diverse employment base and is most heavily impacted by health care and social services, professional and technical services, retail, manufacturing, and food service industries. According to community representatives, there has been an increase in healthcare jobs in the assessment area, with University of Michigan, located in Ann Arbor, Michigan, as one of the area's largest employers.

Community Representatives

Two community representatives were contacted during the evaluation to provide information regarding local demographics and economic conditions. The representatives provided information on housing, employment, and economic development needs within the assessment area, as well as providing information about how the COVID-19 pandemic affected the area economy. The representatives stated there are emerging challenges within the area in which local financial institutions can participate, such as the need for affordable housing options and credit building programs for local community residents. Nevertheless, community representatives stated that local financial institutions are actively engaged and responsive to the needs of the communities in which they serve.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Chelsea State Bank's performance relative to the lending test is **Satisfactory**. Overall, the bank is meeting the credit needs of its assessment areas based on an analysis of the bank's lending activities. The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. A majority of the loans were originated within the assessment area. In addition, loan distribution reflects reasonable penetration among businesses of different sizes.

Loan-to-Deposit Ratio

Chelsea State Bank maintained a reasonable LTD given the bank's size, financial condition, and the credit needs of its assessment area. Overall, the LTD ratio averaged 60.9 percent over the 23-quarter period ending December 31, 2023. The bank's LTD ratio has slightly declined since the previous examination, at which time the bank had a 16-quarter average of 64.0 percent. The bank stated that the lower LTD ratio is due to the impact of increasing deposits and a focus on developing deposit relationships, rather than a decrease in lending. Also, similarly situated competitors were selected based on their asset size, branching locations, and market share within the bank's assessment area. Although the bank's LTD ratio is lower than local competitors, the bank's lending volume by dollars has increased since the last exam. A greater strategic focus on increasing deposit accounts has also affected the bank's LTD ratio, in addition to competition from similarly situated institutions in the assessment area. Collectively, the top five institutions in the assessment area by deposit market share hold 64.6 percent of deposits, suggesting a highly competitive market. The following table compares the bank's LTD ratio to its local competitors.

Comparative Loan-to-Deposit Ratios as of December 31, 2023	
Comparative Data	23 Quarter Average (%)
Chelsea State Bank	60.9
Peer Avg – Local	76.5
Competitors	
Citizens State Bank	69.5
Bank Michigan	90.1
First Community Bank	78.7
Eaton Community Bank	67.6

Assessment Area Concentration

Chelsea State Bank made a majority of its loans in the bank’s assessment area, demonstrating the bank is serving the credit needs of its community. The bank originated 58.6 percent of total small business loans by number and 53.6 percent by dollar inside the assessment area during the evaluation period. Compared to the previous evaluation, the bank originated 69.5 percent of total loans by volume and 51.8 percent by dollar within the assessment area. While this represents a decrease of approximately 10.0 percent, overall, lending inside of the assessment area continues to indicate appropriate responsiveness to assessment area credit needs. The following table summarizes Chelsea State Bank’s lending inside and outside of its assessment area for small business loans from January 1, 2023, to December 31, 2023.

Lending Inside and Outside the AA								
Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Small Business	41	58.6	8,018	53.6	29	41.4	6,946	46.4
TOTAL LOANS	41	58.6	8,018	53.6	29	41.4	6,946	46.4

Geographic Distribution of Loans

The assessment area is comprised only of middle- and upper-income census tracts and therefore a meaningful analysis could not be performed. The dispersion of the loans in the assessment area was reviewed to determine if the bank is sufficiently serving the census tracts included in the assessment area. The dispersion of loans in the assessment area was reviewed to determine if the bank is sufficiently serving the census tracts included in the assessment area. Examiners determined that there were no conspicuous unexplained lending gaps in the assessment area.

Lending to Businesses of Different Sizes

An analysis of loans was conducted to determine the level of lending to businesses of different sizes. Overall, Chelsea State Bank's loan distribution reflects reasonable penetration among businesses of different sizes.

Small Business Loans

The distribution of small business loans reflects reasonable penetration among businesses of different revenue sizes. In 2023, Chelsea State Bank originated the following sample of 41 small business loans, of which 34.1 percent were to businesses with gross revenues equal to or less than \$1 million. Of the 14 loans to businesses with gross revenues equal to or less than \$1 million, 85.7 percent of them were in loan amounts of \$250,000 or less. These smaller dollar loans are considered impactful to small businesses. Despite the 41.5 percent of total small business loans going to businesses with revenue unknown, the bank originated 36.6 percent of all 41 loans in loan sizes of \$100,000 or less and an additional 48.8 percent of loans in loan sizes of \$100,001 to \$250,000, totaling 85.4 percent of loans in the smallest dollar ranges. A community representative stated that small business loan programs offered by banks are beneficial in the Ann Arbor MSA. In light of the bank's smaller asset size, limited branching, and competition against many institutions operating throughout the county that are significantly larger by assets, this performance is reasonable. While not reflected in the table below, the bank also demonstrates origination of small dollar loans to small businesses outside the assessment area. The following table presents the bank's 2023 distribution of small business loans.

Distribution of 2023 Small Business Lending By Revenue Size of Businesses					
Assessment Area: Ann Arbor, MI MSA 11460					
	Bank Loans				Total Businesses %
	#	%	\$(000)	\$%	
By Revenue					
\$1 Million or Less	14	34.1	1,596	19.9	90.9
Over \$1 Million	10	24.4	3,837	47.9	8.0
Revenue Unknown	17	41.5	2,584	32.2	1.1
Total	41	100.0	8,017	100.0	100.0
By Loan Size					
\$100,000 or Less	15	36.6	938	11.7	
\$100,001 - \$250,000	20	48.8	2,975	37.1	
\$250,001 - \$1 Million	6	14.6	4,105	51.2	
Total	41	100.0	8,017	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	9	64.3	407	25.5	
\$100,001 - \$250,000	3	21.4	429	26.9	
\$250,001 - \$1 Million	2	14.3	760	47.6	
Total	14	100.0	1,596	100.0	
<i>Source: 2023 FFIEC Census Data 2023 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 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 evaluation.

COMMUNITY DEVELOPMENT TEST

The bank's performance relative to the community development test is **Satisfactory**. Chelsea State Bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and the availability of such opportunities for community development in the bank's assessment area.

Lending

During the evaluation period, the bank originated 30 community development loans totaling approximately \$30.4 million. Chelsea State Bank extended financing to an organization providing affordable multi-family housing within the assessment area and to small businesses within the Ann Arbor MSA. This is the first evaluation under which Chelsea State Bank's CRA performance was evaluated using the Intermediate Small Institution CRA Examination Procedures. At the previous evaluation, the institution's CRA performance was evaluated using the Small Institution CRA Examination Procedures. As a result, there is no available community development test comparison between this evaluation and the previous evaluation. The bank originated the following community development loans within the assessment area: eight loans totaling \$7.7 million for affordable housing purposes; 20 loans totaling \$13.7 million for economic development purposes, and two loans totaling approximately \$8.9 million for revitalization/stabilization purposes. Community representatives stated affordable housing is greatly needed in the assessment area; as such, this activity is particularly responsive to community needs.

Chelsea State Bank participated in the Small Business Administration's (SBA) Paycheck Protection Program (PPP) in response to the COVID-19 pandemic. The bank originated a total of 395 PPP loans totaling \$34.3 million during the evaluation period. The PPP loans are considered particularly responsive based on the challenges small businesses faced as a result of the COVID-19 pandemic and were extremely beneficial to the community as they were exclusively designated for payroll or income replacement.

Investments

During this evaluation, the bank made three community development investments totaling over \$1.0 million. Chelsea State Bank invested in an affordable housing Community Development Financial Institution (CDFI) for \$500,000, along with investments in economic development focusing on small business loans for use in the Ann Arbor MSA and the broader state of Michigan for \$500,000. The bank also made an investment focusing on charitable organizations in the city of Dexter for \$25,000. In addition to the investments listed above, the bank made 55 qualified contributions within the assessment area totaling approximately \$208,000. Contributions were made to a variety of organizations; however, a substantial portion (\$132,000) of the bank's qualified contributions went to revitalizing and stabilizing low- or moderate-income areas. The bank also made \$57,805 in donations for community services, \$9,500 for affordable housing, and \$9,000 for economic development.

Services

During the evaluation period, bank staff provided 4,710 hours of community development services. Of the total number of service hours, 4,369 were dedicated to organizations with a community service focus, 120 service hours were dedicated to organizations with an economic development focus, 100 service hours were to organizations dedicated to the revitalization or stabilization of low- or moderate-income areas, and 121 hours were dedicated to affordable housing organizations. Lastly, the services the bank chose to participate in are responsive in nature as they helped organizations with financial and technical assistance.

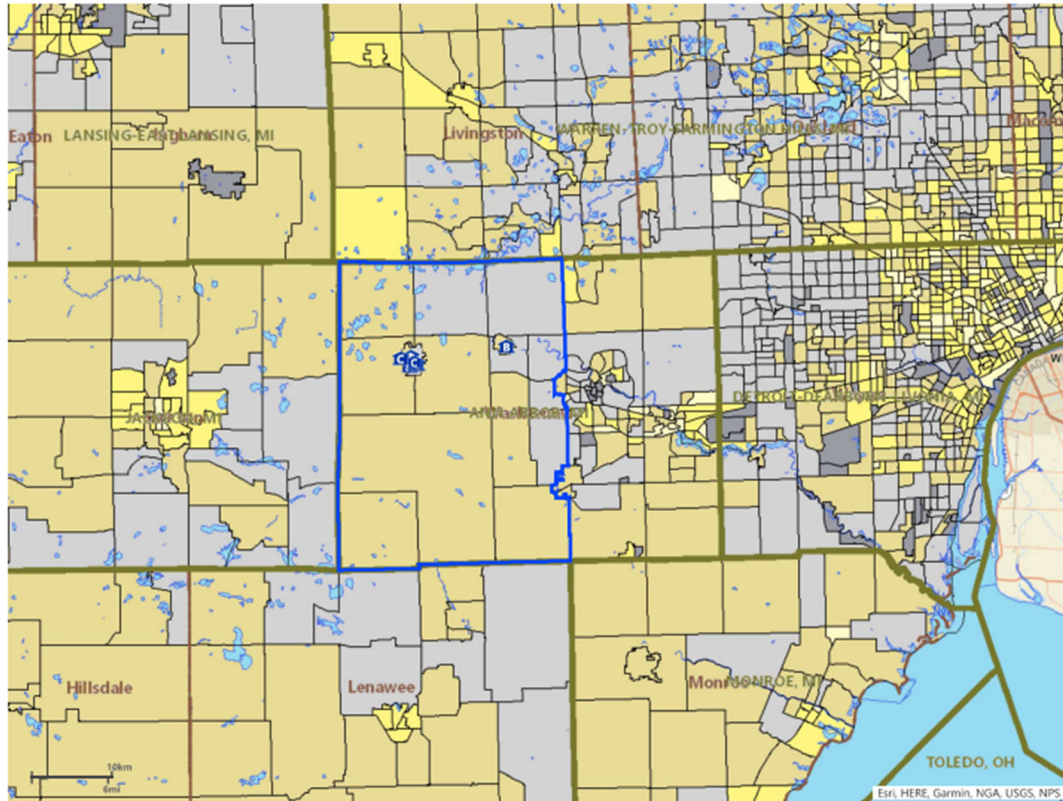
Summary of All Community Development Activities Ann Arbor MSA #11460										
Type of Activity	Affordable Housing		Economic Development		Activities that Revitalize/Stabilize		Community Services		Totals	
	#	\$/Hours	#	\$/Hours	#	\$/Hours	#	\$/Hours	#	\$/Hours
Lending	8	7,655,436	20	13,738,916	2	8,965,000	0	0	30	30,359,352
Investment	1	500,000	1	500,000	1	25,000	0	0	3	1,025,000
Donations	4	9,500	4	9,000	9	132,000	39	57,805	56	208,305
Services	3	121	3	120	1	100	39	4,369	46	4,710

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 – Maps of Assessment Areas

Chelsea State Bank 711548
 Ann Arbor, MI MSA 11460



LEGEND	
2020 Census Year	
INCOME	
[Lightest Yellow]	Low
[Medium Yellow]	Moderate
[Darker Yellow]	Middle
[Grey]	Upper
[Darkest Grey]	Unknown
[Blue Outline]	AA Boundary
[Hatched Pattern]	Distressed
[Dotted Pattern]	UnderServed
[Cross-hatched Pattern]	Distressed-Underserved
BANK BRANCHES	
Inside and Outside AA	
[Blue House with ATM]	Branches with ATM - 2
[Blue ATM]	Cash Only ATM - 3
[Blue House]	Main Office with ATM - 1
FEATURES	
[Light Blue]	Water Body

APPENDIX B – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED	Lending Test: Small Business Loans: January 1, 2023 – December 31, 2023 Community Development Test: November 13, 2018 – February 26, 2024		
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Chelsea State Bank			Small Business 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
Michigan Ann Arbor MSA #11460	Full scope	N/A	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 uninsured state branch (other than a limited branch) of a foreign bank described in section 228.11(c)(2).

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

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 nonmetropolitan 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, includes loans for home improvement purposes not secured by a dwelling, and other consumer unsecured loan, includes loans for home improvement purposes 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 household 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 Loan: 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).