

PUBLIC DISCLOSURE

November 4, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heritage State Bank
RSSD #912578**

**2201 James Street
Lawrenceville, Illinois 62439**

Federal Reserve Bank of St. Louis

**P.O. Box 442
St. Louis, Missouri 63166-0442**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of the institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION’S CRA RATING: This institution is rated SATISFACTORY.

Heritage State Bank meets the criteria for a Satisfactory rating based on the evaluation of the bank’s lending activity. The factors supporting the institution’s rating include:

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution’s size, financial condition, and credit needs of the assessment areas.
- A majority of loans and other lending-related activities are in the assessment areas.
- Distribution of loans to borrowers reflects excellent penetration among farms and businesses of different revenue sizes.
- Geographic distribution of loans reflects a reasonable dispersion throughout the assessment areas.
- There were no CRA-related complaints filed against the bank since the previous CRA evaluation.

SCOPE OF EXAMINATION

The bank’s CRA performance was reviewed using the Federal Financial Institutions Examination Council’s (FFIEC’s) small bank procedures, which evaluate the bank under the Lending Test. Bank performance under this test is rated at the institution level, as well as at the state levels. The bank maintains operations in two delineated assessment areas in two states, Indiana and Illinois. In light of these characteristics, the bank received three sets of ratings: an overall institution rating and ratings for the states of Indiana and Illinois.

The following table details the number of branch offices, breakdown of deposits, and the CRA review procedures applicable to each assessment area completed as part of this evaluation. Deposit information in the following table, as well as deposit information throughout this evaluation, is taken from the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report data as of June 30, 2019.

State	Offices		Deposits as of June 30, 2019		Assessment Area Reviews		
	#	%	\$ (000s)	%	Full Scope	Limited Scope	TOTAL
Indiana	2	66.7%	\$43,742	59.8%	1	0	1
Illinois	1	33.3%	\$29,452	40.2%	1	0	1
OVERALL	3	100%	\$73,194	100%	2	0	2

In light of branch structure, loan and deposit activity, and the bank’s CRA evaluation history, CRA performance in the state of Indiana was given slightly more consideration, as it contains the majority of the bank’s branches (including the main office) and deposit activity, notwithstanding the majority of the lending activity was in Illinois during the review period.

Furthermore, small farm and small business loans were used to evaluate the bank’s lending performance, as these loan categories are considered the bank’s core business lines based on lending volume and the bank’s stated business strategy. Therefore, the loan activity represented by these credit products is deemed indicative of the bank’s overall lending performance. However, as the bank has a particular emphasis on agricultural lending, performance based on the small farm loan category carried the most significance toward the bank’s overall performance conclusions. The following table details the performance criterion and the corresponding time periods used in each analysis.

Performance Criterion	Time Period
LTD Ratio	December 31, 2015 – June 30, 2019
Assessment Area Concentration	January 1, 2015 – December 31, 2018
Geographic Distribution of Loans	January 1, 2017 – December 31, 2018
Loan Distribution by Borrower’s Profile	January 1, 2017 – December 31, 2018
Response to Written CRA Complaints	October 19, 2015 – November 3, 2019

Lending Test analyses often entail comparisons of bank performance to assessment area demographics and the performance of other lenders, based on Home Mortgage Disclosure Act and CRA aggregate lending data. Unless otherwise noted, assessment area demographics are based on 2015 American Community Survey (ACS) data by the U.S. Census Bureau. Certain business and farm demographics are based on 2018 Dun & Bradstreet data. When analyzing bank performance by comparing lending activity to both demographic data and aggregate lending data, greater emphasis is generally placed on the aggregate lending data, because it is expected to describe many factors impacting lenders within an assessment area. Aggregate lending datasets are also updated annually and are, therefore, expected to predict more relevant comparisons. In addition, the bank’s lending levels were evaluated in relation to those of comparable financial institutions operating within the same general region. Three other banks were identified as similarly situated peers, with asset sizes ranging from \$80.0 million to \$324.4 million as of June 30, 2019.

To augment this evaluation, four community contact interviews with members of the local community were utilized to ascertain specific credit needs, opportunities, and local market conditions within the bank’s assessment areas. Information from these interviews also assisted in evaluating the bank’s responsiveness to identified community credit needs and community development opportunities. Key details from these community contact interviews are included in the *Description of Assessment Area* section, applicable to the assessment area in which they were conducted.

DESCRIPTION OF INSTITUTION

Heritage State Bank is a full-service retail bank offering both consumer and commercial loan and deposit products. The bank is wholly owned by HBancorporation, Inc., a one-bank holding company. The bank and its holding company are both headquartered in Lawrenceville, Illinois. The bank’s branch network consists of three offices (including the main office), all of which have deposit-taking automated teller machines on site. The bank did not open or close any branch offices during this review period. Based on this branch network and other service delivery systems, such as mobile and online banking for current customers, the bank is sufficiently positioned to deliver financial services to the majority of its assessment areas.

As previously mentioned, the bank operates in two CRA assessment areas. The bank’s primary assessment area is located in Indiana in a nonmetropolitan statistical area (nonMSA) portion of the state. The assessment area is comprised of Gibson and Knox Counties in their entirety (Southwestern Indiana assessment area). The Illinois portion of the bank’s assessment area is located in nonMSA Illinois and consists of Crawford, Lawrence, Richland, and Wabash Counties in their entirety (Southeastern Illinois assessment area).

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credit needs of its customers, and the bank appeared capable of meeting the credit needs of its assessment areas based on its available resources and financial products. As of June 30, 2019, the bank reported total assets of \$83.0 million. As of the same date, loans and leases outstanding were \$73.7 million (88.8 percent of total assets), and deposits totaled \$73.2 million. The bank’s loan portfolio composition by credit category is displayed below:

Distribution of Total Loans as of June 30, 2019		
Credit Category	Amount (\$000s)	Percentage of Total Loans
Commercial Real Estate	\$7,063	9.6%
1–4 Family Residential	\$546	0.7%
Farmland	\$61,129	82.9%
Farm Loans	\$1,171	1.6%
Commercial and Industrial	\$3,829	5.2%
TOTAL	\$73,738	100%

As indicated by the table above, the bank is primarily an agricultural lender, with some additional lending resources dedicated to commercial lending.

The bank received a Satisfactory rating at its previous CRA evaluation conducted by this Reserve Bank on October 19, 2015.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Rated Area	Lending Test Rating
Indiana	Satisfactory
Illinois	Outstanding
OVERALL	Satisfactory

Heritage State Bank meets the standards for a Satisfactory rating under the small bank procedures, which evaluate bank performance under the following five criteria as applicable.

Loan-to-Deposit (LTD) Ratio

One indication of the bank’s overall level of lending activity is its LTD ratio. The table below displays the bank’s average LTD ratio in comparison to those of regional peers. The average LTD ratio represents a 15-quarter average, dating back to the bank’s last CRA evaluation.

LTD Ratio Analysis			
Name	Headquarters	Asset Size (\$000s) as of June 30, 2019	Average LTD Ratio
Heritage State Bank	Lawrenceville, Illinois	\$82,999	99.7%
Regional Banks	Casey, Illinois	\$320,862	82.4%
	Albion, Illinois	\$324,417	90.6%
	Elberfeld, Indiana	\$79,990	62.0%

Based on data from the previous table, the bank’s level of lending is above those of other banks in the region. During the review period, the bank’s quarterly LTD ratio experienced a generally increasing trend, ranging from 87.8 to 104.2, with a 15-quarter average of 99.7 percent. In comparison, the regional peers also had a generally increasing trend; however, the average LTD ratios were lower. Therefore, compared to data from regional banks, the bank’s average LTD ratio is more than reasonable given the bank’s size, financial condition, and credit needs of its assessment areas.

Assessment Area Concentration

For the loan activity reviewed as part of this evaluation, the following table displays the number and dollar volume of loans inside and outside the bank’s assessment areas.

Lending Inside and Outside of Assessment Areas						
January 1, 2015 through December 31, 2018						
Loan Type	Inside Assessment Areas		Outside Assessment Areas		TOTAL	
Small Farm	25	62.5%	15	37.5%	40	100%
	4,900	55.2%	\$3,996	44.9%	\$8,896	100%
Small Business	32	78.0%	9	22.0%	41	100%
	\$5,257	63.4%	\$3,040	36.6%	\$8,297	100%
TOTAL LOANS	57	70.4%	24	29.6%	81	100%
	\$10,157	59.1%	\$7,035	40.9%	\$17,192	100%

A majority of loans and other lending-related activities were made in the bank’s assessment areas. As shown above, 70.4 percent of the total loans were made inside the assessment areas, accounting for 59.1 percent of the dollar volume of total loans. It is noted that the bank’s concentration of small farm lending is slightly lower (62.5 percent by number and 55.2 percent by dollar amount) than its total lending levels. The level of small farm lending inside the assessment areas is being impacted by several small farm relationships that reside outside the bank’s assessment areas that were referred to the bank.

Borrower and Geographic Distribution

The bank’s distribution of lending by borrower’s revenue profile is excellent, based on the analyses of lending in Indiana and Illinois, as displayed in the following table.

Rated Area	Loan Distribution by Borrower’s Profile
Indiana	Excellent
Illinois	Excellent
OVERALL	EXCELLENT

As shown in the following table, the bank's overall distribution of lending by income level of census tract reflects reasonable penetration in Indiana and Illinois. Considering neither assessment area contains any low-income census tracts, bank performance in borrower distribution carried more weight than geographic distribution.

Rated Area	Geographic Distribution
Indiana	Poor
Illinois	Excellent
OVERALL	REASONABLE

Responses to Complaints

No CRA-related complaints were filed against the bank during this review period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Based on findings from the Consumer Affairs examination, including a fair lending analysis performed under Regulation B – Equal Credit Opportunity and the Fair Housing Act requirements, conducted concurrently with this CRA evaluation, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

INDIANA

CRA RATING FOR INDIANA: Satisfactory

Major factors supporting the institution's Indiana rating include the following:

- The distribution of loans reflects excellent penetration among farms and businesses of different sizes.
- The geographic distribution of loans reflects poor dispersion throughout the bank's assessment area in Indiana.

SCOPE OF EXAMINATION

Examination scope considerations applicable to the review of the bank's assessment area in Indiana are consistent with the overall CRA examination scope, as presented in the *Institution, Scope of Examination* section. The bank has one assessment area in a nonMSA portion of southwestern Indiana. The bank's CRA performance in its sole Indiana assessment area was evaluated using full-scope procedures.

To augment this evaluation, two community contact interviews were utilized to ascertain specific community credit needs, community development opportunities, and local economic conditions. The interviews were with representatives from a local housing authority and an economic development representative. Details from these interviews are included in the *Description of Institution's Operations* section.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE SOUTHWESTERN INDIANA ASSESSMENT AREA

Bank Structure

The bank operates two of its three offices (66.7 percent) in this assessment area. Of the two offices, one is located in a moderate-income census tract and one is located in an upper-income census tract. Since the last examination, the bank did not open or close any branches in this assessment area. Based on its branch network and other service delivery systems, the bank is adequately positioned to deliver financial services to most of its assessment area. However, considering there are portions of the assessment area that are over 30 miles away from the closest branch, a slight barrier exists that may prevent the bank from being able to service the entire assessment area.

General Demographics

The assessment area is comprised of Gibson and Knox Counties in their entirety. Based on 2015 ACS data, the assessment area population was 71,730. Of the 12 FDIC-insured depository institutions with a branch presence in the counties making up this assessment area, the bank ranked seventh in deposit market share, encompassing 3.4 percent of total deposit dollars.

Credit needs in the assessment area include a mix of consumer loan products. While community contacts believed that financial institutions were meeting most of the local credit needs, both noted that housing-related loans were a particular need. In addition, one community contact noted that demand for small business lending within the assessment area was significantly being met by banks outside the assessment area in Evansville, Indiana, which is a larger nearby city that offers a more competitive banking environment.

Income and Wealth Demographics

The following table summarizes the distribution of assessment area census tracts by income level and the family population within those tracts.

Assessment Area Demographics by Geography Income Level						
Dataset	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Census Tracts	0	3	10	4	0	17
	0.0%	17.7%	58.8%	23.5%	0.0%	100%
Family Population	0	1,624	11,406	5,444	0	18,474
	0.0%	8.8%	61.7%	29.5%	0.0%	100%

As shown above, 17.7 percent of the census tracts in the assessment area are low- and moderate-income (LMI) geographies, but only 8.8 percent of the family population resides in these tracts. These LMI areas are primarily concentrated in and around the city of Vincennes, Indiana.

Based on 2015 ACS data, the median family income for the assessment area was \$58,168. At the same time, median family income for nonMSA Indiana as a whole was \$55,741. More recently, the FFIEC estimates the 2018 median family income for nonMSA Indiana to be \$61,000. The following table displays population percentages of assessment area families by income level compared to the nonMSA Indiana family population.

Family Population by Income Level					
Dataset	Low-	Moderate-	Middle-	Upper-	TOTAL
Assessment Area	3,189	3,446	3,987	7,852	18,474
	17.3%	18.7%	21.6%	42.5%	100%
NonMSA Indiana	72,537	73,673	88,317	155,066	389,593
	18.6%	18.9%	22.7%	39.8%	100%

As shown in the table above, 36.0 percent of families within the assessment area were considered LMI, which is slightly lower than the percentage of LMI families (37.5 percent) in nonMSA Indiana as a whole. In addition, the percentage of families living below the poverty level in the assessment area (9.7 percent) is less than the level in nonMSA Indiana (10.6 percent). Considering these factors, the assessment area appears slightly more affluent than nonMSA Indiana as a whole.

Housing Demographics

As displayed in the following table, homeownership in the assessment area is more affordable compared to nonMSA Indiana in its entirety.

Housing Demographics			
Dataset	Median Housing Value	Affordability Ratio	Median Gross Rent (Monthly)
Assessment Area	\$93,736	48.5%	\$640
NonMSA Indiana	\$103,294	44.0%	\$645

The median housing value for the assessment area is less than that of nonMSA Indiana as a whole. Additionally, the affordability ratio for the assessment area (48.5 percent) is higher than nonMSA Indiana (44.0 percent). Furthermore, median gross rents in the assessment area are slightly less when compared to nonMSA Indiana.

Industry and Employment Demographics

Based on County Business Patterns data from 2016, there are 32,463 paid employees in the assessment area. By percentage of employees, manufacturing (29.6 percent), healthcare and social assistance (16.0 percent), and retail trade (11.3 percent) make up the largest employment sectors. The table below details the unemployment rates in the assessment area.

Unemployment Levels				
Dataset	Time Period (Annual Average)			
	2016	2017	2018	YTD 2019 (January – June)
Assessment Area	4.0%	3.2%	3.0%	3.0%
NonMSA Indiana	4.3%	3.4%	3.3%	3.4%

As shown in the table, unemployment levels in the assessment area and nonMSA Indiana as a whole have decreased across the time period, with a flattening of the trend through the first six months of 2019. In addition, the bank’s Southwestern Indiana assessment area has consistently maintained slightly lower levels of unemployment when compared to the entirety of nonMSA Indiana over this period.

Community Contact Information

For the Southwestern Indiana assessment area, two community contact interviews were referenced as part of this evaluation. One was completed with a rural housing agency and the other with an economic development agency.

The community contact interviewees categorized the local economy as stable overall. One contact indicated that the population has experienced some decline as younger individuals have moved away. Both contacts also noted that the Toyota Plant in Princeton, Indiana, is the largest employer

in the area and aside from Toyota and companies drawn to the area by Toyota, agriculture remains the major industry in the assessment area. However, the community contacts stated that many of the employees working at Toyota commute from nearby Evansville, Indiana, which is a more vibrant community with better quality homes, schools, and shopping. Many of the homes in Gibson County, in particular, were referred to as being older and requiring extensive repairs and upgrades.

Both contacts indicated that there is an adequate number of banks in the area, with the majority of credit needs being met. One contact noted that banks in the area are not seeing a demand for commercial lending generally due to small businesses and start-ups being attracted to small business development organizations and lenders in Evansville. The contact indicated a need for partnerships with housing developers and collaboration with economic development organizations.

While financial institutions were noted as being active in the community, the contacts also noted that there are opportunities for assisting in the affordable housing needs of LMI individuals, particularly down payment assistance programs and participation in the no down payment loan program of the Rural Housing Service.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE SOUTHWESTERN INDIANA ASSESSMENT AREA

The bank’s Lending Test rating in the Southwestern Indiana assessment area is satisfactory. While the distribution of loans reflects excellent penetration among borrowers of different income levels and farms and businesses of different sizes, the geographic distribution of loans reflects poor penetration throughout the assessment area.

Loan Distribution by Borrower’s Profile

Overall, the bank’s loan distribution by borrower’s profile is excellent based on the performance from both loan categories reviewed. Based on the volume of loans originated and the bank’s strategic focus, greater emphasis was placed on small farm lending in assessing the bank’s overall performance.

Small farm loans were reviewed to determine the bank’s lending performance to farms of different sizes. The following table shows the distribution of the bank’s combined 2017 and 2018 small farm loans by loan amount and farm revenue size along with 2018 Dun & Bradstreet and 2017 and 2018 aggregate data.

Distribution of Loans Inside Assessment Area by Farm Revenue								
January 1, 2017 through December 31, 2018								
Gross Revenue	Loan Amounts in \$000s						TOTAL	
	≤\$100		>\$100 and ≤\$250		>\$250 and ≤\$500			
\$1 Million or Less	0	0.0%	1	33.3%	2	66.7%	3	100.0%
Greater than \$1 Million/Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
TOTAL	0	0.0%	1	33.3%	2	66.7%	3	100%
Dun & Bradstreet Businesses ≤ \$1MM							97.3%	
2017 Small Farm Aggregate ≤ \$1MM							58.2%	
2018 Small Farm Aggregate ≤ \$1MM							56.3%	

The bank originated all of its small farm loans (100.0 percent) to farms with revenues of \$1 million or less. In comparison, assessment area demographics estimate that 97.3 percent of farms in the assessment area had annual revenues of \$1 million or less, and the 2017 and 2018 aggregate lending level to small farms was 58.2 percent and 56.3 percent, respectively. Therefore, that bank’s overall performance is excellent.

The bank’s loan distribution by borrower’s profile for small business loans was analyzed. The following table shows the distribution of the bank’s combined 2017 and 2018 small business loans by loan amount and business revenue size along with 2018 Dun & Bradstreet and 2017 and 2018 aggregate data.

Distribution of Loans Inside Assessment Area by Business Revenue								
January 1, 2017 through December 31, 2018								
Gross Revenue	Loan Amounts in \$000s						TOTAL	
	<\$100		>\$100 and <=\$250		>\$250 and <\$1,000			
\$1 Million or Less	2	33.3%	1	16.7%	1	16.7%	4	66.7%
Greater than \$1 Million/Unknown	0	0.0%	1	16.7%	1	16.7%	2	33.3%
TOTAL	2	33.3%	2	33.3%	2	33.3%	6	100%
Dun & Bradstreet Businesses ≤ \$1MM							89.3%	
2017 Small Business Aggregate < \$1MM							48.4%	
2018 Small Business Aggregate < \$1MM							43.1%	

As displayed in the preceding table, the bank’s level of lending to small businesses (66.7 percent) is below the percentage of businesses operating in the assessment area (89.3 percent). Community contacts noted that some businesses seek financing from lenders in the neighboring market of Evansville, Indiana. The 2017 and 2018 aggregate lending levels were 48.4 percent and 43.1 percent respectively. Based on this information, the bank’s small business lending performance is reasonable.

Geographic Distribution of Loans

As noted previously, the Southwestern Indiana assessment area contains no low-income census tracts and three moderate-income census tracts, comprising 17.7 percent of all census tracts in the bank’s assessment area. Overall, the bank’s geographic distribution of loans in this assessment area reflects poor penetration throughout these moderate-income census tracts, based on the small farm and small business loan categories.

The following table displays the bank’s combined 2017 and 2018 small farm activity by geographic income level compared to the location of small farms throughout this assessment area. The 2017 and 2018 small farm aggregate data is also displayed.

Distribution of Loans Inside Assessment Area by Income Level of Geography												
January 1, 2017 through December 31, 2018												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Small Farm Loans	0	0.0%	0	0.0%	3	100.0%	0	0.0%	0	0.0%	3	100%
Agricultural Institutions	0.0%		0.9%		54.6%		44.5%		0.0%		100%	
2017 Small Farm Aggregate	0.0%		1.5%		56.0%		42.4%		0.0%		100%	
2018 Small Farm Aggregate	0.0%		1.1%		55.9%		42.6%		0.4%		100%	

While the bank did not originate any agricultural loans in the moderate-income census tracts, this performance is in line with aggregate data. Additionally, there are only three farms in the moderate-income census tracts, which represents a small percentage of the agricultural institutions operating in the assessment area. The lack of farms in the moderate-income census tracts explains the limited agricultural lending in these tracts, both by the bank and aggregate lenders. Therefore, the bank’s agricultural lending penetration reflects reasonable performance.

Additionally, the bank’s geographic distribution of small business loans was reviewed. The following table displays the bank’s combined 2017 and 2018 small business activity by geographic income level compared to the location of small businesses throughout this assessment area. Also displayed is 2017 and 2018 small business aggregate data.

Distribution of Loans Inside Assessment Area by Income Level of Geography												
January 1, 2017 through December 31, 2018												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Small Business Loans	0	0.0%	0	0.0%	5	83.3%	1	16.7%	0	0.0%	6	100%
Business Institutions	0.0%		15.4%		58.0%		26.6%		0.0%		100%	
2017 Small Business Aggregate	0.0%		12.8%		58.5%		27.5%		1.2%		100%	
2018 Small Business Aggregate	0.0%		11.6%		54.9%		32.0%		1.5%		100%	

The level of lending in the moderate-income census tracts (0.0 percent) is significantly below the estimated 15.4 percent of businesses operating inside these tracts. Additionally, aggregate performance in 2017 and 2018 equaled 12.8 percent and 11.6 percent, respectively. Based on this data, the bank’s performance for small business loans in LMI census tracts is very poor.

ILLINOIS

CRA RATING FOR ILLINOIS: Outstanding

Major factors supporting the institution's Illinois rating include the following:

- The distribution of loans reflects excellent penetration among farms and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the bank's assessment area in Illinois.

SCOPE OF EXAMINATION

Examination scope considerations applicable to the review of the bank's assessment area in Illinois are consistent with the overall CRA examination scope, as presented in the *Institution, Scope of Examination* section of this report. The bank has one assessment area in a nonMSA portion of southeastern Illinois. The bank's CRA performance in its sole Illinois assessment area was evaluated using full-scope procedures.

To augment this evaluation, two community contact interviews were conducted to ascertain specific community credit needs, community development opportunities, and local economic conditions. The interviews were with representatives from a local housing authority and an agency that supports farms and farming communities. Details from these interviews are included in the *Description of Institution's Operations* section.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE SOUTHEASTERN ILLINOIS ASSESSMENT AREA

Bank Structure

The bank operates one of its three offices (33.3 percent) in this assessment area. This office is located in a middle-income census tract. Since the last examination, the bank did not open or close any branches in this assessment area. Based on its branch network and other service delivery systems, the bank is adequately positioned to deliver financial services to most of its assessment area, but faces difficulty reaching the far edges of Crawford, Richland, and Wabash Counties due to the significant distance. LMI census tracts are concentrated around the county seats, three of which are located over 20 miles from the bank's only branch that is operating in the assessment area.

General Demographics

The assessment area is comprised of Crawford, Lawrence, Richland, and Wabash Counties in their entirety. Based on 2015 ACS data, the assessment area population was 63,985. Of the 15 FDIC-insured depository institutions with a branch presence in the counties making up this assessment

area, the bank ranked 13th in deposit market share, encompassing 2.0 percent of total deposit dollars.

The assessment area is primarily rural, with credit needs including a blend of consumer, commercial, and particularly agricultural loan products. No particular unmet credit needs were noted by community contacts, but one contact noted that most banks seeking farming customers must compete with Farm Services of Illinois.

Income and Wealth Demographics

The following table summarizes the distribution of assessment area census tracts by income level and the family population within those tracts.

Assessment Area Demographics by Geography Income Level						
Dataset	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Census Tracts	0	4	14	2	0	20
	0.0%	20.0%	70.0%	10.0%	0.0%	100%
Family Population	0	2,537	11,366	1,792	0	15,695
	0.0%	16.2%	72.4%	11.4%	0.0%	100%

As shown above, 20.0 percent of the census tracts in the assessment area are LMI geographies, but only 16.2 percent of the family population resides in these tracts. These LMI areas are primarily concentrated in and around the less rural areas in each county of the assessment area.

Based on 2015 ACS data, the median family income for the assessment area was \$58,733. At the same time, median family income for nonMSA Illinois was \$59,121. More recently, the FFIEC estimates the 2018 median family income for nonMSA Illinois to be \$63,900. The following table displays population percentages of assessment area families by income level compared to the nonMSA Illinois family population.

Family Population by Income Level					
Dataset	Low-	Moderate-	Middle-	Upper-	TOTAL
Assessment Area	3,165	2,945	3,450	6,135	15,695
	20.2%	18.8%	21.9%	39.1%	100%
NonMSA Illinois	79,055	71,275	84,204	155,344	389,878
	20.3%	18.3%	21.6%	39.8%	100%

As shown in the table above, 39.0 percent of families within the assessment area were considered LMI, which is slightly higher than LMI family percentage of 38.6 percent in nonMSA Illinois. The percentage of families living below the poverty level in the assessment area, 9.3 percent, is below the 10.4 percent level in nonMSA Illinois. Considering these factors, the assessment area appears to be similarly affluent to that of nonMSA Illinois as a whole.

Housing Demographics

As displayed in the following table, homeownership in the assessment area is more affordable compared to the nonMSA Illinois in its entirety.

Housing Demographics			
Dataset	Median Housing Value	Affordability Ratio	Median Gross Rent (Monthly)
Assessment Area	\$78,921	57.3%	\$551
NonMSA Illinois	\$92,863	49.0%	\$604

The median housing value for the assessment area is considerably lower than that of nonMSA Illinois as a whole. Additionally, the affordability ratio for the assessment area (57.3 percent) is much higher than the nonMSA Illinois figure (49.0 percent). Furthermore, based on median gross rent data, it is more affordable to rent in the assessment area compared to nonMSA Illinois as a whole.

Industry and Employment Demographics

Based on County Business Patterns data from 2016, there are 18,481 paid employees in the assessment area. By percentage of employees, manufacturing (18.3 percent), healthcare and social assistance (17.9 percent), and retail trade (11.7 percent) make up the largest employment sectors. The table below details the unemployment rates in the assessment area.

Unemployment Levels				
Dataset	Time Period (Annual Average)			
	2016	2017	2018	YTD 2019 (January – June)
Assessment Area	6.4%	5.3%	5.1%	5.0%
NonMSA Illinois	6.1%	5.2%	5.0%	5.1%

As shown in the table, unemployment levels in the assessment area and nonMSA Illinois as a whole have decreased across the time period, with a flattening of the trend through the first six months of 2019. In addition, the Southeastern Illinois assessment area has consistently maintained slightly higher levels of unemployment compared to nonMSA Illinois over this period until 2019.

Community Contact Information

For the Southeastern Illinois assessment area, two community contact interviews were referenced as part of this evaluation. One was completed with an agricultural expert and the other with a local housing expert.

The community contact interviewees categorized the local economy overall as having slower growth compared to the rest of Illinois with limited available jobs. The contacts also noted that the area is very dependent on farming and that one major employer outside of agriculture is Toyota.

The contacts indicated that population is declining, with one contact stating that the younger population is moving away for employment opportunities.

One contact noted that while the general banking environment in the assessment area is competitive, competition is especially high for farm-related lending due to competition from Farm Credit, which offers better rates and financial education to its borrowers. This contact believes there is a need within the agriculture market for guaranteed loans and indicated that banks in the assessment area should perform more advertising beyond the traditional word-of-mouth outreach. The housing contact noted a need for affordable mortgage products, down payment assistance programs, financial education, and credit repair programs. In addition, due to the age of most housing stock, home repair and rehabilitation loans are the most needed mortgage products.

Both contacts stated that financial institutions were active and that all were involved in meeting the credit needs of the community. One contact noted that some younger LMI residents use check cashing services and payday lenders in lieu of traditional banking services.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE SOUTHEASTERN ILLINOIS ASSESSMENT AREA

The bank’s Lending Test rating in the Southeastern Illinois assessment area is excellent. The distribution of loans reflects excellent penetration among borrowers of different income levels and farms and businesses of different sizes. The geographic distribution of loans reflects excellent penetration throughout the assessment area.

Loan Distribution by Borrower’s Profile

Overall, the bank’s loan distribution by borrower’s profile is reasonable based on the performance from both loan categories reviewed. Based on the volume of loans originated and the bank’s strategic focus, greater emphasis was placed on small farm lending in assessing the bank’s overall performance.

Small farm loans were reviewed to determine the bank’s lending performance to farms of different sizes. The following table shows the distribution of the bank’s combined 2017 and 2018 small farm loans by loan amount and farm revenue size along with 2018 Dun & Bradstreet and 2017 and 2018 aggregate data.

Distribution of Loans Inside Assessment Area by Farm Revenue								
January 1, 2017 through December 31, 2018								
Gross Revenue	Loan Amounts in \$000s						TOTAL	
	≤\$100		>\$100 and ≤\$250		>\$250 and ≤\$500			
\$1 Million or Less	6	46.2%	6	46.2%	0	0.0%	12	92.3%
Greater than \$1 Million/Unknown	1	7.7%	0	0.0%	0	0.0%	1	7.7%
TOTAL	7	53.8%	6	46.2%	0	0.0%	13	100%
Dun & Bradstreet Businesses ≤ \$1MM							98.5%	
2017 Small Farm Aggregate ≤ \$1MM							40.3%	
2018 Small Farm Aggregate ≤ \$1MM							45.9%	

The bank originated a substantial majority of its small farm loans (92.3 percent) to farms with revenues of \$1 million or less. In comparison, assessment area demographics estimate that 98.5 percent of farms in the assessment area had annual revenues of \$1 million or less, and the 2017 and 2018 aggregate lending level to small farms was 40.3 percent and 45.9 percent, respectively. Additionally, the bank originated 50.0 percent of its small farm loans in amounts less than \$100,000, further indicating the bank’s willingness to accommodate the needs of small farms. Therefore, that bank’s lending performance to small farms is excellent.

The bank’s loan distribution by borrower’s profile for small business loans was also analyzed. The following table shows the distribution of the bank’s combined 2017 and 2018 small business loans by loan amount and business revenue size along with 2018 Dun & Bradstreet and 2017 and 2018 aggregate data.

Distribution of Loans Inside Assessment Area by Business Revenue								
January 1, 2017 through December 31, 2018								
Gross Revenue	Loan Amounts in \$000s						TOTAL	
	<\$100		>\$100 and <=\$250		>\$250 and <\$1,000			
\$1 Million or Less	8	50.0%	4	25.0%	2	12.5%	14	87.5%
Greater than \$1 Million/Unknown	0	0.0%	1	6.3%	1	6.3%	2	12.5%
TOTAL	8	50.0%	5	31.3%	3	18.8%	16	100%
Dun & Bradstreet Businesses ≤ \$1MM							87.7%	
2017 Small Business Aggregate < \$1MM							47.3%	
2018 Small Business Aggregate < \$1MM							45.0%	

As displayed in the preceding table, the bank’s percentage of lending to small businesses (87.5 percent) is in line with the demographic figure of 87.7 percent, while the 2017 and 2018 aggregate lending levels were 47.3 percent and 45.0 percent, respectively. Therefore, the bank’s lending performance to small businesses is excellent.

Geographic Distribution of Loans

As noted previously, the Southeastern Illinois assessment area contains no low-income census tracts and four moderate-income tracts, which represent 20 percent of all census tracts in the assessment area. Overall, the bank’s geographic distribution of loans in this assessment area reflects excellent penetration throughout these tracts, based on small farm and small business lending.

The following table displays the bank’s combined 2017 and 2018 small farm activity by geographic income level compared to the location of small farms throughout this assessment area. In addition, 2017 and 2018 small farm aggregate data is displayed.

Distribution of Loans Inside Assessment Area by Income Level of Geography												
January 1, 2017 through December 31, 2018												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Small Farm Loans	0	0.0%	2	15.4%	10	76.9%	1	7.7%	0	0.0%	13	100%
Agricultural Institutions	0.0%		8.0%		72.7%		19.3%		0.0%		100%	
2017 Small Farm Aggregate	0.0%		4.4%		80.5%		12.6%		2.5%		100%	
2018 Small Farm Aggregate	0.0%		5.9%		80.0%		10.4%		3.7%		100%	

The bank originated 15.4 percent of its small farm loans in the moderate-income census tracts. This performance exceeds the percentage of farms in the assessment area’s moderate-income tracts (8.0 percent). In addition, aggregate lending levels for 2017 and 2018 were 4.4 percent and 5.9 percent, respectively. Therefore, the bank’s agricultural lending penetration in LMI geographies reflects excellent performance.

Additionally, the bank’s geographic distribution of small business loans was reviewed. The following table displays the bank’s combined 2017 and 2018 small business activity by geographic income level compared to the location of small businesses throughout this assessment area, along with 2017 and 2018 small business aggregate data.

Distribution of Loans Inside Assessment Area by Income Level of Geography												
January 1, 2017 through December 31, 2018												
	Geography Income Level										TOTAL	
	Low-		Moderate-		Middle-		Upper-		Unknown			
Small Business Loans	0	0.0%	6	37.5%	10	62.5%	0	0.0%	0	0.0%	16	100%
Business Institutions	0.0%		22.3%		68.5%		9.2%		0.0%		100%	
2017 Small Business Aggregate	0.0%		22.1%		62.4%		10.5%		5.0%		100%	
2018 Small Business Aggregate	0.0%		19.9%		66.8%		9.4%		3.9%		100%	

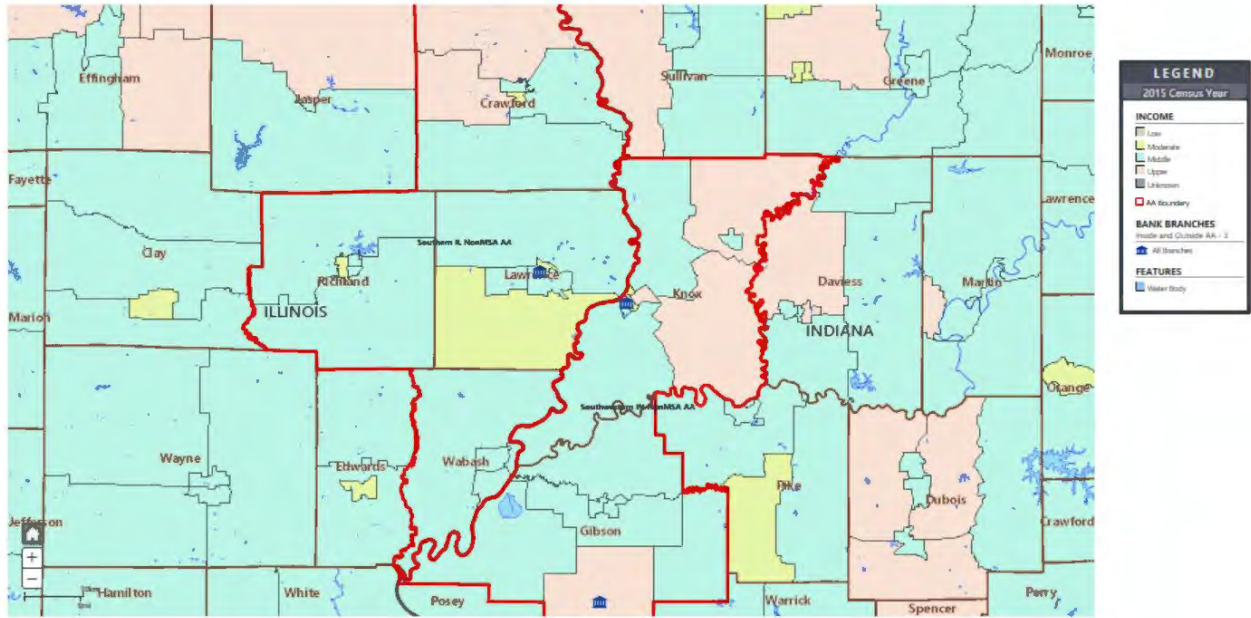
The level of lending in the moderate-income census tracts (37.5 percent) is significantly above the estimated number of businesses in moderate-income tracts in the assessment area (22.3 percent). In addition, 2017 and 2018 aggregate lending percentages in LMI tracts were 22.1 percent and 19.9 percent, respectively. Therefore, performance for small business loans in LMI census tracts is excellent.

SCOPE OF EXAMINATION TABLES

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED	January 1, 2017 – December 31, 2018 for small farm and small business lending.		
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Heritage State Bank Lawrenceville, Illinois			Small Farm Small Business
AFFILIATE(S)	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
N/A	N/A		N/A

ASSESSMENT AREA – EXAMINATION SCOPE DETAILS					
Assessment Area	Rated Area	# of Offices	Deposits (\$000s) (as of June 30, 2019)	Branches Visited	CRA Review Procedures
Southwestern Indiana	Indiana	2	\$43,742	0	Full Scope
Southeastern Illinois	Illinois	1	\$29,452	0	Full Scope
OVERALL		3	\$73,194	0	2 Full Scope

ASSESSMENT AREA DETAIL



SUMMARY OF STATE RATINGS

State or Multistate MSA	Lending Test Rating	Overall Rating
Indiana	Satisfactory	Satisfactory
Illinois	Excellent	Outstanding

GLOSSARY

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

Assessment area: One or more of the geographic areas delineated by the bank and used by the regulatory agency to assess an institution's record of CRA performance.

Census tract: A small subdivision of metropolitan and non-metropolitan counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts 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.

Community contact: Interviews conducted as part of the CRA examination to gather information that might assist examiners in understanding the bank's community, available opportunities for helping to meet local credit and community development needs, and perceptions on the performance of financial institutions in helping meet local credit needs. Communications and information gathered can help to provide a context to assist in the evaluation of an institution's CRA performance.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or 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; (4) activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved non-metropolitan middle-income geographies; or (5) Neighborhood Stabilization Program (NSP) eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate- and middle-income individuals and geographies.

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

Demographics: The statistical characteristics of human populations (such as age, race, sex, income, etc.) used especially to identify markets.

Distressed non-metropolitan middle-income geography: A middle-income, nonmetropolitan geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, 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).

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

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

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

Home mortgage loans: Includes 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: One or more persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

Housing affordability ratio: Is calculated by dividing the median household income by the median housing value. It represents the amount of single family, owner-occupied housing that a dollar of income can purchase for the median household in the census tract. Values closer to 100 percent indicate greater affordability.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments and branch distribution).

Appendix D (continued)

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 reporting lenders in the metropolitan area/assessment area.

Median family income: The dollar amount that divides the family income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The median family income is based on all families within the area being analyzed.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An 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. An MD is a division of a MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

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.

Nonmetropolitan statistical area (nonMSA): Not part of a metropolitan area. (See metropolitan area.)

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

Performance context: The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context in which an institution's record of performance should be evaluated. The performance context is not a formal or written assessment of community credit needs.

Performance criteria: These are the different criteria against which a bank's performance in helping to meet the credit needs of its assessment area(s) is measured. The criteria relate to lending, investment, retail service, and community development activities performed by a bank. The performance criteria have both quantitative and qualitative aspects. There are different sets of criteria for large banks, intermediate small banks, small banks, wholesale/limited purpose banks, and strategic plan banks.

Performance evaluation (PE): A written evaluation of a financial institution's record of meeting the credit needs of its community, as prepared by the federal financial supervision agency responsible for supervising the institution.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small businesses / small farms: A small business/farm is considered to be one in which gross annual revenues for the preceding calendar year were \$1 million or less.

Small loan(s) to business(es): That is, "small business loans" are included in 'loans to small businesses' as defined in the Consolidated Reports of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are secured either by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as non-mortgage, commercial loans.

Small loan(s) to farm(s): That is, "small farm loans" are included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

Underserved middle-income geography: A middle-income, nonmetropolitan geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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