

PUBLIC DISCLOSURE

September 14, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Illini State Bank
RSSD# 180845

230 LaSalle Street
Tonica, Illinois 61370

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, Illinois 60604-1413

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

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BANK'S CRA RATING

Illini State Bank is rated Satisfactory.

Illini State Bank is meeting the credit needs of its community based on an analysis of its lending activities. The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs within the assessment area. The majority of the bank's loans were made in the assessment area. The geographic distribution of loans is reasonable throughout the assessment area. Additionally, the loan distribution is excellent among businesses and farms of different sizes. Neither the bank nor this Reserve Bank has received any CRA-related complaints since the previous performance evaluation.

SCOPE OF EXAMINATION

Illini State Bank's performance was evaluated using the Federal Financial Institutions Examination Council (FFIEC) Small Institution Examination Procedures. The evaluation was performed within the context of information about the institution and its assessment area, such as asset size, financial condition, competition, and economic and demographic characteristics.

The evaluation included a full-scope review of the bank's single assessment area located in the Illinois Non Metropolitan Statistical Area (Illinois Non-MSA). The assessment area consists of thirteen contiguous census tracts located in Putnam, Marshall, and LaSalle Counties.

The bank's primary product lines, which include small farm and small business loans, were reviewed. Small business loans received higher weight for this analysis since commercial loans are the bank's primary product. The sample period included loans originated in 2019.

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

- ***Loan-to-Deposit Ratio*** – A 19-quarter average loan-to-deposit ratio was calculated for the bank and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – A sample of the bank's small business and small farm loans originated from January 1, 2019 through December 31, 2019 were reviewed to determine the percentage of loans originated in the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – A sample of the bank's small business and small farm loans originated in the assessment area, from January 1, 2019 through December 31, 2019, 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 and Farms of Different Sizes*** – A sample of the bank’s small business and small farm loans originated in the assessment area, from January 1, 2019 through December 31, 2019, were reviewed to determine the distribution among businesses and farms with different revenue sizes.
- ***Response to Substantiated Complaints*** – Neither Illini State Bank nor this Reserve Bank received any CRA-related complaints since the previous examination.

In addition, two community representatives from two economic development agencies were contacted in connection with this examination to provide information regarding local economic and socio-economic conditions in the assessment area.

DESCRIPTION OF INSTITUTION

Illini State Bank (ISB) is a wholly-owned subsidiary of ISB Bancorp, Inc., a one-bank holding company located in Tonica, Illinois. The bank operates a main office, two full-service branches, and two standalone cash-only automated teller machines (ATMs). The main office with one cash-only ATM is located in Tonica, Illinois; one branch and two cash-only ATMs are located in Oglesby, Illinois; and one branch is located in Lostant, Illinois. The bank also operates a loan production office in Yorkville, Illinois, whose sole purpose is loan origination outside of the assessment area. The bank has not opened or closed any branch offices since the previous evaluation, dated June 20, 2016, although the loan production office is a new addition as of 2017.

Illini State Bank provides a wide range of conventional loan and deposit products and services to meet the needs of its consumers, businesses, and farms operating within the assessment area. The bank offers a variety of standard deposit products including checking, savings, money markets, and certificate of deposits, and a full range of loan products including commercial, home mortgage, agricultural, and consumer loans.

According to the Uniform Banking Performance Report (UBPR), the bank reported total assets of \$124.4 million as of December 31, 2019. Illini State Bank is predominately a commercial lender, as commercial loans comprise 50.9 percent of its loan portfolio by dollar, followed by agricultural loans (27.9 percent) and residential real estate loans (17.8 percent). The remaining 3.3 percent of the portfolio consists of consumer loans and other loans. Details of the bank's loan portfolio are provided in following table.

Composition of Loan Portfolio as of December 31, 2019 (000s)		
Type	\$	%
Residential Real Estate	13,218	17.8
Commercial	37,750	50.9
Agricultural	20,724	27.9
Consumer	1,284	1.7
Other	1,185	1.6
Total	74,161	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 June 20, 2016.

DESCRIPTION OF ASSESSMENT AREA¹

Illini State Bank's assessment area is comprised of 13 census tracts located in LaSalle, Putnam, and Marshall Counties within the state of Illinois. Marshall County is part of the Peoria Metropolitan Statistical Area (MSA) #37900, while LaSalle and Putnam Counties are located in the Illinois Non-MSA. The geographic area does not extend substantially beyond the MSA boundary, and the bank does not operate a branch office in the MSA; therefore, the bank's assessment area is evaluated as a single entity. Within the assessment area, there are one moderate-, seven middle- and two upper-income census tracts in LaSalle County; one middle- and one upper-income census tract in Putnam County; and one middle-income census tract in Marshall County. All branches and ATMs are located in middle-income census tracts, and no census tracts are designated as distressed or underserved. There have been no changes made by the bank to its assessment area since its previous evaluation.

Since the previous evaluation, two census tracts within the assessment area, both located in LaSalle County, experienced income designation changes due to shifts in income demographics. In 2018, census tract 9633.0 changed from a middle-income to a moderate-income census tract, while census tract 9631.0 changed from an upper-income to a middle-income census tract.

The Federal Deposit Insurance Corporation's (FDIC) Deposit Market Share Report dated June 30 2019, ranks Illini State Bank as 12th among 31 FDIC-insured institutions with operations located in the assessment area. The bank has a 2.5 percent deposit market share, compared to the market leader First State Bank, which has 18.8 percent of the assessment area's deposit market share,

¹ Census tract designations are based on American Community Survey income data. For years 2017 and after, the designations are based on 2011-2015 ACS data. For years 2016 and before, the designations are based on 2006-2010 ACS data. For examinations that include performance before and after 2017, both sets of data have been used to perform the analysis of bank activity in the respective timeframes.

followed by The First National Bank of Ottawa with a deposit market share of 9.2 percent. Six of the 31 total institutions operating within the assessment area have a deposit market share greater than 5.0 percent, while the remaining 25 institutions have less than 5.0 percent market share, indicating that Illini State Bank operates in an highly competitive banking environment.

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 2016 and 2017. Lending activity performed in 2017 and beyond are evaluated based on ACS income level definitions from the five-year survey data set 2011-2015.

Census Tract Designation Changes American Community Survey Data (ACS)			
Tract Income Designation	2016 Designations (#)	2017 Designations (#)	Net Change (#)
Low	0	0	-
Moderate	0	1	+1
Middle	9	9	-
Upper	4	3	-1
Unknown	0	0	-
Total	13	13	-
<i>Source: U. S. Census Bureau: Decennial Census: American Community Survey Data: 2006-2010 U.S. Census Bureau: Decennial Census: America Community Survey Data: 2011-2015</i>			

Additional demographic information about the assessment area is provided in the following table.

Assessment Area: 2019 IL Non MSA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,885	15.9
Moderate-income	1	7.7	561	4.7	74	13.2	1,997	16.9
Middle-income	9	69.2	8,258	69.8	638	7.7	2,514	21.3
Upper-income	3	23.1	3,011	25.5	214	7.1	5,434	45.9
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	13	100.0	11,830	100.0	926	7.8	11,830	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	1,318	425	3.0	32.2	660	50.1	233	17.7
Middle-income	15,544	10,262	72.6	66.0	3,345	21.5	1,937	12.5
Upper-income	5,003	3,446	24.4	68.9	685	13.7	872	17.4
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	21,865	14,133	100.0	64.6	4,690	21.4	3,042	13.9
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	193	10.3	170	10.5	19	9.2	4	8.2
Middle-income	1,230	65.7	1,058	65.4	145	70.4	27	55.1
Upper-income	449	24.0	389	24.1	42	20.4	18	36.7
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	1,872	100.0	1,617	100.0	206	100.0	49	100.0
	Percentage of Total Businesses:		86.4		11.0		2.6	
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	95	58.3	93	58.5	2	50.0	0	0.0
Upper-income	68	41.7	66	41.5	2	50.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	163	100.0	159	100.0	4	100.0	0	0.0
	Percentage of Total Farms:		97.5		2.5		0.0	
2019 FFIEC Census Data & 2019 Dun & Bradstreet information according to 2015 ACS								
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>								

The following presentation of key demographics used to help inform the evaluation of bank activity in its assessment area is based on a comparison of two sets of ACS data, 2006-2010 and 2011-2015.

Population Change

As presented in the table below, the assessment area's population decreased by 2.5 percent, while the state of Illinois increased by 0.3 percent between the 2010 Census and the 2015 American Community Survey (ACS). All of the counties in the assessment area experienced a decrease in population during this timeframe. Marshall County, the second most populated county within the assessment area, experienced the highest percentage decrease while LaSalle County, the most populated county within the assessment area, had the lowest percentage of population loss. According to community representatives, population loss in the assessment area is due in part to younger generations moving to metropolitan areas such as Chicago, Illinois and St. Louis, Missouri for further education and more lucrative job opportunities. The following table presents a comparison of population trends in the assessment area to statewide data.

Population Change			
Area	2010 Population	2011-2015 Population	Percentage Change
Assessment Area	46,432	45,266	-2.5
LaSalle County	113,924	112,579	-1.2
Marshall County	12,640	12,173	-3.7
Putnam County	6,006	5,822	-3.1
State of Illinois	12,830,632	12,873,761	0.3

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

Income Characteristics

According to 2019 FFIEC data, the assessment area is comprised of 11,830 families, of which 15.9 percent are designated as low-income, 16.9 percent are moderate-income, 21.3 percent are middle-income, and 45.9 percent are upper-income. Of the families residing within the assessment area, 7.8 percent live below the poverty line, which is below the state of Illinois poverty rate of 10.5 percent.

According to the 2011-2015 ACS data illustrated in the following table, the median family income (MFI) for the assessment area is \$66,229, an increase of 5.6 percent in comparison to the 2006-2010 ACS. The MFI for all three counties within the assessment area increased since 2010, although Putnam County influenced the assessment area's median family income the most, with an increase of 7.2 percent. Meanwhile, Marshall County experienced the least change, with only a 0.3 percent increase in MFI. Even though the MFI for all counties in the assessment area experienced growth, the respective MFI's for LaSalle and Marshall Counties remained lower compared to the broader assessment area and the state of Illinois. The lower MFI's of LaSalle and Marshall Counties can be attributed to their rural nature and lower cost of living. A community representative stated that

median family incomes in Putnam County likely rose due to the presence of the local ethanol plant. The ethanol plant is one of the largest in the country, is a large employer of the county, and provides well-paying jobs. Additionally, many individuals in Putnam County commute to the city of Ottawa and other areas of LaSalle County for work, as there is a more varied job market.

Median Family Income Change 2006-2010 and 2011-2015			
Area	2006-2010 Median Family Income	2011-2015 Median Family Income	Percentage Change
Assessment Area	62,733	66,229	5.6
LaSalle County	62,252	63,812	2.5
Marshall County	64,781	64,984	0.3
Putnam County	68,875	73,807	7.2
State of Illinois	68,236	71,546	4.9
<i>Source: 2006-2010— U.S. Census Bureau: American Community Survey 2011-2015—U.S. Census Bureau: American Community Survey</i>			

Housing Characteristics

The following table represents the recent housing cost trends within the assessment area and the state of Illinois. According to the 2011-2015 ACS, the assessment area has 21,865 housing units. Of those housing units, 64.6 percent are owner-occupied, 21.4 percent are rental, and 13.9 percent are vacant. The assessment area experienced a slight decline in median housing values and an increase in median gross rents between the 2006-2010 ACS and the 2011-2015 ACS. Of the three counties in the assessment area, both LaSalle and Putnam Counties experienced declines in median housing values of -1.9 percent, while median gross rents increased by 8.4 percent and 8.2 percent, respectively. Increased rents in LaSalle County may be attributed to the pace of rental construction not meeting the demand for units. A community representative stated that one rental project targeted to low-income seniors in LaSalle County was completed in the summer of 2020. Additional rental projects in LaSalle County are currently under construction, while others are scheduled to take place in three to five years. Meanwhile, median housing values and median gross rent in Marshall County increased by 1.9 percent, and 12.5 percent, respectively. Comparatively, at the state level median housing values decreased 14.2 percent, while median gross rents increased 8.8 percent.

Trends in Housing Costs 2006-2010 and 2011-2015				
Location	2006-2010 Median Housing Value	2011-2015 Median Housing Value	2006-2010 Median Gross Rent	2011-2015 Median Gross Rent
Assessment Area	117,597	114,414	613	684
LaSalle County	125,500	123,100	646	700
Marshall County	102,700	104,600	574	646
Putnam County	123,600	121,300	559	605
State of Illinois	202,500	173,800	834	907
<i>Source: 2006-2010— U.S. Census Bureau: American Community Survey 2011-2015—U.S. Census Bureau: American Community Survey</i>				

A common method to compare relative affordability of housing across geographic areas is the affordability ratio, which is defined in Appendix C-Glossary. This ratio allows the comparison of housing affordability across assessment areas and communities. An area with a high ratio generally has more affordable housing than an area with a low ratio. Based on the 2011-2015 ACS, the affordability ratio for the assessment area is 0.44. The affordability ratios of LaSalle County, Marshall County, and Putnam County are 0.41, 0.51, and 0.46 respectively. Overall, within the assessment area, housing is the most affordable within Marshall County and least affordable within LaSalle County. Comparatively, the affordability ratio for the state of Illinois is 0.33. While there is some variety in affordability ratios for the counties comprising the assessment area, it is significantly more affordable to live in any of the assessment area counties than the state average.

Trends in Housing Costs							
\$ (000s)							
Location	Median Housing Value			Median Gross Rent			Affordability Ratio
	2006-2010	2011-2015	Percent Change	2006-2010	2011-2015	Percent Change	
Assessment Area	117,597	114,414	-2.7	613	684	11.6	0.44
LaSalle County	125,500	123,100	-1.9	646	700	8.4	0.41
Marshall County	102,700	104,600	1.9	574	646	12.5	0.51
Putnam County	123,600	121,300	-1.9	559	605	8.2	0.46
State of Illinois	202,500	173,800	-14.2	834	907	8.8	0.33
<i>Source: U.S. Census Bureau – American Community Survey</i>							

Foreclosure Trends

The Federal Reserve Bank of Chicago conducted a study on the change in foreclosure inventory rates at the county level. The foreclosure inventory rate measures the number of residential properties in some phase of foreclosure. The following are the most recent foreclosure inventory rates, as of July 2018, for counties within the assessment area: LaSalle at 1.8 percent, Marshall at 1.4 percent, Putnam at 0.0 percent. Foreclosure rates in the state of Illinois decreased from 2.2 percent at the previous evaluation to 1.0 percent as of July 31, 2018. Foreclosure rates decreased across all three counties in the assessment area since the previous evaluation, with only LaSalle and Marshall Counties showing slightly higher foreclosure rates than the state of Illinois. The decrease in foreclosure rates can be attributed to a decrease in unemployment and an increase in median family incomes. The low percentage of properties in the process of foreclosure indicates housing sector improvements.

Bankruptcy Trends

According to the Administrative Office of the U.S. Courts, bankruptcy filing rates across the assessment area have continued to generally decrease between 2015 and 2018. As of 2018, the personal bankruptcy filing rate in the state of Illinois was 3.7 filings per 1,000 population. All counties within the assessment area have personal bankruptcy filing rates below the state of Illinois. Only Marshall County had an increase in personal bankruptcy filing rates between 2017 and 2018, increasing from 1.6 to 2.9 filings per 1,000 population, both of which are considered low.

Personal Bankruptcy Filing Rate (per 1,000 population)				
Area	2015	2016	2017	2018
LaSalle County	3.3	2.4	2.7	2.4
Marshall County	2.7	2.1	1.6	2.9
Putnam County	1.9	1.2	2.2	1.0
State of Illinois	4.4	4.1	3.9	3.7

Source: Administrative Office of The U.S. Courts

Employment Conditions

Unemployment declined throughout all of the geographies from 2015 through 2018. In 2018, unemployment in Marshall and Putnam Counties remained lower than LaSalle County. When compared to the State of Illinois average, all the geographies within the assessment area have higher unemployment rates. The table below provides full unemployment figures.

Unemployment Rates				
Region	2015	2016	2017	2018
LaSalle County	6.9	6.7	5.7	5.8
Marshall County	6.5	6.6	5.5	5.2
Putnam County	6.1	5.6	5.0	5.2
State of Illinois	5.9	5.9	4.9	4.3

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

Industry Characteristics

Location quotients developed by the U.S. Bureau of Labor Statistics indicate that the assessment area contains a diverse employment base, but is most heavily impacted by casinos and health and hospital services. A report of major employers within the assessment area shows that there is a concentration of industry within LaSalle County, and of 20 employers with greater than 120 employees, all were located within LaSalle County.

Since the previous examination, there has been one major closing affecting over 100 workers and six other closings or layoffs affecting under 100 workers. In 2019, the closing of Del Monte Food, Inc., located in LaSalle County, affected 473 workers. A community representative explained that the Del Monte factory was primarily a seasonal employer, with the workforce concentrated in field

hands. After the busy summer season, employment dropped to minimal staffing for the remainder of the year. The closing had the greatest impact on the city of Mendota, but as wages were not high, the overall effect on the local economy was minimal.

Largest Employers in the Assessment Area		
Company	Number of Employees	Industry
Suzi's	1100	Casinos
Midwest Casino Rental	1100	Casinos
Lucky	1100	Casinos
PetSmart	650	Pet Supplies & Foods-Retail
Illinois Valley Community College	534	Libraries-Public
Illinois Valley Community Hospital	521	Hospitals
OSF St Elizabeth Medical Center	491	Hospitals
Transportation Department	456	Road Building Contractors
SABIC Innovative Plastics	425	Plastics & Plastic Products (Manufacturers)

Source: Business information provided by Infogroup®, Omaha, NE

Community Representatives

Two community representatives were contacted to gain a better perspective of the credit and banking needs of the assessment area. The community representatives provided information on social and economic development needs throughout some of the counties within the assessment area. The representatives noted that Putnam and Marshall Counties within the assessment area are primarily rural in nature and heavily impacted by the agricultural and farming industries. Ethanol is very important to Putnam County, and any changes to that sector would drastically impact employment there. In LaSalle County, representatives noted a need for more skilled labor and difficulty in attracting the needed workforce. For instance, Ottawa, a town of about 18,000 people in LaSalle County, contains a concentration of manufacturing industry, and even though workers are paid higher salaries compared to surrounding towns, they cannot compete with regional metropolitan cities such as Chicago and St. Louis.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Performance standards for small banks consist of the following, as applicable: the bank's loan-to-deposit (LTD) ratio, the percentage of loans and other lending-related activities located in the bank's assessment area, the record of lending to borrowers of different income levels and businesses and farms of different sizes, the geographic distribution of loans, and the record of taking action in response to written complaints. To determine CRA performance, the preceding standards are analyzed and evaluated within the assessment area context, which includes, but is not limited to, comparative analyses of the assessment area and the state and the non-metropolitan portions of the state demographic data on median income, nature of housing stock, housing costs, and other relevant data pertaining to the bank's assessment area.

LENDING TEST

Illini State Bank's performance relative to the lending test is rated satisfactory based on the following factors: the loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs; a majority of the bank's loans are originated in the assessment area; the geographic distribution of loans is reasonable throughout the assessment area; and the loan distribution is excellent among businesses and farms of different sizes.

Loan-to-Deposit Ratio

Illini State Bank's LTD ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. Also considered were demographic factors, the bank's lending and deposit strategy, economic conditions, and lending opportunities within the assessment area. As of June 30, 2020, the bank's average LTD ratio for the 19-quarter period was 68.7 percent. Illini State Bank's LTD is above most of its competitors with similar asset sizes in the area. Non-local banks that displayed higher LTD ratios than Illini State Bank also had greater total assets. From 2018 to 2020, Illini State Bank has seen a marked increase in its LTD ratio, which can be attributed to growth in loan originations from its loan production office located outside of the assessment area. The growth in the bank's LTD ratio is in accordance with bank strategy. The following table compares the bank's LTD ratio to its local competitors.

Comparative Loan-to-Deposit Ratios	
Institution	Loan-to-Deposit Ratio (%)
	19 – Quarter Average
Illini State Bank	68.7
Competitors	
Peru Federal Savings Bank	55.9
Granville National Bank	50.2
Hometown National Bank	68.1
LaSalle State Bank	66.0
North Central Bank	63.0

Assessment Area Concentration

The majority of small business and small farm loans were originated in the assessment area, indicating Illini State Bank is actively serving the needs of its community. Specifically, the bank originated 79.8 percent of its total loans by number and 46.9 percent by dollar amount inside the assessment area during the evaluation period. The bank's lending by dollar amount outside of the assessment area is due largely to the bank's loan production office, which focuses on commercial lending. Much of the bank's assessment area is composed of farming communities, and the percentage of small farm loan originations, by number and dollar amount, within the assessment area indicates the bank is responsive to the needs of the assessment area. The following table summarizes the bank's lending inside and outside its assessment area by product.

Assessment Area Concentration								
Loan Type	Inside				Outside			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Small Business	28	65.1	678	11.5	15	34.9	5,197	88.5
Small Farm	39	95.1	4,322	90.4	2	4.9	460	9.6
Total Loans	67	79.8	5,000	46.9	17	20.2	5,657	53.1

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

Geographic Distribution of Loans

The geographic distribution of loans is reasonable throughout the bank’s assessment area, which is comprised of three upper-income, nine middle-income, and one moderate-income census tract. 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. An analysis of the small business and small farm lending sample showed that in 2019 Illini State Bank originated credit in seven of the thirteen census tracts in the assessment area. Of the six census tracts with no small business or small farm loans, one was moderate-income, four were middle-income, and one was upper-income. Bank representatives stated that originating small business and small farm loans throughout every census tract can be challenging due to the competitive banking environment. Illini State Bank staff explained a lack of lending from the loan sample in the one moderate-income census tract (9633.0) in LaSalle County is due in part to the area being saturated with at least a dozen financial institutions, including savings banks and credit unions. Examiners’ lending analysis identified one conspicuous gap within Putnam County, which can be explained by its rural nature and smaller, declining population. While the majority of Putnam County is farmland, it contains six communities, half of which have populations under 300. The physical presence of three other financial institutions in the county makes competition a factor as there are no Illini State Bank branches in the county. Additionally, community representatives noted that these three banks have a strong presence in each of their respective communities and strong established relationships with many of the farmers, businesses, and residents. Examiners determined that there were no conspicuous unexplained gaps in contiguous census tracts.

A detailed discussion of small business and small farm loans in relation to census demographics is provided below.

Small Business

Geographic distribution of small business loans is reasonable throughout the assessment area. In 2019, Illini State Bank originated 85.7 percent of its small business loans in middle-income census tracts, surpassing the percentage of total businesses located in middle-income census tracts at 65.7 percent. The bank originated 14.3 percent of its small business loans in upper-income census tracts, performing below the percentage of total businesses located in upper-income census tracts at 24.0 percent. No small business loans were originated in the bank's one moderate-income census tract despite 10.3 percent of total businesses operating in the census tract. The limited number of originations in the moderate-income census tract can be attributed to the high number of financial institutions operating in the moderate-income tract and the low percentage of businesses located in the moderate-income tract.

The following table presents the bank's 2019 small business lending compared to the selected demographic data.

Geographic Distribution of Small Business Loans						
Assessment Area: 2019 IL Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				
		Count Bank		Dollar Bank		Total Businesses
		#	%	\$ 000s	\$ %	%
Small Business	Low	0	0.0	0	0.0	0.0
	Moderate	0	0.0	0	0.0	10.3
	Middle	24	85.7	548	80.8	65.7
	Upper	4	14.3	130	19.2	24.0
	Unknown	0	0.0	0	0.0	0.0
	Total	28	100.0	678	100.0	100.0
2019 FFIEC Census Data & 2019 Dun & Bradstreet information according to 2015 ACS						
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>						

Small Farm Loans

Geographic distribution of small farms loans is reasonable throughout the assessment area. In 2019, Illini State Bank originated 71.8 percent of its small farm loans in middle-income census tracts, which surpasses the total farms operating in the census tracts at 58.3 percent. The bank originated 28.2 percent of its small farm loans in upper-income census tracts, which is below the percentage of total farms operating in those geographies at 41.7 percent. There are no small farms located in the moderate-income census tract.

The following table presents the bank’s 2019 small farm lending compared to the selected demographic data.

Geographic Distribution of Small Farm Loans						
Assessment Area: 2019 IL Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				
		Count		2019 Dollar		Total Farms
		#	%	\$ 000s	\$ %	
Small Farm	Low	0	0.0	0	0.0	0.0
	Moderate	0	0.0	0	0.0	0.0
	Middle	28	71.8	2,923	67.6	58.3
	Upper	11	28.2	1,399	32.4	41.7
	Unknown	0	0.0	0	0.0	0.0
	Total	39	100.0	4,322	100.0	100.0

2019 FFIEC Census Data & 2019 Dun & Bradstreet information according to 2015 ACS
Note: Percentages may not add to 100.0 percent due to rounding

Lending to Businesses and Farms of Different Sizes

An analysis of loans was conducted to determine the level of lending to businesses and farms of different revenues. Overall, the loan distribution is excellent among businesses and farms of different sizes.

A detailed discussion of small business and small farm loans in relation to demographics is provided below.

Small Business Loans

Small business lending is excellent among businesses of different revenue sizes. Illini State Bank originated 92.9 percent of its small business loans to businesses with annual revenues of \$1.0 million dollars or less during the evaluation period. The bank’s performance is above the percentage of small businesses operating within the assessment area of 86.4 percent. Of the bank’s small business loans, 96.2 percent were made in amounts of \$100,000 or less. These loans are considered to be most beneficial to small businesses, demonstrating the bank’s willingness to meet the credit needs of small businesses within the assessment area.

The following table presents the bank’s 2019 small business lending compared to the selected demographic data.

Small Business Lending By Revenue & Loan Size							
Assessment Area: 2019 IL Non MSA							
Product Type		Bank & Demographic Comparison					
		2019		2019		Total Businesses %	
Revenue	Loan Size	Count Bank		Dollar Bank			
		#	%	\$ 000s	\$ %		
Small Business	Revenue	\$1 Million or Less	26	92.9	513	75.7	86.4
		Over \$1 Million or Unknown	2	7.1	165	24.3	13.6
		Total	28	100.0	678	100.0	100.0
Small Business	Loan Size	\$100,000 or Less	26	92.9	418	61.7	
		\$100,001 - \$250,000	2	7.1	260	38.3	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
		Total	28	100.0	678	100.0	
Small Business	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	25	96.2	403	78.6	
		\$100,001 - \$250,000	1	3.8	110	21.4	
		\$250,001 - \$1 Million	0	0.0	0	0.0	
		Total	26	100.0	513	100.0	

Originations & Purchases
2019 FFIEC Census Data & 2019 Dun & Bradstreet information according to 2015 ACS
Note: Percentages may not add to 100.0 percent due to rounding

Small Farm Loans

Small farm lending is reasonable among farms of different revenue sizes. Illini State Bank originated 79.5 percent of its small farm loans to farms with annual revenues of \$1.0 million dollars or less during the evaluation period. The bank’s performance is below the percentage of small farms operating within the assessment area of 97.5 percent. While the bank does not meet demographic numbers for small farms, 64.1 percent of its small farm loans were in dollar amounts of \$100,000 or less, demonstrating the bank’s responsiveness to the needs of small farms within the assessment area.

The following table presents the bank’s 2019 small farm lending compared to the selected demographic data.

Small Farm Lending By Revenue & Loan Size								
Assessment Area: 2019 IL Non MSA								
Product Type		Bank & Demographic Comparison						
		Count Bank		2019		Total Farms		
				Dollar Bank				
#	%	\$ 000s	\$ %	%				
Revenue	\$1 Million or Less	31	79.5	3,001	69.4	97.5		
	Over \$1 Million or Unknown	8	20.5	1,321	30.6	2.5		
	Total	39	100.0	4,322	100.0	100.0		
Small Farm Loan Size	\$100,000 or Less	25	64.1	1,016	23.5			
	\$100,001 - \$250,000	8	20.5	1,366	31.6			
	\$250,001 - \$500,000	6	15.4	1,940	44.9			
	Total	39	100.0	4,322	100.0			
Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	21	67.7	776	25.9			
	\$100,001 - \$250,000	6	19.4	935	31.2			
	\$250,001 - \$500,000	4	12.9	1,290	43.0			
	Total	31	100.0	3,001	100.0			
Originations & Purchases								
2019 FFIEC Census Data & 2019 Dun & Bradstreet information according to 2015 ACS								
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>								

Response to Complaints

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

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

APPENDIX B – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED	Lending Test: Small business and small farm loans originated from January 01, 2019 through December 31, 2019		
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Illini State Bank			Small Business Loan Small Farm Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
None	N/A		N/A
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Illinois Non-MSA	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.²

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

² Source: FFIEC press release dated October 19, 2011.

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

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

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

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

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

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

4. Activities that revitalize or stabilize low- or moderate-income geographies.

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

- 1) Low- or moderate-income geographies;
- 2) Designated disaster areas; or
- 3) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency based on:
 - a. Rates of poverty, unemployment or population loss; or
 - b. Population size, density and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density and dispersion if they help to meet essential community services including the needs of low- and moderate-income individuals.

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

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

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

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

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

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, which is further classified into “male householder” (a family with a male 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 product office: This term refers to a staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications.

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

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

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

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

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

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

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

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

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

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

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

Small Farm: This term refers to a loan that is included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income. These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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