

PUBLIC DISCLOSURE

October 2, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Flora Bank & Trust
RSSD #777441**

**1478 North Worthey Street
Flora, Illinois 62839**

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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. 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 institution.

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INSTITUTION’S COMMUNITY REINVESTMENT ACT RATING

Flora Bank & Trust (the bank) is rated Satisfactory. This rating is based on the following conclusions with respect to the performance criteria:

- The bank’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank’s loans and other lending-related activities are originated inside the AA.
- The borrower’s profile analysis reveals excellent distribution among individuals of different income levels, including low- and moderate-income (LMI).
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council’s (FFIEC’s) *Interagency Examination Procedures for Small Institutions* were utilized to evaluate the bank’s CRA performance. The evaluation considered CRA performance context, including the bank’s asset size, financial condition, business strategy, and market competition, as well as AA demographic and economic characteristics and credit needs. Lending performance was assessed within the bank’s AA.

Consumer motor vehicle and 1–4 family residential real estate 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. The following table includes the corresponding time period for each performance category.

Performance Criterion	Time Period
LTD Ratio	June 30, 2019 – June 30, 2023
Assessment Area Concentration	January 1, 2022 – December 31, 2022
Geographic Distribution of Loans	
Loan Distribution by Borrower’s Profile	
Response to Written CRA Complaints	May 6, 2019 – October 1, 2023

Lending Test analyses often entail comparisons of bank performance to AA demographics and the performance of other lenders, based on Home Mortgage Disclosure Act and CRA aggregate lending data. Unless otherwise noted, AA demographics are based on 2020 American Community Survey (ACS) 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 AA. Aggregate lending datasets are 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 in the same general region. Three other banks were identified as similarly situated peers, with asset sizes ranging from \$53.7 million to \$210.1 million as of June 30, 2023.

To augment this evaluation, one community contact interview with a member of the local community was utilized to ascertain specific credit needs, opportunities, and local market conditions within the bank's AA. Information from this interview also assisted in evaluating the bank's responsiveness to identified community credit needs and community development opportunities. Key details from this community contact interview are included in the *Description of Assessment Area* section.

DESCRIPTION OF INSTITUTION

Flora Bank & Trust is an intrastate community bank headquartered in Flora, Illinois. The bank's characteristics include:

- The bank is a wholly owned subsidiary of Clay Bancshares, Inc. of Flora, Illinois.
- The bank had total assets of \$111.6 million as of June 30, 2023. That represents an increase of 60.8 percent since the last evaluation.
- In addition to its main office in Flora, the bank has one office located in Louisville, Illinois.
- Both branch offices, including the main office, have cash-dispensing-only ATMs. In addition to the branch locations, the bank maintains three stand-alone cash-dispensing-only ATMs within Clay County.
- As shown in the following table, the bank's primary business focus is 1–4 family residential real estate loans. Loans to individuals (such as consumer motor vehicle) also shows significant dollar volume and is considered an important category in the bank's lending portfolio.

Composition of Loan Portfolio as of June 30, 2023		
Loan Type	Amount \$ (000s)	Percentage of Total Loans
Construction and Development	\$3,687	6.9%
Commercial Real Estate	\$6,406	12.0%
Multifamily Residential	\$0	0.0%
1-4 Family Residential	\$14,953	28.0%
Farmland	\$3,889	7.3%
Farm loans	\$1,837	3.4%
Commercial and Industrial	\$8,838	16.6%
Loans to Individuals	\$12,196	22.9%
Total Other Loans	\$1,557	2.9%
TOTAL	\$53,363	100%
<i>Note: Percentages may not total 100.0% due to rounding.</i>		

The bank was rated Satisfactory under the CRA at its May 6, 2019, performance evaluation. There are no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

The bank’s Clay County AA consists of the entirety of Clay County, Illinois (see Appendix A for an AA map).

- No changes have occurred to the bank’s AA delineation since the prior evaluation.
- According to the June 30, 2022, Federal Deposit Market Share Report, the bank has a market share of 23.4 percent, which ranks second out of six FDIC-insured depository institutions operating in the AA.
- According to the Bureau of Labor Statistics, the three largest nongovernmental industries in the AA, determined by number of employees, are manufacturing (41.1 percent), retail trade (13.9 percent) and accommodation and food service (6.1 percent).
- One community contact interview was conducted with an individual who specializes in regional development.

Assessment Area Demographics by Geography Income Level						
Dataset	Low-	Moderate-	Middle-	Upper-	Unknown-	TOTAL
Census Tracts	0	0	4	0	0	4
	0.0%	0.0%	100.0%	0.0%	0.0%	100%
Family Population	0	0	3,615	0	0	3,615
	0.0%	0.0%	100.0%	0.0%	0.0%	100%

- Since the previous evaluation, the bank’s sole moderate-income census tract in the AA changed to a middle-income census tract, leaving the AA comprised solely of middle-income geographies. None of the middle-income census tracts are considered underserved or distressed.

Population Change			
Area	2015 Population	2020 Population	Percent Change
Clay County AA	13,582	13,288	-2.2%
NonMSA Illinois	1,486,185	1,421,720	-4.3%

*Source: 2020 U.S. Census Bureau: Decennial Census
2011–2015 U.S. Census Bureau: American Community Survey*

- As noted above, the AA experienced a population decline of 2.2 percent, but this decline was outpaced by the overall decline of 4.3 percent in nonmetropolitan statistical area (nonMSA) Illinois.

Median Family Income Change			
Area	2015 Median Family Income	2020 Median Family Income	Percent Change
Clay County AA	\$58,596	\$63,819	8.9%
NonMSA Illinois	\$64,815	\$68,958	6.4%

*Source: 2011–2015 U.S. Census Bureau: American Community Survey
2016–2020 U.S. Census Bureau: American Community Survey*
Note: Median family incomes have been inflation-adjusted and are expressed in 2020 dollars.

- Based on 2015 ACS data, the median family income for the AA was \$58,596, while the median family income for nonMSA Illinois was \$64,815. More recently, the 2020 median family income for the AA and nonMSA Illinois increased to \$63,819 and \$68,958, respectively. While the AA experienced a moderate increase, the median family income for the AA compared to nonMSA Illinois shows the AA remains slightly less affluent.

Unemployment Rates					
Area	2018	2019	2020	2021	2022
Clay County AA	5.2%	4.4%	9.5%	5.7%	4.7%
NonMSA Illinois	4.9%	4.2%	7.8%	5.2%	4.2%

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

- As shown in the preceding table, unemployment levels for the AA remained slightly above the nonMSA, with both experiencing a spike in 2020 due to the COVID-19 pandemic; however, these figures have since declined from the 2020 highs.
- The community contact indicated that Flora is the largest city in Clay County and is home to several large employers. The contact also noted that Clay County has strong and steady healthcare, education, and transportation industries.

Housing Cost Burden						
Area	Cost Burden – Renters			Cost Burden – Owners		
	Low-Income	Moderate-Income	All Renters	Low-Income	Moderate-Income	All Owners
Clay County AA	57.9%	3.1%	24.1%	54.2%	12.3%	16.9%
NonMSA Illinois	65.5%	15.7%	35.9%	52.2%	18.4%	14.6%
<i>Cost burden is housing cost that equals 30% or more of household income.</i>						
<i>Source: 2015–2019 U.S. Department of Housing and Urban Development: Comprehensive Housing Affordability Strategy</i>						

- Generally, a greater percentage of homeownership households are cost-burdened in the AA as compared to nonMSA Illinois overall (16.9 percent versus 14.6 percent), particularly for low-income households (54.2 percent versus 52.2 percent).
- The housing cost burden for renters is lower for LMI renters in the AA, particularly for moderate-income renters (57.9 percent and 3.1 percent, respectively) compared to the figures for nonMSA Illinois (65.5 percent and 15.7 percent, respectively).
- The housing cost burden data for homeowners is consistent with information gathered from the community contact, who described difficulties for LMI individuals with respect to the rising costs of buying a home, affordable housing options available, and the overall shortage of housing inventory in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s overall performance under the Lending Test is Satisfactory.

Loan-to-Deposit (LTD) Ratio

This performance criterion evaluates the bank’s average LTD ratio to determine the reasonableness of lending in light of performance context, such as the bank’s capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institutions were selected based on asset size, product offerings, and location.

Comparative LTD Ratios June 30, 2019 – June 30, 2023			
Institution	Location	Asset Size \$ (000s)	LTD Ratio (%)
			17-Quarter Average
Flora Bank & Trust	Flora, Illinois	\$111,552	55.3%
Similarly Situated Institutions			
Regional Banks	Clay City, Illinois	\$210,066	77.3%
	Louisville, Illinois	\$109,011	60.9%
	Xenia, Illinois	\$53,708	63.2%

The bank’s LTD ratio is reasonable. While the above table shows the bank’s level of lending is below each regional peer bank, additional factors were considered. All banks in the analysis had a generally decreasing LTD ratio trend, and each bank in the analysis had a lower LTD ratio at the end of the review period compared to the start of the review period. In addition to analyzing average ratios, consideration was also given to public deposits from state and local governments held at each institution, as restrictions on these funds may artificially deflate LTD ratios. Accounting for such deposits, the adjusted LTD ratio for the bank’s most recent quarter increases from 50.6 percent to 82.0 percent, which is within the range of peer banks’ adjusted LTD ratios for the same quarter, 68.1 percent to 96.4 percent. Based on this additional analysis, the bank’s LTD ratio is considered reasonable, given the bank’s size, financial conditions, and credit needs of its AA.

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	# %	\$ (000s)	\$ %	#	# %	\$	\$ %
1–4 Family Residential Real Estate	42	87.5%	\$2,712	84.8%	6	12.5%	\$487	15.2%
Consumer Motor Vehicle	43	79.6%	\$636	76.6%	11	20.4%	\$195	23.4%
TOTAL LOANS	85	83.3%	\$3,348	83.1%	17	16.7%	\$681	16.9%
<i>Note: Percentages may not total 100.0% due to rounding.</i>								

A majority of the bank’s loans, by number and dollar, are originated inside the AA.

Loan Distribution by Borrower’s Profile

This performance criterion evaluates the bank’s lending to borrowers of different income levels. The bank’s lending has an excellent distribution among individuals of different income levels.

Residential Real Estate Lending

The bank’s residential real estate loan distribution to LMI borrowers is excellent. As displayed in the following table, the bank’s lending to LMI borrowers significantly exceeds both aggregate and the demographic comparators.

Distribution of 2022 Residential Real Estate Lending by Borrower Income Level							
Assessment Area: Clay County							
Borrower Income Level	Bank and Aggregate Loans						Families by Family Income %
	Bank		Aggregate	Bank		Aggregate	
	#	# %	# %	\$ (000s)	\$ %	\$ %	
Low	13	31.0%	14.0%	583	21.5%	8.5%	21.8%
Moderate	19	45.2%	25.5%	1,167	43.0%	22.0%	20.8%
Middle	4	9.5%	22.3%	368	13.6%	24.2%	20.4%
Upper	6	14.3%	25.5%	594	21.9%	31.4%	37.0%
Unknown	0	0.0%	12.7%	0	0.0%	13.9%	0.0%
TOTAL	42	100.0%	100.0%	2,712	100.0%	100.0%	100.0%
<i>Source: 2022 FFIEC Census Data 2016–2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0% due to rounding.</i>							

Consumer Motor Vehicle

The borrower distribution of consumer motor vehicle lending is excellent. The bank’s lending to low-income borrowers (23.3 percent) slightly trails the percentage of low-income households in the AA (25.4 percent), while lending to moderate-income borrowers (30.2 percent) more than doubles the household comparator (14.0 percent). When combined, the bank’s lending to LMI borrowers (53.5 percent) exceeds the percentage of LMI households in the AA.

Distribution of 2022 Consumer/Motor Vehicle Lending by Borrower Income Level					
Assessment Area: Clay County					
Borrower Income Level	Bank Loans				Households by Household Income %
	#	# %	\$ (000s)	\$ %	
Low	10	23.3%	\$71	11.1%	25.4%
Moderate	13	30.2%	\$156	24.5%	14.0%
Middle	10	23.3%	\$134	21.0%	20.9%
Upper	10	23.3%	\$276	43.3%	39.6%
Unknown	0	0.0%	\$0	0.0%	0.0%
TOTAL	43	100.0%	\$637	100.0%	100.0%

*Source: 2022 FFIEC Census Data
2016–2020 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0% due to rounding.*

Geographic Distribution of Loans

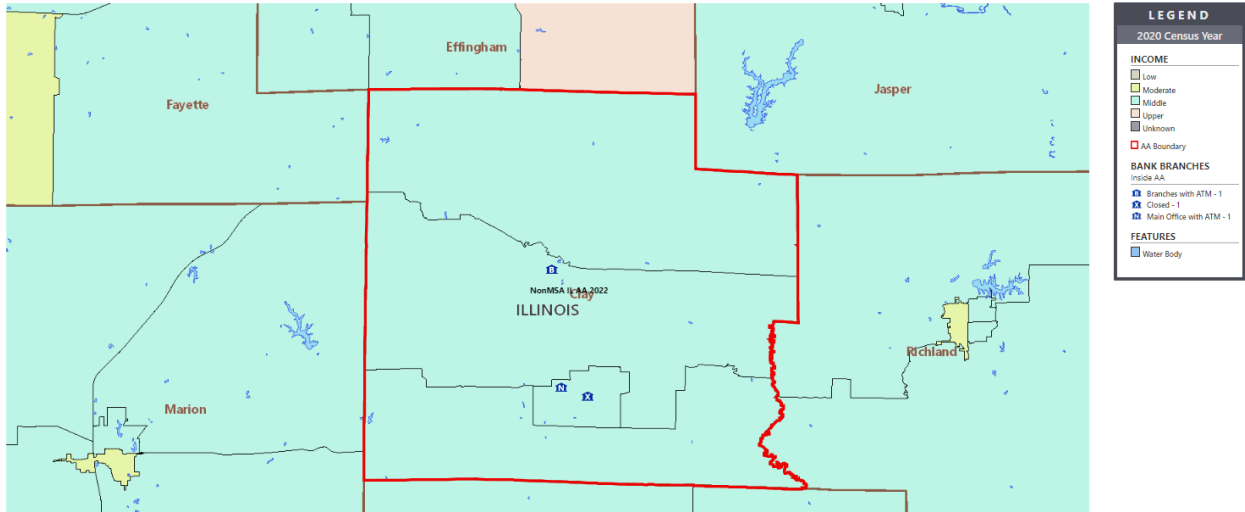
Under the geographic distribution of loans analysis, emphasis is normally placed on the bank’s performance in LMI geographies. As previously stated, the bank’s AA does not contain any LMI census tracts and is composed of four middle-income census tracts. Therefore, a detailed geographic distribution of loans analysis would not prove meaningful and was not performed as part of this evaluation. Nevertheless, the loan dispersion within the AA census tracts was reviewed, the results of which indicated that the loan activity was adequately dispersed throughout the AA, consistent with demographics and bank structure. Therefore, the bank’s geographic distribution of loans is reasonable.

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.

APPENDIX A – MAP OF THE ASSESSMENT AREA

Clay County, Illinois AA



APPENDIX B – 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 nonmetropolitan 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 on 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 nonmetropolitan 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 (e.g., age, race, sex, and income) used especially to identify markets.

Distressed nonmetropolitan 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 nonrelatives 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 (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., 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 who 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 income of applicants; 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: 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 (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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 an 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 multistate 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 multistate metropolitan area, the institution will receive a rating for the multistate 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 by either 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 nonmortgage, 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.