

PUBLIC DISCLOSURE

September 12, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hartsburg State Bank
RSSD# 799939

101 North 2nd Street
Hartsburg, Illinois 62643

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

Hartsburg State Bank is rated Satisfactory.

Hartsburg State Bank is meeting the credit needs of its assessment area based on an analysis of the bank's lending activities. The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the assessment area credit needs. A majority of small business and small farm loans were originated in the assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area, and lending distribution reflects excellent penetration among businesses and farms of different sizes. Neither Hartsburg State Bank, nor this Reserve Bank have received any Community Reinvestment Act (CRA)-related complaints since the previous examination.

SCOPE OF EXAMINATION

Hartsburg State Bank's performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC) Small Institution CRA Examination Procedures. Performance was evaluated in the context of information about the institution and its assessment area, including the bank's asset size, financial condition, competition, and economic and demographic characteristics. The bank's primary product lines, which include small business and small farm loans, were reviewed.

This evaluation included a full scope review of the bank's Non-Metropolitan Statistical Area (Non-MSA) Illinois assessment area. The Non-MSA Illinois assessment area consists of two contiguous census tracts (9530 and 9535) in Logan County, Illinois.

Performance in the assessment area was evaluated using a 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*** – The bank's small business and small farm loans originated from December 11, 2017, to December 31, 2021, were reviewed to determine the percentage of loans originated in the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – The bank's small business and small farm loans originated in the assessment area from December 11, 2017, to December 31, 2021, were analyzed to determine the extent to which the bank is making loans in geographies of different income levels.

- **Lending to Borrowers of Different Income and to Businesses and Farms of Different Sizes** – The bank’s small business and small farm loans originated in the assessment area from December 11, 2017, to December 31, 2021, were reviewed to determine the distribution to businesses and farms with different revenue sizes.
- **Response to Substantiated Complaints** – Neither Hartsburg State Bank nor this Reserve Bank received any CRA-related complaints since the prior evaluation.

In addition, one community representative from a local economic development organization was contacted in connection with this examination to provide information regarding local economic and socio-economic conditions in the assessment area.

DESCRIPTION OF INSTITUTION

Hartsburg State Bank, headquartered in Hartsburg, Illinois, is a stand-alone bank with no additional branches, ATMs, or holding company. The bank’s one location is in Hartsburg, Illinois, where all loan and deposit operations are centralized. There have been no structural changes since the previous examination.

The bank is primarily an agricultural lender, but offers traditional commercial, consumer, and residential real estate loans. In addition, traditional deposit products are also offered and include checking and savings accounts, NOW accounts, and certificates of deposit. As demonstrated in the following chart, the bank’s agricultural, commercial, and residential real estate lending represent 70.3 percent, 17.6 percent, and 6.7 percent, respectively, of the loan portfolio by dollar volume. According to the bank’s Uniform Bank Performance Report (UBPR), the bank reported total assets of \$20.2 million and total deposits of \$18.9 million as of June 30, 2022.

Composition of Loan Portfolio		
As of June 30, 2022		
Loan Type	Dollar Volume (\$ in 000s)	% of Portfolio
Agricultural	\$4,762	70.3
Commercial	\$1,193	17.6
Residential RE	\$455	6.7
Other	\$206	3.0
Consumer	\$156	2.3
Total	\$6,772	100.0

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

According to the Federal Deposit Insurance Corporation (FDIC) Market Share Report, as of June 30, 2021, the bank held a 2.6 percent market share and ranked 12th of 12 FDIC-insured financial institutions in Logan County. The financial institutions comprising the largest percentage of the deposit market share are Heartland Bank and Trust Company (33.5 percent), Town and Country Bank (13.3 percent), and Regions Bank (9.2 percent).

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 December 11, 2017.

DESCRIPTION OF ASSESSMENT AREA¹

Hartsburg State Bank's assessment area consists of two contiguous census tracts (9530 and 9535) within Logan County. The bank's main and only office is located in Hartsburg, Illinois, in census tract 9530. Census tract 9530 is designated as middle-income and census tract 9535 is designated as upper-income. There are no low- or moderate-income census tracts in the assessment area or within Logan County. The assessment area has changed since the previous examination to include census tract 9535 due to the increased lending activities within the additional tract.

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

¹ Census tract designations are based on American Community Survey income data. For years 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.

Assessment Area: 2021 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	138	11.2
Moderate-income	0	0.0	0	0.0	0	0.0	207	16.8
Middle-income	1	50.0	643	52.3	34	5.3	277	22.5
Upper-income	1	50.0	586	47.7	11	1.9	607	49.4
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2	100.0	1,229	100.0	45	3.7	1,229	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	939	669	49.4	71.2	182	19.4	88	9.4
Upper-income	982	686	50.6	69.9	157	16.0	139	14.2
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	1,921	1,355	100.0	70.5	339	17.6	227	11.8
	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	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	55	44.0	45	42.5	5	55.6	5	50.0
Upper-income	70	56.0	61	57.5	4	44.4	5	50.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	125	100.0	106	100.0	9	100.0	10	100.0
	Percentage of Total Businesses:			84.8		7.2		8.0
	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	39	56.5	39	56.5	0	0.0	0	0.0
Upper-income	30	43.5	30	43.5	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	69	100.0	69	100.0	0	0.0	0	0.0
	Percentage of Total Farms:			100.0		0.0		0.0
2021 FFIEC Census Data & 2021 Dun & Bradstreet information according to 2015 ACS								
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>								

Population Characteristics

The following table presents changes in population within the assessment area, as well as Logan County and the state of Illinois from 2010 and 2015, according to the 2011 to 2015 U.S. Census Bureau American Community Survey (ACS). Population in the assessment area in 2015 was 9,551. Logan County experienced a decrease of 1.2 percent in population from 2010 to 2015. The state of Illinois' population remained stable with an increase of only 0.3 percent for the same period. A community representative indicated some population loss can be attributed to young people who are leaving the area to pursue higher education and increased job opportunities within larger metropolitan areas. The representative indicated that the trend from 2010-2015 has recently continued. Since the COVID-19 pandemic, Lincoln Christian University closed their on-campus housing and narrowed their degree offerings, and Lincoln College closed entirely. With each institution's most recent attendance numbers reflecting roughly 1,000 students, the representative noted that these closures and the narrowing of degree offerings has led to further loss in population. Additionally, the community representative noted that the 2019 closure of a glass production plant, Ardagh Group, led to the exodus of employees and their families in pursuit of manufacturing employment in other counties.

Population Change			
Area	2010 Population	2015 Population	Percent Change (%)
Assessment Area	N/A	9,551	N/A
Logan County, Illinois	30,305	29,956	-1.2
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

The following table presents median family income (MFI) for families living in the assessment area, Logan County, and the state of Illinois. According to the U.S. Census Bureau, the assessment area is comprised of 1,229 families, of which 11.2 percent are designated as low-income, 16.8 percent are moderate-income, 22.5 percent are middle-income, and 49.4 percent are designated as upper-income. Families living below the poverty level within the assessment area make up 3.7 percent of families, which is lower than the state of Illinois' poverty rate of 10.5 percent. According to the 2011-2015 American Community Survey (ACS), the median family income (MFI) for the assessment area in 2015 was \$69,747, which is slightly lower than the state of Illinois, which had a median family income of \$71,546 in 2015. Further, from 2010 to 2015 the state of Illinois' MFI decreased by 3.7 percent. A community representative indicated that the decrease in median family income in these areas is likely due the closure of glass production plant Ardagh Group and the closure of Lincoln College.

Median Family Income Change			
Area	2010 Median Family Income (\$)	2015 Median Family Income (\$)	Percent Change (%)
Assessment Area	N/A	69,747	N/A
Logan County, Illinois	68,871	64,246	-6.7
State of Illinois	74,306	71,546	-3.7

*Source: 2006 - 2010 U.S. Census Bureau American Community Survey
2011 - 2015 U.S. Census Bureau American Community Survey
Median Family Incomes have been inflation-adjusted and are expressed in 2015 dollars.*

Housing Characteristics

The bank’s assessment area includes 1,921 housing units. The majority of housing units are owner-occupied at 70.5 percent, whereas rental units account for 17.7 percent of total units. Within the assessment area, 11.8 percent of housing units are vacant. The state of Illinois has a lower percentage of owner-occupied housing units at 59.9 percent, a higher percentage of rental units at 30.3 percent, and a comparable percentage of vacant units at 9.8 percent.

A common method to compare relative affordability of housing across geographic areas is the affordability ratio, which is defined in Appendix C – Glossary. A higher ratio generally suggests more affordable housing opportunities. Based on the 2011-2015 American Community Survey data, the affordability ratio for the assessment area was 57.8, which is above the state of Illinois at 33.1. The affordability ratio suggests that housing within the assessment area is more affordable when compared to the state of Illinois as a whole.

The following table represents recent housing cost burden for individuals within Logan County and the state of Illinois. The cost burden is a measure of affordability via a comparative analysis of individuals of different income levels that spend 30.0 percent or more of their income on housing costs. As evidenced by the table below, low-income individuals are generally impacted at a higher rate than moderate-income individuals as both renters and owners. The proportion of renters who meet the cost burden criteria in Logan County is 25.8 percent, while the proportion of renters who meet the cost burden criteria in the state of Illinois is much higher at 43.4 percent. Similarly, the proportion of owners who meet the cost burden criteria in Logan County is 12.3 percent, while the proportion of owners who meet the cost burden criteria in the state of Illinois is 22.6 percent.

Housing Cost Burden						
Area	Cost Burden (%) - Renters			Cost Burden (%) - Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Logan County, Illinois	69.0	19.2	25.8	54.6	26.6	12.3
State of Illinois	75.0	39.0	43.4	69.4	40.1	22.6

Cost Burden is housing cost that equals 30 percent or more of household income

Source: U.S. Department of Housing and Urban Development (HUD), 2014-2018 Comprehensive Housing Affordability Strategy

A community representative indicated that there is affordable rental housing in the area, although the market for affordable homes to purchase is competitive. They mentioned that there is a lack of new housing units being built in the area. The representative stated that aging housing stock is an issue in the community. While there are investors improving and then selling homes, more of this would help attract and retain a younger population.

Employment Conditions

The following table shows unemployment statistics for Logan County and the state of Illinois. Prior to the COVID-19 pandemic, Logan County, and the state of Illinois experienced unemployment at similar rates. Since the onset of the pandemic, the state of Illinois has experienced higher unemployment rates than Logan County, with the state of Illinois' unemployment rate at 6.1 percent and Logan County's unemployment rate at 4.8 percent in 2021.

Unemployment Rates (%)					
Area	2017	2018	2019	2020	2021
Logan County, Illinois	4.6	4.6	4.2	6.9	4.8
State of Illinois	4.9	4.4	4.0	9.2	6.1

Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics

A community representative indicated that the COVID-19 pandemic created issues for businesses attempting to retain and recruit qualified employees. The representative stated that jobs are available in the area, although some are lower paying. Additionally, they mentioned that some employers, especially within the hospitality industry, are unable to hire staff due to cash-flow issues caused by mandatory closures and loss of business during the pandemic. The representative indicated that the closure of glass production plant Ardagh Group led to the loss of roughly 150 jobs in the area, many of which were entry level, which has contributed to unemployment levels. Alternatively, they noted that Cresco Labs has been expanding its cannabis cultivation facility, bringing additional jobs to the area. The community representative stated that unemployment in the area is a workforce development issue, as community members are not trained for the manufacturing and healthcare jobs that are available.

Industry Characteristics

According to location quotients developed by the U.S. Bureau of Labor Statistics, the assessment area contains a diverse employment base and is heavily impacted by the industries of manufacturing, healthcare, and retail. As stated previously, a community representative noted that COVID-19 is still impacting the labor market, with many employers searching for laborers. Additionally, there is a workforce development issue where there are significant training gaps for the available jobs in the area. The contact also noted that a significant amount of educational service jobs have been lost due to the closure of Lincoln College and narrowing of degree programs and the closure of residence halls at Lincoln Christian University.

Community Representative

One community representative was contacted during the evaluation to provide information regarding local economic and demographic conditions. The representative provided information on the housing, employment, and economic development needs within the assessment area, as well as providing information about how the COVID-19 pandemic affected the local economy. The representative stated that there are challenges within their area in which local financial institutions can participate. They noted that local banks are participating in the Illinois Department of Commerce and Economic Opportunity's (DCEO) Advantage Illinois loan program, which allows banks to lend to small businesses as subordinate partners and eliminates much of the risk associated with this lending. The representative stated that banks are generally hesitant to lend to start-ups due to the higher associated risk, so additional participation by local lenders within DCEO's program would be beneficial for the community by bringing new businesses to the area.

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 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

Hartsburg State Bank's performance relative to the lending test is rated Satisfactory. Overall, the bank is meeting the credit needs of its assessment area based on an analysis of the bank's lending activities. The loan-to-deposit ratio is reasonable given the bank's size, complexity, financial condition, and assessment area credit needs. The majority of small business and small farm loans

were originated in the assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area, and lending activity reflects excellent penetration among businesses and farms of different revenue sizes. No CRA-related complaints were received by the institution or this Reserve Bank since the previous evaluation.

Loan-to-Deposit Ratio

Hartsburg State Bank’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. As of June 30, 2022, the bank’s LTD ratio averaged 51.9 percent over a 19-quarter period from December 31, 2017, through June 30, 2022. The LTD ratio shows a slight decrease since the previous examination in which the bank had a ratio of 55.0 percent. 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
Hartsburg State Bank	51.9
Competitors	
Middletown State Bank	88.4
Bank of Chestnut	79.8
Longview Community Bank	39.4
Farmers State Bank Emden	38.3
Atlanta National Bank	35.9

Assessment Area Concentration

During the evaluation period, the bank originated a majority of small business and small farm loans in the assessment area. The bank originated 85.2 percent of total loans by number and 52.0 percent by dollar, inside the assessment area. All small farm loans were made within the assessment area, while 77.8 percent by number and 47.6 percent by dollar of small business loans were made within the assessment area. The percentage of small business loans by dollar was affected by a small number of large commercial loans originated outside of the assessment area. At the previous examination, only 57.3 percent of loans by number and 60.9 percent of loans by dollar were made within the assessment area. Overall, performance indicates the bank is actively serving the credit needs of the local community.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Small Business	14	77.8	1,038	47.6	4	22.2	1,144	52.4
Small Farm	9	100.0	199	100.0	0	0.0	0	0.0
Total Loans	23	85.2	1,237	52.0	4	14.8	1,144	48.0

Geographic Distribution of Loans

The assessment area is comprised of one middle-income census tract and one upper-income census tract; therefore, a meaningful analysis could not be performed. The dispersion of the loans in the assessment area was reviewed to determine if the bank is sufficiently serving the census tracts included in the assessment area. Examiners determined that there were no conspicuous unexplained gaps in contiguous census tracts. Therefore, the geographic distribution of small business and small farm loans reflects reasonable dispersion throughout the assessment area.

Lending to Businesses and Farms of Different Sizes

Hartsburg State Bank's distribution of loans reflects excellent penetration among business and farms of different sizes. The bank's loan distribution is reflective of the assessment area business and farm sizes and indicates the bank is serving the assessment area's credit needs.

Small Business Loans

Small business lending reflects excellent penetration among businesses of different revenue sizes. The bank originated 92.9 percent of its small business loans by number to businesses with annual revenues of \$1.0 million or less, which is above the assessment area demographics at 82.4 percent. Alternatively, 85.7 percent of the bank's small business loans were in loan amounts of \$100,000 or less and 84.6 percent were in amounts of \$100,000 or less to businesses with revenues of \$1.0 million or less. Loans in amounts of \$100,000 or less are considered particularly responsive to community needs, further demonstrating the bank's willingness to meet small business credit needs within the assessment area.

The following table presents the bank's borrower distribution of small business loans from December 11, 2017, through December 31, 2021.

Small Business Lending By Revenue & Loan Size							
Assesment Area: 2017-2021 IL Non MSA							
Product Type		Bank & Demographic Comparison December 11, 2017 through December 31, 2021					
		Count Bank		Dollar Bank		Total Businesses	
		#	%	\$ 000s	\$ %	%	
Small Business	Revenue	\$1 Million or Less	13	92.9	958	92.3	82.4
		Over \$1 Million	1	7.1	80	7.7	7.8
		Unknown	0	0.0	0	0.0	9.8
		Total	14	100.0	1,038	100.0	100.0
	Loan Size	\$100,000 or Less	12	85.7	462	44.5	
		\$100,001 - \$250,000	0	0.0	0	0.0	
		\$250,001 - \$1 Million	2	14.3	576	55.5	
		Total	14	100.0	1,038	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	11	84.6	382	39.9	
		\$100,001 - \$250,000	0	0.0	0	0.0	
		\$250,001 - \$1 Million	2	15.4	576	60.1	
		Total	13	100.0	958	100.0	
Originations & Purchases							
2021 FFIEC Data & Average 2017-2021 Dun & Bradstreet information according to 2015 ACS							
<i>Note: Percentages may not add to 100.0 percent due to rounding</i>							

Small Farm Loans

Small farm lending reflects excellent penetration among farms of different revenue sizes. The bank originated all of its small farm loans to farms with annual revenues of \$1.0 million or less, which is on par with assessment area demographics at 100.0 percent. Additionally, 88.9 percent of the bank's small farm loans were in amounts of \$100,000 or less and to farms with revenues of \$1.0 million or less. Loans in amounts of \$100,000 or less are considered particularly responsive to community needs, further demonstrating the bank's willingness to meet small farm credit needs within the assessment area.

The following table presents the bank's borrower distribution of small farm loans from December 11, 2017, through December 31, 2021.

Small Farm Lending By Revenue & Loan Size							
Assesment Area: 2017-2021 IL Non MSA							
Product Type		Bank & Demographic Comparison December 11, 2017 through December 31, 2021					
		Count Bank		Dollar Bank		Total Farms	
		#	%	\$ 000s	\$ %	%	
Small Farm	Revenue	\$1 Million or Less	9	100.0	199	100.0	100.0
		Over \$1 Million	0	0.0	0	0.0	0.0
		Unknown	0	0.0	0	0.0	0.0
		Total	9	100.0	199	100.0	100.0
	Loan Size	\$100,000 or Less	8	88.9	73	36.7	
		\$100,001 - \$250,000	1	11.1	126	63.3	
		\$250,001 - \$500,000	0	0.0	0	0.0	
		Total	9	100.0	199	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	8	88.9	73	36.7	
		\$100,001 - \$250,000	1	11.1	126	63.3	
		\$250,001 - \$500,000	0	0.0	0	0.0	
		Total	9	100.0	199	100.0	

Originations & Purchases
2021 FFIEC Data & Average 2017-2021 Dun & Bradstreet information according to 2015 ACS
Note: Percentages may not add to 100.0 percent due to rounding

Response to Complaints

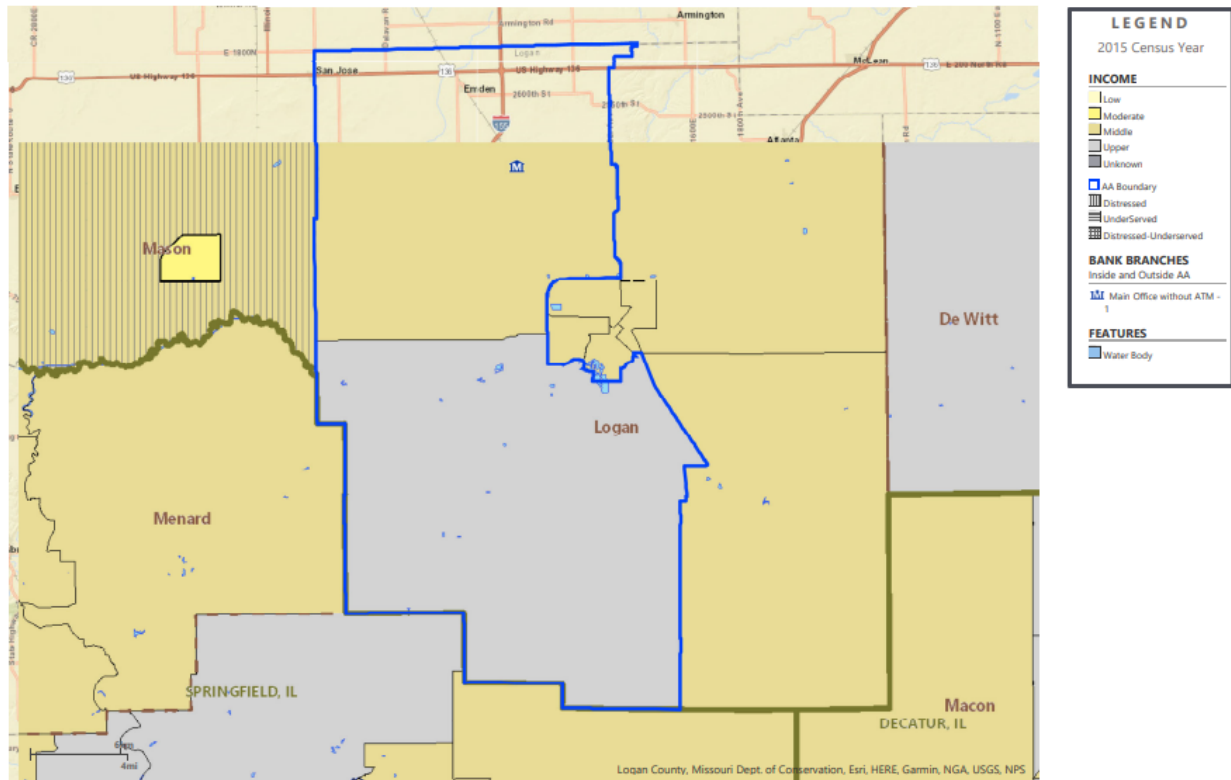
The bank or this Reserve Bank has not received any CRA-related complaints since the previous examination.

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 A – Map of Assessment Area

Hartsburg State Bank 799939
IL Non MSA



APPENDIX B – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED		December 11, 2017 – December 31, 2021	
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Hartsburg State Bank			Small Business Loans Small Farm Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
None	None		None
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Non-MSA Illinois	Full scope	Main - 101 North 2nd Street Hartsburg, Illinois 62643	None

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 nonmetropolitan median income figure.

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

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

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

- 1) Low- or moderate-income geographies;
- 2) Designated disaster areas; or
- 3) Distressed or underserved nonmetropolitan middle-income geographies

designated by the Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency based on:

- a. Rates of poverty, unemployment or population loss; or
- b. Population size, density and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density and dispersion if they help to meet essential community services including the needs of low- and moderate-income individuals.

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

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

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

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

Consumer loan: A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, other consumer secured loan, 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 householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Fair market rent: Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to

permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

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).