

PUBLIC DISCLOSURE

January 27, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community State Bank
RSSD# 502746

802 East Albion Street
Avilla, Indiana 46710

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

Community State Bank is rated Satisfactory.

Community State Bank provides credit consistent with its asset size, location, and local economic conditions within its assessment area. The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. A majority of the bank's home mortgage lending and small business loans were originated in the assessment area. Geographic distribution of loans reflects reasonable distribution throughout the assessment area, and the distribution of loans among borrowers of different income levels and businesses of different sizes is reasonable. Neither Community State Bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

Community State Bank's performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC) Small Institution Examination Procedures. The evaluation considered the CRA performance context, including the bank's asset size, financial condition, and market competition, as well as assessment area demographic, economic, and credit needs. Lending performance was evaluated within the bank's assessment area located within Noble and DeKalb Counties, Indiana. The bank's primary product lines of home mortgage and small business loans were evaluated.

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 16-quarter average loan-to-deposit ratio ending September 30, 2019 was calculated for the bank and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – The bank's home mortgage and small business loans originated from January 1, 2018 to December 31, 2018 were reviewed to determine the percentage of loans originated in the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – The bank's home mortgage and small business loans originated in the assessment area, from January 1, 2018 to December 31, 2018, 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 Borrowers of Different Income and to Businesses of Different Sizes*** – The bank's home mortgage and small business loans originated in the assessment area, from January 1, 2018 to December 31, 2018, were reviewed to determine the distribution among borrowers

of different income levels, particularly those considered low- or moderate-income, and to businesses with different revenue sizes.

- **Response to Substantiated Complaints** – There were no CRA-related complaints received by this Reserve Bank since the previous examination.

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

DESCRIPTION OF INSTITUTION

Community State Bank, with total assets of \$277.7 million as of September 30, 2019, is wholly owned by Community Financial Corporation ("CFC") located in Avilla, Indiana. The bank maintains its main office in Avilla, Indiana and operates three full-service branch offices in Kendallville, Auburn, and Albion, Indiana. The bank also operates four cash-only automated teller machines (ATMs), one at each office.

Community State Bank offers loan and deposit products, including consumer, commercial, agricultural, in house residential real estate secured loans, and residential mortgage loans offered in the secondary market, thereby assisting in meeting the credit needs within the assessment area.

According to the September 30, 2019 Uniform Bank Performance Report, Community State Bank held total assets of \$277.7 million and total loans of \$219.5 million. Community State Bank is primarily a commercial and residential lender, as commercial loans and residential real estate comprise 50.1 percent and 34.3 percent of the bank's loan portfolio, respectively. The table below provides a detailed distribution of the bank's loan portfolio.

Table 1 Composition of Loan Portfolio as of September 30, 2019		
Loan Type	Dollar Volume (\$ are in 000s)	% of Portfolio
Commercial	109,868	50.1
Residential Real Estate	75,280	34.3
Agricultural	21,007	9.6
Consumer	4,228	1.9
Other	9105	4.1
Total Loans	219,488	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 October 15, 2015.

DESCRIPTION OF ASSESSMENT AREA

Community State Bank's assessment area has remained unchanged since the previous evaluation. The bank's assessment area includes all 10 of Noble County's census tracts and six of nine census tracts in DeKalb County. Noble County contains one moderate-income census tract; while all census tracts in DeKalb County are middle- or upper-income. The counties are contiguous and are not part of a Metropolitan Statistical Area (MSA). There are no distressed or underserved tracts in the assessment area. There were no net changes to the census tract designations in the assessment area.

Census Tract Designation Changes American Community Survey Data (ACS)			
Tract Income Designation	2016 Designations (#)	2017 Designations (#)	Net Change (#)
Low	0	0	0
Moderate	1	1	0
Middle	12	12	0
Upper	3	3	0
Unknown	0	0	0
Total	16	16	0
<i>Source: U. S. Census Bureau: Decennial Census: American Community Survey Data: 2006-2010</i> <i>U.S. Census Bureau: Decennial Census: America Community Survey Data: 2011-2015</i>			

According to the June 30, 2019 Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, Community State Bank ranks second out of 12 FDIC-insured institutions for deposit market share within Noble and DeKalb Counties. The bank held \$220.6 million in deposits, representing 17.7 percent of total deposit market share in the two counties. Based on the deposit market share, the largest competitors in the assessment area are Lake City Bank, The Campbell & Fetter Bank, Horizon Bank, and The Garrett State Bank. Information about census-related and business demographic characteristics of the assessment area in 2018 is provided in the following table.

Assessment Area: 2018 IN 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	3,814	18.4
Moderate-income	1	6.3	1,382	6.7	242	17.5	3,554	17.1
Middle-income	12	75.0	14,477	69.7	1,632	11.3	4,466	21.5
Upper-income	3	18.8	4,914	23.7	316	6.4	8,939	43.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	16	100.0	20,773	100.0	2,190	10.5	20,773	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	2,143	1,308	5.9	61.0	787	36.7	48	2.2
Middle-income	22,509	15,369	69.1	68.3	5,041	22.4	2,099	9.3
Upper-income	7,764	5,558	25.0	71.6	1,491	19.2	715	9.2
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	32,416	22,235	100.0	68.6	7,319	22.6	2,862	8.8
	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	181	6.7	159	6.6	21	8.8	1	2.0
Middle-income	1,950	72.1	1,733	71.8	179	74.6	38	76.0
Upper-income	572	21.2	521	21.6	40	16.7	11	22.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,703	100.0	2,413	100.0	240	100.0	50	100.0
	Percentage of Total Businesses:			89.3		8.9		1.8
	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	7	3.1	6	2.7	1	33.3	0	0.0
Middle-income	155	69.5	153	69.5	2	66.7	0	0.0
Upper-income	61	27.4	61	27.7	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	223	100.0	220	100.0	3	100.0	0	0.0
	Percentage of Total Farms:			98.7		1.3		0.0
2018 FFIEC Census Data & 2018 Dun & Bradstreet information according to 2015 ACS								
Note: Percentages may not add to 100.0 percent due to rounding								

Population Characteristics

The table below shows the population trends for the counties comprising the assessment area and the state of Indiana from 2010 to 2015. As presented in the following table, DeKalb County experienced a slight increase in population from 2010 to 2015. Specifically, the population in the county increased 0.5 percent. The increase was slightly higher than Noble County, whose population remained unchanged. Overall, both counties experienced smaller population growth than the state of Indiana during the same time period which experienced growth of 1.3 percent. According to community contacts, the consistency within population figures may be attributed to improved economic conditions and job opportunities. As such, people are less likely to leave the counties in search of jobs or higher wages. Additionally, contacts noted that DeKalb County is relatively close to the city of Fort Wayne. Approximately 35.0 percent of the residents commute to the city for work. Therefore, DeKalb County is a desirable area to live, given it is relatively rural yet close enough to the city. Nevertheless, the contacts noted that the overall population of DeKalb County is aging and efforts by local government are underway to attract a younger segment of people in order to continue to fill the demand of local employers.

Population Change			
Area	2010 Population	2011-2015 Population	Percentage Change (%)
DeKalb County, IN	42,223	42,449	0.5
Noble County, IN	47,536	47,546	0.0
State of Indiana	6,483,802	6,568,645	1.3
Source: U.S. Census Bureau: Decennial Census American Community Survey Data: 2006-2010 U.S. Census Bureau: American Community Survey Data: 2011-2015			

Income Characteristics

The following table presents the median family income (MFI) for families living in DeKalb County, Noble County, and the state of Indiana. According to the 2015 American Community Survey, the MFI was \$60,050 in DeKalb County and \$59,843 in Noble County. Both were largely comparable to the state of Indiana's MFI of \$61,119. While the levels were relatively similar, the two counties saw sizable growth in the past five years with DeKalb's MFI growing by 8.6 percent and Noble County's growing by 10.9 percent. Both growth rates were higher than the state of Indiana during the same time period. Community representative attributed the growth to the successful local economy. The unemployment rate has been declining and remaining low for several years which has helped increase wages. Furthermore, given the stability in population rates within the counties, local businesses have had the ability to retain employees, resulting in increased wages.

Median Family Income Change 2006-2010 and 2011-2015			
Area	2006-2010 Median Family Income (\$)	2011-2015 Median Family Income (\$)	Percentage Change (%)
DeKalb County, IN	55,280	60,050	8.6
Noble County, IN	53,959	59,843	10.9
State of Indiana	58,944	61,119	3.7
Source: U.S. Census Bureau: American Community Survey Data: 2006-2010			

Housing Characteristics

The following table presents recent housing cost trends within DeKalb County, Noble County, and the state of Indiana. The assessment area contains a total of 32,416 housing units, of which 22,235 (68.6 percent) are owner-occupied. According to the 2015 American Community Survey, the median housing values for DeKalb and Noble County were \$110,100 and \$113,000 respectively. These were both less than the median housing value for the state of Indiana which was \$124,200. Further, the median gross rents for DeKalb and Noble County were \$657 and \$640, both of which were below the state of Indiana's median gross rent of \$745. The median rent change was 11.2 and 8.1 percent respectively with rents growing significantly more than housing value. This aligns with what community representative detailed about the housing market.

According to community contacts, DeKalb County maintains one of the strongest housing markets in the country. Community representatives indicated that in the last few years, housing supply has increased significantly. The beginning of this trend was shown in the total single family housing permit growth, which increased significantly in 2016. In 2016, single family housing permit growth was 67.8 percent higher than in 2015. Contacts also mentioned that due to the aging housing stock in the area, many people are buying houses, renovating them, and then turning them into rental properties resulting in increased rental prices.

According to the Administrative Office of the U.S. Courts, in 2016, the bankruptcy filing rates in DeKalb and Noble Counties and the state of Indiana were 3.5, 3.1, and 3.6 per 1,000 in population, respectively. Overall, personal bankruptcy filing rates have steadily decreased since 2013 for the assessment area and the state of Indiana, indicating the local and statewide economies have stabilized.

A common method to compare relative affordability of housing across geographic areas is the affordability ratio, defined in Appendix C. A higher ratio suggests more affordable housing opportunities. Based on the 2015 American Community Survey data, the affordability ratios for DeKalb and Noble Counties were both 0.44. These ratios were higher than the state of Indiana which had an affordability ratio of 0.40 indicating that both DeKalb and Noble Counties were more affordable than that rest of the state.

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 (\$)
DeKalb County, IN	112,300	110,100	591	657
Noble County, IN	112,600	113,000	592	640
State of Indiana	123,000	124,200	683	745
Source: U.S. Census Bureau: American Community Survey Data: 2006-2010 U.S. Census Bureau: 2011-2015 American Community Survey: 2011-2015				

Employment Conditions

The following table presents the unemployment trends for the counties in the assessment area and the state of Indiana. The unemployment rates in both the counties and state have steadily declined since 2013. However, the two counties in the assessment area have seen their unemployment rates drop slightly more than the rest of the state. According to community contacts, unemployment levels are low and the economy is continuing to grow stronger, in line with the rest of the state. A strong manufacturing sector and increased diversification were noted as key factors in the low unemployment rate. However, contacts indicated that many businesses are struggling to fill positions and attract more people to the area. Contacts stated that attracting a younger talent pool to the area was one of the local government and business community's primary initiatives in an effort to meet the job demand.

Unemployment Rates (%)				
Region	2013	2014	2015	2016
DeKalb County, IN	7.3	5.3	4.1	3.9
Noble County, IN	7.6	5.3	4.3	4.1
State of Indiana	7.5	6.0	4.8	4.4
Source: Bureau of Labor Statistics: Local Area Unemployment Statistics				

Industry Conditions

The following table presents the largest employers within Noble and DeKalb Counties. Based on the location quotients developed by the U.S. Bureau of Labor Statistics, the assessment area is most heavily impacted by manufacturing and goods producing industries. A community representative indicated that the area in recent years has been diversifying to include businesses other than manufacturing, but that manufacturing was still the major source of employment in the area.

Largest Employers in the Assessment Area		
Company	Number of Employees	Industry
Dexter Axle	800	Manufacturing
Steel Dynamics Incorporated	700	Manufacturing
Therma-Tru Corporation	700	Manufacturing
Ti Automotive	700	Manufacturing
Kraft Heinz Company	550	Food Products
Carlex Glass Of Indiana Incorporated	550	Manufacturing
Busche Enterprise Div Incorporated	500	Manufacturing
Iron Dynamics	500	Manufacturing
Guardian Industries	500	Manufacturing
Source: Business information provided by Infogroup®, Omaha, NE		

Community Contacts

Two community representatives, one with a focus on economic development and one housing organization, were contacted to provide understanding of the credit needs and market conditions within the assessment area. The representatives indicated that the economy overall in the area was steady. Unemployment in the area has largely followed the trend of the rest of the state. More recently, unemployment has reached labor shortage levels, with businesses struggling to fill open jobs. A lack of affordable housing was an identified credit need, but in recent years is beginning to improve. Lastly, representatives noted that the local economy is notably influenced by the manufacturing sector.

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

Community State Bank's performance relative to the lending test is rated Satisfactory based on a more than reasonable loan-to-deposit ratio, a majority of lending occurring within the bank's assessment area, a reasonable distribution of loans throughout the assessment area, and a reasonable penetration of loans among individuals of different income levels and businesses of different sizes within the assessment area. The bank and this Reserve Bank received no CRA-related complaints since the previous evaluation.

Loan-to-Deposit Ratio

The bank's 16-quarter average loan-to-deposit ("LTD") ratio was evaluated relative to the bank's capacity to lend and its competitors' ratios. Also considered were demographic factors, economic conditions, and lending opportunities present in the assessment area. Overall, the bank's 16-quarter, ending September 30, 2019, average LTD ratio is more than reasonable at 96.9 percent. This is higher than the 16-quarter average at the previous exam, of 88.1 percent. The bank's LTD is also higher than five local competitors. Therefore, the bank's ratio is more than reasonable given the bank's size, financial condition, and assessment area needs.

Comparative Loan-to-Deposit Ratios	
Institution	Loan-to-Deposit Ratio (%)
	16 – Quarter Average
Community State Bank	97.0
Competitors	
Campbell & Fetter Bank	75.9
Farmers & Merchant Bank	69.5
Garrett State Bank	89.5
Horizon Bank	92.4
Lake City Bank	94.2

Assessment Area Concentration

A majority of the bank's home mortgage and small business loans were originated within the bank's delineated assessment area. Overall, the bank originated 77.7 percent of the bank's loans by number and 66.3 percent by dollar amount inside the assessment area. The bank's performance is an increase from the previous examination in which the bank originated 68.8 percent by number and 49.3 percent by dollar amount. Ultimately, the bank's lending in the assessment area indicates the bank is actively serving the needs of its communities. The following table illustrates the bank's loans inside and outside of the assessment area from January 1, 2018 through December 31, 2018.

Assessment Area Concentration								
Loan Type	Inside				Outside			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Loans	73	76.0	8,446	64.0	23	24.0	4,759	36.0
Total Home Mortgage	73	76.0	8,446	64.0	23	24.0	4,759	36.0
Small Business	80	79.2	13,895	67.7	21	20.8	6,621	32.3
Total Small Business	80	79.2	13,895	67.7	21	20.8	6,621	32.3
TOTAL LOANS	153	77.7	22,341	66.3	44	22.3	11,380	33.7
Note: Percentages may not add to 100.0 percent due to rounding.								
Note: Affiliate loans not included								

Geographic Distribution of Loans

A sample of the bank's home mortgage and small business loans originated inside the assessment area were analyzed to determine the extent of which the bank is making loans in geographies of different income levels. Community State Bank's assessment area consists of one moderate-, 12 middle-, and three upper-income census tracts. A gap analysis was completed as part of the evaluation. The bank made both small business and residential real estate loans in the one moderate-income tract and there were no conspicuous or unexplained lending gaps in the assessment area. Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment area for home mortgage lending as well as small business lending. These products were weighted equally as they are both core business lines for the institution.

Home Mortgage Lending

During the review period, from January 1, 2018 through December 31, 2018, the bank made 9.6 percent of the home mortgage loans to borrowers within the one moderate-income census tract. This lending pattern exceeds the area demographics, considering only 5.9 percent of the owner-occupied housing units are located in moderate-income census tracts. Overall, the bank has a reasonable dispersion of home mortgage loans throughout the assessment area. The following table illustrates the bank's home mortgage lending activity across all income tracts in the review period.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: 2018 IN Non MSA						
	Tract Income Levels	Bank & Demographic Comparison				Owner Occupied % of Units
		2018				
		Count Bank		Dollar Bank		
		#	%	\$ (000s)	\$ %	
Totals	Low	0	0.0	0	0.0	0.0
	Moderate	7	9.6	601	7.1	5.9
	Middle	53	72.6	5,836	69.1	69.1
	Upper	13	17.8	2,009	23.8	25.0
	Unknown	0	0.0	0	0.0	0.0
	Total	73	100.0	8,446	100.0	100.0
2018 FFIEC Census Data						
Note: Percentages may not add to 100.0 percent due to rounding						

Small Business Lending

During the review period, from January 1, 2018 through December 31, 2018, the bank made 17.5 percent of small business loans to businesses located in the one moderate-income census tract. This lending pattern exceeds the area demographics, with only 6.7 percent of businesses located in

the moderate-income census tract. Overall, the bank has a reasonable dispersion of small business loans throughout the assessment area. The following table illustrates the bank's small business lending activity across all income tracts in the review period.

Geographic Distribution of Small Business Loans						
Assessment Area: 2018 IN Non MSA						
Small Business	Tract Income Levels	Bank & Demographic Comparison				
		2018				Total Businesses %
	Count Bank		Dollar Bank			
	#	%	\$ 000s	\$ %		
	Low	0	0.0	0	0.0	
Moderate	14	17.5	2,560	18.4	6.7	
Middle	53	66.3	7,708	55.5	72.1	
Upper	13	16.3	3,627	26.1	21.2	
Unknown	0	0.0	0	0.0	0.0	
Total	80	100.0	13,895	100.0	100.0	
2018 FFIEC Census Data & 2018 Dun & Bradstreet information according to 2015 ACS						
Note: Percentages may not add to 100.0 percent due to rounding						

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

An analysis of a sample of loans was conducted to determine the level of lending to borrowers of different income levels and businesses of different revenues. The bank's lending reflects reasonable penetration among individuals of different income levels, including low-and moderate-income borrowers, and businesses of different sizes for home mortgage lending as well as small business lending. These products were weighted equally as they are both core business lines for the institution.

Home Mortgage Lending

As shown in the table below, from January 1, 2018 through December 31, 2018, the bank originated 8.2 percent of home mortgage loans to low-income individuals and 19.2 percent to moderate-income individuals. In comparison, assessment area demographics indicate that 18.4 percent of families in the assessment area are designated as low-income which is higher than the bank's lending of 8.2 percent, and 17.1 percent of families in the assessment area are designated as moderate-income which is comparable to bank's lending of 19.2 percent. Overall, these figures indicate the bank is serving the credit needs, of low- and moderate-income individuals, in a reasonable manner.

Borrower Distribution of Home Mortgage Loans						
Assessment Area: 2018 IN Non MSA						
	Borrower Income Levels	Bank & Demographic Comparison				Families by Family Income %
		2018				
		Count		Dollar		
		#	%	\$ (000s)	\$ %	
Totals	Low	6	8.2	365	4.3	18.4
	Moderate	14	19.2	766	9.1	17.1
	Middle	21	28.8	1,877	22.2	21.5
	Upper	32	43.8	5,438	64.4	43.0
	Unknown	0	0.0	0	0.0	0.0
	Total	73	100.0	8,446	100.0	100.0
2018 FFIEC Census Data						
Note: Percentages may not add to 100.0 percent due to rounding						

Small Business Lending

The table below illustrates the bank's small business lending from January 1, 2018 through December 31, 2018. Overall, 57.5 percent of the bank's commercial lending is to businesses with revenues of \$1.0 million or less. The assessment area is made up of 89.3 percent small businesses which is above the bank's commercial lending. However, small businesses seek loans with origination amounts of less than \$100,000 to meet credit needs. The bank made approximately 69.6 percent of its commercial loans in the amounts of \$100,000 or less to businesses with annual revenues of \$1.0 million or less which was closer to the level of small businesses in the area. Ultimately, these figures indicate that for a bank of this size, the bank is serving business credit needs in a reasonable manner.

Small Business Lending By Revenue & Loan Size							
Assessment Area: 2018 IN Non MSA							
Product Type		Bank & Demographic Comparison					
		2018				Total Businesses	
		Count Bank		Dollar Bank			
		#	%	\$ 000s	\$ %	%	
Small Business	Revenue	\$1 Million or Less	46	57.5	6,254	45.0	89.3
		Over \$1 Million or Unknown	34	42.5	7,641	55.0	10.7
		Total	80	100.0	13,895	100.0	100.0
	Loan Size	\$100,000 or Less	44	55.0	2,141	15.4	
		\$100,001 - \$250,000	20	25.0	3,910	28.1	
		\$250,001 - \$1 Million	16	20.0	7,844	56.5	
		Total	80	100.0	13,895	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	32	69.6	1,343	21.5	
		\$100,001 - \$250,000	5	10.9	831	13.3	
		\$250,001 - \$1 Million	9	19.6	4,080	65.2	
		Total	46	100.0	6,254	100.0	
Originations & Purchases							
2018 FFIEC Census Data & 2018 Dun & Bradstreet information according to 2015 ACS							
Note: Percentages may not add to 100.0 percent due to rounding							

Response to Complaints

Neither the bank nor this Reserve Bank have received any CRA-related complaints since the previous evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

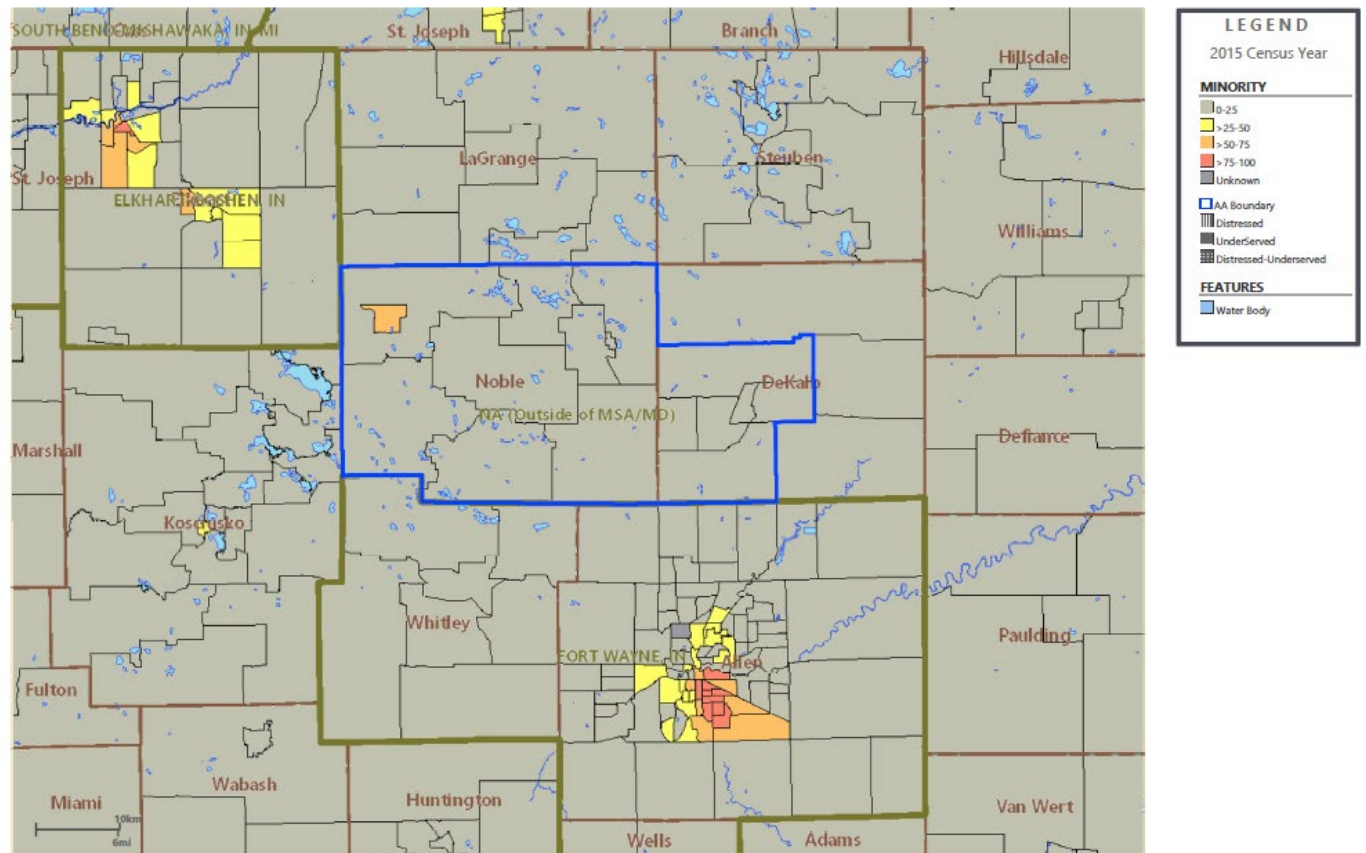
No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – Map of Assessment Area

Community State Bank 502746

IN Non MSA

Restricted FR



APPENDIX B – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED		Home mortgage and small business loans originated from January 1, 2018 through December 31, 2018	
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Community State Bank			Home Mortgage Loans Small Business Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
None	N/A		N/A
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Indiana Non-MSA	Full scope review	None	N/A

APPENDIX C – Glossary

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Affordability ratio: To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

American Community Survey Data (ACS): The American Community Survey (ACS) data is based on a nationwide survey designed to provide local communities with reliable and timely demographic, social, economic, and housing data each year. The Census Bureau first released data for geographies of all sizes in 2010. This data is known as the “five-year estimate data.” The five-year estimate data is used by the FFIEC as the base file for data used in conjunction with consumer compliance and CRA examinations.¹

Area Median Income (AMI): AMI means –

1. The median family income for the MSA, if a person or geography is located in an MSA, or for the metropolitan division, if a person or geography is located in an MSA that has been subdivided into metropolitan divisions; or
2. The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment area: Assessment area means a geographic area delineated in accordance with section 228.41

Automated teller machine (ATM): An automated teller machine means an automated, unstaffed banking facility owned or operated by, or operated exclusively for, the bank at which deposits are received, cash dispersed or money lent.

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

Bank: Bank means a state member as that term is defined in section 3(d)(2) of the Federal Deposit Insurance Act (12 USC 1813(d)(2)), except as provided in section 228.11(c)(3), and includes an uninsured state branch (other than a limited branch) of a foreign bank described in section 228.11(c)(2).

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).