

# **PUBLIC DISCLOSURE**

October 25, 2021

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Highland State Bank  
Certificate Number: 6198

541 North Main Street  
Highland, Wisconsin 53543

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Chicago Regional Office

300 South Riverside Plaza, Suite 1700  
Chicago, Illinois 60606

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

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## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Highland State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test performance:

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its home mortgage, small business, and small farm loans in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration of loans among individuals of different income levels, businesses of different sizes, and farms of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

## DESCRIPTION OF INSTITUTION

Highland State Bank (HSB) is headquartered in Highland, Wisconsin, and operates in the southwestern part of the state. Southwestern Wisconsin Bancshares, Inc., a one-bank holding company also in Highland, owns HSB. HSB has no other subsidiaries or affiliates. No merger or acquisition activities have occurred since the previous evaluation. HSB received a Satisfactory rating at its previous FDIC Performance Evaluation, dated October 13, 2015, based on Interagency Small Institution Examination Procedures.

HSB operates one full-service location, the Highland main office in Iowa County. The main office is located in a census tract that the 2015 American Community Survey (ACS) designates as moderate-income. The bank did not open or close any branches since the previous evaluation.

HSB is a rural community bank operating a traditional community banking model. HSB's primary business strategy continues to focus on first lien 1-4 family residential, commercial, and agriculture lending. HSB offers various types of lending products including home mortgage, commercial, agriculture, and consumer loans. HSB provides a variety of deposit services including checking,

savings, certificates of deposit, and individual retirement accounts. Alternative banking services include internet, mobile, mobile check deposit, and two bank-owned automated teller machines.

HSB’s assets totaled \$39.2 million as of September 30, 2021. As of the same financial date, HSB had total loans of \$15.7 million, securities totaling \$7.0 million, and deposits totaling \$34.4 million. There have been no substantial changes since the prior evaluation. The following table illustrates HSB’s loan portfolio.

<b>Loan Portfolio Distribution as of 9/30/2021</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	2,486	15.8
Secured by 1-4 Family Residential Properties	8,555	54.3
Secured by Multifamily (5 or more) Residential Properties	122	0.8
Secured by Nonfarm Nonresidential Properties	814	5.2
<b>Total Real Estate Loans</b>	<b>11,977</b>	<b>76.1</b>
Commercial and Industrial Loans	761	4.8
Agricultural Production and Other Loans to Farmers	697	4.4
Consumer Loans	2,226	14.1
Obligations of State and Political Subdivisions in the U.S.	69	0.4
Other Loans	15	0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>15,745</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet assessment area credit needs.

## **DESCRIPTION OF ASSESSMENT AREA**

CRA requires each financial institution to define one or more assessment areas within which examiners will evaluate the bank’s performance. HSB has designated one assessment area located within the Madison Metropolitan Statistical Area (MSA). HSB’s assessment area consists of census tracts 9502 and 9503 in Iowa County located within the Madison Metropolitan Statistical Area (MSA) and tract 9601 in Grant County, located in a Non-MSA. Performance in this tract is assessed together with the two tracts of Iowa County. Census tract 9601 is contiguous with the two Iowa County tracts and it does not extend substantially beyond the Madison MSA boundary. The following sections discuss demographic and economic information in the assessment area. Sources of the data used in this section are as follows: FFIEC, 2015 ACS, 2010 U.S. Census, 2019 & 2020 D&B, U.S. Bureau of Labor Statistics, and Wisconsin Department of Workforce Development.

## **Economic and Demographic Data**

Based on the 2015 ACS, tract 9601 of Grant County is designated as middle-income and the two Iowa County tracts in the assessment area are designated as moderate-income. Despite the middle-income designation, tract 9601 of Grant County has a lower average median family income than tracts 9502 and 9503 of Iowa County. The weighted average of the median family income for the Grant County census tract is \$55,068 and the weighted average of the median family income for the two Iowa County census tracts is \$58,752. Notably the demographic characteristics of all three tracts are homogenous. The following table illustrates select demographic characteristics of the assessment area.

<b>Demographic Information of the Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	3	0.0	66.7	33.3	0.0	0.0
Population by Geography	10,135	0.0	62.2	37.8	0.0	0.0
Housing Units by Geography	4,706	0.0	62.6	37.4	0.0	0.0
Owner-Occupied Units by Geography	3,159	0.0	64.6	35.4	0.0	0.0
Occupied Rental Units by Geography	934	0.0	58.1	41.9	0.0	0.0
Vacant Units by Geography	613	0.0	58.7	41.3	0.0	0.0
Businesses by Geography	524	0.0	64.9	35.1	0.0	0.0
Farms by Geography	141	0.0	69.5	30.5	0.0	0.0
Family Distribution by Income Level	2,825	29.1	22.1	25.1	23.7	0.0
Household Distribution by Income Level	4,093	25.1	21.7	21.5	31.7	0.0
Median Family Income - 31540 Madison, WI MSA		\$81,321	Median Housing Value			\$119,330
Median Family Income – WI Non-MSAs		\$60,742	Median Gross Rent			\$671
			Families Below Poverty Level			8.2%

*Source: 2015 ACS and 2020 D&B Data. Due to rounding, totals may not equal 100.0%. (\*) The NA category consists of geographies that have not been assigned an income classification.*

The 2019 and 2020 FFIEC-updated median family income levels are used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories are presented in the following table.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Madison, WI MSA Median Family Income (31540)</b>				
2019 (\$94,200)	<\$47,100	\$47,100 to <\$75,360	\$75,360 to <\$113,040	≥\$113,040
2020 (\$96,600)	<\$48,300	\$48,300 to <\$77,280	\$77,280 to <\$115,920	≥\$115,920
<b>WI Non-MSA Median Family Income (99999)</b>				
2019 (\$65,900)	<\$32,950	\$32,950 to <\$52,720	\$52,720 to <\$79,080	≥\$79,080
2020 (\$68,000)	<\$34,000	\$34,000 to <\$54,400	\$54,400 to <\$81,600	≥\$81,600
<i>Source: FFIEC</i>				

Of the 4,706 housing units in the assessment area, 67.1 percent are owner-occupied, 19.9 percent are occupied rental units, and 13.0 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

The analysis of small business and small farm loans under the Borrower Profile criterion compares the distribution of businesses and farms by GAR levels. According to 2020 D&B data, there were 524 businesses. Gross annual revenues (GARs) for these businesses are below.

- 81.3 percent have \$1 million or less
- 5.0 percent have more than \$1 million
- 13.7 percent have unknown revenues

According to 2020 D&B data, there were 141 farms, all of which have GARs of \$1 million or less.

Service industries represent the largest portion of businesses at 26.3 percent, followed by agriculture, forestry, and fishing at 21.2 percent, and non-classifiable establishments at 10.1 percent. In addition, 75.3 percent of area businesses have four or fewer employees, and 90.2 percent of businesses operate from a single location.

The population of the assessment area has remained generally unchanged since the previous evaluation given that the total population reported by the 2015 ACS is only 0.8 percent or 84 people more than the 2010 U.S. Census reported figure.

Data obtained from the U.S. Bureau of Labor Statistics indicates that the unemployment rates in Iowa and Grant Counties were continuously improving throughout most of the evaluation period, but sharply increased in the second quarter of 2020. Specifically, the unemployment rates in Iowa and Grant Counties peaked in April 2020 at 17.5 percent and 11.3 percent, respectively. The following table shows that unemployment rates in Iowa and Grant Counties have been consistently better than the Wisconsin statewide and the nationwide rate.

Unemployment Rates							
Area	2015	2016	2017	2018	2019	2020	Aug-2021
	%	%	%	%	%	%	%
Iowa County	4.1	3.4	2.9	2.6	2.8	6.1	3.3
Grant County	4.3	3.8	3.1	2.8	3.2	5.3	3.3
Statewide	4.4	3.9	3.3	3.0	3.3	6.3	4.0
Nationwide*	5.3	4.9	4.4	3.9	3.7	8.1	5.2

*Source: Bureau of Labor Statistics. \*Seasonally adjusted.*

According to the Wisconsin Department of Workforce Development, major employers in the assessment area include: Durr Universal Incorporated, an industrial environmental technology business; Scot Industries Incorporated, a specialty tubing and bar product manufacturer; Cobb Shipping Services LLC, a livestock feed delivery service; Iowa-Grant School District, a K-12 school district; Highland Community Schools, a K-12 school district; Riverdale School District, a K-12 school district; Golden Living Center, a continuing care retirement community; and Muscoda Protein Products, a food manufacturer.

### **Competition**

The assessment area is moderately competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 2020, there were five financial institutions that operated seven full-service branches within the assessment area. Of these institutions, HSB ranked third with a 16.4 percent deposit market share.

The bank is not required to collect or report home mortgage, small business, or small farm data, and it has elected not to do so. Therefore, the analysis of loans under the Lending Test does not include comparisons against aggregate data. The aggregate data, however, reflects the level of demand for lending. Aggregate data for 2019 shows 52 lenders reporting 187 home mortgage loans, and aggregate data for 2020 shows 60 lenders reporting 315 home mortgage loans. Aggregate data for 2019 shows 46 lenders reported 734 small business loans, and 17 lenders reported 241 small farm loans in Iowa and Grant Counties. Aforementioned aggregate data indicates a moderate degree of competition in all three products. Many institutions are not required to report lending data; therefore, competition for these loan types is greater than the aggregate data reflects.

### **Community Contact**

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit needs. This information helps determine whether local financial institutions are responsive to these needs. Examiners obtained information from a government-planning agency that serves Iowa County.

The contact commented that the area’s economy was stable prior to the COVID-19 crisis, with low unemployment rates and modest business and economic growth. Early on in the crisis, the county’s unemployment rate dramatically and suddenly increased. The COVID-19 crisis resulted in several business closures, employee layoffs, restricted services, and it stagnated new business development.

Since the spike in unemployment, the economy has returned to a more normal status. However, the contact mentioned that there is currently very little economic and residential development occurring in Iowa County. There are opportunities for business development in the several industrial parks throughout Iowa County, as well as room for residential development. However, the contact said that many developers are not willing to develop in the rural areas, as they would in the more metropolitan areas, primarily due to costs, lack of qualified labor, and business and financing risks.

The contact said that small business start-ups struggle to obtain financing and flexible funding that accommodates their needs. The contact further mentioned that the area needs more small business start-up, capital funding, along with flexible financing that requires less paper work. The contact also noted that a lack of qualified workers is a hindrance for the county in attracting new business or for current business expansions.

The contact also stated that housing stock in the area is very limited, and that there is a need for more housing of all sizes and values in the county, especially affordable housing. The contact commented that housing costs are high in the county, and low- or moderate-income individuals are typically unable to afford higher-end housing stock or new construction project homes.

The contact stressed that Iowa County is predominantly rural, and has a limited population of around 24,000 people. The area is home to a fair number of farms, predominantly dairy. The contact stated that land values have increased significantly, and are around \$10,000 per acre. The COVID-19 crisis had a detrimental impact on many farmers in the area, with meat packing plant closures, and a decrease in commodity prices. However, dairy and other commodities have rebounded. In addition, Iowa County farms are benefiting from a significant shift to leasing land for renewable energy efforts, providing increased revenue streams for those participating. The contact mentioned that another noted trend is for retiring farmers to sell to neighboring farms, since the younger generation has been less likely to take over family farms. This has resulted in fewer and larger farms over the past few years.

Finally, the contact mentioned that the western half of Iowa County is more rural, predominantly farmland, and has very few business districts and employment opportunities within the smaller communities located there. For this reason, non-farm residents tend to commute to other communities inside and outside the county for employment. In addition, for convenience, the residents tend to conduct their banking business within the community that they work.

### **Credit Needs**

Considering information from bank management, the community contact, as well as assessment area demographic and economic data, examiners determined that there are credit and community development needs for affordable housing and small businesses, including start-up business financing and more flexible loan programs. The median housing values for the area support the need for more affordable housing. Additionally, the significant percentages of businesses with GARs of \$1 million or less and the large number of businesses with four or fewer employees support the need for small business lending. The COVID-19 pandemic and related impacts to the area also support the need for more flexible business lending programs.



## SCOPE OF EVALUATION

### General Information

This evaluation covers the period from the previous evaluation dated October 13, 2015, to the current evaluation date of October 25, 2021. Examiners used the Interagency Small Institution Examination Procedures to evaluate HSB’s CRA performance. The procedures consist of the Lending Test. The Appendix details the performance criteria for this test, while the Glossary provides for pertinent definitions. This evaluation does not include any lending activity performed by affiliates.

### Activities Reviewed

Examiners determined that the bank’s major product lines are home mortgage, small business, and small farm. This conclusion considered the bank’s business strategy and the number and dollar volume of loans originated during the evaluation period.

The bank’s record of originating home mortgage, small business, and small farm loans contributed similar weight for overall conclusions. Despite differences in loan volume during the evaluation period amongst the three reviewed products, discussions with bank management revealed that there was no product focused on more than another. In addition, no other loan types, such as consumer loans, represent a major product line. Therefore, consumer loans provided no material support for conclusions or ratings and are not analyzed. The following table shows the bank’s originations and samples for 2019 and 2020 by loan type.

<b>Loan Products Reviewed</b>				
<b>Loan Category</b>	<b>Universe</b>		<b>Sampled</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Home Mortgage				
2019	38	3,662	30	2,832
2020	44	4,689	30	2,777
Small Business				
2019	69	2,071	36	1,107
2020	58	2,651	36	1,706
Small Farm				
2019	60	2,362	36	1,355
2020	37	2,009	30	1,867
<i>Source: Bank Data</i>				

The table above indicates a significant small farm loan decrease by number from 2019 to 2020. The decrease was not attributed to a change in business strategy, but due to less demand. Specifically, an aging population of farmers in the area and farmland sales to nonfarm investors have significantly lowered demand for small farm loans in the assessment area. Further, the bank did not participate in the Small Business Administration (SBA) Paycheck Protection Program (PPP), resulting in decreased demand for traditional small business loans.

As a whole, bank records and discussions with bank management indicate that the lending focus and product mix remained consistent throughout the evaluation period. Examiners evaluated the universe of home mortgage, small business, and small farm loans originated in the period January 1, 2019, through December 31, 2020 for the Assessment Area Concentration and Geographic Distribution criteria. Examiners selected samples of home mortgage, small business, and small farm loans originated in same timeframe for the Borrower Profile criterion. The samples are representative of HSB's performance during the entire evaluation period.

This evaluation presents information for 2019 and 2020. The 2015 ACS demographic data provides a standard of comparison for the home mortgage loans. D&B data for 2019 and 2020 provides a standard of comparison for the small business and small farm loans.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

HSB demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion.

### **Loan-to-Deposit Ratio**

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 57.6 percent over the past 23 calendar quarters from December 31, 2015 to June 30, 2021. HSB maintained a ratio lower than those of comparable institutions, as shown in the table below. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

The ratio ranged from a low of 43.9 percent as of March 31, 2021, to a high of 64.4 percent as of June 30, 2016. HSB's total deposits increased from \$28.8 million per the December 31, 2015 Call Report to \$32.7 million per the June 30, 2021 Call Report. The increase in deposits is a result of reduced spending, CARES Act stimulus payments, and SBA PPP loan funds. Further, bank management noted that deposits have been received from out of area individuals seeking full FDIC insurance coverage. Call Report data shows that municipal deposits account for \$1 million of the deposit increase.

In the same timeframe, net loans decreased from \$18.0 million to \$15.4 million. Though the dollar volume of loans has decreased, the number of home mortgage and small business loans has not decreased substantially since the prior evaluation. Bank management attributes the decrease in net loans to the low interest rate environment causing significant competition from non-bank lenders such as auto dealerships and Farm Credit. Further limiting loan growth, HSB does not offer secondary market lending and the bank did not participate in the SBAPPP forgivable loans. Instead, the bank referred business and agriculture customers to other financial institutions for loans in this program. Due to many of HSB's business and agriculture customers being eligible for SBA PPP loans, opportunities for traditional small business and small farm lending outside of this program

during parts of 2020 and year-to-date 2021 were somewhat limited. Call Report data shows the commercial and industrials loans and farm loans were the primary contributor to the loan volume decrease. While not all similarly situated institutions participated in the PPP, this combined with deposit increases has impacted HSB's LTD ratio.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 6/30/2021 (\$000s)	Average Net LTD Ratio (%)
<b>HSB</b>	<b>37,469</b>	<b>57.6</b>
Community Financial Bank – Prentice, WI	52,056	85.9
Bank of Ontario – Ontario, WI	66,112	94.6
Park Bank – Holmen, WI	68,761	68.6
The Benton State Bank – Benton, WI	72,258	97.8
<i>Source: Reports of Condition and Income 12/31/2015 - 6/30/2021</i>		

### Assessment Area Concentration

The bank made a majority of home mortgage, small business, and small farm loans, by number and dollar volume, within its assessment area. See the following table.

Lending Inside and Outside of the Assessment Area											
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)	
	Inside		Outside			Inside		Outside			
	#	%	#	%		\$	%	\$	%		
Home Mortgage											
2019	33	86.8	5	13.2	38	2,836	77.4	826	22.6	3,662	
2020	39	88.6	5	11.4	44	4,034	86.0	655	14.0	4,689	
<b>Subtotal</b>	<b>72</b>	<b>87.8</b>	<b>10</b>	<b>12.2</b>	<b>82</b>	<b>6,870</b>	<b>82.3</b>	<b>1,481</b>	<b>17.7</b>	<b>8,351</b>	
Small Business											
2019	54	78.3	15	21.7	69	1,949	94.1	122	5.9	2,071	
2020	43	74.1	15	25.9	58	2,070	78.1	581	21.9	2,651	
<b>Subtotal</b>	<b>97</b>	<b>76.4</b>	<b>30</b>	<b>23.6</b>	<b>127</b>	<b>4,019</b>	<b>85.1</b>	<b>703</b>	<b>14.9</b>	<b>4,722</b>	
Small Farm											
2019	48	80.0	12	20.0	60	1,921	81.3	441	18.7	2,362	
2020	28	75.7	9	24.3	37	1,338	66.6	670	33.4	2,009	
<b>Subtotal</b>	<b>76</b>	<b>78.4</b>	<b>21</b>	<b>21.6</b>	<b>97</b>	<b>3,259</b>	<b>74.6</b>	<b>1,111</b>	<b>25.4</b>	<b>4,371</b>	
<i>Source: Bank Data. Due to rounding, totals may not equal 100.0%</i>											

## **Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The following tables demonstrate seemingly strong performance in the moderate-income census tracts of the assessment area. However, given the demographic characteristics of the assessment area, overall performance is considered reasonable. As noted in the “Description of Assessment Area” section, the one census tract designated as middle-income has a lower average median family income than the two designated as moderate-income. Essentially, the demographic characteristics of all three census tracts are homogenous, and the bank has serving its assessment area as expected.

### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table shows the bank’s performance in the three census tracts in the assessment area.

<b>Geographic Distribution of Home Mortgage Loans</b>					
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate					
2019	64.6	32	97.0	2,810	99.1
2020	64.6	36	92.3	3,654	90.6
Middle					
2019	35.4	1	3.0	25	0.9
2020	35.4	3	7.7	380	9.4
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>33</b>	<b>100.0</b>	<b>2,836</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>39</b>	<b>100.0</b>	<b>4,034</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

### ***Small Business Loans***

The geographic distribution of small business loans reflects reasonable dispersion. The following table shows the bank’s performance in the three census tracts in the assessment area.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate					
2019	66.0	44	81.5	1,534	78.7
2020	64.9	36	83.7	1,785	86.2
Middle					
2019	34.0	10	18.5	415	21.3
2020	35.1	7	16.3	285	13.8
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>54</b>	<b>100.0</b>	<b>1,949</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>43</b>	<b>100.0</b>	<b>2,070</b>	<b>100.0</b>
<i>Source: 2019 &amp; 2020 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

### ***Small Farm Loans***

The geographic distribution of small farm loans reflects reasonable dispersion. The following table shows the bank's performance in the three census tracts in the assessment area.

<b>Geographic Distribution of Small Farm Loans</b>					
<b>Tract Income Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate					
2019	72.3	47	97.9	1,913	99.6
2020	69.5	28	100.0	1,338	100.0
Middle					
2019	27.7	1	2.1	8	0.4
2020	30.5	0	0.0	0	0.0
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>48</b>	<b>100.0</b>	<b>1,921</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>28</b>	<b>100.0</b>	<b>1,338</b>	<b>100.0</b>
<i>Source: 2019 &amp; 2020 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels, businesses of different sizes, and farms of different sizes in the assessment area. The bank's reasonable performance of home mortgage, small business, and small farm lending supports this conclusion.

### ***Home Mortgage Loans***

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable.

The following table shows that HSB's percentage of sampled loans originated to low-income borrowers trails the demographic benchmark by 5.1 percent in 2019 and 13.7 percent in 2020. Despite trailing the demographic benchmark, HSB's lending is reasonable due to the compensating factors below.

A low-income family in the assessment area, would not likely qualify for a mortgage under conventional underwriting standards, especially considering the median housing value of \$119,330. Therefore, the demand and opportunity for lending to low-income families are relatively limited. Further, 2015 ACS data shows a poverty level of 8.2 percent. Families in poverty face increased challenges. As this segment is not typically able to support a traditional mortgage, examiners considered an adjusted demographic of 20.9 percent. This disparity to the 29.1 percent of low-income families is more comparable to the bank's performance of lending to low-income borrowers. Although not a direct comparator, aggregate data for 2019 and 2020 shows only 16.6 percent and 12.7 percent of home mortgage loans, respectively, were to low-income individuals.

HSB's percentage of sampled loans originated to moderate-income borrowers exceeds the demographic benchmark by 9.9 percent in 2019 and 4.8 percent in 2020. Although not a direct comparator, aggregate data provides insight to the level of demand. Aggregate data shows that banks are lending at rates higher than the demographic. HSB's performance is right in line with aggregate data for 2019 and 2020 which shows 31.6 percent and 27.6 percent of home mortgage loans, respectively, were to moderate-income individuals.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>					
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>					
2019	29.1	6	24.0	200	10.0
2020	29.1	4	15.4	243	9.7
<b>Moderate</b>					
2019	22.1	8	32.0	847	42.2
2020	22.1	7	26.9	694	27.7
<b>Middle</b>					
2019	25.1	9	36.0	739	36.8
2020	25.1	11	42.3	1,304	52.1
<b>Upper</b>					
2019	23.7	2	8.0	220	11.0
2020	23.7	2	7.7	165	6.6
<b>Not Available</b>					
2019	0.0	0	0.0	0	0.0
2020	0.0	2	7.7	98	3.9
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>	<b>2,007</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>26</b>	<b>100.0</b>	<b>2,504</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

### ***Small Business Loans***

The distribution of small business loans reflects reasonable penetration of loans to businesses with GARs of \$1 million or less. The following table shows that 86.7 percent in 2019 and 69.2 percent in 2020 of the sampled loans were originated to businesses with GARs of \$1 million or less. These numbers compare reasonably the percent of businesses in this revenue category.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>					
2019	81.1	26	86.7	848	80.0
2020	81.3	18	69.2	865	67.3
<b>&gt;\$1,000,000</b>					
2019	5.0	4	13.3	212	20.0
2020	5.0	8	30.8	421	32.7
<b>Revenue Not Available</b>					
2019	14.0	0	0.0	0	0.0
2020	13.7	0	0.0	0	0.0
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>30</b>	<b>100.0</b>	<b>1,061</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>26</b>	<b>100.0</b>	<b>1,285</b>	<b>100.0</b>

*Source: 2019 & 2020 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%*

### ***Small Farm Loans***

The distribution of small farm loans reflects reasonable penetration of loans to farms with GARs of \$1 million or less. The following table shows all farms in the assessment area have GARs of \$1 million or less and all HSB's small farm loans in 2019 and 2020 are to farms with GARs of \$1 million or less.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>					
2019	100.0	29	100.0	1,128	100.0
2020	100.0	23	100.0	1,218	100.0
<b>&gt;\$1,000,000</b>					
2019	0.0	0	0.0	0	0.0
2020	0.0	0	0.0	0	0.0
<b>Revenue Not Available</b>					
2019	0.0	0	0.0	0	0.0
2020	0.0	0	0.0	0	0.0
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>29</b>	<b>100.0</b>	<b>1,128</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>23</b>	<b>100.0</b>	<b>1,218</b>	<b>100.0</b>

*Source: 2019 & 2020 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%*



### **Response to Complaints**

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

### **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

## APPENDICES

### SMALL BANK PERFORMANCE CRITERIA

#### Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

## 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.

**American Community Survey (ACS):** A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**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.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**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. Other family 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).

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, 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 that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, 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 Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**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 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 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area (also known as non-MSA):** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**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.

**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.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 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.

**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.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.