

PUBLIC DISCLOSURE

August 19, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lena State Bank
Certificate Number: 12395

915 South Logan Street
Lena, Illinois 61048

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.

TABLE OF CONTENTS

Institution Rating1

Scope of Evaluation2

Description of Institution3

Description of Assessment Area4

Conclusions on Performance Criteria6

Discriminatory or Other Illegal Credit Practices Review8

Glossary9

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 in a manner consistent with its resources and capabilities.

Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Community Reinvestment Act (CRA) performance.

- The net 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 small business and small farm loans in the assessment area.
- The assessment area does not contain any low- or moderate-income geographies. As a result, the Geographic Distribution criterion was not evaluated because the results would not yield meaningful conclusions.
- The distribution of borrowers reflects excellent penetration of loans among businesses 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 rating.

SCOPE OF EVALUATION

General Information

The evaluation covers the period from the prior evaluation dated June 17, 2013, to the current evaluation dated August 19, 2019. Examiners used the Federal Financial Institutions Examination Council's (FFIEC) Interagency Small Institution Examination Procedures to evaluate Lena State Bank's CRA performance. These procedures include the CRA Small Bank Lending Test.

The Lending Test considered the institution's performance according to the following criteria:

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

Loan Products Reviewed

Examiners determined that the bank's major product lines are small business and small farm loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Small business loans are defined as those whose original amounts are \$1.0 million or less and that were reported on the institution's Call Report as either "Loans secured by nonfarm or nonresidential real estate" or "Commercial and industrial loans." Small farm loans are defined as those whose original amounts are \$500,000 or less and were reported as either "Loans to finance agricultural production and other loans to farmers" or "Loans secured by farmland." Both loan products were weighted equally in determining overall conclusions. No other loan types, such as home mortgage or consumer loans, represent a major product line. Therefore, they provided no material support for conclusions or ratings and are not presented.

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. Examiners selected a sample of small business loans and the universe of small farm loans originated or renewed in the period January 1, 2018, through December 31, 2018. The loans reviewed were considered representative of the bank's performance during the entire evaluation period. The bank originated or renewed 38 small business loans totaling \$2.8 million in 2018, of which 30 loans totaling \$2.3 million were sampled. The bank originated or renewed 28 small farm loans totaling \$3.0 million in 2018. D&B data for 2018 provided a standard of comparison for the small business and small farm loans.

Examiners reviewed the number and dollar volume of small business and small farm loans. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans because it is a better indicator of the number of businesses and farms served.

DESCRIPTION OF INSTITUTION

Background

Lena State Bank is a wholly owned subsidiary of Foresight Financial Group, Incorporated; a six-bank holding company. The bank operates from its sole location in Lena, Illinois. Lena State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated June 17, 2013, based on FFIEC Interagency Small Institution Examination Procedures.

Operations

Lena State Bank's only facility is located in Lena, Illinois located in Stephenson County. The institution offers a wide range of loan and deposit products for commercial and retail customers. Deposit products include checking, savings, money market, certificates of deposit, individual retirement accounts, and health savings accounts. Consumer loan products include home improvement financing, home equity lines of credit, automobile loans, personal loans, and overdraft protection lines of credit. Commercial financing is available for real estate, working capital, equipment, and modernization and expansion. Agricultural financing includes operating credit lines, livestock loans, machinery loans, farm real estate, and agri-business loans. The bank also offers United States Department of Agricultural (USDA) Farm Service Agency (FSA) loans.

Hours of operation include extended drive-up hours and Saturday hours and allow reasonable access to services. The institution offers online and 24-hour telephone banking and owns one automated teller machine (ATM) located at its facility. In addition, no transaction fees are assessed to Lena State Bank customers who use ATM machines owned by the other four institutions in the holding company. None of the ATM machines accepts deposits.

Ability and Capacity

Assets totaled approximately \$88 million as of June 30, 2019, and included total loans of \$57 million and securities totaling \$27 million. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 06/30/2019		
Loan Category	\$(000s)	%
Construction and Land Development	383	0.7
Secured by Farmland	11,828	20.8
1-4 Family Residential	3,992	7.0
Multi-family (5 or more) Residential	2,224	3.9
Commercial Real Estate	13,185	23.2
Total Real Estate Loans	31,612	55.6
Agricultural Production	7,772	13.7
Commercial and Industrial	17,117	30.1
Consumer Purpose	345	0.6
Other Loans	10	0.0
Less: Unearned Income	(4)	(0.0)
Total Loans	56,852	100.0

Source: Report of Condition and Income

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

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Lena State Bank designated portions of Stephenson and Jo Daviess Counties as its assessment area. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

The assessment area includes four census tracts in Stephenson County and two census tracts in Jo Daviess County. These tracts reflect the following income designations according to the 2010 U.S. Census:

- 5 middle-income tracts, and
- 1 upper-income tract.

The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.0	0.0	83.3	16.7	0.0
Population by Geography	21,150	0.0	0.0	85.7	14.3	0.0
Housing Units by Geography	10,276	0.0	0.0	87.1	12.9	0.0
Owner-Occupied Units by Geography	7,124	0.0	0.0	83.6	16.4	0.0
Occupied Rental Units by Geography	1,693	0.0	0.0	94.0	6.0	0.0
Vacant Units by Geography	1,459	0.0	0.0	96.7	3.3	0.0
Businesses by Geography	1,180	0.0	0.0	86.9	13.1	0.0
Farms by Geography	311	0.0	0.0	88.1	11.9	0.0
Family Distribution by Income Level	6,067	13.9	15.8	25.2	45.1	0.0
Household Distribution by Income Level	8,817	18.6	15.0	18.2	48.1	0.0
Median Family Income Non-MSAs – IL		\$59,121	Median Housing Value			\$115,703
			Median Gross Rent			\$549
			Families Below Poverty Level			6.4%
<i>Sources: 2015 ACS Census and 2018 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.</i>						

According to 2018 D&B data, there were 1,180 businesses in the assessment area. Gross annual revenues (GARs) for these businesses are below.

- 82.2 percent have \$1.0 million or less.
- 4.8 percent have more than \$1.0 million.
- 13.0 percent have unknown revenues.

Additionally, according to 2018 D&B data, there were 311 farms in the assessment area. GARs for these businesses are below.

- 96.8 percent have \$1 million or less.
- 2.3 percent have more than \$1 million.
- 1.0 percent have unknown revenues.

The analyses of small business and small farm loans under the Borrower Profile criterion compare the distribution of businesses and farms by GAR level. Service industries represent the largest portion of businesses at 31.1 percent; followed by agricultural, forestry, and fishing (20.9), retail trade (10.3 percent); construction (9.8 percent); and finance, insurance, and real estate (6.1 percent). In addition, 74.6 percent of area businesses have four or fewer employees, and 90.3 percent operate from a single location.

Competition

The assessment area is moderately competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 2018, there were 14 financial institutions that operated 22 full-service branches within the bank's assessment area. Of these institutions, Lena State Bank ranked eighth with a 5.6 percent deposit market share.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available.

Examiners contacted representatives from two organizations in the assessment area. The first contact identified a significant level of opportunity for commercial redevelopment lending within Stephenson County. The second contact noted a need for micro-guaranteed agricultural loans (loans \$50,000 and under) and guaranteed farm ownership and operating loans to small farms and ranches. The contacts indicated that local financial institutions have been responsive to the credit needs of the area.

Credit Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that small farm loans represent a primary credit need for the assessment area. Small farm loans are in high demand and opportunity exists for originating such loans, particularly in rural Stephenson County.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Lena State Bank demonstrated reasonable performance under the Lending Test. The Borrower Profile performance primarily supports this conclusion.

Loan-to-Deposit Ratio

The net LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's net LTD ratio, calculated from Call Report data, averaged 70.1 percent over the past 25 calendar quarters from June 30, 2013 to June 30, 2019. The ratio ranged from a low of 58.6 percent as of September 30, 2013, to a high of 80.4 percent as of June 30, 2016. The ratio increased during the evaluation period. Lena State Bank maintained a ratio similar to those of comparable institutions, as shown in the following table. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Institution	Total Assets \$(000s)	Average NLTD Ratio (%)
Lena State Bank	88,239	70.1
Similarly-Situated Institution #1	88,260	71.4
Similarly-Situated Institution #2	91,165	50.0
Similarly-Situated Institution #3	102,734	76.1
Similarly-Situated Institution #4	154,827	77.2

Source: Reports of Condition and Income 06/30/2013 through 06/30/2019

Assessment Area Concentration

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

Lending Inside and Outside the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business	17	56.7	13	43.3	30	1,100	48.4	1,175	51.6	2,275
Small Farm	22	78.6	6	21.4	28	2,078	69.2	927	30.8	3,005

Sources: Bank records

Although the percentage of small business loans by number were inside the assessment, by dollar amount, the majority was outside of the assessment area. The reason for this is primarily because the bank funds business loans with affiliate banks within the Foresight Financial Group, Inc. Generally, these participation loans are outside the bank's assessment area and are larger dollar loans. As previously mentioned, examiners placed more emphasis on the performance by number of loans because the number of loans is a better indicator of the number of businesses

and farms served. Overall, these percentages represent reasonable performance and demonstrate reasonable responsiveness by the bank to meet the credit needs within its assessment area.

Geographic Distribution

The assessment area does not contain any low- or moderate-income geographies. As a result, the Geographic Distribution criterion was not evaluated because the results would not yield meaningful conclusions.

Borrower Profile

The distribution of borrowers reflects excellent penetration among businesses and farms of different sizes in the assessment area. Examiners focused on the percentage by number of small business and small farm loans to businesses with GARs of \$1.0 million or less.

Small Business Loans

The distribution of small business loans reflects excellent penetration of loans to businesses with GARs of \$1.0 million or less. The following table shows that 100.0 percent of the sampled loans were originated to businesses with GARs of \$1.0 million or less. This number significantly exceeds the percent of businesses in this revenue category. The demographic indicates the total number of businesses that exist and not all businesses necessarily seeking financing, therefore this demonstrates excellent performance.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	82.2	17	100.0	1,100	100.0
>=\$1,000,000	4.8	0	0.0	0	0.0
Revenue Not Available	13.0	0	0.0	0	0.0
Totals	100.0	17	100.0	1,100	100.0
<i>Sources: 2018 D&B Data; 01/01/2018 - 12/31/2018 Bank Data Due to rounding, totals may not equal 100.0.</i>					

Small Farm Loans

The distribution of small farm loans reflects excellent penetration of loans to farms with GARs of \$1.0 million or less. All small farm loans originated or renewed were to farms with GARs of \$1.0 million or less, comparing favorably to the demographics of 96.8 percent. In addition, 50 percent of Lena State Bank’s small farm loans were in the amount of \$50,000 or less. This demonstrates the institution’s responsiveness to the micro-agricultural lending need in the assessment area as stated by the community contact.

The bank’s performance is detailed in the following table.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	96.8	22	100.0	2,078	100.0
>=\$1,000,000	2.3	0	0.0	0	0.0
Revenue Not Available	0.9	0	0.0	0	0.0
Totals	100.0	22	100.0	2,078	100.0
<i>Sources: 2018 D&B Data; 01/01/2018 - 12/31/2018 Bank Data Due to rounding, totals may not equal 100.0.</i>					

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution’s overall CRA rating.

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.

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).

Family Income: Includes the income of all members of a family that are age 15 and older.

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 (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, 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 Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

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.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

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 (for example, 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.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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: 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.