



PUBLIC DISCLOSURE

October 4, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Home State Bank, N.A.
Charter Number 18763
40 Grant Street
Crystal Lake, IL 60014

Office of the Comptroller of the Currency
Downers Grove Field Office
2001 Butterfield Road, Suite 400
Downers Grove, IL 60515

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not 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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Overall CRA Rating

Institution's CRA Rating: This institution is rated **Satisfactory**.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support Home State Bank, N.A.'s (HSB or bank) rating include:

- The bank's average quarterly loan-to-deposit (LTD) ratio since its prior evaluation is reasonable.
- The bank has originated or purchased a majority of its loans inside its assessment area (AA).
- The bank's distribution of loans to individuals of different income levels and businesses of different sizes within its AA is reasonable.
- The bank's community development (CD) lending, investments, and services reflect adequate responsiveness to the CD needs of its AA.

Loan-to-Deposit Ratio

HSB's LTD ratio is reasonable given the bank's size and financial condition, the credit needs of its AA, and other demographic and economic factors. The bank's quarterly average LTD ratio for the period from January 1, 2018, to December 31, 2020, was 76.22 percent, placing HSB 10th highest out of 15 banks within the AA that have total assets ranging between \$156.2 million and \$6.0 billion. The quarterly average LTD ratio for the peer group during the evaluation period ranged from 54.62 percent to 113.19 percent, with the average being 83.40 percent. HSB's highest quarterly LTD ratio was 80.76 for the quarter ended June 30, 2019, and its lowest was 68.90 for the quarter ended December 31, 2020.

Lending in Assessment Area

HSB originated or purchased a majority of its loans inside of its AA.

While HSB only originated or purchased 42.5 percent of its total dollar volume loans inside of its AA during the evaluation period, it originated or purchased a majority (52.9 percent) of its total number of loans inside its AA. The bank's in/out ratio was adversely impacted in 2019 and 2020 due to a new sales team from outside the AA that originated a large volume of home mortgage loans outside the AA. However, that sales team left the bank in 2020, and management expects the number and dollar amount of home mortgage loans originated or purchased inside the AA to return to normalized levels. The proportion of lending inside versus outside the bank's AA is calculated on a bank-wide basis. This percentage does not include extensions of credit by affiliates that may be considered under the other performance criteria.

Lending Inside and Outside of the Assessment Area										2018-2020
Loan Category	Number of Loans					Dollar Amount of Loans \$(000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Home Mortgage										
2018	272	57.1	204	42.9	476	49,588	50.3	49,038	49.7	98,625
2019	300	33.6	592	66.4	892	66,779	29.1	163,068	70.9	229,847
2020	619	35.9	1,103	64.1	1,722	131,546	30.3	302,525	69.7	434,070
Subtotal	1,191	38.5	1,899	61.5	3,090	247,912	32.5	514,630	67.5	762,542
Small Business										
2018	243	87.7	34	12.3	277	36,464	77.8	10,402	22.2	46,866
2019	233	84.7	42	15.3	275	42,760	79.1	11,271	20.9	54,031
2020	699	84.0	133	16.0	832	83,688	80.6	20,138	19.4	103,826
Subtotal	1,175	84.9	209	15.1	1,384	162,912	79.6	41,811	20.4	204,723
Total	2,366	52.9	2,108	47.1	4,474	410,824	42.5	556,441	57.5	967,265
<i>Source: Bank Data</i> <i>Due to rounding, totals may not equal 100.0%</i>										

Description of Institution

HSB is headquartered in Crystal Lake, Illinois, and has seven branches and 10 automated teller machines (ATMs) that accept deposits and dispense cash. All branches and deposit-taking ATMs are in McHenry County, Illinois. The bank also has two loan production offices (LPOs). One is in Orland Park, Illinois, within the AA, and one in Waterford, Wisconsin, which is outside the AA. The bank offers telephone banking, bank by mail, internet banking, mobile banking, and 24-hour automated banking by computer services. Mobile check deposit and online mortgage applications are also available.

HSB is a wholly owned subsidiary of Home State Bancorp, Inc., a one-bank holding company headquartered in Crystal Lake, Illinois, and there are no other affiliates of the bank. There were no branch closures, branch openings, mergers, or acquisitions during the evaluation period.

As of December 31, 2020, HSB had \$696.4 million in total assets, \$418.8 million in gross loans, \$598.5 million in total deposits, and \$78.2 million in tier 1 capital. Gross loans represented 60 percent of total assets, and 43 percent of the loan portfolio was commercial real estate loans, 32 percent was residential real estate loans, 16 percent was commercial and industrial loans, 8 percent was construction and land development loans, and 1 percent was loans to individuals.

HSB is primarily a commercial lending bank, but it also originates a moderate volume of residential loans. There were no significant changes in the bank's business strategies since its last performance evaluation, and management intends to keep the bank's current product mix but increase its efforts to attract small businesses and consumers. The bank participates in several home buyer programs in Illinois and Wisconsin.

There are no legal, financial, or other factors impeding HSB’s ability to help meet the community’s credit needs. The bank received a “Satisfactory” rating under Intermediate Small Bank Community Reinvestment Act (CRA) examination procedures during its last performance evaluation dated August 6, 2018.

Scope of the Evaluation

Evaluation Period/Products Evaluated

HSB was evaluated during this review under the Intermediate Small Bank CRA examination procedures, which includes a Lending Test and a CD Test to assess compliance with the CRA. The Lending Test evaluates the bank’s recent performance of meeting the credit needs of its AA through lending activity. The Lending Test included an evaluation of the bank’s primary products, which are home mortgage (residential) and small business (commercial) loans. The CD Test evaluates the bank’s responsiveness to CD needs in its AA through qualified lending, investments, and services. We considered the bank’s lending and CD activities from January 1, 2018, through December 31, 2020, and used the bank’s Home Mortgage Disclosure Act (HMDA) and CRA Loan Application Registers (LARs) to analyze home mortgage and small business loans originated or purchased during the evaluation period.

We completed this performance evaluation by performing a full-scope review of the bank’s one AA, which comprises all of McHenry and Lake Counties (McHenry/Lake Counties AA) in the state of Illinois. The AA is split between two metropolitan divisions (MDs) within the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area (MSA). McHenry County is in the Chicago-Naperville-Evanston, IL MD (16984), and Lake County is in the Lake County-Kenosha County, IL-WI MD (29404). The AA meets regulatory requirements, contains whole geographies, and does not arbitrarily exclude low- or moderate-income CTs or reflect illegal discrimination. We analyzed home mortgage loans using 2015 American Community Survey (ACS) data, and small business loans by comparing bank performance to 2019 small business peer lending aggregate data (the most recent data available for our analysis). We also used Federal Deposit Insurance Corporation (FDIC) annual deposit information to determine the bank’s deposit market share and ranking within its AA. The most recent deposit market share information is as of June 30, 2020.

To evaluate HSB’s lending performance and ensure that data reported by the bank is accurate, we performed a data integrity examination prior to this performance evaluation by comparing information from a sample of applications for loans that were originated or purchased during 2018, 2019, and 2020 (evaluation period) to the data reported and collected on the bank’s LARs and internal management information systems reports. Based on the number of loans reported on the LARs, we reviewed a sample of 237 home mortgage and 197 small business loans originated or purchased during evaluation period. We also reviewed an additional sample of 50 small business loans for 2019 and 2020 to verify corrected data.

Selection of Areas for Full-Scope Review

We performed a full-scope review of the McHenry/Lake Counties AA, which contained 206 CTs in 2018, 2019, and 2020. Refer to the “Scope” section under the State Rating and Appendix A sections for more information.

Ratings

HSB's overall CRA rating is based solely on its performance in the state of Illinois, and the state of Illinois rating is based on the bank's performance under the CRA Intermediate Small Bank Lending Test as well as related performance context information from the AA. Except for the bank's LTD ratio, which is based on its entire loan portfolio, performance under the CRA Intermediate Small Bank Lending Test was based on the bank's lending performance in relation to its primary loan products (home mortgage and small business loans) within its AA and during the evaluation period.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the Office of the Comptroller of the Currency (OCC) considers evidence of discriminatory or other illegal credit practices in any geography by HSB, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, U.S. Department of Housing and Urban Development, and Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that the bank has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this bank engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the bank's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State Rating

State of Illinois

CRA rating for the State of Illinois: Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- The bank's average quarterly loan-to-deposit (LTD) ratio since its prior evaluation is reasonable.
- The bank has originated or purchased a majority of its loans inside its assessment area (AA).
- The bank's distribution of loans to individuals of different income levels and businesses of different sizes within its AA is reasonable.
- The bank's community development (CD) lending, investments, and services reflect adequate responsiveness to the CD needs of its AA.

Description of Institution's Operations in Illinois

HSB's operations in the state of Illinois are located within the Chicago-Naperville-Elgin, IL-IN-WI MSA. The bank's main branch is located in Crystal Lake, Illinois, while the other six branches are located in Crystal Lake, McHenry, Lake in the Hills, and Woodstock, Illinois. Although none of the branches are in low- or moderate-income CTs, all seven branches provide reasonable accessibility in the McHenry/Lake Counties AA. The bank also has two loan production offices, which are located in Orland Park, Illinois and Waterford, Wisconsin.

According to FDIC market share information, as of June 30, 2020, HSB had \$581.6 million in deposits in McHenry and Lake Counties, which represented 100 percent of the bank's total deposits. HSB ranked 17th out of 45 FDIC-insured banks with a 1.65 percent market share for deposits in the AA. There is significant competition for deposits in the bank's AA, led by larger banks including as JP Morgan Chase Bank, NA, Lake Forest Bank & Trust Company, NA, BMO Harris Bank NA, First Midwest Bank, and Barrington Bank & Trust Company, NA, which have market shares of 18.02 percent, 11.28 percent, 7.94 percent, 7.07 percent, and 5.63 percent, respectively.

Geographic Distribution by Income Level

According to 2015 ACS Census data, the AA has a population of 1.0 billion individuals. Of those, 44,451 (4.4 percent) reside in low-income CTs, 156,589 (15.5 percent) reside in moderate-income CTs, 381,876 (37.8 percent) reside in middle-income CTs, 426,327 (42.2 percent) reside in upper-income CTs, and 1,010 reside in CTs that have not been assigned an income classification.

Family Distribution by Income Level

According to 2015 ACS Census data, the AA has 261,686 families. Of those, 48,411 families (18.5 percent) are classified as low-income, 41,869 (16.0 percent) are moderate-income, 50,243 (19.2 percent) are middle-income, and 121,160 (46.3 percent) are upper-income. Median family income in the Chicago-Naperville-Evanston, IL and Lake County-Kenosha County, IL-WI MDs is \$75,024 and \$87,137, respectively, and 6.8 percent of families live below the poverty level.

Business Demographics

According to 2015 ACS Census data, 69,666 (90.3 percent) businesses in the AA operate out of a single location, and 69,165 (89.65 percent) businesses own the property from which they operate. The Services industry has the largest representation in the AA, with 29,817 businesses (38.6 percent). Non-Classifiable establishments have the second largest representation with 14,234 businesses (18.45 percent), followed by the Retail Trade industry with 8,764 businesses (11.36 percent).

Table A – Demographic Information of the Assessment Area						
Assessment Area: McHenry/Lake Counties						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	206	5.8	16.0	34.0	42.7	1.5
Population by Geography	1,010,255	4.4	15.5	37.8	42.2	0.1
Housing Units by Geography	378,001	4.3	14.4	39.8	41.5	0.0
Owner-Occupied Units by Geography	268,042	2.0	10.6	39.2	48.2	0.0
Occupied Rental Units by Geography	83,875	10.2	24.3	42.0	23.5	0.0
Vacant Units by Geography	26,084	8.5	21.2	39.6	30.7	0.0
Businesses by Geography	74,974	1.8	8.9	34.3	54.9	0.0
Farms by Geography	2,180	2.1	14.2	44.6	39.1	0.0
Family Distribution by Income Level	261,686	18.5	16.0	19.2	46.3	0.0
Household Distribution by Income Level	351,917	20.1	14.5	17.3	48.1	0.0
Median Family Income MSA - 16984 Chicago-Naperville- Evanston, IL		\$75,024	Median Housing Value			\$256,731
Median Family Income MSA - 29404 Lake County-Kenosha County, IL-WI		\$87,137	Median Gross Rent			\$1,121
			Families Below Poverty Level			6.8%

*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.*

Economic Conditions

According to the U.S. Bureau of Labor Statistics (BLS) data, the AA's annual unemployment rate ranged from a high of 8.3 percent in 2020 to a low of 3.5 percent in 2019 for McHenry County, and a high of 8.1 percent in 2020 to a low of 3.9 percent in 2019 for Lake County. The annual unemployment rate for the state of Illinois ranged from a high of 9.5 percent in 2020 to a low of 4.0 percent in 2019. The rate in 2020 was higher than the national unemployment rate. Unemployment rates spiked in April 2020 due to the COVID-19 pandemic national emergency.

McHenry County, Illinois

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2018	5.0	4.7	3.9	3.3	3.0	3.9	3.6	3.4	3.1	3.3	3.0	3.5	3.6
2019	4.8	4.4	4.1	3.6	3.1	3.7	3.6	3.1	2.8	2.9	2.6	2.9	3.5
2020	3.8	3.7	3.7	15.1	13.3	12.7	10.3	9.5	8.6	6.3	6.5	6.9	8.3

Lake County, Illinois

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2018	5.2	5.2	5.1	4.1	3.8	4.4	4.3	4.4	4.0	4.1	4.2	5.2	4.5
2019	5.9	5.5	5.3	3.8	3.2	3.5	3.6	3.5	3.2	3.1	3.1	3.6	3.9
2020	4.1	3.8	4.2	14.9	13.6	12.0	10.7	8.3	7.1	5.9	5.9	7.0	8.1

State of Illinois

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2018	5.2	5.0	4.5	3.9	3.8	4.7	4.5	4.4	3.9	4.1	4.0	4.4	4.4
2019	5.4	4.9	4.6	3.9	3.5	4.1	4.2	3.9	3.5	3.4	3.2	3.3	4.0
2020	4.0	3.7	4.0	16.3	15.3	14.4	12.4	11.0	10.1	7.5	7.6	7.9	9.5

Community Contacts

We contacted a Consumer Protection Group in the McHenry/Lake Counties AA that helps strengthen and empower communities through counseling, educating, and serving individuals in matters of housing and personal finance, and also offers financial literacy educational seminars for the community. The contact stated that local economic conditions have shown improvement since the start of the COVID-19 pandemic, and that the agency has seen an increase in rental assistance and mortgage assistance programs for individuals around the community. However, the contact stated that there is not a lot of affordable housing available in McHenry and Lake counties.

Scope of Evaluation in Illinois

We performed a full-scope review of the McHenry/Lake Counties AA. Refer to Appendix A for more information.

LENDING TEST

HSB's performance under the Lending Test in the state of Illinois is rated Satisfactory.

Conclusions for Area Receiving a Full-Scope Review

Based on a full-scope review, the bank's lending performance in the state of Illinois is reasonable. We placed more weight on HSB's distribution of loans to individuals of different income levels and businesses of different sizes, as there were more lending opportunities to low- and moderate-income borrowers and small businesses with less than \$1 million in gross annual revenues.

Distribution of Loans by Income Level of the Geography

HSB exhibits poor geographic distribution of loans in the AA. However, performance context factors reflect limited lending opportunities in the low- and moderate-income CTs.

Home Mortgage Loans

HSB exhibits reasonable geographic distribution of home mortgage loans in the AA. In drawing this conclusion, we placed more weight on the bank's lending in moderate-income CTs, as there are limited lending opportunities in low-income CTs within the AA. Refer to Table O in Appendix D for the facts and data used to evaluate HSB's geographic distribution of home mortgage loans.

HSB's geographic distribution of home mortgage loans in low-income CTs is poor. The bank originated or purchased 0.2 percent of its home mortgage loans in low-income CTs, which is significantly below both the 2.0 percent of the AA's owner-occupied housing units that are located in low-income CTs and the 0.9 percent of aggregate lending that occurred in low-income CTs. However, the small number and percentage of the AA's owner-occupied housing units that are located in low-income CTs does not provide for many lending opportunities. In addition, the percentage of vacant units and occupied rental units significantly exceeds the percentage of owner-occupied housing units in low-income CTs, indicating that there are limited affordable housing opportunities in low-income CTs within the AA. During the evaluation period, occupied rental and vacant units in low-income CTs totaled 10.2 percent and 8.5 percent of the AA's total housing units, respectively, which significantly exceeds the 2.0 percent of the AA's owner-occupied housing units that are located in low-income CTs.

HSB's geographic distribution of home mortgage loans in moderate-income CTs is reasonable considering performance context factors. The bank originated or purchased 4.2 percent of its loans in moderate-income CTs, which is significantly below the 10.6 percent of the AA's owner-occupied housing units that are located in moderate-income CTs, reasonably near the 6.4 percent of aggregate lending that occurred in moderate-income CTs.

Small Loans to Businesses

HSB exhibits very poor geographic distribution of small business loans in the AA. Refer to Table Q in Appendix D for the facts and data used to evaluate the bank's geographic distribution of small loans to businesses.

HSB's geographic distribution of small loans to businesses in low-income CTs is very poor. The bank did not originate or purchase any loans in low-income CTs, while 1.8 percent of the AA's businesses are located in low-income CTs, and the 1.6 percent of aggregate lending occurred in low-income CTs. However, the small number and percentage of the AA's businesses that are located in low-income CTs does not provide for many lending opportunities.

HSB's geographic distribution of small loans to businesses in moderate-income CTs is also very poor. The bank originated or purchased 1.6 percent of its loans in moderate-income CTs, which is significantly below both the 8.9 percent of the AA's businesses that are located in moderate-income CTs and the 7.9 percent of aggregate lending that occurred in moderate-income CTs.

Distribution of Loans by Income Level of the Borrower

HSB exhibits reasonable distribution of loans to individuals of different income levels and businesses of different sizes.

Home Mortgage Loans

HSB exhibits reasonable borrower distribution of home mortgage loans in the AA. Refer to Table P in Appendix D for the facts and data used to evaluate the bank's borrower distribution of home mortgage loans.

HSB's borrower distribution of home mortgage loans to low-income borrowers is reasonable. The bank originated or purchased 8.8 percent of its loans to low-income borrowers, which is below the 18.5 percent of the AA's families that are low-income but exceeds the 6.4 percent of aggregate lending that occurred to low-income borrowers.

HSB's borrower distribution of home mortgage loans to moderate-income borrowers is excellent. The bank originated or purchased 21.7 percent of its loans to moderate-income borrowers, which exceeds both the 16.0 percent of the AA's families that are moderate-income and the 16.3 percent of aggregate lending that occurred to moderate-income borrowers.

Small Loans to Businesses

HSB exhibits reasonable borrower distribution of small loans to businesses in the AA. Refer to Table R in Appendix D for the facts and data used to evaluate the bank's borrower distribution of small loans to businesses.

HSB originated or purchased 36.4 percent of its loans to small businesses (those businesses with \$1 million or less in annual revenue), which is significantly below the 85.6 percent of the businesses in the AA that are small businesses but reasonably near the 49.6 percent of aggregate lending that occurred to small businesses.

Responses to Complaints

HSB has not received any written comments or complaints regarding its efforts to meet the credit needs of the AA during this evaluation period. The OCC has also not received any written complaints, comments, or inquiries concerning the bank and its efforts to comply with the CRA.

COMMUNITY DEVELOPMENT TEST

HSB's performance under the CD Test in the state of Illinois is rated Satisfactory.

Conclusions for Area Receiving a Full-Scope Review

Based on a full-scope review, HSB exhibits adequate responsiveness to CD needs in the state of Illinois through qualified CD loans, investments, and services, as appropriate, considering its capacity and the need and availability of such opportunities for CD in the bank's AA. The bank's CD lending, investments, donations, and volunteer service hours during the evaluation period had a positive impact on economic development, affordable housing, and overall support to low- and moderate-income individuals and families in the McHenry/Lake Counties AA.

Number and Amount of Community Development Loans

The Community Development Loans Table, shown below, sets forth the information and data used to evaluate HSB's level of CD lending. The table includes all CD loans, including multifamily loans that also qualify as CD loans.

Community Development Loans				
Assessment Area	Total			
	#	% of Total #	\$(000s)	% of Total \$
McHenry/Lake Counties	13	100	\$3,276	100

HSB's level of CD loans reflect adequate responsiveness to the credit needs in the bank's AA. During the evaluation period, HSB originated 13 loans totaling \$3.2 million to organizations in the McHenry/Lake Counties AA, including nine to non-profit and four to for-profit organizations. All of the bank's CD loans were made to organizations that focus on creating affordable housing, providing services to battered women, offering income-based early childhood education (e.g. Head Start), and delivering healthcare services to low- and moderate-income individuals.

Number and Amount of Qualified Investments

The Community Development Investment Table, shown below, sets forth the information and data used to evaluate HSB's level of CD investments.

Community Development Investments										
Assessment Area	Prior Period		Current Period		Total				Unfunded Commitments**	
	#	\$(000s)	#	\$(000s)	#	% of Total #	\$(000s)	% of Total \$	#	\$(000s)
McHenry/Lake Counties	11	\$6,796	4	\$4,500	15	100	\$11,296	100	0	\$0

* Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

** Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

The volume of HSB's CD investments represent excellent responsiveness to the CD needs of the AA. The bank originated a majority of its qualified investments to small business development programs. Small business lending to create start-ups is an identified community need. Investment activities directly benefitting the McHenry/Lake Counties AA consisted of bonds and certificates of deposit totaling \$11.3 million, or 14 percent of the bank's tier 1 capital as of December 31, 2020.

During the evaluation period, HSBs purchased four qualified bonds and certificates of deposit totaling \$4.5 million. In addition, the bank purchased 11 qualified investments totaling \$6.8 million during the prior evaluation period that are outstanding as of this examination date. Of the total qualified investments, eight bonds totaling \$8 million were from the Small Business Investment Company (SBIC) and Small Business Administration (SBA) Programs that promote small business growth, and two bonds totaling \$470,000 were from school districts in which approximately 75 percent of the students are eligible for the free lunch program and deemed low- and moderate-income individuals. Additional qualified investments consisted of certificates of deposit and Federal National Mortgage Association investment pools.

HSB also made 21 qualified donations during the evaluation period totaling \$63,505 to organizations either within the McHenry/Lake Counties AA or within the broader regional area. These organizations provide various services, such as childcare for low- and moderate-income individuals, safe and permanent housing for abused or neglected children, shelter and food for the homeless, promote small business growth, and support food pantries and housing programs for low- and moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

HSB's level of CD services reflect adequate responsiveness to community needs, given the size of the bank and the credit needs of the McHenry/Lake Counties AA. Bank personnel are involved in leadership roles (i.e. chairman, board members, directors, etc.) across numerous organizations that focus on promoting economic development, small business growth, and affordable housing to low- and moderate-income individuals and families. Eight bank officers or employees provided qualified CD services to nine different organizations during the evaluation period.

All seven of HSB's branches have reasonable hours and ATMs that accept deposits. Five of the bank's offices are full-service facilities offering traditional banking products. The bank offers 24-hour automated banking, including telephone banking, bank by mail, remote check deposit, online mortgage applications, internet banking, and mobile banking. Although none of the branches are located in low- or moderate-income CTs, they provide reasonable accessibility to the McHenry/Lake Counties AA.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation and the loan products considered. The table also reflects the MSA(s) that received comprehensive examination review, designated by the term “full-scope.”

Time Period Reviewed:	January 1, 2018 to December 31, 2020	
Bank Products Reviewed:	-Home Mortgage and Small Business Loans -Community Development Loans, Investments, and Services	
Affiliate(s)	Affiliate Relationship	Products Reviewed
N/A	N/A	N/A
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
State of Illinois		
Chicago-Naperville-Evanston, IL MD #16984	Full-Scope	All of McHenry County, Illinois
Lake County-Kenosha County, IL- WI MD #29404	Full-Scope	All of Lake County, Illinois

Appendix B: Summary of State Rating

RATINGS: Home State Bank, N.A.			
Overall Bank:	Lending Test Rating*	Community Development Test Rating	Overall Bank/State Rating
Home State Bank, N.A.	Satisfactory	Satisfactory	Satisfactory
State:			
Illinois	Satisfactory	Satisfactory	Satisfactory

(*) The Lending Test and Community Development Test carry equal weight in the overall rating.

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

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. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/AA.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. CTs nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, CTs ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area: A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet SBA Development Company or SBIC programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act: The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including low- and moderate-income areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always

equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder’ and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A CT delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act: The statute that requires certain mortgage lenders that conduct business or have banking offices in a MSA 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, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

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.

Limited-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low-Income Geography: A CT with a median family income that is less than 50 percent of the area median income.

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 state/AA.

Median Family Income: The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) 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, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5

million. A MD consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties 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 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

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: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose CD.

Rating Area: A rated area is a state or multi-state MSA. 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 multi-state MSA, the institution will receive a rating for the multi-state MSA.

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

Small Loan(s) to Farm(s): 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 or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: 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 geography.

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the multi-state MSA/AA. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this performance evaluation.

The following is a listing and brief description of the tables included in each set:

- Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.
- Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each multi-state MSA/AA. The table also presents aggregate peer data for the years the data is available.
- Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses that were originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) in those geographies. Because aggregate small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank’s AA.
- Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and, 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

Table O: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography																				2018-20
Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts			
	#	\$	% of Total	Overall Market	% of Owner-Occupied Housing Units	% of Bank Loans	Aggregate Lending	% of Owner-Occupied Housing Units	% of Bank Loans	Aggregate Lending	% of Owner-Occupied Housing Units	% of Bank Loans	Aggregate Lending	% of Owner-Occupied Housing Units	% of Bank Loans	Aggregate Lending	% of Owner-Occupied Housing Units	% of Bank Loans	Aggregate Lending	
McHenry /Lake Counties	1,191	247,912	100.0	63,566	2.0	0.2	0.9	10.6	4.2	6.4	39.2	47.7	36.1	48.2	47.9	56.6	0.0	0.0	0.0	
Total	1,191	247,912	100.0	63,566	2.0	0.2	0.9	10.6	4.2	6.4	39.2	47.7	36.1	48.2	47.9	56.6	0.0	0.0	0.0	

Source: 2015 ACS Census; 01/01/2018 - 12/31/2020 Bank Data, 2020 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%.

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																				2018-20
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers			
	#	\$	% of Total	Overall Market	% of Families	% of Bank Loans	Aggregate Lending	% of Families	% of Bank Loans	Aggregate Lending	% of Families	% of Bank Loans	Aggregate Lending	% of Families	% of Bank Loans	Aggregate Lending	% of Families	% of Bank Loans	Aggregate Lending	
McHenry/Lake Counties	1,191	247,912	100.0	63,566	18.5	8.8	6.4	16.0	21.7	16.3	19.2	24.0	21.6	46.3	41.4	41.4	0.0	4.1	14.3	
Total	1,191	247,912	100.0	63,566	18.5	8.8	6.4	16.0	21.7	16.3	19.2	24.0	21.6	46.3	41.4	41.4	0.0	4.1	14.3	

Source: 2015 ACS Census; 01/01/2018 - 12/31/2020 Bank Data, 2020 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%.

Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography																			2018-20	
Assessment Area:	Total Loans to Small Businesses				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts			
	#	\$	% of Total	Overall Market	% of Businesses	% of Bank Loans	Aggregate Lending	% of Businesses	% of Bank Loans	Aggregate Lending	% of Businesses	% of Bank Loans	Aggregate Lending	% of Businesses	% of Bank Loans	Aggregate Lending	% of Businesses	% of Bank Loans	Aggregate Lending	
McHenry /Lake Counties	1,175	162,912	100.0	26,793	1.8	0.0	1.6	8.9	1.6	7.9	34.3	41.0	34.5	54.9	57.4	56.0	0.0	0.0	0.0	
Total	1,175	162,912	100.0	26,793	1.8	0.0	1.6	8.9	1.6	7.9	34.3	41.0	34.5	54.9	57.4	56.0	0.0	0.0	0.0	

*Source: 2020 D&B Data; 01/01/2018 - 12/31/2020 Bank Data; 2019 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%.*

Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues												2018-20	
Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available			
	#	\$	% of Total	Overall Market	% of Businesses	% of Bank Loans	Aggregate Lending	% of Businesses	% of Bank Loans	% of Businesses	% of Bank Loans		
McHenry/Lake Counties	1,175	162,912	100.0	26,793	85.6	36.4	49.6	5.8	37.4	8.6	26.1		
Total	1,175	162,912	100.0	26,793	85.6	36.4	49.6	5.8	37.4	8.6	26.1		

*Source: 2020 D&B Data; 01/01/2018 - 12/31/2020 Bank Data; 2019 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%.*