



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

July 16, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Sterling Federal Bank, F.S.B.
Charter Number 700073
110 E 4th Street
Sterling, IL 61081-3671

Office of the Comptroller of the Currency
Peoria Field Office
211 Fulton Street, Suite 604
Peoria, IL 61602

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: Satisfactory

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support these ratings include:

- The distribution of loans to borrowers of different income levels is reasonable.
- A substantial majority of the loans originated by the bank are to borrowers inside its assessment area (AA).
- The quarterly average loan-to-deposit ratio is reasonable.
- The bank's community development performance demonstrates adequate responsiveness overall. The Illinois AA was weighted more heavily than the Iowa AA.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout 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. 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 in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

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 Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, 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, home equity 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 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 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 conduct 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, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

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 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 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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. 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 it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

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 Metropolitan Division 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 (MSA): 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 Metropolitan Statistical Area 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.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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 community development.

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

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 One 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.

Description of Institution

Sterling Federal Bank (SFB) is a \$467 million mutual institution located in Sterling, Illinois, located in the northwestern part of the state. SFB is a multistate institution with ten locations serving its two assessment areas: Lee, Ogle, and Whiteside Counties in Illinois and Clinton County in Iowa. The locations are all equipped with drive-up facilities. SFB operates ten automated teller machines (ATM). SFB did not open or close any facilities since the previous CRA evaluation. All of the offices are full-service locations, except for the Sterling East and Clinton Main Avenue branch locations, which operate drive-up/walk-up facilities. Internet, mobile, and telephone banking are also available to the bank's customers. Refer to the bank's public file for a listing of services.

SFB owns Sauk Valley Title Insurance Company and SFB Service Corporation, which provide insurance services. SFB's subsidiaries do not negatively affect their ability to meet the credit needs of the community.

SFB's strategy is to provide innovative financial products and superior service to meet the needs of the customers in the communities they serve. The bank offers a full range of deposit and loan products and services. There are no legal, financial, or other factors impeding SFB's ability to help meet the credit needs in the bank's AA's. The bank's previous Intermediate Small Savings Association CRA rating was "Satisfactory" as detailed in the April 27, 2015 Performance Evaluation.

The bank's market area has a high level of competition for loans and deposits. SFB competes with national banks, state banks, credit unions, and federal thrifts. SFB held a 10 percent deposit market share in Lee, Ogle, and Whiteside County, Illinois, ranking first of 28 FDIC insured institutions competing for the area's \$3.3 billion in deposits. The top three financial institutions held a 29 percent deposit market share in Lee, Ogle, and Whiteside County, Illinois. In Clinton County, Iowa, the bank held a five percent deposit market share, ranking 8 of 8 FDIC insured institutions competing for the area's \$1.1 billion in deposits. The top three financial institutions held a 54 percent deposit market share in Clinton County, Iowa.

The substantial majority of the bank's deposits and loans are derived from the Lee, Ogle, and Whiteside County, Illinois AA. Clinton County, Iowa AA accounts for 13 percent of the bank's total deposits and seven percent of the bank's total loans.

SFB held 43 percent of net loans and leases to total assets and a Tier One Leverage Capital ratio of 10 percent, at June 30, 2018. Residential lending represented the largest loan portfolio at \$120 million, followed by commercial lending at \$46 million, agriculture lending at \$33 million, and consumer lending at \$2 million, at June 30, 2018.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The evaluation period is from the previous CRA evaluation, April 27, 2015, through December 31, 2017. We assessed the bank under the Intermediate Small Savings Association evaluation procedures, which include a lending test and a community development (CD) test.

The CD test evaluates the bank's community development lending, qualified investments, and CD service activities in its AA over the evaluation period.

The lending test evaluates the bank's record of meeting the credit needs of its AAs through its primary loan products. We evaluated loans originated from January 1, 2015 through December 31, 2017, under the lending test.

SFB's primary lending products are residential real estate and commercial loans. These lending categories account for 76 percent of loans, by dollar, originated or purchased from January 1, 2015 to December 31, 2017. We used these lending products for the analysis of this evaluation. Residential lending represented 46 percent of originations or purchases, while commercial lending represented 30 percent.

Data Integrity

Although the bank is not located in a MSA and is not subject to the requirements of the HMDA, SFB collects HMDA data. We conducted a data integrity review of the HMDA data for reportable loans originated or purchased between January 1, 2016, and December 31, 2016. We sampled 20 percent of collected data, verified the data against source documents, and geocoded data for each application. We found the HMDA data for 2016 to be reliable. Due to changes in loan operation systems and software, full HMDA data was not available for 2015 and 2017.

The bank is not required to maintain income data on residential or business loans outside of the individual loan files. Consequently, we sampled loans originated during the lending test evaluation period to obtain data for the 2015 and 2017 residential loans and all three years of the commercial loans. We obtained the income information of the residential borrowers and gross revenues of the businesses, as well as geocoded the data for each loan sampled. Performance conclusions for lending between January 1, 2015, and December 31, 2016, are based on 2010 US Census data. Performance conclusions for lending between January 1, 2017, and December 31, 2017, are based on 2015 American Community Survey data.

Selection of Areas for Full-Scope Review

The Illinois AA, which consists of Lee, Ogle, and Whiteside Counties, and the Iowa AA, which consists of Clinton County, both received a full-scope review, as each state is rated for CRA performance purposes. Refer to Appendix A for more information.

Ratings

The overall rating is based primarily on the areas that received a full-scope review. However, we weighed the Illinois AA lending test and CD test results more heavily than the Iowa AA outcomes since the substantial majority of the bank's loans and deposits are generated in the Illinois AA. Lending performance in 2015 and 2016 were weighed equally with 2017.

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 OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area 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, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution'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.

Conclusions with Respect to Performance Criteria

SFB meets the standards for satisfactory performance.

Loan-to-Deposit Ratio

SFB's quarterly average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs. SFB's quarterly average LTD ratio for the period April 1, 2015, to March 31, 2018, is 52 percent. SFB had a quarterly low of 50 percent and a quarterly high of 56 percent. SFB's 52 percent is up from the prior CRA evaluation's average LTD ratio of 46 percent.

SFB ranks 4th among five similarly situated banks serving its AA. The quarterly average loan-to-deposit ratio for the other four banks over the same period ranged from 43 percent to 91 percent. The similarly situated institutions, which range in asset size from \$250 million to \$500 million, are FDIC insured community financial institutions that compete with SFB for deposits in the AAs.

Lending in Assessment Area

A substantial majority of the loans originated by SFB are to borrowers inside its AA. SFB's lending to customers within the AA for its primary loan types is reasonable. The following table details the bank's lending within the AA by number of loan originations and dollar volume from our sample during the evaluation period.

Table 1 - Lending in the Assessment Area										
Loan Product	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	340	93%	26	7%	366	\$29,077	92%	\$2,527	8%	\$31,604
Commercial	66	78%	19	22%	85	\$8,359	53%	\$7,417	47%	\$15,776
Total	406	90%	45	10%	451	\$37,436	79%	\$9,944	21%	\$47,380

Source: Sample of residential real estate and commercial loans originated from 1/1/15 to 12/31/17.

State Rating

State of Illinois

CRA rating for Illinois: Satisfactory

The lending test is rated: Satisfactory

The community development test is rated: Satisfactory

The major factors that support this rating include:

- The proportion of loans to individuals of different income levels is satisfactory, while the distribution of loans to businesses of different sizes is excellent.
- The geographic distribution of loans reflects excellent distribution throughout the AA, including moderate-income CTs.
- SFB's community development performance demonstrates adequate responsiveness to the community development needs of its AA through CD loans, qualified investments, and community development services.

Description of Institution's Operations in Illinois

SFB operates one limited-service office, seven full-service branch offices, and eight ATMs within the Illinois AA. The Illinois AA consists of Lee, Ogle, and Whiteside counties. Ninety-three percent of the bank's loan portfolio are attributed to the Illinois AA. As previously noted, SFB ranks first in the deposit market share among all institutions in Lee, Ogle, and Whiteside Counties according to the FDIC Deposit Market Share Report dated June 30, 2017.

The local economic condition is stable. The Lee, Ogle, and Whiteside County unemployment rates for April 2018 are comparable to both the national average and State of Illinois unemployment rates, according to the U.S. Department of Labor. The April 2018 unemployment rates for each area are: Lee County 3.4 percent, Ogle County 3.8 percent, Whiteside County 3.5 percent, State of Illinois 3.6 percent, and 3.9 percent national average rate.

The economy of the AA is concentrated in agriculture, healthcare, retail, manufacturing, and education sectors. Major employers include: local hospital and health care facilities, WalMart, Wahl Clipper Corporation, ComEd, Raynor Manufacturing Co., city and county government, and local school districts. Please see the Market Profile in Appendix C for additional information on the AA.

Scope of Evaluation in Illinois

The Illinois AA, which consists of Lee, Ogle, and Whiteside Counties, received a full-scope review. We weighed the performance of residential lending more than business lending. Lending performance in 2015 and 2016 were weighed equally with 2017. See Appendix A for more information.

We made one community contact from the Illinois AA during the evaluation. The contact indicated the primary credit need in the AA is affordable housing. The contact also stated there are no credit needs or banking services not met or provided for by the local financial institutions. Overall, the contact felt SFB and the other local financial institutions are meeting the credit needs of the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ILLINOIS

LENDING TEST

The bank's performance under the lending test in Illinois is rated Satisfactory.

The major factors that support this rating include:

- The distribution of loans to individuals of different income levels is reasonable, while the distribution of loans to businesses of different sizes is excellent.
- The geographic distribution of loans reflects excellent distribution throughout the AA, including moderate-income CTs.
- SFB did not receive any complaints regarding its CRA performance in the Illinois AA.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Residential Lending

The distribution of residential loans to borrowers of different income levels reflects reasonable penetration. SFB's lending to low- and moderate-income borrowers exceeds the level conveyed by HMDA-reporting financial institutions in the AA for 2015-2016. SFB's lending to low-income families within the AA is below the demographic comparator for both time periods. SFB's lending to moderate-income borrowers shows excellent distribution and exceeds the percentage of moderate-income families in the AA for both time periods.

Table 2A - Borrower Distribution of Residential Real Estate Loans in Illinois AA 2015-16															
Assessment Area:	Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers		
	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
IL AA	15.6	7.7	5.9	17.0	19.9	16.2	22.9	30.4	22.9	44.5	41.4	40.7	0.0	0.6	14.3

Source: 2010 U.S Census; 01/01/2015 - 12/31/2016 Loan Sample, 2016 HMDA Aggregate Data.
Due to rounding, totals may not equal 100.0

Table 2B - Borrower Distribution of Residential Real Estate Loans in Illinois AA 2017															
Assessment Area:	Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers					
	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
IL AA	16.2	5.0	--	18.2	21.9	--	21.7	30.3	--	43.9	42.9	--			

Source: 2015 ACS Census; 01/01/2017 - 12/31/2017 Loan Sample, 2017 HMDA Aggregate Data "--" not available. Income information was available for all borrowers in our sample for 2017.
Due to rounding, totals may not equal 100.0

Business Loans

The distribution of loans displays excellent penetration among businesses of different sizes given the demographics of the AA. Loans to small businesses are those with gross annual revenues of \$1 million or less. SFB’s lending to small businesses exceeds the level conveyed by CRA-reporting financial institutions in the AA as well as demographic comparators for both time periods.

Table 2C - Borrower Distribution of Loans to Businesses in Illinois AA 2015-16							
Assessment Area:	Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available	
	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans
IL AA	76.5	92.3	46.7	5.2	7.7	18.4	0.0

Source: 2016 D&B Data; 01/01/2015 - 12/31/2016 Loan Sample; 2016 CRA Aggregate Data. Income information was available for all borrowers in our sample for 2015-2016.
Due to rounding, totals may not equal 100.0

Table 2D - Borrower Distribution of Loans to Businesses in Illinois AA 2017							
Assessment Area:	Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available	
	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans
IL AA	76.8	82.6	46.7	5.9	17.4	17.3	0.0

Source: 2017 D&B Data; 01/01/2017 - 12/31/2017 Loan Sample; 2016 CRA Aggregate Data. Income information was available for all borrowers in our sample for 2017.
Due to rounding, totals may not equal 100.0

Geographic Distribution of Loans

Residential Lending

SFB's geographic distribution of residential lending reflects an excellent dispersion in CTs of different income levels, including moderate-income CTs. There are no low-income CTs within the Illinois AA. SFB's lending levels exceed the level reported by HMDA-reporting financial institutions in the AA as well as the level of owner-occupied housing located in the moderate-income geographies in the AA. We did not identify any conspicuous gaps in the bank's lending performance.

Table 3A - Geographic Distribution of Residential Real Estate Loans in Illinois AA 2015-16												
Assessment Area:	Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts		
	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
IL AA	0.0	0.0	0.0	7.6	11.1	3.9	59.7	58.6	57.8	32.7	30.4	38.4

Source: 2010 U.S. Census; 01/01/2015 - 12/31/2016 Loan Sample, 2016 HMDA Aggregate Data.
Due to rounding, totals may not equal 100.0

Table 3B - Geographic Distribution of Residential Real Estate Loans in Illinois AA 2017												
Assessment Area:	Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts		
	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
IL AA	0.0	0.0	--	10.5	17.7	--	59.6	44.5	--	29.9	37.8	--

Source: 2015 ACS Census; 01/01/2017 - 12/31/2017 Loan Sample, 2017 HMDA Aggregate Data "--" not available.
Due to rounding, totals may not equal 100.0

Business Loans

SFB's geographic distribution of commercial lending reflects excellent dispersion in CTs of different income levels, including moderate-income CTs. There are no low-income CTs within the Illinois AA. SFB's lending levels exceed the level stated by CRA-reporting financial institutions in the AA as well as demographic comparators for businesses located in the moderate-income geographies in the AA. We did not identify any conspicuous gaps in the bank's lending performance.

Table 3C - Geographic Distribution of Loans to Businesses 2015-16												
Assessment Area:	Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts		
	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate
IL AA	0.0	0.0	0.0	7.7	26.9	6.6	60.8	46.2	58.7	31.4	26.9	34.6

Source: 2016 D&B Data; 01/01/2015 - 12/31/2016 Loan Sample; 2016 CRA Aggregate Data.
Due to rounding, totals may not equal 100.0

Table 3D - Geographic Distribution of Loans to Businesses 2017												
Assessment Area:	Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts		
	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate
IL AA	0.0	0.0	0.0	11.3	17.4	9.4	63.7	47.8	61.8	25.0	34.8	28.9
<i>Source: 2017 D&B Data; 01/01/2017 - 12/31/2017 Loan Sample; 2017 CRA Aggregate Data. Due to rounding, totals may not equal 100.0</i>												

Responses to Complaints

SFB did not receive any complaints regarding its performance in helping to meet the credit needs within the Illinois AA during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test in Illinois is rated Satisfactory. SFB’s CD performance demonstrates an adequate responsiveness to the community development needs of its AA through CD loans, qualified investments, and CD services.

Number and Amount of Community Development Loans

SFB originated one qualifying loan from the Illinois AA totaling \$2 million during the evaluation period. The loan is for the financing of a business located in a moderate-income CT in Sterling, IL. The business stabilizes the LMI tract and facilitates the retention of numerous jobs in the community, many of which are minimum-wage.

In addition, SFB participates in the USDA Guaranteed Rural Housing Loan Program. This federal government program is designed to encourage people to purchase homes in rural areas. The USDA sets maximum income guidelines for people to qualify for the program. SFB originated 49 USDA Guaranteed Rural Housing loans totaling \$3.3 million to LMI individuals in the Illinois AA during this evaluation period.

Number and Amount of Qualified Investments

SFB made a total of \$78 thousand in cash contributions and donations to several organizations assisting low- and moderate-income individuals and families in the Illinois AA over the evaluation period.

Extent to Which the Bank Provides Community Development Services

Delivery systems are reasonably accessible to individuals of different income levels. SFB operates one limited-service office, seven full-service branch offices, and eight ATMs within the Illinois AA. One office is located in a moderate-income CT while the remaining are located in middle- or upper-income census tracts. Extended hours are available at all drive-up locations. SFB's loan and deposit products are available at all branch locations except for the drive-up only facility in Sterling. The officers and employees of the bank are involved in a number of community service organizations in the Illinois AA.

SFB offers the Federal Home Loan Bank's Downpayment Plus Program. This program offers grants for low- and moderate-income families to assist with down payment and closing costs. The Federal Home Loan Bank sets maximum income guidelines for people to qualify for the program. SFB provided initial funding of \$66 thousand on twelve loans totaling \$685 thousand in the Illinois AA during the evaluation period.

Responsiveness to Community Development Needs

The bank displays satisfactory responsiveness to community development needs of the Illinois AA through community development lending, investments, and services.

State Rating

State of Iowa

CRA rating for Iowa: Needs to Improve

The lending test is rated: Satisfactory

The community development test is rated: Needs to Improve

The major factors that support this rating include:

- The proportion of loans to individuals of different income levels and businesses of different sizes is satisfactory.
- The geographic distribution of loans reflects reasonable distribution throughout the AA, including moderate-income CTs.
- SFB's community development performance demonstrates inadequate responsiveness to the community development needs of its AA through CD loans, qualified investments, and community development services.

Description of Institution's Operations in Iowa

SFB operates one full-service branch office, one limited-service location, and two ATMs within the Iowa AA. The Iowa AA consists of Clinton County. SFB's deposits in Clinton County total \$50 million and represent five percent of the market. SFB's deposit market share ranks eighth among the eight institutions in Clinton County according to the FDIC Deposit Market Share Report dated June 30, 2017.

The local economic condition remains stable. The Clinton County unemployment rate for April 2018 is 3.0 percent, which compares favorably to the national average rate of 3.9 percent. Clinton County is comparable to the State of Iowa's unemployment average rate of 2.5 percent, according to the U.S. Department of Labor.

The economy of the AA is concentrated in the agriculture, manufacturing, healthcare, and education sectors. Major employers include: Mercy Medical Center, ADM, Custom-Pak, local school districts, and city and county governmental units. Please see the Market Profile in Appendix C for additional information on the AA.

We made one community contact from the Iowa AA during the evaluation. The contact stated there are no credit needs or banking services not met or provided for by the local financial institutions. The contact indicated the primary credit needs in the AA are business loans to finance and rebuild businesses in the downtown area. Overall, the contact felt the local financial institutions are meeting the credit needs of the area.

Scope of Evaluation in Iowa

The Iowa AA, which consists of Clinton County, received a full-scope review. We weighed the performance of residential lending more than business lending. We weighed lending performance in 2015 and 2016 more heavily than 2017 due to small sample sizes in 2017. See Appendix A for more information.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN IOWA

LENDING TEST

The bank's performance under the lending test in Iowa is rated Satisfactory.

The major factors that support this rating include:

- The distribution of loans to individuals of different income levels and businesses of different sizes is reasonable.
- The geographic distribution of loans reflects reasonable distribution of loans throughout the AA, including moderate-income CTs.
- SFB did not receive any complaints regarding its CRA performance in the Iowa AA.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Residential Lending

The distribution of residential loans to borrowers of different income levels reflects reasonable penetration. SFB's lending to low- and moderate-income borrowers exceeds demographic comparators as well as the level conveyed by HMDA-reporting financial institutions in the AA for 2015-2016. SFB's lending to moderate-income borrowers exceeds the percentage of moderate-income families in the AA in 2017; however, lending to low-income borrowers is below the demographic comparator in 2017. As noted above, a small volume of loans were originated in the Iowa AA in 2017.

Assessment Area:	Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers		
	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
IA AA	16.4	20.0	7.6	18.4	20.0	19.2	23.6	36.0	23.5	41.6	24.0	34.4

*Source: 2010 U.S. Census ; 01/01/2015 - 12/31/2016 Loan Sample, 2016 HMDA Aggregate Data.
Due to rounding, totals may not equal 100.0*

Table 4B - Borrower Distribution of Residential Real Estate Loans in Iowa AA 2017												
Assessment Area:	Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers		
	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
IA AA	19.9	9.1	--	17.3	18.2	--	20.1	18.2	--	42.7	54.6	--
<i>Source: 2015 ACS Census; 01/01/2017 - 12/31/2017 Loan Sample, 2017 HMDA Aggregate Data "--" not available. Due to rounding, totals may not equal 100.0</i>												

Business Loans

The distribution of loans displays reasonable penetration among businesses of different sizes given the demographics of the AA. Loans to small businesses are those with gross annual revenues of \$1 million or less. SFB’s lending to small businesses exceeds the level conveyed by CRA-reporting financial institutions in the AA as well as demographic comparators for both time periods.

Table 4C - Borrower Distribution of Loans to Businesses in Iowa AA 2015-16							
Assessment Area:	Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available	
	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans
IA AA	80.4	83.3	51.2	4.3	16.7	15.3	0
<i>Source: 2016 D&B Data; 01/01/2015 - 12/31/2016 Loan Sample; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>							

Table 4D - Borrower Distribution of Loans to Businesses in Iowa AA 2017							
Assessment Area:	Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available	
	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans
IA AA	80.7	100.0	51.2	5.4	0	13.9	0
<i>Source: 2017 D&B Data; 01/01/2017 - 12/31/2017 Loan Sample; 2016 CRA Aggregate Data. Due to rounding, totals may not equal 100.0</i>							

Geographic Distribution of Loans

Residential Lending

SFB’s geographic distribution of residential lending reflects a reasonable dispersion in CTs of different income levels, including moderate-income CTs. There are no low-income CTs within the Iowa AA. SFB’s lending levels exceeds the level reported by HMDA-reporting financial institutions in the AA and is comparable to the level of owner-occupied housing located in the moderate-income geographies in the AA. We did not identify any conspicuous gaps in the bank’s lending performance.

Table 5A - Geographic Distribution of Residential Real Estate Loans in Iowa AA 2015-16												
Assessment Area:	Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts		
	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
IA AA	0.0	0.0	0.0	8.5	8.0	5.2	68.4	84.0	63.2	23.0	8.0	31.6

Source: 2010 U.S Census; 01/01/2015 - 12/31/2016 Loan Sample, 2016 HMDA Aggregate Data.
Due to rounding, totals may not equal 100.0

Table 5B - Geographic Distribution of Residential Real Estate Loans in Iowa AA 2017												
Assessment Area:	Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts		
	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
IA AA	0.0	0.0	--	17.4	36.4	--	60.4	27.3	--	22.2	36.4	--

Source: 2015 ACS Census; 01/01/2017 - 12/31/2017 Loan Sample, 2017 HMDA Aggregate Data "--" not available.
Due to rounding, totals may not equal 100.0

Business Loans

SFB’s geographic distribution of commercial lending reflects an excellent dispersion in CTs of different income levels, including moderate-income CTs. There are no low-income CTs within the Iowa AA. SFB’s lending levels exceeds the level stated by CRA-reporting financial institutions in the AA as well as demographic comparator for businesses located in the moderate-income geographies in the AA. We did not identify any conspicuous gaps in the bank’s lending performance.

Table 5C - Geographic Distribution of Loans to Businesses 2015-16												
Assessment Area:	Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts		
	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate
IA AA	0.0	0.0	0.0	14.2	16.7	11.3	57.8	75.0	63.5	28.1	8.3	25.1

Source: 2016 D&B Data; 01/01/2015 - 12/31/2016 Bank Data; 2016 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0

Table 5C - Geographic Distribution of Loans to Businesses 2017												
Assessment Area:	Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts		
	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate
IA AA	0.0	0.0	0.0	17.5	80.0	14.0	51.3	0.0	57.6	31.2	20.0	28.3
<i>Source: 2017 D&B Data; 01/01/2017 - 12/31/2017 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>												

Responses to Complaints

SFB did not receive any complaints regarding its performance in helping to meet the credit needs within the Iowa AA during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test in Iowa is rated Needs to Improve. SFB’s community development performance demonstrates a poor responsiveness to the CD needs of its Iowa AA through community development loans, qualified investments, and community development services.

Number and Amount of Community Development Loans

SFB did not originate any qualifying loans in the Iowa AA during the evaluation period.

Number and Amount of Qualified Investments

SFB made a total of \$7 thousand in cash contributions and donations to several organizations assisting low- and moderate-income individuals and families in the Iowa AA over the evaluation period.

Extent to Which the Bank Provides Community Development Services

Delivery systems are reasonably accessible to individuals of different income levels. SFB operates one full-service branch, one limited-service drive-up/walk-up facility, and two ATMs in the AA. The full-service branch is located in a moderate-income CT. The drive-up/walk-up facility is in a middle-income tract. Extended hours are available at the drive-up locations.

SFB offers the Federal Home Loan Bank’s Downpayment Plus Program. This program offers grants for low- and moderate-income families to assist with down payment and closing costs. The Federal Home Loan Bank sets maximum income guidelines for people to qualify for the program. Although SFB has not originated any of these loans in the Iowa AA yet, this product is available to its customers.

Responsiveness to Community Development Needs

The bank displays poor responsiveness to community development needs of the Iowa AA through CD lending, investments, and services.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): (01/01/15 to 12/31/17) Community Development Test: (04/27/15 to 07/16/18)	
Financial Institution	Products Reviewed	
Sterling Federal Bank, F.S.B. (SFB) Sterling, Illinois	Home mortgage and business loans; community development loans; qualified investments	
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Illinois AA	Full-Scope	Lee, Ogle, and Whiteside Counties
Iowa AA	Full-Scope	Clinton County

Appendix B: Summary of State Ratings

RATINGS			
Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
Sterling Federal Bank, F.S.B.	Satisfactory	Satisfactory	Satisfactory
State:			
Illinois	Satisfactory	Satisfactory	Satisfactory
Iowa	Satisfactory	Needs to Improve	Needs to Improve

Appendix C: Community Profiles for Full-Scope Areas

State of Illinois

The Illinois AA is not located in an MSA and consists of thirty-eight geographies: nine geographies in Lee County, eleven geographies in Ogle County, and eighteen geographies in Whiteside County. The Illinois AA generates a substantial majority of the bank’s deposits (87%) and loans (93%). SFB has eight locations (80%) and eight ATMs (80%) in the Illinois AA.

2015-2016

Four geographies were designated moderate-income (10.5%), while the remaining thirty-four geographies were designated middle- or upper-income (89.5%). The four moderate-income geographies are located in the town portions of Sterling and Rock Falls in Whiteside County.

Table A – Demographic Information of the Assessment Area 2015-16						
Assessment Area: Illinois AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	38	0.0	10.5	57.9	31.6	0.0
Population by Geography	148,026	0.0	8.2	61.0	30.8	0.0
Housing Units by Geography	63,086	0.0	8.8	61.5	29.7	0.0
Owner-Occupied Units by Geography	43,703	0.0	7.6	59.7	32.7	0.0
Occupied Rental Units by Geography	14,296	0.0	12.2	67.2	20.6	0.0
Vacant Units by Geography	5,087	0.0	9.1	61.0	29.9	0.0
Businesses by Geography	6,861	0.0	7.8	61.3	30.9	0.0
Farms by Geography	856	0.0	1.5	55.1	43.3	0.0
Family Distribution by Income Level	40,023	15.6	17.0	22.9	44.5	0.0
Household Distribution by Income Level	57,999	18.0	15.3	19.2	47.6	0.0
Median Family Income Non-MSAs - IL		\$54,499	Median Housing Value			\$121,472
			Median Gross Rent			\$612
			Families Below Poverty Level			7.5%

*Source: 2010 U.S. Census and 2016 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.*

2017

Five geographies are designated moderate-income (13%), while the remaining thirty-three geographies were designated middle- or upper-income (87%). The four moderate-income geographies are located in the town portions of Sterling and Rock Falls in Whiteside County. The additional moderate-income geography is located in a portion of the town of Dixon in Lee County.

Table B – Demographic Information of the Assessment Area 2017						
Assessment Area: Illinois AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	38	0.0	13.2	63.2	23.7	0.0
Population by Geography	144,949	0.0	10.7	62.5	26.8	0.0
Housing Units by Geography	63,380	0.0	11.3	62.6	26.1	0.0
Owner-Occupied Units by Geography	43,474	0.0	10.5	59.6	29.9	0.0
Occupied Rental Units by Geography	14,322	0.0	13.1	71.8	15.1	0.0
Vacant Units by Geography	5,584	0.0	12.9	62.9	24.2	0.0
Businesses by Geography	6,895	0.0	11.3	63.7	25.0	0.0
Farms by Geography	902	0.0	2.7	65.7	31.6	0.0
Family Distribution by Income Level	38,046	16.2	18.2	21.7	43.9	0.0
Household Distribution by Income Level	57,796	19.9	16.1	17.6	46.4	0.0
Median Family Income Non-MSAs - IL		\$59,121	Median Housing Value			\$118,754
			Median Gross Rent			\$653
			Families Below Poverty Level			7.8%
<i>Source: 2015 ACS Census and 2017 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

State of Iowa

The Iowa AA is not located in an MSA and consists of Clinton County, which is comprised of twelve geographies. The Iowa AA generates a small portion of the bank's deposits (13%) and loans (7%). SFB has two locations (20%) and two ATMs (20%) in the Iowa AA.

2015-2016

Two geographies were designated moderate-income (17%), while the remaining ten geographies were designated middle- or upper-income (83%). The two moderate-income geographies are located in a portion of the city of Clinton

Table C – Demographic Information of the Assessment Area 2015-16						
Assessment Area: Iowa AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	12	0.0	16.7	66.7	16.7	0.0
Population by Geography	49,116	0.0	11.1	67.5	21.4	0.0
Housing Units by Geography	21,828	0.0	12.2	67.0	20.8	0.0
Owner-Occupied Units by Geography	15,104	0.0	8.5	68.4	23.0	0.0
Occupied Rental Units by Geography	4,970	0.0	21.1	62.3	16.6	0.0
Vacant Units by Geography	1,754	0.0	18.2	67.7	14.1	0.0
Businesses by Geography	2,934	0.0	14.3	58.1	27.5	0.0
Farms by Geography	465	0.0	1.3	55.9	42.8	0.0
Family Distribution by Income Level	13,220	16.4	18.4	23.6	41.6	0.0
Household Distribution by Income Level	20,074	21.0	16.4	20.5	42.1	0.0
Median Family Income Non-MSAs - IA		\$56,190	Median Housing Value			\$107,806
			Median Gross Rent			\$531
			Families Below Poverty Level			10.2%
<i>Source: 2010 U.S. Census and 2016 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

2017

Three geographies were designated moderate-income (25%), while the remaining nine geographies were designated middle- or upper-income (75%). The three moderate-income geographies remain located in a portion of the city of Clinton.

Table D – Demographic Information of the Assessment Area 2017						
Assessment Area: Iowa AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	12	0.0	25.0	58.3	16.7	0.0
Population by Geography	48,365	0.0	20.7	58.0	21.3	0.0
Housing Units by Geography	21,760	0.0	22.6	56.8	20.6	0.0
Owner-Occupied Units by Geography	14,780	0.0	17.4	60.4	22.2	0.0
Occupied Rental Units by Geography	5,287	0.0	32.7	49.2	18.1	0.0
Vacant Units by Geography	1,693	0.0	35.6	50.1	14.2	0.0
Businesses by Geography	2,891	0.0	17.5	51.3	31.2	0.0
Farms by Geography	453	0.0	1.8	82.6	15.7	0.0
Family Distribution by Income Level	12,893	19.9	17.3	20.1	42.7	0.0
Household Distribution by Income Level	20,067	25.0	15.1	16.4	43.5	0.0
Median Family Income Non-MSAs - IA		\$61,934	Median Housing Value			\$114,241
			Median Gross Rent			\$615
			Families Below Poverty Level			11.0%
<i>Source: 2015 ACS Census and 2017 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						