

# **PUBLIC DISCLOSURE**

January 23, 2023

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Flanagan State Bank  
Certificate Number: 11734

301 W Falcon Hwy  
Flanagan, Illinois 61740

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

300 South Riverside Plaza, Suite 1700  
Chicago, Illinois 60606

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

## TABLE OF CONTENTS

INSTITUTION RATING.....	1
DESCRIPTION OF INSTITUTION.....	1
DESCRIPTION OF ASSESSMENT AREAS .....	3
SCOPE OF EVALUATION .....	3
CONCLUSIONS ON PERFORMANCE CRITERIA .....	4
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW .....	6
NON-MSA, ILLINOIS AA – Full-Scope Review .....	6
BLOOMINGTON, ILLINOIS MSA AA – Full-Scope Review .....	13
PEORIA, ILLINOIS MSA AA – Full-Scope Review .....	20
APPENDICES.....	28
SMALL BANK PERFORMANCE CRITERIA .....	28
GLOSSARY .....	29

## INSTITUTION RATING

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

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

Flanagan State Bank's (Flanagan) Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and AA credit needs.
- A substantial majority of loans are outside the AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels (including LMI) and farms of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the CRA rating.

## DESCRIPTION OF INSTITUTION

Flanagan is a full-service bank headquartered in Flanagan, Illinois. It is a wholly-owned subsidiary of Hometown Financial Group, a single-bank holding company, located in Flanagan, Illinois. The bank has no affiliates that offer lending products. The institution received a Satisfactory rating using Interagency Small Institution Examination Procedures at its prior FDIC performance evaluation dated January 13, 2020.

In addition to its main office, Flanagan operates six full-service branches in north central Illinois located in the following towns: El Paso, Benson, Bloomington, Le Roy, Gridley, and Pontiac. The Pontiac branch was opened November 1, 2022 and is located in a moderate-income census tract (CT) in Livingston County, approximately twelve miles east of the main office. The main office and other branches are located in middle-income CTs. The bank also operates 21 mortgage loan production offices (LPOs) located in Colorado, Illinois, Indiana, Iowa, Missouri, Montana, South Dakota, Wisconsin, and Wyoming.

The bank offers a traditional mix of loan and deposit products to its customers. Deposit products consist of checking, money market, savings, certificates of deposit, and individual retirement accounts. Commercial loan products include a variety of agricultural and business loans. Consumer loan products consist of home mortgage loans, home equity, auto, personal, and student

loans. Flanagan offers a wide variety of home mortgage loans through portfolio and secondary market options. Secondary market loan products include conventional and government-insured loans through Federal Housing Administration (FHA), the U.S. Department of Veteran’s Affairs (VA), and the United States Department of Agriculture Rural Development (USDA). The bank also provides assistance to low- and moderate-income (LMI) borrowers through various government sponsored programs such as the DownPayment Plus program offered by the Federal Home Loan Bank. Bank records indicate that 71 borrowers received \$426,000 in down payment assistance through this program in 2022.

Alternative banking services include internet and mobile banking, electronic bill pay, direct deposit, and remote deposit. Banking hours allow reasonable access to bank services and include extended drive-up hours and Saturday hours. Additionally, all banking offices maintain 24-hour drive-up ATMs and there is an additional stand-alone ATM located in Flanagan, IL.

As of the September 30, 2022 Consolidated Reports of Condition, Flanagan reported approximately \$265.2 million in total assets, \$129.8 million in total loans, and \$238.7 million in total deposits. Since the previous evaluation, total assets increased 38.8 percent, and total loans increased 4.1 percent. The asset growth was primarily due to increases in investment securities. Agricultural and residential lending represents the largest segments of the loan portfolio and continues to be the bank’s lending focus. The following table details the loan portfolio concentrations.

<b>Loan Portfolio Distribution as of 09/30/2022</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	9,242	7.1
Secured by Farmland	24,626	19.0
Secured by 1-4 Family Residential Properties	39,700	30.6
Secured by Multifamily (5 or more) Residential Properties	772	0.6
Secured by Nonfarm Nonresidential Properties	10,619	8.2
<b>Total Real Estate Loans</b>	<b>84,959</b>	<b>65.4</b>
Commercial and Industrial Loans	9,779	7.5
Agricultural Production and Other Loans to Farmers	29,676	22.9
Consumer Loans	4,438	3.4
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	966	0.7
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>129,818</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

While only 31.2 percent of portfolio loans are residential real estate loans, the figures above do not include the significant number of loans originated and sold in the secondary market. In 2020, Flanagan originated and sold 2,842 loans totaling approximately \$495.5 million and in 2021, 2,297 loans totaling \$391.4 million. No legal or financial constraints exist that would impede or prohibit the bank from meeting the credit needs of the community.

## **DESCRIPTION OF ASSESSMENT AREAS**

Flanagan has four AAs in Illinois that consist of seven full contiguous counties. The first consists of Livingston and LaSalle counties. The second is comprised of all of DeWitt County. Both are located in non-MSA, IL. The third AA is the entire Bloomington, IL MSA, which consists of McLean County. The fourth AA consists of Woodford, Marshall, and Tazewell counties, which are part of the Peoria, IL MSA. The bank's AAs conform to the requirements of the CRA regulation as they include the CTs where the bank's offices are located, consist of contiguous whole CTs, and do not arbitrarily exclude any LMI CTs. There have been no changes to Flanagan's AAs since the previous evaluation; however, DeWitt County was formerly part of the Bloomington, IL MSA, but is now categorized as a non-MSA, and the Bloomington, IL MSA now consists solely of McLean County. While the bank maintains two separate non-MSA AAs, as comparable demographic information for both areas is the same and performance in the two AAs was similar, information on performance in the non-MSA AAs is consolidated and presented as one analysis. Refer to the individual AAs below for additional information.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the previous evaluation dated January 13, 2020, to the current evaluation dated January 23, 2023. This evaluation does not include any affiliate lending, as the only affiliate is the holding company, which does not lend.

Examiners used the Interagency Evaluation Procedures for Small Institutions to evaluate Flanagan's CRA performance. Examiners conducted a full-scope review of the bank's AAs. The lending performance in each AA carries equal weighting in the analysis based on the similar deposit base and branch distribution in each AA. The Non-MSA, IL AA comprises the main office, one branch, and 30 percent of the bank's deposit base. The Bloomington, IL MSA AA includes three branches and 37 percent deposit base. The Peoria, IL MSA AA includes two branches with a deposit base of 33 percent.

### **Activities Reviewed**

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

The record of originating home mortgage loans contributed more weight to overall conclusions due to the larger volume of originations when compared to small farm lending during the review period. In addition, no other loan types, such as small business or consumer loans, represent a major product line. Therefore, such loans provided no material support for conclusions or ratings and are not presented

Examiners reviewed all home mortgage loans originated or purchased on the bank’s 2020 and 2021 Home Mortgage Disclosure (HMDA) Loan Application Registers. The bank reported 3,052 home mortgage loans totaling \$529.2 million in 2020, and 2,425 home mortgage loans totaling 412.2 million in 2021. Aggregate 2021 HMDA data, the most recent year for which aggregate lending data is available, and 2015 American Community Survey (ACS) data provided a standard of comparison for the bank’s home mortgage lending performance. Examiners focused more on the comparison to aggregate HMDA data as it represents all loans extended by all lenders subject to the data reporting requirements of HMDA and therefore, provides a better indication of demand.

Flanagan originated or renewed 180 small farm loans totaling \$26.3 million in 2021. Examiners reviewed a statistically valid sample of 51 small farm loans totaling \$8.2 million to evaluate the small farm lending. The 2021 D&B data and 2017 Agriculture Farm Census Data provided a standard of comparison for the bank’s small farm performance.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

Flanagan demonstrated reasonable performance under the Lending Test. Reasonable performance under the LTD ratio, Geographic Distribution, and Borrower Profile support this conclusion. Please refer to the separate analyses within each AA for more details of the bank’s performance.

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

Flanagan’s net LTD ratio is reasonable given the institution’s size, financial condition, and AA credit needs. As shown in the following table, the bank maintained an average LTD ratio of 55.9 percent over the previous 11 quarters, from March 31, 2020 through September 30, 2022. Examiners compared the bank's average LTD ratio to four similarly-situated institutions (SSIs) that operate within the AA and have similar loan concentrations. The average LTD ratios of these institutions ranged from 22.4 percent to 89.7 percent. Flanagan’s average LTD ratio is the second lowest of the SSIs. However, it is important to note that loans sold to the secondary market are not captured in this ratio, which consisted of 6,797 loans totaling approximately \$1.1 billion from 2020-2022. None of the SSI’s have secondary market sales comparable to Flanagan.

<b>Loan-to-Deposit (LTD) Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 09/30/2022 (\$000s)</b>	<b>Average Net LTD Ratio (%)</b>
<b>Flanagan State Bank</b>	<b>265,190</b>	<b>55.9</b>
Similarly-Situated Institution #1	408,323	22.4
Similarly-Situated Institution #2	105,622	84.9
Similarly-Situated Institution #3	306.018	64.9
Similarly-Situated Institution #4	271,880	89.7
<i>Source: Reports of Condition and Income 03/31/2020- 09/30/2022</i>		

**Assessment Area Concentration**

Overall, a substantial majority of loans are outside of the bank’s AAs. A substantial majority of home mortgage loans, by number and dollar volume were originated outside the AAs, while a majority of small farm loans were originated within the AAs. The following table details the percentages by number and dollar volume within and outside the AAs for each loan product reviewed.

<b>Lending Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>				<b>Total #</b>	<b>Dollar Amount of Loans \$(000s)</b>				<b>Total \$(000s)</b>
	<b>Inside</b>		<b>Outside</b>			<b>Inside</b>		<b>Outside</b>		
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Mortgage										
2020	599	19.6	2,453	80.4	3,052	87,686	16.6	441,490	83.4	529,176
2021	323	13.3	2,102	86.7	2,425	43,656	10.6	368,540	89.4	412,195
<b>Subtotal</b>	<b>922</b>	<b>16.8</b>	<b>4,555</b>	<b>83.2</b>	<b>5,477</b>	<b>131,341</b>	<b>14.0</b>	<b>810,030</b>	<b>86.0</b>	<b>941,371</b>
Small Farm										
2021	42	82.4	9	17.6	51	6,290	77.2	1,862	22.8	8,152
<b>Subtotal</b>	<b>42</b>	<b>82.4</b>	<b>9</b>	<b>17.6</b>	<b>51</b>	<b>6,290</b>	<b>77.2</b>	<b>1,862</b>	<b>22.8</b>	<b>8,152</b>

*Source: Bank Data. Due to rounding, totals may not equal 100.00*

The large volume of home mortgage lending outside the AAs is attributed to loan originations from the bank’s LPOs that are located nationwide. The bank currently maintains 21 LPOs, including four that were opened since the previous evaluation. All of the bank’s LPOs are located outside of the AAs. While a substantial majority of home mortgage loans are outside of the AA, the bank’s volume of home mortgage lending inside its AAs is high compared to aggregate peer HMDA data. Based on 2021 peer mortgage data, Flanagan ranked 20<sup>th</sup> in mortgage lending within the AAs capturing 1.46 percent of the market share. The top lenders are large national and regional mortgage lenders with asset sizes exceeding \$1 billion, much larger than Flanagan’s asset size and lending capacity. When comparing the bank’s lending in the AAs to SSIs, Flanagan’s home loan volume exceeded each of the SSI’s volume in the AAs, and is consistent with the credit needs and demand for home mortgage loans in the assessment areas.

**Geographic Distribution**

The bank’s geographic distribution of home mortgage and small farm loans reflects reasonable dispersion throughout the AAs. Reasonable dispersion in the Non-MSA, Illinois AA and Peoria, Illinois MSA AA supports this conclusion.

### **Borrower Profile**

The distribution of borrowers reflects, given the demographics of the AAs, reasonable penetration among individuals of different income levels and farms of different sizes. Excellent penetration within the Bloomington, IL MSA AA, and reasonable penetrations within the Non-MSA, Illinois AA, and Peoria, Illinois MSA AAs support this conclusion.

### **Response to Complaints**

Flanagan did not receive any CRA-related complaints since the prior evaluation; therefore, this criterion did not affect the Lending Test.

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

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

### **NON-MSA, ILLINOIS AA – Full-Scope Review**

#### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN NON-MSA, ILLINOIS AA**

Examiners performed a full-scope review of Flanagan's performance in Non-MSA, IL. This analysis and conclusions consists of two AAs, the Livingston and LaSalle AA and the DeWitt AA, both in rural north central Illinois. The bank has two offices located in the AA; the main office located in Flanagan, Illinois, and one branch in Pontiac, Illinois are both located in Livingston County. The bank has no offices in LaSalle or DeWitt County, but were included due to its proximity to the bank's offices and high loan volume in both counties. Going forward both of these AAs will be referred to as the AA.

### **Economic and Demographic Data**

The AA includes 43 CTs. Examiners used demographic data from the 2015 American Community Survey (ACS) compiled by the U.S. Census Bureau to analyze the bank's CRA performance. According to the 2015 ACS demographic data, the AA is comprised of no low-income tracts, four moderate-income tracts, 29 middle-income tracts, and 10 upper-income tracts. The following table outlines select demographic information about the AA.

<b>Demographic Information of the Assessment Area of the Non-MSA, IL AA</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	43	0.0	9.3	67.4	23.3	0.0
Population by Geography	166,656	0.0	6.5	69.5	24.1	0.0
Housing Units by Geography	73,304	0.0	7.5	69.7	22.8	0.0
Owner-Occupied Units by Geography	48,293	0.0	5.1	69.5	25.4	0.0
Occupied Rental Units by Geography	17,253	0.0	12.7	70.8	16.5	0.0
Vacant Units by Geography	7,758	0.0	10.5	68.7	20.8	0.0
Businesses by Geography	9,972	0.0	12.4	67.1	20.5	0.0
Farms by Geography	1,029	0.0	2.6	76.1	21.3	0.0
Family Distribution by Income Level	43,078	17.9	17.4	21.4	43.3	0.0
Household Distribution by Income Level	65,546	22.2	14.7	17.5	45.6	0.0
Median Family Income Non-MSAs - IL		\$59,323	Median Housing Value			\$120,554
			Median Gross Rent			\$677
			Families Below Poverty Level			9.4%
<i>Source: 2015 ACS and 2021 D&amp;B Data. Due to rounding, totals may not equal 100.0% (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The AA includes 9.3 percent of moderate-income CTs with only 5.1 percent of the owner-occupied housing units located in those tracts. There are no low-income tracts in this assessment area. In addition, 17.9 percent are low-income families, with 9.4 percent of all families generating incomes below the poverty level in the AA. Low-income borrowers, particularly those living below the poverty level may face greater difficulty in qualifying for traditional home mortgage financing. Given the median home value of \$120,554, low-income families and some moderate-income families would struggle to qualify for a mortgage loan. These factors demonstrate the limited opportunities available to provide lending in moderate-income areas and to low-income borrowers within the AA.

Examiners used the 2020-2021 Federal Financial Institutions Examination Council (FFIEC) updated median family income level to analyze home mortgage loans under the Borrower Profile criterion. The following table contains information on the median family incomes by category.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>IL NA Median Family Income (99999)</b>				
2020 (\$65,800)	<\$32,900	\$32,900 to <\$52,640	\$52,640 to <\$78,960	≥\$78,960
2021 (\$66,700)	<\$33,350	\$33,350 to <\$53,360	\$53,360 to <\$80,040	≥\$80,040
<i>Source: FFIEC</i>				

The analysis of small farm loans under the Borrower Profile criterion compares the distribution of farms by gross annual revenue (GAR) level. According to the 2021 D&B data, there were 1,029 farm businesses in this AA. GARs for these farms are below.

- 98.1 percent have \$1.0 million or less.
- 1.0 percent have more than \$1.0 million.
- 1.0 percent have unknown revenues.

Unemployment levels in the AA generally decreased during the review period suggesting an improving economy. The higher 2020 unemployment figures is attributed to the COVID-19 pandemic and the mandatory stay-at-home-order for all non-essential workers effective in March 2020. The following table illustrates the unemployment rates in the Livingston, LaSalle, and De Witt Counties.

<b>Unemployment Rates</b>			
	<b>2020</b>	<b>2021</b>	<b>Nov 2022</b>
<b>Area</b>	<b>%</b>	<b>%</b>	<b>%</b>
Livingston County, IL	6.9	4.9	3.8
LaSalle County, IL	9.6	6.0	4.7
DeWitt County, IL	6.7	4.9	3.9
Illinois	9.2	6.1	4.4
National Average	8.1	5.3	3.6
<i>Source: Bureau of Labor Statistics.</i>			

**Competition**

Flanagan operates in a competitive banking market. As of June 30, 2019, the FDIC’s Division of Insurance and Research reported 34 FDIC-insured financial institutions operating 81 offices within this AA. Of these institutions, Flanagan ranked 20<sup>th</sup> holding 1.5 percent of the total deposit market share, while the top five banks comprise 45 percent of the total deposit market share in these counties.

The bank’s AA fosters a heavily competitive market for home mortgage loans among 268 banks, credit unions, and non-depositor mortgage lenders. Based on 2021 peer mortgage data, mortgage lenders reported 5,337 home mortgage originations or purchases. Flanagan ranked 28<sup>th</sup> capturing 0.96 percent of the market share.

Data from the 2017 Census of Agriculture revealed that 56.4 percent of farms do not have interest expense, which suggests a reduced reliance on lending by farmers in the AA. In addition, the institution faces strong competition from alternative forms of agricultural financing, such as John Deer Financial, Compeer Financial, and Farm Credit Services of America.

**Community Contact(s)**

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

Examiners reviewed a recent community contact interview with a representative of an economic development organization serving Livingston County. The contact did not identify any significant credit needs within the community. The contact stated that the community is well banked, credit is widely available, and local banks are active in the AA.

### **Credit Needs**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that home mortgage loans represent a primary credit need for the AA.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN NON-MSA, ILLINOIS AA**

### **LENDING TEST**

Flanagan demonstrated reasonable performance under the Lending Test. Geographic distribution and borrower profile performance supports this conclusion.

### **Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout this AA considering the demographics, lending opportunities, and locations of the institution. The bank's reasonable home mortgage and small farm performance supports this conclusion. Only loans originated in this AA were considered in the analysis. Examiners focused on lending penetrations within moderate-income CTs, as there are no low-income CTs present.

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

The bank's home mortgage lending performance reflects reasonable dispersion throughout the AA. The performance was measured against aggregate data and the percentage of owner-occupied housing units (demographic data) in the AA. The following table illustrates the distribution of loans by the income level of the geography.

Geographic Distribution of Home Mortgage Loans in the Non-MSA, IL AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate						
2020	5.1	3.5	3	3.9	263	2.8
2021	5.1	3.5	4	7.8	321	5.1
Middle						
2020	69.5	61.8	61	79.2	7,231	77.5
2021	69.5	64.0	41	80.4	5,394	85.4
Upper						
2020	25.4	34.7	13	16.9	1,837	19.7
2021	25.4	32.4	6	11.8	603	9.5
Not Available						
2020	0.0	0.0	0	0.0	0	0.0
2021	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>77</b>	<b>100.0</b>	<b>9,330</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>51</b>	<b>100.0</b>	<b>6,318</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2020 &amp; 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

The bank's lending in moderate-income CTs compares well to aggregate data in 2020, but trails the demographic data. The bank's performance increased in 2021, and exceeds both aggregate and demographic data. Overall, the bank's distribution of home mortgage loans is considered reasonable.

#### *Small Farm Loans*

The geographic distribution of small farm loans reflects reasonable dispersion. The performance was measured against the percentage of farms (demographic data) in the AA. The following table illustrates the distribution of loans by the income level of the geography.

<b>Geographic Distribution of Small Farm Loans in Non-MSA, IL AA</b>					
<b>Tract Income Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate					
2021	2.6	0	0.0	0	0.0
Middle					
2021	76.1	16	94.1	2,072	81.2
Upper					
2021	21.3	1	5.9	480	18.8
Not Available					
2021	0.0	0	0.0	0	0.0
<b>Totals</b>					
<b>2021</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>2,552</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

Within this AA, the bank did not originate any sampled loans to farms in moderate-income CTs. However, there are only 27 farms operating within the four moderate-income tracts, and as noted in 2017 Ag Census data, approximately half of farmers do not utilize debt to support operations. These facts demonstrate very limited opportunities in moderate-tracts. Additionally, the bank faces strong competition from other lenders and alternative forms of agricultural financing. Given the very limited opportunities and level of competition in the AA, the geographic distribution of small farm loans is reasonable.

### **Borrower Profile**

The distribution of home mortgage and small farm loans to borrowers reflects reasonable penetration among individuals of different income levels and farms of different sizes, given the demographics of the AA. The bank's reasonable home mortgage and small farm performance supports this conclusion. Only loans originated in the AA were considered in the analyses.

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

Overall, the distribution of borrowers reflects reasonable penetration among individuals of different income levels, including LMI borrowers. The following table reflects the distribution of home mortgage loans by borrower income level.

<b>Distribution of Home Mortgage Loans by Borrower Income Level in the Non-MSA, IL AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low						
2020	17.9	4.9	2	2.6	138	1.5
2021	17.9	6.8	3	5.9	232	3.7
Moderate						
2020	17.4	16.1	9	11.7	681	7.3
2021	17.4	17.1	10	19.6	969	15.3
Middle						
2020	21.4	23.3	22	28.6	2,191	23.5
2021	21.4	24.1	13	25.5	1,282	20.3
Upper						
2020	43.3	41.9	42	54.5	6,101	65.4
2021	43.3	36.9	24	47.1	3,769	59.7
Not Available						
2020	0.0	13.9	2	2.6	220	2.4
2021	0.0	15.2	1	2.0	65	1.0
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>77</b>	<b>100.0</b>	<b>9,330</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>51</b>	<b>100.0</b>	<b>6,318</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2020 &amp; 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

The bank's lending to low-income borrowers trails aggregate data in 2020, and significantly trails the demographic data in both years, although performance increased in 2021 to be in line with aggregate data. It is important to consider that 9.4 percent of low-income families generate incomes below the poverty level. Families with incomes below the poverty levels are likely to face challenges in acquiring home mortgage loans due to their reduced capacity to afford a home. The fact that aggregate performance also trails the low-income borrower demographic supports the challenges that face lenders when serving this market.

The bank's lending to moderate-income borrowers trails the aggregate and demographic in 2020. 2021 performance increased and exceeds both aggregate and demographic. Considering all these factors, Flanagan's home mortgage lending to LMI borrowers is reasonable.

### *Small Farm Loans*

The distribution of small farm loans reflects reasonable penetration among farms of different sizes. Flanagan's small farm loans were evaluated based on lending concentration to farms with GARs of

\$1 million or less (demographic) in the AA. The following table reflects the distribution of small farm loans by GAR level.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category in the Non-MSA, IL AA</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000					
2021	98.1	16	94.1	2,472	96.9
>\$1,000,000					
2021	1.0	1	5.9	80	3.1
Revenue Not Available					
2021	1.0	0	0.0	0	0.0
<b>Totals</b>					
<b>2021</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>2,552</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

While the bank’s lending level trails the demographic, it is important to note that the demographic represents all farms operating in the AA and does not necessarily present an accurate idea of demand. As previously stated, data from the 2017 Census of Agriculture indicates a large population of farmers within the AA have a reduced reliance on lending. Additionally, the bank faces strong competition from other lenders and alternative forms of agricultural financing. Given these factors, small farm loans reflects reasonable penetration among farms of different revenue sizes.

## **BLOOMINGTON, ILLINOIS MSA AA – Full-Scope Review**

### **DESCRIPTION OF INSTITUTION’S OPERATIONS IN BLOOMINGTON, ILLINOIS MSA AA**

This AA consists of the entire Bloomington, IL MSA that is comprised of McLean County. The bank operates three branches in this AA.

#### **Economic and Demographic Data**

The AA includes 41 CTs. Based on 2015 American Community Survey (ACS) data, the CTs reflect the following income designations: four low-income tracts, seven moderate-income tracts, 22 middle-income tracts, and eight upper-income tracts. The following table outlines select demographic information about the AA.

Demographic Information of the Bloomington, IL MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	41	9.8	17.1	53.7	19.5	0.0
Population by Geography	173,114	6.4	13.6	53.5	26.5	0.0
Housing Units by Geography	70,897	5.9	15.3	55.1	23.7	0.0
Owner-Occupied Units by Geography	42,905	2.3	14.3	53.9	29.5	0.0
Occupied Rental Units by Geography	22,441	10.9	16.4	57.4	15.3	0.0
Vacant Units by Geography	5,551	13.3	19.0	54.5	13.2	0.0
Businesses by Geography	10,457	8.4	12.6	54.2	24.7	0.0
Farms by Geography	647	1.7	7.1	68.6	22.6	0.0
Family Distribution by Income Level	40,488	19.4	17.3	22.2	41.1	0.0
Household Distribution by Income Level	65,346	25.4	14.9	17.4	42.3	0.0
Median Family Income MSA - 14010 Bloomington, IL MSA		\$83,034	Median Housing Value			\$155,857
			Median Gross Rent			\$790
			Families Below Poverty Level			6.8%
Source: 2015 ACS and 2021 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.						

While 26.9 percent of the geographies located within the AA are categorized as LMI, only 16.6 percent of all owner-occupied units are located in these tracts. Low-income CTs reflect particularly low owner-occupancy levels at 2.3 percent. This demographic reveals a challenge that lenders face in providing home mortgage financing in LMI areas. The demographics also reveal a higher percentage of rental units in LMI CTs when compared to owner-occupied housing units in those tracts. This suggests more potential for non-owner occupied lending in those areas and supports the need for affordable housing.

Low-income families account for 19.4 percent of the families in the AA, with 6.8 percent of families generating incomes below the poverty level. Low-income borrowers, particularly those living below the poverty level may face greater difficulty in qualifying for traditional home mortgage financing. Given the median home value of \$155,857 low-income families and some moderate-income families would struggle to qualify for a mortgage loan. The demographics, in conjunction with the contrast between the median family income level and median housing value, highlights challenges that home mortgage lenders may face in providing traditional financing options to this market, especially to low-income borrowers.

Examiners used the 2020-2021 Federal Financial Institutions Examination Council (FFIEC) updated median family income level to analyze home mortgage loans under the Borrower Profile criterion. The following table contains information on the median family incomes by category.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Bloomington, IL MSA Median Family Income (14010)</b>				
2020 (\$98,400)	<\$49,200	\$49,200 to <\$78,720	\$78,720 to <\$118,080	≥\$118,080
2021 (\$93,200)	<\$46,600	\$46,600 to <\$74,560	\$74,560 to <\$111,840	≥\$111,840
<i>Source: FFIEC</i>				

The analysis of small farm loans under the Borrower Profile criterion compares the distribution of farms by GAR level. According to the 2021 D&B data, there were 647 farm businesses in this AA. GARs for these farms are below.

- 96.9 percent have \$1.0 million or less.
- 1.9 percent have more than \$1.0 million.
- 0.7 percent have unknown revenues.

The COVID-19 pandemic considerably affected local and global environments. The stay-at-home orders and temporary closures of non-essential businesses that became effective in March 2020 caused significant hardships for both individuals and businesses. Throughout the majority of the review period, unemployment rates were steadily improving. However, the COVID-19 pandemic triggered dramatic increases in statewide and national unemployment rates. The following table illustrates the unemployment rates in the Bloomington, IL MSA.

<b>Unemployment Rates</b>			
	<b>2020</b>	<b>2021</b>	<b>Nov 2022</b>
<b>Area</b>	<b>%</b>	<b>%</b>	<b>%</b>
Bloomington, IL MSA	6.9	4.9	3.4
Illinois	9.2	6.1	4.4
National Average	8.1	5.3	3.6
<i>Source: Bureau of Labor Statistics.</i>			

## **Competition**

Flanagan operates in a competitive environment and faces competition from other financial institutions operating within their lending area. According to the FDIC Deposit Market Share data as of June 30, 2022, 27 financial institutions operated 48 offices in the AA. Flanagan ranked ninth, maintaining a 2.1 percent deposit market share. The top five deposit-taking institutions, primarily composed of large regional and local banks, derive 73.2 percent of the deposit market share in the AA.

The bank's AA fosters a heavily competitive market for home mortgage loans among 273 banks, credit unions, and non-depositor mortgage lenders. Based on 2021 peer mortgage data, mortgage lenders reported 8,349 home mortgage originations or purchases. Flanagan ranked 12<sup>th</sup> capturing 2.4 percent of the market share, while the top 10 lenders operating in the AA accounted for approximately 52.6 percent of the total mortgage market share.

Data from the 2017 Census of Agriculture revealed that 56.4 percent of farms do not have interest expense, which suggests a reduced reliance on lending by farmers in the AA. In addition, it is likely the institution faces strong competition from alternative forms of agricultural financing, such as John Deere Financial, Compeer Financial and Farm Credit Services of America.

### **Community Contact(s)**

Examiners reviewed a recent community contact interview with an economic development organization serving McLean County to identify and understand the credit needs of the AA. The information helps examiners determine AA needs and local financial institutions' responsiveness to the needs. The contact identified a need for housing, particularly in the urban part of the county, and the revitalization of older buildings and businesses throughout the county. Additionally, the contact mentioned that there is a need for participation in programs to promote commercial enterprises, especially in recent years.

### **Credit Needs**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that home mortgage and small business loans represent credit needs for the AA.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN BLOOMINGTON, ILLINOIS MSA AA**

### **LENDING TEST**

Flanagan demonstrated reasonable performance under the Lending Test. The bank's borrower profile performance primarily supports this conclusion.

### **Geographic Distribution**

The geographic distribution of loans reflects poor dispersion throughout this AA considering the demographics, lending opportunities, and locations of the institution. The bank's poor home mortgage performance supports this conclusion. Only loans originated in Flanagan's AA were considered in this analysis.

#### *Home Mortgage Loans*

The bank's home mortgage lending performance reflects poor dispersion throughout the AA. The performance was measured against aggregate data and the percentage of owner-occupied housing units (demographic data) in the AA. The following table illustrates the distribution of loans by the income level of the geography

Geographic Distribution of Home Mortgage Loans in the Bloomington, IL MSA AA							
Tract Income Level		% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low							
	2020	2.3	1.8	5	1.4	468	0.9
	2021	2.3	2.7	1	0.5	128	0.5
Moderate							
	2020	14.3	10.6	22	6.1	2,285	4.2
	2021	14.3	11.8	11	5.6	1,087	4.0
Middle							
	2020	53.9	47.2	251	69.9	36,443	66.4
	2021	53.9	49.7	152	77.2	20,354	75.0
Upper							
	2020	29.5	40.4	81	22.6	15,677	28.6
	2021	29.5	35.7	33	16.8	5,577	20.5
Not Available							
	2020	0.0	0.0	0	0.0	0	0.0
	2021	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>							
	<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>359</b>	<b>100.0</b>	<b>54,873</b>	<b>100.0</b>
	<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>197</b>	<b>100.0</b>	<b>27,145</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2020 &amp; 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>							

The bank's level of lending in low-income CTs trails aggregate and demographic data in both years with decreased performance in 2021. The nearest concentration of low-income CTs are approximately two miles west of the bank's Bloomington branch. The level of competition is high with at least seventeen other financial institution branches located within this proximity of Flanagan's Bloomington branch and the nearest cluster of low-income CTs.

The bank's level of lending in moderate-income CTs significantly trails aggregate and demographic data for both years, with performance also decreasing in 2021. The nearest concentration of moderate-income CTs are approximately one mile north and two miles southwest of the Bank's Bloomington branch, with at least 10 branches of other financial institutions within this proximity.

All of the LMI CTs in the AA are within a five-mile radius of the bank's Bloomington branch. Although the level of competition is high in the AA, considering the bank's close proximity to LMI CTs, the available opportunities, and the bank's performance compared to aggregate data, the bank's home mortgage lending distribution is poor.

### Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion. The performance was measured against the percentage of farms (demographic data) in the AA. The following table illustrates the distribution of loans by the income level of the geography.

Geographic Distribution of Small Farm Loans in the Bloomington, IL MSA AA					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low					
2021	1.7	0	0.0	0	0.0
Moderate					
2021	7.1	0	0.0	0	0.0
Middle					
2021	68.6	9	81.8	1,093	80.4
Upper					
2021	22.6	2	18.2	267	19.6
Not Available					
2021	0.0	0	0.0	0	0.0
<b>Totals</b>					
<b>2021</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>1,360</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

The bank did not originate any of the sampled farm loans in LMI CTs. However, there are only 11 farms operating within the low-income tracts, and 46 farms operating in the moderate-income tracts, which demonstrates limited opportunities. Additionally, the bank faces strong competition from other lenders and alternative forms of agricultural financing. Given the very limited opportunities and level of competition in the AA, the geographic distribution of small farm loans is reasonable. As stated previously, small farm lending is given less weight overall.

### **Borrower Profile**

The distribution of home mortgage and small farm loans to borrowers reflects excellent penetration among individuals of different income levels and farms of different sizes, given the demographics of the AA. The bank's excellent home mortgage and small farm performance supports this conclusion. Only loans originated in the AA were considered in the analyses.

### Home Mortgage Loans

FSB's borrower distribution of home mortgage loans reflects excellent penetration among individuals of different income levels, including LMI borrowers. The following table reflects the distribution of home mortgage loans by borrower income level.

<b>Distribution of Home Mortgage Loans by Borrower Income Level in the Bloomington, IL MSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low						
2020	19.4	11.7	54	15.0	5,275	9.6
2021	19.4	12.5	45	22.8	3,742	13.8
Moderate						
2020	17.3	18.3	75	20.9	9,680	17.6
2021	17.3	17.8	40	20.3	4,476	16.5
Middle						
2020	22.2	22.6	98	27.3	14,777	26.9
2021	22.2	21.8	46	23.4	6,781	25.0
Upper						
2020	41.1	27.3	120	33.4	23,553	42.9
2021	41.1	28.8	63	32.0	11,945	44.0
Not Available						
2020	0.0	20.2	12	3.3	1,589	2.9
2021	0.0	19.1	3	1.5	202	0.7
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>359</b>	<b>100.0</b>	<b>54,873</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>197</b>	<b>100.0</b>	<b>27,145</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2020 &amp; 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Flanagan’s level of lending to low-income borrowers exceeds aggregate data for 2020 and significantly exceeds aggregate for 2021. The bank’s level of lending to moderate-income borrowers also exceeds aggregate and demographic data for both years. Flanagan offers FHA, VA, USDA, and down payment assistance through the FHLB, which assist lower-income borrowers in qualifying with lower down payment requirements and more liberal underwriting criteria. Flanagan’s strong performance to both low- and moderate-income borrowers throughout the review period demonstrates an overall excellent borrower distribution.

#### *Small Farm Loans*

The distribution of small farm loans reflects excellent penetration among farms of different sizes. As shown in the following table, all of the bank’s sampled small farm loans were originated to farms with GARS of \$1 million or less, which exceeds demographic data in this revenue category.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category in the Bloomington, IL MSA AA</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000					
2021	96.9	11	100.0	1,360	100.0
>\$1,000,000					
2021	1.5	0	0.0	0	0.0
Revenue Not Available					
2021	0.7	0	0.0	0	0.0
<b>Totals</b>					
<b>2021</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>1,360</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

## **PEORIA, ILLINOIS MSA AA – Full-Scope Review**

### **DESCRIPTION OF INSTITUTION’S OPERATIONS IN PEORIA, ILLINOIS MSA AA**

This AA consists of three counties in the Peoria, IL MSA. The counties include Marshall, Tazewell, and Woodford counties. The bank operates two branches in Woodford County. The bank has no offices in Marshall or Tazewell counties, but these counties were included due to their proximity to the bank’s branches and high loan volume.

#### **Economic and Demographic Data**

The AA is comprised of 44 CTs, and reflects the following income designations according to the 2015 ACS data: 0 low-income tracts, 7 moderate-income tracts, 26 middle-income tracts; and 11 upper-income tracts. The following table outlines select demographic information about the AA.

<b>Demographic Information of the Peoria, IL MSA AA</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	44	0.0	15.9	59.1	25.0	0.0
Population by Geography	186,976	0.0	15.1	53.5	31.5	0.0
Housing Units by Geography	79,195	0.0	16.7	53.1	30.2	0.0
Owner-Occupied Units by Geography	57,326	0.0	14.0	52.6	33.4	0.0
Occupied Rental Units by Geography	16,305	0.0	25.3	53.9	20.8	0.0
Vacant Units by Geography	5,564	0.0	19.7	55.0	25.3	0.0
Businesses by Geography	10,435	0.0	16.7	49.1	34.3	0.0
Farms by Geography	897	0.0	4.9	65.1	30.0	0.0
Family Distribution by Income Level	50,881	16.6	19.0	22.4	41.9	0.0
Household Distribution by Income Level	73,631	19.0	16.4	19.5	45.1	0.0
Median Family Income MSA - 37900 Peoria, IL MSA		\$67,308	Median Housing Value			\$138,819
			Median Gross Rent			\$716
			Families Below Poverty Level			6.0%
<i>Source: 2015 ACS and 2021 D&amp;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>						

The AA includes 15.9 percent moderate-income CTs, of which 14 percent consist of owner-occupied housing units. In addition, there are 16.6 percent low-income families, with six percent of all families generating incomes below the poverty level in the AA. Low-income borrowers, particularly those living below the poverty level may face greater difficulty in qualifying for traditional home mortgage financing. Given the median home value of \$138,819, low-income families and some moderate-income families would struggle to qualify for a mortgage loan. This market may face greater difficulty in qualifying for traditional home mortgage financing. These factors demonstrate the limited opportunities available to provide lending to low- and moderate-income borrowers within the AA.

Examiners used the 2020-2021 FFIEC updated median family income level to analyze home mortgage loans under the Borrower Profile criterion. The following table contains information on the median family incomes by category.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Peoria, IL MSA Median Family Income (37900)</b>				
2020 (\$75,400)	<\$37,700	\$37,700 to <\$60,320	\$60,320 to <\$90,480	≥\$90,480
2021 (\$76,000)	<\$38,000	\$38,000 to <\$60,800	\$60,800 to <\$91,200	≥\$91,200
<i>Source: FFIEC</i>				

The analysis of small farm loans under the Borrower Profile criterion compares the distribution of farms by GAR level. According to the 2021 D&B data, there were 897 farm businesses in this AA. GARs for these farms are below.

- 97.9 percent have \$1.0 million or less.
- 0.9 percent have more than \$1.0 million.
- 1.2 percent have unknown revenues.

Unemployment levels in the AA decreased during the review period suggesting an improving economy. The higher 2020 unemployment figures are attributed to the COVID-19 pandemic and the mandatory stay-at-home-order for all non-essential workers effective in March 2020. The following table illustrates the unemployment rates in the Peoria, IL MSA.

Unemployment Rates			
	2020	2021	Nov 2022
Area	%	%	%
Peoria, IL MSA	9.1	6.0	4.5
Illinois	9.2	6.1	4.4
National Average	8.1	5.3	3.6
<i>Source: Bureau of Labor Statistics.</i>			

### **Competition**

Flanagan operates in a competitive banking market. As of June 30, 2019, the FDIC’s Division of Insurance and Research reported 23 FDIC-insured financial institutions operating 65 offices within this AA. Of these institutions, Flanagan ranked 11<sup>th</sup>, holding 1.5 percent of the total deposit market share, while the top five banks comprise 79.2 percent of the total deposit market share in these three counties.

The bank’s AA fosters a heavily competitive market for home mortgage loans among 247 banks, credit unions, and non-depositor mortgage lenders. Based on 2021 peer mortgage data, mortgage lenders reported 8,366 home mortgage originations or purchases. Flanagan ranked 24<sup>nd</sup> capturing 0.90 percent of the market share, while the top five lenders operating in the AA accounted for approximately 44.2 percent of the total mortgage market share.

Data from the 2017 Census of Agriculture revealed that 54.7 percent of farms do not have interest expense, which suggests a reduced reliance on lending by farmers in the AA. In addition, it is likely the institution faces strong competition from alternative forms of agricultural financing, such as John Deere Financial, Compeer Financial and Farm Credit Services of America.

### **Community Contact(s)**

Examiners reviewed recent community contact interviews with representatives of economic development and farming organizations that serve the AA. The contacts identified needs for home improvement loans, small business loans, and farm operating, machine and equipment loans for local farmers in the AA

## **Credit Needs**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that home mortgage loans represent a primary credit need for the AA.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN PEORIA, IL MSA AA**

Flanagan demonstrated reasonable performance under the Lending Test in the Peoria MSA AA. The AA does not contain any low-income CTs; therefore, examiners focused on the percentage by number of loans in the moderate-income CTs, as well as the aggregate performance and demographic data to arrive at the performance rating. Examiners placed more weight on the Borrower Profile criterion and the percentage of loans to LMI borrowers.

### **LENDING TEST**

Flanagan demonstrated reasonable performance under the Lending Test. Geographic distribution and borrower profile performance supports this conclusion.

### **Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout this AA considering the demographics, lending opportunities, and locations of the institution. The bank's reasonable home mortgage and small farm performance supports this conclusion. Only loans originated in this AA were considered in the analysis. Examiners focused on lending penetrations within moderate-income CTs, as there are no low-income CTs present.

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

The bank's home mortgage lending performance reflects reasonable dispersion throughout the AA. The performance was measured against aggregate data and the percentage of owner-occupied housing units (demographic data) in the AA. The following table illustrates the distribution of loans by the income level of the geography.

<b>Geographic Distribution of Home Mortgage Loans in the Peoria, IL MSA AA</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate						
2020	14.0	10.6	2	1.2	109	0.5
2021	14.0	13.0	3	4.0	296	2.9
Middle						
2020	52.6	49.6	141	86.5	19,404	82.6
2021	52.6	49.3	61	81.3	7,352	72.1
Upper						
2020	33.4	39.9	20	12.3	3,970	16.9
2021	33.4	37.7	11	14.7	2,544	25.0
Not Available						
2020	0.0	0.0	0	0.0	0	0.0
2021	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>163</b>	<b>100.0</b>	<b>23,482</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>75</b>	<b>100.0</b>	<b>10,193</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2020 &amp; 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

The bank's level of lending in moderate-income CTs significantly trails the aggregate data and demographic data for both years. Flanagan has two branches located in this AA; both are located in Woodford County, which has no LMI CTs. The closest moderate-income CT is over 25 miles away from the bank's nearest branch, and the bank faces a high level of competition. Given the bank's proximity to moderate-income CTs and the level of competition, the bank's home mortgage lending distribution is reasonable.

#### *Small Farm Loans*

The geographic distribution of small farm loans reflects reasonable dispersion. The performance was measured against the percentage of farms (demographic data) in the AA. The following table illustrates the distribution of loans by the income level of the geography.

<b>Geographic Distribution of Small Farm Loans in the Peoria, IL MSA AA</b>					
<b>Tract Income Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Moderate					
2021	4.9	0	0.0	0	0.0
Middle					
2021	65.1	14	100.0	2,378	100.0
Upper					
2021	30.0	0	0.0	0	0.0
Not Available					
2021	0.0	0	0.0	0	0.0
<b>Totals</b>					
<b>2021</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>2,378</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

The bank did not originate any of the sampled small farm loans in moderate-income CTs. As previously mentioned, the nearest moderate-income CT is located over 25 miles away from the bank's nearest branch location. Further, there are only 44 farms operating within the seven moderate-income tracts, which demonstrates limited opportunities. As previously mentioned, the bank faces strong competition from other lenders and alternative forms of agricultural financing. Given the limited opportunities, level of competition, and the bank's proximity to moderate-income CTs in the AA, the geographic distribution of small farm loans is reasonable. As stated previously, examiners placed less weight on the Geographic Distribution in this AA.

### **Borrower Profile**

The distribution of home mortgage and small farm loans to borrowers reflects reasonable penetration among individuals of different income levels and farms of different sizes, given the demographics of the AA. The bank's reasonable home mortgage and small farm performance supports this conclusion. Only loans originated in the AA were considered in the analyses.

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

Overall, the distribution of borrowers reflects reasonable penetration among individuals of different income levels, including LMI borrowers. The following table reflects the distribution of home mortgage loans by borrower income level.

<b>Distribution of Home Mortgage Loans by Borrower Income Level in the Peoria, IL MSA AA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low						
2020	16.6	8.4	10	6.1	830	3.5
2021	16.6	11.2	11	14.7	805	7.9
Moderate						
2020	19.0	17.7	32	19.6	3,247	13.8
2021	19.0	19.1	20	26.7	2,420	23.7
Middle						
2020	22.4	19.7	40	24.5	5,610	23.9
2021	22.4	20.5	18	24.0	2,253	22.1
Upper						
2020	41.9	34.5	73	44.8	12,354	52.6
2021	41.9	28.9	24	32.0	4,477	43.9
Not Available						
2020	0.0	19.6	8	4.9	1,441	6.1
2021	0.0	20.4	2	2.7	237	2.3
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>163</b>	<b>100.0</b>	<b>23,482</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>75</b>	<b>100.0</b>	<b>10,193</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2020 &amp; 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Flanagan’s lending to low-income borrowers trails aggregate data in 2020, although 2021 performance increased and exceeds aggregate. The bank’s performance for moderate-income borrowers exceeds aggregate lending and the demographic for both years. Overall, the bank’s performance is reasonable.

*Small Farm Loans*

The distribution of small farm loans reflects reasonable penetration among farms of different sizes. Flanagan’s small farm loans were evaluated based on lending concentration to farms with GARs of \$1 million or less (demographic) in the AA. The following table reflects the distribution of small farm loans by GAR level.

<b>Distribution of Small Farm Loans by Gross Annual Revenue Category in the Peoria, IL MSA AA</b>					
<b>Gross Revenue Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000					
2021	97.9	13	92.9	1,978	83.2
>\$1,000,000					
2021	1.5	1	7.1	400	16.8
Revenue Not Available					
2021	1.2	0	0.0	0	0.0
<b>Totals</b>					
<b>2021</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>2,378</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

While the bank’s lending level slightly trails demographic, the demographic represents all farms operating in the AA and does not necessarily present an accurate indication of demand. As previously stated, data from the 2017 Census of Agriculture indicates a large population of farmers within the AA have a reduced reliance on lending. Additionally, the bank faces strong competition from other lenders and alternative forms of agricultural financing. Given these factors, small farm loans reflects reasonable penetration among farms of different revenue sizes.

## APPENDICES

### SMALL BANK PERFORMANCE CRITERIA

#### **Lending Test**

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

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

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

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

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

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

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

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

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

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

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

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

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

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

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

**Limited-Scope Review:** A limited-scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

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

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

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

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

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

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

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

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

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

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

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

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

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