

PUBLIC DISCLOSURE

September 11, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Marion County State Bank
Certificate Number: 15272

800 Main Street
Pella, Iowa 50219

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

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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

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INSTITUTION RATING

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

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

The Lending Test is rated Satisfactory.

The following points summarize the institution's Community Reinvestment Act (CRA) performance:

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

The Community Development Test is rated Satisfactory.

- The institution demonstrates adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of opportunities for community development in the assessment area.

DESCRIPTION OF INSTITUTION

Marion County State Bank continues to operate from its main office located in Pella, Iowa, along with a full-service branch in Knoxville, Iowa. Furthermore, the bank operates three limited-service, drive-through offices located in Knoxville, Melcher-Dallas, and Pella, Iowa. Pella Financial Group, Inc., Pella, Iowa, a one-bank holding company, owns 100 percent of the institution's outstanding stock. The institution has not opened or closed any branches, and no merger or acquisition activities have occurred since the previous evaluation. The institution received a Satisfactory rating

at its previous FDIC Performance Evaluation dated October 8, 2020, based on Interagency Small Institution Examination Procedures.

The bank's lending products include home mortgage, commercial, agricultural, and consumer loans. Home mortgage, commercial, and agricultural lending continue to be the primary lending focus. The bank continues to offer in-house residential real estate loans and secondary market conventional home loan referrals to the Federal Home Loan Bank (FHLB). The bank also originated loans under the Small Business Administration (SBA) Paycheck Protection Program (PPP), which was established in 2020 to provide relief to small businesses during the COVID-19 pandemic. Additionally, the institution provides a variety of deposit services including checking, savings, money market accounts, certificates of deposit, individual retirement accounts, and health savings accounts. Alternative banking services include internet banking, electronic bill pay, and mobile banking. Furthermore, four cash dispensing ATMs are located in the limited-service Knoxville location, Melcher-Dallas, and in Pella at the main office and at the Central College Maytag Student Center. Finally, one deposit-taking ATM is located at the limited service location in Pella, Iowa.

According to the June 30, 2023, Reports of Condition and Income (Call Report), the bank reported total assets of \$635.4 million, total deposits of \$545.9 million, total loans of \$427.2 million, and total securities of \$177.4 million. The following table illustrates the noted loan portfolio.

Loan Portfolio Distribution as of 6/30/2023		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	10,032	2.4
Secured by Farmland	80,777	18.9
Secured by 1-4 Family Residential Properties	134,083	31.4
Secured by Multi-family (5 or more) Residential Properties	21,155	5.0
Secured by Non-farm Non-Residential Properties	65,699	15.4
Total Real Estate Loans	311,746	73.1
Commercial and Industrial Loans	61,060	14.3
Agricultural Production and Other Loans to Farmers	44,117	10.3
Consumer	9,920	2.3
Obligations of State and Political Subdivisions in the U.S.	384	0.1
Other Loans	-	-
Lease Financing Receivables (net of unearned income)	-	-
Less: Unearned Income	-	-
Total Loans	427,227	100.0
<i>Source: Reports of Condition and Income: Due to rounding, totals may not equal 100.0%</i>		

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

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act requires each financial institution to define one or more assessment areas within which its performance will be evaluated. Marion County State Bank designated a single contiguous assessment area in southcentral Iowa. The assessment area includes all of Marion County and the western half of Mahaska County in non-metropolitan Iowa and the southeastern corner of Jasper County, which is in the Des Moines West Des Moines, Iowa metropolitan statistical area (Des Moines MSA). The assessment area has not changed since the previous evaluation, except as it relates to 2020 U.S. Census updates. Specifically, at the prior evaluation, the assessment area had 12 census tracts and with the 2020 US Census data updates, the assessment area consists of 14 census tracts. All offices are located within the nonmetropolitan portion of the assessment area.

Economic and Demographic Data

Based on 2020 U.S. Census data, the assessment area includes one moderate-, nine middle-, and four upper-income census tracts. This is an overall increase of two upper-income census tracts. The following table illustrates select demographic characteristics of the entire assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	14	-	7.1	64.3	28.6
Population by Geography	47,534	-	4.2	63.5	32.3
Housing Units by Geography	20,171	-	5.7	64.2	30.1
Owner-Occupied Units by Geography	14,464	-	3.9	65.2	30.8
Occupied Rental Units by Geography	4,589	-	9.6	61.4	29.0
Vacant Units by Geography	1,118	-	12.0	62.7	25.3
Businesses by Geography	5,247	-	5.3	57.9	36.8
Farms by Geography	719	-	1.4	62.0	36.6
Family Distribution by Income Level	13,200	13.6	19.5	23.6	43.2
Household Distribution by Income Level	19,053	18.1	13.6	21.8	46.5
Median Family Income Non-MSA – Iowa	\$71,763	Median Housing Value			\$152,563
Median Family Income MSA - Des Moines-West Des Moines, Iowa MSA	\$89,538	Median Gross Rent			\$712
		Families Below Poverty			4.6%

Source: 2020 U.S. Census Data; 2022 D&B Data; FFIEC Estimated Median Family Income; Due to rounding, totals may not equal 100.0%

The FFIEC updates median family income figures annually. The median family income figures for the nonmetropolitan portions of Iowa and the Des Moines MSA were used to analyze home mortgage borrower profile performance and determine certain qualifying community development activities for the assessment area. These figures along with the corresponding low-, moderate-, middle-, and upper-income thresholds are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Nonmetropolitan Iowa				
2020 (\$69,200)	<\$34,600	\$34,600 to <\$55,360	\$55,360 to <\$83,040	≥\$83,040
2021 (\$70,500)	<\$35,250	\$35,250 to <\$56,400	\$56,400 to <\$84,600	≥\$84,600
2022 (\$78,900)	<\$39,450	\$39,450 to <\$63,120	\$63,120 to <\$94,680	≥\$94,680
2023 (\$86,300)	<\$43,150	\$43,150 to <\$69,040	\$69,040 to <\$103,560	≥\$103,560
Des Moines MSA				
2020 (\$84,800)	<\$42,400	\$42,400 to <\$67,840	\$67,840 to <\$101,760	≥\$101,760
2021 (\$86,700)	<\$43,350	\$43,350 to <\$69,360	\$69,360 to <\$104,040	≥\$104,040
2022 (\$98,100)	<\$49,050	\$49,050 to <\$78,480	\$78,480 to <\$117,720	≥\$117,720
2023 (\$105,000)	<\$52,500	\$52,500 to <\$84,000	\$84,000 to <\$126,000	≥\$126,000
<i>Source: FFIEC</i>				

According to 2022 D&B data, the service industry represents the largest portion of businesses in the assessment area at 29.6 percent, followed by non-classifiable establishments at 21.1 percent, and farming and agricultural at 12.1 percent. The data also indicates a notable number of these operations are relatively small, with 93.5 percent of the businesses having nine or fewer employees, and 93.1 percent operating from one location.

Competition

The bank's assessment area is highly competitive for financial services. The FDIC Deposit Market Share data as of June 30, 2022, notes that 14 financial institutions operate 37 offices within the Jasper, Mahaska, and Marion counties, Iowa. Of these institutions, Marion County State Bank ranked first with deposit market share of 23.0 percent.

There is a high level of competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders in the assessment area. The 2022 aggregate Home Mortgage Disclosure Act (HMDA) data, the most recent data available, reflects 140 lenders originated or purchased 1,349 home mortgage loans. The bank is not required to report HMDA data and is not included in the previous numbers, but the data is presented to evidence local demand.

Further, there is also competition for small business and small farm loans among banks, credit unions, and non-depository lenders in the assessment area. The 2021 aggregate CRA data, the most recent data available, reflects 55 lenders originated or purchased 1,523 small business loans, and 20 lenders originated or purchased 910 small farm loans. The bank is not required to collect or report CRA small business or small farm data and is not included in the previous numbers, but the data is presented to evidence local demand.

Community Contact

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

Examiners reviewed information from one recent community contact in the local business community, which focused primarily on economic development in one county in the assessment area. The community member indicated that although the area economy has experienced some downsizing in the financial and advertising sectors, the overall area is still experiencing growth in the employment sector. The contact attributed some of the offset to the emerging needs of technology and telehealth. The contact stated the availability of affordable housing is low, and developers are aware of the need. In response to the shortage of affordable housing, developers are building smaller homes, duplexes, and rental properties. However, due to the demand of housing and rising interest rates, the prices are higher than what would be considered affordable, and rents are above the fair market rental rates for the area. In addition, the area has limited small business lending opportunities, and more businesses are looking for SBA loans, due to interest rate increases.

Credit and Community Development Needs and Opportunities

Examiners identify the credit needs of the assessment area based on information from the community contact, bank management, and demographic and economic data. Based on this information, examiners determined home mortgage, small business, and small farm loans are all notable credit needs. Further, it was noted that affordable housing and economic development are needs of the area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated October 8, 2020, to the current evaluation dated September 11, 2023. For this evaluation, examiners used the Interagency Intermediate Small Bank Examination Procedures. These procedures include the Lending Test and the Community Development Test. The bank must achieve at least a "Satisfactory" rating under both Tests to obtain an overall "Satisfactory" rating.

Activities Reviewed

Examiners determined the bank's major product lines continue to include home mortgage, small business, and small farm loans. This conclusion considered the bank's business strategy; review of bank records of the number and dollar volume of loans originated, purchased, or extended during the evaluation period; and the loan portfolio composition. Home mortgage, small business, and small farm lending will receive equal weight in determining the overall conclusions.

Bank management stated the bank's 2022 lending patterns are generally representative of its overall lending patterns since the prior evaluation. Therefore, examiners focused on home mortgage, small business, and small farm loans originated, purchased, or extended in 2022. Bank data identified 310 home mortgage loans totaling \$53.1 million, 331 small business loans totaling \$41.4 million, and 321 small farm loans totaling \$35.3 million.

For the Lending Test, examiners reviewed the universe of loans for the Assessment Area Concentration analysis. For the Geographic Distribution analysis, examiners reviewed all home mortgage, small business, and small farm loans made in the assessment area. For the Borrower Profile analysis, examiners reviewed a random sample of home mortgage, small business, and small

farm loans made in the assessment area. The sample included 55 home mortgage loans totaling \$11.0 million, 55 small business loans totaling \$7.2 million, and 55 small farm loans totaling \$4.7 million.

The 2020 U.S. Census data provided a standard of comparison for the bank’s home mortgage lending performance. In addition, the 2022 D&B data provided a standard of comparison for the bank’s small business and small farm lending performance. For the Geographic Distribution and Borrower Profile criteria, examiners emphasized performance by number of loans, because it is a better indicator of the number of individuals, businesses, and farms served.

For the Community Development Test, examiners considered data provided by bank management on the institution’s community development loans, qualified investments, and community development services since the prior CRA evaluation up to the date of the current evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Marion County State Bank demonstrated satisfactory performance under the Lending Test. This conclusion is supported by the bank’s reasonable performance in all evaluated criteria.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s ratio ranged from a low of 64.1 percent to a high of 77.9 percent. The loan-to-deposit ratio has generally remained stable, while slightly trending upward since the prior examination. This is largely due to net loans experiencing modest growth since the prior evaluation, while total deposits have remained stable. Although the average loan-to-deposit ratio is less than the prior evaluation when it was 83.3 percent, it is still considered reasonable. Marion County State Bank’s average net loan-to-deposit ratio, at 68.9 percent, is similar to that of the comparable institution over the past 11 calendar quarters. Examiners selected a comparable institution based on asset size, branching structure, geographic location, lending focus, and discussions with management.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 6/30/2023 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
Marion County State Bank, Pella, Iowa	635,396	68.9
South Ottumwa Savings Bank, Ottumwa, Iowa	563,501	57.2
<i>Source: Reports of Condition and Income 12/31/2020 - 6/30/2023</i>		

Assessment Area Concentration

A majority of the home mortgage, small business, and small farm loans, by number and dollar volume, are located within the assessment area. Refer to the following table for details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	240	77.4	70	22.6	310	42,710	80.4	10,413	19.6	53,123
Small Business	271	81.9	60	18.1	331	33,016	79.7	8,433	20.3	41,449
Small Farm	250	77.9	71	22.1	321	26,756	75.7	8,588	24.3	35,344

Source: 2022 Bank Data

Geographic Distribution

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. This is supported by the bank's reasonable home mortgage, small business, and small farm performance. Examiners focused on the percentage of loans in the moderate-income census tracts in the assessment area.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. The following table indicates the bank's performance is comparable to demographic data.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Moderate	3.9	14	5.8	705	1.7
Middle	65.2	119	49.6	14,268	33.4
Upper	30.8	107	44.6	27,737	64.9
Totals	100.0	240	100.0	42,710	100.0

Source: 2020 U.S. Census Data; 2022 Bank Data; Due to rounding, totals may not equal 100.0%

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. The following table indicates the bank's performance is comparable to demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	5.3	18	6.6	1,914	5.8
Middle	57.9	133	49.1	11,206	33.9
Upper	36.8	120	44.3	19,896	60.3
Totals	100.0	271	100.0	33,016	100.0

Source: 2022 D&B Data, 2022 Bank Data

Small Farm Loans

The geographic distribution of small farm lending reflects reasonable dispersion. The following table indicates the bank only made one small farm loan in the moderate-income census tract. However, demographic data indicates 1.4 percent of farming operations, which represents only ten farms, are located in the moderate-income census tract. In addition, there are seven other banks and one credit union that have a lending presence in Knoxville, Iowa, where the moderate-income census tract is located. Of which, three are also located in the moderate-income census tract. Therefore, the bank has limited opportunities to lend to small farms in the moderate-income census tract and significant competition. As such, the performance is considered reasonable.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	1.4	1	0.4	19	0.1
Middle	62.0	114	45.6	14,043	52.5
Upper	36.6	135	54.0	12,694	47.4
Totals	100.0	250	100.0	26,756	100.0

Source: 2022 D&B Data, 2022 Bank Data

Borrower Profile

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

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers. The following table shows the bank's performance lags demographic data for both low- and moderate-income borrowers. However, this is still reasonable considering approximately 4.6 percent of families in the assessment area are living below the poverty level. When considering the average median housing value within the assessment area, it is unlikely that these families would meet the qualifications for a home mortgage loan. In addition, the community contact mentioned price and interest rate increases have had an adverse impact on affordable housing. Considering these factors, the banks' performance is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	13.6	5	9.1	435	4.0
Moderate	19.5	8	14.5	916	8.3
Middle	23.6	11	20.0	1,888	17.1
Upper	43.2	24	43.6	5,578	50.7
Not Available	-	7	12.7	2,194	19.9
Total	100.0	55	100.0	11,011	100.0

Source: 2020 U.S. Census Data; 2022 Bank Data; Due to rounding, totals may not equal 100.0%

Small Business Loans

The borrower distribution of small business loans reflects poor penetration among businesses with revenues of \$1 million or less. The following table shows the bank only made 70.9 percent of the sampled small business loans to businesses with revenues of \$1 million or less, which lags demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	89.0	39	70.9	4,337	60.3
> \$1,000,000	3.0	16	29.1	2,850	39.7
Revenue Not Available	8.0	-	-	-	-
Total	100.0	55	100.0	7,187	100.0

Source: 2022 D&B Data, 2022 Bank Data

Small Farm Loans

The distribution of small farm loans reflects reasonable penetration among farms of different revenue sizes. The following table shows bank performance lags comparable data for farms with gross annual revenues of \$1 million or less. However, the 2017 Census of Agriculture reveals 56.6 percent of the farms in the three counties had no interest expenses, and 32.2 percent of the farms had revenues of less than \$2,500. This information indicates a sizeable percentage of farms in the assessment area had little or no need for credit. Given this information, the bank's performance is considered reasonable.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
≤ \$1,000,000	99.0	48	87.3	3,113	65.7
> \$1,000,000	0.4	7	12.7	1,628	34.3
Revenue Not Available	0.6	-	-	-	-
Total	100.0	55	100.0	4,741	100.0

Source: 2022 D&B Data, 2022 Bank Data

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

Marion County State Bank demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities in the assessment area.

To assess the bank’s overall performance under the Community Development Test, the performance of twelve intermediate small institutions were considered for comparative purposes. These institutions were chosen due to their similarities in asset size, business focus, and types of areas served. Overall, Marion County State Bank’s community development performance compared reasonably to these institutions when considering the available community development opportunities in the assessment area.

Community Development Loans

Marion County State Bank originated, purchased, or extended 308 community development loans totaling \$31.2 million during the evaluation period. The bank’s community development loans were primarily responsive to affordable housing and economic development needs and opportunities. The volume of community development loans represents 4.9 percent of total assets, and 7.3 percent of net loans, as of June 30, 2023. Examiners compared the bank’s level of community development lending to twelve similarly situated institutions. The similarly situated institutions’ community development loans ranged from 3.4 percent to 14.3 percent of total assets and 5.7 percent to 25.4 percent of net loans. Marion County State Bank’s community development loans are comparable to the similarly-situated institutions by total assets and by net loans.

The following tables illustrate community development loans by purpose and year.

Community Development Lending by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Total	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020 (Partial)	24	3,069	-	-	-	-	1	253	25	3,322
2021	88	10,859	-	-	164	7,955	1	267	253	19,081
2022	2	3,090	1	863	-	-	3	679	6	4,632
YTD 2023	21	2,748	1	1,040	-	-	2	403	24	4,191
Total	135	19,766	2	1,903	164	7,955	7	1,601	308	31,226

Source: Bank records

The following are notable examples of the bank’s community development loans.

- The bank made 164 PPP loans totaling \$8.0 million. The PPP, established by the Coronavirus Aid, Relief, and Economic Security Act, and implemented through the SBA, helped small farms and businesses maintain their payroll and cover applicable overhead expenses during the COVID-19 pandemic. The bank’s PPP loans financed farms and businesses, and resulted in permanent job creation, retention, and/or improvement for low- and moderate-income individuals.
- The bank originated 133 residential real estate loans, totaling \$16.7 million, made to low- to moderate-income individuals FHLB’s First Time Home Buyers program.

Qualified Investments

Marion County State Bank made 28 donations totaling \$94 thousand during the evaluation period, which represents 0.01 percent of total assets and 0.05 percent of total securities. The bank’s

performance lags the performance of comparable banks. Specifically, twelve similar situated institutions maintained qualified investments ranges from 0.7 percent to 4.4 percent of total assets and 1.9 percent to 18.6 percent of total securities.

The bank made a number of donations to a variety of organization and programs including food banks, homeless shelters, and resource centers for low- to moderate-income individuals. The following tables detail the bank’s qualified investments by qualifying category and year.

Qualified Investments by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Total	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2020 (Partial)	-	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-	-
YTD 2023	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
Grants & Donations	-	-	28	94	-	-	-	-	28	94
Total	-	-	28	94	-	-	-	-	28	94

Source: Bank Records

Community Development Services

During the evaluation period, employees provided 56 instances of financial expertise or technical assistance to various community development-related organizations. The bank’s level of community development services is in line with comparable banks, whose community development services range from 6 to 110 during their respective evaluation periods.

Notable services for Marion County State Bank includes 45 of the community development services involved providing financial education and assistance with completing grants targeted toward low- and moderate-income individuals through the FHLB’s First Time Home Buyers program. The remaining economic development, community development, and affordable housing services involved bank employees also using their financial expertise to server in key roles for organization focusing primarily on promoting economic development or providing community services benefiting low- and moderate-income individuals.

Additionally, the bank operates two branch offices, and one cash dispensing ATM in the moderate-income census tract. These branch offices and ATM provide area businesses and low- to moderate-income residents with increase access to financial services and assists with revitalizing/stabilizing the geography. The bank also offers basic low-cost checking and savings accounts, which help to increase access to financial services for low- and moderate-income individual. The following table illustrates the bank’s community development services by qualifying category and year.

Community Development Services by Year					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Total
	#	#	#	#	#
2020 (Partial)	10	-	2	-	12
2021	13	-	2	-	15
2022	11	1	2	-	14
YTD 2023	12	1	2	-	15
Total	46	2	8	-	56

Source: Bank Records

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

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

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

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

GLOSSARY

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

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

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

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

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

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

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

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.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

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 Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

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.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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.

