



## **PUBLIC DISCLOSURE**

May 27, 2015

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Home State Bank / National Association  
**Charter Number 18763**

40 Grant Street  
Crystal Lake, IL 60014

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Chicago - Schaumburg Field Office  
1700 East Golf Road, Suite 800  
Schaumburg, IL 60173

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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# Overall CRA Rating

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

The following table indicates the performance level of **Home State Bank / National Association** with respect to the Lending, Investment, and Service Tests:

Performance Levels	Home State Bank / National Association Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- Lending levels reflect good responsiveness to the credit needs of the community.
- A high percentage of the bank's home mortgage loans and small business loans are originated within the bank's assessment area (AA).
- The distribution of borrowers for home mortgage loans and the distribution of business loans reflects good penetration among retail customers of different income levels and businesses of different sizes.
- The geographic distribution of home mortgage loans reflects good penetration throughout the AA and the geographic distribution of business loans shows excellent penetration throughout the AA.
- The bank's level of community development (CD) investments is adequate.
- Retail services are accessible to essentially all portions of the bank's AA, and bank officers and employees provide a relatively high level of CD services representing a good responsiveness to the AA's most critical community needs.

## Definitions and Common Abbreviations

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

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

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

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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

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

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

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

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that 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 applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

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

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

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

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

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

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

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

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

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

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

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

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such

activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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

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

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

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

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

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

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

## Description of Institution

Home State Bank / National Association (“HSB”) is headquartered in Crystal Lake, Illinois (IL). The bank has seven office locations. All branch locations have an ATM. In addition to the ATMs at the branch locations, there are three cash dispense only ATM machines located within the bank’s assessment area (AA).

HSB is an intrastate financial institution. All office locations and deposit taking ATMs, are located in McHenry County, IL; these facilities are dispersed throughout the AA. Five of the bank’s offices are full-service facilities and offer a full range of traditional banking products. The sixth office is next to a full service branch and is occupied by only commercial lending, the trust department, and other credit staff. The seventh location in South McHenry has limited drive-up and limited walk-up services and new accounts are referred to the North McHenry facility. In addition, HSB offers 24-hour automated banking by computer service, including Telephone Banking, Bank by Mail, Internet Banking, and Mobile Banking.

The bank has one AA: the McHenry County IL AA. There is one moderate-income census tract in the McHenry County AA. There are 25 middle-income census tracts and 26 upper income census tracts in the McHenry County AA.

HSB is primarily a commercial bank with a moderate level of retail lending. No change in business strategy has occurred since the prior CRA evaluation. HSB plans to continue to offer its current range of banking products. As of March 31, 2015, HSB had total assets of \$613 million, total loans of \$425 million, total deposits of \$509 million, and tier one capital of \$70 million. The bank’s loan portfolio consists of commercial and commercial real estate loans (53 percent); residential real estate mortgages (32 percent); construction and development loans (9 percent); and loans to individuals (5 percent).

HSB’s last Public Evaluation (PE) using Large Bank Procedures is dated November 22, 2010, and the overall CRA rating assigned was “Satisfactory.”

HSB is a wholly owned subsidiary of Home State Bancorp, Inc., a one-bank holding company also headquartered in Crystal Lake, IL. Home State Leasing Corporation (“HSLC”) is a wholly owned subsidiary of the bank. HSLC provides leasing services to its customers. The bank’s mortgage centers originate and sell real estate mortgage loans from locations in McHenry, Lake, and Cook Counties in IL, as well as Racine and Waukesha Counties in Wisconsin. Having these mortgage centers outside of the bank’s designated AA accounts for the close to majority of home mortgage loans being originated or purchased inside the bank’s AA. Generating mortgage loans outside of the AA is part of the bank’s strategic operating plan and did not materially impact the bank’s CRA performance evaluation. The bank did not elect to have affiliate activities considered for this evaluation. There are no legal or financial circumstances impeding the bank’s ability to help meet the credit needs in the AAs.

## **Scope of the Evaluation**

### **Evaluation Period / Products Evaluated**

The evaluation period for this CRA assessment is November 22, 2010 (date of the prior PE) through May 27, 2015. The evaluation period for the Lending Test, with the exception of community development (CD) loans, is January 1, 2013 through December 31, 2014. Since there were no changes in the demographics of the bank's AA in 2013 and 2014, the Lending Test analyzes the activity of both years jointly. Under the Lending Test, home mortgage loans, small business loans, and CD loans are evaluated for each of the Lending Test performance factors. For CD activities, including CD loans, investments, and CD services, the evaluation period is from the prior PE date of November 22, 2010 through the start date of this performance evaluation period (May 27, 2015).

### **Data Integrity**

The bank complies with the Home Mortgage Disclosure Act (HMDA). The bank's process to ensure accurate HMDA data and Community Reinvestment Act (CRA) data reporting is adequate. We performed a data integrity review in December 2014 to assess whether the bank is accurately reporting HMDA and CRA data. We sampled 60 loans from the HMDA LAR for both 2013 and 2014, for a total of 120 mortgage loans. In addition, we sampled 60 small loans to businesses for both 2013 and 2014, for a total of 120 commercial loans. We compared reported data to the information from the actual loan files. We did not identify any significant errors and found the bank's data to be reliable. The bank has an appropriate secondary review process in place and audit validates a sample of HMDA and CRA data annually. In addition, prior to the start of our evaluation we tested and deemed all CD activities included in this PE to qualify under the CRA.

We also reviewed the bank's Public File as part of the onsite data integrity review in December 2014. The bank's Public File contained all documents required by the CRA regulation under 12 CFR 25.43.

### **Selection of Areas for Full-Scope Review**

We performed a full scope review of the McHenry County IL AA because 100 percent of the deposits reside in McHenry County and all branches are located within McHenry County. The McHenry County IL AA consists of 52 census tracts.

The bank's AA is in compliance with the regulatory requirements of CRA. The AA contains whole geographies, has no low- or moderate-income areas that were arbitrarily excluded, and the AA does not reflect any illegal discrimination.

## **Ratings**

The bank's overall CRA rating is based on the bank's CRA performance in the McHenry County AA that received our full-scope review. Please see notes contained in the lending test section of this PE for additional factors taken into consideration and weights given to the different lending test performance factors evaluated.

## **Other: Community Contacts**

During our evaluation, we contacted the President of a business and labor group that has a focus on economic development in the McHenry County AA. We also contacted an Executive Director of an affordable housing organization serving the McHenry County AA. We discussed with these contacts the AA's community profile, opportunities for financial institutions to participate in CD activities, and their assessment of financial institutions' performance in the AA.

Based on our discussions, affordable housing is a significant credit need within HSB's AA. In addition, small business lending is also a known credit need in the AA. Both community contacts discussed the need for more affordable housing and expressed advocacy for new construction. One contact stated that tax incentives could help encourage the construction of affordable homes. The other contact discussed that some negative efforts have been made by local officials and residents to prevent the establishment of additional affordable housing in McHenry County. Both agreed that opportunities for CD remain limited in the AA.

The community contacts also emphasized their strong working relationships with the local community and larger regional financial institutions. The contacts stated that local community banks have been enthusiastic in working with their respective community organizations.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), in determining a bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

# Conclusions with Respect to Performance Tests

## LENDING TEST

### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the lending test is rated "High Satisfactory."

HSB's overall lending performance in its AA is good. The level of lending is good with an adequate percentage of loans originated within the bank's designated AA. Also, the bank's overall geographic penetration and borrower distribution are good. The bank's level of community development lending is adequate.

### Lending Activity

Refer to Table 1, Lending Volume, and Table 1A, Other Products, in Appendix C for the facts and data used to evaluate the bank's lending activity.

Overall, HSB's lending activity is good. The bank's lending patterns reflect good responsiveness to the credit needs of the community. Home mortgage loan originations during the evaluation period represent 48.29 percent of the total number of loans originated or purchased in the AA. Home purchase loans and home refinance loans represent 56.69 percent and 39.09 percent of the total number of home mortgage loans originated or purchased in the AA, respectively. As home improvement loans represented only 4.23 percent of total home mortgage loans originated or purchased in the AA during the evaluation period, the bank's lending performance for home improvement loans carried very little weight in our overall lending performance assessment. In addition, the bank originated a minimal number of multifamily loans and any distribution analysis of the 10 multifamily loans would not be meaningful. Small business loans represent 35.60 percent of total loans originated or purchased in the AA during this evaluation period. The bank's lending performance in regards to penetration and distribution of home purchase loans, home refinance loans, and small business lending was given the most weight in evaluating the HSB's CRA performance.

Based on the FDIC Deposit Market Share Report, dated June 30, 2014, this equates to a 7.98 percent deposit market share for HSB, ranking the bank fourth out of 29 depository institutions in the McHenry County. Based on 2013 HMDA Peer Mortgage Data, within the bank's McHenry County IL AA, HSB ranked ninth out of 362 lenders in the McHenry County IL AA with a 2.83 percent market share. Larger regional banks dominate the market area. For home purchase loans, HSB ranked fourth out of 235 lenders with 3.32 percent market share reflecting excellent performance. HSB ranked tenth out of 306 lenders for home refinance loans with 2.43 percent market share reflective of good performance.

Small business loans are also an identified credit need in the McHenry County IL AA. Based on 2013 Peer Small Business Data, HSB ranked seventh out of 68 lenders with a market share of 6.11 percent reflecting good performance. It is noted that HSB originated a significant number

(292) of small business loans secured by real estate, primarily loans to very small businesses in the local AA. Those loans are not included in the small business tables but are included in Table 1A, Other Products. Competition for small business loans is strong in the bank's McHenry County IL AA with a majority of the top ten lenders being larger regional and credit card banks.

## **Distribution of Loans by Income Level of the Geography**

Overall, HSB's geographic distribution of loans is good.

The McHenry County AA does not have any low-income geographies. Our geographic analysis was based on the bank's lending performance in the moderate-income census tract. The overall geographic distribution of home mortgage loans reflects good penetration throughout the AA. The geographic distribution of small business loans reflects excellent penetration throughout the AA.

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

Refer to Tables 2, 3, 4, and 5 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

Overall, HSB's geographic distribution of residential lending reflects good penetration throughout the McHenry County AA. Geographic distribution of home purchase loans reflects adequate penetration throughout the McHenry County AA. Geographic distribution of home refinance loans reflects excellent penetration throughout the McHenry County IL AA. While geographic distribution of home improvement lending reflects poor distribution throughout the McHenry County AA, home improvement loans represented a small fraction of total home mortgage loans originated or purchased in the AA during the evaluation period. As a result, the bank's lending performance for home improvement loans carried very little weight in our overall lending performance assessment.

### **2013 - 2014**

The bank's geographic distribution of home purchase loans in moderate-income geographies is adequate as the percentage of home purchase loans originated or purchased is near the percentage of owner occupied units in moderate-income geographies. The bank's market share for home purchase loans in moderate-income geographies is poor as the percentage is significantly below the bank's overall market share percentage of home purchase loans.

The bank's geographic distribution of refinancing loans is excellent in moderate-income geographies as the percentage of refinancing loans originated or purchased exceeds the percentage of owner occupied units in moderate-income geographies. The bank's market share for home refinance loans in moderate-income geographies is excellent as the percentage exceeds the bank's overall market share percentage of home refinance loans.

The bank's geographic distribution of home improvement loans is poor for lending in moderate-income geographies as the percentage of home improvement loans originated or purchased is

significantly below the percentage of owner occupied units in moderate-income geographies. The bank's market share for home improvement loans in moderate-income geographies is poor as the percentage is significantly below the bank's overall market share percentage of home improvement loans.

### ***Small Loans to Business***

Refer to Table 6 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

Overall, HSB's geographic distribution of small loans to businesses reflects excellent penetration throughout the McHenry County IL AA.

### **2013 - 2014**

The bank's geographic distribution of small loans to businesses exceeds the standards for assessing lending in moderate-income geographies. The percentage of small business loans originated or purchased exceeds the percentage of small businesses in moderate-income geographies in the McHenry County IL AA. The bank's market share for small loans to businesses in moderate-income geographies is excellent as that percentage exceeds the bank's overall market share percentage of small loans to businesses.

### ***Lending Gap Analysis***

Reports detailing HSB's lending activity over the evaluation period for home mortgage loans and small loans to businesses were reviewed to identify gaps in the distribution of those loans. We did not identify any unexplained or conspicuous gaps in lending in the bank's AA.

### ***Inside / Outside Ratio***

Overall, an adequate percentage of home mortgage loans and small loans to businesses originated or purchased by HSB over the evaluation period are within the AA. Sixty-five percent of the total number of reported home mortgage and small business, farm, and small real estate secured loans were originated or purchased within the designated AA. Fifty-four percent of the number and 46 percent of the dollar amount of total home loans were within the AA. Of the total number and dollar amount of small business loans, 87 percent and 82 percent, respectively, were originated within the AA.

### **Distribution of Loans by Income Level of the Borrower**

The overall borrower distribution of loans is good.

The distribution of borrowers for both home mortgage products and small business lending reflects good penetration among home mortgage customers of different income levels and business customers of different sizes.

## ***Home Mortgage Loans***

Refer to Tables 8, 9, and 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The percentage of families living below the poverty level is a demographic factor taken into consideration with the borrower distribution of home loans. For the McHenry County IL AA, the percentage of families living below the poverty level is 4.87 percent. This demographic group might have difficulty in affording home ownership thus further limiting lending opportunities to low-income borrowers.

Overall, the borrower distribution for home purchase loans is excellent and the borrower distribution of home improvement loans and refinancing loans is good.

The percentage of home purchase loans made to low- and moderate-income borrowers (17.35 percent and 32.40 percent, respectively) significantly exceeds the percentage of low- and moderate-income families (13.50 percent and 14.27 percent, respectively) in the McHenry County IL AA. The bank's market share for home purchase loans to both low- and moderate-income borrowers is excellent as both percentages exceed the bank's overall market share percentage of home purchase loans. See Table 8 for details.

The percentage of home improvement loans made to low-income borrowers (3.70 percent) is significantly below the percentage of low-income families in the McHenry County IL AA (13.50 percent). This represents poor penetration of home improvement loans to low-income borrowers. The bank's market share for home improvement loans to low-income borrowers is also poor as that percentage is significantly below the bank's overall market share percentage of home improvement loans. The percentage of home improvement loans made to moderate-income borrowers (18.52 percent) exceeds the percentage of moderate-income families (14.27 percent) in the McHenry County IL AA and reflects excellent performance. The bank's market share for home improvement loans to moderate-income borrowers is also excellent as that percentage exceeds the bank's overall market share percentage of home improvement loans. See Table 9 for details.

The percentage of home refinance loans made to low-income borrowers at 9.38 percent is lower than but near to the percentage of low-income families when taking into consideration the percentage of families below the poverty level. The bank's market share for home refinancing loans to low-income borrowers is excellent as that percentage exceeds the bank's overall market share for home refinancing loans. Overall, this lending performance represents adequate penetration of home refinance loans to low-income borrowers. The percentage of home refinance loans made to moderate-income borrowers is 18.36 percent, which exceeds the demographics (14.27 percent) and reflects excellent performance. The bank's market share for home refinancing loans to moderate-income borrowers is good as that market share percentage is near to the bank's overall home refinancing loan market share. See Table 10 for details.

### ***Small Loans to Businesses***

Refer to Table 11 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

Overall, borrower distribution of small loans to businesses is good. HSB's small loans to businesses with revenues of less than \$1 million reflects reasonable penetration at 51.59 percent. This percentage is below the demographics of 75.22 percent. Another assessment tool used to assess the bank's business lending performance was to review the size of loans made to businesses. We do note that a majority of the bank's small loans to businesses in the McHenry County IL AA are for amounts less than \$100 thousand (64.13 percent). Also, the bank originated an additional 17.78 percent of its business loans in an amount greater than \$100 thousand and equal to or less than \$250 thousand. Competition for small business loans is strong with large regional and credit card banks ranking in the top ten financial institutions for market share for small business lending in the McHenry County IL AA. HSB's market share for small business lending is 7.45 percent versus its 2.83 percent overall market share reflecting excellent market share performance for small business lending.

Additionally, the bank originated 223 loans in the McHenry County IL AA for a total of approximately \$44.2 million with a business purpose that were secured by real estate and therefore were not included in the small business borrower loan analysis. The vast majority of these loans are loans to small local businesses.

### **Community Development Lending**

Refer to Table 1, Lending Volume, in Appendix C for the facts and data used to evaluate the bank's level of community development lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans. In addition, Table 5 includes geographic lending data on all multifamily loans, including those that also qualify as CD loans. Table 5 does not separately list CD loans, however.

HSB has made an adequate level of community development loans during this evaluation period, which had an overall neutral effect on the Lending Test. During the evaluation period, HSB made 14 loans totaling \$1.46 million that qualified as community development loans. This level of CD lending represents just over two percent of the bank's tier one capital base. The following are examples of the qualified loans extended during the 2010 – 2014 evaluation period:

- HSB issued \$720 thousand through a revolving line of credit to a local nonprofit organization. The group works to help solve community problems and supports local health and human services agencies. The primary purpose of this nonprofit organization is to provide qualified services to local agencies that serve low- and moderate-income individuals addressing the most pressing social needs of the AA.
- The bank provided \$201 thousand through a revolving line of credit for one year to a membership organization consisting of businesses, not-for-profits, financial institutions,

and individuals focused on providing money for affordable housing. Specifically, the organization administers a first-time home buyer program that assists low- or moderate-income people by providing down payment assistance money for home purchases.

- A local county organization received \$165 thousand in loans. This local county organization provided affordable housing for low- and moderate-income individuals.
- A local for-profit organization received \$15 thousand for construction of home improvements on low rent affordable housing units.

## **Product Innovation and Flexibility**

HSB readily uses flexible lending programs in order to better serve the McHenry County AA's credit needs. The bank's loan product flexibility had a neutral impact on the lending test conclusion. Specifically, the bank offers standard flexible products that include several home mortgage loan programs that target low- and moderate-income borrowers. These programs help provide additional options that assist such applicants with achieving home ownership.

- As a participant in the Federal Home Loan Bank of Chicago Down Payment Plus program, HSB provided loans to assist low-income buyers with their loan costs and down payments. HSB originated 21 of these loans in 2011, 20 loans in 2012, 24 loans in 2013, and 18 loans in 2014, for a combined total of \$620 thousand.
- Federal Housing Administration (FHA) mortgages provide more flexible terms and conditions. The bank is an approved FHA lender and originated 67 loans in 2011, 60 loans in 2012, 70 loans in 2013, and 36 loans in 2014, for a combined total of \$36.3 million.
- In 2011, HSB became an approved Veterans Affairs (VA) lender and originated 13 loans in 2011, 14 loans in 2013, and 12 loans in 2014, for a combined total of \$7.92 million.
- In 2014, HSB worked with the Illinois Housing Development Authority under their Welcome Home and Smart Move programs primarily providing assistance to first time low- and moderate-income homebuyers. HSB originated 80 loans under this program for a total of \$10.7 million.

## **INVESTMENT TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Investment Test is rated "Low Satisfactory."

Refer to Table 14 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

Based on a full-scope review, the bank's investment test performance in the McHenry County IL AA is adequate. Information obtained from bank management and the community contacts confirmed qualified CD investment opportunities in the area are limited.

HSB made approximately \$547 thousand in investments and grants during the evaluation period. Additionally, the current value of prior period investments totals approximately \$997 thousand. All qualified investments, grants, and donations equal approximately \$1.5 million. This level of investment activity equals just over two percent of the bank's tier one capital base. Though the bank's CD investments are not complex, they do help meet identified CD needs in the McHenry County IL AA as well as in the greater regional area.

As previously discussed, there are limited qualified investment opportunities in the McHenry County IL AA. The following are examples of qualifying current period investments and grants made by the bank.

#### **Investments**

During the assessment period, HSB purchased \$500 thousand in certificates of deposit from minority and women-owned financial institutions located in the Chicago area. While these investments are not specifically in either the McHenry County IL AA, they do benefit the greater northeastern Illinois regional area.

#### **Grants and Donations**

In addition to the above referenced investments, HSB made approximately \$47 thousand in cash and in-kind contributions and grants to 21 organizations that provide services that meet the definition of CD. These contributions included:

- \$2,000 to a local county economic development organization that promotes small business growth and facilitates economic development through job creation with an emphasis on low- and moderate-income individuals.
- \$20,000 to an organization that provides emergency and transitional housing to homeless families.

- \$2,000 to an affordable housing organization in McHenry County that provides housing assistance to low-income residents.
- \$2,000 to support a local organization that provides scholarships for low- and moderate-income students.
- \$46,718 to 17 other nonprofit organizations that provide either assistance to the homeless, educational opportunities to low- and moderate-income youth, or qualified social services that support low- income families.

## **SERVICE TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Service Test is rated "High Satisfactory."

HSB's delivery systems are accessible to individuals of different income levels in the bank's McHenry County IL AA. Services, including hours of operation, do not vary in a way that inconveniences any portion of the bank's AA. The bank provides a relatively high level of CD services.

### **Retail Banking Services**

Refer to Table 15 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

HSB's delivery systems are accessible to individuals of different income levels in the bank's McHenry County IL AA. There is one moderate-income geography and no low-income geographies in the McHenry County IL AA. However, there are low- and moderate-income individuals/families that reside within all of the bank's different census tracts in their designated AA. Forty-one percent of the families in the moderate-income tract are low-income families, 17 percent of the families in the middle-income tracts are low-income families, and 10 percent of the families in the upper-income tracts are low-income families. Fifteen percent of the families in the moderate-income tract are moderate-income families, 17 percent of the families in the middle-income tracts are moderate-income families, and 12 percent of the families in the upper-income tracts are moderate-income families. For the year 2014, the unemployment rate in the McHenry County IL AA was 7.64 percent according to the U.S. Bureau of Labor Statistics.

HSB operates seven branches. Five of the bank's offices are full-service facilities and offer a full range of traditional banking products. The sixth office is next to a full service branch and is occupied by only commercial lending, trust department, and other credit staff. The seventh location in South McHenry has limited drive-up and limited walk-up services and new accounts

are referred to the North McHenry facility. Two of the branches are located in middle-income census tracts and five of the branches are located in upper-income census tracts. Services and hours provided by the bank's branch locations do not vary in a way that inconveniences any portion of the bank's AA particularly the moderate-income census tract or low- or moderate-income individuals.

Management closed one bank branch since the last PE. This branch was located in an upper-income census tract and was surrounded by only upper- and middle-income census tracts. To the extent this change was made, the bank's closing of this one branch did not adversely affected the accessibility of its delivery systems, particularly to the moderate-income census tract or for low- and moderate-income individuals. The bank's office locations are accessible to the bank's entire delineated AA.

## **Community Development Services**

HSB's performance in providing CD services in the AA is relatively high and represents a good responsiveness to the AA's most critical credit needs. Seventeen officers and employees of HSB serve in leadership roles as members of boards, committees, or as advisors on 29 CD service organizations. The CD services benefit low- and moderate-income individuals and families. While the CD services provided are non-complex, they are responsive to the needs of the community. Examples of some of these services include:

- An officer serves on the board of a college foundation that helps raise and distribute funds to students in the form of scholarships. Most of these scholarships go to low- and moderate-income individuals.
- An officer serves on the board of a nonprofit organization that provides immediate assistance and ongoing support programs to meet the needs of low-income residents in McHenry County.
- An officer serves on a committee of a nonprofit community organization that provides funds to other not-for-profit organizations that deliver social support services that assist low- and moderate-income individuals and families.
- An officer serves as a board member on a local economic development organization that promotes small business growth and facilitates economic development in economically depressed areas.
- An officer serves as the chairperson of an affordable housing organization that rents out homes and apartments to low-income individuals and families. This organization also facilitates the provision of adequate medical care to these individuals and families.
- An officer servers as a commissioner on a senior citizen services organization that allocates tax dollars to nonprofit agencies that help low- and moderate-income seniors in McHenry County.

- An officer serves on the board of a local food pantry that primarily supports and assists with the essential needs of local community members in need of assistance.

## Appendix A: Scope of Examination

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

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): January 1, 2013 to December 31, 2014 Investment and Service Tests and CD Loans: November 22, 2010 to May 27, 2015	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Home State Bank / National Association Crystal Lake, Illinois	Home mortgage loans, small business loans, community development loans	
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
McHenry County	Full Scope	

## Appendix B: Market Profiles for Full-Scope Areas

### McHenry County

Demographic Information for Full Scope Area: McHenry County IL 2014						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	52	0.00	1.92	48.08	50.00	0.00
Population by Geography	308,760	0.00	1.45	44.61	53.94	0.00
Owner-Occupied Housing by Geography	90,930	0.00	0.97	45.40	53.63	0.00
Business by Geography	22,161	0.00	1.30	44.25	54.44	0.00
Farms by Geography	1,011	0.00	1.29	58.06	40.65	0.00
Family Distribution by Income Level	81,687	13.50	14.27	21.91	50.32	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	22,679	0.00	2.48	54.98	42.54	0.00
Median Family Income		72,196	Median Housing Value		254,548	
HUD Adjusted Median Family Income for 2014		76,300	Unemployment Rate		4.15%	
Households Below Poverty Level		6%	(2010 US Census)			

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2014 HUD updated MFI

### DESCRIPTION OF ASSESSMENT AREA

HSB is headquartered in Crystal Lake, Illinois. Crystal Lake is within the Chicago / Naperville / Joliet MD 16974. The bank has one AA: the McHenry County IL AA (full scope). McHenry County has 52 census tracts. In McHenry County, there are no low-income census tracts, there is one moderate-income census tract, there are 25 middle-income census tracts, and there are 26 upper-income census tracts. HSB's AA meets the requirements of the CRA regulation by consisting of whole geographies, and does not arbitrarily exclude low- or moderate-income areas or reflect any illegal discrimination.

As of May 27, 2015, all of HSB's deposits are located in the McHenry County IL AA. HSB deposits total approximately \$509 million at March 31, 2015. Based on the FDIC Deposit Market Share Report, dated June 30, 2014, this equates to a 7.98 percent deposit market share for HSB, ranking the bank fourth out of 29 depository institutions in the McHenry County. BMO Harris Bank, Crystal Lake Bank and Trust, and JPMorgan Chase Bank are the largest deposit market shareholders in McHenry County and combined hold 37.96 percent of the deposit market share for the county. Sixty-four percent of the bank's HMDA loans and 100 percent of the bank's CRA loans are within the McHenry County AA.

The updated Housing and Urban Development (HUD) 2010 weighted average of median family income for the McHenry County IL AA is \$87,494. A breakdown of family income levels in the AA shows 13.50 percent as low-income, 14.27 percent moderate-income, 21.91 percent middle-income, and 50.32 percent upper-income. A low-income family has a maximum income of \$43,747. In addition, 4.87 percent of families have incomes below the poverty level.

Of the 114,791 total housing units in the AA, 90,930 (79.21 percent) are owner-occupied, 17,176 (14.96 percent) are rental-occupied, and 6,685 (5.82 percent) are vacant. The weighted average median housing value within the AA based on the 2010 census data is approximately \$255 thousand.

The employment base in the AA is service oriented (41.90 percent), followed by retail trade (12.34 percent), and construction (10.41 percent).

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.
- Table 1A. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and

purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.

- Table 7. NA: Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. NA: Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 13. NA: Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

**Table 1. Lending Volume**

LENDING VOLUME												
Geography: HOME STATE BANK NA												
Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014												
Assessment Area (2014):	% of Rated Area Loans (#) in MA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Scope Review:</b>												
McHenry County IL 2014	89.00	738	122,340	630	102,903	0	0	14	1,457	1,382	226,700	100.00
<b>Limited Scope Review:</b>												

\* Loan Data as of December 31, 2014. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is from January 01, 2014 to December 31, 2014.

\*\*\* Deposit Data as of June 01, 2015. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 1A. Other Products**

LENDING VOLUME		Geography: HOME STATE BANK NA						Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014						
Assessment Area (2014):	% of Rated Area Loans (#) in MA/AA*	Total Optional Loans**		Small Business Real Estate Secured**		Home Equity**		Motor Vehicle**		Credit Card**		Other Secured Consumer**		% of Rated Area Deposits in AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Scope Review:</b>														
McHenry County IL 2014	76.37	223	44,174	223	44,174	0	0	0	0	0	0	0	0	100.00
<b>Limited Scope Review:</b>														

\* Loan Data as of December 31, 2014. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Optional Product Line(s) is from January 01, 2013 to December 31, 2014.

\*\*\* Deposit Data as of June 01, 2015. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE		Geography: HOME STATE BANK NA						Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014							
Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>															
McHenry County IL 2014	401	80.85	NA	NA	0.97	0.50	45.40	47.63	53.63	51.87	3.32	NA	0.00	4.02	2.80
<b>Limited Scope Review:</b>															

\* Based on 2013 Peer Mortgage Data -- US and PR

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 3. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT			Geography: HOME STATE BANK NA						Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014						
Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>															
McHenry County IL 2014	32	88.89	NA	NA	0.97	0.00	45.40	31.25	53.63	68.75	7.91	NA	0.00	3.37	11.67
<b>Limited Scope Review:</b>															

\* Based on 2013 Peer Mortgage Data -- US and PR

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE		Geography: HOME STATE BANK NA								Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014					
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>															
McHenry County IL 2014	295	88.59	NA	NA	0.97	1.02	45.40	44.07	53.63	54.92	2.38	NA	2.60	2.57	2.25
<b>Limited Scope Review:</b>															

\* Based on 2013 Peer Mortgage Data -- US and PR

\*\* Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 5. Geographic Distribution of Multifamily Loans**

Geographic Distribution: MULTIFAMILY		Geography: HOME STATE BANK NA						Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014							
Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% of MF Units***	% BANK Loans****	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>															
McHenry County IL 2014	10	100.00	NA	NA	0.61	0.00	62.10	50.00	37.29	50.00	18.18	NA	0.00	13.64	27.27
<b>Limited Scope Review:</b>															

\* Based on 2013 Peer Mortgage Data -- US and PR

\*\* Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

\*\*\* Percentage of Multifamily Units is the number of multifamily units in a particular geography divided by the number of multifamily housing units in the area based on 2010 Census information.

\*\*\*\* Multifamily loan distribution includes Home Purchases, Home Improvement and Refinances.

**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES		Geography: HOME STATE BANK NA								Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014					
Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% of Businesses ***	% BANK Loans	% of Businesses ***	% BANK Loans	% of Businesses ***	% BANK Loans	% of Businesses ***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>															
McHenry County IL 2014	630	97.67	NA	NA	1.30	1.43	44.25	25.08	54.44	73.49	6.11	NA	11.63	4.18	7.46
<b>Limited Scope Review:</b>															

\* Based on 2013 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2013).

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE		Geography: HOME STATE BANK NA						Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014							
Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Families***	% BANK Loans****	% Families <sup>1</sup>	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Overall	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>															
McHenry County IL 2014	401	80.85	13.50	17.35	14.27	32.40	21.91	21.43	50.32	28.83	3.57	4.02	4.08	3.38	3.26
<b>Limited Scope Review:</b>															

\* Based on 2013 Peer Mortgage Data -- US and PR

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 2.2% of loans originated and purchased by bank.

\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT		Geography: HOME STATE BANK NA						Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014							
Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Families <sup>2***</sup>	% BANK Loans <sup>****</sup>	% Families <sup>3</sup>	% BANK Loans <sup>****</sup>	% Families <sup>***</sup>	% BANK Loans <sup>****</sup>	% Families <sup>***</sup>	% BANK Loans <sup>****</sup>	Overall	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>															
McHenry County IL 2014	32	88.89	13.50	3.70	14.27	18.52	21.91	18.52	50.32	59.26	7.92	0.00	8.82	3.77	11.11
<b>Limited Scope Review:</b>															

\* Based on 2013 Peer Mortgage Data -- US and PR

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

<sup>2\*\*\*</sup> Percentage of Families is based on the 2010 Census information.

<sup>\*\*\*\*</sup> As a percentage of loans with borrower income information available. No information was available for 16.7% of loans originated and purchased by bank.

<sup>3</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: HOME STATE BANK NA						Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014							
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Families**	% BANK Loans****	% Families <sup>4</sup>	% BANK Loans****	% Families**	% BANK Loans****	% Families**	% BANK Loans****	Overall	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>															
McHenry County IL 2014	295	88.59	13.50	9.38	14.27	18.36	21.91	25.39	50.32	46.88	2.41	2.60	2.29	2.39	2.43
<b>Limited Scope Review:</b>															

\* Based on 2013 Peer Mortgage Data -- US and PR

\*\* Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 14.7% of loans originated and purchased by bank.

\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES		Geography: HOME STATE BANK NA			Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014				
Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share*	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Scope Review:</b>									
McHenry County IL 2014	630	97.67	75.22	51.59	64.13	17.78	18.10	6.11	7.45
<b>Limited Scope Review:</b>									

\* Based on 2013 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2013).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 0.00% of small loans to businesses originated and purchased by the bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS		Geography: HOME STATE BANK NA				Evaluation Period: NOVEMBER 23, 2010 TO MAY 27, 2015			
Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Scope Review:</b>									
McHenry County IL 2014	2	665	43	24	45	689	44.62	0	0
State/Regional	4	332	6	523	10	855	55.38	0	0
Total	6	997	50	547	56	1,544	100.00	0	0
<b>Limited Scope Review:</b>									

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

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

**Table 15. Distribution of Branch and ATM Delivery System**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS    Geography: HOME STATE BANK NA    Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014																	
MA/Assessment Area:	Deposits		Branches					Branch Openings/Closings						Population			
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>																	
McHenry County IL 2014	100.00	7	100.00	0.00	0.00	29	71	0	1	0	0	0	-1	0.00	1.45	44.61	53.94
<b>Limited Scope Review:</b>																	

Distribution of Branch and ATM Delivery System    Geography: HOME STATE BANK NA    Evaluation Period: JANUARY 1, 2013 TO DECEMBER 31, 2014																	
MA/Assessment Area:	Deposits		Branches					ATMs						Population			
	% of Total Bank Deposits	# of Bank Branches	% of Total Bank Branches	Location of Branches by Income of Geographies (%)				# of Bank ATMs	% of Total Bank ATMs	Location of ATMs by Income of Geographies				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Scope Review:</b>																	
McHenry County IL 2014	100.00	7	100.00	0	0	29	71	10	100.00	0	0	7	3	0.00	1.45	44.61	53.94
<b>Limited Scope Review:</b>																	