

PUBLIC DISCLOSURE

January 19, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Federation Bank
Certificate Number: 14352

102 East Main Street
Washington, Iowa 52353

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 areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

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

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the credit needs of the assessment areas.
- A substantial majority of the small farm, small business, and home mortgage loans reviewed were located inside the assessment areas.
- The geographic distribution of loans reflects excellent dispersion throughout the Washington Metro Assessment Area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

Federation Bank is headquartered in Washington, Iowa and is owned by one-bank holding company Washington Bancorp, also in Washington. The institution is not affiliated with any deposit- or lending-related entities. Federation Bank received a Satisfactory rating at its previous FDIC CRA Performance Evaluation dated January 26, 2016, based on Interagency Small Institution Examination Procedures.

In addition to its main office in Washington, the bank operates three full-service branch offices in Brighton, Richland, and Wellman, Iowa. Additional access is provided through a full-service automated teller machine located in the drive-up facility of the main office. No branch openings or closures and no merger or acquisition activities occurred since the previous evaluation.

Federation Bank offers a variety of loan products, including agricultural, commercial, residential, and consumer loans. Additionally, the bank assists with special financing alternatives through programs offered by the Small Business Administration and the U.S. Department of Agriculture's Farm Service Agency. These programs are generally designed to assist small farmers, small businesses, and other individuals that may not qualify for loans through conventional financing methods. The institution also facilitates access to long-term, fixed-rate home mortgage loans through the secondary market, including Veterans Affairs, Federal Housing Administration, and rural development programs. Further, Federation Bank participated in the Small Business Administration's Paycheck Protection Program in 2020 and 2021. This loan program provided financial assistance to farms and businesses adversely impacted by the COVID-19 pandemic. Although offering all credit types, management continues to focus predominantly on agricultural lending.

In conjunction with an array of credit offerings, Federation Bank offers a variety of deposit products, including checking, savings, and money market accounts, as well as certificates of deposit. Alternative banking services include internet and mobile banking, electronic bill pay, mobile deposit capture, and electronic statements.

Assets totaled approximately \$165.2 million as of September 30, 2021, representing an increase of 44.7 percent since the September 30, 2015, Consolidated Reports of Condition and Income (Call Report). Total deposits equaled approximately \$136.8 million, representing a 44.6 percent increase, and total loans were approximately \$76.1 million, representing an 8.4 percent increase, during the same timeframe. Management attributes the increase in deposits to government stimulus payments and pandemic-induced economic uncertainties. Management attributes the moderate loan portfolio growth to the use of cash and other resources to finance agricultural and commercial operations, as well as the increased demand for home mortgage loans sold on the secondary market. The following table illustrates the loan portfolio composition.

Loan Portfolio Distribution as of 9/30/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	916	1.2
Secured by Farmland	23,673	31.1
Secured by 1-4 Family Residential Properties	16,276	21.4
Secured by Multifamily (5 or more) Residential Properties	216	0.3
Secured by Nonfarm Nonresidential Properties	7,189	9.4
Total Real Estate Loans	48,270	63.4
Commercial and Industrial Loans	8,942	11.8
Agricultural Production and Other Loans to Farmers	12,770	16.8
Consumer Loans	4,965	6.5
Obligations of State and Political Subdivisions in the U.S.	1,047	1.4
Other Loans	63	0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(0)	(0.0)
Total Loans	76,057	100.0
<i>Source: Call Report</i>		

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

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Federation Bank has designated two separate assessment areas within the State of Iowa, which will be referred to as the Washington Metro Assessment Area and the Non-Metro Assessment Area. There have been no changes in the geographic boundaries of Federation Bank's assessment areas since the prior evaluation. Based on 2015 American Community Survey Census (2015 ACS Census) data, the combined assessment area is comprised of two moderate-, 17 middle-, and one upper-income census tracts. According to 2010 U.S. Census data used at the prior evaluation, the combined assessments area was comprised of 19 middle- and 1 upper-income census tracts. Refer to the individual assessment area sections for more details.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated January 26, 2016, to the current evaluation dated January 19, 2022. Examiners used Small Institution Examination Procedures to evaluate Federation Bank's CRA performance, which focus on the bank's performance under the Lending Test. Refer to the Appendices for a description of this test.

Examiners conducted a full-scope review of each assessment area to evaluate performance, after considering factors such as branching structure, deposit volume, loan volume, market share, and reviews performed at previous CRA evaluations. The vast majority of Federation Bank's loans, deposits, and branches are in the Washington Metro Assessment Area. Therefore, the bank's

performance in the Washington Metro Assessment Area received the most weight in the overall evaluation. The following table reflects the distribution of loans, deposits, and office locations by assessment area.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Washington Metro	53,785	71.3	114,175	87.9	3	75.0
Non-Metro	21,624	28.7	15,740	12.1	1	25.0
Total	75,409	100.0	129,915	100.0	4	100.0

Source: Bank Data; FDIC Summary of Deposits (6/30/2021).

Activities Reviewed

Examiners determined the bank’s major product lines to be agricultural, commercial, and home mortgage loans. This conclusion was based on the bank’s business strategy, loan portfolio distribution, and bank records regarding the number and dollar volume of loans originated or renewed during the evaluation period. Call Report information as of September 30, 2021, shows that agricultural loans comprise 47.9 percent, residential real estate loans comprise 21.7 percent, and commercial loans comprise 21.2 percent of the loan portfolio. Given the portfolio composition and management’s comments regarding the institution’s lending focus, small farm lending performance was given greater weight in this evaluation.

Examiners utilized the bank’s automated loan download to assemble the loan universe for the Lending Test. For the Assessment Area Concentration criterion, examiners evaluated lending performance based on all small farm, small business, and home mortgage loans originated or renewed during calendar year 2020. For the Geographic Distribution criterion, examiners reviewed all small farm, small business, and home mortgage loans located inside the Washington Metro Assessment Area. Geographic distribution was not reviewed in the Non-Metro Assessment Area, as there are no low- or moderate-income census tracts in this assessment area. Borrower Profile performance for small farm, small business, and home mortgage lending was evaluated using a sample of loans originated inside the assessment areas. For the Borrower Profile criterion, examiners sampled 85 small farm loans totaling \$4,602,000, 81 small business loans totaling \$3,701,000, and 69 home mortgage loans totaling \$7,696,000. The following table provides the universe of loans, and loans within the assessment areas from which samples were selected.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm	290	17,636	273	16,215
Small Business	204	8,995	192	8,525
Home Mortgage	157	17,205	142	15,045

Source: Bank Data 1/1/2020 – 12/31/2020

For small farm and small business conclusions, 2020 D&B data provided a standard of comparison for the institution's lending performance. When arriving at home mortgage conclusions, 2015 ACS Census data provided a standard of comparison.

Examiners obtained the data necessary for this evaluation from individual customer loan files, interviews with bank management, and other information gathered as part of the examination process. Examiners analyzed lending performance by both the number and dollar volume of loans; however, the performance by number of loans is emphasized, as it is generally a better indicator of the number of small farms, small businesses, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Federation Bank demonstrated overall reasonable performance under the Lending Test. The bank's reasonable performance under the Loan-to-Deposit Ratio and Borrower Profile criteria primarily support this conclusion. The following is a discussion of each performance criterion and how they support the bank's overall rating.

Loan-to-Deposit Ratio

Federation Bank's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment areas. The bank's net loan-to-deposit ratio, calculated from Call Report data, averaged 76.3 percent over the 23 calendar quarters from March 31, 2016, to September 30, 2021. The net loan-to-deposit ratio ranged from a high of 91.9 percent as of June 30, 2019, to a low of 54.6 percent as of September 30, 2021. The ratio increased steadily until the third quarter of 2019, when it began to decrease due to an influx of deposits. In the second quarter of 2020, the ratio began a more rapid descent and has declined progressively since. Management attributes this to an influx of deposits resulting from Paycheck Protection Program and stimulus monies, and increased sales of residential loans on the secondary market.

Examiners compared the bank's average net loan-to-deposit ratio to four similarly-situated institutions to help evaluate Federation Bank's performance. Comparable institutions were selected based on their size, geographic location, and lending focus. As shown in the following table, Federation Bank's average net loan-to-deposit ratio compares reasonably to the similarly-situated institutions. Examiners noted that the average net loan-to-deposit ratios of all four comparable institutions showed similar trends, generally declining since the second quarter of 2020. Deposit growth outpaced loan growth for all five institutions in the following table.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/2021 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
Federation Bank, Washington, Iowa	165,193	76.3
Libertyville Savings Bank, Fairfield, Iowa	407,662	78.7
Wayland State Bank, Mount Pleasant, Iowa	133,425	59.9
Community Bank and Trust, Muscatine, Iowa	284,525	64.9
Washington State Bank, Washington, Iowa	469,865	82.2
<i>Source: Call Reports 3/31/2016 - 9/30/2021</i>		

Assessment Area Concentration

Federation Bank extended a substantial majority of the small farm, small business, and home mortgage loans, by number and dollar volume, in the assessment areas. See the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	273	94.1	17	5.9	290	16,215	91.9	1,421	8.1	17,636
Small Business	192	94.1	12	5.9	204	8,525	94.8	470	5.2	8,995
Home Mortgage	142	90.4	15	9.6	157	15,045	87.4	2,160	12.6	17,205
<i>Source: Bank Data 1/1/2020 – 12/31/2020</i>										
<i>Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution of small farm, small business, and home mortgage loans reflects overall excellent dispersion throughout the Washington Metro Assessment Area. The bank’s excellent performance in the Washington Metro Assessment Area supports this conclusion. Examiners focused on the bank’s record of lending in moderate-income geographies. Geographic distribution was not reviewed in the Non-Metro Assessment Area, as there are no low- or moderate-income census tracts in this assessment area and a review would not result in meaningful conclusions. Refer to comments under the Washington Metro Assessment Area for a more specific analysis.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes and individuals of different income levels. The bank’s reasonable lending performance in each assessment area supports this conclusion. Examiners focused on the percentage, by number of loans, to farms and businesses generating gross annual revenues of \$1 million or less, and on the percentage, by number of loans, to low- and moderate-income borrowers. Refer to comments under each separately analyzed assessment area for a more specific analysis.

Response to Complaints

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

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping meet community credit needs.

WASHINGTON METRO ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE WASHINGTON METRO ASSESSMENT AREA

The Washington Metro Assessment Area consists of Washington, Jefferson, and Louisa counties in their entirety, as well as Henry County census tract 9701, Iowa County census tracts 9603 and 9604, and Johnson County census tract 104. Washington and Johnson counties comprise the Iowa City, Iowa Metropolitan Statistical Area. Henry, Iowa, Jefferson, and Louisa counties are in the nonmetropolitan areas of Iowa.

Economic and Demographic Data

According to 2015 ACS Census data, the Washington Metro Assessment Area is comprised of two moderate-, 13 middle-, and one upper-income geographies. The two moderate-income geographies are located in central Washington County. The income designation of these two census tracts changed since the 2010 U.S. Census. According to 2010 U.S. Census data, the assessment area was comprised of 15 middle- and one upper-income geographies. The following table illustrates selected demographic characteristics of the Washington Metro Assessment Area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	16	0.0	12.5	81.3	6.3	0.0
Population by Geography	70,426	0.0	10.6	81.6	7.8	0.0
Housing Units by Geography	30,331	0.0	11.5	81.0	7.5	0.0
Owner-Occupied Units by Geography	20,323	0.0	10.1	81.7	8.2	0.0
Occupied Rental Units by Geography	7,481	0.0	16.3	76.3	7.3	0.0
Vacant Units by Geography	2,527	0.0	8.5	89.2	2.4	0.0
Businesses by Geography	8,015	0.0	10.1	83.6	6.3	0.0
Farms by Geography	1,267	0.0	3.5	87.4	9.2	0.0
Family Distribution by Income Level	18,679	19.8	19.3	25.8	35.1	0.0
Household Distribution by Income Level	27,804	22.2	16.6	18.2	43.0	0.0
Median Family Income - Iowa City, Iowa Metropolitan Statistical Area		\$81,027	Median Housing Value			\$121,386

Median Family Income - Nonmetropolitan Iowa	\$61,681	Median Gross Rent	\$637
		Families Below Poverty Level	6.7%
Source: 2015 ACS Census and 2021 D&B Data. (*) The NA category consists of geographies that have not been assigned an income classification. Due to rounding, totals may not equal 100.0%			

According to 2021 D&B data, service industries represent the largest portion of farms and businesses at 32.9 percent; followed by non-classifiable establishments at 15.8 percent; agriculture, forestry, and fishing at 13.7 percent; and retail trade at 9.8 percent. In addition, 70.6 percent of assessment area farms and businesses have four or fewer employees, and 92.8 percent operate from a single location.

The FFIEC-estimated median family income levels are used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories for the Iowa City, Iowa Metropolitan Statistical Area and nonmetropolitan areas of Iowa for 2020 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%
Iowa City, Iowa Metropolitan Statistical Area Median Family Income				
2020 (\$99,100)	<\$49,550	\$49,550 to <\$79,280	\$79,280 to <\$118,920	≥\$118,920
Nonmetropolitan Iowa Median Family Income				
2020 (\$69,200)	<\$34,600	\$34,600 to <\$55,360	\$55,360 to <\$83,040	≥\$83,040
Source: FFIEC				

Competition

The Washington Metro Assessment Area is considered highly competitive in the market for financial services. According to Call Reports filed by financial institutions, 21 banks operate from 39 offices within the Washington Metro Assessment Area. These institutions range from small community banks to larger financial institutions operating branch offices in the area. Of these institutions, Federation Bank is ranked 7th with 4.2 percent of the deposit market share.

Community Contact(s)

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit needs and economic conditions of the community. This information helps determine whether local financial institutions are responsive to community credit needs and provides context regarding available opportunities for area financial institutions. In conjunction with this evaluation, examiners referenced three recent community contacts with representatives from agricultural and small business organizations that operate in the Washington Metro Assessment Area.

Both agricultural contacts stated that the agricultural economy is strong and farm borrowings are down. This is attributed to government subsidy payments and an increase in commodity prices, resulting in additional cash flow. Historically, the area has seen agricultural loan demand; however, with the current economic conditions, demand is limited. Both contacts also indicated that farmland

prices have increased significantly. The contacts indicated that there is a well-established footprint of financial institutions in the area, creating a competitive agricultural credit environment.

For small business lending, the biggest need in the area is funding for start-up businesses. The contact reported that small businesses are struggling to find qualified employees. Due to limited available workers, many small business owners have reduced the hours of operation or closed their doors on certain days, as they do not have the workforce to maintain normal hours. The contact stated that the area is highly competitive with several banks competing for quality credits.

Credit Needs

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that small farm, small business, and home mortgage loans are primary credit needs of the Washington Metro Assessment Area. Call Reports filed by area financial institutions also support this assertion.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE WASHINGTON METRO ASSESSMENT AREA

LENDING TEST

Federation Bank demonstrated reasonable performance under the Lending Test in the Washington Metro Assessment Area, primarily supported by Borrower Profile performance.

Geographic Distribution

Federation Bank’s geographic distribution of small farm, small business, and home mortgage lending reflects an overall excellent dispersion, evidencing management’s strong willingness to extend loans throughout the assessment area. The bank’s excellent dispersion of small business and home mortgage loans supports this conclusion.

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion. Although slightly below D&B data, Federation Bank’s lending performance in moderate-income geographies demonstrates reasonable performance. The assessment area’s moderate-income census tracts are located within the city of Washington, which contains limited farm lending opportunities. In addition, the rural areas that surround Washington are middle-income geographies. As exhibited in the following table, Federation Bank’s small farm loans are concentrated in middle-income geographies.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	3.8	4	1.7	207	1.4
Middle	86.8	234	97.9	14,395	97.9
Upper	9.4	1	0.4	100	0.7
Totals	100.0	239	100.0	14,702	100.0
<small>Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</small>					

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion. As demonstrated in the following table, Federation Bank's performance in lending to businesses operating in moderate-income census tracts significantly exceeds demographic benchmark data, which demonstrates excellent performance.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	10.2	43	27.7	2,440	34.6
Middle	83.5	110	71.0	4,536	64.3
Upper	6.3	2	1.3	79	1.1
Totals	100.0	155	100.0	7,055	100.0

*Source: 2020 D&B Data; Bank Data.
Due to rounding, totals may not equal 100.0%*

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion. As illustrated in the following table, Federation Bank's performance in extending home mortgage loans in moderate-income census tracts significantly exceeds 2015 ACS Census data.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Moderate	10.1	39	32.5	4,220	31.2
Middle	81.7	80	66.7	9,101	67.3
Upper	8.2	1	0.8	208	1.5
Total	100.0	120	100.0	13,529	100.0

*Source: 2015 ACS Census Data; Bank Data.
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes and individuals of different income levels, given assessment area demographics. This conclusion is supported by reasonable performance in all three products reviewed.

Small Farm Loans

The distribution of small farm loans among agricultural operations with gross annual revenues of \$1 million or less reflects reasonable penetration. The bank's percentage of sampled loans to small farms with gross annual revenues of \$1 million or less is slightly lower than D&B data, but reasonable when considering additional data. Specifically, 2017 U.S. Census of Agriculture data reveals that 57.4 percent of farm producers in the counties that comprise the assessment area are

small hobby farmers. These farmers list their principal occupation as “other than farming.” The same data also shows that 53.3 percent of farms reported not incurring any interest expense. These statistics demonstrate there are a significant proportion of operators with limited or no borrowing needs. Federation Bank’s reasonable small farm lending performance is demonstrated in the following table.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.3	53	96.4	2,771	86.4
>\$1,000,000	0.9	2	3.6	435	13.6
Revenue Not Available	0.8	0	0.0	0	0.0
Total	100.0	55	100.0	3,206	100.0
<i>Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Small Business Loans

The distribution of small business loans among commercial operations generating gross annual revenues of \$1 million or less reflects reasonable penetration. The bank’s percentage of sampled loans to small businesses with gross annual revenues of \$1 million or less is lower than D&B data, but reasonable when considering additional data. The majority of the bank’s small business lending, by number and dollar amount, is to small businesses generating gross annual revenues of \$1 million or less, evidencing an intent to serve businesses in this revenue category. Management reports that most loans to businesses generating over \$1 million in gross annual revenues are to long-standing customers that have grown over time, while noting the bank’s willingness to extend credit to any qualified applicant regardless of revenue size. The bank offers Small Business Administration loan products designed specifically to assist small businesses with gross annual revenues of \$1 million or less. Further, of the 11 loans sampled that were originated to businesses with gross annual revenues greater than \$1 million, three borrowers had multiple loans in the sample. This concentration of loans in the sample to a small number of borrowers can affect results. Federation Bank’s reasonable small business lending performance is demonstrated in the following table.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	87.1	39	78.0	1,856	68.9
>\$1,000,000	4.2	11	22.0	837	31.1
Revenue Not Available	8.7	0	0.0	0	0.0
Total	100.0	50	100.0	2,693	100.0
<i>Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The bank’s performance in extending home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. Federation Bank’s performance in lending to low-income borrowers in 2020 was slightly lower than the percentage of low-income families in the assessment area. Performance in lending to moderate-income borrowers nearly mirrors 2015 ACS Census data. See the following table.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	19.8	9	19.1	873	14.1
Moderate	19.3	9	19.1	901	14.6
Middle	25.8	17	36.2	2,541	41.1
Upper	35.1	12	25.5	1,865	30.2
Total	100.0	47	100.0	6,180	100.0

*Source: 2015 ACS Census Data; Bank Data.
Due to rounding, totals may not equal 100.0%*

NON-METRO ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE NON-METRO ASSESSMENT AREA

The Non-Metro Assessment Area consists of all of Keokuk County. This assessment area is in the nonmetropolitan areas of Iowa.

Economic and Demographic Data

According to 2015 ACS Census data, the Non-Metro Assessment Area is comprised of four middle-income geographies. The income designations of census tracts in the assessment area have not changed since the previous evaluation. The following table illustrates selected demographic characteristics of the Non-Metro Assessment Area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.0	0.0	100.0	0.0	0.0
Population by Geography	10,291	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	4,899	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	3,375	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	972	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	552	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	892	0.0	0.0	100.0	0.0	0.0
Farms by Geography	285	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,785	23.0	19.4	25.5	32.2	0.0
Household Distribution by Income Level	4,347	25.1	19.0	19.5	36.4	0.0
Median Family Income - Nonmetropolitan Iowa	\$61,681	Median Housing Value				\$80,033
		Median Gross Rent				\$623
		Families Below Poverty Level				9.0%

Source: 2015 ACS Census and 2021 D&B Data. () The NA category consists of geographies that have not been assigned an income classification. Due to rounding, totals may not equal 100.0%*

According to 2021 D&B data, service industries represent the largest portion of farms and businesses at 26.3 percent; followed by agriculture, forestry, and fishing at 24.2 percent; non-classifiable establishments at 11.8 percent; and retail trade at 9.6 percent. In addition, 74.9 percent of assessment area farms and businesses have four or fewer employees, and 91.0 percent operate from a single location.

The FFIEC-estimated median family income levels are used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories for the nonmetropolitan areas of Iowa for 2020 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%
2020 (\$69,200)	<\$34,600	\$34,600 to <\$55,360	\$55,360 to <\$83,040	≥\$83,040

Source: FFIEC

Competition

The Non-Metro Assessment Area is considered moderately competitive in the market for financial services. Deposit Market Share Reports as of June 30, 2021, reflect seven insured institutions operating from nine offices within Keokuk County. These institutions range from small community banks to larger financial institutions operating branch offices in the area. Federation Bank ranked 6th with 3.99 percent of the deposit market share in the Non-Metro Assessment Area.

Credit Needs

Considering information from bank management and demographic and economic data, examiners determined that small farm, small business, and home mortgage loans are primary credit needs of the Non-Metro Assessment Area. Call Reports filed by area financial institutions also support this assertion.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NON-METRO ASSESSMENT AREA

LENDING TEST

Federation Bank demonstrated reasonable performance under the Lending Test in the Non-Metro Assessment Area, as supported by Borrower Profile performance.

Geographic Distribution

This assessment area does not include any low- or moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes and individuals of different income levels, given assessment area demographics. This conclusion is supported by reasonable performance in all three lending products reviewed.

Small Farm Loans

The distribution of small farm loans among agricultural operations with gross annual revenues of \$1 million or less reflects reasonable penetration. The bank's percentage of sampled loans to small farms with gross annual revenues of \$1 million or less is lower than D&B data, but reasonable when considering additional data. Specifically, 2017 U.S. Census of Agriculture data reveals that 52.5 percent of farm producers in Keokuk County are small hobby farmers. These farmers list their principal occupation as "other than farming." The same data also shows that 49.1 percent of farms reported not incurring any interest expense. These statistics demonstrate there are a significant proportion of operators with limited or no borrowing needs. Federation Bank's reasonable small farm lending performance is demonstrated in the following table.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.1	27	90.0	1,279	91.6
>\$1,000,000	0.8	3	10.0	117	8.4
Revenue Not Available	1.2	0	0.0	0	0.0
Total	100.0	30	100.0	1,396	100.0

*Source: 2020 D&B Data; Bank Data.
Due to rounding, totals may not equal 100.0%*

Small Business Loans

The distribution of small business loans among commercial operations generating gross annual revenues of \$1 million or less reflects reasonable penetration. The bank’s percentage of sampled loans to small businesses with gross annual revenues of \$1 million or less is lower than D&B data, but reasonable when considering additional data. The majority of the bank’s small business lending, by number and dollar amount, is to small businesses generating gross annual revenues of \$1 million or less, evidencing an intent to serve businesses in this revenue category. Management reports that most loans to businesses generating over \$1 million in gross annual revenues are to long-standing customers that have grown over time, while noting the bank’s willingness to extend credit to any qualified applicant regardless of revenue size. The bank offers Small Business Administration loan products designed specifically to assist small businesses with gross annual revenues of \$1 million or less. Further, of the seven loans sampled that were originated to businesses with gross annual revenues greater than \$1 million, three were to one borrower and two were to another. This concentration of loans in the sample to a small number of borrowers can affect results. Federation Bank’s reasonable small business lending performance is demonstrated in the following table.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	82.2	24	77.4	777	77.1
>\$1,000,000	4.3	7	22.6	231	22.9
Revenue Not Available	13.5	0	0.0	0	0.0
Total	100.0	31	100.0	1,008	100.0
<i>Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

Overall, Federation Bank’s performance in extending home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. As detailed in the following table, Federation Bank’s lending to low-income individuals is 9.4 percent less than the percentage of low-income families in the assessment area. As noted in the demographic table, 9.0 percent of assessment area families are below the poverty level. These individuals would most likely have difficulty making a down payment or meeting underwriting criteria to purchase a home. Management indicated that the area consistently has a low inventory of available low-income housing. Federation Bank’s level of lending to moderate-income individuals significantly exceeds demographics by 21.5 percent. Federation Bank’s overall reasonable lending performance to low- and moderate-income borrowers in the Non-Metro Assessment Area is demonstrated in the following table.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	23.0	3	13.6	213	14.1
Moderate	19.4	9	40.9	463	30.5
Middle	25.5	4	18.2	354	23.4
Upper	32.2	6	27.3	486	32.1
Total	100.0	22	100.0	1,516	100.0
<i>Source: 2015 ACS Census Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

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

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

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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