

PUBLIC DISCLOSURE

July 20, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Union Savings Bank
Certificate Number: 29121

223 West Stephenson Street
Freeport, Illinois 61032

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Chicago Regional Office
300 South Riverside Plaza, Suite 1700
Chicago, Illinois 60606

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

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INSTITUTION RATING

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

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

- The average loan-to-deposit ratio is reasonable.
- A substantial majority of loans and other lending related activities are in the institution's assessment areas.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment areas.
- The distribution of borrowers reflects, given the demographics of the assessment area, excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The institution's investment record enhances credit availability in its assessment areas.
- The institution did not receive any CRA-related complaints since the prior evaluation; therefore, this criterion did not affect the Lending Test rating.

DESCRIPTION OF INSTITUTION

Union Savings Bank (USB) is a \$160.6 million financial institution headquartered in Freeport, Illinois. The bank is a wholly-owned subsidiary of Union Bancshares, MHC, Freeport, IL, a one-bank mutual holding company. Union Savings Bank was established in 1883 and is one of the oldest financial institutions serving Northern Illinois. USB operates five full-service branch locations. The bank has not opened or closed any branch locations since the previous evaluation. The FDIC assigned a Satisfactory rating at the prior CRA evaluation dated July 23, 2014, using the Interagency Small Institution Examination Procedures.

The institution is predominantly a residential real estate lender offering in-house conventional fixed rate residential mortgages and long-term fixed rate residential loans through the secondary market. USB is involved with government lending programs, including the USDA Rural Development Guaranteed Loan Program (USDA), the Federal Housing Administration (FHA) and the Veterans Administration (VA).

Other loan products offered by USB include commercial real estate loans, business lines of credit and equipment loans, home equity loans, overdraft protection, and automobile loans. The bank recently began originating loans under the Paycheck Protection Program (PPP) guaranteed by the Small Business Administration (SBA). Additional details regarding this loan program are discussed later in this evaluation.

Union Savings Bank also offers Federal Home Loan Bank (FHLB) down payment plus grants, up to \$6,000, to qualified first-time homebuyers, towards the purchase of their primary residence.

As a member of the FHLB, the bank participated in the COVID-19 Relief Fund program. Details regarding this community service activity are noted elsewhere in this evaluation.

The bank offers traditional deposit products and services such as checking, money market, savings, certificates of deposit, and retirement accounts. Additional services include safe deposit boxes, direct deposit, transfer services, night depository, online banking, and mobile banking.

As of the March 31, 2020, Consolidated Report of Condition (Call Report), the bank reported approximately \$160.6 million in total assets, \$110.9 million in total loans, and \$28.1 million in total securities. Total assets decreased approximately 1.2 percent since the prior evaluation, and total loans increased 6.5 percent. Residential lending continues to represent the predominant lending segment. The following table provides detailed information about the loan portfolio.

Loan Portfolio Distribution as of 3/31/2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	331	.30
Secured by Farmland	9,283	8.4
Secured by 1-4 Family Residential Properties	57,559	51.9
Secured by Multifamily (5 or more) Residential Properties	6,714	6.0
Secured by Nonfarm Nonresidential Properties	21,888	19.7
Total Real Estate Loans	95,775	86.3
Commercial and Industrial Loans	9,051	8.2
Agricultural Production and Other Loans to Farmers	1,536	1.4
Consumer Loans	4,532	4.1
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	0	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	110,894	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments inhibiting the bank’s ability to meet assessment area credit needs during the review period.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires a financial institution to define one or more assessment areas (AA) within which its CRA performance will be evaluated. Union Savings Bank has designated two separate AAs: the Illinois Non-MSA AA, which consists of Stephenson County and seven contiguous census tracts in Ogle County and the Rockford MSA AA, which consists of Boone and Winnebago Counties. The AAs are consistent with the requirements of the Act and do not arbitrarily exclude any low- or moderate-income (LMI) census tracts. There have been no changes to USB’s AA since the previous evaluation. Refer to the individual assessment areas below for additional information.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated July 23, 2014, to the current evaluation date of July 20, 2020. Examiners used the Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance. Examiners conducted full-scope reviews of the bank's two AAs. The lending performance in the Illinois Non-MSA AA is weighted more heavily as the main office, two branches, and 77.8 percent of the bank's deposit base are located in this AA. By comparison, two branches and 22.2 percent of the bank's deposit base is located in the Rockford MSA AA. The bank's record of originating home mortgage loans will be weighted more heavily than small business loans due to USB's business focus, volume of originations, and loan portfolio concentration in the Illinois Non-MSA AA. The bank's record of originating home mortgage loans and small business loans will receive equal consideration in the Rockford MSA AA, based on the number and dollar volume originated during the evaluation period.

Activities Reviewed

Examiners determined that USB's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. The loan portfolio is predominantly composed of residential home mortgage loans (51.9 percent) and commercial loans (27.9 percent). No other loan types represent a major product line; therefore, they provided no material support for conclusions or ratings and not presented in this evaluation. In the Non-MSA AA, the bank's record of originating home mortgage loans contributes the greatest weight in arriving at overall conclusions, because it is the primary lending product in that AA and has the most substantial impact on the CRA performance. In the Rockford MSA AA, based on origination volume, the bank's record of originating home mortgage loans is weighted equally with the bank's record of small business lending.

Examiners considered the universe of home mortgage loans reported on the bank's 2018 and 2019 Home Mortgage Disclosure Act (HMDA) Loan Application Registers in 2018 and 2019. The bank originated or purchased 95 HMDA loans totaling \$8.9 million in 2018 and 129 HMDA loans totaling \$21.2 million in 2019. Examiners analyzed both 2018 and 2019 HMDA data, lending performance was found to be consistent between years, and 2019 HMDA data does not lead to different conclusions. Therefore, this evaluation presents lending performance for 2018 exclusively, the most recent year for which aggregate data is available. The aggregate performance of all lenders required to report HMDA data within the respective AAs and the 2015 ACS census data provided a standard of comparison for USB's home mortgage loans.

The bank originated 45 small business loans in 2019 totaling \$2.1 million. Examiners analyzed the universe of small business loans originated in 2019 and used the 2019 D&B business data as a standard of comparison.

As previously mentioned, the institution participates in USDA Rural Development Guaranteed Loan Program and the FHA Loan Program.

Since the previous evaluation, the bank originated 119 USDA loans totaling \$9.5 million and 264 FHA loans totaling \$27.8 million. In addition, 192 one-to-four family mortgage loans totaling \$14.8 million were originated by USB to low-income borrowers, as defined by the USDA, from 2015 through 2019. The bank also originated \$61,250 in grants to eleven first-time homebuyers under the FHLB Down Payment Plus program. The dollar amount of the loans originated with these grants was \$514,389.

Examiners reviewed the number and dollar volume of home mortgage and small business loans. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans extended. The number of loans is generally a better indicator of the number of individuals and small businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

USB demonstrated excellent performance under the Lending Test. Borrower Profile and Geographic Distribution primarily support this conclusion. For the Borrower Profile and Geographic Distribution criteria, examiners evaluated bank performance both overall and separately for each AA. As previously noted, the bank's performance in the Illinois Non-MSA AA is weighted more heavily. Examiners determined the bank's performance under the Lending Test, in the Illinois Non-MSA AA, to be outstanding. The excellent geographic dispersion of home mortgage lending, and the excellent distribution of home mortgage loans to individuals of different income levels, including LMI borrowers, and businesses of different sizes, in the Illinois Non-MSA, supports this conclusion. Overall performance in the Rockford MSA AA is considered satisfactory. Below is a discussion of the overall conclusions for each of the performance criteria under which the bank was evaluated. Please refer to the separate analyses within each AA for more detail of USB's performance.

Loan-to-Deposit Ratio

USB's loan-to-deposit ratio (LTD) is reasonable given the institution's size, financial condition, and AAs credit needs. Based on Call Report data, the average LTD over the prior 24 quarters was 74.6 percent. The average LTD ranged from a low of 67.3 percent as of March 31, 2016 to a high of 81.6 percent as of September 30, 2019, with no noteworthy trends identified.

Examiners compared the average LTD to five similarly-situated financial institutions (SSIs) operating within the bank's market areas. The SSIs maintained an average LTD ratio 84.1 percent, ranging from 71.5 percent to 95.8 percent as depicted in the following table, on the next page.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 03/31/2020 (\$000s)	Average LTD Ratio (%)
Union Savings Bank	160,606	74.6
Similarly-Situated Institution #1	88,397	71.5
Similarly-Situated Institution #2	271,310	86.7
Similarly-Situated Institution #3	286,749	85.5
Similarly-Situated Institution #4	296,464	81.1
Similarly-Situated Institution #5	296,600	95.8
<i>Source: Reports of Condition and Income 09/30/2014 – 03/31/2020.</i>		

Assessment Area Concentration

Overall, a substantial majority of home mortgage and small business loans by number are inside the institution’s AAs. The table below details the percentages by number and dollar volume within and outside the AAs for each loan product reviewed.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2018	80	84.2	15	15.8	95	6,160	68.9	2,774	31.1	8,934
2019	119	92.2	10	7.8	129	19,628	92.4	1,616	7.6	21,244
Total	199	88.8	25	11.2	224	25,788	85.5	4,390	14.5	30,178
Small Business										
2019	39	86.7	6	13.3	45	2,145	84.8	383	15.2	2,528
<i>Source: 2018-2019 HMDA Reported Data and 1/1/2019- 12/31/2019 Bank Data. Due to rounding, totals may not equal 100.0</i>										

Geographic Distribution

The geographic distribution of home mortgage and small business loans reflects excellent dispersion throughout the AAs. Only loans originated in the assessment area were considered in the analyses. USB’s excellent performance of home mortgage and small business lending, primarily in the Illinois Non-MSA AA supports this conclusion. Examiners focused on the percentage by number of loans in LMI census tracts. Please refer to the comments in each AA for a detailed discussion of the institution’s performance under this portion of the lending test.

Borrower Profile

The distribution of home mortgage and small business loans reflects excellent penetration among borrowers of different income levels and businesses of different sizes within the AAs. The bank’s excellent record of home mortgage and small business lending in the Illinois Non-MSA AA and excellent record of small business lending in the Rockford MSA supports this conclusion.

Examiners focused on the percentage by number of home mortgage loans to LMI borrowers, and the percentage by number of small business loans to businesses with gross annual revenues (GARs) of \$1 million or less. Only loans originated in the assessment area were considered in the analyses. Please refer to the separate conclusions under each AA for more information supporting the reasonable performance.

Other Lending Related Activity

In response to the economic impact on small businesses, because of the COVID-19 pandemic, the Small Business Administration (SBA) created the Payroll Protection Program (PPP). The PPP is a loan program designed to help small businesses maintain and compensate their workforce during the crisis. Although not previously an SBA lender, USB chose to participate in the program to meet community needs. Since the program's inception in March 2020, the Bank originated eight PPP loans to small businesses totaling \$130,063 within its assessment areas.

Community Development Investment and Services

During the review period, the bank was involved in the following investments and services.

Union Savings Bank is a member of the Greater Freeport Partnership (GFP), formerly known as the Northwest Illinois Development Alliance (NIDA). The GFP was formed in June 2018, when NIDA and three other organizations, the Freeport Downtown Development Foundation, the Freeport Area Chamber of Commerce and the Freeport/Stephenson County Convention and Visitors Bureau/Visitors Center merged. GFP is a not-for-profit economic development corporation focused on retaining and expanding business, and diversifying the economic base of the city of Freeport, Stephenson County, and northwest Illinois. The purpose of the GFP is to provide loans to for-profit small businesses in the region. Money for lending comes from a pool provided by local participating banks. The program provides a vehicle for financing to enhance the financial needs of small businesses or businesses located in communities in the region and for businesses who do not meet other public loan requirements for job creation. From April 5, 2016 through June 24, 2020, USB contributed \$37,500 to the pool of funds available. Community contacts identified small business lending as a community development need.

USB is a member of the FHLB and participated in the FHLB COVID-19 Relief Grant Program. The FHLB provides member institutions \$20,000 in COVID-19 grants to administer to community businesses impacted by COVID-19. The bank provided \$18,000 through the relief grant program to nine non-profit social service organizations within its assessment areas, and one grant of \$2,000 to a non-profit social service organization outside of its AAs.

Response to Complaints

Union Savings Bank has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

DESCRIPTION OF INSTITUTION'S OPERATIONS IN ILLINOIS NON-MSA AA - Full Scope Review

The bank's Illinois Non-MSA AA consists of Stephenson County and seven contiguous census tracts in Ogle County, in rural northern Illinois. USB's main office in Freeport, two full-service branches located in Freeport and Mount Morris (Ogle County) and 77.8 percent of the deposit base are in this AA. No material changes have been made to the assessment area since the previous evaluation. Nor has the bank opened or closed any branches. Additional information regarding the branch and ATM distribution within this AA are shown in the following table.

Branch and ATM Distribution by Geography Income Level Illinois Non-MSA Assessment Area								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	1	5.0	3,246	4.2	1	33.3	3	50.0
Moderate	3	15.0	9,874	12.6	1	33.3	1	16.7
Middle	11	55.0	43,101	55.2	1	33.3	2	33.3
Upper	5	25.0	21,914	28.0	0	0.0	0	0.0
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	20	100.0	78,135	100.0	3	100.0	6	100.0

Source: 2015 ACS Data; Bank Data

Economic and Demographic Data

This AA is comprised of 20 census tracts (CTs) and reflects the following income designations according to the 2015 American Community Survey (ACS) data:

- 1 low-income tract;
- 3 moderate-income tracts;
- 11 middle-income tracts; and
- 5 upper-income tracts.

The following table illustrates select demographic characteristics of this assessment area:

Demographic Information of the Illinois Non-MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	20	5.0	15.0	55.0	25.0	0.0
Population by Geography	78,135	4.2	12.6	55.2	28.0	0.0
Housing Units by Geography	36,088	5.0	12.7	56.0	26.3	0.0
Owner-Occupied Units by Geography	23,837	1.9	9.6	57.1	31.4	0.0
Occupied Rental Units by Geography	8,347	11.5	18.5	55.2	14.8	0.0
Vacant Units by Geography	3,904	9.8	19.7	51.1	19.4	0.0
Businesses by Geography	4,355	9.5	12.5	51.7	26.3	0.0
Farms by Geography	557	.9	2.9	68.6	27.6	0.0
Family Distribution by Income Level	20,937	18.3	17.2	21.3	43.2	0.0
Household Distribution by Income Level	32,184	22.3	15.3	18.1	44.2	0.0
Median Family Income Illinois Non-MSA AA		\$64,457	Median Housing Value			\$120,609
Median Family Income Illinois Non-MSAs		\$59,954	Median Gross Rent			\$615
			Families Below Poverty Level			9.4%

Source: 2015 ACS Data and 2019 D&B Data. Due to rounding, totals may not equal 100.0. () The NA category consists of geographies that have not been assigned an income classification.*

Examiners used the 2018 FFIEC-updated median family income levels to analyze home mortgage lending activity under the Borrower Profile criterion. The following table illustrates the income categories for the Illinois Non-MSA AA.

Median Family Income Ranges – Illinois Non-MSA Assessment Area				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2018 (\$63,900)	<\$31,950	\$31,950 to <\$51,120	\$51,120 to <\$76,680	≥\$76,680
2019 (\$64,200)	<\$32,100	\$32,100 to <\$51,360	\$51,360 to <\$77,040	≥\$77,040

Source: FFIEC

There are 36,088 housing units in the Illinois Non-MSA AA, of which, 66 percent are owner-occupied, 23.1 percent are rental properties, and 10.8 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

According to 2019 D&B data, there were 4,355 businesses in the assessment area. GARs for these businesses are:

- 81.5 percent have \$1 million or less
- 5.1 percent have more than \$1 million
- 13.4 percent have unknown revenues

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR levels. Service industries represent the largest classification of businesses at 35.8 percent; followed by retail trade at 12.6 percent; agriculture, forestry and fishing at 11.3percent; and construction at 7.7 percent. Additionally, 66.9 percent of assessment area businesses have fewer than five employees, and 87.3 percent operate from a single location.

Data obtained from the U.S. Bureau of Labor Statistics as of May 2020, indicates the unemployment rates in the two-county assessment area, the State of Illinois, and the U.S. have exponentially increased due to the outbreak of COVID-19. This global pandemic has adversely affected local economies creating considerable hardships for small businesses and individuals. According to Moody’s Analytics, the disruption from COVID-19 has pushed Illinois’ economy into recession. Though Illinois was one of the first states to close nonessential businesses and implement stay-at-home orders, payroll employment in May 2020 was 12% lower than in February, slightly less than the Midwest and U.S. averages. The biggest job losses, by far, were in leisure/hospitality. The percentage of the labor force receiving unemployment benefits was close to the national average in late May 2020. House price increases accelerated through the first quarter, but the pandemic has since decreased real estate activity and knocked residential construction from bad to worse. The fallout in Illinois from the COVID-19 outbreak will be high for the Midwest by virtue of its sheer size and global connections, but no worse than the U.S.

Unemployment Rates				
Area	December 2017	December 2018	December 2019	May 2020
	%	%	%	%
Ogle County	4.8	5.7	5.0	13.0
Stephenson County	4.3	5.1	4.3	10.3
State	4.5	4.4	3.5	14.8
National Average	3.9	3.7	3.4	13.0

Source: Bureau of Labor Statistics

Competition

The assessment area is moderately competitive in the financial services market. According to the FDIC Deposit Market Share report, as of June 30, 2019, 22 financial institutions that operated 42 offices within Ogle and Stephenson counties. Of these institutions, USB ranked 12th with 4.3 percent market share.

There is a high level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders in the AA. In 2018, 147 lenders reported 1,409 residential mortgage loans originated or purchased. USB ranked 5th out of this group of lenders with a market share of 4.5 percent. The five most prominent home mortgage lenders accounted for 24.8 percent of total market share.

Community Contacts

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

Examiners reviewed three recently conducted community contacts in the area. One of the contacts, a farm service agency, identified the need for micro-guaranteed loans and guaranteed farm ownership and operating loans to family-size farmers and ranchers in the AA. The second contact stressed the need for affordable housing and financial literacy for community residents. The third contact identified a need for commercial loans, including small business loans. In addition, this contact stated that there is also a need for more housing and real estate loans. Each of the contacts stated that there are opportunities for participation by local financial institutions in community development, especially in Freeport, because the city continues to be economically depressed. According to 2015 ACS census data, 15.9 percent of the families in Freeport are below poverty compared with 10.5 percent across the entire State of Illinois. The median family income across the State of Illinois is \$68,236, which is 27.5 percent greater than Freeport's level of \$49,450. Overall, the contacts were satisfied with the involvement of the AA banks and that products and services offered by these institutions met the demands of most residents.

Credit Needs

Considering the information from the community contacts and demographic data, examiners determined that credit needs in the AA include community development programs and activities, economic development, small business lending, affordable housing, and financial literacy for small business owners and retail customers.

CONCLUSIONS ON PERFORMANCE CRITERIA ILLINOIS NON-MSA ASSESSMENT AREA

LENDING TEST

USB's demonstrated excellent performance under the Lending Test in the Illinois Non-MSA AA. Geographic Distribution and Borrower Profile performance for home mortgage and small business lending supports this conclusion.

Geographic Distribution

The geographic distribution of loans reflects excellent dispersion throughout the assessment area, primarily on the strength of the bank's home mortgage lending performance. USB's main office and one full-service branch in Freeport are located in LMI census tracts, respectively. These offices are in close proximity to four LMI census tracts in Stephenson County. There are no LMI census tracts in Ogle County, the location of USB's Mount Morris branch.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout this AA. As shown in the table below, USB’s 2018 record of performance, in LMI census tracts significantly exceeded both the aggregate and percentage of owner-occupied housing units in these geographies.

Geographic Distribution of Home Mortgage Loans in the Illinois Non-MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	1.9	1.8	6	9.4	278	5.8
Moderate						
2018	9.6	7.1	13	20.3	621	12.9
Middle						
2018	57.1	52.4	40	62.5	3,441	71.8
Upper						
2018	31.4	38.6	5	7.8	452	9.4
Income Not Available						
2018	0.0	0.0	0	0.0	0.0	0.0
Totals						
2018	100.0	100.0	64	100.0	4,792	100.0
<i>Source: 2015 ACS Data; 2018 HMDA Reported Data and 2018 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0</i>						

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. As shown in the following table, USB’s record of small business lending in the low-income geographies was 13.3 percent, which exceeded the demographic of businesses in those census tracts. The institution’s performance in the moderate-income census tracts was 6.7 percent and trailed the demographic, as only one small business loan was originated in that geography. Examiners reviewed lending data within moderate-income census tracts from similarly-situated banks in the AA. Overall, there was a low level of lending in moderate-income census tracts, this data suggests a low level of demand for small business loans in those respective geographies.

Geographic Distribution of Small Business Loans in the Illinois Non-MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2019	9.5	2	13.3	36	4.6
Moderate					
2019	12.4	1	6.7	48	6.2
Middle					
2019	51.7	10	66.7	615	78.8
Upper					
2019	26.3	2	13.3	80	10.4
Totals					
2019	100.0	15	100.0	780	100.0
<i>Source: 2019 D&B Data and 1/1/2019 – 12/31/2019 Bank Data. Due to rounding, totals may not equal 100.0</i>					

Borrower Profile

The distribution of borrowers reflects excellent penetration to individuals of different income levels, including LMI borrowers and businesses of different sizes, primarily due to stronger performance in mortgage lending. Supplemental government loan programs provide additional support to home mortgage borrowers in the assessment area and are very responsive to assessment area credit needs.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers is excellent. The table shows USB significantly exceeded aggregate performance levels to both low- and moderate-income borrowers in this AA. Through government programs, the bank offers USDA loans that are conducive to low-income borrowers. Since the previous evaluation, the bank originated 191 mortgage loans totaling \$9.2 million to low-income borrowers, as defined by the USDA Rural Development Program, in this assessment area.

Distribution of Home Mortgage Loans by Borrower Income Level in the Illinois Non-MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	18.3	8.7	12	18.8	541	11.3
Moderate						
2018	17.2	22.4	22	34.4	1,625	33.9
Middle						
2018	21.3	21.3	15	23.4	1,235	25.8
Upper						
2018	43.2	32.7	12	18.8	1,262	26.3
Income Not Available						
2018	0.0	15.0	3	4.7	130	2.7
Total						
2018	100.0	100.0	64	100.0	4,792	100.0
<i>Source: 2015 ACS Data; 2018 HMDA Reported Data and 2018 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0</i>						

Small Business Loans

The distribution of loans to businesses of different sizes is excellent. USB originated 86.7 percent of its loans to businesses with GARs of \$1 million or less. In comparison, in 2019, 81.5 percent of businesses within the assessment area had GARs of \$1 million or less.

Demographics are not necessarily reflective of the opportunities for lending in each revenue category as they include businesses that exist but are not necessarily seeking or may not qualify for financing. In addition, very small businesses typically seek financing through non-traditional sources, such as credit cards. Considering this information, examiners conducted a review of three similarly-situated banks that operate in and serve the bank's AA. The percentage of small business loans to businesses with GARs of \$1million or less for these institutions ranged from a low of 56.3 percent to a high of 100 percent. This analysis revealed USB's borrower profile results is consistent with or better than similarly-situated banks in the assessment area. Based on the comparable D&B demographic data and similarly-situated institutions, USB's performance is considered excellent.

Distribution of Small Business Loans by Gross Annual Revenue Category in the Illinois Non-MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	81.5	13	86.7	612	78.5
> \$1,000,000	5.1	2	13.3	168	21.5
Revenue Not Available	13.4	0	0.0	0	0.0
Total	100.0	15	100.0	780	100.0
<i>Source: 2019 D&B Data and 1/1/2019 – 12/31/2019 Bank Data. Due to rounding, totals may not equal 100.0</i>					

DESCRIPTION OF INSTITUTION'S OPERATIONS IN ROCKFORD MSA AA – Full-Scope Review

The Rockford MSA AA includes all census tracts in Boone and Winnebago counties, in far northern Illinois. The assessment area includes whole geographies and does not arbitrarily exclude LMI census tracts. There have not been any changes in the AA since the previous evaluation. The two full-service branches operated by USB are located in the cities of Belvidere and Rockford. No branches were opened or closed in this AA since the previous evaluation. Additional information regarding the branch and ATM distribution within the Rockford MSA are shown below.

Branch and ATM Distribution by Geography Income Level Rockford MSA Assessment Area								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	13	15.5	37,047	10.8	0	0.0	0	0.0
Moderate	19	22.6	67,357	19.6	1	50.0	1	50.0
Middle	25	29.8	107,622	31.3	1	50.0	1	50.0
Upper	25	29.8	131,163	38.1	0	0.0	0	0.0
NA	2	2.4	1,101	0.3	0	0.0	0	0.0
Total	84	100.0	344,290	100.0	2	100.0	2	100.0
<i>Source: 2015 ACS Data; Bank Data</i>								

Economic and Demographic Data

This AA is comprised of 84 census tracts (CTs) and reflects the following income designations according to the 2015 American Community Survey (ACS) data:

- 13 low-income tract;
- 19 moderate-income tracts;
- 25 middle-income tracts;
- 25 upper-income tracts; and
- 2 no income available

The following table illustrates select demographic characteristics of this assessment area:

Demographic Information of the Rockford MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	84	15.5	22.6	29.8	29.8	2.4
Population by Geography	344,290	10.8	19.6	31.3	38.1	0.3
Housing Units by Geography	145,688	11.4	19.9	30.8	37.3	0.6
Owner-Occupied Units by Geography	90,213	5.1	15.9	33.5	45.4	0.0
Occupied Rental Units by Geography	41,828	21.3	27.8	26.0	23.3	1.6
Vacant Units by Geography	13,647	22.2	23.2	26.9	25.9	1.6
Businesses by Geography	17,818	8.8	15.4	28.6	44.9	2.2
Farms by Geography	715	3.2	10.9	33.0	52.3	0.6
Family Distribution by Income Level	88,592	21.9	17.0	20.4	40.7	0.0
Household Distribution by Income Level	132,041	24.8	15.6	18.2	41.4	0.0
Median Family Income MSA – 40420 Rockford, IL (2015)		\$60,048	Median Housing Value Median Gross Rent Families Below Poverty Level			\$116,330 \$756 12.3%

Source: 2015 ACS Data and 2019 D&B Data. Due to rounding, totals may not equal 100.0. () The NA category consists of geographies that have not been assigned an income classification.*

Examiners used the 2018 FFIEC-updated median family income levels to analyze home mortgage lending activity under the Borrower Profile criterion. The following table illustrates the income categories for the Rockford MSA AA.

Median Family Income Ranges – Rockford MSA AA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2018 (\$66,200)	<\$33,100	\$33,100 to <\$52,960	\$52,960 to <\$79,440	≥\$79,440
2019 (\$63,600)	<\$31,800	\$31,800 to <\$50,880	\$50,880 to <\$76,320	≥\$76,320

Source: FFIEC

There are 145,688 housing units in the Rockford Illinois MSA AA, of which, 61.9 percent are owner-occupied, 28.7 percent are rental properties, and 9.4 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

According to 2019 D&B data, there were 17,818 businesses in the assessment area. GARs for these businesses are:

- 80.0 percent have \$1 million or less
- 7.2 percent have more than \$1 million
- 12.8 percent have unknown revenues

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR levels. Service industries represent the largest classification of businesses at

38.9 percent; followed by retail trade at 14.2 percent; finance, insurance and real estate at 8.4 percent, and construction at 7.6 percent. In addition, 62.4 percent of assessment area businesses have fewer than five employees, and 86.1 percent operate from a single location.

Data obtained from the U.S. Bureau of Labor Statistics indicates the May 2020 unemployment rates in the Rockford MSA, the State of Illinois, and the U.S. have drastically increased due to the outbreak of COVID-19. According to Moody’s Analytics, Rockford’s economy was on the verge of recession, as job losses intensified, prior to COVID-19. Rockford lost nearly 5,000 jobs, or 4 percent, in 2019, its worst year since 2009. The decline was widespread, with declining auto demand driving steep losses in the critical factory sector. Accordingly, the unemployment rate has risen more than a percentage point in recent months even as more workers dropped out of the labor force. The COVID-19 outbreak poses a serious threat to the assessment area’s already-reeling economy. To stem the spread of the virus in Illinois, Governor J.B. Pritzker implemented a statewide stay-at-home order forcing all nonessential businesses to close for 15 days. Though necessary, the decision may crush Rockford’s service sector, forcing many consumer businesses to close or curtail operations. Rockford may also struggle, as its workforce is less adapted to working remotely, with the share of office-using industries ranking in the bottom third of metro areas nationally. The pandemic is also disrupting Rockford’s core factory sector, with FIAT Chrysler and other firms announcing temporary closures.

Unemployment Rates				
Area	December 2017	December 2018	December 2019	May 2020
	%	%	%	%
Boone County	5.5	6.3	6.0	20.0
Winnebago County	5.2	6.1	5.8	19.1
State	4.5	4.4	3.5	14.8
National Average	3.9	3.7	3.4	13.0

Source: Bureau of Labor Statistics

Competition

The assessment area is highly competitive in the financial services market. According to the FDIC Deposit Market Share report, as of June 30, 2019, 25 financial institutions operated 90 offices within the Rockford MSA. Of these institutions, USB ranked 23rd with 0.5 percent market share.

There is a high level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders in the AA. In 2018, 294 lenders reported 9,269 residential mortgage loans originated or purchased. USB ranked 63rd out of this group of lenders with a market share of 0.2 percent. The five most prominent home mortgage lenders accounted for 39.5 percent of total market share.

Community Contacts

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

Examiners reviewed one recently conducted community contact in this AA to assist in identifying the community credit needs. The contact, an economic development organization, identified a need for commercial loans, including small business loans. In addition, the contact stated that there is also a need for more affordable rental units, specifically multi-family residential loans. The contact added that there are opportunities for participation by local financial institutions in community development and other credit-related products. The contact also stated that several banks have personnel on the economic development board and are active in promoting community projects. Overall, the contact was pleased with the involvement of the AA banks, considering that products and services offered by these institutions meet the demands of most residents.

Credit Needs

Considering the information from the community contact and demographic data, examiners determined that community credit needs in the AA include small business lending, affordable rental units, including multi-family housing, and financial literacy for small business owners and retail customers.

CONCLUSIONS ON PERFORMANCE CRITERIA IN ROCKFORD MSA AA

LENDING TEST

USB lending performance reflects reasonable performance to the credit needs in the Rockford MSA AA. The Geographic Distribution and Borrower Profile performance for home mortgage and small business lending supports this conclusion. In the Rockford MSA AA, examiners weighted USB's record of originating home mortgage loans equally with their record of originating small business loans.

Borrower Profile

The distribution of borrowers reflects excellent penetration to individuals of different income levels, including low- and moderate-income borrowers and businesses of different sizes, primarily due to excellent performance in small business lending as well as strong performance to low-income borrowers in mortgage lending. Supplemental government loan programs provide additional support to home mortgage borrowers in the assessment area and are responsive to assessment area credit needs.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers is reasonable. The table shows the percentage of low-income borrowers in this AA was 21.9 percent and that 12.4 percent of the AA’s families had incomes below the poverty level. These families typically do not possess the financial means to qualify for or afford a home mortgage loan due to financial constraints.

USB’s record of originating mortgage loans to low-income borrowers in this AA is excellent. The bank originated 18.8 percent of its home mortgage loans to low-income borrowers compared to the aggregate performance level of 9.9 percent. Through secondary sources, the bank offers FHA and USDA loans to qualified first-time homebuyers. Since the previous examination, the bank originated 21 mortgage loans totaling \$1.8 million to low-income borrowers, as defined by the USDA Rural Development Program, within this AA. The bank’s record of lending to moderate-income borrowers is significantly below the aggregate performance and percentage of moderate-income families. USB originated one home mortgage loan at 6.3 percent to a moderate-income borrower in 2018 compared to the aggregate performance level of 19.5 percent.

Distribution of Home Mortgage Loans by Borrower Income Level in the Rockford MSA AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	21.9	9.9	3	18.8	158	11.6
Moderate						
2018	17.0	19.5	1	6.3	50	3.7
Middle						
2018	20.4	21.8	5	31.3	533	38.9
Upper						
2018	40.7	26.7	5	31.3	543	39.7
Income Not Available						
2018	0.0	22.1	2	12.5	85	6.2
Total						
2018	100.0	100.0	16	100.0	1,369	100.0
<i>Source: 2015 ACS Data; 2018 HMDA Reported Data and 2018 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0</i>						

Small Business Loans

USB’s performance in lending to businesses of different sizes is excellent. A majority of the loans by number, 79.2 percent, were made to businesses with GARs of \$1 million or less, which comprise 80 percent of the total businesses. As previously stated, demographics are not necessarily reflective of the opportunities for lending in each revenue category, examiners conducted a review of a similarly-situated bank that operates in and serves the bank’s AA. The percentage of small business loans by GARs for this institution was 56.3 percent.

This analysis revealed USB’s borrower profile results exceeded the similar bank by 22.9 percent. Based on the comparable D&B demographic data and similarly-situated bank, USB’s performance is considered excellent.

Distribution of Small Business Loans by Gross Annual Revenue Category in the Rockford MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	80.0	19	79.2	1,113	81.5
> \$1,000,000	7.2	5	20.8	252	18.5
Revenue Not Available	12.8	0	0.0	0	0.0
Total	100.0	24	100.0	1,365	100.0
<i>Source: 2019 D&B Data and 1/1/2019 – 12/31/2019 Bank Data. Due to rounding, totals may not equal 100.0</i>					

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area, primarily on the strength of the bank’s home mortgage lending performance. Only loans originated inside this AA are included in the analyses.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the AA. As shown in the following table, the bank made one loan in the low-income census tracts in 2018. Considering just 5.1 percent of housing units in low-income tracts are owner-occupied, and that aggregate lenders originated or purchased only 2.8 percent of loans in these tracts, the bank’s record of lending in low-income census tracts is considered reasonable. USB’s record of home mortgage lending in the moderate-income tracts of 25.0 percent significantly exceeded the aggregate performance of 13.6 percent, and the percent of owner-occupied housing units of 15.9 percent.

Geographic Distribution of Home Mortgage Loans in the Rockford MSA AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	5.1	2.8	1	6.3	32	2.3
Moderate						
2018	15.9	13.6	4	25.0	128	9.3
Middle						
2018	33.5	36.1	2	12.5	176	12.9
Upper						
2018	45.4	47.5	9	56.2	1,034	75.5
Income Not Available						
2018	0.0	0.1	0	0.0	0	0.0
Totals						
2018	100.0	100.0	16	100.0	1,369	100.0
<i>Source: 2015 ACS Data; 2018 HMDA Reported Data and 2018 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0</i>						

Small Business Loans

USB’s overall level of small business lending throughout the assessment area is reasonable. In 2019, the bank originated 12.5 percent of its small business loans in the low-income census tracts, which exceeds the 8.8 percent of businesses located in these tracts. During the evaluation period, USB extended one small business in the moderate-income census tracts, which significantly trails the percentage of businesses located in these geographies. Aggregate data shows the five most prominent lenders accounted for 47.8 percent of the small business loans originated in the moderate-income census tracts. This data suggests a high level of competition among lenders in these geographies. Given the high level of competition for small business loans in moderate-income tracts, the bank’s performance is considered reasonable. Since the previous evaluation, USB has made efforts to meet the credit needs of small businesses within the Rockford AA. In 2018, the bank hired a commercial lender with 40 years of experience in the Rockford and Belvidere markets, to help increase small business lending in the northern Illinois area.

Geographic Distribution of Small Business Loans in the Rockford MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2019	8.8	3	12.5	151	11.1
Moderate					
2019	15.4	1	4.2	44	3.2
Middle					
2019	28.6	6	25.0	516	37.8
Upper					
2019	45.0	14	58.3	654	47.9
Income Not Available					
2019	2.2	0	0.0	0	0.0
Totals					
2019	100.0	24	100.0	1,365	100.0
<i>Source: 2019 D&B Data and 1/1/2019 – 12/31/2019 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 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;
- 4) The geographic distribution of the bank’s loans; 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.

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.