

PUBLIC DISCLOSURE

December 2, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The State Bank of Pearl City
Certificate Number: 16344

215 S Main St
Pearl City, Illinois 61062

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 Satisfactory.

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

The Lending Test is rated Satisfactory

- The net loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of auto and home mortgage loans are in the institution's assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, excellent penetration among households and individuals of different income level.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test.

DESCRIPTION OF INSTITUTION

Background

The State Bank of Pearl City (SBPC) is a community bank headquartered in Pearl City, Illinois, in the northwestern part of the state. The bank is wholly owned by Pearl City Bancorp, Inc., a one-bank holding company also located in Pearl City, Illinois. SBPC received a “Satisfactory” rating at its previous FDIC CRA Performance Evaluation dated April 9, 2019, utilizing Small Institution Examination Procedures.

Operations

In addition to its headquarters in Pearl City, SBPC operates a full-service branch office in Mount Carroll, Illinois, approximately 20 miles southwest of the main office. Both the main and branch offices are in middle-income census tracts. SBPC has not opened or closed any branches or participated in any merger or acquisition activities since the prior evaluation.

The bank offers a variety of loan products including both secured and unsecured consumer loans, home mortgage loans, home equity lines of credit, commercial loans, agricultural loans, and construction loans. Additionally, SBPC originates residential mortgage loans to sell to secondary market lenders. The bank also provides a variety of deposit services for individuals and businesses including checking, savings, money market deposit accounts, and certificates of deposit. Alternative banking services include internet and mobile banking, and electronic bill pay.

Ability and Capacity

According to the September 30, 2024, Consolidated Reports of Condition and Income (Call Report), the bank reported approximately \$80.1 million in total assets, \$35.6 million in total loans, and \$72.8 million in total deposits. Since the previous evaluation, assets have increased \$24.1 million or 43.1 percent, total securities increased \$15.0 million or 141.3 percent, and residential lending increased approximately \$7.8 million or 176.8 percent. Consumer lending decreased \$8.1 million or 30.2 percent and commercial lending decreased 14.9 percent. The following table provides detailed information about the loan portfolio.

| Loan Portfolio Distribution as of 09/30/2024 | | |
|---|---------------|--------------|
| Loan Category | \$(000s) | % |
| Construction and Land Development | 255 | 0.7 |
| Secured by 1-4 Family Residential Properties | 12,188 | 34.3 |
| Secured by Multifamily (5 or more) Residential Properties | 272 | 0.8 |
| Secured by Owner-Occupied Nonfarm Nonresidential Properties | 198 | 0.6 |
| Secured by Nonfarm Nonresidential Properties | 1,396 | 3.9 |
| Total Real Estate Loans | 14,309 | 40.3 |
| Commercial and Industrial Loans | 716 | 2.0 |
| Agricultural Loans | 1,292 | 3.6 |
| Consumer Loans | 18,805 | 52.8 |
| Other Loans | 461 | 1.3 |
| Total Loans | 35,583 | 100.0 |
| Source: Call Report. | | |

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

DESCRIPTION OF ASSESSMENT AREA

The CRA requires a financial institution to define one or more assessment areas within which its CRA performance will be evaluated. SBPC’s assessment area includes Carroll, Jo Daviess, and Stephenson Counties in northern Illinois which are in non-metropolitan statistical area (non-MSA). SBPC expanded the assessment area since the previous examination from one census tract to all census tracts in Jo Daviess County to better represent its lending focus, strategy, and anticipated market. The assessment area is consistent with the requirements of the CRA, as it consists of whole geographies, does not arbitrarily exclude LMI geographies, and includes all geographies where the bank's offices are located.

Economic and Demographic Data

Based on the 2020 U.S. Census demographic data, the assessment area’s 26 census tracts reflect the following income designations: 2 low-income census tracts, 4 moderate-income census tracts, 17 middle-income census tracts, and 3 upper-income census tracts. The following table illustrates select 2020 U.S. Census demographic characteristics of the assessment area.

| Demographic Information of the Assessment Area | | | | | | |
|--|-----------|--------------------------------|--------------------|------------------|-----------------|---------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 26 | 7.7 | 15.4 | 65.4 | 11.5 | 0.0 |
| Population by Geography | 82,367 | 5.6 | 16.5 | 67.8 | 10.1 | 0.0 |
| Housing Units by Geography | 44,071 | 6.2 | 16.0 | 63.7 | 14.2 | 0.0 |
| Owner-Occupied Units by Geography | 26,445 | 4.0 | 14.1 | 71.3 | 10.6 | 0.0 |
| Occupied Rental Units by Geography | 9,876 | 12.8 | 25.6 | 52.2 | 9.4 | 0.0 |
| Vacant Units by Geography | 7,750 | 5.3 | 10.1 | 52.1 | 32.5 | 0.0 |
| Businesses by Geography | 7,139 | 9.4 | 14.2 | 65.9 | 10.4 | 0.0 |
| Farms by Geography | 855 | 1.2 | 2.5 | 88.8 | 7.6 | 0.0 |
| Family Distribution by Income Level | 23,183 | 21.0 | 17.7 | 22.6 | 38.6 | 0.0 |
| Household Distribution by Income Level | 36,321 | 24.0 | 16.8 | 18.7 | 40.4 | 0.0 |
| Median Family Income Non-MSAs - IL | \$68,958 | Median Gross Rent | | | | \$672 |
| | | Families Below Poverty Level | | | | 9.7 |
| Median Housing Value | \$125,957 | Households Below Poverty Level | | | | 12.9 |
| <small>Source: 2020 U.S. Census and 2023 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.</small> | | | | | | |

Housing units in the assessment area consist of 60.0 percent owner-occupied, 22.4 percent occupied rental units, and 17.6 percent vacant. The bank’s performance under the Geographic Distribution criterion compares home mortgage loans to the percentage of owner-occupied and non-owner-occupied housing units within geographies by income level. These characteristics provide some insight into the overall housing credit needs and demand in LMI geographies, which were considered when evaluating SBPC’s geographic lending patterns.

LMI families account for 21.0 percent and 17.7 percent of the families in the assessment area, respectively, or 38.7 percent combined, with 9.7 percent of families and 12.9 percent of households below the poverty level. The bank’s performance under the Borrower Profile criterion compares auto loans to the percentage of households by income level and home mortgage loans to the percentage of families by income level.

Examiners used the Federal Financial Institutions Examination Council (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 assessment area.

| Median Family Income Ranges | | | | |
|------------------------------------|-----------|-----------------------|-----------------------|-------------|
| Median Family Incomes | Low <50% | Moderate 50% to <80% | Middle 80% to <120% | Upper ≥120% |
| IL NA Median Family Income (99999) | | | | |
| 2022: \$76,100 | <\$38,050 | \$38,050 to <\$60,880 | \$60,880 to <\$91,320 | ≥\$91,320 |
| 2023: \$82,300 | <\$41,150 | \$41,150 to <\$65,840 | \$65,840 to <\$98,760 | ≥\$98,760 |
| <i>Source: FFIEC</i> | | | | |

The U.S. Bureau of Labor Statistics indicates unemployment rates in the assessment area improved in 2021 and 2022, from their high in 2020. The following table outlines the unemployment rates.

| Unemployment Rates | | | | |
|--|------|------|------|------|
| Area | 2020 | 2021 | 2022 | 2023 |
| | % | % | % | % |
| Carroll | 7.2 | 4.4 | 4.0 | 4.4 |
| Jo Daviess | 8.4 | 4.6 | 3.8 | 4.1 |
| Stephenson | 7.4 | 5.7 | 4.0 | 5.0 |
| Illinois | 9.3 | 6.1 | 4.6 | 4.5 |
| National Average | 8.1 | 5.4 | 3.6 | 3.6 |
| <i>Source: U.S. Bureau of Labor Statistics</i> | | | | |

Competition

The assessment area reflects a mildly competitive market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2024, 20 financial institutions operated 43 offices in the assessment area. SBPC ranked 17th, maintaining 2.7 percent of the deposit market share. Larger regional and other community banks offices within the assessment area hold most of the market share. The top five financial institutions control 50.3 percent of deposits.

A high level of competition for home mortgage loans exists among several banks, credit unions, and non-depository mortgage lenders in the assessment area. In 2023, 197 lenders reported a total of 1,837 originated or purchased residential mortgage loans, reflecting competitive challenges in originating such mortgage loans. SBPC is not required to report HMDA data, and the analysis of home loans does not include direct comparison against aggregate data.

Community Contacts

As part of the evaluation process, examiners contact third parties active in Stephenson County to assist in identifying the credit needs in the assessment area. This information provides examiners