

Southern Michigan Bank & Trust

Community Reinvestment Act

Public File

April 1, 2024

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PUBLIC DISCLOSURE

January 18, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Southern Michigan Bank & Trust
Certificate Number: 5019

45-51 West Pearl Street
Coldwater, Michigan 49036

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 neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

Southern Michigan Bank & Trust's (SMBT) satisfactory Community Reinvestment Act (CRA) performance under the Lending Test is supported by the following:

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

The Community Development Test is rated Satisfactory.

SMBT's community development performance demonstrates adequate responsiveness to community development needs in its AAs through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's AAs.

DESCRIPTION OF INSTITUTION

SMBT is a full-service commercial bank headquartered in Coldwater, Michigan and a wholly owned subsidiary of Southern Michigan Bancorp (SMB), a holding company also located in Coldwater, Michigan. SMB is the holding company for three subsidiaries: SMBT, SMB Risk Management Inc., and Southern Michigan Bancorp Capital Trust. In addition, the bank continues to own SMB Financial Services, Inc., a Michigan-based brokerage company. SMBT received a "Satisfactory" rating at its previous FDIC CRA Performance Evaluation dated May 13, 2019, based on Interagency Intermediate Small Institution Examination Procedures.

SMBT operates within Branch, Calhoun, Hillsdale, Kalamazoo, and St. Joseph counties in Michigan. In addition to its main office and corporate headquarters in Coldwater, SMBT operates 11 full-service branches and 4 limited-service branches. The bank also has 13 on-site automated teller machines (ATMs) and 7 off-site ATMs in its combined AA. In 2019, the bank closed one limited-service (drive thru/detached facility) branch in a middle-income tract in Hillsdale County. In addition, SMBT opened one limited-service branch in a middle-income tract in Kalamazoo County in 2019. The following table provides additional information on the branch locations.

Office Locations					
Address	City	State	County	ATM	Census Tract Income Level
51 West Pearl Street (Main Office)	Coldwater	Michigan	Branch	Yes	Moderate
2 West Chicago Street, Suite A	Coldwater	Michigan	Branch	Yes	Middle
441 East Chicago Street	Coldwater	Michigan	Branch	Yes	Middle
51 West Pearl Street	Coldwater	Michigan	Branch	Yes	Moderate
405 North Broadway	Union City	Michigan	Branch	No	Middle
225 North Broadway	Union City	Michigan	Branch	No	Middle
5350 Beckley Road, B Drive North	Battle Creek	Michigan	Calhoun	Yes	Upper
1110 West Michigan Avenue	Marshall	Michigan	Calhoun	Yes	Middle
202 North Main Street	Tekonsha	Michigan	Calhoun	Yes	Middle
10 East Carlton Road	Hillsdale	Michigan	Hillsdale	Yes	Moderate
531 West Kilgore	Portage	Michigan	Kalamazoo	Yes	Middle
650 Trade Centre Way	Portage	Michigan	Kalamazoo	No	Middle
235 East Main Street	Centreville	Michigan	St. Joseph	Yes	Middle
345 North Washington	Constantine	Michigan	St. Joseph	Yes	Middle
136 North Nottawa	Mendon	Michigan	St. Joseph	Yes	Middle
225 U.S. 131	Three Rivers	Michigan	St. Joseph	Yes	Middle

SMBT offers a variety of loan products including commercial, agricultural, home mortgage, and consumer loans, with commercial lending as its primary focus. Deposit products include various checking and savings accounts, certificates of deposits, and individual retirement accounts. Alternative banking services include online and mobile banking, person-to-person payments and online bill payment services.

Assets totaled approximately \$1.1 billion as of September 30, 2021, and included total loans of \$734.5 million and total securities of \$251.7 million. SMBT's total deposits were \$971.1 million as of the same date. The following table shows the loan portfolio composition.

Loan Portfolio Distribution as of 09/30/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	36,814	5.0
Secured by Farmland	40,841	5.6
Secured by 1-4 Family Residential Properties	110,932	15.1
Secured by Multifamily (5 or more) Residential Properties	59,507	8.1
Secured by Nonfarm Nonresidential Properties	336,935	45.9
Total Real Estate Loans	585,029	79.7
Commercial and Industrial Loans	119,306	16.2
Agricultural Production and Other Loans to Farmers	21,203	2.9
Consumer Loans	2,740	0.4
Obligations of State and Political Subdivisions in the U.S.	2,750	0.4
Other Loans	3,440	0.5
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	734,468	100.0
<i>Source: Reports of Condition and Income. Due to rounding, totals may not equal 100.0.</i>		

While the bank's total loans increased by \$202.5 million since the previous evaluation, the composition of the loan portfolio remained relatively consistent. Since the previous evaluation, multifamily residential real estate loans increased by 1.8 percentage points, 1-4 family residential real estate loans increased by 1.6 percentage points, commercial and industrial loans increased by 1.1 percentage points, agricultural loans decreased by 2.0 percentage points, and consumer loans decreased by 1.8 percentage points. No other loan category changed more than 0.8 percentage points since the last evaluation.

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

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more AAs within which examiners will evaluate its performance. SMBT maintains one contiguous geographic area composed of three separate AAs: the Non-Metropolitan Statistical Area (MSA), MI AA (entirety of Branch, Hillsdale, and St. Joseph Counties); the Battle Creek, MI, MSA AA (entirety of Calhoun County); and the Kalamazoo-Portage, MI MSA AA (the entirety of Kalamazoo County). SMBT made no changes to their AAs since the previous evaluation. The AAs conform to CRA requirements, consist of contiguous whole geographies in which the bank has offices and operates, do not reflect illegal discrimination, and do not arbitrarily exclude any low- or moderate-income geographies.

The following table presents a brief description of each AA, showing the counties and numbers of census tracts and SMBT offices. Separate AA discussions later in this evaluation contain detailed descriptions of each AA.

Description of Assessment Areas			
Assessment Area	Counties in Assessment Area	Census Tracts	Offices
Non-MSA, MI	Branch, Hillsdale, and St. Joseph	41	11
Battle Creek, MI MSA	Calhoun	39	3
Kalamazoo-Portage, MI MSA	Kalamazoo	57	2
<i>Source: Bank Records</i>			

SCOPE OF EVALUATION

General Information

The evaluation covers the period from the prior evaluation dated May 13, 2019, to the current evaluation dated January 18, 2022. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate SMBT's CRA performance. These procedures include the Lending Test and the Community Development Test. Performance criteria for each of these tests are contained in the first Appendix. Banks must achieve a rating of at least "Satisfactory" under each test to obtain an overall "Satisfactory" rating.

As noted in the previous section, SMBT has three separate AAs. Examiners conducted full-scope reviews of the Non-MSA, MI AA and the Battle Creek, MI MSA AA, and a limited-scope review of the Kalamazoo-Portage, MI MSA AA. Examiners placed the most weight on performance in the Non-MSA, MI AA, as the majority of lending and community development activities occurred in that AA, and the AA includes the majority of the bank's operations.

Activities Reviewed

Examiners determined the bank's major product lines are small business, home mortgage, and small farm loans. This conclusion considered the number and dollar volume of loans originated during the evaluation period, the composition of the bank's loan portfolio, and the bank's business strategy. No other loan types, such as consumer loans, represent a major product line. Examiners placed more weight on small business lending performance as it represents a greater level of activity and is the bank's primary lending focus. Examiners did not analyze small farm lending in the Kalamazoo-Portage, MI MSA AA since small farm lending is not a strategic focus in that AA.

Examiners considered all home mortgage loans reported on the bank's 2019 and 2020 Home Mortgage Disclosure Act (HMDA) Loan Application Registers. SMBT originated 315 home mortgage loans totaling \$50.8 million in 2019, and 517 loans totaling \$101.3 million in 2020. The bank's performance varied significantly from 2019 to 2020; therefore, both 2019 and 2020 performance is presented. Examiners selected 2019 and 2020, because they are the most recent years within the evaluation period for which aggregate HMDA data is available.

SMBT is not subject to data collection and reporting requirements for small business loans. Examiners used bank records to analyze SMBT's small business lending activities for the two most recent calendar years, 2020 and 2021. The bank granted 1,009 small business loans totaling \$118.4 million in 2020 and 950 loans totaling \$133.7 million in 2021. Examiners identified inconsistencies in lending performance between 2020 and 2021; therefore, this evaluation presents 2020 and 2021

performance.

SMBT is also not subject to data collection and reporting requirements for small farm loans. As noted earlier, small farm lending is not a strategic focus across all three of the bank's AAs; therefore, examiners used bank records to review only the 2021 small farm lending activities. In 2021, the bank granted 413 small farm loans totaling \$25.2 million.

Examiners compared the bank's home mortgage lending performance to 2019 and 2020 aggregate HMDA data and demographic data obtained from the 2015 American Community Survey (ACS). Examiners emphasized performance compared to the HMDA aggregate data over the applicable demographic information, as the aggregate data is a better indicator of market demand and lending opportunities in each AA. With regard to small business and small farm lending, examiners compared the bank's performance to applicable 2020 and 2021 D&B data.

For the Lending Test, examiners considered the number and dollar volume of home mortgage, small business, and small farm loans. Examiners emphasized performance by number of originations because it is a better indicator of the number of individuals, businesses, and farms served.

For the Community Development Test, examiners considered all applicable community development loans, qualified investments, grants and donations, and community development services since the prior CRA evaluation dated May 13, 2019.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Overall, SMBT demonstrated reasonable performance on the Lending Test.

Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable, given its size, financial condition, and AA credit needs. The bank's net LTD ratio, calculated from Call Report data, averaged 78.6 percent over the previous 10 quarters since the prior evaluation. The LTD ratio steadily decreased during the evaluation period and ranged from a low of 69.0 percent to a high of 84.8 percent. The decline is due to deposit growth outpacing loan growth because of the COVID-19 pandemic and its economic effects. In addition, the bank sells a significant portion of its home mortgage loans on the secondary market. In both 2020 and 2021, the bank sold over 300 home mortgage loans on the secondary market, affecting the LTD ratio. SMBT's LTD ratio is reasonable as it is slightly below two similarly situated institutions and it exceeds one similarly situated institution for the same period, as shown in the following table. Examiners chose these institutions based on their size, lending focus, and geographic location.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/2021 (\$000s)	Average Net LTD Ratio (%)
Southern Michigan Bank & Trust	1,138,456	78.6
Similarly-Situated Institution #1	454,133	67.0
Similarly-Situated Institution #2	1,091,015	90.0
Similarly-Situated Institution #3	718,879	92.3
<i>Source: Reports of Condition and Income 6/30/2019 through 9/30/21</i>		

Assessment Area Concentration

SMBT originated a substantial majority of its small business, home mortgage, and small farm loans, by number and dollar volume, within its AAs during the evaluation period, as shown in 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		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2019	286	90.8	29	9.2	315	34,860	68.6	15,938	31.4	50,799
2020	441	85.3	76	14.7	517	73,342	72.4	27,969	27.6	101,312
Subtotal	727	87.4	105	12.6	832	108,203	71.1	43,908	28.9	152,110
Small Business										
2020	860	85.2	149	14.8	1,009	95,433	80.6	22,959	19.4	118,392
2021	810	85.3	140	14.7	950	104,818	78.4	28,911	21.6	133,729
Subtotal	1,670	85.2	289	14.8	1,959	200,251	79.4	51,870	20.6	252,121
Small Farm										
2021	398	96.4	15	3.6	413	23,222	92.2	1,964	7.8	25,186
Total	2,795	87.2	409	12.8	3,204	331,676	77.2	97,742	22.8	429,417
Source: Bank Data Due to rounding, totals may not equal 100.0%										

Geographic Distribution

Overall, the geographic distribution of small business, home mortgage, and small farm loans reflects reasonable dispersion throughout the AAs. Examiners analyzed and presented this criterion separately for each AA in subsequent sections of this evaluation. The Non-MSA, MI AA received the most weight as the majority of lending activity occurred in that AA. Geographic Distribution performance is consistent throughout the AAs.

Borrower Profile

Overall, the distribution of home mortgage, small business, and small farm loans reflects reasonable penetration among individuals of different income levels and businesses and farms of different sizes. Examiners analyzed and presented this criterion separately for each AA in subsequent sections of this evaluation. Borrower Profile performance is consistent throughout the AAs.

The Paycheck Protection Program (PPP) is a business loan program, established by the 2020 U.S. Federal Government Coronavirus Aid, Relief, and Economic Security Act (CARES Act), to aid businesses, self-employed workers, sole proprietors, non-profit organizations, and tribal businesses so they could continue paying their workers during the COVID-19 pandemic. SMBT participated in this program to provide support to area businesses. Due to the information collection guidance associated with these loans, the bank was not required to collect revenue information from these businesses. The applicable tables in the small business and small farm Borrower Profile sections include PPP loans; however, examiners included separate discussions on the bank's performance excluding PPP loans, as they do not reflect the bank's normal course of business.

Response to Complaints

SMBT did not receive any CRA-related complaints since the prior evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Overall, the bank's community development performance demonstrates adequate responsiveness to the community development needs of the AAs through the bank's community development lending, qualified investments, and community development services. While performance in the Non-MSA, MI AA received the most weight, performance is consistent across the AAs. Examiners evaluated SMBT's community development performance through comparisons to two similarly situated institutions.

Community Development Loans

SMBT originated 24 community development loans totaling \$37.1 million during the evaluation period within the AAs. Community development loans in the AAs increased significantly during the evaluation period, as the bank originated six community development loans totaling \$4.3 million during the previous evaluation. Community development loans represent 5.1 percent of net loans as of September 30, 2021. This performance exceeds the performance of two similarly situated banks with community development loan to net loan ratios of 0.9 percent and 3.4 percent, respectively. The total community development loans include 18 PPP loans which qualify as community development loans, totaling \$31.7 million. Three of these PPP loans, totaling \$5.7 million, were originated outside of the AAs, but were within the greater statewide or regional area. The following table contains the bank's community development lending by year and purpose. The discussions within the separate AAs later in this evaluation contain additional details.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2019*	0	0	2	780	0	0	0	0	2	780
2020	0	0	2	1,540	13	23,744	0	0	15	25,284
2021	0	0	2	3,060	5	7,974	0	0	7	11,034
2022**	0	0	0	0	0	0	0	0	0	0
Total	0	0	6	5,380	18	31,718	0	0	24	37,098
Source: Bank Records, *5/13/2019-12/31/2019; **1/1/2022-1/17/2022										

Qualified Investments

In total, SMBT had 40 qualified investments totaling \$17.3 million and 126 community development donations totaling nearly \$98,000. As shown in the following table, the investment activity includes 12 investments made prior to the evaluation period, but which remain in the bank's portfolio currently.

Total investments and donations in the AAs increased during the evaluation period, as the bank originated 21 qualified investments totaling \$13.0 million and 80 donations totaling \$36,215 during the previous evaluation. Total investments and donations amounted to 1.5 percent of the bank's total assets and 6.9 percent of its total securities as of September 30, 2021. This performance exceeds the performance of one similarly situated bank and trails the performance of the other. These banks had qualified investment and donation ratios of 0.6 percent and 2.0 percent of total assets, and 4.7 percent and 83.8 percent of total securities. The following table provides details on the qualified investments and donations. The discussions within the separate AAs later in this evaluation contain additional details.

Qualified Investments and Donations										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	12	4,326	12	4,326
2019*	5	31	6	8,530	0	0	0	0	11	8,561
2020	6	207	3	1,750	0	0	0	0	9	1,957
2021	5	175	3	2,260	0	0	0	0	8	2,435
YTD 2022**	0	0	0	0	0	0	0	0	0	0
Subtotal	16	414	12	12,540	0	0	12	4,326	40	17,280
Qualified Grants & Donations	1	0	123	97	2	1	0	0	126	98
Total	17	414	135	12,637	2	1	12	4,326	166	17,378
Source: Bank Records, *5/13/2019-12/31/2019; **10/1/2022-1/17/2022										
Due to rounding, totals may not be exact										

Community Development Services

SMBT provided numerous community development services during the evaluation period including frequently serving in leadership positions and providing financial expertise to various community organizations serving within the AAs. The majority of community development services occur on a regular basis, and bank directors, officers, and employees serve in multiple organizations. The bank provided 59 instances of services to 21 organizations throughout the AAs during the evaluation period, as shown in the table below. The number of community development services exceeded the number of services provided by one similarly situated bank, and trailed the number of services performed by the other. These banks performed 26 and 81 community development services, respectively. Community development services decreased from 86 instances of services performed during the prior evaluation period. The bank's ability to conduct community development services was limited during the evaluation period due to the COVID-19 pandemic. The discussions within the separate AAs later in this evaluation contain additional details.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2019*	1	9	5	2	17
2020	1	17	5	2	25
2021	1	11	2	2	16
YTD 2022**	0	1	0	0	1
Total	3	38	12	6	59
<i>Source: Bank Records, *5/13/2019-12/31/2019; **1/1/2022-1/17/2022</i>					

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

NON-MSA, MI AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE NON-MSA, MI AA

The AA includes the entirety of Branch, Hillsdale, and St. Joseph Counties. The bank operates the main office, seven additional full-service branches, and three limited service branches within the AA. Additionally, 14 of the bank’s 20 ATMs are located in this AA. As of June 30, 2021, the bank derived 71.3 percent of its deposits from this AA. The bank originated 69.2 percent of its home mortgage loans in 2019 and 61.7 percent of its loans in 2020 in the AA. In 2020 and 2021, the bank originated 47.6 percent and 45.5 percent of its small business loans, respectively, in the AA. In addition, in 2021 the bank originated 60.8 percent of its small farm loans within the AA.

Economic and Demographic Data

The AA consists of 41 census tracts with the following income designations: 7 moderate-income tracts, 32 middle-income tracts, and 2 upper-income tracts. The following table shows select demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Non-MSA, MI AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	41	0.0	17.1	78.0	4.9	0.0
Population by Geography	150,906	0.0	14.6	80.9	4.5	0.0
Housing Units by Geography	70,021	0.0	13.2	82.1	4.7	0.0
Owner-Occupied Units by Geography	43,451	0.0	10.3	84.8	4.9	0.0
Occupied Rental Units by Geography	13,651	0.0	28.1	68.3	3.5	0.0
Vacant Units by Geography	12,919	0.0	7.3	87.3	5.4	0.0
Businesses by Geography	8,127	0.0	17.6	76.5	6.0	0.0
Farms by Geography	864	0.0	3.8	92.6	3.6	0.0
Family Distribution by Income Level	39,174	20.0	18.8	22.8	38.4	0.0
Household Distribution by Income Level	57,102	22.0	17.0	19.6	41.4	0.0
Median Family Income Non-MSAs - MI		\$53,628	Median Housing Value			\$104,771
			Median Gross Rent			\$650
			Families Below Poverty Level			12.9%
Source: 2015 ACS and 2021 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.						

The Geographic Distribution criterion compares the bank’s home mortgage lending to the distribution of owner-occupied housing units in the AA by census tract income level. Based on

2015 ACS data, the AA contains 70,021 housing units, of which 62.1 percent are owner-occupied, 19.4 percent are rental units, and 18.5 percent are vacant.

D&B data from 2021 shows the largest industries in the AA are services (36.1 percent); retail trade (13.5 percent); non-classifiable establishments (9.9 percent); agriculture, forestry, and fishing (9.6 percent); and construction (8.2 percent). Moody's Analytical data is not available for the AA; however, examiners determined top employers in Branch, Hillsdale, and St. Joseph Counties are the St. Joseph Regional Medical Center, Inc., Beacon Medical Group, Inc., Walmart Distribution Center, and Hillsdale College.

Examiners also consider unemployment data when evaluating a bank's ability to lend in its AA. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows the unemployment rates within the AA increased significantly from 2019 to 2020, and then decreased significantly from 2020 to 2021 consistent with state and national unemployment rates.

Unemployment Rates			
Area	2019	2020	2021
	%	%	%
Branch County	3.8	8.0	4.8
Hillsdale County	4.1	9.2	5.2
St. Joseph County	4.1	9.0	4.9
Michigan	4.1	10.0	5.0
National Average	3.7	8.1	5.4
<i>Source: U.S. Bureau of Labor Statistics</i>			

Examiners used the Federal Financial Institutions Examination Council (FFIEC)-adjusted median family income (MFI) levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the low-, moderate-, middle-, and upper-income ranges for the AA during the evaluation period.

Median Family Income Ranges – Non-MSA, MI AA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2019 (\$58,600)	<\$29,300	\$29,300 to <\$46,880	\$46,880 to <\$70,320	≥\$70,320
2020 (\$60,900)	<\$30,450	\$30,450 to <\$48,720	\$48,720 to <\$73,080	≥\$73,080
<i>Source: FFIEC</i>				

Competition

There is a moderate level of competition for deposits in the AA. According to FDIC deposit market share data as of June 30, 2021, 12 FDIC-insured financial institutions hold \$2.3 billion in deposits and operate 43 branches within the AA. Of these institutions, SMBT ranks 1st with 20.9 percent of the deposit market share. The top three institutions account for 53.4 percent of the deposit market share.

There is a high level of competition for home mortgage loans from credit unions, non-bank lenders, and regional and national banks. Based on 2020 HMDA aggregate data, 299 lenders originated or

purchased 5,416 home mortgage loans in the AA. The bank ranked 4th with a market share of 5.9 percent. The top three lenders accounted for 23.6 percent of the home mortgage lending market share.

The bank is not required to collect or report its small business lending data, and it has not elected to do so. Therefore, the analysis of small business loans under the Lending Test does not include comparisons to aggregate data. The aggregate data, however, reflects the level of competition for small business loans. In 2019, the most recent year for which data is available, 66 lenders originated 1,460 small business loans in the AA, indicating a high level of competition. The top three lenders accounted for 50.3 percent of all reported small business loans by number.

Likewise, the bank is not required to collect or report its small farm lending data, and it has not elected to do so. Therefore, the analysis of small farm loans under the Lending Test does not include comparisons to aggregate data. The aggregate data, however, reflects the level of competition for small farm loans. In 2019, the most recent year for which data is available, 16 lenders originated 209 small farm loans in the AA, indicating a moderate level of competition. The top three lenders accounted for 71.8 percent of all reported small farm loans by number.

Community Contacts

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

Examiners completed two community contacts; one with a government economic development organization and another with a local government official in the AA. The contacts focus on attracting new jobs to the assessment area from both outside employers and startup companies. The contacts identified needs for affordable housing for low- and moderate-income individuals and loans to small businesses, including new businesses. In particular, the contacts noted that job and wage growth in relatively low-wage industries caused the demand for affordable housing to outstrip supply, thereby pushing up both home prices and rental rates.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that small business lending and residential mortgage lending represent primary credit needs of the AA. Although no major unmet credit needs were identified, there remain opportunities for affordable housing, economic development, and revitalization/stabilization of moderate-income areas.

Furthermore, examiners reviewed recent CRA Performance Evaluations for three other financial institutions that operate in the AA. From these CRA Performance Evaluations and demographic information, examiners determined that affordable housing, community services, and economic development are all community development needs in the AA. The presence of seven moderate-income census tracts and no low-income census tracts in this 41-tract AA indicates moderate

opportunity for community development activities geared towards low- and moderate-income neighborhoods. However, 38.8 percent of families residing in the area are low- and moderate-income. While there may be limited geographies with community development needs, there is a relatively high level of individuals that could benefit from eligible community development activities.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NON-MSA, MI AA

LENDING TEST

Overall, SMBT demonstrated reasonable performance under the Lending Test in the Non-MSA, MI AA. Geographic Distribution and Borrower Profile performance support this conclusion.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank's reasonable performance of small business, home mortgage, and small farm lending support the overall reasonable conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. The following table shows the distribution of small business loans within the AA, and includes comparative data for the distribution of businesses by tract income level.

Geographic Distribution of Small Business Loans					
Assessment Area: Non-MSA, MI					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate					
2020	17.6	83	17.3	9,396	18.1
2021	17.6	50	11.6	8,054	16.7
Middle					
2020	76.5	364	75.8	39,576	76.0
2021	76.5	361	83.6	38,041	79.0
Upper					
2020	5.9	33	6.9	3,080	5.9
2021	6.0	21	4.9	2,081	4.3
Totals					
2020	100.0	480	100.0	52,052	100.0
2021	100.0	432	100.0	48,176	100.0
Source: 2020 & 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%					

In 2020, the bank's performance in the moderate-income tracts was consistent with the percentage of businesses. In 2021, the bank's performance in the moderate-income tracts slightly trailed the percentage of businesses. The significant level of competition for small business loans in the AA contributes to the overall reasonable performance conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. The following table shows the distribution of home mortgage loans compared with the percentage of owner-occupied housing units and HMDA aggregate data. In 2019, the bank's lending in moderate-income census tracts trailed the aggregate data. In 2020, the bank's home mortgage lending in the moderate-income census tract was similar to aggregate performance. The institution's home mortgage lending performance in the moderate-income tracts, therefore, is reasonable overall considering its performance in 2020 and the high level of competition for home mortgage loans in the AA.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Non-MSA, MI						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate						
2019	10.3	10.4	12	5.5	950	3.9
2020	10.3	8.9	25	7.8	3,015	6.6
Middle						
2019	84.8	82.0	194	89.0	21,831	90.1
2020	84.8	83.5	281	88.1	40,154	87.7
Upper						
2019	4.9	7.6	12	5.5	1,442	6.0
2020	4.9	7.6	13	4.1	2,635	5.8
Totals						
2019	100.0	100.0	218	100.0	24,223	100.0
2020	100.0	100.0	319	100.0	45,804	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion throughout the AA. The following table shows the distribution of small farm loans within the AA and includes the distribution of farms by tract income level.

Geographic Distribution of Small Farm Loans					
Assessment Area: Non-MSA, MI					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate					
2021	3.8	2	0.8	42	0.2
Middle					
2021	92.6	249	99.2	17,298	99.8
Upper					
2021	3.6	0	0.0	0	0.0
Totals					
2021	100.0	251	100.0	17,340	100.0
Source: 2020 & 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%					

In 2021, the bank only originated two small farm loans in moderate-income census tracts in the AA; however, opportunities are very limited as there are only 33 small farms located in moderate-income census tracts, and there is a moderate level of competition for small farm lending in the AA.

Borrower Profile

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration throughout the assessment area. The bank's reasonable performance of small business, home mortgage, and small farm lending support the overall reasonable conclusion.

Small Business Loans

The distribution of small business loans reflects, given the demographics of the AA, reasonable penetration to businesses of different sizes. As illustrated in the following table, the bank's lending to businesses with gross annual revenues (GARs) of \$1.0 million or less significantly trailed the percentage of businesses with the same GAR level in the AA in both years.

However, as previously discussed, the bank originated PPP loans in which the collection of revenue information was not required or considered. SMBT originated 482 small business PPP loans totaling \$32.0 million in the AA during the evaluation period. Excluding PPP loan data, the bank's lending to businesses with GARs of \$1.0 million or less was much closer to the percentage of businesses with the same GAR level in the AA – 74.0 percent and 71.4 percent in 2020 and 2021, respectively.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Non-MSA, MI					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2020	80.5	145	30.2	18,277	35.1
2021	81.1	167	38.7	20,701	43.0
>\$1,000,000					
2020	5.6	51	10.6	12,008	23.1
2021	5.4	67	15.5	17,249	35.8
Revenue Not Available					
2020	13.9	284	59.2	21,767	41.8
2021	13.5	198	45.8	10,226	21.2
Totals					
2020	100.0	480	100.0	52,052	100.0
2021	100.0	432	100.0	48,176	100.0
Source: 2020 & 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%					

Home Mortgage Loans

The distribution of home mortgage loans reflects, given the demographics of the AA, reasonable penetration to borrowers of different income levels. As illustrated in the following table, the bank's lending to low-income borrowers slightly exceeded aggregate data in 2019 and 2020. In addition, the bank's lending to moderate-income borrowers slightly exceeded aggregate data in 2019, and slightly trailed aggregate data in 2020.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Non-MSA, MI						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	20.0	6.8	19	8.7	910	3.8
2020	20.0	6.0	23	7.2	1,559	3.4
Moderate						
2019	18.8	20.3	46	21.1	3,425	14.1
2020	18.8	19.6	59	18.5	4,925	10.8
Middle						
2019	22.8	25.5	48	22.0	4,596	19.0
2020	22.8	23.0	59	18.5	6,646	14.5
Upper						
2019	38.4	36.7	98	45.0	14,386	59.4
2020	38.4	39.6	147	46.1	29,004	63.3
Not Available						
2019	0.0	10.8	7	3.2	906	3.7
2020	0.0	11.9	31	9.7	3,671	8.0
Totals						
2019	100.0	100.0	218	100.0	24,223	100.0
2020	100.0	100.0	319	100.0	45,804	100.0
Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Small Farm Loans

The distribution of small farm loans reflects, given the demographics of the AA, reasonable penetration to farms of different sizes. As illustrated in the following table, the bank's lending to farms with GARs of \$1.0 million or less significantly trailed the percentage of farms with the same GAR level in the AA in 2021.

However, as previously discussed, the bank originated PPP loans in which the collection of revenue information was not required. SMBT originated 144 small farm PPP loans totaling \$2.7 million in the AA during the evaluation period. Excluding PPP loan data, the bank's lending to farms with GARs of \$1.0 million or less – 94.4 percent – was consistent with the percentage of farms with the same GAR level in the AA in 2021.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Non-MSA, MI					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000					
2021	97.3	101	40.2	13,429	77.4
>\$1,000,000					
2021	2.0	6	2.4	1,188	6.9
Revenue Not Available					
2021	0.7	144	57.4	2,723	15.7
Totals					
2021	100.0	251	100.0	17,340	100.0
Source: 2020 & 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%					

COMMUNITY DEVELOPMENT TEST

The bank's community development activities demonstrate adequate responsiveness to the needs of the AA through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's AA.

Community Development Loans

SMBT originated seven community development loans totaling \$8.2 million during the evaluation period within the AA. Of the seven community development loans, four were PPP loans totaling \$7.3 million. The following table contains the bank's community development lending within the AA by year and purpose.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2019*	0	0	1	180	0	0	0	0	1	180
2020	0	0	1	640	4	7,323	0	0	5	7,963
2021	0	0	1	60	0	0	0	0	1	60
2022**	0	0	0	0	0	0	0	0	0	0
Total	0	0	3	880	4	7,323	0	0	7	8,203
Source: Bank Records, *5/13/2019-12/31/2019; **1/1/2022-1/17/2022										

Of the three non-PPP loans, one totaling \$180,000 was to a youth center in Branch County that primarily serves low- and moderate-income individuals. The bank originated the second loan totaling close to \$640,000 to a community development organization that supports the local

community through food drives, clothing drives, and clean-up projects targeted to low- and moderate-income individuals in St. Joseph County. The bank originated the third loan totaling \$60,000 to an organization that provides domestic violence support to low- and moderate-income individuals in Branch County.

Qualified Investments

SMBT had 27 qualified investments totaling \$16.7 million, comprised mostly of investments to local school districts within the AA. This performance is an improvement from the previous evaluation where the bank had 20 qualified investments totaling \$13.5 million in the AA. In addition, the bank made 72 donations totaling roughly \$51,000 to organizations that assist low- and moderate-income individuals and families. The following table illustrates community development investments and donations by purpose.

Qualified Investments and Donations										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	11	4,271	11	4,271
2019*	2	8	6	8,530	0	0	0	0	8	8,538
2020	1	5	3	1,750	0	0	0	0	4	1,755
2021	1	1	3	2,260	0	0	0	0	4	2,260
YTD 2022**	0	0	0	0	0	0	0	0	0	0
Subtotal	4	14	12	12,540	0	0	11	4,271	27	16,825
Qualified Grants & Donations	0	0	71	50	1	1	0	0	72	51
Total	4	14	83	12,590	1	1	11	4,271	99	16,875
Source: Bank Records, *5/13/2019-12/31/2019; **1/1/2022-1/17/2022 Due to rounding, totals may not be exact										

Notable investments and donations include:

- A \$5.8 million bond to provide operating funds to a public school district where the majority of students receive free or reduced-price lunch.
- A \$5,000 donation to an organization focused on raising awareness and preventing sexualized violence, targeted to low- and moderate-income areas.
- A \$5,000 donation to an organization, which supports low- and moderate-income individuals through a local food pantry.

Community Development Services

During the evaluation period, bank management and employees provided 38 instances of financial expertise or technical assistance to 23 community development organizations serving this AA. The following table illustrates community development services by year and purpose.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2019*	0	5	3	2	10
2020	0	13	3	2	18
2021	0	5	2	2	9
YTD 2022**	0	1	0	0	1
Total	0	24	8	6	38
<i>Source: Bank Records, *5/13/2019-12/31/2019; **1/1/2022-1/17/2022</i>					

Notable examples of community development services include:

- In five instances, two bank directors served as Board members for an organization providing funds to underserved communities.
- In four instances, a bank employee participated in a financial literacy program at a local middle school at which the majority of students received free or reduced-priced lunch.
- In three instances, one of the bank's directors served as a Board member of an organization focused on providing growth opportunities to small businesses located in moderate-income tracts.

BATTLE CREEK, MI MSA AA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE BATTLE CREEK, MI MSA AA

The bank operates three full-service branches within this AA. Two of the branches are located in middle-income census tracts with the remaining branch located in an upper-income census tract. Additionally, 5 of the bank’s 20 ATMs are located in this AA. As of June 30, 2021, the bank derived 19.3 percent of its deposits from this AA. The bank originated 16.5 percent of its home mortgage loans in 2019 and 16.6 percent of its loans in 2020 in the AA. In 2020 and 2021, the bank originated 21.8 percent and 22.0 percent of its small business loans within the AA, respectively. In addition, in 2021 the bank originated 34.6 percent of its small farm loans in the AA.

Economic and Demographic Data

The AA consists of 39 census tracts with the following income designations: 4 low-income tracts, 12 moderate-income tracts, 15 middle-income tracts, and 8 upper-income tracts. The following table shows select demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Battle Creek, MI MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	39	10.3	30.8	38.5	20.5	0.0
Population by Geography	134,790	7.4	26.5	39.2	26.9	0.0
Housing Units by Geography	60,716	7.6	27.7	38.7	26.1	0.0
Owner-Occupied Units by Geography	36,640	5.2	21.1	42.7	31.0	0.0
Occupied Rental Units by Geography	16,210	10.4	37.3	32.9	19.4	0.0
Vacant Units by Geography	7,866	12.9	38.6	31.9	16.6	0.0
Businesses by Geography	7,239	8.3	26.1	33.4	32.3	0.0
Farms by Geography	396	2.0	8.3	63.4	26.3	0.0
Family Distribution by Income Level	33,625	21.7	17.8	19.6	40.9	0.0
Household Distribution by Income Level	52,850	22.7	17.4	17.5	42.4	0.0
Median Family Income MSA - 12980 Battle Creek, MI MSA		\$53,315	Median Housing Value			\$98,713
			Median Gross Rent			\$686
			Families Below Poverty Level			13.4%
Source: 2015 ACS and 2021 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.						

The Geographic Distribution criterion compares the bank's home mortgage lending to the distribution of owner-occupied housing units in the AA by census-tract income level. Based on 2015 ACS data, the AA contains 60,716 housing units, of which 60.3 percent are owner-occupied, 26.7 percent are rental units, and 13.0 percent are vacant.

D&B data from 2021 shows the largest industries in the AA are services (42.3 percent); retail trade (15.4 percent); non-classifiable establishments (10.8 percent); finance, insurance and real estate (7.4 percent); and construction (6.4 percent). According to Moody's Analytics, the top employers in the AA are DENSO Manufacturing Michigan Inc., Kellogg Co., Firekeepers Casino, and The Veterans Administration Medical Center.

Examiners also consider unemployment data when evaluating a bank's ability to lend in its AA. Data obtained from the U.S. Bureau of Labor Statistics, as illustrated in the following table, shows the unemployment rate within the AA increased significantly from 2019 to 2020, consistently with state and national unemployment rates. The unemployment rate in the AA decreased significantly from 2020 to 2021 and is slightly above state and national rates.

Unemployment Rates			
Area	2019	2020	2021
	%	%	%
Calhoun County	4.0	9.7	6.4
Michigan	4.1	10.0	5.4
National Average	3.7	8.1	5.0
<i>Source: U.S. Bureau of Labor Statistics</i>			

Examiners used the FFIEC-adjusted MFI level to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the low-, moderate-, middle-, and upper-income ranges for the AA during the evaluation period.

Median Family Income Ranges – Battle Creek, MI MSA AA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2019 (\$64,200)	<\$32,100	\$32,100 to <\$51,360	\$51,360 to <\$77,040	≥\$77,040
2020 (\$61,100)	<\$30,550	\$30,550 to <\$48,880	\$48,880 to <\$73,320	≥\$73,320
<i>Source: FFIEC</i>				

Competition

The AA is moderately competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2021, 10 financial institutions operated 24 banking offices within the AA. Of these institutions, SMBT ranked 4th with a 13.7 percent deposit market share. The three most prominent institutions accounted for 60.4 percent of total deposit market share.

There is a high level of competition for home mortgage loans from credit unions and regional and national banks. Based on 2020 HMDA aggregate data, 262 lenders originated or purchased 7,551 home mortgage loans in the AA. The bank ranked 19th with a market share of 1.5 percent. The top three lenders accounted for 21.6 percent of the home mortgage lending market share.

The bank is not required to collect or report its small business lending data, and it has not elected to do so. Therefore, the analysis of small business loans under the Lending Test does not include comparisons to aggregate data. The aggregate data, however, reflects the level of competition for small business loans. In 2019, the most recent year for which data is available, 61 lenders originated 1,372 small business loans in the AA, indicating a high level of competition. The top three lenders accounted for 42.5 percent of all reported small business loans by number.

Likewise, the bank is not required to collect or report its small farm lending data, and it has not elected to do so. Therefore, the analysis of small farm loans under the Lending Test does not include comparisons to aggregate data. The aggregate data, however, reflects the level of competition for small farm loans. In 2019, the most recent year for which data is available, 12 lenders originated 49 small farm loans in the AA, indicating a moderate level of competition. The top three lenders accounted for 65.3 percent of all reported small farm loans by number.

Community Contact

Examiners interviewed a representative of an economic development organization in the AA. The contact identified needs for traditional home lending and financing of affordable housing development, as well as small business lending and financing of commercial development. In particular, the contact noted that job and population growth has caused the demand for affordable housing to outstrip supply, thereby increasing both home purchase and rental prices. Furthermore, the contact noted that opportunities exist for financial institutions in the assessment area to finance viable commercial development projects.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that commercial lending and residential mortgage lending represent primary credit needs of the AA. Additionally, there are opportunities for affordable housing, community services, economic development, and revitalization/stabilization of low- and moderate-income areas. The contact noted financing of commercial development as a major unmet credit need.

Furthermore, examiners reviewed recent CRA Performance Evaluations for two other financial institutions that operate in the assessment area. From these CRA Performance Evaluations and demographic information, examiners determined that affordable housing, community services, economic development, and revitalization/stabilization of low- and moderate-income areas are all community development needs in the AA. The presence of 4 low-income and 12 moderate-income census tracts in this 39-tract AA indicates ample opportunity for community development activities geared towards low- and moderate-income neighborhoods. Additionally, nearly 40 percent of families residing in the area are low- and moderate-income. Consequently, there are several geographies and a relatively high level of individuals that could benefit from eligible community development activities.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE BATTLE CREEK, MI MSA AA

LENDING TEST

Overall, SMBT demonstrated reasonable performance under the Lending Test in the AA. Geographic Distribution and Borrower Profile performance support this conclusion.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable performance of small business, home mortgage, and small farm lending support the overall reasonable conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. The following table shows the distribution of small business loans within the AA, and includes comparative data for the distribution of businesses by tract income levels.

Geographic Distribution of Small Business Loans					
Assessment Area: Battle Creek, MI MSA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2020	8.2	19	8.6	840	4.8
2021	8.3	11	5.3	1,250	5.7
Moderate					
2020	26.3	34	15.5	5,131	29.2
2021	26.1	20	9.6	4,178	19.1
Middle					
2020	33.6	88	40.0	5,330	30.3
2021	33.4	104	49.8	7,953	36.4
Upper					
2020	31.8	79	35.9	6,275	35.7
2021	32.3	74	35.4	8,466	38.8
Totals					
2020	100.0	220	100.0	17,576	100.0
2021	100.0	209	100.0	21,847	100.0
Source: 2020 & 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%					

The bank's lending in low-income census tracts nearly matches the percentage of businesses in 2020 and is only slightly below it in 2021. The bank's lending in moderate-income census tracts is

below the percentages of businesses in both years. Overall, examiners consider the performance reasonable primarily due to competition, particularly in the moderate-income areas. Further, the bank's performance shows an improving trend since the previous evaluation.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. The following table shows the distribution of home mortgage loans compared with the percentage of owner-occupied housing units and HMDA aggregate data. The bank's 2019 lending in low-income tracts is similar to aggregate performance; however, there is a low level of demand in these areas based on the aggregate data in both years. The lack of lending in 2020 in low-income census tracts is reasonable. The bank's performance in moderate-income tracts slightly trailed aggregate performance in 2019, but was much lower in 2020. Examiners considered the bank's performance reasonable overall considering the activity in low-income tracts as well as the 2019 performance in moderate-income tracts.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Battle Creek, MI MSA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	5.2	2.3	1	1.9	37	0.7
2020	5.2	1.5	0	0.0	0	0.0
Moderate						
2019	21.1	17.9	7	13.5	489	9.7
2020	21.1	15.6	5	5.8	286	2.2
Middle						
2019	42.7	41.6	25	48.1	2,119	42.1
2020	42.7	40.9	47	54.7	6,054	47.4
Upper						
2019	31.0	38.2	19	36.5	2,392	47.5
2020	31.0	42.0	34	39.5	6,420	50.3
Not Available						
2019	0.0	0.0	0	0.0	0	0.0
2020	0.0	0.0	0	0.0	0	0.0
Totals						
2019	100.0	100.0	52	100.0	5,037	100.0
2020	100.0	100.0	86	100.0	12,761	100.0
Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Small Farms Loans

The geographic distribution of small farm loans reflects reasonable dispersion throughout the AA. The following table shows the distribution of small farm loans within the AA, and includes the distribution of farms by tract income level.

Geographic Distribution of Small Farm Loans					
Assessment Area: Battle Creek, MI MSA					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low					
2021	2.0	1	0.7	21	0.4
Moderate					
2021	8.3	0	0.0	0	0.0
Middle					
2021	63.4	115	80.4	4,789	83.0
Upper					
2021	26.3	27	18.9	957	16.6
Totals					
2021	100.0	143	100.0	5,767	100.0
<i>Source: 2020 & 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

In 2021, the bank originated all but one of its small farm loans in this AA in middle- and upper-income census tracts. Examiners considered this reasonable primarily because there is a low level of demand in the low- and moderate-income census tracts, which contain only 8 and 33 farms, respectively. In addition, there is a moderate level of competition for small farm lending in the AA.

Borrower Profile

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration throughout the assessment area. The bank's reasonable performance of small business and home mortgage lending support the overall reasonable conclusion.

Small Business Loans

The distribution of small business loans reflects, given the demographics of the AA, reasonable penetration to businesses of different sizes. As illustrated in the following table, the bank's lending to businesses with GARs of \$1.0 million or less significantly trailed the percentage of businesses with the same GAR level in the AA in both years. However, as previously discussed, the bank originated PPP loans in which the collection of revenue information was not required or considered. SMBT originated 429 small business PPP loans totaling \$18.0 million in the AA during the evaluation period. Excluding PPP loan data, the bank's lending to businesses with GARs of \$1.0 million or less reasonably trailed the percentage of businesses with the same GAR level in the AA – 62.7 percent and 64.0 percent in 2020 and 2021, respectively.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Battle Creek, MI MSA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2020	78.7	37	16.8	2,682	15.3
2021	79.7	48	23.0	7,071	32.4
>\$1,000,000					
2020	6.7	22	10.0	4,120	23.4
2021	6.3	27	12.9	7,599	34.8
Revenue Not Available					
2020	14.6	161	73.2	10,774	61.3
2021	14.0	134	64.1	7,177	32.9
Totals					
2020	100.0	220	100.0	17,576	100.0
2021	100.0	209	100.0	21,847	100.0
Source: 2020 & 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%					

Home Mortgage Loans

The distribution of home mortgage loans reflects, given the demographics of the AA, reasonable penetration to borrowers of different income levels. As illustrated in the following table, the bank's lending to low-income borrowers slightly trailed the aggregate data in 2019 and 2020. However, the AA's poverty rate of 13.4 percent influenced the number of low-income families that can reasonably qualify for mortgage financing, and, hence, the demand for home mortgage loans among low-income families. The bank's lending to moderate-income borrowers trailed the aggregate data in 2019 but only slightly so in 2020. In addition, the bank does not originate VA- and FHA-insured mortgages, which are generally more affordable for low- and moderate-income families.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Battle Creek, MI MSA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	21.7	10.0	4	7.7	146	2.9
2020	21.7	7.0	4	4.7	289	2.3
Moderate						
2019	17.8	22.1	5	9.6	311	6.2
2020	17.8	18.1	12	14.0	1,140	8.9
Middle						
2019	19.6	24.9	6	11.5	598	11.9
2020	19.6	22.6	18	20.9	2,031	15.9
Upper						
2019	40.9	30.7	28	53.8	3,152	62.6
2020	40.9	37.7	46	53.5	8,866	69.5
Not Available						
2019	0.0	12.3	9	17.3	831	16.5
2020	0.0	14.7	6	7.0	435	3.4
Totals						
2019	100.0	100.0	52	100.0	5,037	100.0
2020	100.0	100.0	86	100.0	12,761	100.0
Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Small Farm Loans

The distribution of small farm loans reflects, given the demographics of the AA, poor penetration to farms of different sizes. As illustrated in the following table, the bank's lending to farms with GARs of \$1.0 million or less significantly trailed the percentage of farms with the same GAR level in the AA in 2021. However, as previously discussed, the bank originated PPP loans in which the collection of revenue information was not required. SMBT originated 115 small farm PPP loans totaling \$1.7 million in the AA during the evaluation period. Excluding PPP loan data, the bank's lending to businesses with GARs of \$1.0 million or less still significantly trailed the percentage of farms at 78.6 percent.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Battle Creek, MI MSA					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000					
2021	96.0	22	15.4	3,043	52.8
>\$1,000,000					
2021	2.5	6	4.2	1,060	18.4
Revenue Not Available					
2021	1.5	115	80.4	1,664	28.9
Totals					
2021	100.0	143	100.0	5,767	100.0
Source: 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%					

COMMUNITY DEVELOPMENT TEST

The bank's community development activities demonstrate adequate responsiveness to the needs of the AA through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's AA.

Community Development Loans

SMBT originated seven community development loans totaling \$8.9 million during the evaluation period within the AA. Of the seven community development loans originated, four were PPP loans totaling \$4.4 million. The following table contains the bank's community development lending within the AA by year and purpose.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2019*	0	0	1	600	0	0	0	0	1	600
2020	0	0	1	900	3	3,365	0	0	4	4,265
2021	0	0	1	3,000	1	1,072	0	0	2	4,072
2022*	0	0	0	0	0	0	0	0	0	0
Total	0	0	3	4,500	4	4,437	0	0	7	8,937
Source: Bank Records, *5/13/2019-12/31/2019; **1/1/2022-1/17/2022										

Of the three non-PPP loans, one totaling \$600,000 was to a youth center focused on providing a safe place for low- and moderate-income children in Calhoun County. The bank originated the second and third loans totaling \$3.9 million to finance mental health services to low- and moderate-income individuals in Calhoun County.

Qualified Investments

SMBT made five qualified investments totaling roughly \$68,000 comprised of investments to local school districts and investments in a low-income housing fund benefiting the AA. The bank's qualified investment performance significantly declined compared to the previous evaluation period. At the previous evaluation, the bank made 12 qualified investments totaling \$6.7 million in the AA. In addition, the bank made 31 donations totaling roughly \$28,000 to organizations that assist low- and moderate-income individuals and families. The following table illustrates community development investments and donations by purpose.

Qualified Investments and Donations										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	1	55	1	55
2019*	2	8	0	0	0	0	0	0	2	8
2020	1	5	0	0	0	0	0	0	1	5
2021	1	1	0	0	0	0	0	0	1	1
YTD 2022**	0	0	0	0	0	0	0	0	0	0
Subtotal	4	14	0	0	0	0	1	55	5	68
Qualified Grants & Donations	1	0	29	27	1	0	0	0	31	28
Total	5	14	29	27	1	0	1	55	36	96
<i>Source: Bank Records, *5/13/2019-12/31/2019; **1/1/2022-1/17/2022</i> <i>Due to rounding, totals may not be exact</i>										

Notable investments and donations include:

- A \$55,000 investment to remodel school buildings where the majority of students receive free or reduced-priced lunch.
- A \$10,000 donation to a local food bank focused on providing meals to families in need.
- A \$7,598 donation to an organization focused on providing financial literacy training to schools where the majority of students receive free or reduced-priced lunch.

Community Development Services

During the evaluation period, bank management and employees provided eight instances of financial expertise or technical assistance to three community development-related organizations serving this AA. The following table illustrates community development services by year and purpose.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2019*	0	2	1	0	3
2020	0	2	1	0	3
2021	0	2	0	0	2
YTD 2022**	0	0	0	0	0
Total	0	6	2	0	8
<i>Source: Bank Records, *5/13/2019-12/31/2019; **1/1/2022-1/17/2022</i>					

Notable examples of community development services include:

- One bank employee serves as a member of the finance committee for an organization focused on providing educational opportunities targeted to low- and moderate-income children in Calhoun County.
- One bank employee serves as the treasurer for an organization focused on providing vision assistance to low-income individuals.
- One of the bank's directors serves as a Board member for an organization focused on economic development in Southwest Michigan.

KALAMAZOO-PORTAGE, MI MSA AA – Limited-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE KALAMAZOO – PORTAGE, MI MSA AA

The bank operates one full-service and one limited-purpose branch within the AA. Both branches are located in middle-income census tracts. Additionally, one of the bank’s 20 ATMs is located in this AA. As of June 30, 2021, the bank derived 9.4 percent of its deposits from this AA. The bank originated 5.1 percent of its home mortgage loans in 2019 and 7.0 percent of its loans in 2020 in the AA. In 2020 and 2021, the bank originated 15.9 percent and 17.8 percent of its small business loans in the AA, respectively. In addition, the bank originated 1.0 percent of its small farm loans in 2021 within the AA. The following table details select demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Kalamazoo-Portage, MI MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	57	12.3	19.3	42.1	24.6	1.8
Population by Geography	256,752	10.3	14.8	45.9	26.9	2.1
Housing Units by Geography	110,196	11.1	15.6	47.5	25.5	0.4
Owner-Occupied Units by Geography	64,302	4.9	11.1	50.7	33.3	0.1
Occupied Rental Units by Geography	36,039	19.3	22.6	43.4	13.8	0.8
Vacant Units by Geography	9,855	21.2	19.3	41.0	17.9	0.7
Businesses by Geography	15,634	8.2	19.8	45.8	25.6	0.6
Farms by Geography	592	3.4	12.8	54.1	29.4	0.3
Family Distribution by Income Level	60,438	20.5	16.6	20.0	42.9	0.0
Household Distribution by Income Level	100,341	24.6	15.7	17.0	42.6	0.0
Median Family Income MSA - 28020 Kalamazoo-Portage, MI MSA		\$63,609	Median Housing Value			\$133,691
			Median Gross Rent			\$724
			Families Below Poverty Level			11.2%
Source: 2015 ACS and 2020 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.						

With a median housing value of \$133,691 and a median family income of \$63,609, housing is relatively affordable in the AA. D&B data from 2021 shows the largest industries in the AA are services (42.4 percent); non-classifiable establishments (13.9 percent); retail trade (13.2 percent); finance, insurance and real estate (9.5 percent); and construction (6.5 percent). According to Moody’s Analytics, the top employers in the AA are Bronson Healthcare Systems, Western Michigan University, Ascension Borgess Hospital, and Stryker Corporation.

Data obtained from the U.S. Bureau of Labor Statistics indicates that the statewide unemployment rate was 4.1 percent, 10.0 percent, and 5.0 percent in 2019, 2020, and 2021, respectively. The unemployment rates for 2019, 2020, and 2021 in Kalamazoo County were 3.2 percent, 7.3 percent, and 5.1 percent respectively. Unemployment rates within the AA increased significantly from 2019 to 2020 due to the COVID-19 pandemic; however, rates decreased significantly in 2021. Unemployment rates were consistently lower than state and national unemployment rates in 2019 and 2020, and were consistent with unemployment rates in 2021.

The AA is moderately competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2021, 14 financial institutions operated 53 banking offices within the AA. Of these institutions, SMBT ranked 10th with a 2.0 percent deposit market share. The three most prominent institutions accounted for 56.1 percent of total deposit market share.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE KALAMAZOO – PORTAGE, MI MSA AA

LENDING TEST

The institution's overall lending performance in the AA is consistent with performance in the assessment areas that were reviewed using full-scope examination procedures. The bank originated less loans by both number and dollar volume in this AA compared to the other AAs. As noted earlier, small farm lending does not constitute a major focus in this AA, so examiners considered only small business and home mortgage lending activities in this AA. Based on the bank's records and HMDA data, the bank's small business and home mortgage lending in this AA was as follows:

- Small Business Lending: 160 loans in 2020 and 169 loans in 2021.
- Home Mortgage Lending: 16 loans in 2019 and 36 loans in 2020.

The following sections contain the geographic distribution and borrower profile data for lending in this AA.

Geographic Distribution

Geographic Distribution of Small Business Loans					
Assessment Area: Kalamazoo-Portage, MI MSA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2020	8.2	14	8.8	2,904	11.3
2021	8.3	20	11.8	6,240	17.9
Moderate					
2020	19.8	35	21.9	6,388	24.8
2021	19.8	47	27.8	11,104	31.9
Middle					
2020	45.8	69	43.1	8,671	33.6
2021	45.1	63	37.3	10,405	29.9
Upper					
2020	25.6	42	26.2	7,842	30.4
2021	26.2	39	23.1	7,046	20.2
Totals					
2020	100.0	160	100.0	25,805	100.0
2021	100.0	169	100.0	34,795	100.0
Source: 2020 & 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%					

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Kalamazoo-Portage, MI MSA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	4.9	3.0	0	0.0	0	0.0
2020	4.9	2.6	1	2.8	47	0.3
Moderate						
2019	11.1	10.4	5	31.3	3,080	55.0
2020	11.1	9.2	5	13.9	928	6.3
Middle						
2019	50.7	49.9	5	31.3	982	17.5
2020	50.7	48.1	12	33.3	9,139	61.8
Upper						
2019	33.3	36.7	6	37.5	1,539	27.5
2020	33.3	40.0	18	50.0	4,664	31.6
Totals						
2019	100.0	100.0	16	100.0	5,601	100.0
2020	100.0	100.0	36	100.0	14,778	100.0
Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Borrower Profile

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Kalamazoo-Portage, MI MSA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2020	81.7	22	13.8	5,061	19.6
2021	82.6	29	17.2	8,462	24.3
>\$1,000,000					
2020	6.5	29	18.1	9,740	37.7
2021	6.0	57	33.7	18,357	52.8
Revenue Not Available					
2020	11.8	109	68.1	11,004	42.6
2021	11.4	83	49.1	7,976	22.9
Totals					
2020	100.0	160	100.0	25,805	100.0
2021	100.0	169	100.0	34,795	100.0
Source: 2020 & 2021 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%					

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Kalamazoo-Portage, MI MSA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	20.5	10.2	0	0.0	0	0.0
2020	20.5	10.3	2	5.6	135	0.9
Moderate						
2019	16.6	20.6	2	12.5	260	4.6
2020	16.6	20.0	0	0.0	0	0.0
Middle						
2019	20.0	22.7	3	18.8	504	9.0
2020	20.0	22.3	7	19.4	1,323	9.0
Upper						
2019	42.9	35.4	6	37.5	1,517	27.1
2020	42.9	34.4	22	61.1	4,956	33.5
Not Available						
2019	0.0	11.2	5	31.3	3,320	59.3
2020	0.0	13.0	5	13.9	8,363	56.6
Totals						
2019	100.0	100.0	16	100.0	5,601	100.0
2020	100.0	100.0	36	100.0	14,778	100.0
Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

COMMUNITY DEVELOPMENT TEST

The institution's community development performance in the AA is consistent with the community development performance in the assessment areas that were reviewed using full-scope examination procedures. SMBT made 8 investments totaling roughly \$387,000 and 23 donations totaling roughly \$20,000 in the AA. In addition, during the evaluation period, bank management and employees provided 13 instances of financial expertise or technical assistance to 5 community development-related organizations serving this AA. The bank also originated 7 PPP loans that qualify as community development loans totaling \$14.3 million in the AA.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

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

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

Community Development Test

The Community Development Test considers the following criteria:

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

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

Community Development Loan: A loan that:

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

Community Development Service: A service that:

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

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

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

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

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

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

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

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

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

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

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

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

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

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

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

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

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

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

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

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

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

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

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

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

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

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

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

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

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

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

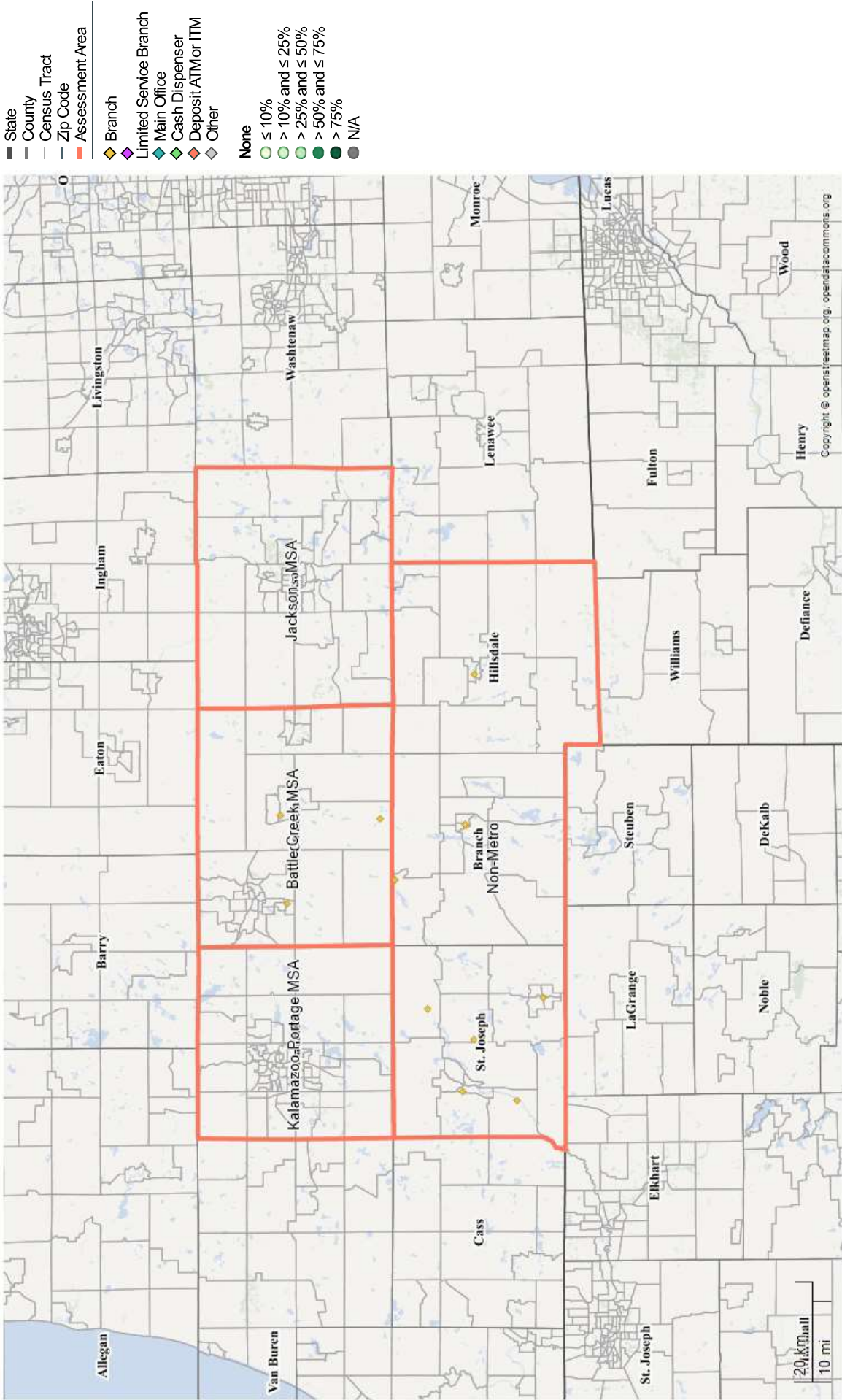
Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements,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

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

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

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

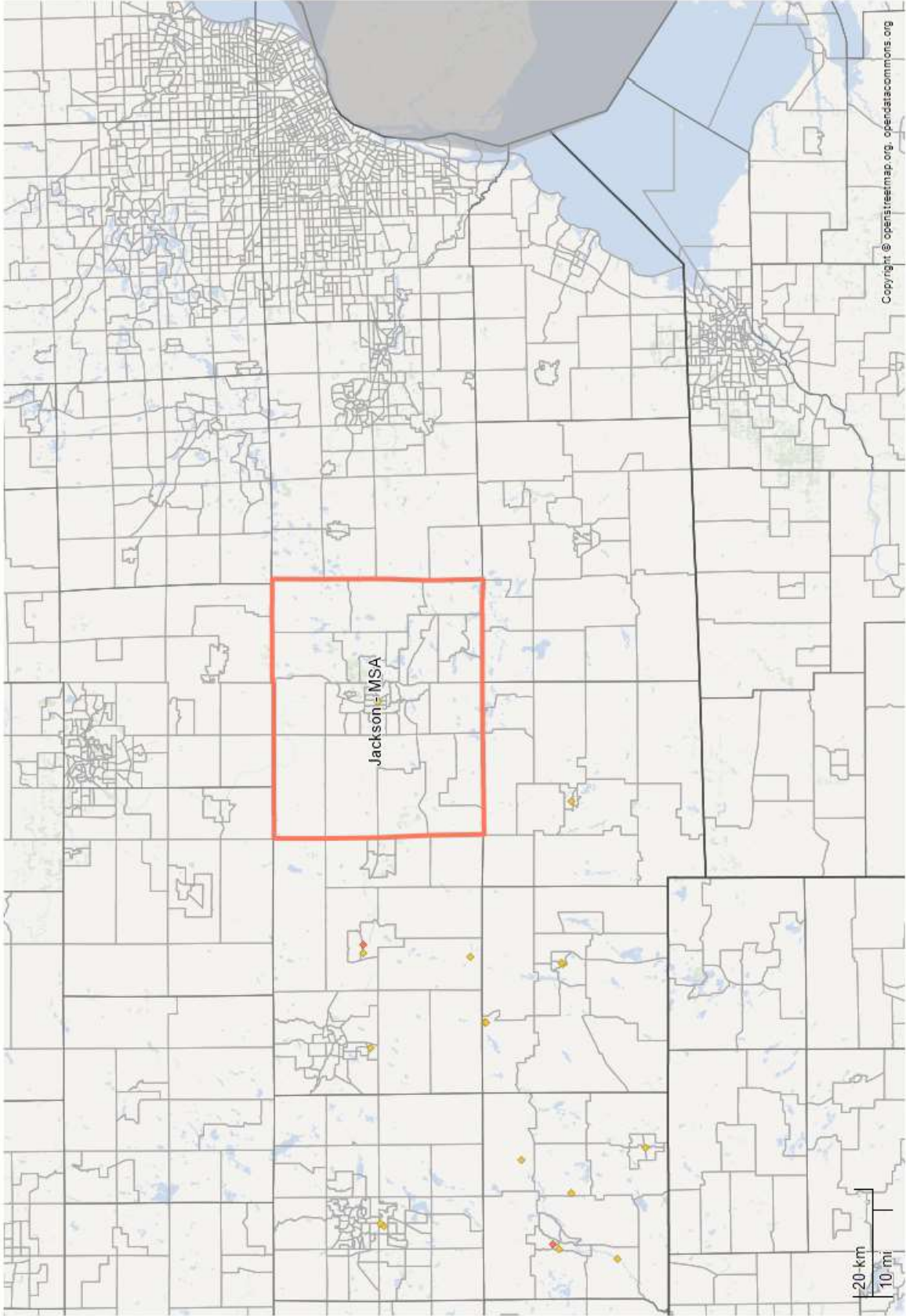
"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.



Applied Filters

- Area: (Kalamazoo-Portage MSA, Non-Metro, Battle Creek MSA, Jackson - MSA)
- Status: (Open)
- Action Taken Date: (1/1/2022 - 12/30/2022)
- You are included in the HMDA benchmark.

- State
- County
- Census Tract
- Zip Code
- Assessment Area
- Branch
- Limited Service Branch
- Main Office
- Cash Dispenser
- Deposit ATM or ITM
- Other



Applied Filters

- Area: (Jackson - MSA)
- Status: (Open)
- Action Taken Date: (5/18/1993 - 12/30/2022)
- You are included in the HMDA benchmark.

- State

County

Census Tract

Zip Code

Assessment Area
- Branch

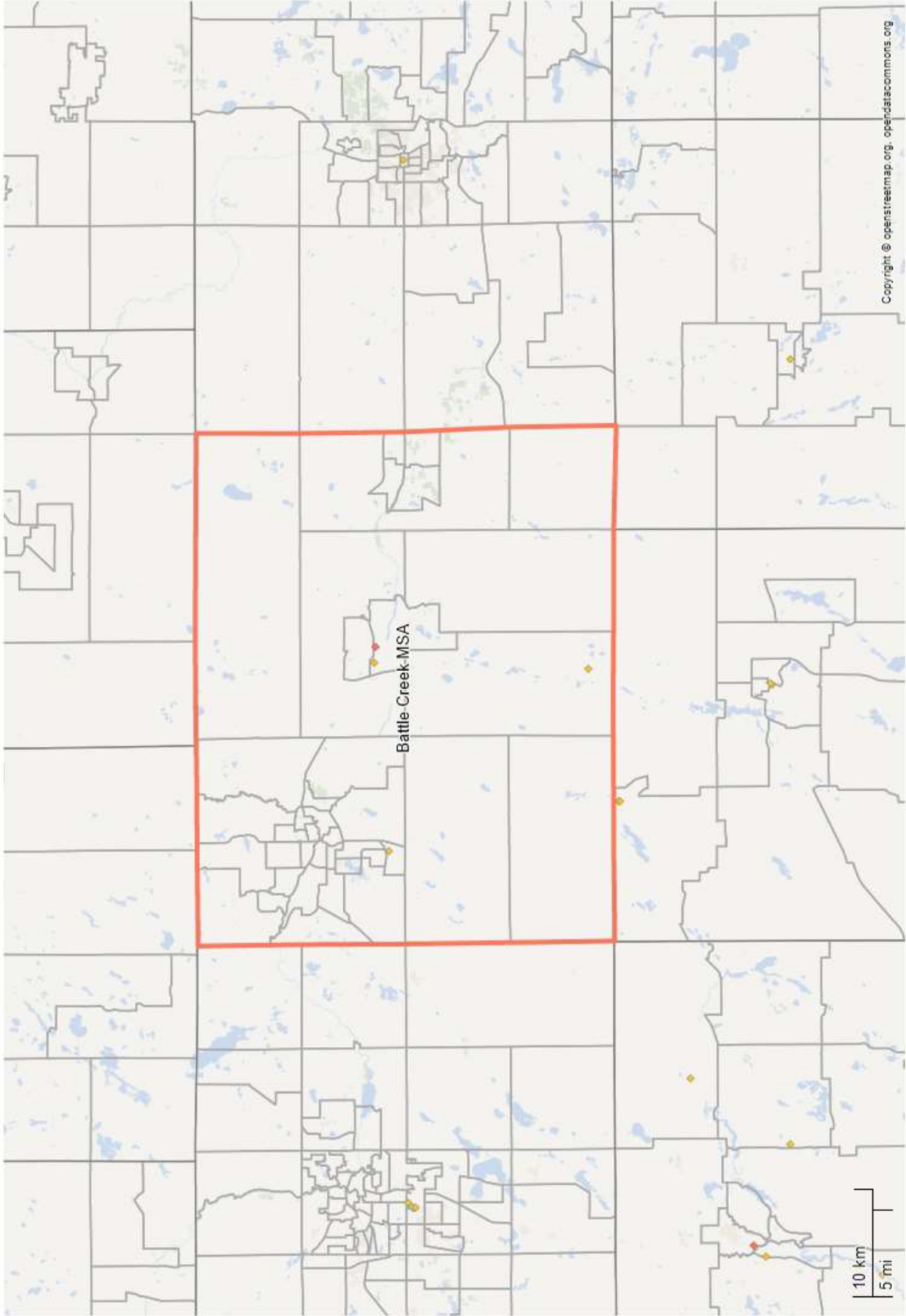
Limited Service Branch

Main Office

Cash Dispenser

Deposit ATM or ITM

Other



Applied Filters

- Area: (Battle Creek MSA)
- Status: (Open)
- Action Taken Date: (5/18/1963 - 12/30/2022)
- You are included in the HMVA benchmark.

- State

County

Census Tract

Zip Code

Assessment Area
- Branch

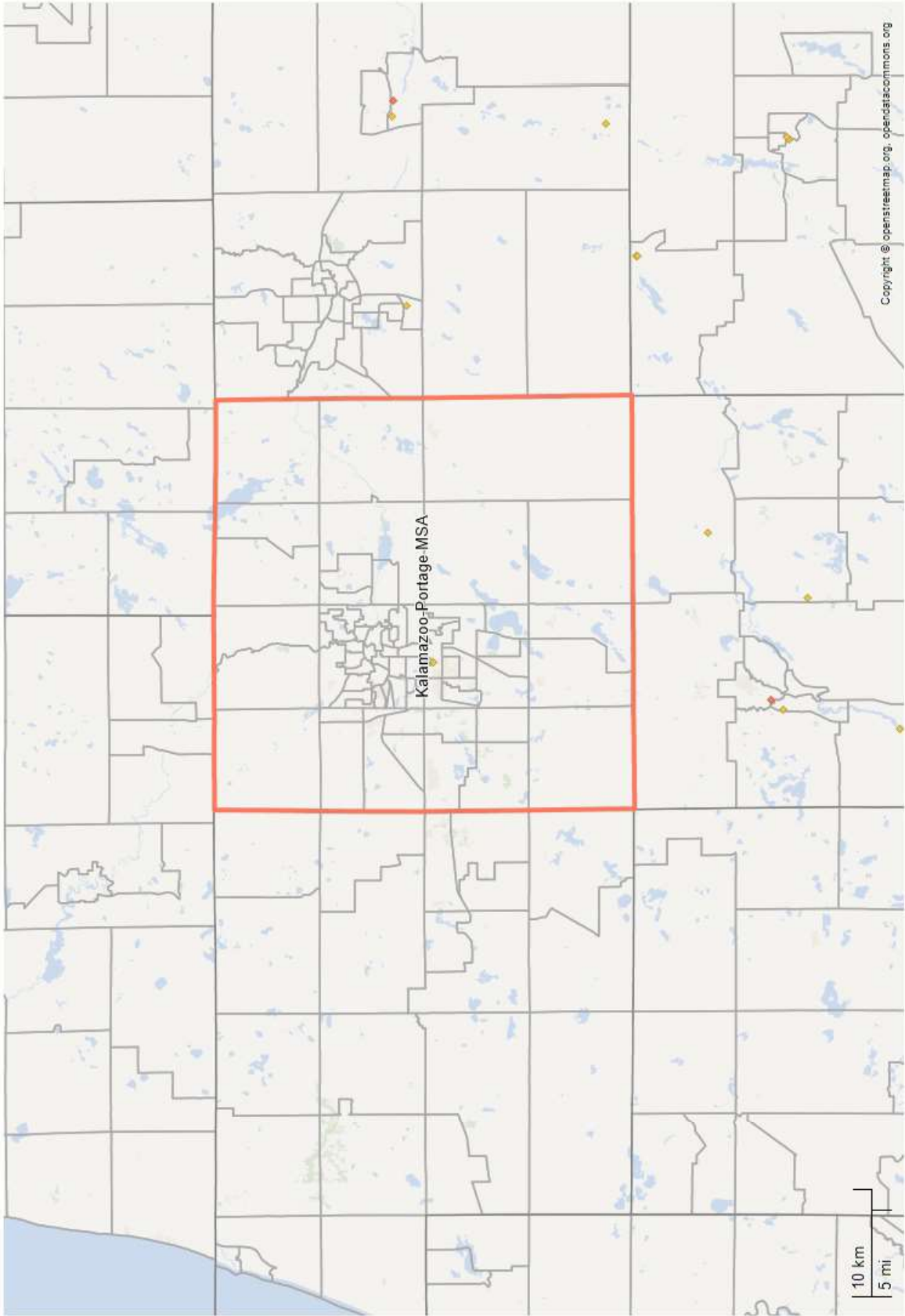
Limited Service Branch

Main Office

Cash Dispenser

Deposit ATM or ITM

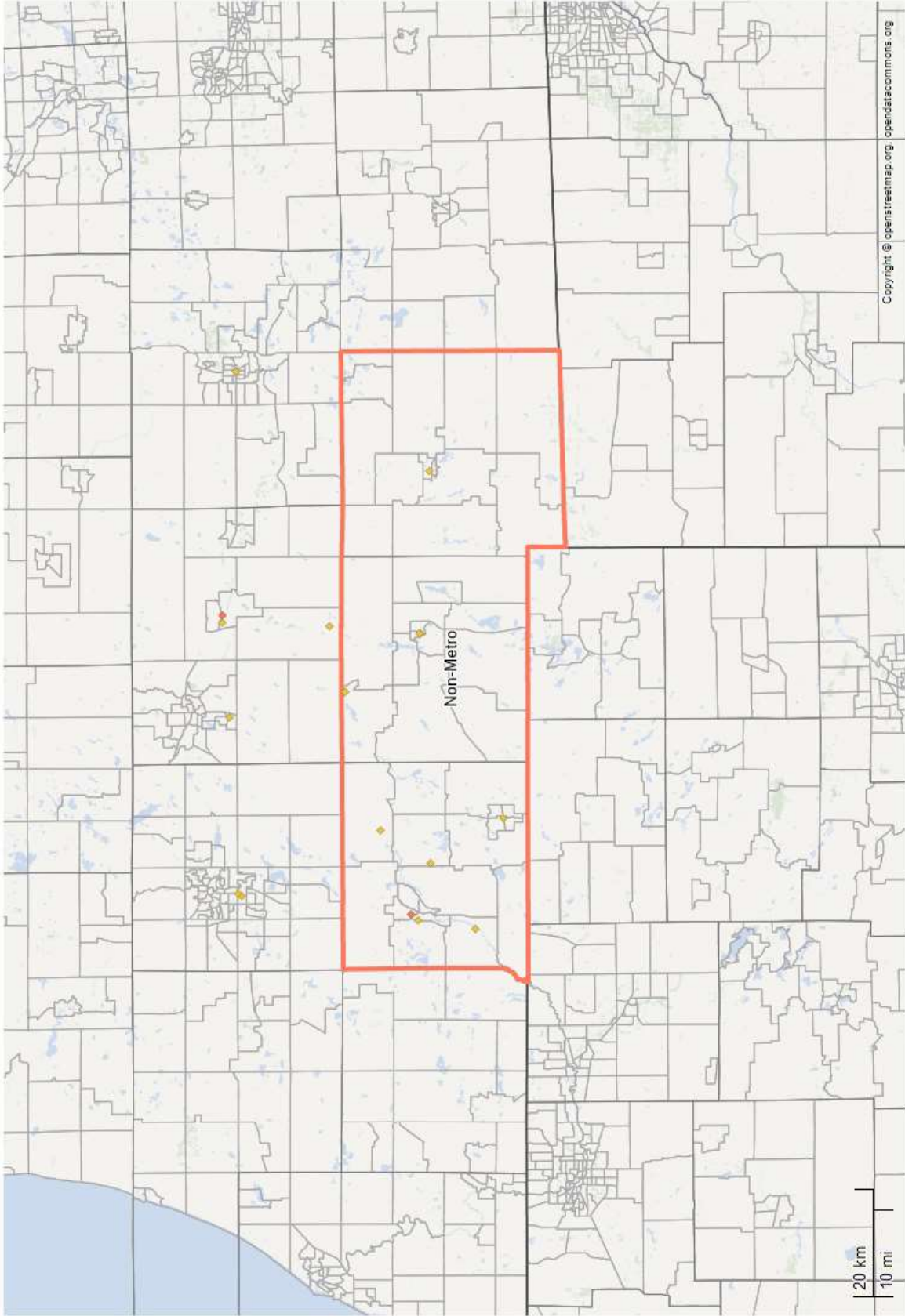
Other



Applied Filters

- Area: (Kalamazoo-Portage MSA)
- Status: (Open)
- Action Taken Date: (5/18/1993 - 12/30/2022)
- You are included in the HMDA benchmark.

- State
- County
- Census Tract
- Zip Code
- Assessment Area
- Branch
- Limited Service Branch
- Main Office
- Cash Dispenser
- Deposit ATM or ITM
- Other



Applied Filters

- Area: (Non-Metro)
- Status: (Open)
- Action Taken Date: (5/18/1993 - 12/30/2022)
- You are included in the HMDA benchmark.

Branch Offices

Coldwater - Main Office

51 W. Pearl St.
Coldwater, MI 49036
Phone: 517-279-5500
TollFree: 800-379-7628

Lobby Hours

Mon – Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon - Fri 8:30 am - 5:00 pm
Saturday 8:30 am - Noon

Coldwater - Chicago St. Drive Thru

441 E. Chicago St.
Coldwater, MI 49036
Phone: 517-279-5522
Fax: 517-279-1148

Drive Thru Hours

Mon - Fri 8:30 am - 5:00 pm
Saturday 8:30 am - Noon

Coldwater - 2 West

2 W. Chicago St.
Coldwater, MI 49036
Phone: 517-279-5600
Fax: 517-278-4151

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Battle Creek

5350 E. Beckley Rd.
Battle Creek, MI 49015
Phone: 269-979-8822
Fax: 269-979-0372

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon – Thu 8:30 am - 5:00 pm
Friday 8:30 am - 5:30 pm
Saturday 8:30 am - Noon

Marshall

1110 W. Michigan Ave.
Marshall, MI 49068
Phone: 269-781-8500
Fax: 269-781-8860

Lobby Hours

Mon – Fri 9:00am – 4:30pm
Saturday Closed

Drive Thru Hours

Mon - Fri 8:30am – 5:00pm
Saturday 8:30am - Noon

Centreville

235 E. Main St.
Centreville, MI 49032
Phone: 269-467-8096
Fax: 269-467-4146

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon - Thu 9:00 am - 5:00 pm
Friday 9:00 am - 5:30 pm
Saturday 9:00 am - Noon

Constantine

345 N. Washington St.
Constantine, MI 49042
Phone: 269-435-8446
Fax: 269-435-7593

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon – Thu 9:00 am - 5:00 pm
Friday 9:00 am - 5:30 pm
Saturday 9:00 am - Noon

Hillsdale

10 E. Carleton
Hillsdale, MI 49242
Phone: 517-439-1500
Fax: 517-439-0093

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon - Fri 8:30 am - 5:00 pm
Saturday 8:30 am - Noon

Tekonsha

202 N. Main St.
Tekonsha, MI 49092
Phone: 517-767-3313
Fax: 517-767-3167

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon - Thu 8:30 am - 4:30 pm
Friday 8:30 am - 5:00 pm
Saturday 8:30 am - Noon

Branches Offices (cont.)

Mendon

136 N. Nottawa St.
Mendon, MI 49072
Phone: 269-496-2145
Fax: 269-496-8303

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon - Thu 9:00 am - 5:00 pm
Friday 9:00 am - 5:30 pm
Saturday 9:00 am - Noon

Portage

531 W. Kilgore Rd.
Portage, MI 49024
Phone: 269-585-4300
Fax: 269-343-3164

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday 9:00 am - Noon

Trade Centre – Portage

650 Trade Centre Way, Suite 120
Portage, MI 49002
Phone: 800-379-7628
Office Hours by Appointment Only

Three Rivers

225 US 131
Three Rivers, MI 49093
Phone: 269-278-8604
Fax: 269-273-6201

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon - Thu 9:00 am - 5:00 pm
Friday 9:00 am - 5:30 pm
Saturday 9:00 am - Noon

Union City

225 N. Broadway
Union City, MI 49094
Phone: 517-741-4281
Fax: 517-741-8885

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Drive Thru Hours

Mon - Thu 8:30 am - 4:30 pm
Friday 8:30 am - 5:00 pm
Saturday 8:30 am - Noon

Sturgis

200 John St.
Sturgis, MI 49091
Phone: 269-319-4150
Fax: 269-319-4151

Lobby Hours

Mon – Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

Jackson

200 N. Jackson St.
Jackson, MI 49201
Phone: 517-962-7823
Fax: 517-962-7824

Lobby Hours

Mon - Thu 9:00 am - 4:30 pm
Friday 9:00 am - 5:00 pm
Saturday Closed

SOUTHERN MICHIGAN BANK & TRUST

Branches opened or closed in the current year and prior two calendar years.

Closed

Opened

Sturgis – May 23, 2022

200 John Street Sturgis, MI 49091

State Code: 26 County Code: 149 MSA – N/A Census Tract: 0407.00

The branch is in St. Joseph County in the City of Sturgis, just north of the Michigan – Indiana border. The demographics for Sturgis, Michigan include: Population as of 2021 was 11,025, average household income is \$50,082 with a poverty rate of 31.49%. Racial composition is 85.72% white, two or more races 7.41%, and other 5.68%.

Jackson – July 31, 2023

200 N Jackson Street Jackson, Michigan 49201

State Code: 26 County Code: 075 MSA – Jackson Census Tract: 0006.00

The branch is in Jackson County and the City of Jackson. Jackson County is an MSA. The demographics for Jackson, Michigan include: Population as of July 1, 2022 is estimated to be 31,031, median household income of \$38,298 with a poverty rate of 23.8%. Racial composition is 69.9% white, 19.0% black or African American, 7.1% Hispanic or Latino, 8.6% two or more races.

SOUTHERN MICHIGAN
BANK & TRUST

PRODUCTS AND SERVICES

2024 CRA BOOK

Updated April 1, 2024

BUSINESS BANKING

Lending

- Lines of Credit
- Term Loan
- Commercial Real Estate Loan
- Letters of Credit
- Small Business Administration loans
- United States Department of Agriculture loans

Deposit

- Business Free Connection Checking
- Business Connection Plus
- Business Checking
- Business Savings
- Community Investment Account
- IOLTA
- Investment Account

PERSONAL BANKING

Lending

- Home Mortgage
- Equity Loans
- Personal Loans

Deposit

- Premium Checking
- Perks Checking
- Simple Checking
- Investment Account
- Health Savings
- Statement Savings
- Christmas Club
- Certificate of Deposit
- IRA

Treasury Management Services

Retail Services:

- Online Banking
- Online transfers
- eStatements
- Alerts
- Bill Pay
- My Finance
- Mobile Deposit
- Downloads
- Send Money
- Live Chat
- Payroll Cards
- Prepaid Cards
- Gift Cards
- Credit Cards

Business Services:

- Cash Management
- Company Administration
- Online transfers
- eStatements
- Alerts
- Business Bill Pay
- Business Bill Pay with Payroll
- My Finance
- Mobile Deposit
- Downloads
- Live Chat
- ACH Cash Management
- ACH Debit Block
- Online Wires
- Check Positive Pay
- Remote Deposit Capture
- Business Sweep Services
- Payroll Cards
- Prepaid Cards
- Gift Cards
- Purchasing Cards
- Corporate Credit Cards
- QuickBooks Direct Connect
- Merchant Services (Credit card processing)
- Courier Services

WEALTH MANAGEMENT

Investment Management

Investment Planning

As your assets increase, you may find that you need an experienced investment manager to assist you in the development of a diversified investment portfolio. Individuals, businesses, and charitable organizations will find the expertise they need at Southern Michigan Bank & Trust Wealth Management Department. Our professionals can create a custom investment portfolio designed to meet the needs, goals, and objectives of each individual or business.

Financial Planning

Having a plan will help you to obtain your financial goals. Whether you are planning for retirement, saving for your child's college education, paying down debt, starting a gifting program, or thinking about your estate plan, we can help determine if you are on track to meet your long-term financial goals.

Municipalities

We address the unique challenges facing municipalities by having a thorough understanding of municipal investment guidelines, and policies, and an in-depth knowledge of the financial markets.

Individual Retirement Accounts

Individual Retirement Accounts (IRAs)

An IRA is an Individual Retirement Account, established by an individual to provide for his or her own retirement. This investment option is an excellent way to save for retirement and the earnings grow tax-deferred until they are withdrawn. Contributions can be tax deductible.

IRA Rollovers

A rollover IRA allows you to transfer funds from a qualified retirement plan such as a pension, profit sharing, or 401(k) plan into an individual IRA when changing jobs or retiring. The rollover continues the principal and earnings growing tax deferred.

Roth IRAs

A Roth IRA is similar to a Traditional IRA in many ways, the major difference being the contributions to a Roth IRA are not tax-deductible, which also means that the earnings in a Roth IRA accumulate tax-free.

Retirement Planning

We can help answer all your questions regarding retirement planning and saving. You also have access to a full range of products as well as numerous investment options

Trust and Estate Services

Estate Planning and Estate Settlement

An estate plan typically involves the development of several legal documents including a will, a trust, a durable power of attorney, a designation of a patient advocate, and a detailed listing of your assets.

Southern will assist you, your attorney, your tax accountant, and your family in creating an estate plan that meets your needs and those of your family. We assist families with decisions about how to transfer property or assets during lifetime and after death. During the development of your estate plan, we consider your family's situation, tax consequences, your goals and objectives and your family's needs.

Your personal representative is responsible for following the instructions of your will, collecting estate assets, maintaining records, paying expenses, notifying creditors, reporting to probate court, and filing income tax returns. The complexity of these tasks often makes it a burden to name a family member. Naming one family member over another often causes conflict in the family. You can avoid this by naming Southern as your personal representative.

Trustee Services

Choosing who will be the successor trustee of your trust is often a difficult decision but an important one. Your trustee must be knowledgeable in investments, tax, fiduciary law, and trust administration. Southern can act as your trustee. Advantages of the bank over an individual in acting as trustee are; expertise, solid investment performance, permanence, financial responsibility, audited and controlled, insured.

Families can benefit from a trust to reduce estate tax liability, to provide for a special needs child, to provide income to family after death, protect family members, protect an individual during lifetime, avoids the need for probate, and provides for distribution of the estate at death.

Charitable Giving Assistance

Elder Services

We assist families in handling the financial affairs of an elderly parent or relative who needs assistance with bill payment, investment management, and record keeping for income tax purposes. We can help recommend an estate plan to fit the needs of the family member.

Conservator Accounts

Southern often serves as court appointed conservator for clients who are unable to manage their own financial affairs due to advanced age, incapacitating illness, or for minor children. Our role as conservator is to protect the interests of the individual.

Agent for Trustee or Personal Representative

We can assist an individual who has been named the trustee or personal representative of an estate by serving as the agent.

We work directly with the trustee or personal representative in the administration of the trust or estate and provide the expertise that an individual may not have. We would handle the investment management, administrative responsibilities, and tax duties.

TRANSACTION FEES

Card & ATM Service Fees

ATM/Debit Replacement Card (if reordered within one year)	\$7.50 per card
ATM/Debit Card Transactions at non-Southern ATM machines	\$2.00 per transaction

Statement Service Fees

eStatements with check images (enrolled through online banking)	FREE
Paper Statements no check images	\$5.00 per statement
Paper Statements with check images	\$7.00 per statement
Insufficient Address	\$5.00 monthly per
accountStatement Copy	\$5.00 per statement
Account Activity Printout	\$3.00 per printout

Check Service Fees

Cashier's Check	\$7.00 per check
Cleared Check Image	\$3.00 per check
Counter Checks	\$1.00 per 4 checks
Foreign Collection Items	\$20.00 per item

Miscellaneous Account Service Fees

Account Closing Fee (if closed within 90 days of open date)	\$50.00 per account
Account Inactivity Fee (when the balance is under \$500 with no activity)	\$10.00 per month
Account Research Fee (minimum 1 hour)	\$30.00 per hour
Fax – Incoming/Outgoing	\$1.00 per page
Garnishments & Tax Levies	\$100.00 per
occurrence	
Stop Payment	\$35.00 per stop
Photocopy	\$0.25 per page
IRA – Early Withdrawal (prior to age 59 ½)	\$25.00
(Instrument must be matured to avoid bank imposed early withdrawal penalty of 6 months interest. Early Closing fee must be assessed to the account.)	
IRA – Transfer from Southern	\$25.00
(Instrument must be matured to avoid bank imposed early withdrawal penalty of 6 months interest. Rollover/transfer also applies if account is closed within 90 days of opening.)	

Exception Item Handling Fees

Automatic Overdraft Transfer (consumer accounts)	\$7.50 per transfer
Continuous Overdraft Fee	\$5.00 per business day
(Charged when your account remains overdrawn for 5 consecutive calendar days)	
Returned Deposited Items (redeposit or charged back to account)	FREE
Paid Overdraft Item Fee (presented item is paid)	\$32.00 per item
Returned Non-Sufficient Funds (NSF) Item Fee (presented item is returned)	\$34.00 per item

Wire Transfer Fees

Incoming Wire Transfer	\$10.00 per transfer
Outgoing Domestic Wire Transfer (assisted - branch, email, phone, fax)	\$30.00 per transfer
Outgoing Foreign Wire Transfer (assisted - branch, email, phone, fax)	\$50.00 per transfer

Loan to Deposit Ratio

22-Mar	71.61%
22-Jun	75.98%
22-Sep	74.76%
22-Dec	80.63%

23-Mar	82.17%
23-Jun	84.16%
23-Sep	86.65%
23-Dec	89.13%

Written Public Comments

None received as of April 1, 2024.