



PUBLIC DISCLOSURE

March 29, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Sterling Federal Bank, F.S.B.
Charter Number 700073

110 East 4th Street
Sterling, Illinois 61081

Office of the Comptroller of the Currency

211 Fulton Street
Suite 604
Peoria, Illinois 61602

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

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Overall CRA Rating

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

The lending test is rated: Satisfactory

The community development test is rated: Outstanding

The following major factors support this rating:

- The Lending Test rating is based on the satisfactory performance for the state of Illinois receiving a greater weighting than the satisfactory performance for the state of Iowa.
- The Community Development (CD) Test rating is based on the outstanding performance for the state of Illinois receiving a greater weighting than the satisfactory performance for the state of Iowa.
- The bank originates a substantial majority of its loans within its assessment areas (AAs)
- The loan-to-deposit (LTD) ratio is reasonable.

Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AA(s), the bank's LTD ratio is reasonable.

The quarterly average LTD ratio was 59.7 percent for the 11-quarter period from June 30, 2018, to December 31, 2020, with a low LTD ratio of 54.8 percent and a high LTD ratio of 64.0 percent

Sterling Federal Bank, FSB (SFB or bank) ranked 11 of 13 similarly situated FDIC insured financial institutions that compete with the bank for deposits in the AAs. The comparable institutions ranged in size from \$212.8 million to \$654.2 million and reported quarterly average LTD ratios from 40.5 percent to 104.7 percent.

Lending in Assessment Area

A substantial majority of the bank's loans are inside its AAs.

The bank originated and purchased 93.5 percent of its total loans inside the bank's AAs during the evaluation period. This analysis is performed at the bank, rather than the AA, level. This percentage does not include extensions of credit by affiliates that may be considered under the other performance criteria.

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	928	93.5	65	6.5	993	88,598	90.9	8,912	9.1	97,510
Total	928	93.5	65	6.5	993	88,598	90.9	8,912	9.1	97,510

Source: Home mortgage originations and purchases from January 1, 2018 to December 31, 2020.

Description of Institution

SFB is an interstate mutual thrift headquartered in Sterling, Illinois, with total assets of \$487.4 million at December 31, 2020. The bank had two subsidiaries during the evaluation period, Sauk Valley Title Insurance Company and SFB Service Corporation, which provide insurance services. The bank ceased operations of Sauk Valley Title Insurance Company in 2021. Neither subsidiary negatively affected the bank's ability to meet the credit needs of the community.

SFB's strategy is to provide innovative financial products and superior service to meet the needs of the customers in the communities they serve.

The CRA evaluation has two rating areas. The Illinois rating area has one AA (IL AA) composed of all census tracts (CTs) of Lee, Ogle, and Whiteside counties, which are nonmetropolitan areas. The Iowa rating area has one AA (IA AA) composed of Clinton County, which is a nonmetropolitan area.

The IL AA includes eight branches with drive-thru and ATM services, as well as banking services available on Saturdays. The IA AA includes two branches with drive-thru and ATM services, though only one location offers lobby service and banking services available on Saturdays. Customers also have banking access through online and mobile platforms.

The bank sources a majority of its deposits, 88.7 percent, from the IL AA, as of June 30, 2020.

The bank is primarily a home mortgage lender and offers a full range of deposit and loan products and services. Residential home loans represent the largest portfolio at \$121.1 million, followed by commercial loans at \$73.3 million, agriculture at \$33.5 million, and consumer loans at \$3.8 million. SFB also originates home mortgage loans for sale into the secondary market.

SFB reported a net loans and leases to total assets ratio of 47.1 percent and a tier 1 leverage capital ratio of 8.2 percent, or \$38.4 million at December 31, 2020.

There are no legal or financial circumstances that impede SFB's ability to meet the credit needs of its AAs.

The previous CRA rating, which the OCC determined using the Intermediate Small Bank evaluation procedures, was Satisfactory, as detailed in the PE dated July 16, 2018.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The evaluation period covers the period from the date of the previous CRA PE of July 16, 2018, to March 29, 2021. We evaluated Sterling Federal under the Intermediate Small Bank evaluation procedures, which includes a Lending Test and a CD Test.

The Lending Test evaluated loans originated or purchased between January 1, 2018, and December 31, 2020, and were compared to the 2015 American Community Survey Census Data.

The CD Test evaluated eligible community development loans, investments, and services from the date of the prior CRA PE of July 16, 2018, to December 31, 2020.

The primary loan product for the evaluation was determined to be home mortgage loans due to the strategic focus of the bank.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, one or more of AAs within that state was selected for a full-scope review. For purposes of this evaluation, bank delineated AAs located within the same metropolitan statistical area (MSA), multistate metropolitan statistical area (MMSA), or combined statistical area (CSA) are combined and evaluated as a single AA. Similarly, bank delineated non-MSA AAs within the same state are combined and evaluated as a single area. These combined AAs may be evaluated as full- or limited-scope. Refer to the “Scope” section under each State Rating for details regarding how full-scope AAs were selected. Refer to appendix A, Scope of Examination, for a list of full- and limited-scope AAs.

Ratings

The bank’s overall rating is a blend of the state ratings, and where applicable, multistate ratings.

The Illinois rating area received a greater weighting as a majority of the bank’s lending and deposit activity is within Illinois.

The MMSA rating and state ratings are based on performance in all bank AAs. Refer to the “Scope” section under each state and MMSA Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution (or any affiliate whose loans have been considered as part of the institution's lending performance) has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State Rating

State of Illinois

CRA rating for the State of Illinois¹: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

These major factors support this rating:

- The borrower distribution of loans reflects reasonable performance.
- The geographic distribution of loans reflects excellent performance.
- The CD lending and CD services reflects excellent responsiveness while CD investments reflect adequate responsiveness.

Description of Institution's Operations in Illinois

SFB serves its customers with eight branches and eight ATMS. Each branch location provides drive-thru service and offer banking services on Saturdays. One branch and ATM are located in a moderate-income geography.

Major employment sectors include health care, manufacturing, and retail services. Large employers include Wal-Mart, CGH Medical Center, and Wahl Clipper.

The annual unemployment rate in the State of Illinois had been declining in 2018 and 2019 until 2020 due to the Covid-19 pandemic. The annualized unemployment rates were 4.3 percent in 2018, 4.0 percent in 2019, and 9.5 percent in 2020. Whiteside and Lee counties were comparable to the State of Illinois in 2018 and 2019 while Ogle Count compared unfavorably. Unemployment rates in the AA were high during 2020 due to the Covid-19 pandemic, with Whiteside County experiencing the highest in the AA with 15.9 percent at April 2020.

Competition for loans and deposits is high among financial institutions in the AA due to the number and variety of financial institutions within and with reach into the AA. Competing institutions include national banks, state banks, federal thrifts, farm credit institutions, credit unions, and other nonbank lenders. SFB held the third highest deposit market share position at 8.9 percent among 25 FDIC insured financial institutions, at June 30, 2020. The top five institutions held a deposit market share of 49.4 percent.

Housing costs are generally affordable for moderate-income families when considering the median housing value but may present challenges for some low-income families when also considering property tax rates in Illinois.

¹ This rating reflects performance within the state. The statewide evaluations do not reflect performance in the parts of those states contained within the MMSA.

We reviewed one community contact interview from an organization that promotes affordable housing in Sterling, Illinois. The contact said the local community is declining in population and increasing in age due to job losses that traditionally provided good wages and are now replaced by lower wage industries. The contact discussed the need for new housing, affordable housing, and affordable automobile financing. While there are plenty of affordable housing units, the condition of the housing stock is poor, which discourages some borrowers. Additionally, newer housing is often built outside of towns, increasing the necessity for automobile ownership and increased commuting times. The contact felt there are opportunities for financial institutions to provide creative financing for the purchase and renovation of older, poorer quality homes, as well as financial education. The contact had no negative perceptions of SFB.

IL NonMSA AA

Table A – Demographic Information of the Assessment Area						
Assessment Area: IL NonMSA, 2015 ACS Census						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	38	0.0	13.2	65.8	21.1	0.0
Population by Geography	144,949	0.0	10.7	65.8	23.5	0.0
Housing Units by Geography	63,380	0.0	11.3	66.2	22.5	0.0
Owner-Occupied Units by Geography	43,474	0.0	10.5	63.6	25.9	0.0
Occupied Rental Units by Geography	14,322	0.0	13.1	74.1	12.8	0.0
Vacant Units by Geography	5,584	0.0	12.9	66.6	20.5	0.0
Businesses by Geography	7,337	0.0	10.7	68.0	21.4	0.0
Farms by Geography	793	0.0	3.3	68.2	28.5	0.0
Family Distribution by Income Level	38,046	16.2	18.2	21.7	43.9	0.0
Household Distribution by Income Level	57,796	19.9	16.1	17.6	46.4	0.0
Median Family Income Non-MSAs - IL		\$59,323	Median Housing Value			\$118,754
			Median Gross Rent			\$653
			Families Below Poverty Level			7.8%

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

Scope of Evaluation in Illinois

The one AA in Illinois received a full-scope review.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ILLINOIS

LENDING TEST

The bank's performance under the Lending Test in Illinois is rated Satisfactory.

Conclusions for Area Receiving a Full-Scope Review

Based on a full-scope review, the bank's lending performance in the state of Illinois is reasonable.

Distribution of Loans by Income Level of the Geography

The bank exhibits excellent geographic distribution of loans in the state of Illinois.

Home Mortgage Loans

Refer to Table O in the state of Illinois section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The distribution of home mortgage loans reflects excellent distribution.

The proportion of lending in moderate-income geographies exceeded both the percentage of owner-occupied housing units and the aggregate distribution. There were no low-income geographies during the evaluation period.

Lending Gap Analysis

We performed a lending gap analysis that included a review of density maps of originated home mortgage loans and compared to AA maps and location of branches. We did not identify any unexplained, conspicuous gaps in lending.

Distribution of Loans by Income Level of the Borrower

The bank exhibits a reasonable distribution of loans to individuals of different income levels.

Home Mortgage Loans

Refer to Table P in the state of Illinois section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The distribution of home mortgage loans reflects reasonable distribution in the AA.

The proportion of lending to low-income families was somewhat near to the percentage of low-income families but exceeded the aggregate distribution. The proportion of lending to moderate income-families exceeded both the percentage of moderate-income families and the aggregate distribution.

Responses to Complaints

SFB did not receive any complaints about its performance in helping to meet the credit needs of its AA during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test in the state of Illinois is rated Outstanding.

Conclusions for Area Receiving a Full-Scope Review

Based on a full-scope review, the bank exhibits excellent responsiveness to CD needs in the state through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for CD in the bank's AA.

Number and Amount of Community Development Loans

The Community Development Loans Table, shown below, sets forth the information and data used to evaluate the bank's level of CD lending. The table includes all CD loans, including multifamily loans that also qualify as CD loans.

<i>Community Development Loans</i>				
Assessment Area	Total			
	#	% of Total #	\$(000's)	% of Total \$
IL NonMSA	11	100	2,836	100

SFB's CD lending performance represents excellent responsiveness in the full-scope area, given the opportunities and needs.

SFB's CD lending activity included 11 loans totaling \$2.8 million and representing 8.3 percent of allocated tier 1 capital, based on deposit allocation.

Notable CD lending activities include

- a \$1.4 million loan to support the operations of an organization that provides health and human services, including child and teen crisis support, alcohol and drug rehabilitation support, and youth court services, to majority LMI persons.
- a \$290 thousand loan to support the expansion of operations for an organization that provides the majority of its childcare services to children of LMI parents.
- seven loans totaling \$545 thousand to support affordable housing.

In addition to the 11 CD loans, SFB made use of responsive flexible lending during the Covid-19 pandemic by originating loans to stabilize small businesses and communities through the SBA Paycheck Protection Program (PPP). The bank originated 148 PPP loans in the AA totaling \$6.3 million, or 18.5 percent of allocated capital, with an additional 46 loans totaling \$2.5 million in the statewide area of Illinois. SFB is not traditionally active in SBA lending. This activity received positive consideration as it provided stabilization of small businesses and communities.

Number and Amount of Qualified Investments

Qualified Investments										
Assessment Area	Prior Period*		Current Period		Total				Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	% of Total #	\$(000's)	% of Total \$	#	\$(000's)
IL NonMSA	0	0	79	252	79	100	252	100	0	0

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

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

SFB's CD investment performance represents adequate responsiveness. The bank's investments consisted entirely of donations. The \$252 thousand in donations represented 0.7 percent of allocated capital. The donations supported organizations that provided services to LMI persons, including various health and human services, homeless shelters, and food banks.

Several of SFB's donations were responsive to the community needs during the Covid-19 pandemic. The bank donated \$3 thousand to support hospitals, \$2 thousand to support homeless shelters, and \$5 thousand to support food banks in 2020.

Extent to Which the Bank Provides Community Development Services

SFB's CD service performance represents excellent responsiveness in the AA.

SFB provided service hours totaling 936 hours of which bank officers provided 721 hours in leadership positions.

Notable service hours include

- One bank officer provided 80 hours by serving as a board chairman of an organization that provides behavioral and crisis services to majority LMI persons.
- One bank officer provided 30 hours by serving as a board member of an organization that promotes economic development.
- One bank officer provided 120 hours by serving as a board member and a finance committee member of an organization that provides childcare services to children of majority LMI parents.
- One bank officer provided 12 hours by serving as a committee member of an organization focused on revitalizing downtown Sterling, Illinois, an area that includes moderate-income geographies.
- One bank officer provided 50 hours by assisting with fundraising for an organization that provides homeless shelter services.

The bank's delivery systems are reasonably accessible to individuals of different incomes and businesses of different sizes via branches, ATMs, and online and mobile platforms. Additionally, one branch and one ATM are located in a moderate-income geography.

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

In response to the Covid-19 pandemic, SFB assisted home mortgage borrowers and small businesses by providing forbearance assistance to impacted borrowers and businesses. SFB provided forbearance assistance to 112 home mortgage borrowers, representing \$8.2 million, and 20 businesses, representing \$6.7 million, experiencing difficulties during the Covid-19 pandemic. These efforts received positive consideration as they promoted housing stability and stabilization of small businesses and communities.

SFB participates in lending programs to help meet the credit needs of LMI borrowers:

- SFB participates in a Freddie Mac program that helps LMI borrowers obtain home ownership. The program offers higher maximum LTV limits and reduced mortgage insurance costs. Twelve borrowers representing \$1.1 million in funding received assistance through this program. This program is available in all AAs.
- SFB participates in the FHLB's down payment assistance program where LMI borrowers can receive forgivable grants that can be applied to closing costs and down payments. SFB helped 116 borrowers, representing \$9.1 million, receive down payment assistance through this program. This program is available in all AAs.
- SFB participates in the USDA Rural Housing Loan program that helps LMI borrowers purchase homes in rural areas. SFB helped 90 borrowers, representing \$7.5 million, receive assistance through this program. This program is available in all AAs.

State Rating

State of Iowa

CRA rating for the State of Iowa²: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

These major factors support this rating:

- The borrower distribution reflects reasonable performance.
- The geographic distribution reflects reasonable performance.
- CD lending, investments, and services reflects adequate responsiveness.

Description of Institution's Operations in Iowa

SFB serves its customers with two branches and two ATMs. One of the two branches provide lobby service while the other provides only drive-thru and walk-up service. One branch and ATM are located in a moderate-income geography.

Major employment sectors include health care and manufacturing. Large employers include MercyOne, ADM, and Custom-PAC.

The annual unemployment rate in the State of Iowa had been low in 2018 and 2019 and was briefly elevated in 2020 due to the Covid-19 pandemic. The annualized state unemployment rates were 2.6 percent in 2018, 2.8 percent in 2019, and 5.3 percent in 2020. While Clinton County had low unemployment in 2018 and 2019, the rates were slightly higher than the State of Iowa. Clinton County experienced elevated unemployment rates in 2020 due to the Covid-19 pandemic, experiencing a high of 12.9 percent in April 2020.

Competition for loans and deposits is moderate to high among financial institutions in the AA. Though there are fewer competing financial intuitions than in the IL NonMSA AA, the top five FDIC insured financial institutions hold 90.4 percent of the deposit market share. SFB ranked seventh of seven with a deposit market share of 3.7 percent.

Turnover in bank officer positions in the AA during the evaluation period may have limited some opportunities for lending and community development activities.

Housing costs are generally affordable for low- and moderate-income families when considering the median housing value.

We reviewed one community contact interview from an organization that promotes businesses in the AA. The contact discussed a need to finance commercial development in downtown Clinton, Iowa to

² This rating reflects performance within the state. The statewide evaluations do not reflect performance in the parts of those states contained within the MMSA.

encourage economic activity. The contact also discussed a need for new housing as the area's housing stock is old with some falling into disrepair. The contact had no negative perceptions of SFB.

Iowa NonMSA

Table A – Demographic Information of the Assessment Area						
Assessment Area: IA NonMSA, 2015 ACS Census						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	12	0.0	25.0	58.3	16.7	0.0
Population by Geography	48,365	0.0	20.7	58.0	21.3	0.0
Housing Units by Geography	21,760	0.0	22.6	56.8	20.6	0.0
Owner-Occupied Units by Geography	14,780	0.0	17.4	60.4	22.2	0.0
Occupied Rental Units by Geography	5,287	0.0	32.7	49.2	18.1	0.0
Vacant Units by Geography	1,693	0.0	35.6	50.1	14.2	0.0
Businesses by Geography	3,177	0.0	17.3	51.3	31.4	0.0
Farms by Geography	426	0.0	2.6	81.7	15.7	0.0
Family Distribution by Income Level	12,893	19.9	17.3	20.1	42.7	0.0
Household Distribution by Income Level	20,067	25.0	15.1	16.4	43.5	0.0
Median Family Income Non-MSAs - IA		\$61,681	Median Housing Value			\$114,241
			Median Gross Rent			\$615
			Families Below Poverty Level			11.0%
<i>Source: 2015 ACS and 2019 D&B Data</i>						
<i>Due to rounding, totals may not equal 100.0%</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Scope of Evaluation in Iowa

The one AA in Iowa received a full-scope review.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN IOWA

LENDING TEST

The bank's performance under the Lending Test in Iowa is rated Satisfactory.

Conclusions for Area Receiving a Full-Scope Review

Based on a full-scope review, the bank's lending performance in the state of Iowa is reasonable.

Distribution of Loans by Income Level of the Geography

The bank exhibits reasonable geographic distribution of loans in the state of Iowa.

Home Mortgage Loans

Refer to Table O in the state of Iowa section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The distribution of home mortgage loans reflects reasonable distribution.

The proportion of lending in moderate-income geographies was somewhat near to the percentage of owner-occupied housing units and near to the aggregate distribution.

Lending Gap Analysis

We performed a lending gap analysis that included a review of density maps of originated home mortgage loans and compared to AA maps and location of branches. We did not identify any unexplained, conspicuous gaps in lending.

Distribution of Loans by Income Level of the Borrower

The bank exhibits a reasonable distribution of loans to individuals of different income levels.

Home Mortgage Loans

Refer to Table P in the state of Iowa section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The distribution of home mortgage loans reflects reasonable distribution.

The proportion of lending to low-income families was less than the percentage of low-income families but exceeded the aggregate distribution. The proportion of lending to moderate-income families exceeded both the percentage of moderate-income families and the aggregate distribution.

Responses to Complaints

SFB did not receive any complaints about its performance in helping to meet the credit needs of its AA during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test in the state of Iowa is rated Satisfactory.

Conclusions for Area Receiving a Full-Scope Review

Based on a full-scope review, the bank exhibits adequate responsiveness to CD needs in the state through CD loans, qualified investments, and CD services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for CD in the bank's AA.

Number and Amount of Community Development Loans

The Community Development Loans Table, shown below, sets forth the information and data used to evaluate the bank's level of CD lending. The table includes all CD loans, including multifamily loans that also qualify as CD loans.

<i>Community Development Loans</i>				
Assessment Area	Total			
	#	% of Total #	\$(000's)	% of Total \$
IA NonMSA	3	100	161	100

SFB's CD lending performance represents adequate responsiveness in the full-scope area, given the opportunities and needs.

SFB's CD lending activity included three loans totaling \$161 thousand and representing 3.7 percent of allocated tier 1 capital. These three loans supported affordable housing.

In addition to the three CD loans, SFB made limited use of responsive flexible lending during the Covid-19 pandemic by originating loans to stabilize small businesses and communities through the PPP. The bank originated 10 PPP loans in the AA totaling \$83 thousand, or 1.9 percent of allocated capital, with an additional two loans totaling \$314 thousand in the statewide area of Iowa.

Number and Amount of Qualified Investments

Qualified Investments										
Assessment Area	Prior Period*		Current Period		Total				Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	% of Total #	\$(000's)	% of Total \$	#	\$(000's)
IA NonMSA	0	0	13	33	13	100	33	100	0	0

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

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

SFB's CD investment performance represents adequate responsiveness. The bank's investments consisted entirely of donations. The \$33 thousand in donations represented 0.8 percent of allocated capital. The donations supported organizations that provide services to LMI persons, including affordable housing, homeless shelters, food and clothing bank services, and health and human services.

Several of SFB's donations were responsive to the community needs during the Covid-19 pandemic. The bank donated \$10 thousand to support hospitals and \$250 to support homeless shelters in 2020.

Extent to Which the Bank Provides Community Development Services

SFB's CD services performance represents adequate responsiveness. A bank officer provided 61 hours of service hours in a leadership position.

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

Notable service hours included one bank officer providing 45 hours to an organization that promotes small businesses and economic development.

SFB's delivery systems are reasonably accessible to individuals of different incomes and businesses of different sizes via branches, ATMs, and through online and mobile banking platforms. Additionally, one branch and one ATM are located in a moderate-income geography.

In response to the Covid-19 pandemic, SFB assisted home mortgage borrowers and small businesses by providing forbearance assistance to impacted borrowers and businesses. Seven home mortgage borrowers, representing \$670 thousand, and 15 businesses, representing \$3.5 million, experiencing difficulties during the Covid-19 pandemic received forbearance assistance.

SFB participates in lending programs to help meet the credit needs of LMI borrowers. SFB participates in a Freddie Mac program that helps LMI borrowers obtain ownership. The program offers higher maximum LTV limits and reduced mortgage insurance costs. Two borrowers representing \$252 thousand in funding received assistance through this program.

Appendix A: Scope of Examination

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

Time Period Reviewed:	Lending Test: January 1, 2018 to December 31, 2020 Community Development Test: July 16, 2018 to December 31, 2020.	
Bank Products Reviewed:	Home mortgage loans, community development loans, qualified investments, and community development services.	
Affiliate(s)	Affiliate Relationship	Products Reviewed
NA	NA	NA
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
Illinois	Full-Scope	All CTs in Lee, Ogle, and Whiteside Counties
Iowa	Full-Scope	All CTs in Clinton County

Appendix B: Summary of MMSA and State Ratings

RATINGS Sterling Federal F.S.B.			
Overall Bank:	Lending Test Rating*	CD Test Rating	Overall Bank/State/Multistate Rating
	Satisfactory	Outstanding	Satisfactory
MMSA or State:			
Illinois	Satisfactory	Outstanding	Satisfactory
Iowa	Satisfactory	Satisfactory	Satisfactory

(*) The Lending Test and Community Development Test carry equal weight in the overall rating.

Appendix C: Definitions and Common Abbreviations

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

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

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

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

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

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

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

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

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct 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, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

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

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

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

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 state/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

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

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties 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 percent and less than 120 percent, in the case of a geography

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

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

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

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

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

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

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

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.

Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MMSA/assessment area. The table also presents aggregate peer data for the years the data is available.

Illinois

Table O: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography																			2018-20		
Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts				
	#	\$	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate		
IL NonMSA	863	81,678	93.0	2,937	0.0	0.0	0.0	10.5	16.5	6.0	63.6	61.1	63.0	25.9	22.5	31.1	0.0	0.0	0.0		
<i>Source: 2015 ACS Census; 01/01/2018 - 12/31/2020 Bank Data, 2019 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>																					

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2018-20		
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers				
	#	\$	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate		
IL NonMSA	863	81,678	93.0	2,937	16.2	12.2	7.6	18.2	20.6	17.9	21.7	25.5	22.8	43.9	40.3	37.1	0.0	1.4	14.6		
<i>Source: 2015 ACS Census; 01/01/2018 - 12/31/2020 Bank Data, 2019 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>																					

Iowa

Table O: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography																			2018-20		
Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts				
	#	\$	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate		
IA NonMSA	65	6,920	7.0	1,059	0.0	0.0	0.0	17.4	12.3	12.8	60.4	70.8	57.1	22.2	16.9	30.0	0.0	0.0	0.0		
<i>Source: 2015 ACS Census; 01/01/2018 - 12/31/2020 Bank Data, 2019 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>																					

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2018-20		
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers				
	#	\$	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate		
IA NonMSA	65	6,920	7.0	1,059	19.9	10.8	9.5	17.3	23.1	21.2	20.1	27.7	23.9	42.7	38.5	31.2	0.0	0.0	14.2		
<i>Source: 2015 ACS Census; 01/01/2018 - 12/31/2020 Bank Data, 2019 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>																					