



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 29, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Ottawa
Charter Number: 1154

701-705 La Salle Street
Ottawa, Illinois 61350

Office of the Comptroller of the Currency

Peoria Field Office
211 Fulton Street, Suite 604
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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, 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

- First National Bank of Ottawa's (FNB's) distribution of loans to businesses and farms of different income sizes is Satisfactory given the bank's product offerings and local economic conditions.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas ("AAs"), including moderate-income geographies, given the bank's product offerings and local economic conditions.
- FNB's community development performance demonstrates reasonable responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.
- A majority of the loans originated by FNB are to customers from within its AAs.
- FNB's quarterly average loan-to-deposit ratio of 60 percent over the evaluation period is reasonable.

Scope of Examination

This Performance Evaluation assesses FNB's record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Intermediate Small Bank performance criterion, which includes a lending test and a community development test. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities. The community development test evaluates a bank's community development lending, qualified investments, and community development services activities.

- The evaluation period covers loans originated or purchased from January 1, 2008, through September 30, 2010.
- FNB has two AAs generating a majority of the bank's loans and deposits: the LaSalle/Livingston County AA, and the Kendall/Grundy AA, thus they will receive a full scope review.
- Conclusions regarding the bank's lending performance are based on commercial loans and agricultural loans originated or purchased from January 1, 2008, through September 30, 2010, utilizing 2000 census data.

- FNB is not required to maintain CRA data on agricultural or small business lending outside of the individual credit files. Thus, we reviewed a sample of 50 agricultural loans and 70 commercial loans from each AA originated during the lending test period to assess the lending to businesses of different sizes.

Description of Institution

First National Bank of Ottawa is a community bank headquartered in Ottawa, Illinois. Ottawa is located in North Central Illinois, approximately 70 southwest of Chicago, Illinois. As of September 30, 2010, FNB reported total assets of \$321 million. FNB is an intrastate financial institution with eight offices serving portions of LaSalle, Grundy, Kendall, and Livingston Counties. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The bank is a wholly owned subsidiary of First Ottawa Bancshares, Inc., a one-bank holding company headquartered in Ottawa, Illinois. As of December 31, 2010, the holding company had total assets of \$284 million. The holding company also owns First Ottawa Financial Corporation which provides investment services. FNB's affiliate does not negatively impact the bank's ability to meet the credit needs of the community.

There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs in the bank's assessment areas. There has been no change in the bank's corporate structure since the last CRA evaluation. The bank's last CRA rating, which was as an Intermediate Small Bank, was "Satisfactory Record of Meeting Community Credit Needs" as detailed in the performance evaluation dated December 3, 2007.

All of the bank's offices are full service facilities, with the exception of the loan production office in Minooka, and offer a full range of traditional banking products. The bank also operates fourteen cash dispensing automated teller machines ("ATM's") located throughout both AA's, with multiple locations in Morris, Ottawa, Streator, and Utica. As of September, 2010, the bank reported \$139 million in outstanding loans representing forty-three percent of total assets. Tier One capital was reported at \$23.45 million. The bank is primarily an agricultural and small business lender.

FNB's business strategy is to provide a full range of traditional banking services to individuals and businesses, including personal, commercial, retail, and Internet banking, while providing high quality customer service.

FNB's two primary lending products are agricultural and commercial loans. These two lending categories account for seventy-eight percent of all loan originations during the evaluation period and make up sixty-nine percent of the outstanding loan balances as of September 30, 2010. Thus, these two lending products were used for the analysis in this evaluation. Residential and consumer lending are not primary loan products accounting for twenty-two percent of all loan originations during the evaluation period.

The table below illustrates the composition of loan originations made from January 2008 through September 30, 2010.

Table 1 – Loan Originations by Loan Type from January 1, 2008 through September 30, 2010		
Loan Category	\$ (000)	%
Commercial Loans	\$121,383	44.34%
Agricultural Loans	\$ 93,043	33.99%
Residential Loans	\$ 57,140	20.87%
Consumer Loans	\$ 2,204	0.80%
Total Originations	\$ 273,770	100%

Source: Bank Records from January 1, 2008 through September 30, 2010

As of September 30, 2010 the bank reported \$139 million in outstanding loans and represents 43 percent of total assets. The loan portfolio consists of:

Table 2 – Loan Portfolio Summary by Loan Type June 30, 2010		
Loan Category	\$(000)	%
Commercial Loans	\$70,347	50.51%
Agricultural Loans	\$26,044	18.70%
Residential Loans	\$40,376	28.99%
Consumer Loans	\$ 2,520	1.80%
Total Loans	\$139,287	100%

Source: September 30, 2010 Call Report

Description of Assessment Area(s)

FNB's assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. FNB has two AAs which include portions of LaSalle/Livingston County AA and the Kendall/Grundy County AA. The bank's AA has not changed from the prior evaluation. With the exception of the Streator office, which was relocated to provide better customer access, the bank has not opened or closed any locations.

LaSalle/Livingston County AA

The LaSalle/Livingston County AA is not located in an MSA and consists of seventeen geographies; sixteen geographies in LaSalle County and one geography in Livingston County. The one geography in LaSalle County is designated moderate-income (6%), while the remaining sixteen geographies in the AA are designated as middle- or upper-income (94%). The one moderate-income geography is located in Ottawa and primarily consists of the downtown area.

The following is demographic information for the assessment area:

Table 3 - Demographic Information for the LaSalle/Livingston AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	17	0%	6%	65%	29%
Population by Geography	68,375	0%	4%	63%	33%
Owner-Occupied Housing by Geography	28,123	0%	3%	67%	30%
Businesses by Geography	4,685	0%	10%	58%	32%
Farms by Geography	481	0%	1%	55%	45%
Family Distribution by Census Tract	18,234	0%	3%	65%	32%
Family Distribution by Income Level	18,234	16%	17%	21%	46%
Household Distribution by Income Level	26,326	19%	15%	19%	47%
Median Family Income	\$48,636	Median Housing Value		\$84,448	
Median Household Income	\$39,918	Median Year Built		1954	
2010 HUD Adjusted Median Family Income for Illinois non-MSA	\$50,600	Average Monthly Gross Rent		\$ 469	
Families Below the Poverty Level	7%	Households Below the Poverty Level		9%	

Source: 2000 U.S. Census Data

Kendall/Grundy County AA

The Kendall/Grundy County AA is located in the Chicago MSA and consists of seven geographies; five geographies in Grundy County and two geographies in Kendall County. One geography in Grundy County is designated moderate-income (14%), while the remaining six geographies in the AA are designated as middle- or upper-income (86%). The one moderate-income geography is located in Morris and consists of the eastern third of the town, the area east of State Highway 47 and south of U.S. Highway 6.

The following is demographic information for the assessment area:

Table 4 - Demographic Information for the Kendall/Grundy AA					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	7	0%	14%	86%	0%
Population by Geography	35,092	0%	10%	90%	0%
Owner-Occupied Housing by Geography	9,376	0%	10%	90%	0%
Businesses by Geography	3,814	0%	6%	94%	0%
Farms by Geography	214	0%	2%	98%	0%
Family Distribution by Census Tract	9,581	0%	10%	90%	0%
Family Distribution by Income Level	9,581	13%	18%	27%	42%
Household Distribution by Income Level	12,906	18%	15%	21%	46%
Median Family Income	\$65,242	Median Housing Value		\$148,570	
Median Household Income	\$57,251	Median Year Built		1973	
2010 HUD Adjusted Median Family Income for the MSA	\$60,166	Average Monthly Gross Rent		\$ 626	
Families Below the Poverty Level	3%	Households Below the Poverty Level		5%	

Source: 2000 U.S. Census Data

Economic Data

The local economic condition has been affected negatively by high unemployment. The November 2010 unemployment rates for two of the four counties within the AA compare favorably to the 9.8 percent national average and to the 9.6 percent State of Illinois average rate. The November 2010 unemployment rates for each county are; 11.9 percent LaSalle, 9.1 percent Livingston, 7.9 percent Kendall, and 10.1 percent Grundy. The economy of the AA is concentrated in the education, healthcare, manufacturing, and retail sectors. Major employers include: local school districts; the Morris, Ottawa Community, St. Mary's, and Illinois Valley Hospitals; Exelon Corporation; PetsMart; Wal-Mart; Caterpillar; and, city and county governmental units.

Two community contacts from the bank's AA were made during the evaluation. These contacts indicated the primary credit needs in the AA are agricultural loans and small business loans for operations and equipment, residential home loans, and personal loans. The contacts indicated there are no credit needs or banking services not met or provided for by the local financial institutions. Overall, the contacts felt FNB and other local financial institutions are meeting the credit needs of the area. These contacts stated all local banks and their employees are actively involved in the community.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB meets the standards for satisfactory performance. In making this determination, we gave more weight to the performance of lending in the LaSalle/Livingston County AA as a majority of loan originations are from this AA.

- The distribution of loans to farms and businesses of different sizes is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA, including moderate-income geographies.
- A majority of the loans originated by FNB are to customers from within its AA.
- FNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs.

Loan-to-Deposit Ratio

FNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA's credit needs. FNB's quarterly average loan-to-deposit ratio for the period December 1, 2007, to June 30, 2010, was sixty percent, with a high of sixty-seven percent and a low of forty-seven percent.

The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time period ranged from fifty-seven percent to eighty-eight percent. FNB ranks tenth among ten other similarly situated banks, which range in asset size from \$147 million to \$417 million. The similarly situated banks utilized for

comparison purposes are community banks located in North Central Illinois.

Lending in Assessment Area

The distribution of loans reflects reasonable penetration among farms and businesses of different sizes in the AA's. A majority of the loans originated by FNB are to customers within its AA. FNB's lending to customers within the AA for all loan types is satisfactory. The following table details the bank's lending within the AA based on the number of loan originations and dollar volume during the evaluation period.

Table 5 – Loans Originated within the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	611	64%	344	36%	955	\$67,498	58%	\$50,061	42%	\$118,923
Agricultural	184	75%	62	25%	246	\$84,278	91%	\$7,764	9%	\$ 93,043
Totals	795	66%	406	34%	1,201	\$151,776	73%	\$57,825	27%	\$211,966

Source: Bank records on small business loans originated in 2008, 2009, and through September 30, 2010.

Lending to Businesses of Different Sizes

The distribution of loans to businesses reflects, given the demographics of the AAs, reasonable penetration among businesses of different sizes. Based on our sample, eighty-nine percent from the LaSalle/Livingston County AA and one-hundred percent from the Kendall/Grundy County AA, were loans to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. The demographic data shows eighty-one percent of the businesses in the LaSalle/Livingston County AA and the Kendall/Grundy County AA reporting revenue data have annual gross revenues equal to or less than one million dollars. FNB's performance in the LaSalle/Livingston County AA is consistent with that of the LaSalle/Livingston County and the Kendall/Grundy County AAs.

The following tables show the distribution of commercial loans among businesses of

different sizes within the AAs:

Table 6 – Borrower Distribution of Loans to Businesses of Different Sizes in the LaSalle/Livingston County AA					
Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	42	89%	77%	\$3,579	72%
>\$1,000,000	5	11%	4%	\$1,401	28%
Total	47	100%	**81%	\$4,983	100%

Source: Bank records on new loans originated during 2008 through September 30, 2010; 2000 Census Data. ** 19 percent of AA businesses did not report revenue data.

Table 7 – Borrower Distribution of Loans to Businesses of Different Sizes in the Kendall/Grundy County AA					
Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	18	100%	4%	\$2,125	100%
>\$1,000,000	0	0%	78%	\$ 0	0%
Total	18	100%	**82%	\$2,125	100%

Source: Bank records on new loans originated during 2008 through September 30, 2010; 2000 Census Data **18 percent of AA businesses did not report revenue data.

Lending to Farms of Different Sizes

The distribution of loans to farms reflects reasonable penetration among farms of different sizes. Based on our sample of Agricultural loans originated within the AAs, eighty percent from the LaSalle/Livingston County AA and one hundred percent from the Kendall/Grundy County AA were to small farms with revenues less than \$1 million. In making this determination, we gave more weight to the performance of lending in the LaSalle/Livingston County AA as the majority of loan originations are from this AA.

The demographic data shows ninety-nine percent of the farms in the LaSalle/Livingston County AA have annual gross revenues equal to or less than one million dollars. The census data from 2000 indicates there were less than one percent of farms within the AAs with annual revenues over one million dollars, while the bank had five customers in our sample. With the increased commodity prices since 2007, increasing yields, and further consolidation in farming, the number of farms generating over one million dollars in annual revenues has increased. The bank's performance in the AA is consistent with that of the LaSalle/Livingston County and the Kendall/Grundy County AAs. The following tables show the distribution of agricultural loans among farms of different sizes within the AAs:

Table 8 – Borrower Distribution of Loans to Farms of Different Sizes in the LaSalle/Livingston County AA

Farm Revenues	Number of Loans		% Farms in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	35	80%	99%	\$4,139	52%
>\$1,000,000	5	20%	1%	\$3,895	48%
Total	40	100%	100%	\$8,034	100%

Source: Bank records on new loans originated during 2008 through September 30, 2010; 2000 Census Data.

** Less than 1 percent of AA farms did not report revenue data.

Table 9 – Borrower Distribution of Loans to Farms of Different Sizes in the Kendall/Gundy County AA

Farm Revenues	Number of Loans		% Farms in AA	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	10	100%	100%	\$3,134	100%
>\$1,000,000	0	0%	0%	\$0	0%
Total	10	100%	100%	\$3,134	100%

Source: Bank records on new loans originated during 2008 through September 30, 2010; 2000 Census Data.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects a more than reasonable dispersion throughout the bank’s AA. In making this determination, we weighed the reasonable dispersion of commercial loans and agricultural loans in the LaSalle/Livingston County AA and the Kendall/Grundy AA.

Geographic Distribution Commercial Loans

FNB’s geographic distribution of commercial lending reflects a reasonable dispersion in geographies of different income levels, including moderate-income geographies. Based on the population of commercial loans originated during the evaluation period, the percentage of commercial loans originated in the moderate-income geographies exceeds the level of commercial businesses located in the moderate-income geographies within the LaSalle/Livingston County AA.

Table 10 – Geographic Distribution of Loans to Businesses in the LaSalle/Livingston County AA

CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number
Commercial	0%	0%	10%	12%	58%	76%	32%	0%

Source: Bank records on sample size of 59 new loans originated during 2008 through September 30, 2010; 2000 Census Data.

FNB's geographic distribution of commercial lending reflects a reasonable dispersion in geographies of different income levels. The bank did not make any small business loans in the one moderate-income geography in the Kendall/Grundy AA. Lending opportunities are limited in the one moderate-income geography. Competition is strong, with approximately thirty financial institutions, many of which are large regional banks, and the number of small businesses is small (192) in the one moderate geography.

Table 11 – Geographic Distribution of Loans to Businesses in the Kendall/Grundy County AA

CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number
Commercial	0%	0%	6%	0%	94%	100%	0%	0%

Source: Bank records on sample size of 18 new loans originated during 2008 through September 30, 2010; 2000 Census Data.

Geographic Distribution Agricultural Loans

FNB's geographic distribution of agricultural lending reflects a reasonable dispersion in geographies of different income levels, including moderate-income geographies. Based on the population of agricultural loans originated during the evaluation period, the percentage of agricultural loans originated in the moderate-income geographies exceeds the level of farms located in the moderate income geographies within the LaSalle/Livingston County AA. The percentage of agricultural loans originated in the moderate income geographies within the Kendall/Grundy AA is poor. Opportunity to lend in the Kendall/Grundy AA is very limited with only four farms in the moderate-income geography. Also, competition is strong, with approximately thirty financial institutions, many of which are large regional banks.

**Table 12 – Geographic Distribution of Loans to Farms
in the LaSalle/Livingston County AA**

CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number	% of AA Farms	% of Number	% of AA Farms	% of Number	% of AA Farms	% of Number
Farms	0%	0%	0.62%	20%	55%	80%	45%	0%

Source: Bank records on sample size of 40 new loans originated during 2008 through September 30, 2010; 2000 Census Data.

**Table 13 – Geographic Distribution of Loans to Farms
in the Kendall/Grundy County AA**

CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number	% of AA Farms	% of Number	% of AA Farms	% of Number	% of AA Farms	% of Number
Farms	0%	0%	3%	0%	97%	100%	0%	0%

Source: Bank records on sample size of 18 new loans originated during 2008 through September 30, 2010; 2000 Census Data.

Responses to Complaints

FNB has received no complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

COMMUNITY DEVELOPMENT TEST

FNB's community development performance demonstrates a reasonable responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

Number and Amount of Community Development Loans

FNB has eleven qualifying loans totaling \$2.57 million originated during the evaluation period.

- FNB renewed two \$175 thousand operating lines of credit for two assisted living facilities (one in Ottawa and one in Streator) for mentally handicapped individuals on an annual basis since June 2004. The lines of credit assist the facilities with accounts receivable from the State of Illinois. A large majority of the residents are low-income individuals dependent upon aid from the State of Illinois.
- FNB renewed a \$55 thousand loan to purchase a house for not-for-profit children's advocacy center to be used for housing and protecting women and their children. Also, FNB has approved an annual \$30 thousand operating line of credit since July 2004 to provide cash flow assistance due to the lag in accounts receivable from the State of Illinois.
- FNB originated a \$1.47 million operating line of credit and renewed a \$171 thousand loan to a not-for-profit agency that provides counseling and foster care services to low- and moderate-income people. This agency sponsors educational, recreational, and cultural activities to youth with the aim of reducing and preventing juvenile delinquency. The line of credit is to assist the agency with accounts receivable from the Department of Children and Family Services and the Illinois Department of Human Services.
- FNB originated a \$350 thousand operating line of credit to a not-for-profit social service agency in Streator, Illinois, which provides services, jobs, and housing for the physically and mentally challenged. The line of credit provides operating funds due to the lag in receipt of accounts receivable from the State of Illinois Department of Health and Department of Human Services.
- FNB originated a \$175 thousand loan to purchase a twenty-eight unit apartment building to be used for housing LMI families. All units are income restricted based on the IHDA 1602 program requirements.

Flexible Loan Program

- USDA Guaranteed Rural Housing Loan Program – 44 loans - \$4,260,599

The bank participates in the USDA Rural Housing Loan Program. The loans made under this program are reported under the Home Mortgage Disclosure Act (HMDA) and are not considered community development loans. This federal government program is designed to encourage people to purchase homes in rural areas. The USDA sets maximum income guidelines for people to qualify for the program.

Number and Amount of Qualified Investments

FNB has made a total of \$20,855 in cash contributions and donations to community development organizations assisting low- and moderate-income individuals and families within the assessment area. Some of the notable qualifying grants and donations are as follows:

- \$14,060 to the United Way.
- \$ 1,600 to a not-for-profit organization providing services to children and adults with disabilities or special needs.
- \$ 1,245 to a not-for-profit agency that provides counseling and foster care services to low- and moderate-income people.

Extent to Which the Bank Provides Community Development Services

Delivery systems are reasonably accessible to individuals of different income levels. FNB operates seven full-service offices and seventeen ATM's in the AA. The main bank office in Ottawa located at 701 LaSalle Street, the main bank drive-up plaza in Ottawa located at 300 West Madison Street, and the Morris branch located at 1771 North Division Street, are located in moderate-income tracts. The remaining locations are in middle-income tracts. Extended hours are available at all locations. All offices are open on Saturdays, and all drive-up locations are open longer on weekdays and on Saturdays. FNB's loan and deposit products are available at all branch locations.

FNB offers a satisfactory level of community development services based on the capacity of the bank, and the need and availability of opportunities in the AA.

Service by FNB Officers

The officers and employees of the bank are heavily involved in a number of community service organizations, serving in the capacity of treasurer, secretary, or director. An example of these organizations and the financial expertise provided by the bank officers is listed below.

- One FNB officer is a board member and treasurer and helps to develop budgeting for a child development center that provides day care services to low- and moderate income families based on a sliding scale.
- Another officer serves as a board member and assists in the funding program for an organization that serves low- and moderate-income developmentally disabled individuals.
- Another officer serves as a house captain and project manager for a non profit organization to co-ordinate the repairs and revitalize homes owned and occupied

by local senior citizens, veterans, people with disabilities and low-income families.

- Another FNB officer is a board member and assists in obtaining funding through government grants and private sector donations for a non-profit organization that serves neglected and abused children. The primary mission of the organization is to support and promote court-appointed volunteer advocacy so that every abused or neglected child can be safe, establish permanence and have the opportunity to thrive.
- One FNB officer is on the Board of the local food pantry. The officer helps to solicit donations and provides financial expertise through budgeting and funding.

Responsiveness to Community Development Needs

The bank reasonably responds to the community development needs within its' AA's.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.