



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 1, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Waterloo
Charter Number 10180

228 South Main Street
Waterloo, IL 62298

Office of the Comptroller of the Currency

St. Louis Field Office
2350 Market Street, Room 100
St. Louis, MO 63103

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.**

Summarize the major factors supporting the institution's rating.

- The distribution of loans among borrowers of different income levels reflects reasonable penetration.
- Community Development (CD) activities reflect adequate responsiveness to the community needs.
- A majority of loans were originated or purchased within the bank's assessment area (AA).
- The bank's quarterly average loan-to-deposit (LTD) ratio is reasonable.

Scope of Examination

This Performance Evaluation of The First National Bank of Waterloo (FNB) assesses its record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Intermediate Small Bank performance criteria, which consist of a lending test and a CD test. The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. The CD test evaluates a bank's CD lending, qualified investments (QI), and CD services activities.

The evaluation period for the Lending Test and CD Test is from January 1, 2007 through July 29, 2012. Conclusions regarding the bank's lending performance are based on FNB's primary loan products consisting of residential real estate (RRE) and business (non-agricultural) loans. We conducted a data integrity review of the RRE loans reported under the Home Mortgage Disclosure Act (HMDA). We found the HMDA data to be accurate and reliable. We analyzed all HMDA loans and a sample of business loans that FNB originated or purchased from January 1, 2010 through December 31, 2011.

Description of Institution

FNB is wholly owned by First Waterloo Bancshares, Inc., a one-bank holding company located in Waterloo, Illinois. As of June 30, 2012, FNB reported total assets of \$359 million and Net Tier One Capital of \$31 million.

FNB's business strategy focuses on the origination and selling of first lien single-family RRE loans to third party investors. In 2010 and 2011, FNB sold 87% (817 loans totaling \$126 million) of the home purchase and home mortgage refinance loans it originated. Loan products offered include one-to-four family RRE loans, commercial and commercial real estate loans, agricultural and agricultural real estate loans, and

consumer loans. As of June 30, 2012, net loans represented 38% of total assets and consisted of RRE loans (54%), commercial and commercial real estate loans (36%), agricultural and agricultural real estate loans (6%), consumer loans (2%), and other loans (2%).

FNB is an intrastate bank with five offices located in Monroe County (4) and St. Clair County (1). The four branches in Monroe County are located in the cities of Waterloo and Columbia. The St. Clair County office is located in the village of Millstadt. Four of the five offices are located in middle-income geographies, and one office (Columbia) is located in an upper-income geography. Each office has a full-service automated teller machine (ATM) on the premises. The bank has one additional full-service ATM located in the city of Columbia. There are no legal, financial, or other factors impeding FNB's ability to help meet the credit needs of the AA it serves.

FNB was rated "Satisfactory" at its last CRA evaluation dated March 5, 2007.

Description of Assessment Area

FNB's AA is comprised of all of Monroe County (census tracts 6001, 6002 and 6003) and three geographies in southwest St. Clair County (census tracts 5031, 5032.03, and 5032.02). This AA represents a section of the St. Louis, MO-IL Metropolitan Statistical Area (MSA) # 41180. Although the AA only includes a portion of St. Clair County, it conforms to regulatory requirements since it includes the areas of the county the bank can reasonably serve and the geographies where the bank's main office, branches, and deposit-taking ATMs are located. There are five middle-income geographies and one upper-income geography within this AA.

FNB's deposits total \$297 million as of June 30, 2012. FNB is the third largest deposit-taking institution in Monroe and St. Clair County with a 6.6% market share based upon FDIC deposit data. Competition for financial services is strong as thirty other financial institutions have a presence within both counties. The five largest financial institutions in both counties, excluding FNB, are Regions Bank, First Bank, Associated Bank, N.A., Commerce Bank, and Citizens Community Bank.

In Monroe County and St. Clair County, non-agricultural wage and salaried employment increased from 131,636 in January 2007 to 133,173 in June 2012, an increase of 1.2%. The unemployment rate increased from 6.5% to 9.5% during the same period. The state of Illinois' unemployment rate was 9.3% as of June 2012. Major industries in Monroe County and St. Clair County consist of education and health, followed by trade, transportation, and utilities. Major employers in Monroe County include Luhr Brothers (construction entity), Waterloo School District, and Monroe County Nursing. Major employers in St. Clair County include Scott Air Force Base, Memorial Hospital – Belleville, and Hospital Sisters Health System.¹ Three percent of families live below the poverty level in the AA based on 2000 Census Data.

¹ St. Louis Regional Chamber & Growth Association

The 2011 Department of Housing and Urban Development (HUD) adjusted median family income for the AA was \$69,500. Twelve percent and 17% of families were low- and moderate-income, respectively, based on 2000 Census Data. The 2000 median housing value for the AA was \$110,389. The following is additional demographic data for the AA.

DEMOGRAPHIC DATA FOR FNB's AA (Portion of the St. Louis, MO-IL MSA # 41180)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.00	0.00	83.33	16.67	0.00
Population by Geography	46,237	0.00	0.00	78.83	21.17	0.00
Owner-Occupied Housing by Geography	13,881	0.00	0.00	78.51	21.49	0.00
Business by Geography	4,389	0.00	0.00	74.62	25.38	0.00
Farms by Geography	479	0.00	0.00	84.76	15.24	0.00
Family Distribution by Income Level	12,956	12.07	16.81	26.27	44.85	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,742	0.00	0.00	89.02	10.98	0.00
Median Family Income		\$53,435	Median Housing Value	\$110,389		
HUD Adjusted Median Family Income for 2011		\$69,500	(2000 US Census)			
Families Below Poverty Level		3%				

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 US Census and 2011 HUD updated MFI.

We determined the community's needs by contacting representatives from an economic development council and a government agency that manages federal and state programs and services for low- and moderate-income individuals. We also reviewed the HUD Consolidated Housing and CD Plan for St. Clair County and the Monroe County Strategic Plan for Economic Development. HUD Consolidated Housing and CD Plans are comprehensive planning documents that identify community needs.

We identified the following credit and non-credit related needs in the AA:

- Rehabilitation of owner-occupied single family homes for low- and moderate-income families.
- Affordable rental housing for low-income families.
- Homebuyer assistance programs for low- and moderate-income individuals.
- Housing counseling for the homeless and individuals at risk of becoming homeless.
- Affordable owner-occupied housing for large low- and moderate-income families.
- Loans to small businesses and private-sector investments in businesses that create permanent jobs.
- Affordable small dollar consumer loans.
- Affordable low minimum balance deposit accounts.

We determined the opportunities to make CD loans and provide CD services are low to moderate. The opportunity to make QI other than donations that directly benefit the bank's AA is limited.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the lending test is rated Satisfactory.

Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable given the institution's size, its financial condition, AA credit needs, and the volume of RRE loans that were sold.

As of June 30, 2012, FNB's LTD ratio was 47%. The bank's quarterly average of LTD ratios since the last CRA evaluation was 61%. This ratio is higher than one comparable bank and lower than seven comparable banks. The average LTD ratios of these banks, which are comparable in size and location, range from 19% to 99% for the same period.

Lending in Assessment Area

A majority (77%) of loans were originated or purchased within FNB's AA. FNB originated or purchased 67%, 79%, and 78% of home purchase, home improvement, and home mortgage refinance loans, respectively, within its AA. Based upon our sample, FNB originated or purchased 95% of business loans within its AA.

Lending in the AA (Portion of the St. Louis, MO-IL MSA #41180)										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total (\$)
	#	%	#	%		\$	%	\$	%	
Home Purchase	101	67%	49	33%	150	\$14,942	67%	\$7,283	33%	\$22,225
Home Improvement	15	79%	4	21%	19	198	65%	105	35%	303
Home Mortgage Refinance	611	78%	174	22%	785	90,653	78%	26,068	22%	116,721
Business	19	95%	1	5%	20	6,616	99%	16	1%	6,632
Totals	746	77%	228	23%	974	\$112,409	77%	\$33,472	23%	\$145,881

Source: RRE loan data reported under HMDA for the period January 1, 2010 through December 31, 2011 and a sample of 20 business loans.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNB's lending distribution to borrowers of different income levels and businesses of different sizes reflects reasonable penetration. In evaluating the bank's performance, we placed more weight on the distribution of RRE loans than business loans, because they represented the largest percentage of loans originated and purchased by the bank.

Residential Real Estate Loans

The borrower distribution of RRE loans originated or purchased during the evaluation period is reasonable. In evaluating FNB's performance, we placed the most weight on the distribution of home mortgage refinance loans and then home purchase loans

because they represented the largest percentage of RRE loans originated and purchased by the bank.

The percentage of home purchase loans to low-income borrowers (14.3%) and moderate-income borrowers (22.4%) exceeded the percentage of AA families who are low-income (12.1%) and moderate-income (16.8%), respectively. The bank’s market share of loans to low-income borrowers (9.1%) exceeded the bank’s overall market share (8.4%). The bank’s market share of loans to moderate-income borrowers (6.1%) was somewhat lower than the bank’s overall market share (8.4%).

The percentage of home improvement loans to low-income borrowers (15.4%) exceeded the percentage of AA families who are low-income (12.1%). The percentage of home improvement loans to moderate-income borrowers (15.4%) was near the percentage of AA families who are moderate-income (16.8%). The bank’s market share of loans to low-income borrowers (13.3%) exceeded the bank’s overall market share (10.3%). The bank’s market share of loans to moderate-income borrowers (5.6%) was lower than the bank’s overall market share (10.3%).

The percentage of home mortgage refinance loans to low-income borrowers (6.8%) was lower than the percentage of AA families who are low-income (12.1%). The percentage of home mortgage refinance loans to moderate-income borrowers (17.5%) exceeded the percentage of AA families who are moderate-income (16.8%). The bank’s market share of loans to low-income borrowers (24.1%) exceeded the bank’s overall market share (15.4%). The bank’s market share of loans to moderate-income borrowers (15.0%) was near the bank’s overall market share (15.4%).

Borrower Distribution of Residential Real Estate Loans in the AA (Portion of the St. Louis, MO-IL MSA # 41180)								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	12.1%	14.3%	16.8%	22.4%	26.3%	27.6%	44.8%	35.7%
Home Improvement	12.1%	15.4%	16.8%	15.4%	26.3%	38.4%	44.8%	30.8%
Home Mortgage Refinance	12.1%	6.8%	16.8%	17.5%	26.3%	25.4%	44.8%	50.3%

Source: RRE loan data reported under HMDA for the period January 1, 2010 through December 31, 2011; 2000 U.S. Census Data.

Borrower Distribution – Market share Information in the AA (Portion of the St. Louis, MO-IL MSA # 41180)					
Borrower Income Level	Overall	Low	Moderate	Middle	Upper
Loan Type					
Home Purchase	8.4%	9.1%	6.1%	7.5%	10.8%
Home Improvement	10.3%	13.3%	5.6%	13.3%	8.8%
Home Mortgage Refinance	15.4%	24.1%	15.0%	16.1%	14.5%

Source: Based on 2010 Peer Mortgage Data (USPR)

Business Loans

The distribution of loans to businesses of different sizes reflects excellent penetration based on a sample of 20 loans originated or purchased during the evaluation period. The percentage (95.0%) of loans extended to businesses with revenues of \$1 million or less exceeded the percentage (71.6%) of area businesses that had revenues of \$1 million or less.

Borrower Distribution of Loans to Businesses in the AA (Portion of the St. Louis, MO-IL MSA # 41180)				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.6%	2.7%	25.7%	100%
% of Bank Loans in AA by #	95.0%	5.0%	0%	100%
% of Bank Loans in AA by \$	96.6%	3.4%	0%	100%

Source: Sample of 20 business loans; 2011 Dun and Bradstreet Data.

Geographic Distribution of Loans

There are no low- or moderate-income geographies within the bank’s AA. Therefore, an analysis would not be meaningful.

Responses to Complaints

No CRA-related complaints have been received by FNB or the OCC since the prior CRA evaluation.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the CD test is rated Satisfactory. The bank's CD performance reflects adequate responsiveness to the needs of the community. Many of the CD loans met an identified need of providing loans to small businesses that created permanent jobs. FNB adequately addressed the needs of its AA; therefore, we considered CD activities outside of their AA in evaluating performance.

Number and Amount of Community Development Loans

FNB originated nine CD loans totaling \$1,069,703 and entered into a legally binding loan commitment for \$160,000 that was tracked on the bank's financial reporting system. All but one of these loans promoted economic development by financing small businesses that supported permanent job creation, retention, and/or improvement for persons who are currently low- or moderate-income. One loan was used to provide social services and affordable housing primarily to low- and moderate-income individuals. Information regarding these loans is summarized below.

Activities Directly Benefiting the AA

- FNB originated a \$320,000 loan with proceeds used to open a laundromat. The loan promoted economic development by creating four permanent jobs for low- or moderate-income individuals.
- FNB entered into a \$160,000 legally binding loan commitment for the construction of a hair salon that is now open for business. The loan promoted economic development by creating approximately five permanent jobs for low- or moderate-income individuals.
- FNB originated a \$100,000 loan to a non-profit organization that provides mental health and other services primarily to low- and moderate-income individuals. Loan proceeds were used to cover operating expenses while awaiting reimbursement from the state of Illinois. Services include a full range of outpatient mental health and substance abuse services, a work program for individuals needing assistance in acquiring vocational skills, and affordable housing. This organization serves approximately 2,000 individuals annually and has sixty affordable housing units.
- FNB originated a \$99,200 loan to acquire an existing self-service laundromat that was going out of business. The loan promoted economic development by retaining three existing jobs for low- or moderate-income individuals.
- FNB refinanced a \$96,000 loan from another financial institution to open a consignment shop. The loan promoted economic development by creating two permanent jobs and retaining seven existing jobs for low- or moderate-income individuals.

- FNB refinanced a \$75,000 loan to a business that raises, trains, and boards horses. Original loan proceeds were for operating expenses. The loan promoted economic development by retaining three jobs for low- or moderate-income individuals.
- FNB originated a \$50,000 loan with proceeds used to acquire inventory for a new motorcycle and all terrain vehicle (ATV) store. The loan promoted economic development by creating two permanent jobs for low- or moderate-income individuals.

Activities Not Benefiting the AA

- FNB originated two loans totaling \$175,200 with proceeds used to open a restaurant in a moderate-income geography. The loan promoted economic development by creating between 20 and 25 permanent jobs for low- or moderate-income individuals.
- FNB refinanced several operating loans to a jewelry store into a single note totaling \$154,303. The loan promoted economic development by retaining nine jobs for low- or moderate-income individuals.

Number and Amount of Qualified Investments

FNB made six QI totaling \$894,000 during the evaluation period. An additional seven prior period QI totaling \$2,100,584 remain outstanding. Information regarding these QI is summarized below.

- FNB purchased ten municipal bonds totaling \$2,980,584. These proceeds and proceeds from other bonds were used to construct a new nursing home and for general operating expenses. The ten bonds represent both current (three loans totaling \$880,000) and prior period investments (seven loans totaling \$2,100,584). The nursing home is operated by Monroe County and all county residents are accepted regardless of their ability to pay. The facility has approximately 50 assisted living units and provides skilled nursing care to approximately 180 individuals who are primarily low- or moderate-income.
- FNB donated \$5,000 to the non-profit mental health facility noted above.
- FNB donated \$4,000 to a local food bank that primarily serves low- or moderate-income individuals.
- FNB donated \$5,000 to a non-profit entity that used the funds to provide food baskets to low- and moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

FNB did not provide us any CD services to review.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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