



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 24, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Federal Savings Bank
Charter Number: 702631

633 LaSalle Street
Ottawa, IL 61350-2931

Office of the Comptroller of the Currency

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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 Needs to Improve

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Needs to Improve.

- First Federal Savings Bank's (FFSB) distribution of loans to families of different income levels is satisfactory given the bank's product offerings and local economic conditions.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area (AA), including moderate-income geographies, given the bank's product offerings and local economic conditions.
- A majority of the loans originated by FFSB are to customers from within its AAs.
- FFSB's quarterly average loan-to-deposit ratio of ninety-eight percent over the evaluation period is more than reasonable.
- FFSB's community development performance demonstrates poor responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

Scope of Examination

This performance evaluation assesses First Federal Savings Bank's record of meeting the credit needs of the communities in which it operates. We evaluated FFSB under the Intermediate Small Savings Association 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 service activities.

- The evaluation period for the lending test covers loans originated from January 1, 2009, through August 30, 2011.
- The evaluation period for the community development test covers any activities occurring from August 12, 2008, through October 25, 2011.
- The Kane County MSA AA will receive a limited scope review since FFSB's presence in the county is limited and the volume of loans and deposits is substantially less than that in the Grundy/Kendall/Will County MSA (MSA AA) and Bureau/LaSalle/Lee/Livingston/Putnam/Whiteside County Non-MSA AA (Non-MSA AA). The MSA AA and Non-MSA AA will receive a full scope review.

- The lending test is based on FFSB's primary loan products. Conclusions regarding the bank's lending performance are based on residential mortgage loans originated from January 1, 2009, through August 30, 2011, utilizing 2000 census data.
- We reviewed residential related loans reported under the Home Mortgage Disclosure Act (HMDA) for the years 2009, 2010, and through August 30, 2011.
- We conducted Data Integrity reviews of the HMDA data by comparing information from the bank's loan application registers to actual loan files. We found the HMDA data for 2009, 2010, and 2011 to be accurate and reliable for use in this examination.

Description of Institution

FFSB is a mutual institution headquartered in Ottawa, Illinois. Ottawa is located in north central Illinois, approximately 70 miles southwest of Chicago, Illinois. As of September 30, 2011, FFSB reported total assets of \$395 million. The bank owns First Fed Insurance Agency which provides insurance services. FFSB's subsidiary 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 FFSB'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 previous CRA evaluation. The bank's previous CRA rating, which was as an Intermediate Small Savings Association, was "Satisfactory Record of Meeting Community Credit Needs" as detailed in the Performance Evaluation dated August 11, 2008.

FFSB is an intrastate financial institution with thirteen offices serving portions of Bureau, Grundy, Kane, Kendall, Kankakee, LaSalle, Lee, Livingston, Marshall, Putnam, Whiteside, and Will Counties. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. FFSB also operates twelve cash dispensing automated teller machines (ATMs) located throughout the AAs.

All of the bank's offices are full-service facilities and offer a full range of consumer banking products. FFSB's primary focus is to provide residential mortgage and consumer loans and retail services to its customers throughout the AAs. As of September 30, 2011, the bank reported \$299 million in outstanding loans representing seventy-six percent of total assets. The bank reported tier one capital at \$36.8 million.

FFSB's primary lending product is residential real estate loans. This lending category accounted for eighty-four percent of the outstanding loan balances as of September 30, 2011. The loan portfolio consists of:

Table 1 – Loan Portfolio Summary by Loan Type September 30, 2011		
Loan Category	\$(000)	%
Consumer Loans	\$1,041	0.35%
Commercial Loans	\$46,135	15.43%
Residential Loans	\$251,668	84.22%
Total Loans	\$298,844	100.00%

Source: September 30, 2011 Thrift Financial Report

Description of Assessment Areas

FFSB's assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. FFSB has three assessment areas: Grundy/Kendall/Will County MSA, Bureau/LaSalle/Lee/Livingston/Putnam/Whiteside County Non-MSA AA (Non-MSA AA), and the Kane County MSA.

Grundy/Kendall/Will County AA

The Grundy/Kendall/Will County AA is located in the Chicago MSA and consists of twenty-four geographies; nine geographies in Grundy County, three geographies in Kendall County, and twelve geographies in Will County. One geography in Grundy County is designated moderate-income (4%), while the remaining twenty-three geographies are designated middle- or upper-income (96%). The one moderate-income geography is located in Morris, IL and consists of the eastern third of the town. The following is demographic information for the assessment area:

Table 2 - Demographic Information for the Grundy/Kendall/Will MSA AA					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	24	0%	4%	67%	29%
Population by Geography	152,401	0%	2%	58%	40%
Owner-Occupied Housing by Geography	44,778	0%	2%	57%	41%
Businesses by Geography	13,099	0%	2%	56%	42%
Farms by Geography	746	0%	0%	77%	23%
Family Distribution by Census Tract	41,607	0%	2%	58%	40%
Family Distribution by Income Level	41,607	10%	16%	28%	46%
Median Family Income	\$69,111	Median Housing Value		\$149,570	
Median Household Income	\$62,969	Median Year Built		1981	
2011 HUD Adjusted Median Family Income for the MSA	\$76,200	Average Monthly Gross Rent		\$ 687	
Households Below the Poverty Level	4%				

Source: 2000 U.S. Census Data

Bureau/LaSalle/Lee/Livingston/Putnam/Whiteside County AA

The Non-MSA AA is not located in an MSA and consists of sixty-six geographies; ten geographies in Bureau County, twenty-seven geographies in LaSalle County, nine geographies in Lee County, four geographies in Livingston County, two geographies in Putnam County, and fourteen geographies in Whiteside County. Four geographies are designated moderate-income (6%), while the remaining sixty-two geographies are designated middle- or upper-income (94%). The four moderate-income geographies are located in the town portions of Ottawa and LaSalle in LaSalle County and the Sterling-Rock Falls portion of Whiteside County.

The following is demographic information for the assessment area:

Table 3 - Demographic Information for the Non-MSA AA					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	66	0%	6%	70%	24%
Population by Geography	251,468	0%	5%	68%	27%
Owner-Occupied Housing by Geography	72,837	0%	4%	69%	27%
Businesses by Geography	3,814	0%	6%	94%	0%
Farms by Geography	214	0%	1%	99%	0%
Family Distribution by Census Tract	67,626	0%	4%	69%	27%
Family Distribution by Income Level	67,626	15%	17%	23%	45%
Median Family Income	\$48,857	Median Housing Value		\$84,362	
Median Household Income	\$40,706	Median Year Built		1953	
2011 HUD Adjusted Median Family Income for the MSA	\$54,600	Average Monthly Gross Rent		\$466	
Households Below the Poverty Level	8%				

Source: 2000 U.S. Census Data

Kane County AA

The Kane County AA is located in the Chicago MSA and consists of fourteen geographies. One geography is designated moderate-income (7%), while the remaining thirteen geographies are designated NA, middle-, or upper-income (93%). The one moderate-income geography is located in the downtown portion of Elgin.

The following is demographic information for the assessment area:

Table 4 - Demographic Information for the Kane County AA						
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts)	14	0%	7%	43%	43%	7%
Population by Geography	95,178	0%	1%	42%	56%	1%
Owner-Occupied Housing by Geography	26,514	0%	1%	37%	63%	0%
Businesses by Geography	6,868	0%	2%	32%	66%	0%
Farms by Geography	216	0%	2%	23%	75%	0%
Family Distribution by Census Tract	25,009	0%	1%	39%	60%	0%
Family Distribution by Income Level	25,009	11%	13%	23%	53%	
Median Family Income	\$76,995	Median Housing Value			\$183,886	
Median Household Income	\$69,177	Median Year Built			1976	
2011 HUD Adjusted Median Family Income for the MSA	\$76,200	Average Monthly Gross Rent			\$693	
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 October 2011 unemployment rates for two of the ten counties within the AA compare favorably to the 8.8 percent national average and to the 9.5 percent State of Illinois average rate. The October 2011 unemployment rates for each county are: 9.8 percent Bureau, 9.5 percent Grundy, 9.0 percent Kane, 8.7 percent Kendall, 11.1 percent LaSalle, 9.4 percent Lee, 8.4 percent Livingston, 9.8 percent Putnam, 10.2 percent Whiteside, and 9.5 percent Will. Major employers include: local school districts, local hospitals and health care facilities, Tandem Staffing, Fermi Lab, Wal-Mart, Caterpillar, Exelon, and city and county governmental units.

One community contact from the bank's AA was made during the evaluation. This contact indicated the primary credit needs in the AA are residential home loans, home improvement loans, and business loans for assisted living facilities given the aging population. The contact felt FFSB and other local financial institutions are meeting the credit needs of the area.

Conclusions with Respect to Performance Tests

LENDING TEST

FFSB meets the standards for satisfactory performance. In making this determination, we gave more weight to the Non-MSA AA and the Grundy/Kendall/Will MSA AA as a majority of the loan originations are from these AAs.

- The distribution of loans to individuals of different income levels is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA, including moderate-income census tracts (CTs).
- A majority of the loans originated by FFSB are to customers within its AA.
- FFSB’s loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and AA’s credit needs.

Loan-to-Deposit Ratio

FFSB’s average loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and AA’s credit needs. FFSB’s quarterly average loan-to-deposit ratio for the period September 1, 2008, to June 30, 2011, was ninety-eight percent. The quarterly average loan-to-deposit ratio for other similarly-situated financial institutions over the same time period ranged from forty-two percent to ninety-nine percent. The similarly-situated banks utilized for comparison purposes are community banks located within the AA counties. The similarly-situated banks range in asset size from \$18 million to \$1 billion.

Lending in Assessment Area

The distribution of loans reflects reasonable penetration in the AA. A majority of the loans originated by FFSB are to customers within its AA. The following table details the bank’s lending within its 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)	%	
Residential	1,795	69%	795	31%	2,590	\$269,964	64%	\$153,315	36%	\$423,279

Source: HMDA records from January 1, 2009, to August 30, 2011.

Lending to Borrowers of Different Incomes

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels. The distribution of HMDA loans is reasonable.

FFSB’s lending to moderate-income borrowers shows reasonable penetration and is consistent with the percentage of moderate-income families in the Non-MSA AA. Although lending to low-income borrowers is below the percentage of low-income families in the Non-MSA AA, this is considered reasonable given the percentage of families in the Non-MSA AA below the poverty level.

Table 6 – Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential	15%	5%	17%	18%	23%	28%	45%	49%

Source: HMDA records from January 1, 2009, to August 30, 2011; 2000 Census Data

Table 7 – Non-MSA AA Borrower Distribution – HMDA Lending 2009-2011						
Income Category	Percent Families by Income Category	Peer Data Lending % 2010	First Federal			
			Number of Loans	Percent of Loans	\$ Amt (000s)	Percent of \$ Amount
Low	15%	6%	43	5%	2,633	3%
Moderate	17%	18%	144	18%	11,804	13%
Subtotal: Low- and Moderate	32%	24%	187	23%	14,437	16%
Middle	23%	27%	222	28%	22,636	25%
Upper	45%	49%	390	49%	54,585	59%
Total	100%	100%	799*	100%	\$91,658	100%

* Income not available for 21 borrowers.

As indicated above, the percent of mortgage loans granted to low-income borrowers was below the number of low-income families, but is comparable to the peer lenders in the AA on a numbers basis. The institution’s level of mortgage lending to moderate-income borrowers is comparable to the percentage of moderate-income families residing within the AA and other HMDA-regulated financial institutions in the AA.

FFSB’s lending to moderate-income borrowers shows reasonable penetration and is consistent with the percentage of moderate-income families in the Grundy/Kendall/Will MSA AA. Although lending to low-income borrowers is below the percentage of low-income families in the Grundy/Kendall/Will MSA AA, this is considered reasonable given the percentage of families in the AA below the poverty level.

Table 8 – Borrower Distribution of Residential Real Estate Loans in the Grundy/Kendall/Will MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential	10%	5%	16%	18%	28%	29%	46%	48%

Source: HMDA records from January 1, 2009, to August 30, 2011; 2000 Census Data

Table 9 – Grundy/Kendall/Will MSA AA Borrower Distribution – HMDA Lending 2009-2011						
Income Category	Percent Families by Income Category	Peer Data Lending % 2010	First Federal			
			Number of Loans	Percent of Loans	\$ Amt (000s)	Percent of \$ Amount
Low	10%	6%	52	6%	5,177	3%
Moderate	16%	21%	140	17%	18,559	13%
Subtotal: Low- and Moderate	26%	27%	192	23%	23,736	16%
Middle	28%	32%	244	29%	39,533	27%
Upper	46%	41%	399	48%	85,200	57%
Total	100%	100%	835*	100%	\$148,469	100%

* Income not available for 2 borrowers.

As shown above, the percent of mortgage loans granted to low-income borrowers was below the number of low-income families, but is comparable to the peer lenders in the AA on a numbers basis. The institution’s level of mortgage lending to moderate-income borrowers is comparable to the percentage of moderate-income families residing within the AA but is below other HMDA-regulated financial institutions in the AA.

FFSB’s performance in the Kane County MSA AA showed reasonable penetration and was consistent with that of the Non-MSA AA and the Grundy/Kendall/Will MSA AA.

Geographic Distribution of Loans

FFSB’s geographic distribution of residential lending reflects a reasonable dispersion in CTs of different income levels, including moderate-income CTs. There are no low-income CTs within FFSB’s AA.

The geographic distribution of residential lending reflects a less than reasonable dispersion in the Non-MSA AA. Based on the population of residential loans originated during the evaluation period, the percentage of residential loans originated in the moderate-income geographies is below the percentage of owner-occupied housing located in the moderate-income geographies of the Non-MSA AA. The moderate-income geographies of the Non-MSA AA are largely commercial areas, so residential lending opportunities are limited in these areas.

Table 10 – Geographic Distribution of Residential Real Estate Loans in the Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	0%	0%	4%	2%	69%	59%	27%	39%

Source: HMDA records from January 1, 2009, to August 30, 2011; 2000 Census Data

Table 11 – Non-MSA AA Geographic Distribution – HMDA Lending 2009-2011						
Income Category	Distribution of OOHU’s	Peer Data Lending % 2010	First Federal			
			Number of Loans	% No. of Loans	\$ Amt (000s)	Percent of \$ Amount
Moderate	4%	2%	16	2%	1,229	1%
Middle	69%	62%	487	59%	50,536	54%
Upper	27%	36%	317	39%	42,169	45%
Total	100.0%	100%	820	100%	\$93,934	100%

As indicated above, the institution’s overall record of lending in moderate-income CTs was below the area’s demographics but is comparable to other lenders in the AA.

The geographic distribution of residential lending reflects a reasonable dispersion in the Grundy/Kendall/Will MSA AA. Based on the population of residential loans originated during the evaluation period, the percentage of residential loans originated in the moderate-income geographies exceeds the percentage of owner-occupied housing located in the moderate-income geographies within the Grundy/Kendall/Will MSA AA.

Table 12 – Geographic Distribution of Residential Real Estate Loans in the Grundy/Kendall/Will MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	0%	0%	2%	3%	57%	65%	41%	32%

Source: HMDA records from January 1, 2009, to August 30, 2011; 2000 Census Data

Table 13 – Grundy/Kendall/Will MSA AA Geographic Distribution – HMDA Lending 2009-2011						
Income Category	Distribution of OOHU's	Peer Data Lending % 2010	First Federal			
			Number of Loans	% No. of Loans	\$ Amt (000s)	Percent of \$ Amount
Moderate	2%	1%	26	3%	2,854	2%
Middle	57%	43%	544	65%	92,411	62%
Upper	41%	56%	267	32%	53,459	36%
Total	100.0%	100%	837	100%	\$148,724	100%

As shown above, the institution’s overall record of lending in moderate-income CTs was comparable to the area’s demographics and is above other lenders in the AA.

FFSB’s performance in the Kane County MSA AA was reasonable and consistent with that of the Grundy/Kendall/Will MSA AA.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

FFSB’s community development performance demonstrates a less than 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

FFSB did not have any qualifying CD loans for any AA during the evaluation period.

Number and Amount of Qualified Investments

FFSB has made a total of \$19 thousand in cash contributions and donations to community development organizations assisting low- and moderate-income individuals and families within the Non-MSA AA.

FFSB has made a total of \$5 thousand in cash contributions and donations to community development organizations assisting low- and moderate-income individuals and families within the Grundy/Kendall/Will MSA AA.

Some notable qualifying donations are as follows:

- \$4,676 to the United Way and its associated programs. Some of these programs include School Tools and the Let's Feed Our Children Fund, which provides assistance to children from low- and moderate-income families.
- \$4,289 to agencies providing food pantries.
- \$4,064 to agencies providing counseling and shelter to children and adults for low-and moderate-income individuals.
- \$2,306 to Habitat for Humanity.

Extent to Which the Bank Provides Community Development Services

Delivery systems are reasonably accessible to individuals of different income levels. FFSB operates thirteen full-service offices and twelve ATM's in the AA. The main bank office in Ottawa located at 633 LaSalle Street, the Ottawa branch located at 433 West Main Street, and the LaSalle branch located at 475 3rd Street, are located in moderate-income tracts. The remaining locations are in middle- and upper-income tracts. All offices except the main bank are open on Saturdays, and all drive-up locations are open longer on the weekdays. FFSB's loan and deposit products are available at all branch locations.

FFSB offers community development services within the AA. The officers and employees of the bank are heavily involved in a number of community service organizations.

FFSB offers loan programs assisting low- and moderate-income individuals. The loans made under these programs are reported under HMDA and are not considered community development loans.

- USDA Guaranteed Rural Housing Loan Program

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 in the program. From January 1, 2009, to August 30, 2011, FFBSB originated \$8.1 million in Rural Housing loans to low- and moderate-income individuals.

- Non MSA AA – 60 loans totaling \$5 million
- Grundy/Kendall/Will MSA AA – 24 loans totaling \$3.1 million

- Federal Home Loan Bank's Downpayment Plus Program

This program offers grants for low- and moderate-income families to assist with down payment and closing costs. The Federal Home Loan Bank sets maximum income guidelines for people to qualify for the program. From January 1, 2009, to June 30, 2011, FFBSB provided initial funding of \$50 thousand on 11 loans.

Responsiveness to Community Development Needs

The bank displays poor responsiveness to community development needs of the AA through community development lending, investments, and services.

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.