



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**March 5, 2007**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Waterloo  
Charter Number 10180**

**228 South Main Street  
Waterloo, IL 62298**

**Comptroller of the Currency  
St. Louis Field Office  
2350 Market Street, Suite 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.**

All the lending performance criteria meet or exceed the standards for a satisfactory rating. The major factors that support this rating are:

- The bank's distribution of lending to borrowers of different income levels is excellent and its lending to businesses of different sizes is reasonable, based on the demographics of the community and the credit needs of the bank's assessment area (AA).
- The level of lending is reasonable. The bank's average loan-to-deposit ratio is 72% and compares favorably to the similarly situated banks.
- A majority of the bank's loans extended during this evaluation period were originated within its AA.

## **DESCRIPTION OF INSTITUTION**

The First National Bank of Waterloo (FNB) is a \$249 million intrastate bank located in Waterloo, Illinois. The bank has five branches: the main office and two full-service branches in Waterloo, Illinois; one full-service branch in Columbia, Illinois; and another newly opened full-service branch in Millstadt, Illinois. With the opening of the Millstadt branch on December 21, 2006, the bank entered St. Clair County, which is also part of the St. Louis, Missouri MSA. FNB has a total of fifteen ATMs: five depository ATMs located in each of the bank facilities, three cash-dispensing ATMs located in local gas stations, six branded ATMs located in local convenient stores, and one free-standing full-service ATM. No branches were closed during this evaluation period.

FNB is wholly owned by First Waterloo Bancshares, Inc., a one-bank holding company located in Waterloo, Illinois. There have been no changes in the bank's corporate structure since the last CRA evaluation.

FNB is primarily a residential real estate lender. FNB also offers traditional bank services and loan products normally associated with a small community bank. As of December 31, 2006, net loans totaled \$150 million, representing 60% of total assets. Also on this date, total deposits were \$206 million and Tier One Capital was \$25 million. The loan portfolio consisted of 45% residential real estate, 25% commercial, 15% construction, 6% farm real estate and agricultural production, 5% multi-family, 3% consumer, and 1% other loans.

FNB's primary loan products during this evaluation period were residential real estate and small business loans. Consistent with the mix of loans outstanding, residential real estate loans and small business loans represent the highest percentage of the loans originated during this evaluation period by dollar value and by number of loans granted. We sampled 60 Home Mortgage Disclosure Act (HMDA) reportable loans originated from January 1, 2005 through December 31, 2006 to verify the accuracy of the information prior to including it in this report.

We reviewed a sample of 20 small business loans located inside the assessment area to evaluate the bank's performance with this type of loan. Since the bank only entered the St. Clair County market 10 days prior to the end of the evaluation period, we did not include this area in our evaluation.

To further our understanding of the community's credit needs, we made two contacts with local city officials knowledgeable about the areas served by the bank. Our contacts did not identify any unmet credit needs. They felt that local banks are involved in the community and are adequately meeting its credit needs.

There are no legal or financial constraints placed on the bank's ability to help meet the community's credit needs. The bank has adequate resources to provide for the credit needs of its AA. The type and amount of CRA activities are consistent with the bank's size, its financial capacity, local economic conditions, and the credit needs of the community. FNB's last CRA evaluation was March 24, 2004, and we rated the bank Satisfactory.

## **DESCRIPTION OF MONROE COUNTY ASSESSMENT AREA**

Bank management has designated Monroe County in southwestern Illinois as its AA. Monroe County is part of the St. Louis MSA. The AA is comprised of three census tracts (CTs), 6001.00, 6002.00, and 6003.00, in Monroe County. Based on the 2000 MSA median family income of \$53,435, CT 6001.00 is classified as upper-income and CTs 6002.00 and 6003.00 are classified as middle-income. There are no low- or moderate-income CTs in Monroe County. This area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The 2005-updated median family income figure, adjusted for inflation by the Department of Housing and Urban Development, was \$63,800. This figure increased to \$65,800 for 2006. The 2000 census data shows that the total population in the AA was 27,619, which included 7,756 families. Of these families, 787 or 10% were classified as low-income, 1,253 or 16% as moderate-income, 2,037 or 26% as middle-income, and 3,679 or 48% as upper-income.

Based on the 2000 census data for the AA, 13.40% of the population was age 65 and older, 20% of households were in retirement, and 4% of households lived below the poverty level. In 2000, the median housing value for the AA was \$125,344 and the median age of the housing stock was 33 years. Local housing for the AA was 94% 1-4 family units, with 77% owner-occupied. Only 4% of the housing units were vacant.

There are 1,625 businesses in Monroe County. The majority of the businesses (1,135 or 70%) have revenue less than \$1 million. Only 82 or 5% of the businesses have revenue greater than \$1 million, and 408 or 25% have unknown revenues.

As of November 2006, economic conditions in Monroe County are good. Monroe County's seasonally unadjusted unemployment rate is 3.5%, which is lower than the State of Illinois rate of 3.7% and the national seasonally adjusted rate of 4.3%. The economic base in the AA is diversified. Major employers in the area are the local school district, Oak Hill (Nursing Home), Harrisonville Telephone Company, Wal-Mart, the city of Waterloo, Monroe County

government, Schnucks grocery, and Rural King.

Competition in the AA is provided by seven other financial institutions, a mix of community banks and branches of regional banks. As of June 30, 2006, the bank's total deposits inside the market are \$210 million, which amounts to a 34% market share. Major competitors include Commercial State Bank of Waterloo with a 15% market share, First Bank of Missouri with a 14% market share, and State Bank of Waterloo with an 11% market share. There are also credit unions, mortgage companies and insurance companies that offer loan products.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

FNB's performance is reasonable in meeting the credit needs of its AA, including those of low- and moderate-income people, given the performance context, demographics, economic factors and competitive pressures faced by the bank.

### **Loan-to-Deposit Ratio**

FNB's loan-to-deposit (LTD) ratio is reasonable. As of December 31, 2006, the bank's LTD ratio was 73%. FNB's quarterly average LTD ratio since the 2004 CRA examination was 72%. This compares well to four similarly situated banks in the area whose quarterly average LTD ratios ranged from 50% to 85%. FNB's LTD ratio is higher than three of the similarly situated banks and lower than the other bank. These four banks are considered similarly situated because they are similar in size (total assets range from \$84 million to \$163 million) and location (in Monroe or St. Clair County).

### **Lending in the Assessment Area**

The majority of loans and other lending related activities were originated in the bank's AA. Based on HMDA data and a sample of small business loans made in 2005 and 2006, 63% by number and 62% by dollar amount of these loans were made within the bank's AA.

During this evaluation period, the bank originated 257 home purchase loans totaling \$37.4 million and 291 home refinance loans totaling \$30.6 million. The bank originated 150 home purchase loans totaling \$21.9 million and 193 home refinance loans totaling \$20 million within its AA.

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

The bank's lending to borrowers of different incomes and to businesses of different sizes is reasonable. Lending levels, as shown by the volume of all residential real estate loans generated, reflect good responsiveness to the credit needs of the AA. Small business loan activity reflects adequate responsiveness to the credit needs of the AA.

### ***Residential Real Estate Loans***

The overall borrower distribution of home mortgage loans exceeds the standard for satisfactory performance. We placed more emphasis on home refinance loans because the volume of these loans exceeds the volume of home purchase loans. Of the total home mortgage loans, home refinance loans accounted for 53% and home purchase loans accounted for 43%.

The data used to evaluate FNB’s residential lending activity is presented in the following table.

<b>Borrower Distribution of Residential Real Estate Loans in Monroe County</b>								
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	10%	10%	16%	18%	26%	32%	48%	36%
Home Refinance	10%	10%	16%	21%	26%	30%	48%	37%

*Sources: HMDA data and 2000 U.S. Census data. For Home Purchase and Home Refinance loans, 4% and 2% of loans, respectively, did not have income levels identified.*

The borrower distribution for home purchase loans exceeds the standard for satisfactory performance. The percentage of home purchase loans made to low-income borrowers (10%) is the same as the percentage of low-income families in the AA (10%). The percentage of home purchase loans made to moderate-income borrowers (18%) exceeds the percentage of moderate-income families in the AA (16%).

The borrower distribution for home mortgage refinance loans exceeds the standard for satisfactory performance. The percentage of home refinance loans made to low-income borrowers (10%) mirrors the percentage of low-income families in the AA (10%). The percentage of home refinance loans made to moderate-income borrowers (21%) is above the percentage of moderate-income families in the AA (16%).

### ***Small Business Loans***

The distribution of the bank’s loans to small businesses is reasonable. The percentage of bank loans to businesses with revenues of less than \$1 million is near to the market demographic. FNB made 65% of its small business loans to businesses with revenue of less than \$1 million.

<b>Borrower Distribution of Loans to Businesses in Monroe County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70%	5%	25%	100%
% of Bank Loans in AA by #	65%	15%	20%	100%
% of Bank Loans in AA by \$	63%	17%	20%	100%

*Sources: Sample of 20 small business loans originated between January 1, 2005 and December 31, 2006, and 2005 Business Demographic data.*

### **Geographic Distribution of Loans**

An analysis of the geographic distribution of the bank's loans in its AA would not be meaningful. The bank's AA consists of 3 CTs, which are all classified as middle- or upper-income geographies.

### **Responses to Complaints**

FNB has not received any complaints about its performance in helping to meet community credit needs since the last CRA examination.

### **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.