



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

September 6, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Waterloo
Charter Number: 10180

228 South Main Street
Waterloo, IL 62998

Office of the Comptroller of the Currency

500 North Broadway, Suite 1700
St. Louis, MO 63102

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

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 is from January 1, 2014 through December 31, 2015 and the period for the Community Development Testing is from August 13, 2012 through September 6, 2016. Conclusions regarding the bank's lending performance are based on FNB's primary loan products consisting of residential real estate (RRE), which make up 48 percent by number and 58 percent by dollar volume of loans originated during the evaluation period, and consumer loans, which make up 43 percent by number and 21 percent by dollar volume. 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 consumer loans that FNB originated or purchased from January 1, 2014 through December 31, 2015.

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, 2016, FNB reported total assets of \$444 million and Net Tier One Capital of \$44 million. FNB's business strategy focuses on the origination and selling of first lien single-family RRE loans to third party investors. In 2014 and 2015, FNB sold 87 percent 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, 2016, net loans represented 41 percent of total assets and consisted of RE loans (89 percent), commercial (8 percent), agricultural (1 percent), individual loans (2 percent), and other loans (1 percent).

FNB is an intrastate bank with nine offices located in Monroe County (4), St. Clair County (3), Effingham County (1) and Shelby County (1). The four branches in Monroe County are located in the cities of Waterloo and Columbia. The St. Clair County offices are located in the village of Millstadt and O'Fallon. FNB's parent company purchased Prairie NB based out of Effingham, Illinois with offices in Effingham and Stewardson, Illinois on January 31, 2015 and the banks were officially merged July 31, 2015. The Effingham County office is located in Effingham and the Shelby County office is located in Stewardson. Six of the offices are located in middle-income geographies, and three offices are located in an upper-income geography. Each office has a full-service automated teller machine (ATM) on the premises. 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 August 1, 2012.

Description of Assessment Area

FNB has two assessment areas (AA), an MSA AA comprised of Monroe and St. Clair Counties in Illinois and a non MSA AA comprised of Effingham and Shelbyville Counties in Illinois. The non MSA AA was not included in the scope of this evaluation as the amount of data available from the new assessment area since the time of acquisition is not meaningful. It will be considered in the next performance evaluation.

FNB's MSA AA is comprised of all of Monroe County and all of St. Clair County. This AA represents a section of the St. Louis, MO-IL Metropolitan Statistical Area (MSA) 41180. The bank's MSA AA 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.

FNB's deposits total \$380 million as of June 30, 2016. FNB is the third largest deposit-taking institution in Monroe and St. Clair County with a 7.08 percent 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 by deposit market share, excluding FNB, are Regions Bank (19.01 percent), The Bank of Edwardsville (7.41 percent), Associated Bank, N.A. (6.31 percent), First Bank (6.02 percent), and Bank of America (5.77 percent).

The unemployment rate decreased from 7.2 percent to 4.0 percent during the same period. The state of Illinois' unemployment rate was 5.6 percent as of July 2016. 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 St Elizabeth Hospital. Based on 2015 Census data, 5.1 percent of families live below the poverty level in Monroe County and 19.1 percent in St. Clair County.

The 2015 Department of Housing and Urban Development (HUD) adjusted median family income for the MSA AA was \$66,798. Based on 2010 Census Data, 25 percent and 21 percent of families were low- and moderate-income, respectively. The 2010 median housing value for the AA was \$132,685. The following is additional demographic data for the AA.

Institution ID: 10180

Waterloo

Demographic Information for Full Scope Area: Waterloo						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	66	22.73	13.64	39.39	24.24	0.00
Population by Geography	303,013	13.33	13.41	45.99	27.27	0.00
Owner-Occupied Housing by Geography	79,906	9.75	11.52	47.75	30.99	0.00
Business by Geography	14,613	9.12	14.04	49.61	27.24	0.00
Farms by Geography	954	1.47	3.67	55.56	39.31	0.00
Family Distribution by Income Level	78,491	24.75	16.93	20.67	37.64	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	32,719	23.91	17.56	42.30	16.22	0.00
Median Family Income		66,798	Median Housing Value		132,685	
HUD Adjusted Median Family Income for 2015		72,200	Unemployment Rate (2010 US Census)		4.09%	
Households Below Poverty Level		13%				

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2015 HUD updated MFI

We determined the community's needs by contacting a representative from a local Community Development organization that provides financial assistance to poor families and the elderly. We also spoke with a representative from the Monroe County Community Development (MCCD) organization that provides assistance in community development services. Through those conversations and review of prior community

contacts, potential community needs for the surrounding counties are:

- Public housing and section 8 housing assistance
- Homebuyer assistance programs
- Housing Rehabilitation Forgivable loan program
- Public facilities improvements
- Foreclosure prevention network
- Small business lending

We determined the opportunities to make CD loans, provide CD services, and make Qualified Investments that directly benefit the AA are moderate to high within the AA.

The bank's non-MSA AA is comprised of all of Effingham County and all of Shelby County. Since these branches were not merged with FNB Waterloo until August 2015, there was not sufficient data to conduct an analysis of this AA so it would not have been meaningful. Therefore, we excluded it from this evaluation.

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.

The bank's quarterly average of LTD ratios since the last CRA evaluation was 46 percent. This ratio is lower than five comparable banks in asset ranging from \$300,000 to \$700,000. The average LTD ratios of these banks, which are comparable in size and location, range from 70 percent to 94 percent for the same period. This is reasonable since the bank sells approximately 87 percent of their mortgage loans to the secondary market. If the bank had retained those loans, their average LTD Ratio during the evaluation period would have been higher, and it is estimated that the average LTD ratio would have been within the range of the five comparable banks.

Lending in Assessment Area

A majority (83 percent) of loans were originated or purchased within FNB's AA. FNB originated or purchased 81 percent, 85 percent, and 86 percent of home purchase, home improvement, and home mortgage refinance loans, respectively, within its AA. Based upon our sample, FNB originated or purchased 95 percent of consumer 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	222	81%	53	19%	275	\$32,191	77%	\$9,783	23%	\$41,974
Home Improvement	51	85%	9	15%	60	4,407	83%	888	17%	5,295
Home Mortgage Refinance	285	88%	38	12%	323	39,829	86%	6,728	14%	46,557
Consumer	19	95%	1	5%	20	231	99%	2	1%	233
Totals	577	85%	101	15%	678	\$76,658	81%	\$17,401	19%	\$94,059

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

Lending to Borrowers of Different Incomes

FNB's lending distribution to borrowers of different income levels reflects reasonable penetration. In evaluating the bank's performance, we placed more weight on the distribution of RRE loans than consumer loans, because they represented the largest percentage of loans originated and purchased by the bank. Additionally, the level of households in the AA living below the poverty level (13 percent) limits the ability of individuals to qualify for loans, which also factored into our analysis.

Residential Real Estate Loans

The borrower distribution of RRE loans originated or purchased during the evaluation period is reasonable, and meets the standard for satisfactory performance. 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 moderate-income borrowers (19.15 percent) exceeded the percentage of AA families who are moderate-income (16.93 percent). The percentage of home purchase loans to low-income borrowers (8.51 percent) was well below the percentage of AA families who are low-income (24.75 percent).

The percentage of home improvement loans to moderate-income borrowers (12.24 percent) was lower than the percentage of AA families who are moderate-income (16.93 percent). The percentage of home improvement loans to low-income borrowers (10.20 percent) was below the percentage of AA families who are low-income (24.75 percent).

The percentage of home mortgage refinance loans to moderate-income borrowers (17.78 percent) exceeded the percentage of AA families who are moderate-income (16.93 percent). The percentage of home mortgage refinance loans to low-income borrowers (3.56 percent) was well below the percentage of AA families who are low-income (24.75 percent).

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	24.75%	8.51%	16.93%	19.15%	20.67%	28.72%	37.64%	43.62%
Home Improvement	24.75%	10.2%	16.93%	12.24%	20.67%	28.57%	37.64%	48.98%
Home Mortgage Refinance	24.75%	3.56%	16.93%	17.78%	20.67%	23.11%	37.64%	55.56%

Source: RRE loan data reported under HMDA for the period January 1, 2014 through December 31, 2015; 2010 U.S. Census Data.

Consumer Loans

The distribution of loans to consumers of different incomes reflects reasonable penetration based on a sample of 20 loans originated or purchased during the evaluation period. The percentage of loans extended to moderate-income individuals (16.67 percent) is near to the percentage of moderate-income individuals (16.93 percent). The percentage of loans extended to low income individuals (11.67 percent) is well below the percentage of low-income individuals (24.75 percent). As stated above, the level of households in the AA living below the poverty level (13 percent) factored into the analysis of the lending to low income individuals.

Borrower Distribution of Consumer 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
Consumer	24.75%	11.67%	16.93%	16.67%	20.67%	33.33%	37.64%	38.33%

Geographic Distribution of Loans

The geographic distribution of loans reflects very poor dispersion throughout the bank's AA, which does not meet the standard for satisfactory performance. While there is significant competition in the banks AA, with 31 financial institutions operating in the market, the bank must improve its lending as it relates to geographic distribution.

Residential Real Estate Loans

The geographic distribution of home mortgage loans is poor. FNB has extended zero loans to low-income geographies for home mortgage loans.

FNB originated or purchased 6.02 percent, 7.84 percent, and 0.43 percent of home purchase, home improvement, and home mortgage refinance loans, respectively, to moderate income geographies compared to the demographic information, which shows that 11.52 percent of owner-occupied units are in the moderate-income geographies.

Geographic 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	% Owner Occ Units	% of Number of Loans	% Owner Occ Units	% of Number of Loans	% Owner Occ Units	% of Number of Loans	% Owner Occ Units	% of Number of Loans
Home Purchase	9.75%	0%	11.52%	6.02%	47.75%	35.19%	30.99%	58.8%
Home Improvement	9.75%	0%	11.52%	7.84%	47.75%	31.37%	30.99%	60.78%
Home Mortgage Refinance	9.75%	0%	11.52%	0.43%	47.75%	35.62%	30.99%	66.95%

Consumer Loans

The geographic distribution of consumer loans is very poor. FNB has extended zero loans to low-income geographies for consumer loans. FNB did not extend any consumer loans to moderate-income geographic areas.

Geographic Distribution of Consumer Loans in the AA (Portion of the St. Louis, MO-IL MSA # 41180)								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Househol ds	% of Number of Loans	% of AA Househo lds	% of Number of Loans	% of AA Househol ds	% of Number of Loans	% of AA Househo lds	% of Number of Loans
Consumer	24.75%	0%	16.93%	0%	20.67%	35%	37.64%	65%

Responses to Complaints

On June 21, 2016, the First National Bank of Waterloo received a letter from the St. Louis Equal Housing and Community Reinvestment Alliance (SLEHCRA) noting items of concern regarding the Bank's investment in low-income communities. Bank management met with representatives from SLEHCRA in late June 2016 to discuss their concerns, and since that time, continues to work with the group to address various items.

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.

Number and Amount of Community Development Loans

FNB originated seven CD loans totaling \$3,005,000. Three of these loans provided funding to organizations that provide affordable housing. Three others created jobs for low- to moderate-income individuals and the seventh loan assisted in funding a local low-income geographic hospital. Information regarding these loans is summarized below.

Activities Directly Benefiting the AA

- FNB originated a \$1,000,000 loan with proceeds used to fund a hospital. The loan promoted economic development by funding a Disproportionate Share Hospital (DSH) and providing operating capital when the state of Illinois had delayed its funding. The hospital is located in a low-income CT and primarily serves low- and moderate-income individuals.
- FNB originated a \$64,000 loan to provide funding to purchase two rental properties for affordable housing purposes. The rental properties are located in a moderate-income census tract and offer rental rates below the fair market rate.
- FNB originated a \$74,500 loan to purchase an affordable housing unit in Belleville, Illinois. The loan fits under the affordable housing category by providing affordable housing rental rates below the fair market rate.
- FNB originated a \$98,000 loan to purchase an affordable housing unit in Belleville, Illinois. The loan fits under the affordable housing category by providing affordable housing rental rates below the fair market rate.

Activities Not Benefiting the AA but do benefit the Missouri portion of the St. Louis, MO-IL MSA 41180

- FNB originated a \$1,232,000 loan to a gas station in a moderate-income census tract. This loan promoted economic development by creating six permanent jobs for low- or moderate-income individuals.
- FNB originated a \$208,000 loan to purchase furniture and fixtures for the creation of the new gas station. The loan promoted economic development by creating six permanent jobs for low- or moderate-income individuals.

Number and Amount of Qualified Investments

FNB has twenty QI totaling \$15,808,000 during the evaluation period. Information regarding these QI is summarized below.

- FNB purchased nineteen municipal bonds totaling \$14,873,000. These proceeds and proceeds from other bonds were used to construct a new nursing home and to fund school districts that provide low cost or free lunch to low and moderate students. The nursing home is operated by Monroe County and all county residents are accepted regardless of their ability to pay. Forty percent of the individuals at the nursing home receive Medicaid healthcare.
- FNB purchased a mortgage-backed security for \$935,000. This investment backs the mortgages of sixteen individuals whom are low and moderate-income individuals.

Number and Amount of Qualified Donations

- FNB donated \$214 to the O'Fallon and Millstadt food pantry's since the last PE. These organizations provide meals to the homeless.
- FNB donated \$230 to the House of Neighborly Service. This organization provides assistance to those in poverty.
- FNB donated \$10,000 to the Life Network to purchase and refurbish a building for operations. The Life Network provides crisis pregnancy services and consulting. Approximately 75 to 80 percent of the clients are low-income individuals.

Extent to Which the Bank Provides Community Development Services

- A bank officer provides approximately 4 hours per year of expertise service to a local organization. This will total 16 hours.

- A bank officer provides approximately 12 hours of financial expertise in running fundraising events to donate money to the local food pantries.
- A bank officer serves on the advisory board and committee of a local organization. This totals approximately 16 hours since the last PE.

Responsiveness to Community Development Needs

FNB's CD activities, as a whole, demonstrate satisfactory responsiveness to the needs and opportunities in its AA. The bank's level of CD services is also adequate. The bank provides retail services including internet banking, online billpay, mobile banking and telephone banking.

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.