



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

December 3, 2007

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Ottawa  
Charter Number: 1154

701-705 La Salle Street  
Ottawa, Illinois 61350

Office of the Comptroller of the Currency

North Central Illinois & Eastern Iowa Field Office  
111 West Washington Street, Suite 300  
East Peoria, Illinois 61611

**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**

**First National Bank of Ottawa (“FNB”) is rated Satisfactory.**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Outstanding**

- FNB’s distribution of loans to individuals of different income levels and businesses of different sizes is satisfactory.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas (“AA”), including moderate-income census tracts (“CT”).
- FNB’s community development performance demonstrates a more than 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 AA.
- FNB’s average loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and AA credit needs.

### **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 investment, and community development services activities.

- The evaluation period covers loans originated or purchased from October 28, 2002 through September 30, 2007.
- FNB has two AAs, generating a majority of the bank’s loans and deposits. The LaSalle/Livingston County AA and the Kendall/Grundy AA will both receive a full-scope review. The lending test is based on FNB’s primary loan products.
- Conclusions regarding the bank’s lending performance are based on residential related mortgages and commercial loans originated or purchased from January 1, 2005 through September 30, 2007, utilizing 2000 census data.

- We reviewed residential related loans reported under the Home Mortgage Disclosure Act (HMDA) and a sample of non-HMDA reportable residential real estate loan products for the years 2005, 2006, and through September 30, 2007. We reviewed a sample of loans to businesses originated during 2005, 2006, and through September 30, 2007.
- 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 to be accurate and reliable for use in this examination.
- FNB is not required to maintain CRA data on small business lending outside of the individual credit files. Thus, we reviewed a sample of 20 commercial loans from each AA originated during the lending test period to assess the lending to businesses of different sizes.

## Description of Institution

FNB is a community bank headquartered in Ottawa, Illinois, which is located in North Central Illinois along Interstate 80 and at the confluence of the Fox and Illinois rivers. As of September 30, 2007, FNB reported total assets of \$280 million. FNB is an intrastate financial institution with eight offices serving portions of LaSalle, Grundy, Kendall, and Livingston Counties. All offices are equipped with drive-up facilities and ATMs, with the exception of the loan production office in Minooka. FNB has seventeen ATMs located throughout both AAs, with multiple locations in Morris, Ottawa, Streator, and Utica.

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, 2006, the holding company had total assets of \$278 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.

Since the previous CRA evaluation, FNB opened new branch offices in Morris, Illinois (2003) and in Yorkville, Illinois (2005), acquired two branch offices in 2003 in Streator, Illinois, and opened a loan production office in Minooka, Illinois (2006). FNB did not close any branch offices. FNB's strategy of providing banking products and services through traditional methods and with new technologies, while remaining committed to the customer with prompt responsive service and locally based decision-making, has not changed.

FNB's two primary lending products are commercial and residential real estate loans. These two loan types account for 83 percent of the amount of all loan originations during the evaluation period and make up 83 percent of the outstanding loan balances as of September 30, 2007. Thus, these two lending products were used for the analysis of this evaluation. Agricultural and consumer lending are not primary loan products, accounting for 17 percent of the amount of loan originations, and the remaining 17 percent of the outstanding loan balances, as of September 30, 2007.

<b>Table 1 – Loan Originations by Loan Type from January 1, 2005 through September 30, 2007</b>				
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Commercial Loans	\$ 118,383	61%	865	43%
Residential Loans	\$ 43,554	22%	453	22%
Agricultural Loans	\$ 26,887	14%	161	8%
Consumer Loans	\$ 5,482	3%	556	27%
<b>Total Originations</b>	<b>\$194,306</b>	<b>100%</b>	<b>2,035</b>	<b>100%</b>

*Source: Bank Records from January 1, 2005 – September 30, 2007*

As of September 30, 2007, the bank reported \$161 million in outstanding loans and had a net loans and leases to total assets ratio of 57 percent. The loan portfolio consists of the following:

<b>Table 2 – Loan Portfolio Summary by Loan Type September 30, 2007</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Loans	\$ 80,915	50%
Residential Loans	\$ 52,663	33%
Consumer Loans	\$ 21,035	13%
Agricultural Loans	\$ 6,064	4%
<b>Total Loans</b>	<b>\$160,677</b>	<b>100%</b>

*Source: Call Report September 30, 2007*

There are no financial conditions, legal constraints or other factors that would hinder the bank's ability in helping to meet the credit needs of the communities within its AA. Tier 1 capital was reported at \$22 million as September 30, 2007. The bank's previous CRA rating as of October 28, 2002, was Satisfactory.

## **Description of Assessment Areas**

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: the LaSalle/Livingston County AA and the Kendall/Grundy County AA. Since the previous evaluation, the AA has expanded due to two new branch offices and the acquisition of the branch offices in Streator from First Midwest Bank. This branch office expansion increased the number of CTs in LaSalle County, added the CT in Livingston County, and established a second AA in Kendall and Grundy Counties.

### **LaSalle/Livingston County AA**

The LaSalle/Livingston County AA is not located in an MSA and consists of seventeen CTs; sixteen CTs in LaSalle County and one CT in Livingston County. One CT in LaSalle County is designated moderate-income (6%), while the remaining sixteen CTs

in the AA are designated as middle- or upper-income (94%). The one moderate-income CT is located in Ottawa and primarily consists of the downtown area.

The following is demographic information for the assessment area:

<b>Table 3 - Demographic Information for the LaSalle/Livingston AA</b>					
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	19,856	0%	3%	67%	30%
Businesses by Geography	4,053	0%	12%	58%	30%
Farms by Geography	454	0%	1%	54%	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	
2007 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 CTs; five CTs in Grundy County and two CTs in Kendall County. One CT in Grundy County is designated moderate-income (14%), while the remaining six CTs in the AA are designated as middle- or upper-income (86%). The one moderate-income CT 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:

<b>Table 4 - Demographic Information for the Kendall/Grundy AA</b>					
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	2,937	0%	6%	94%	0%
Farms by Geography	189	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	
2007 HUD Adjusted Median Family Income for the MSA	\$69,700	Average Monthly Gross Rent		\$ 626	
Families Below the Poverty Level	2%	Households Below the Poverty Level		5%	

Source: 2000 U.S. Census Data

**Economic Data**

The local economy is considered strong. The October 2007 unemployment rates for two of the four counties within the AA compare favorably to the 4.7% national average, while all four counties within the AA compare favorably to the 5.3% State of Illinois average rate. The October 2007 unemployment rates for each county are: 4.4% Livingston, 4.5% Kendall, 4.8% Grundy, and 5.2% LaSalle. The economy of the AA is concentrated in the warehousing, healthcare, education, manufacturing, and retail industries. Major employers include: the Morris, Ottawa Community, and St. Mary’s Hospitals, PetsMart, Wal-Mart, CostCo, and Tyson Foods warehouse distribution centers, Exelon Corporation, Lyondell Chemical Company, Vactor Manufacturing, Inc., the local school districts, and the city and county governments.

Two community contacts from the bank’s AA were made during the evaluation. These contacts included the Executive Director of a Chamber of Commerce from within the LaSalle/Livingston AA, and a county Economic Development Director from within the Kendall/Grundy AA.

Both community contacts said the local economies are strong and growing. The unemployment figures are lower than the state average. The primary credit needs in

the area are mortgage related products for land development, construction, commercial business, and residential. They both felt the banks in the area are very good at meeting the credit needs of the area, especially in the Kendall County area where the population has been growing rapidly and in the LaSalle County area with commercial business expansion along the Interstate 80/Interstate 39 corridor. They said there are not many low- or moderate-income areas and the community development opportunities for low- and moderate-income families are limited.

The contacts said there were no credit needs or banking services not being met or provided for by the local financial institutions. They both said FNB and their employees are actively involved in the communities they serve and are often in leadership roles.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

FNB meets the standards for satisfactory performance.

- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels (including low-, and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA, including the moderate-income census tracts.
- 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.

### **LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES**

The distribution of loans reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

#### **Commercial Loans**

The distribution of loans to businesses reflects, given the demographics of the AAs, reasonable penetration among businesses of different sizes. Based on the number of commercial loan originations from our sample, eighty percent of the loans in the LaSalle/Livingston AA and the Kendall/Grundy AA were originated to small businesses. Meanwhile thirty-five percent of the dollar amount in the LaSalle/Livingston AA and seventy-seven percent of the dollar amount in the Kendall/Grundy AA were loans originated to small businesses. The disparity between the number and the dollar amount of loans to small businesses in the LaSalle/Livingston AA sample is not uncommon, due to the size variation in the businesses. The average loan amount in the LaSalle/Livingston AA sample to small businesses was \$64M, while the average loan amount to businesses with annual gross revenues greater than a million dollars

was \$480M. Small businesses are businesses with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows sixty-three percent of the businesses in the LaSalle/Livingston AA and sixty-nine percent of the businesses in the Kendall/Grundy AA reporting revenue data have annual gross revenues equal to or less than one million dollars.

The following table shows the distribution of commercial loans among businesses of different sizes within the AA:

<b>Table 5 – Borrower Distribution of Loans to Businesses of Different Sizes in the LaSalle/Livingston AA</b>					
Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	16	80%	63%	\$ 1,027	35%
>\$1,000,000	4	20%	5%	\$ 1,919	65%
Total	20	100%	68%	\$ 2,946	100%

Source: Bank records on new loans originated from January 1, 2005 to September 30, 2007; 2000 Census Data.

\*\* 32 percent of AA businesses did not report revenue data.

<b>Table 6 – Borrower Distribution of Loans to Businesses of Different Sizes in the Kendall/Grundy AA</b>					
Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	16	80%	69%	\$ 2,494	77%
>\$1,000,000	4	20%	4%	\$ 747	23%
Total	20	100%	73%	\$ 3,241	100%

Source: Bank records on new loans originated from January 1, 2005 to September 30, 2007; 2000 Census Data.

\*\* 27 percent of AA businesses did not report revenue data.

### **Residential Real Estate Loans**

The distribution of borrowers reflects, given the demographics of the AAs, reasonable penetration among individuals of different income levels. The distribution of residential related loans based on the HMDA data is reasonable in both AAs.

In the LaSalle/Livingston AA, FNB’s lending to moderate-income borrowers is excellent and exceeds the percentage of moderate-income families, while the lending to low-income borrowers is poor and well-below the percentage of low-income families. The overall lending to low- and moderate-income borrowers is reasonable, given the excellent lending to moderate-income families and that seven percent of the families in the AA are below the poverty level.



In the Kendall/Grundy AA, FNB's lending to moderate-income borrowers is equal to the percentage of moderate-income families in the AA. Lending to low-income borrowers is below the percentage of low-income families in the AA. Although the lending to low-income borrowers is below the percentage of low-income families in the AA, this is considered reasonable given that two percent of families in the AA are below the poverty level.

<b>Table 7 – Borrower Distribution of Residential Real Estate Loans in the LaSalle/Livingston AA</b>								
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 related R/E	16%	3%	17%	26%	21%	38%	46%	33%

Source: HMDA and bank records on loans originated or purchased from January 1, 2005 to September 30, 2007; 2000 Census Data.

<b>Table 8 – Borrower Distribution of Residential Real Estate Loans in the Kendall/Grundy AA</b>								
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 related R/E	13%	7%	18%	18%	27%	26%	42%	49%

Source: HMDA and bank records on loans originated or purchased from January 1, 2005 to September 30, 2007; 2000 Census Data.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans reflects reasonable dispersion throughout the LaSalle/Livingston AA. In making this determination, we weighed the performance in the LaSalle/Livingston AA more heavily because eighty-nine percent of the residential originations and eighty-six percent of the commercial originations during the evaluation period were from the LaSalle/Livingston AA.

**Commercial Loans**

FNB’s geographic distribution of commercial lending reflects a reasonable dispersion in census tracts of different income levels, including the moderate-income census tract. Based on the commercial loans originated in the evaluation period, the percentage of commercial loans originated in the moderate-income CT is below the level of commercial businesses located in the moderate-income CT.

**Table 9 – Geographic Distribution of Loans to Businesses in the LaSalle/Livingston 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%	12%	8%	58%	61%	30%	31%

Source: Bank records on new loans originated during 2005 through September 30, 2007; 2000 Census Data.

**Residential Real Estate Loans**

FNB’s geographic distribution of residential lending reflects a reasonable dispersion throughout the census tracts of different income levels, including a moderate-income CT. The percentage of residential loans originated in the moderate-income CT is above the level of owner occupied housing located in that moderate-income CT.

**Table 10 – Geographic Distribution of Residential Real Estate Loans in the LaSalle/Livingston AA**

CT 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%	3%	4%	67%	63%	30%	33%

Source: HMDA and bank records on loans originated or purchased from January 1, 2005 to September 30, 2007; 2000 Census Data.

**LENDING IN THE ASSESSMENT AREA**

A majority of the loans originated by FNB are to customers within its AA. FNB’s lending to customers within the AA for commercial and residential real estate loans is reasonable. The following table details the bank’s lending within the AA by number of loan originations and dollar volume during the evaluation period.

<b>Table 11 – Loans Originated within the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	671	78%	194	22%	865	\$ 65,500	55%	\$52,883	45%	\$118,383
Residential	373	82%	80	18%	453	\$ 33,298	76%	\$10,256	24%	\$ 43,554
Totals	1,044	79%	274	21%	1,318	\$ 98,798	61%	\$63,139	39%	\$161,937

Source: Bank records and HMDA-LARs on new loans originated from January 1, 2005 through September 30, 2007.

**LOAN-TO-DEPOSIT RATIO**

FNB's average loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and AA credit needs. FNB's quarterly average loan-to-deposit ratio for the period October 1, 2002, to September 30, 2007, was fifty-seven percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time period ranged from twenty-nine percent to eighty-four percent. FNB’s average loan-to-deposit ratio is comparable with the other seven similarly situated banks, which range in asset size from \$154 million to \$353 million. The similarly situated banks utilized for comparison purposes are community banks located in Grundy, Kendall, LaSalle and Livingston Counties.

**RESPONSES TO COMPLAINTS**

FNB has not received any 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 more 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

FNB has thirteen qualifying loans totaling \$2,538M originated during the evaluation period.

- FNB has originated two \$175M 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 originated a \$55M 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 \$25M 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 \$326M loan to refinance the building of the LaSalle County Easter Seal Society, a not-for-profit organization providing services to children and adults with disabilities or special needs. Also, FNB has approved a \$60M operating line of credit for ten years.
- FNB originated a \$500M operating line of credit 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 \$972M loan to refinance the mortgages of a number of apartments for low- and moderate-income families throughout Central Illinois, including Morris, Illinois. These apartments are subsidized through the Rural Development program of USDA. Qualified tenants have incomes of 60% or less of the area median gross income.
- FNB originated a \$250M 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.

## Number and Amount of Qualified Investments

FNB has made a total of \$45,200 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:

- \$27,950 to the United Way.
- \$ 6,500 to a not-for-profit organization providing services to children and adults with disabilities or special needs.
- \$ 3,500 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.

- USDA Guaranteed Rural Housing Loan Program – 38 loans - \$3,689,100

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.

- Farm Service Agency (FSA) – 8 loans - \$1,062,600

This federal government agency provides direct and guaranteed loans to farmers and ranchers who can not obtain commercial credit from a bank or other lender. FSA loans are often provided to beginning farmers who cannot qualify for conventional loans because they have insufficient financial resources. FSA also helps established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming operations.

### **Responsiveness to Community Development Needs**

FNB continues to be responsive to the needs of the community. The bank works with the City and County governments and corporations where they have offices and the Upper Illinois River Development Authority on loan projects. The officers and employees of the bank are heavily involved in a large number of community service organizations, and especially with the Greater Ottawa United Way Labor of Love (housing rehabilitation program).

## **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.