



PUBLIC DISCLOSURE

September 2, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Ottawa
Charter Number: 1154

701-705 LaSalle Street Ottawa, IL 61350

Office of the Comptroller of the Currency

211 Fulton Street
Suite 604
Peoria, IL 61602

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 major factors supporting First National Bank of Ottawa's (FNB, or bank) rating include:

- The distribution of loans to borrowers of different income levels and businesses of different sizes reflects reasonable penetration.
- The geographic distribution of residential and commercial loans among the census tracts in the assessment area reflects excellent dispersion.
- A majority of the loans originated by FNB are to borrowers inside its assessment area.

Scope of Examination

We evaluated FNB under the Small Bank procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities.

The evaluation period is from the previous CRA examination, November 29, 2010, through September 2, 2014. The lending test for FNB covers its performance from January 1, 2012, through December 31, 2013.

FNB has two AAs generating a majority of the bank's loans and deposits: the LaSalle-Livingston County AA and the Kendall-Grundy County AA. Both AAs received a full-scope review.

FNB's primary loan products are residential and commercial loans. We reviewed residential loans reported under the Home Mortgage Disclosure Act (HMDA) for 2012 and 2013, utilizing 2010 census data. We conducted data integrity reviews on 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 40 commercial loans originated in 2012 and 40 commercial loans originated in 2013 to perform the lending test, again utilizing 2010 census data.

Description of Institution

First National Bank of Ottawa is a community bank headquartered in Ottawa, Illinois. Ottawa is located in north central Illinois, approximately 70 miles southwest of Chicago, Illinois. As of June 30, 2014, FNB reported total assets of \$280 million. FNB is an intrastate financial institution with nine offices serving portions of LaSalle, Grundy, Kendall, and Livingston counties.

The bank is a wholly owned subsidiary of First Ottawa Bancshares, Inc., a one-bank holding company headquartered in Ottawa, Illinois. 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.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in the bank's assessment areas. The bank's previous CRA rating, which the OCC determined using Intermediate Small Bank criterion, was Satisfactory, as detailed in the performance evaluation dated November 29, 2010.

All of the bank's offices are full service facilities, with the exception of a loan production office in Minooka, and offer a full range of traditional banking products. The bank also operates twelve cash dispensing automated teller machines located throughout both AAs. As of June 30, 2014, the bank reported \$134 million in outstanding loans representing 48 percent of total assets. Tier one capital was \$25.8 million as of the same date.

FNB's business strategy is to provide a full range of traditional banking services to individuals and businesses, including personal, commercial, retail, and Internet banking, while providing high quality customer service.

FNB's two primary lending products are residential and commercial loans. These two lending categories account for 86 percent of all loans originated and purchased from January 1, 2012, to December 31, 2013, and comprise 80 percent of total outstanding loan balances as of June 30, 2014. Thus, we used these two lending products for our analysis in this evaluation. Agricultural and consumer lending are not primary loan products accounting for 14 percent of all loans originated and purchased during the lending test period.

The table below illustrates the composition of loan originations made from January 1, 2012, through December 31, 2013:

Table 1 – Loan Originations by Loan Type from January 1, 2012 through December 31, 2013				
Loan Category	\$ (000)	%	#	%
Commercial Loans	\$ 45,846	29.19%	233	20.62%
Agricultural Loans	\$ 17,915	11.41%	80	7.08%
Residential Loans	\$ 89,536	57.00%	658	58.23%
Consumer Loans	\$ 3,782	2.40%	159	14.07%
Total Originations	\$ 157,079	100%	1,130	100%

Source: Bank Records from January 1, 2012, through December 31, 2013

As of June 30, 2014, FNB reported net loans of \$131 million and had a net loans and leases to total assets ratio of 47 percent. The loan portfolio composition is as follows:

Table 2 – Loan Portfolio Summary by Loan Type June 30, 2014		
Loan Category	Dollars Outstanding (000)	% of Outstanding Dollars
Commercial Loans	\$ 74,496	57.00%
Agricultural Loans	\$ 19,610	15.00%
Residential Loans	\$ 30,176	23.09%
Consumer Loans	\$ 6,420	4.91%
Total Originations	\$ 130,702	100%

Source: June 30, 2014, Call Report

Description of Assessment Areas

FNB's AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. The bank's AAs have not changed from the prior evaluation with the exception of census tract (CT) changes from the 2010 census data. CT 1 located in Grundy County (63) was separated into two CTs - 1.02 and 1.03. The bank has not opened or closed any locations since the prior evaluation.

LaSalle-Livingston County AA

The LaSalle-Livingston County AA is located in rural north-central Illinois and is not part of a Metropolitan Statistical Area (MSA). The AA is not made up of complete counties, but consists of 16 CTs in LaSalle County and one CT in Livingston County. Of the 17 CTs, 12 are designated middle-income and five upper-income; there are no low- or moderate-income CTs in the AA.

The following is demographic information for the assessment area:

Table 3 - Demographic Information for the LaSalle-Livingston MSA AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	17	0%	0%	71%	29%
Population by Geography	69,262	0%	0%	71%	29%
Owner-Occupied Housing by Geography	21,146	0%	0%	71%	29%
Businesses by Geography	4,388	0%	0%	70%	30%
Farms by Geography	556	0%	0%	67%	33%
Family Distribution by Income Level	19,083	15%	17%	22%	46%
2013 HUD Adjusted Median Family Income	\$56,200	Median Housing Value			\$127,114
Households Below the Poverty Level	10.36%	Average Monthly Gross Rent			\$634

Source: 2010 Census Data

Kendall-Grundy County AA

The Kendall-Grundy County AA is located in the Chicago-Joliet-Naperville MSA and consists of six CTs in Grundy County and two CTs in Kendall County. Of the eight CTs, one is moderate-income, five are middle-income, and two upper-income. There are no low-income CTs in the AA. The one moderate-income CT is in Grundy County and includes the city of Morris, Illinois.

The following is demographic information for the assessment area:

Table 4 - Demographic Information for the Kendall-Grundy MSA AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	8	0%	12.5%	62.5%	25%
Population by Geography	67,517	0%	5%	52%	43%
Owner-Occupied Housing by Geography	18,258	0%	5%	53%	42%
Businesses by Geography	4,427	0%	5%	58%	37%
Farms by Geography	252	0%	2%	69%	29%
Family Distribution by Income Level	16,974	12%	16%	25%	47%
2013 HUD Adjusted Median Family Income	\$73,400	Median Housing Value			\$240,631
Households Below the Poverty Level	5%	Average Monthly Gross Rent			\$968

Source: 2010 Census Data

Economic Data

Although the local economic condition is improving, unemployment in the AAs remains high compared to state and national levels. According to the Illinois Department of Employment Security and the Bureau of Labor Statistics, the July 2014 unemployment rates for three of the four counties within the AAs are higher than the 6.2 percent national average and the 6.8 percent State of Illinois average. The July 2014 unemployment rates were 8.7 percent in LaSalle County, 7.3 percent in Livingston County, 5.9 percent in Kendall County, and 7.3 percent in Grundy County. The economies of the AAs are concentrated in agriculture, services, manufacturing, and retail sectors. Major employers include local government, local school districts, the Morris, Ottawa Community, St. Mary's, and Illinois Valley hospitals, Exelon Corporation, J.C. Whitney, and Caterpillar. Competition for financial services within the AAs is primarily from several state banks and a few national banks that serve the same communities and have a similar business focus.

Although the bank's two AAs have similar population sizes, the demographics have significant differences. Households below the poverty level total 10.36 percent in the LaSalle-Livingston AA, compared to 5.00 percent in the Kendall-Grundy AA. Furthermore, median housing values differ significantly, being \$127,114 in the LaSalle-Livingston AA compared to \$240,631 in the Kendall-Grundy AA.

We made two community contacts during the evaluation, one from each of the bank's AAs. The contacts included the director of a local housing authority and an executive from a private economic development corporation. The community contacts identified affordable housing as a primary need in the LaSalle-Livingston AA and small business lending in the Kendall-Grundy AA. The community contact in the LaSalle-Livingston AA stated there were more people looking for affordable housing than units currently available. The community contact from Kendall-Grundy stated small business lending seemed to have tightened in the area, but believed this was consistent with other local economies and not unique to his area. Neither contact was aware of any credit needs or banking services not being met by local financial institutions.

Conclusions with Respect to Performance Tests

FNB meets the standards for satisfactory performance. In making this determination, we gave more weight to the performance of lending in the LaSalle-Livingston AA as a majority of loan originations are from this AA.

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs. FNB's quarterly average LTD ratio for the period November 29, 2010 to September 2, 2014, was 51 percent, with a high of 56 percent and a low of 45 percent.

The quarterly average LTD ratio for other similarly situated financial institutions over the same period ranged from 41 percent to 96 percent. FNB's quarterly average LTD ratio ranks third lowest among 15 other similarly situated banks. The similarly situated banks utilized for comparison purposes are community banks located in north central Illinois, which range in asset size from \$111 million to \$384 million. The bank sells a large portion of loans to the secondary market, which explains why the LTD ratio ranks in the lower half of other similarly situated banks.

Lending in Assessment Areas

A majority of the loans originated by FNB are to borrowers inside its AAs. FNB's lending to customers within the AAs for primary loan types is reasonable. The following table details the bank's lending within the AAs by number of loan originations and dollar volume during the lending test period:

Table 5 - Lending in Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	404	64.03	227	35.97	631	48,296	58.56	34,171	41.44	82,467
Commercial	47	79.66	12	20.34	59	4,640	41.31	6,592	58.69	11,232
Total	451	65.36	239	34.64	690	52,936	56.50	40,763	43.50	93,699

Source: Bank records on commercial loans originated during 2012-2013, and 2012 and 2013 HMDA data

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

FNB’s lending reflects reasonable penetration among borrowers of different income levels and business of different sizes, given the demographics of the AAs. Affordable housing and small business loans were identified as the largest credit need in the AAs.

Residential Loans

The distribution of residential loans to borrowers of different income levels in the LaSalle-Livingston AA during 2012 and 2013 reflects reasonable penetration. While the distribution of residential loans to borrowers in the low-income category was below the demographic comparator, the distribution of residential loans to borrowers in the moderate-income category was near the demographic comparator. In evaluating the borrower distribution of residential loans, we found that 10.36 percent of households in the AA live below the poverty level. This makes lending to low-income individuals in the AA challenging, as many low-income individuals might not qualify for traditional mortgages.

Table 6 - Borrower Distribution of Residential RE Loans in LaSalle-Livingston AA								
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
Residential	15.15%	6.75%	16.41%	15.34%	22.06%	21.17%	46.38%	56.74%

Source: 2012 and 2013 HMDA data; 2010 Census Data.

The distribution of residential loans to borrowers of different income levels in the Kendall-Grundy AA during 2012 and 2013 reflects reasonable penetration. FNB exceeds the demographic comparator for lending to moderate-income families within the AA. Residential lending to low-income families within the AA is significantly below the demographic comparator during the same period.

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
Residential	11.56%	5.33%	16.35%	20.00%	25.46%	28.00%	46.63%	46.67%

Source: 2012 and 2013 HMDA data: 2010 Census Data.

Commercial Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes during 2012 and 2013 in the LaSalle-Livingston AA. FNB originated 80 percent of commercial loans to small businesses during 2012 and 2013 in the AA. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered excellent compared to demographic data that shows 71 percent of the businesses in the AA are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses within the AA originated during 2012 and 2013:

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.72%	4.88%	24.40%	100%
% of Bank Loans in AA by #	80.00%	20.00%	0%	100%
% of Bank Loans in AA by \$	75.68%	24.32%	0%	100%

Source: Commercial loan data sampled for 2012 and 2013; 2013 Business Geodemographic data.

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes during 2012 and 2013 in the Kendall-Grundy AA. FNB originated 82 percent of commercial loans to small businesses during 2012 and 2013 in the AA. This is considered excellent compared to demographic data that shows 74 percent of businesses in the AA are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses within the AA originated during 2012 and 2013:

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	73.68%	2.69%	23.63%	100%
% of Bank Loans in AA by #	82.35%	17.65%	0%	100%
% of Bank Loans in AA by \$	94.16%	5.84%	0%	100%

Source: Commercial loan data sampled for 2012 and 2013; 2013 Business Geodemographic data.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion among the CTs in the Kendall-Grundy AA for 2012 and 2013. The LaSalle-Livingston AA does not contain any low- or moderate-income CTs; therefore, we did not perform a geographic distribution test on the LaSalle-Livingston AA.

Residential Loans

The geographic distribution of residential loans reflects excellent dispersion during 2012 and 2013 in the Kendall-Grundy AA. FNB exceeds the demographic comparator for lending to moderate-income CTs within the AA. The following table shows the geographic distribution of residential loans to borrowers during 2012 and 2013:

Table 10 - Geographic Distribution of Residential RE Loans in Kendall-Grundy MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential	NA	NA	5.21%	13.33%	53.18%	54.67%	41.61%	32.00%

Source: 2012 and 2013 HMDA data; 2010 Census Data.

Commercial Loans

The geographic distribution of commercial loans reflects excellent dispersion during 2012 and 2013 in the Kendall-Grundy AA. FNB exceeds the demographic comparator for lending to moderate-income CTs within the AA. The following table shows the geographic distribution of residential loans to borrowers during 2012 and 2013:

Table 11 - Geographic Distribution of Loans to Businesses Kendall-Grundy MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	NA	NA	4.92%	5.88%	57.80%	76.47%	37.28%	17.65%

Source: Commercial loan data sampled for 2012 and 2013; 2013 Business Geodemographic data.

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.

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 assessment area 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.