



PUBLIC DISCLOSURE

February 10, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First FS & LA of Kewanee
Charter Number 703756

101 W Central Blvd
Kewanee, IL 61443-2229

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

First Federal Savings and Loan Association of Kewanee's ("FFSLA") overall rating is based on its performance under the lending test and additional community development investments in assessment area criteria.

The major factors that support this rating include:

- FFSLA's quarterly average loan-to-deposit ratio was 54 percent during the evaluation period, which is reasonable.
- A substantial majority of the loans originated by FFSLA during the evaluation period were to borrowers inside its Assessment Areas ("AA").
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The overall distribution of loans to borrowers of different income levels reflects reasonable penetration throughout the AA.
- FFSLA made five qualifying investments in the Henry County AA totaling \$360 thousand during the evaluation period.

SCOPE OF EXAMINATION

This Performance Evaluation assesses FFSLA's record of meeting the credit needs of the communities in which it operates. We evaluated FFSLA under the Small Savings Association performance criterion, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its AAs through its lending activities. We used data from FFSLA's primary loan product, residential mortgage loans, to evaluate the bank's lending performance.

FFSLA has two AAs. The Henry County AA generates the majority of the bank's loans and deposits. The Henry County AA received a full-scope review, while the Bureau County AA received a limited-scope review.

This evaluation covers the period from the date of the previous CRA examination, December 15, 2008, through February 10, 2014.

FFLSA's primary lending product is residential mortgage loans. We reviewed residential related loans reported under the Home Mortgage Disclosure Act ("HMDA") for the years 2012 and 2013. We based conclusions regarding the bank's lending performance on HMDA loans originated or purchased utilizing 2010 census data. 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 data for 2012 and 2013 to be accurate and reliable for use in this examination.

DESCRIPTION OF INSTITUTION

FFSLA is a mutually owned, federally chartered savings and loan association with branches located in Henry and Bureau Counties in West Central Illinois. As of December 31, 2013, FFSLA had \$68 million in total assets. FFSLA has three full-service offices with drive-up facilities. The main office is located at 101 W. Central Boulevard, Kewanee, Illinois. There is one branch office located in Henry County at 320 West Main Street, Geneseo, Illinois; and one branch office located in Bureau County at 210 South Main Street, Princeton, Illinois. FFSLA has one deposit-taking Automated Teller Machine ("ATM") located at the Kewanee, Illinois branch. Since the previous CRA evaluation, FFSLA has not opened or closed any facilities. FFSLA does not have a holding company or any affiliates.

There are no legal, financial, or other factors impeding FFSLA's ability to help meet the credit needs in the bank's assessment areas. The bank's last CRA rating, which was as a Small Savings Association, was "Satisfactory Record of Meeting Community Credit Needs" as detailed in the Performance Evaluation dated December 15, 2008.

FFSLA is committed to ensuring that it promotes lending and deposit products and services to the entire communities it serves. As reported on the December 30, 2013 Call Report, 97 percent of the bank's loan portfolio consisted of residential mortgages. FFSLA primarily offers owner-occupied residential real estate loans, which accounts for 80 percent of loans originated and purchased from January 1, 2012 to December 31, 2013. We used this lending product for the analysis of this evaluation. Consumer lending and other lending are not a primary loan product, accounting for the remaining 20 percent of the loans originated and purchased during this period.

DESCRIPTION OF ASSESSMENT AREA(S)

FFSLA's assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. FFSLA currently has operations in Henry County located in the Davenport-Moline-Rock Island, IA-IL Metropolitan Statistical Area ("MSA") ("Henry County AA") and Bureau County, a non-MSA county ("Bureau County AA"). We performed a full-scope review of the Henry County AA because the bank has two of its three branch facilities located in Henry County, and bank deposits of \$57 million, or 91 percent of total bank deposits as of June 30, 2013, reside in this AA. We performed a limited-scope review of the Bureau County AA.

Henry County AA

Using 2010 U.S. Census Data, there were no census tracts ("CTs") designated as low-income in Henry County. The AA consists of ten of the thirteen CTs in Henry County (two moderate-, seven middle-, and one upper-income). The main branch in Kewanee

consists of FFSLA's deposit market share is 4.55 percent (tenth out of thirteen banks)¹. The following table illustrates demographic information for the assessment area based on the 2010 U.S. Census:

Table 1: Demographic Information for Full Scope Area: partial Henry County IL AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.00	20.00	70.00	10.00	0.00
Population by Geography	37,047	0.00	17.79	70.57	11.64	0.00
Owner-Occupied Housing by Geography	11,454	0.00	13.90	73.01	13.09	0.00
Business by Geography	2,702	0.00	11.62	79.94	8.44	0.00
Farms by Geography	536	0.00	4.66	87.69	7.65	0.00
Family Distribution by Income Level	10,302	20.25	18.86	23.43	37.46	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	4,029	0.00	23.38	69.17	7.45	0.00
Median Family Income		61,723	Median Housing Value	101,200		
HUD Adjusted Median Family Income for 2012		65,000	Unemployment Rate	2.72%		
Households Below Poverty Level		12%	(2010 US Census)			

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

Source: 2010 US Census and 2012 HUD updated MFI

Bureau County AA

FFSLA has selected six of the ten census tracts in Bureau County (five middle- and one upper-income). Using the 2010 U.S. Census Data, there were no CTs designated as low- or moderate-income in Bureau County. The bank's market share is very low in this AA. As of June 30, 2013, this AA had \$6 million of bank deposits, or ten percent of total bank deposits. FFSLA's deposit market share was 0.47 percent (fourteenth out of fourteen banks)¹. The following table illustrates demographic information for the assessment area based on the 2010 U.S. Census:

¹ Source: FDIC Market Share report as of June 30, 2013.

Table 2: Demographic Information for Limited Scope Area: partial Bureau County IL AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.00	0.00	83.33	16.67	0.00
Population by Geography	20,658	0.00	0.00	82.82	17.18	0.00
Owner-Occupied Housing by Geography	6,478	0.00	0.00	82.36	17.64	0.00
Business by Geography	1,402	0.00	0.00	74.18	25.82	0.00
Farms by Geography	309	0.00	0.00	90.29	9.71	0.00
Family Distribution by Income Level	5,903	17.79	19.45	21.92	40.84	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,198	0.00	0.00	89.99	10.01	0.00
Median Family Income		54,549	Median Housing Value		104,496	
HUD Adjusted Median Family Income for 2012		57,400	Unemployment Rate		4.25%	
Households Below Poverty Level		11%	(2010 US Census)			

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

Source: 2010 US Census and 2012 HUD updated MFI

Economic Data

The local economy is still experiencing the effects of the recent economic downturn. During the examination period of December 2008 to February 2014, the State of Illinois unemployment rate was 8.6 percent in December 2013, reached a high of 11.3 percent in December 2009, and a low of 7.6 percent in December 2008. The unemployment rate in Henry County was 7.7 percent in December 2013, which is better than the rate for the State of Illinois. The Henry County unemployment rate reached a high of 12.4 percent in February 2010, and a low of 7.2 percent in December 2008.

Major employers in this area include Great Dane Trailers, Kewanee Hospital, Wal-Mart, local government and school district, and Good’s Furniture. Competition for financial services within the AA is primarily from several state-chartered banks and a few national banks and federal savings associations that serve the same communities.

We contacted the area director of a local USDA Rural Development office. Despite Henry County’s close proximity to the Quad Cities, it has small populations, small communities, and as a result, somewhat limited prospects for significant non-agricultural economic development. Kewanee had once been a manufacturing center; however, most of the major manufacturers have left the area.

Unlike Kewanee, Geneseo is a more economically viable community and due to its close proximity to the Quad Cities as a substantial number of Geneseo residents commute to there to work.

The contact indicated that access to small business and agriculture loans were the largest credit need in the AA. The contact could not identify any credit products needed in the community that are not being offered by local financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FFSLA meets the standards for satisfactory performance. The bank has reasonable penetration among borrowers of different income levels. The geographic distribution of loans reflects reasonable dispersion throughout the AAs, including moderate-income CTs. The bank originates a majority of their loans within their AA, and their loan-to-deposit ratio is satisfactory.

Loan-to-Deposit Ratio

FFSLA's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. FFSLA's quarterly loan-to-deposit ratio averaged 54 percent over 20 quarters from December 31, 2008 to September 30, 2013, with a low of 45 percent and a high of 65 percent. FFSLA currently ranks seventh among eleven similarly situated banks. Similarly situated banks within the AA currently have asset sizes ranging from \$43.9 million to \$455.7 million, had average loan-to-deposit ratios ranging between 37 percent and 92 percent over the same period, with an overall group average of 63 percent.

Lending in Assessment Area

A substantial majority of the loans originated by FFSLA during the evaluation period, both by dollar and number, were inside of the AA.

Loan Type	Number of Loans				Total	Dollars of Loans				
	Inside		Outside			Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	134	93.06	10	6.94	144	6,378	83.39	1,270	16.61	7,648

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among borrowers of different income levels.

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 RE	20.3%	16.4%	18.9%	26.6%	23.4%	32.0%	37.5%	21.9%

Source: 2012 and 2013 HMDA data; 2010 Census Data

As indicated below, the percent of mortgage loans granted to low-income borrowers was below the number of low-income families, but exceeded the ratio by peer lenders in

the AA on a number of loans basis. The institution’s level of mortgage lending to moderate-income borrowers was above the percentage of moderate-income families residing within the AA and was equal the peer lender ratio. FFSLA’s lending to low- and moderate-income borrowers was slightly higher than HMDA-regulated financial institutions in the AA. Peer HMDA data was not available for 2013 comparison.

Income Category	Percent Families by Income Category	Peer Data Lending % 2012	FFSLA			
			Number of Loans	Percent of Loans	\$ Amt (000s)	Percent of \$ Amount
Low	20%	14%	13	17%	\$360	9%
Moderate	19%	21%	16	21%	\$533	14%
Subtotal: Low- and Moderate	39%	35%	29	38%	\$893	23%
Middle	23%	23%	26	34%	\$1,245	32%
Upper	37%	34%	20	26%	\$1,763	45%
Not Available		9%	2	3%	34	1%
Total	100%	100%	24	100%	\$2,033	100%

Based on a limited-scope review, the bank’s performance under the Lending Test in the Bureau County AA is weaker than the bank’s “Satisfactory” performance under the Lending Test in the Henry County AA. FFSLA originated a total of six HMDA loans in 2012 and 2013, and only originated loans in one CT in this AA.

Geographic Distribution of Loans

FFSLA’s geographic distribution of residential lending reflects an excellent dispersion in CTs of different income levels, including moderate-income CTs. There are no low-income CTs within the AA.

Based on the residential loans originated during 2012 and 2013 in the AA, the percentage of residential loans originated in the moderate-income geographies exceeds the percentage of owner-occupied housing located in the moderate-income geographies of the AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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 RE	N/A	N/A	13.9%	28.9%	73.0%	71.0%	13.1%	0%

Source: 2012 and 2013 HMDA data; 2010 Census Data

As indicated below, the institution’s overall record of lending in the moderate-income CTs exceeds the area’s demographics and exceeds the ratio of other peer lenders in the AA. Performance under this criterion was excellent.

Table 7: Geographic Distribution – HMDA Lending 2012 in Henry County AA						
Income Category	Distribution of Owner Occupied Housing Units	Peer Data Lending % 2012	FFSLA			
			Number of Loans	Percent of Loans	\$ Amt (000s)	Percent of \$ Amount
Moderate	14%	10%	23	30%	\$1,140	29%
Middle	73%	71%	54	70%	\$2,795	71%
Upper	13%	19%	0	0%	0	0%
Total	100%	100%	77	100%	\$3,395	100%

We did not perform a geographic distribution of loans analysis for Bureau County at this examination. All of the geographies are middle- or upper-income; therefore, the analysis would not be meaningful.

Response to Complaints

FFLSA did not receive any complaints during this evaluation period.

Community Development

FFSLA Kewanee is responsive to the community development needs of the AA. FFSLA Kewanee made five qualifying investments in the Henry County AA totaling \$360 thousand during the evaluation period. Qualifying investments include:

- Two real estate owned properties totaling \$54 thousand that provide affordable housing to low- and moderate-income individuals through HUD Section 8 Housing.
- Two bonds totaling \$153 thousand for the benefit of an organization providing housing and social services for disabled individuals. The majority of those served are low- and moderate-income individuals.
- One bond totaling \$153 thousand for the development costs of a designated “Redevelopment Project Area” located in a moderate-income census tract.

In addition, FFSLA Kewanee made \$5 thousand in cash contributions and donations to community development organizations assisting low- and moderate-income individuals in the Henry County AA during the 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.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD Loans): 1/1/2012 to 12/31/2013 Investments: 12/15/2008 to 2/10/2014	
Financial Institution	Products Reviewed	
First Federal Savings & Loan Association	Home Purchase, Home Improvement, and Home Refinance loans; Community Development investments	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Davenport-Moline-Rock Island, IA-IL MSA	Full-Scope	Henry County, Illinois
Non-MSA	Limited-Scope	Bureau County, Illinois