SMALL BANK

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

PUBLIC DISCLOSURE

March 24, 2004

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 components meet the standards for satisfactory performance. The major factors that support this rating are:

- The bank's lending distribution to borrowers of different income levels 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 82% and compares well to the similarly situated banks.
- A majority of the bank's loans extended during this evaluation period were originated within the bank's AA.

DESCRIPTION OF INSTITUTION

The First National Bank of Waterloo (FNB) is 100% owned by First Waterloo Bancshares, Inc., a one-bank holding company located in Waterloo, Illinois. As of December 31, 2002, FNB had total assets of $257 million, net loans of $142 million, total deposits of $204 million, and total risk based capital of $19 million. FNB has four offices. The main office is located in Waterloo, Illinois. The bank also has two full-service branches in Waterloo, Illinois and one full-service branch in Columbia, Illinois. One of the Waterloo branches opened in the local Wal-Mart store in December 2001. FNB has four depository ATMs located in each of the bank facilities and two cash-dispensing ATMs located in local gas stations. There have been no changes in the bank's corporate structure since the last CRA evaluation. No branches were closed during this evaluation period.

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, 2002, net loans totaled $142 million, representing 55% of total assets. The loan portfolio consisted of 65% residential real estate, 23% commercial real estate/business, 7% farm real estate/agriculture production, and 5% consumer loans. Residential real estate loans represent the highest percentage of the loans originated during this evaluation period by dollar value and by number of loans granted. Using only loans made within the AA, we reviewed all Home Mortgage Disclosure Act (HMDA) reportable loans originated from January 1, 2000 through December 31, 2002.

There are no legal or financial constraints placed on the bank's ability to help meet the community 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.

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

FNB's last CRA evaluation was March 16, 1998, and we rated the bank Satisfactory.

DESCRIPTION OF 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. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies. Based on the 1990 MSA median family income, the three CTs are classified as middle-income. The bank's main location is in CT 6002.00.

The 1990 census data shows that the total population in the AA was 22,422, which included 6,121 families. Of these families, 805 or 13.15% were classified as low-income, 1,070 or 17.48% as moderate-income, 1,933 or 31.58% as middle-income, and 2,313 or 37.79% as upper-income. The MSA median family income as of the 1990 census was $37,995. The 2002-updated figure, adjusted for inflation by the Department of Housing and Urban Development, is $61,400. We used the 2002-updated figure in our analysis to determine the borrower income levels.

Based on the 1990 census data for the AA, 13% of the population was age 65 and older, 16% of households were in retirement, and 5% of households lived below the poverty level. In 1990, the median housing value for the AA was $70,080 and the median age of the housing stock was 27 years. Local housing for the AA was 86% 1-4 family units, with 73% owner-occupied. Only 7% of the housing units were vacant.

Economic conditions in Monroe County are good, with unemployment lower than that of the state of Illinois. The January 2004 seasonally unadjusted unemployment rate for Monroe County is 4.7%. This ratio is considerably lower than the state of Illinois rate of 6.9% and the national rate of 6.3%. The economic base in the AA is diversified. Major employers in the area are the local school district, Monroe County Nursing Home, Harrisonville Telephone Company, Walmart, the city of Waterloo, and Monroe County government.

Competition in the AA is provided by three other financial institutions in Waterloo and other financial institutions located in nearby communities. There are also credit unions, mortgage companies and insurance companies that offer loan products.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB does a reasonable job of 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. Please refer to the "Description of Institution" and "Description of Assessment Area" sections of this evaluation for details on these context factors.

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

FNB's primary loan product during this evaluation period, when considered in terms of both total dollars and numbers of loans granted, was residential real estate loans. Lending levels, as shown by the volume of all residential real estate loans generated, reflect good responsiveness to the credit needs of the AA.

During this evaluation period, the bank originated 382 home purchase loans totaling $37.2 million, 1,071 home refinance loans totaling $107.0 million, 168 home improvement loans totaling $4.8 million, and 8 multifamily loans totaling $4.2 million. Using only the HMDA reportable loans made within the AA, the bank originated 257 home purchase loans totaling $27.7 million, 788 home refinance loans totaling $80.2 million, 111 home improvement loans totaling $3.0 million, and 5 multifamily loans totaling $3.2 million.

Residential Real Estate Loans

The overall borrower distribution of home mortgage loans is satisfactory. We placed more emphasis on home refinance loans because the volume of these loans exceeds the volume of home purchase and home improvement loans. Of the total home mortgage loans, home refinance loans accounted for 68%, home purchase loans accounted for 22%, and home improvement loans accounted for 10%.

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

Borrower Distribution of Residential Real Estate Loans in 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
Home Purchase	13.51%	9.09%	17.48%	22.53%	31.58%	28.85%	37.79%	39.53%
Home Improvement	13.51%	24.27%	17.48%	13.59%	31.58%	24.27%	37.79%	37.86%
Home Refinance	13.51%	5.97%	17.48%	17.66%	31.58%	32.47%	37.79%	43.90%

Sources: HMDA data and based on 1990 U.S. Census data. The 2002 MSA median family income is $61,400. The income categories are defined as: less than 50%, 50% to 80%, 80% to 120%, and over 120%, respectively, of $61,400.

The borrower distribution for home purchase loans is satisfactory. The percentage of home purchase loans made to low-income borrowers (9.09%) is below the percentage of low-income families (13.51%) in the AA. Opportunities to make loans to low-income borrowers are limited by the moderate percentage of people living below the poverty level, as mentioned above. The percentage of home purchase loans (22.53%) made to moderate-income borrowers exceeds the percentage of moderate-income families (17.48%) in the AA. Market share for home purchase loans made to low-income borrowers (20.83%) is above its overall market share (16.34%) in the AA for home purchase loans. Market share for home purchase loans made to moderate-income borrowers (19.87%) is also above its overall market share (16.34%) in the AA for home purchase loans.

The borrower distribution for home improvement loans is good. The percentage of home improvement loans made to low-income borrowers (24.27%) exceeds the percentage of low-income families (13.51%) in the AA. The percentage of home improvement loans made to moderate-income borrowers (13.59%) is below the percentage of moderate-income families (17.48%) in the AA. Market share for home improvement loans made to low-income borrowers (36.36%) significantly exceeds its overall market share (15.85%) in the AA for home improvement loans. Market share for home improvement loans made to moderate-income borrowers (11.76%) is below its overall market share (15.85%) in the AA for home improvement loans.

The borrower distribution for home mortgage refinance loans is adequate. The percentage of refinance loans (5.97%) made to low-income borrowers is significantly below the percentage of low-income families (13.51%) in the AA. The percentage of refinance loans made to moderate-income borrowers (17.66%) is at the percentage (17.48%) of moderate-income families in the AA. Market share for refinance loans made to low-income borrowers (25.56%) exceeds its overall market share (21.97%) in the AA for refinance loans. Market share for refinance loans made to moderate-income borrowers (22.56%) is near its overall market share (21.97%) in the AA for refinance loans.

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-income geographies.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable. As of December 31, 2002, the bank's LTD ratio was 70%. FNB's quarterly average LTD ratio since the 1998 CRA examination was 82%. This compares well to six similarly situated banks in the area whose quarterly average LTD ratios ranged from 40% to 88%, with an average ratio of 66%. These banks are considered similarly situated because of their size, location, and lending opportunities.

Lending in Assessment Area

Lending in the AA is satisfactory. A majority of the bank's loans originated since the last CRA evaluation were made in the AA. We analyzed HMDA data to review residential real estate loans originated from 2000 through 2002. The data shows that 71% by number and 74% by dollar amount of these loans were made within the bank's AA.

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 illegal discrimination or other illegal credit practices.