



SMALL BANK

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

PUBLIC DISCLOSURE

July 10, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**F & M Bank, National Association
Oklahoma City, Oklahoma
Charter Number 23348**

**11000 Surrey Hills Boulevard
Yukon, Oklahoma 73099**

**Kyle M. Jones
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Comptroller of the Currency
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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 major factors that support this rating include:

- The bank's lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area.
- The loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- The bank generates a majority of its loans within the defined assessment area.
- The bank meets the standard for satisfactory performance for lending to borrowers of different incomes and businesses of different sizes.

F&M Bank, N.A. is committed to serving the community. This is demonstrated by satisfactory lending performance as described in this Public Evaluation.

DESCRIPTION OF F & M BANK, NATIONAL ASSOCIATION

F&M Bank, National Association (F&M) is a community bank headquartered in Oklahoma City, Oklahoma. F&M is wholly-owned by Farmers and Merchants Bancshares, Incorporated, a one-bank holding company. F&M is affiliated with Farmers and Merchants Bank located in Crescent, Oklahoma. The main bank and a drive-thru facility are located at 11000 Surrey Hills Boulevard, Yukon, Oklahoma. Full-service branches and drive-thru facilities are located at 1216 Piedmont Road North, Piedmont, Oklahoma and at 17100 North May Avenue, Oklahoma City, Oklahoma. Automated Teller Machines (ATMs) are located at the main bank, the two branches, and in the City Stop convenience store at 410 North Piedmont Road in Piedmont. The branch on North May Avenue opened in May 2005. No other locations have been opened or closed since the previous Community Reinvestment Act (CRA) examination.

The bank's primary focus is to serve consumer, agricultural and commercial customers in Canadian and Oklahoma Counties and the surrounding areas. The bank meets these needs by providing traditional loan and deposit products. The bank operates a Mortgage Loan Department at the May Avenue location. The bank also offers 24 hour account access by telephone and 24/7 Online Banking with Bill Payment Services.

As of June 30, 2007, the bank's total assets equaled \$76.9 million, of which \$47.3 million, or 62 percent, were comprised of various types of loans to individuals, commercial businesses, and agricultural related enterprises. Specifically, the bank's loan portfolio consists of the following:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	26,139	55%
Commercial Loans	11,311	24%
Residential Real Estate Loans	5,526	12%
Consumer Loans	2,973	6%
Agricultural Loans	1,365	3%
Total	47,314	100%

There are no known legal or financial impediments to prevent the bank from meeting the credit needs within the assessment area. F&M is involved in and provides support to the community's financial needs. The bank received an overall rating of Satisfactory at the last CRA examination dated March 24, 2003.

DESCRIPTION OF F&M's ASSESSMENT AREA

The assessment area adopted by F&M consists of whole geographies, does not reflect illegal discrimination, and does not arbitrarily exclude low- or moderate-income geographies. It meets the requirements of the CRA regulation.

F&M's assessment area is identified as all of Canadian County and the northwest portion of Oklahoma County in Central Oklahoma. The assessment area includes 24 census tracts in Canadian County and 45 census tracts in Oklahoma County. The main bank and the branches are located in upper-income census tracts. The majority of the census tracts in the assessment area are upper-income tracts. The following table describes major demographic and economic characteristics of the assessment area, based on 2000 U.S. Census data.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA	
<i>Population</i>	
Number of Families	70,972
Number of Households	102,400
<i>Geographies</i>	
Number of Census Tracts/BNA	69
% Low-Income Census Tracts/BNA	1.45%
% Moderate-Income Census Tracts/BNA	14.49%
% Middle-Income Census Tracts/BNA	31.89%
% Upper-Income Census Tracts/BNA	52.17%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	56,629
2006 HUD-Adjusted MFI	53,900
<i>Economic Indicators</i>	
2000 Median Housing Value	97,334
% of Households Below Poverty Level	8.49%

The total population of the assessment area is 261,526 persons. Although there is only one low-income census tract in the assessment area, there are low- and moderate-income families in the assessment area. Of the 70,972 families, 13 percent are low-income families and 14 percent are moderate-income families. Of the 102,400 households, 8 percent are below the poverty level. The median housing value is \$97,334 with the median age of housing stock at 29 years.

Local economic conditions are stable. The local area includes mainly retail and service businesses, few significant manufacturing or industrial businesses, and a declining agricultural industry. While wheat and cattle continue to be the major agricultural products, the trend in the area has been to convert farm land into residential real estate. The major employers in the area are the local school districts.

F&M faces strong competition from branches of larger banks and other stand-alone financial institutions located in the bank's assessment area.

A community contact was made during the examination to help ascertain the credit needs of the assessment area. The immediate credit needs of the community are being fulfilled, according to the contact. The main financial need in the area is for residential real estate, consumer and agricultural loans. F&M is involved in community development activities and programs in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation assesses F&M's performance focusing primarily on five performance criteria: the loan-to-deposit ratio; lending in the assessment area; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and responses to CRA related complaints.

To evaluate F&M's lending performance, a sample of 82 loans was reviewed. Major loan products offered by the bank were randomly sampled and consisted of 25 consumer loans and 26 commercial loans that originated from January 1, 2005 thru August 10, 2007. Additionally, all of the 31 residential real estate loans originated in 2005 and 2006 were utilized. Based on the analysis and consistent with available resources and capabilities, F&M is meeting the credit needs of the assessment area in a satisfactory manner.

Loan-to-Deposit Ratio (LTD)

F&M's loan-to-deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance. The average quarterly LTD ratio from January 1, 2003 through March 31, 2007 is 67 percent. The average quarterly LTD of the thirty-four banks chartered in Canadian, Oklahoma, Kingfisher and Logan Counties in Oklahoma is 76 percent and range from a low of 23 percent to a high of 102 percent. The quarterly average LTD ratios for the four similarly situated banks in the area are listed in the table below.

Institution	Assets as of 3/31/2007 \$ (000)	Average LTD Ratio
Canadian State Bank, Yukon	114,834	85%
Farmers & Merchants Bank, Crescent	111,556	81%
Bank2, Oklahoma City	84,329	71%
<i>F&M Bank, N.A., Oklahoma City</i>	<i>75,525</i>	<i>67%</i>
The Yukon National Bank, Yukon	217,416	60%

Lending in Assessment Area

F&M's lending in their assessment area meets the standard for satisfactory performance. The majority of the number of loans sampled originated in the bank's assessment area. However, the dollar volume of loans inside the assessment area is less than a majority due to a few large loans that are outside the assessment area. This conclusion is based on the samples of 25 consumer loans and 26 business loans that originated in 2005, 2006 and as of August 10, 2007 and the 31 residential real estate loans originated in 2005 and 2006, as depicted in following table.

Total Loans Reviewed										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Consumer	16	64%	9	36%	25	235	83%	49	17%	284
Residential Real Estate	16	52%	15	48%	31	1,153	30%	2,720	70%	3,873
Business	16	62%	10	38%	26	439	27%	1,166	73%	1,605
Totals	48	59%	34	41%	82	1,827	32%	3,935	68%	5,762

Source: Sample of 82 loans used to determine CRA performance

The large dollar volume of loans outside the bank's assessment area can be attributed to 1) there are several long-term business relationships in which the business is located outside the assessment area; however, the owner/principal lives within the bank's assessment area; and 2) a large loan participation was included in the loan sample.

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

F&M meets the standard for satisfactory performance for lending to borrowers of different incomes and businesses of different sizes. The following tables represent the distribution of lending based on the sample of 20 business loans, 16 residential real estate loans and 21 consumer loans extended within the assessment area.

Borrower Distribution of Loans to Businesses				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	60%	4%	36%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	72%	28%	0%	100%

Source: U.S. Census data and business loan sample

F&M's loan distribution to businesses exceeds the standard. The sample of business loans revealed that a majority of loans were extended to small businesses with annual gross revenues of less than \$1 million per year. However, a large percentage of the businesses in the assessment area did not report revenues or revenues were unavailable or unknown, as reflected in the table above.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Residential Real Estate Loans	13%	13%	14%	13%	21%	12%	52%	50%

Source: U.S. Census data and Home Purchase, Refinance, and Home Improvement loans reported under HMDA. Income information was not available on 2 loans.

F&M’s distribution of residential real estate loans to borrowers of different income levels is reasonable. The number of real estate loans extended to low- and moderate-income borrowers is comparable to the percentage of low- and moderate-income families represented in the assessment area.

Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	16%	14%	14%	24%	19%	24%	52%	38%

Source: U.S. Census data and consumer loan sample

F&M’s distribution of consumer loans by income level is reasonable. The number of consumer loans extended to low-income borrowers is near the percentage of low-income households represented in the assessment area, and the number of loans extended to moderate-income borrowers exceeds the percentage of moderate-income households.

Geographic Distribution of Loans

The distribution of business, residential real estate and consumer loans to geographies of different income levels does not meet the standard for satisfactory performance. However, this conclusion is mitigated by the factors discussed below. The sample reflected a lack of loans extended in the low- and moderate-income census tracts, but the review did note numerous loans extended to low- and moderate-income individuals. The U.S. Census data information reflected that less than one percent of the businesses, families, and households in the assessment area are located in the low-income census tract.

The lack of loans in the low-income and moderate-income tracts can be attributed to various factors. For Canadian County, the only low-income tract and two of the moderate-income tracts are located southwest of the Piedmont and Surrey Hills locations, in the town of El Reno. El Reno is a larger community compared to Piedmont and has several financial institutions that serve the area. F&M has little to no lending activity in those tracts due to the geographic distance between the bank and those tracts. The other eight moderate-income tracts are small tracts in Oklahoma County located to the east and to the south of the Oklahoma City (OKC) branch. There are numerous financial institutions that serve the moderate-income tracts and that are located between the bank and those areas. Additionally, the OKC branch opened in 2005 and a lot of the new loans have originated from customer relationships that the new lending staff has brought with them.

The following tables represent the distribution of lending based on the sample of 20 business loans, 16 residential real estate loans and 21 consumer loans extended within the assessment area.

Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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 Loans	0%	0%	12%	0%	28%	24%	60%	76%

Source: U.S. Census data and business loan sample

The number of business loans extended in the moderate-income census tract does not compare favorably to the businesses in the moderate-income census tracts for the reasons described above.

Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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 Real Estate Loans	0%	0%	11%	0%	30%	5%	59%	95%

Source: U.S. Census data and Home Purchase, Refinance, and Home Improvement loans reported under HMDA.

The number of real estate loans extended in the moderate-income census tract does not compare favorably to the families in the moderate-income census tract for the reasons described above.

Geographic Distribution of Consumer Loans								
Census Tract Income Level	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0%	0%	14%	0%	30%	24%	55%	76%

Source: U.S. Census data and consumer loan sample

The number of consumer loans extended in the moderate-income census tract does not compare favorably to the households in the moderate-income census tract for the reasons described above.

Responses to Complaints

F&M has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

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.