



PUBLIC DISCLOSURE

September 22, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Farmers & Merchants National Bank
Charter Number 22351

114 South Park
Fairmont, MN 56031

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3393

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 average loan-to-deposit ratio is more than reasonable.
- The majority of loan originations are made inside the bank’s designated assessment areas.
- The borrower distribution of loans reflects reasonable penetration among businesses of different sizes and individuals of different income levels.
- The geographic distribution of loans reflects excellent dispersion throughout the Martin County AA.

SCOPE OF EXAMINATION

We evaluated First Farmers and Merchants National Bank’s (FF&M Fairmont) Community Reinvestment Act (CRA) performance using small bank examination procedures. The evaluation period was from September 30, 2008 through September 22, 2014. We assessed the bank’s lending performance based on primary loan products, which were determined based on the number and dollar volume of loans originated between January 1, 2012 and December 31, 2013 (sample period).

The bank has two assessment areas (AAs), the Martin County AA (Non-MSA area), and the Minneapolis-St. Paul Metropolitan Statistical Area (MSA) AA. We conducted a full-scope review for the Martin County AA as this area represents the bank’s primary market in terms of both deposit volume and lending activity. We performed a limited-scope review for the Minneapolis-St. Paul MSA AA as this area represents the smaller market for the bank and because the branch location focuses on private banking activities versus traditional retail banking.

We reviewed the bank’s loan origination activity for the sample period in order to identify the bank’s primary lending products. Primary products for the Martin County AA were commercial and agricultural loans. Primary products for the Minneapolis-St. Paul MSA AA were commercial and consumer loans. The following tables depict the volume of loans originated during the sample period per AA:

Loan Originations and Purchases in 2012 and 2013 Martin County AA		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Agricultural	27.78%	38.41%
Commercial	32.32%	48.23%
Consumer	32.07%	3.57%
RE Residential	7.83%	9.80%

Source: Loan Origination Report 2012 and 2013

Loan Originations and Purchases in 2012 and 2013 Minneapolis-St. Paul MSA AA		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	67.69%	40.90%
Commercial	15.90%	47.35%
RE Residential	15.90%	10.59%
Agricultural	0.51%	1.16%

Source: Loan Origination Report 2012 and 2013

We randomly selected 20 loans for each primary product type in each AA to conduct our lending analysis and expanded our samples as appropriate to confirm lending performance conclusions. We utilized 2010 census data for demographic comparison purposes.

DESCRIPTION OF INSTITUTION

FF&M Fairmont is a \$100 million intrastate bank headquartered in Fairmont, Minnesota with one additional bank branch located in downtown St. Paul that offers private banking services to high net worth, long-term relationship customers. This office has three employees with limited public access and does not offer retail banking services. FF&M Fairmont operates one automated teller machine located at the main branch in Fairmont which does not accept deposits. There have been no branch closures since the last evaluation. FF&M Fairmont is owned by 215 Holding Company, a multi-bank holding company located in Minneapolis, Minnesota.

FF&M Fairmont offers traditional banking services. As of June 30, 2014, the bank's loan portfolio totaled \$86.4 million and consisted of commercial (40 percent), agricultural (23 percent), consumer (19 percent), and residential real estate (18 percent) loans. Tier 1 Capital was \$11.85 million and Tier 1 Leverage Capital was 11.68 percent.

There are no legal or financial circumstances impeding the bank's ability to meet the credit needs of its AAs. FF&M Fairmont received a "Satisfactory" rating at its September 29, 2008 CRA evaluation.

DESCRIPTION OF ASSESSMENT AREAS

FF&M Fairmont has two designated AAs, the Martin County AA and the Minneapolis-St. Paul MSA AA.

Martin County Assessment Area

The Martin County AA consists of six contiguous census tracts (CTs), including one moderate-income CT and five middle-income CTs. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts.

Economic conditions in the Martin County AA are generally good. Major industries include health and nursing care facilities, retail, and agriculture. Unemployment in the Martin County AA was 5.1 percent in 2013, which is consistent with statewide unemployment levels.

There is reasonable competition from other financial institutions in the Martin County AA. Per the June 30, 2013 FDIC Deposit Market Share Report, there are 11 deposit-taking financial institutions in the Martin County AA. FF&M Fairmont ranked fifth with 6.95 percent of the market share deposits. Profinium Inc. is the market leader with 33.32 percent market share, followed by Bank Midwest at 17.58 percent market share.

As part of this evaluation, we contacted a member of the local community to gain a better understanding of the economic conditions, banking needs in the AA, and opportunities for bank involvement. The community contact indicated that local banks are actively making loans within the community. The contact stated that the banks are meeting the area's primary credit needs and credit is readily available to good borrowers. Local banks are financing community development as a number of new ventures have recently opened in the surrounding area. The contact specifically named FF&M as having a good reputation and being a reliable lending source to meet community credit needs.

The table on the following page demonstrates the demographic and economic characteristics of the Martin County AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE Martin County AA	
Population	
Number of Families	5,843
Number of Households	8,982
% of Low-Income Families	17.44%
% of Moderate-Income Families	20.76%
% of Middle-Income Families	24.92%
% of Upper-Income Families	36.88%
Geographies	
Number of Census Tracts	6
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	16.67%
% Middle-Income Census Tracts	83.33%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$58,135
2013 HUD-Adjusted MFI	\$61,700
Economic Indicators	
2013 Unemployment Rate	5.1%
2010 Median Housing Value	\$94,723
% of Households Below Poverty Level	11.46%

Source: 2010 U.S. Census data with updated information when available

The Minneapolis-St. Paul MSA Assessment Area

The Minneapolis-St. Paul MSA AA consists of Washington, Hennepin, Dakota, and Ramsey Counties, which are part of the Minneapolis-St. Paul, Minnesota MSA. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

Economic conditions in the Minneapolis-St. Paul AA are good. Unemployment in the Minneapolis-St. Paul MSA was 4.75 percent in 2013, which is slightly below the statewide average of 5.1 percent over the same time period. The four counties within the MSA had unemployment rates in 2013 ranging from 4.6 percent (Washington County) to 5.0 percent (Ramsey County). Major industries include health care facilities, universities, numerous large public and private corporations, and other service-based companies.

Banking competition in the Minneapolis-St. Paul MSA AA is strong. Per the June 30, 2013 FDIC Deposit Market Share Report, there are 114 deposit taking financial institutions in the AA. FF&M Fairmont ranked 87th in deposit market share with 0.02 percent of the market share. The banking market is dominated by large national banks, including Wells Fargo Bank, NA and US Bank, NA, which combined hold 84.74 percent of the market share.

As part of our evaluation, we relied on a recently completed community contact interview conducted in September 2013 to learn more about the bank's AA. Per the community contact, there are numerous opportunities for financial institutions to provide economic and community development relief within the Minneapolis-St. Paul MSA. The contact stated that financial institutions are typically very active with community development and work well alongside the local business community.

The following table shows the demographic and economic characteristics of the Minneapolis-St. Paul MSA AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE Minneapolis-St. Paul MSA AA	
Population	
Number of Families	560,962
Number of Households	914,675
% of Low-Income Families	20.74%
% of Moderate-Income Families	17.52%
% of Middle-Income Families	21.94%
% of Upper-Income Families	39.80%
Geographies	
Number of Census Tracts	581
% Low-Income Census Tracts	11.19%
% Moderate-Income Census Tracts	22.55%
% Middle-Income Census Tracts	38.21%
% Upper-Income Census Tracts	27.37%
Median Family Income (MFI)	
2010 MFI for AA	\$80,925
2013 HUD-Adjusted MFI	\$82,300
Economic Indicators	
2013 Unemployment Rate	4.75%
2010 Median Housing Value	\$260,526
% of Households Below Poverty Level	10.04%

Source: 2010 U.S. Census data with updated information when available

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) is more than reasonable given the bank's size and the credit needs of the AA. The bank's LTD ratio averaged 105.99 percent over the 24 quarters since the previous CRA evaluation. The quarterly ratio ranged from a low of 97.35 percent (1Q10) to a high of 117.29 percent (3Q13) during this time. The bank's LTD compares favorably to similarly situated banks. Similarly situated banks are defined as those banks with total assets between \$61 million and \$240 million with a

presence in the bank's AA. The following table shows the bank's LTD compared to similarly situated banks:

Loan-to-deposit Ratio Institution (Headquarters)	Assets as of 6/30/14 (\$000s)	Average LTD Ratio (%)
First Farmers & Merchants National Bank	100,496	105.99%
State Bank of Fairmont	99,916	81.45%
Wells Federal Bank	240,103	74.19%
Triumph State Bank	61,284	71.85%
Farmers State Bank of Trimont	64,473	62.54%

Source: June 30, 2014 Call Report Data

Lending in Assessment Area

FF&M Fairmont originated a majority of its loans to borrowers inside its designated AAs during our sample period. The following table shows loans originated within the bank's combined AAs by number and dollar volume for each loan type:

Lending in the Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	15	75.00	5	25.00	20	1,293	74.00	458	26.00	\$1,751
Commercial	31	77.50	9	22.50	40	14,738	72.70	5,535	27.30	\$20,273
Consumer	12	60.00	8	40.00	20	752	52.00	694	48.00	\$1,446
Totals	58	72.50	22	27.50	80	16,783	71.51	6,687	28.49	\$23,470

Source: OCC Loan Sample

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

FF&M Fairmont's overall loan distribution reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. We conducted a full-scope review of the Martin County AA and a limited-scope review of the Minneapolis-St. Paul MSA AA. More weight was placed on the bank's lending performance in the full-scope area.

Performance in the full-scope area

FF&M Fairmont's borrower distribution in the Martin County AA is reasonable.

Commercial Loans

The distribution of commercial loans reflects reasonable penetration among businesses of different sizes. FF&M Fairmont's lending to small businesses is near the demographic comparative. We placed less weight on the bank's lending by dollar amount to small businesses as loans to business with revenues greater than \$1 million were in larger dollar amounts. The following table shows the bank's lending to businesses of different sizes:

Borrower Distribution of Loans to Businesses in the Martin County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	75.76%	3.95%	20.29%	100.00%
% of Bank Loans in AA by #	75.00%	20.00%	5.00%	100.00%
% of Bank Loans in AA by \$	46.03%	52.00%	1.97%	100.00%

Source: Commercial Loan Sample, 2013 Dunn and Bradstreet Data

Agricultural Loans

The borrower distribution of agricultural loans to farms with revenues of \$1 million or less reflects reasonable penetration. The bank's lending performance is near the demographic comparator. The following table shows the bank's lending to farms of different sizes:

Borrower Distribution of Loans to Farms in the Martin County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	99.04%	0.80%	0.16%	100.00%
% of Bank Loans in AA by #	90.00%	5.00%	5.00%	100.00%
% of Bank Loans in AA by \$	86.47%	1.39%	12.14%	100.00%

Source: Agricultural Loan Sample, 2013 Dunn and Bradstreet Data

Performance in the Limited-Scope Area

Based on a limited scope review, we determined that the bank's borrower distribution performance for both commercial and consumer loans in the Minneapolis-St. Paul MSA AA is not consistent with the bank's overall satisfactory performance in the Martin County AA. Due to the bank's private banking focus in this AA, the majority of consumer loans were originated to upper-income borrowers. Further, lending to small businesses did not meet the standard for satisfactory performance; however, due to the limited commercial loan population, we were unable to expand our sample to confirm performance.

Geographic Distribution of Loans

Performance in the Full-Scope Area

The bank’s geographic distribution of commercial and agricultural loans reflects excellent dispersion throughout the AA. There were no conspicuous gaps identified within the bank’s AAs. The Martin County AA has no low-income CTs, thus our review focused on the bank’s performance in the moderate-income CT.

Commercial Loans

The geographic distribution of commercial loans in the Martin County AA reflects excellent dispersion throughout the AA. The bank’s percentage of commercial loans to borrowers in the moderate-income CT exceeded the demographic comparator. The following table details the bank’s lending performance compared to area demographics:

Geographic Distribution of Loans to Businesses in Martin County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	0.00	0.00	29.10	40.00	70.90	60.00	0.00	0.00

Source: Commercial Loan Sample, 2010 US Census Data

Agricultural Loans

The geographic distribution of farm loans reflects reasonable dispersion throughout the AA. Although the bank made no loans to farmers in the moderate-income CT, we took into consideration the very low percentage of farms located in that CT. Further, we noted that there is a healthy level of banking competition in the moderate-income CT, including several banks that focus on agricultural lending.

Geographic Distribution of Loans to Farms in the Martin County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Agriculture	0.00	0.00	3.99	0.00	96.01	100.00	0.00	0.00

Source: Agricultural Loan Sample, 2010 US Census Data

Performance in the Limited-Scope Area

Based on a limited-scope review, the bank’s performance under the Geographic Distribution Test in the Minneapolis-St. Paul MSA AA is weaker than the bank’s overall “excellent” performance in the Martin County AA. The geographic distribution of consumer loans was poor while the geographic distribution of commercial loans was reasonable.

Responses to Complaints

FF&M Fairmont has not received any CRA-related complaints since its last CRA evaluation dated September 29, 2008.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, 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.”