



SMALL BANK

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

PUBLIC DISCLOSURE

March 30, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**F&M Community Bank, National Association
Charter Number 24356**

**100 St. Anthony Street North
Preston, MN 55965**

**Comptroller of the Currency
Minneapolis South
920 Second Avenue South, Suite 800
Minneapolis, MN 55402**

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 bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans by number and dollar within its assessment area.
- The bank has an excellent distribution of credit among agricultural borrowers of different sizes and a good distribution among residential real estate borrowers of different income levels.
- The bank has not received any CRA-related complaints since the last evaluation.
- We found no evidence of illegal discrimination or other illegal credit practices.

DESCRIPTION OF INSTITUTION

F&M Community Bank, N.A. (F&M) was a \$76 million institution as of December 31, 2005, operating in two locations. The main office is located in Preston, Minnesota, which is the county seat of Fillmore County. The bank's branch is located approximately 15 miles north, in Chatfield, Minnesota, on the border of Fillmore and Olmsted counties. The area is dependent on the agricultural industry. The bank is a subsidiary of F&M Financial Services, Inc. of Preston, which had total assets of \$8,028,000 as of December 31, 2005. The bank also operates an investment center and an affiliated insurance agency, Root River Insurance Agency, Inc., from the Preston office location.

According to the December 31, 2005 Consolidated Report of Condition, the bank's loan mix consists of commercial (36% of total loans), agricultural (33%), residential real estate (21%), and consumer (10%). The bank also originates residential mortgages that are sold on the secondary market. As of December 31, 2005, net loans represented 68% of total assets. Based on loans originated from 1/1/04 through 3/31/06, the bank's primary products are agricultural and residential real estate loans.

The Federal Deposit Insurance Corporation assigned a "satisfactory" rating at its January 28, 2002 CRA exam. The holding company had previously opened a national bank in Chatfield, and merged the two banks into one national bank on July 1, 2002. There are no other factors impeding the bank's ability to meet its CRA obligations.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. The bank's AA includes all six census tracts in Fillmore County, which are all middle-income tracts. The AA also includes census tracts 20, 22, and 9.03 in Olmsted County. Olmsted County includes the Rochester MSA. However, the bank's AA does not include the entire MSA. The AA only includes the three census tracts in Olmsted County that are closest to the Chatfield branch. Two of these are middle-income census

tracts (20 & 22), and one is an upper-income tract (9.03). It is reasonable to exclude the full MSA from the bank's AA since Rochester is over 15 miles from the bank's Chatfield branch, and the Rochester market has numerous financial institutions to meet the needs of the community.

According to 2000 U.S. Census Data, the total population of the bank's AA is 33,248 people. The U.S. Department of Housing and Urban Development's updated 2005 statewide non-MSA median family income (MFI) estimate for Minnesota is \$54,100. The updated MFI estimate for the Rochester MSA (Olmsted County) is \$69,600.

The following table summarizes the income levels of families located within the bank's AA. Low income families are those earning less than 50% of the applicable estimated MFI, moderate income families earn 50% to less than 80% of the applicable MFI, middle income families earn 80% to less than 120% of the applicable MFI, and upper income families earn 120% or more of the applicable MFI.

Tract Type (# of tracts in bank's assessment area)	Total Families*	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families
Fillmore County	5,707	17.61%	20.17%	27.25%	34.97%
Olmsted County	3,506	14.55%	17.34%	29.44%	38.68%

* Based on 2000 U.S. Census data.

6.8% of the families in Fillmore County are below the poverty level (less than 30% of the MFI), which is slightly above the 6.4% average for all non-MSA areas of Minnesota. In the three Olmsted County census tracts that are in the bank's AA, 2.0% of families are below the poverty level, which is below the 3.9% average for the entire Rochester MSA.

According to the Minnesota Workforce Center, the unemployment level in the U.S. was 5.1%, as of February 2006, compared to 4.9% for the state of Minnesota. At that time, Fillmore County had 5.9% unemployment and Olmsted County had 4.1%. There are several opportunities for employment in the bank's AA. Per the Minnesota Department of Employment and Economic Development, major employers in the bank's AA include TRW Electronics (450 employees), Fillmore County (200), Tuohy Furniture (200), AFC Div - Morrison Molded Fiberglass Co. (200), Fillmore Central Schools (145), Chosen Valley Care Center (130), and the Good Samaritan Nursing Home (105).

Bank competition in the bank's AA is strong. There are over a dozen financial institutions with a presence in the AA. F&M holds the highest share of local deposits, with a 13.6% market share according to June 30, 2005 deposit information obtained from the FDIC.

We did not identify any unmet credit needs in the bank's AA through our contact with the local city government.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

The bank's net loan-to-deposit (LTD) ratio is reasonable when compared with similarly situated banks in the assessment area (AA). Similarly situated banks are those operating in the bank's AA with total assets ranging from \$35 million to \$89 million. The bank's quarterly average net LTD ratio for the 17 quarters from December 31, 2001 through December 31, 2005 is 78.15%. As of December 31, 2005, the bank's net LTD ratio was 86.32%.

Institution	Assets (as of 12/31/05)	Average Net Loans-to-Deposits Ratio; 4Q01 – 4Q05
First State Bank Le Roy, MN	\$56,644,000	66.17%
Root River State Bank Chatfield, MN	\$61,005,000	77.85%
F&M Community Bank, N.A. Preston, MN	\$76,446,000	78.15%
First State Bank of Fountain Fountain, MN	\$34,860,000	78.68%
Security State Bank of Lewiston Lewiston, MN	\$89,334,000	82.41%
Rushford State Bank (Inc.) Rushford, MN	\$35,407,000	86.08%
First Southeast Bank Harmony, MN	\$44,757,000	97.36%

Lending in Assessment Area

Based on a sample of 20 agricultural loans and 20 residential real estate first mortgage loans, the bank originates a majority of its loans to borrowers located within its defined AA. The sample determined that of loans originated from January 1, 2004 through March 31, 2006, 82.5% by number and 81.1% by dollar were made to agricultural and residential real estate customers located within the bank's AA. The following table shows loans originated inside and outside the bank's AA by number and dollar volume:

	Number of Loans				Dollar of Loans			
	Inside		Outside		Inside		Outside	
Loan Type	#	%	#	%	\$	%	#	%
Agricultural	19	95.0	1	5.0	839,603	99.6	3,743	0.4
Residential Real Estate	14	70.0	6	30.0	2,553,525	76.5	784,330	23.5
TOTALS:	33	82.5	7	17.5	3,393,128	81.1	788,073	18.9

Lending to Business of Different Sizes and Borrowers of Different Incomes

F&M has an excellent distribution of loans to farms of different sizes. Agricultural borrowers

have a wide range of gross revenue levels. However, all borrowers in the random sample of 20 agricultural loans had gross revenue of less than \$1 million per year. The following table illustrates the distribution of agricultural loans:

Borrower Distribution of Loans to Farms		
Gross Farm Revenues	≤ \$1,000,000	> \$1,000,000
% of Olmsted County Farms	96.84%	1.72%
% of Fillmore County Farms	97.85%	1.79%
% of Bank Loans in AA by #	100.00%	0%
% of Bank Loans in AA by \$	100.00%	0%

Source: Loan Sample; Dunn & Bradstreet data. *1.44% of Olmsted County farms and 0.36% of Fillmore County farms did not report revenues.

F&M has a good distribution of loans among residential real estate borrowers of different income levels. The loans were compared to the appropriate demographics based on their location. The following table compares the percentage of families based on income level located within the assessment area to those loans made by the bank from the random loan sample of 20 residential real estate first mortgage loans.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level*	Low (\$0 - \$27,050 in Fillmore County; \$0 - \$34,800 in Olmsted County)		Moderate (\$27,051 - \$43,280 in Fillmore County; \$34,801 - \$55,680 in Olmsted County)		Middle (\$43,281 - \$64,920 in Fillmore County; \$55,681 - \$83,520 in Olmsted County)		Upper (> \$64,920 in Fillmore County; > \$83,520 in Olmsted County)	
	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
Residential Real Estate	17.61%	25.00%	20.17%	10.00%	27.25%	45.00%	34.97%	20.00%
	(Fillmore County) 14.55%		(Fillmore County) 17.34%		(Fillmore County) 29.44%		(Fillmore County) 38.68%	
	(Olmsted County)		(Olmsted County)		(Olmsted County)		(Olmsted County)	

*per 2005 HUD Estimated Median Family Income for Rochester MSA and statewide non-MSA. The borrower distribution for Olmsted County only includes the three census tracts in the bank's assessment area.

Geographic Distribution of Loans

The geographic distribution of loans is not a meaningful test because there are no low- or moderate-income census tracts in the bank's assessment area.

Responses to Complaints

The bank has received no CRA-related complaints since the prior evaluation.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.