



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 6, 2008

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

First Farmers & Merchants National Bank
Charter Number 13544

303 E. Main
Luverne, MN 56156-0000

Office of the Comptroller of the Currency

MINNEAPOLIS SOUTH
222 South Ninth Street 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 loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area needs.
- A majority of loan originations are made within the bank's assessment area.
- The distribution of loans reflects excellent penetration among farms of different sizes and reasonable penetration among businesses of different sizes.
- The geographic distribution of agricultural loans reflects excellent dispersion throughout the assessment area. The dispersion of commercial loans is reasonable.

SCOPE OF EXAMINATION

We evaluated the Community Reinvestment Act performance of First Farmers & Merchants National Bank (FF&M Luverne) for the period of March 6, 2003 through June 30, 2008. In evaluating the bank's lending performance, we reviewed lending data for the bank's primary loan products, agricultural and commercial loans. Based on originations from January 1, 2006 through June 30, 2008, agricultural loans totaled 50.18% of loan originations by dollar amount and 43.77% by number of loans. Commercial loans totaled 40.72% of loan originations by dollar amount and 19.94% by number of loans. We selected a random sample of 20 loans from each of these product types in order to evaluate the bank's lending performance. We used 2000 census information for demographic comparison purposes.

DESCRIPTION OF INSTITUTION

FF&M Luverne is a \$126 million bank with a main office located in Luverne, Minnesota and one branch located in Pipestone, Minnesota. The bank has three cash-out only ATMs, one at each bank location and a third at a convenience store in Pipestone. FF&M Luverne is 100% owned by the 215 Holding Company, a multi-bank holding company located in Minneapolis, MN, with total assets of \$405 million. Affiliate institutions are located in Brownsdale, Grand Meadow, Le Sueur, and Fairmont.

FF&M Luverne offers a wide range of loan and deposit products which are designed to meet the needs of the community. The bank's primary lending focus is on agricultural and commercial loans. As of June 30, 2008, the bank's loan portfolio totaled \$96 million and was comprised of 45% agricultural, 40% commercial, 11% consumer, and 4% residential real estate loans.

There are no financial, legal, or other factors that impede FF&M Luverne's ability to meet its CRA obligations. The bank's last CRA examination was March 5, 2003, in which the bank received a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA (AA)

FF&M Luverne's AA consists of Rock and Pipestone counties located in Southwest Minnesota. There are six middle-income and two moderate-income census tracts (CT's) in the AA. The bank's AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts.

The population within the AA totaled 18,958 per 2006 estimates by the U.S. Census Bureau. According to census data, the population of Rock county has decreased by an estimated 1.9% between April 2000 and August 2006 and the population of Pipestone county has decreased by 4.8% for the same time period. Comparatively, the population of the state of Minnesota has increased by an estimated 5.0%.

Based on 2000 U.S. Census data, 18.75% of families within the AA are low-income, 21.49% are moderate-income, 28.86% are middle-income, and 30.90% are upper-income. The 2000 census median family income for the AA was \$42,006. Based on the U.S. Department of Housing and Urban Development's 2008 estimate, the updated median family income is \$56,700 for non-metropolitan areas in the state of Minnesota.

According to the Minnesota Department of Employment and Economics, Rock and Pipestone counties had unemployment rates of 4.4% and 4.1%, respectively, as of August 2008. This compares favorably to the state of Minnesota unemployment rate of 5.8% and the United States rate of 6.1%. However, Bayliner Marine Corp. recently announced they are closing their Pipestone plant which employs over two hundred people. Other large local employers in the area are primarily manufacturing or agriculturally focused, and include a meat processing plant, veterinary clinic, and a wind tower blade producer.

There are seven financial institutions in FF&M Luverne's AA, with three of the institutions holding the majority of the deposits. FF&M Luverne is ranked 3rd in deposit market share, with 20.70% of the market share, based on the June 2008 FDIC deposit market share report.

Our community contact indicated that local banks are active in the community and offer a wide range of products and services. However, the contact stated that there is a need for more affordable housing. The contact stated that FF&M Luverne specifically has worked on several initiatives to help meet the needs of local residents and businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 22 quarters since the previous CRA examination is 88.27%. Similarly-situated banks have quarterly average loan-to-deposit ratios ranging from 79.75% to 92.96% over the same time frame. Similarly situated banks are those with a presence in FF&M Luverne's AA with total assets between \$87 million and \$165 million. FF&M Luverne's loan-to-deposit ratio as of June 30, 2008 was 95.58%.

Institution	Asset Size as of 6/30/2008	Average Loan-to-Deposit Ratio 1Q03 to 2Q08
Minnwest Bank Luverne	\$165 million	92.96%
First National Bank & Trust	\$151 million	90.96%
Exchange State Bank	\$87 million	89.08%
First Farmers & Merchants National Bank	\$126 million	88.27%
First State Bank Southwest	\$157 million	79.75%

Lending in Assessment Area

A majority of loan originations are made within the bank's AA. We reviewed a random sample of 20 agricultural loans and 20 commercial loans that had originated between January 1, 2006 and June 30, 2008. The majority of those loans, 82.50% by number and 79.33% by dollar volume, were originated within the bank's AA. The following table shows loans originated inside the AA by number and dollar volume:

Lending in Assessment Area				
Loan Type	Loans Inside AA			
	Number	Percent by Number	Dollar Amount	Percent by Dollar
Agricultural	16	80.00%	\$1,833,243	72.04%
Commercial	17	85.00%	\$1,838,626	88.24%
Total	33	82.50%	\$3,671,869	79.33%

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

Overall, the income distribution of borrowers reflects excellent penetration among farms of different sizes and reasonable distribution of credit among businesses of different sizes.

FF&M Luverne has an excellent distribution of credit to farms of different sizes. Our random sample of 20 agricultural loans indicated that 100.00% of loans by number and dollar amount went to farms with gross annual revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Farms				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	98.65%	0.77%	0.58%	100%
% of Bank Loans in AA by #	100%	0%	-	100%
% of Bank Loans in AA by \$	100%	0%	-	100%

*Source: 2007 Business Geo-Demographic Data, Loan Sample

FF&M Luverne has a reasonable distribution of credit to businesses of different sizes. Our random sample of 20 commercial loans indicated that 90.00% of loans by number and 71.91% of loans by dollar amount went to businesses with gross annual revenues less than or equal to \$1 million. This is comparable to AA demographics, however, the demographic data includes a significant percentage (44.02%) of businesses that have not reported their gross revenues. Given this information, the bank's lending to businesses of different sizes shows reasonable loan penetration compared to demographics of the AA. Our community contact indicated that the amount of small businesses in the community most likely exceeds the 52.06% figure of reported businesses, but also that the 3.91% of large businesses was not representative of the community.

Borrower Distribution of Loans to Businesses				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	52.06%	3.91%	44.02%	100%
% of Bank Loans in AA by #	90.00%	10.00%	-	100%
% of Bank Loans in AA by \$	71.91%	28.09%	-	100%

*Source: 2007 Business Geo-Demographic Data, Loan Sample

Geographic Distribution of Loans

The geographic distribution of agricultural and commercial loans in the bank's assessment area is reasonable. There are no conspicuous gaps or areas of low penetration in the AA.

Agricultural loan distribution among the different CT's is excellent. Agricultural loans originated to borrowers in the moderate-income tract exceeds community demographics. A total of 20.00% of the 20 loan sample was to borrowers in a moderate-income tract, compared with 17.53% of farms reported to be in those tracts. The following table illustrates the bank's agricultural lending activity compared to borrowers located in the defined AA.

Geographic Distribution of Agricultural Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Agricultural	-	-	17.53%	20.00%	82.47%	80.00%	-	-

*Source: 2007 Business Geo-Demographic Data, Loan Sample

The geographic distribution of commercial loans in the assessment area is reasonable. Based on our sample of 60 loans, 11.67% by number of loan originations were to businesses in moderate-income tracts, compared to the 17.80% of reported businesses in those tracts. The following table compares the bank's commercial lending activity to demographic data.

Geographic Distribution of Commercial Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	-	-	17.80%	11.67%	82.20%	88.33%	-	-

*Source: 2007 Business Geo-Demographic Data, Loan Sample

Responses to Complaints

The bank has not received any complaints regarding its CRA performance since the last evaluation.

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.