



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**October 24, 2003**

### **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  
Minneapolis Field Office  
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.”

- First Farmers and Merchants National Bank is meeting the credit needs of the community. Its quarterly loan-to-deposit ratio averaged 89 percent since its previous Community Reinvestment Act (CRA) examination.
- A majority of the bank’s loans by both number (87 percent) and dollar volume (79 percent) are originated in the bank’s defined assessment area.
- The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers), and meets community demographics for lending to farms and businesses of different sizes.

**DESCRIPTION OF INSTITUTION**

First Farmers and Merchants National Bank, Fairmont, Minnesota (FF&M Fairmont) is a \$39 million commercial bank. As of December 31, 2002, the bank operates from a single office in Fairmont, Minnesota that offers both a drive-up window and an automated teller machine (ATM). The bank owns one other ATM located at a local grocery store. Neither ATM accepts deposits.

FF&M Fairmont provides traditional banking services, including loans for commercial, agricultural, consumer, and residential real estate purposes. According to its December 31, 2002 Report of Condition, it had the following outstanding loans by dollar volume: commercial (54 percent), agricultural (16 percent), residential real estate (24 percent), and consumer (6 percent). On that date, the bank’s net loan-to-deposit ratio was 96.6 percent.

FF&M Fairmont is 99.8 percent owned by the 215 Holding Company, which is headquartered in Minneapolis, Minnesota. Besides FF&M Fairmont, the holding company owns banks in Luverne, LeSueur, Grand Meadow, and Brownsdale, Minnesota. The holding company’s Consolidated Financial Statement indicated total assets of \$323 million on December 31, 2002.

FF&M Fairmont received a “Satisfactory” rating at its March 31, 1999 CRA examination. This Performance Evaluation assesses the bank’s CRA activities from January 1, 1999 through December 31, 2002. There are no legal or financial circumstances impeding the bank’s ability to meet the needs of its assessment area.

**DESCRIPTION OF ASSESSMENT AREA**

FF&M Fairmont defines its assessment area (AA) as all of Martin County, Minnesota. The AA consists of six block numbering areas (BNAs), 9901 through 9906, all of which are middle income. The AA does not arbitrarily exclude any low- or moderate-income BNAs. The population of the AA was 22,914 according to 1990 U.S. Census Data.

The U.S. Department of Housing and Urban Development (HUD) estimated median family

income (MFI) for the non-metropolitan areas of Minnesota for 2002 was \$48,500. The following table summarizes the income levels of individual BNAs and the families located within the bank's assessment area:

<b>INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES IN THE AA</b>								
Assessment Area	Number of BNAs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Martin County	0	0	6	0	16.9%	18.4%	26.9%	37.8%

*Source: U.S. Census Data (1990)*

Economic conditions in the AA are generally good. Major employers include health and nursing care facilities, food processors, manufacturing facilities, and retail and service businesses. Unemployment in the AA stood at 3.4 percent in August 2003, which is below the rates for both the state of Minnesota (4.0 percent) and the U.S. overall (6.1 percent) on that date. 1990 U.S. Census Data indicated that 9.1 percent of families were below the poverty level in the AA.

Banking competition in the AA is strong. On June 30, 2002, 13 financial institutions offered banking services in the AA. On that date, FF&M Fairmont ranked 5<sup>th</sup> in total deposits among those banks. Primary credit needs of the AA are traditional banking services as provided by FF&M Fairmont.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FF&M Fairmont's net loan-to-deposit ratio is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 89.1 percent for the 17 quarters from December 31, 1998 through December 31, 2002. The bank's ratio has ranged from 86 to 97 percent during the evaluation period and stood at 96.6 percent as of December 31, 2002.

FF&M Fairmont's net loan-to-deposit ratio compares favorably to other similarly situated banks (all community banks in the AA with total assets below \$65 million). FF&M Fairmont's average net loan-to-deposit ratio for the evaluation period (89.1 percent) exceeded the average for the 8 similarly situated banks for the same time period (71.5 percent). It also exceeded the averages for the time period for each of the individual similarly situated banks except one. The similarly situated banks' average net loan-to-deposit ratios ranged from 56.9 percent to 92.1 percent over the time period.

### **Lending in Assessment Area**

FF&M Fairmont originates a majority of its loans to borrowers located within its defined assessment area. Examiners evaluated random 20-loan samples from commercial, agricultural and consumer loans originated between January 1, 1999 and December 31, 2002. These three

categories accounted for 85 percent of the loan volume and 78 percent of the number of loans originated during the evaluation period. Within the 60-loan sample, 87 percent by number and 79 percent by volume were made to farms, businesses, or individuals located within the AA. Our loan sample produced the following breakdown of loans originated within the AA by number and dollar volume for each loan type:

<b>Lending in Martin County</b>										
Loan Type	Number of Loans from Sample					Dollars of Loans from Sample (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	18	90.0	2	10.0	20	1,980	96.6	70	3.4	2,050
Commercial	15	75.0	5	25.0	20	586	47.7	643	52.3	1,229
Consumer	19	95.0	1	5.0	20	152	93.5	10	6.5	162
Totals	52	86.7	8	13.3	60	2,718	79.0	723	21.0	3,441

*Source: Bank records verified by examiner.*

The bank purchases commercial loan participations for its own portfolio and for sale to affiliate banks. It also purchases commercial leases from a business supply store in Fairmont whose trade area extends well beyond Martin County’s boundaries. These loans significantly impact the dollar volume of commercial loans originated within the AA.

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

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels. Lending to farms and businesses approximates the community demographics. Lending to individuals of low-income levels also approximates the community demographics, while lending to individuals of moderate-income levels significantly exceeds community demographics.

Agricultural lending in the AA meets community demographics. Ninety-five percent of the 20 agricultural loans sampled were made to borrowers whose farms reported gross revenues of less than \$1 million. This is reasonable when compared to the AA's demographics that indicate farm operations with gross revenues below \$1 million composed 97.5% of the total. The only loan in the sample to an entity with revenues over \$1 million was a very large loan that notably impacted the distribution when calculated by dollar volume of loans. The following table compares the bank's agricultural lending activity by revenue size to community demographics:

<b>Borrower Distribution of Loans to Farms in Martin County</b>		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses	97.5	2.5
% of Bank Loans in AA by #	95.0	5.0
% of Bank Loans in AA by \$	52.7	47.3

*Source: Bank records (verified by examiner) and 2002 Business Geodemographic Data*

Commercial lending activity in the AA compares favorably to the community demographic.

Ninety percent of the 20 commercial loans sampled were to businesses with gross revenues below \$1 million per year. The AA's demographic data indicates that 94% of businesses in the AA have revenues below \$1 million. The following table compares the bank's business lending in the AA to community demographics:

<b>Borrower Distribution of Loans to Businesses in Martin County</b>		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94.4%	5.6%
% of Bank Loans in AA by #	90.0%	10.0%
% of Bank Loans in AA by \$	89.7%	10.3%

*Source: Bank records (verified by examiner) and 2002 U.S. Census Business Demographic Data.*

Consumer lending activity in the AA compares favorably to community demographics for lending to low-income households and notably exceeds the community demographics for moderate-income households. Sixty percent of the 20-loan consumer sample was loans to low- or moderate-income households. The comparable levels of low- and moderate-income households in the AA total only 38.1%. The following table compares the bank's consumer lending in the AA to community demographics:

<b>Borrower Distribution of Consumer Loans in Martin County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	22.2%	20.0%	15.9%	40.0%	20.4%	10.0%	41.5%	30.0%

*Source: Bank records (verified by examiner) and 1990 U.S. Census data.*

### **Geographic Distribution of Loans**

Analysis of lending by geographic distribution is not meaningful. The AA contains only middle-income census tracts.

### **Responses to Complaints**

The bank has not received any CRA-related complaints 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.