



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 07, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers-Merchants National Bank of Paxton
Charter Number 14458

101 North Taft Street
Paxton, IL 60957-0000

Office of the Comptroller of the Currency

ADC-CHAMPAIGN Field Office
Harris Center 3001 Research Road, Suite E-2
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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 Outstanding.

The major factors supporting this rating include:

- Farmers-Merchants National Bank of Paxton's (FMNB) distribution of loans represents excellent penetration to businesses of different sizes and borrowers of different income levels.
- FMNB's loan-to-deposit ratio is reasonable.
- A substantial majority of the primary product loans originated by FMNB are within the assessment area (AA).

SCOPE OF EXAMINATION

FMNB was evaluated under the small bank examination procedures, which evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The evaluation period for this review is from August 9, 2005, through June 30, 2011.

To evaluate the bank's lending performance, we utilized loans originated by FMNB from January 1, 2009, to June 30, 2011. The loan sampling period is representative of the evaluation period as the bank's strategic plan has not changed significantly. Based on both number and dollar volume of loan origination information supplied by the bank, FMNB's primary loan products are business loans and residential real estate loans. To evaluate the bank's lending performance within these primary products, we utilized the bank's 2009, 2010, and first and second quarter 2011 Home Loan Mortgage Data (HMDA). We also selected a sample of business loans made during this time period.

DESCRIPTION OF INSTITUTION

Farmers-Merchants National Bank of Paxton (FMNB) is a \$110 million intrastate institution headquartered in Paxton, Illinois. Paxton is located in Ford County on Interstate Highway 57 in east central Illinois, approximately 25 miles north of Champaign, Illinois. Paxton is the county seat of Ford County. The bank is 100 percent owned by FM Bancorp, Inc., a one-bank holding company. The bank also owns a 48 percent interest in Tri-Capital L.L.C. in Indianapolis, IN, which is a loan production joint venture, started in 2002 with another bank and a real estate development company.

In addition to the main location, FMNB has branches in Melvin and Piper City, Illinois. FMNB has not closed or opened any branches during this evaluation period. The bank offers two deposit-taking ATMs within the AA, one at the Piper City branch and one at a local fast food restaurant.

FMNB offers a full range of retail and commercial banking products normally associated with a community bank. As of June 30, 2011, net loans were \$44 million, or 40 percent of total assets, while Tier 1 Capital was \$12 million. The following represents the institution’s loan and lease portfolio mix as of June 30, 2011:

Loan Portfolio Summary by Loan Product	
Loan Category	% of Outstanding Dollars
Commercial Loans	48%
Home Loans	31%
Farm Loans	16%
Consumer Loans	5%
Other Loans	0%

Source: June 30, 2011 CALL Report data

During the evaluation period (January 1, 2009, through June 30, 2011), the bank originated 1,638 loans totaling \$118 million. According to bank reports, 511 of these loans were commercial (\$82 million), 310 were 1-4 family residential real estate (\$30 million), 800 were consumer (\$6 million), and 17 were other.

There are no financial, legal, or other impediments hindering the bank’s ability to meet the credit needs of its assessment area. Bank activities are consistent with its size, local economic conditions, and credit needs of its community. The bank was rated Outstanding at its last CRA examination, August 8, 2005.

DESCRIPTION OF ASSESSMENT AREA(S)

FMNB has one Assessment Area (AA) that is comprised of six census tracts. This includes all five census tracts in Ford County, which is located in the Champaign-Urbana, IL Metropolitan Statistical Area (MSA #16580), and one census tract in Iroquois County. The census tract in Iroquois County is contiguous with, and does not substantially extend beyond the Champaign-Urbana MSA. Therefore, it is considered to be a part of the MSA. All six census tracts are designated middle-income. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas. The bank’s assessment area is reasonable, as the bank is located on the northern edge of the MSA, and it would be difficult for a bank of this size to serve all three counties in the Champaign-Urbana MSA.

The population of the AA is 17,161. Ninety-three percent of the housing stock is 1-4 family units and 71 percent of the housing stock is owner occupied housing. The following demographic information for the AA is based on 2000 census data:

Demographic Information	MSA Assessment Area
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Family Distribution by Income Level (low-, moderate-, middle-, upper-income)	17.52%	24.05%	27.86%	30.57%
Families below poverty level	6.89%			
2011 Updated Median Family Income (MFI)	\$64,900			
Median Year of Homes Built	1951			
Median Home Value	\$73,603			
Total Businesses	1,500			
Rev < \$1 MIL, Rev > \$1 Mil, Unreported	1,023 (68.20%)	42 (2.80%)	435 (29.00%)	

Source: 2000 U.S. Census Data and 2009/2010 HUD data

The local economy is generally stable and driven by agriculture and small businesses. Small businesses are defined as those with annual gross revenues of \$1 million or less. Within the AA, the largest employers include the local hospital, school district, and nursing homes. The AA’s largest factory, Baltimore Air, closed in June 2009 and approximately 200 jobs were lost. The company was replaced with Colmac Coil, which employees only 90 individuals. A number of residents from the AA commute to Champaign-Urbana, IL for employment.

The August 2011 unemployment rate for Ford County was 8.4 percent and Iroquois County was 8.3 percent. The state unemployment rate for the same time period was 10.0 percent, while the national rate was 9.12 percent.

FMNB faces competition from numerous community banks located within its AA, and from larger regional and national competition. There are 38 financial institutions with offices located within the Champaign-Urbana MSA. FMNB ranks fifteenth in the MSA with a deposit market share of 2.02 percent.

We performed one community contact with an economic development organization. Overall, the contact stated that local financial institutions are meeting the financial needs of the community and are more than willing to provide funding to qualified borrowers for small business and home loans. The contact also noted that local banks also participate in providing assistance to businesses who qualify for loans under the economic development corporation’s revolving loan fund.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FMNB’s performance of meeting community credit needs is excellent. This review concentrated on the bank’s primary loan products, which include business and residential real estate loans. FMNB has a reasonable loan-to-deposit ratio and a substantial majority of the loans originated are within the AA.

The borrower distribution portion of the lending test is a significant part of the lending test. Approximately 42 percent of AA families are low- or moderate-income. Also, a majority of the businesses in the AA are small businesses. FMNB has excellent penetration among businesses of different sizes and borrowers of different income levels.

All criteria of the lending test are documented below:

Loan-to-Deposit Ratio

FMNB’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, AA’s credit needs, and local competition.

The bank’s net loan-to-deposit ratio averaged 60 percent over the 24 quarters since the last CRA examination. This ratio ranged from a quarterly low of 46 percent to a quarterly high of 67 percent during the time period.

The average quarterly net loan-to-deposit ratio for six other similar situated financial institutions headquartered in Champaign and Ford counties, with total assets between \$75 million and \$114 million, was 68 percent over the same time period. In addition to the loans outstanding, FMNB sold \$13 million home loans during the evaluation period. This included \$1MM in USDA rural development loans.

Lending in Assessment Area

A substantial majority of FMNB’s primary loan products are made within the bank's assessment area. Eighty-six percent of the number of loans sampled was made within the AA.

Lending in the AA										
Type of Loans	Number of Loans					Dollar of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	16	80.00%	4	20.00%	20	\$1,667	79.42%	\$432	20.58%	\$2,099
Home Purchase	50	81.97%	11	18.03%	61	\$3,714	79.63%	\$950	20.37%	\$4,664
Home Refinance	135	89.40%	16	10.60%	151	\$10,620	76.97%	\$3,178	23.03%	\$13,798
Home Improvement	93	83.78%	18	16.22%	111	\$2,764	82.85%	\$572	17.15%	\$3,336
Totals	294	85.71%	49	14.29%	343	\$18,765	78.52%	\$5,132	21.48%	\$23,897

Source: Sample of 20 business loans and HMDA Data from 1/1/2009 through 6/30/2011.

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

FMNB’s distribution of loans to businesses of different sizes and borrowers of different incomes is excellent.

Business Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Ninety percent of the bank’s loans to businesses originated in the evaluation period were made to small businesses. Small businesses are businesses with gross annual revenues of \$1 million dollars or less. The bank’s rate of small business loan originations is

greater than demographic data, which shows that 68 percent of businesses in the AA are small businesses.

Borrower Distribution for Business Loans within AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	68.20%	2.80%	29.00%	100.00%
% of bank loans in AA by #	90.00%	10.00%	00.00%	100.00%
% of bank loans in AA by \$	86.95%	13.05%	00.00%	100.00%

Source: Sample of 20 business loans originated between 1/1/2009 and 6/30/2011 made within the AA and 2000 Dunn & Bradstreet data

Residential Real Estate Loans

The distribution of residential real estate loans reflects excellent penetration among borrowers of different income levels. The distributions of home purchase, home improvement and home refinances among low- and moderate-income borrowers compare favorably to demographic data.

Home Purchase

The distribution of home purchase loans reflects excellent penetration among borrowers of different income levels. The borrower distribution to low-income borrowers (16.00 percent) meets the percentage of low-income families in the AA (16.40 percent), while the borrower distribution to moderate-income borrowers (32.00 percent) exceeds the percentage of moderate-income families in the AA (19.03 percent).

Home Refinance

The distribution of home refinance loans reflects excellent penetration among borrowers of different income levels. The borrower distribution to low-income borrowers (11.85 percent) is lower than the percentage of low-income families in the AA (16.40 percent). While this is lower than the demographic data, it is important to note that 6.89 percent of AA families live below poverty, making it difficult for these families to qualify for home loans. Borrower distribution to moderate-income borrowers (28.89 percent) exceeds the percentage of moderate-income families in the AA (19.03 percent).

Home Improvement

The distribution of home improvement loans reflects excellent penetration among borrowers of different income levels. The borrower distribution to low- and moderate-income borrowers (24.73 percent and 25.81 percent) exceeds the percentage of low- to moderate-income families in the AA (16.40 percent and 19.03 percent).

Borrower Distribution for Home Loans in AA

Borrower Income Level	Low		Moderate		Middle		Upper		Not Available	
	% 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	% of AA Families	% of Number of loans
Home Purchase	16.40%	16.00%	19.03%	32.00%	24.15%	22.00%	40.42%	30.00%	0.00%	0.00%
Home Refinance	16.40%	11.85%	19.03%	28.89%	24.15%	22.96%	40.42%	34.07%	0.00%	2.22%
Home Improvement	16.40%	24.73%	19.03%	25.81%	24.15%	25.81%	40.42%	18.28%	0.00%	5.38%
% of Total	16.40%	16.91%	19.03%	28.42%	24.15%	23.74%	40.42%	28.06%	0.00%	2.88%

Source: Bank's HMDA Data for 2009, 2010, and 2011 (through June 30, 2011) of loans made within the AA and 2000 US Census data

Geographic Distribution of Loans

A geographic distribution analysis was not performed, as it would not be meaningful in this AA. FMNB's AA has no low- or moderate-income geographies. All of the census tracts within the AA are middle-income.

Responses to Complaints

FMNB has not received any complaints about its performance in helping to meet the 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.