



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 17, 2012**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

F&M Community Bank, National Association  
Charter Number 24356

100 St. Anthony Street North  
Preston, MN 55965-0000

Office of the Comptroller of the Currency

ADC-MINNEAPOLIS (8324) Field Office  
Campbell Mithun Tower 222 South Ninth Street  
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 Outstanding.**

- The Loan-to-Deposit ratio is reasonable considering the bank's size, location, financial condition, and local economic conditions.
- A substantial majority of loans are located inside the assessment area.
- Lending to farms of different sizes demonstrates excellent penetration.
- Lending to businesses of different sizes and borrowers of different incomes demonstrates excellent penetration.

**SCOPE OF EXAMINATION**

We evaluated F & M Community Bank, National Association (F & M) for the period of March 31, 2006 through December 31, 2011 to determine how they are meeting the credit needs of the community. We performed loan sampling to arrive at conclusions in relation to the bank's lending performance.

When determining the bank's lending performance, we selected primary products of each assessment area based on the dollar amount and number of loan originations for the period of January 1, 2009 to December 31, 2011. Farm loans are the primary product representing the largest percentage of dollar volume and number volume in the bank's loan portfolio for the Rural Minnesota Assessment Area (AA). The table below illustrates the number and dollar volume of loan originations during the evaluation period.

<b>Loan Products in Rural MN AA</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
<b>Farm Loans</b>	<b>483</b>	<b>38.27%</b>	<b>52,142</b>	<b>56.23%</b>
Business Loans	205	16.24%	14,069	15.17%
Consumer Loans	353	27.97%	3,685	3.97%
Residential Real Estate Loans	221	17.51%	22,835	24.63%
<b>Total</b>	<b>1262</b>	<b>100%</b>	<b>92,731</b>	<b>100%</b>

*Loans originated 1/01/09 through 12/31/11*

Residential real estate loans and business loans are the primary products representing the largest percentage of dollar volume and a combined 44% by number volume in the bank's loan portfolio for the Rochester MSA AA. The table below illustrates the number and dollar volume of loan originations during the evaluation period.

<b>Loan Products in MSA AA</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Farm Loans	50	6.90%	2,196	5.34%
<b>Business Loans</b>	<b>163</b>	<b>22.48%</b>	<b>14,061</b>	<b>34.18%</b>
Consumer Loans	354	48.83%	3,098	7.53%
<b>Residential Real Estate Loans</b>	<b>158</b>	<b>21.79%</b>	<b>21,786</b>	<b>52.95%</b>
<b>Total</b>	<b>725</b>	<b>100%</b>	<b>41,141</b>	<b>100%</b>

*Loans originated 1/01/09 through 12/31/11*

We used a sample of 20 loans from each primary product identified from the designated evaluation period to determine lending distributions to borrowers in each AA. We used demographic information from each AA to assess lending performance. We placed more weight on the borrower distribution test for the rural Minnesota AA given a majority of the bank's deposits and loan originations are in the rural Minnesota AA. We also compared the bank's loan-to-deposit ratio with similarly situated banks.

Financial, economic, and other environmental factors of the AAs were discussed with bank management and one community contact to determine what role the bank plays in meeting the lending needs of the AAs.

## DESCRIPTION OF INSTITUTION

F&M's main operating office is located in Preston, Minnesota in Fillmore County. The bank also has one branch operating in the city of Chatfield, Minnesota, in Olmstead County, approximately 15 miles north of Preston. F & M has two non-deposit taking ATMs on-site at each bank location with 24 hour/7 day access for customers. The bank is also part of the Shazam ATM network, which has numerous ATM locations in the area. The Shazam ATMs do not take deposits, but do offer bank customers access to their accounts without charging fees for use of the ATM.

F & M Financial Services, Inc. of Preston, Minnesota, a one-bank holding company, owns 100% of F & M. The bank's total assets as of September 30, 2011 are \$91 million. Tier One capital is \$11 million and the Tier One leverage capital ratio is 12.39% as of September 30, 2011.

F & M's main office and branch location are in a primarily rural area. The bank offers a variety of traditional and non-complex loan and deposit products and services. Lending is focused on agriculture. Given the rural locations of the bank, agriculture is the dominant industry in the area. The following table illustrates the bank's loan portfolio composition as of September 30, 2011.

<b>Loan Portfolio Composition as of 09/30/11</b>	<b>(\$000s)</b>	<b>%</b>
Farm Loans	28,947	47.04%
Commercial Loans	17,335	28.17%
Consumer Loans	6,809	11.06%
Residential Real Estate Loans	8,448	13.73%
<b>Total</b>	<b>61,539</b>	<b>100%</b>

*Source: 09/30/11 Call Report*

There are no legal, financial, or other factors that limit the bank's ability to meet the credit needs of its AA. F & M rated "Satisfactory" at the last March 30, 2006 CRA examination.

## DESCRIPTION OF ASSESSMENT AREAS

F & M has two assessment areas (AA). The Preston office is located in a rural non-Metropolitan Statistical Area (MSA) while the Chatfield office is located in the Rochester MSA. Both the Rural MN and MSA AA comply with regulatory requirements and do not arbitrarily exclude any low- or moderate-income tracts.

### Rural Minnesota AA

This non-MSA AA includes all of Fillmore County, Minnesota. Cities in the county include a portion of Chatfield, Canton, Preston, Fountain, Lanesboro, Mabel, Whalan, Wykoff, Spring Valley, Ostrander, Peterson, and Rushford. The AA includes six census tracts, which are all designated as middle-income.

The Rural MN AA consists of small communities predominately involved in the agriculture industry and small business. The total population of the non-MSA AA is 21,122 people based on the 2000 United States Census Bureau data. The largest community in the AA is Chatfield with a population of 2,779 people, followed by Spring Valley at 2,479 people, and Rushford with 1,731 people. Agriculture is the dominate industry in the area. Other major employers in the area include the county of Fillmore (the county seat is located in Preston, MN), schools, and small businesses in the area. Approximately 25% of the population also commutes to Rochester, Minnesota for jobs. Unemployment rates in the area for 2011 averaged 6.6% for Fillmore County. This compares to a 2011 average unemployment rate of 5.7% for the entire state of Minnesota.

The following table illustrates the demographic data of the Rural MN AA.

<b>Demographic and Economic Characteristics of the Rural MN AA</b>	
<i>Population</i>	
Number of Families	5,707
Number of Households	8,212
Number of Low-Income Families	1,005
% of Low-Income Families	17.61%
Number of Moderate-Income Families	1,151
% of Moderate-Income Families	20.17%
Number of Middle-Income Families	1,555
% of Middle-Income Families	27.25%
Number of Upper-Income Families	1,996
% of Upper-Income Families	34.97%
<i>Geographies</i>	

Number of Census Tracts	6
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$44,579
2011 HUD-Adjusted MFI	\$59,200
<i>Economic Indicators</i>	
2000 Median Housing Value	\$84,452
% of Households Below Poverty Level	9.94%

Source: 2000 U.S. Census Bureau

We contacted the Business Development Director of the local Economic Development Authority (EDA) in Preston, MN during this exam. The community contact is responsible for establishing and promoting growth of small businesses in the community, assisting small businesses in securing financing from local financial institutions, and building a tax base of jobs in the city of Preston. The community contact indicated the EDA works closely with F & M to provide financing for small businesses for start-up costs or assist with expansion of existing businesses. In addition, bank management also offers advice to business owners on succession planning. The community contact expressed F & M is very important for the viability and success of the community because the bank plays such an active role for economic development in the area. The community contact stated the bank has a very positive reputation and fully meets the lending needs of the community.

### **Rochester MSA AA**

The Rochester MSA AA includes a portion of southern Olmstead County, Minnesota. Cities in the county include the other half of Chatfield, Dover, Eyota, and a portion of the city of Rochester. The MSA AA includes three census tracts, with two designated as middle-income and one designated as upper-income.

The Rochester MSA AA contains primarily small communities with the exception of including the southern portion of the city of Rochester. The total population of the Rochester MSA AA is 12,126 people based on the 2000 United States Census Bureau data. The largest community is Rochester with a population of 106,769 people. Agriculture is the predominant industry of the census tracts surrounding the city of Rochester. The city of Rochester hosts the major employers in the area including the Mayo Clinic and hospitals, public school district, and small businesses. Farming is also a major employer for the rural areas surrounding the city of Rochester. Unemployment rates in the MSA for 2011 averaged 5.3%. This compares to a 2011 average unemployment rate of 5.7% for the entire state of Minnesota.

The following table illustrates the demographic data of the Rochester MSA AA.

<b>Demographic and Economic Characteristics of the Rochester MSA AA</b>	
<i>Population</i>	
Number of Families	3,506
Number of Households	4,391
Number of Low-Income Families	510
% of Low-Income Families	14.55%
Number of Moderate-Income Families	608
% of Moderate-Income Families	17.34%
Number of Middle-Income Families	1,032
% of Middle-Income Families	29.44%
Number of Upper-Income Families	1,356
% of Upper-Income Families	38.68%
<i>Geographies</i>	
Number of Census Tracts	3
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	67%
% Upper-Income Census Tracts	33%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$62,280
2011 HUD-Adjusted MFI	\$80,200
<i>Economic Indicators</i>	
2000 Median Housing Value	\$133,328
% of Households Below Poverty Level	3.51%

Source: 2000 U.S. Census Bureau

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

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

The loan-to-deposit (LTD) ratio is reasonable given the bank's size, location, financial condition, and local economic conditions of the two AAs. The bank's average LTD ratio was 85.59% based on quarterly LTD ratio data collected from March 30, 2006 to September 30, 2011. The LTD ratio fluctuated from a low of 76.14% to 94.17% over the same period.

The bank's LTD ratio ranks as the third highest among four similarly situated banks within the AAs. All the financial institutions are of similar asset size (\$32 million to \$91 million in total assets), have at least one branch within the AA, and offer similar loan and deposit products. The following table illustrates F & M's average LTD in comparison to similarly situated banks.

<b>Loan-to-Deposit Ratio Institution</b>	<b>Assets (\$000s)</b>	<b>Average LTD Ratio</b>
First Southeast Bank	79,503	97.58%
Rushford State Bank	48,057	95.27%
<b>F &amp; M Community Bank, N.A.</b>	<b>91,008</b>	<b>85.59%</b>
Root River State Bank	60,197	79.63%
The First State Bank of Fountain	32,005	79.18%

Source: June 30, 2011 FDIC Deposit Market Share Report

### Lending in Assessment Area

F & M originated a substantial majority of loans by number and dollar volume within the bank’s AAs. A loan sample of 20 loans from each of the three identified primary products indicated F & M originated 90% of the loans by number and 90.81% of the loans by dollar volume in the AA.

The following table illustrates the bank’s commitment to lending in its AAs.

<b>Lending in F &amp; M’s AAs</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (\$000s)
	#	%	#	%		\$	%	\$	%	
Agricultural Loans – Rural MN AA	20	100%	0	0%	20	\$2,363	100%	\$0	0%	\$2,363
Residential Loans	17	85%	3	15%	20	\$2,269	81%	\$521	19%	\$2,789
Commercial Loans	17	85%	3	15%	20	\$632	90%	\$70	10%	\$702
Totals	54	90%	6	10%	60	\$5,264	90%	\$591	10%	\$5,855

### Lending to Borrowers of Different Incomes and to Businesses/Farms of Different Sizes

F & M’s lending to businesses/farms of different sizes and individuals of different income levels demonstrate excellent penetration of the AAs and exceeds the standards for satisfactory performance.

#### Rural Minnesota AA

Lending to farms of different sizes demonstrates excellent penetration of the AA. Nearly all farming operations located in the rural Minnesota AA who reported revenues generate less than \$1 million of revenues annually. F & M’s lending patterns compare favorably to demographic data.

<b>Table 2A - Borrower Distribution of Loans to Farms in Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	98.72%	0.64%	0.64%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	83.07%	16.93%	0%	100%

Source: Loan sample; 2011 Business Geodemographic Data

## Rochester MSA AA

Lending to businesses of different sizes and individuals of different income levels exceeds the standards for satisfactory performance in the Rochester MSA AA.

### Residential Real Estate Loans

F&M’s residential real estate lending to borrowers of different income levels demonstrates excellent penetration of the Rochester MSA AA. F & M’s lending patterns compare favorably to demographic data by exceeding the percentages for low- and moderate-income families in the AA.

<b>Borrower Distribution of Residential Real Estate Loans in Rochester MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
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	% of Number of Loans
Residential Loans	14.55%	20%	17.34%	20%	29.44%	35%	38.68%	25%

Source: Loan sample; 2000 Census data

### Business Loans

F & M’s lending to businesses of different sizes demonstrates excellent penetration of the AA. Approximately 77% of businesses in the MSA AA who reported revenues generate less than \$1 million of revenues annually. F & M’s lending patterns compare favorably to demographic data.

<b>Borrower Distribution of Loans to Businesses in Rochester MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77.17%	2.66%	20.18%	100%
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	78%	22%	0%	100%

Source: Loan sample; 2011 Business Geodemographic Data

**Geographic Distribution of Loans**

The geographic distribution of loans analysis is not meaningful since there are no low- or moderate-income census tracts in either of the bank's assessment areas.

**Responses to Complaints**

The bank did not receive any CRA related complaints since the last CRA examination.

**Fair Lending or Other Illegal Credit Practices Review**

We did not identify any evidence of illegal discrimination or other illegal credit practices.