



## **PUBLIC DISCLOSURE**

July 27, 2015

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Farmers and Mechanics FS & LA  
Charter Number 701669

225 E Main St  
Bloomfield, IN 47424-1421

Office of the Comptroller of the Currency  
8777 Purdue Road  
Suite 105  
Indianapolis, IN 46268

**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 major factors supporting this rating include:

- Farmers and Mechanics FS & LA's (F&M) loan-to-deposit (LTD) ratio is reasonable;
- A substantial majority of F&M's primary loan products (home purchase and home mortgage refinance loans) are originated within the assessment area (AA);
- The distribution of primary loan products to borrowers of different income levels reflects reasonable penetration;
- The geographic distribution of loans reflects reasonable dispersion to low- and moderate-income geographies within the AA; and,
- The bank did not receive any complaints related with Community Reinvestment Act (CRA) performance during the evaluation period.

**SCOPE OF EXAMINATION**

This performance evaluation (PE) assesses the CRA performance of F&M. We evaluated the bank under the Small Bank examination procedures, which include the lending test. The lending test focuses on the bank's record of meeting the credit needs of its community through lending activities. The lending test evaluates F&M's lending practices with respect to the following criteria:

- LTD ratio, considering internal and external factors;
- Percentage of loans originated within F&M's AA;
- Lending to borrowers of different income levels;
- Lending to low- and moderate-income geographies within F&M's AA; and,
- F&M's record of taking action on written complaints regarding its performance in helping meet the credit needs of its AA.

To evaluate the bank's lending performance, we reviewed F&M's loan originations from January 1, 2012 through December 31, 2013. The lending test focused on the bank's primary products, which we determined to be home purchase and home refinance loans based on reported information under the Home Mortgage Disclosure Act (HMDA). We gave more weight to home refinance loans in the analysis due to the larger volume, by number and dollar of these loans. We tested HMDA data to determine accuracy of the data, and found the data to be reliable. Demographic data is from the 2010 Census unless otherwise noted.

**DESCRIPTION OF INSTITUTION**

F&M is a federally chartered, mutual savings bank located in Bloomfield, Indiana. F&M operates its main office in downtown Bloomfield, which is located in Greene County in south central Indiana. F&M has one other branch located in Bloomington, Indiana. Bloomington is

located in Monroe County, which is adjacent to Greene County. Both of F&M's offices are full-service facilities located in middle-income census tracts. F&M has not opened or closed any branch offices or had any merger/acquisition activity during the review period.

As of March 31, 2015, F&M had total assets of \$70.2 million. The loan portfolio totaled \$31.6 million, or 45.3 percent of total assets. F&M's lending strategy focuses primarily on single-family mortgage loans. The table below provides an overview of F&M's loan portfolio, as of March 31, 2015.

<b>Summary of F&amp;M's Loan Portfolio</b>			
Loan Category	Amount (\$000's)	% of Total Loans	% of Total Assets
Real Estate Loans	\$31,467	99.10	44.84
Commercial Loans	\$84	0.27	0.12
Consumer and Other Loans	\$201	0.63	0.29
Total	\$31,752	100	45.25

Source: Call Report for March 31, 2015

There are no financial or legal factors that impair the bank's ability to meet the credit needs of its AA. F&M received a rating of "Satisfactory" in its prior CRA performance evaluation, dated September 27, 2010.

## **DESCRIPTION OF ASSESSMENT AREA**

The Bloomington Metropolitan Statistical Area (MSA) is made up of three counties in south central Indiana, Greene County, Monroe County, and Owen County. The bank's AA includes only Greene County and Monroe County. F&M's AA meets the requirements of CRA and does not arbitrarily exclude any low- or moderate-income geography. The Bloomington MSA AA consists of 40 census tracts of which 10 percent are low-income, 20 percent are moderate-income, 50 percent are middle-income, and 20 percent are upper-income. The estimated median family income is \$60,064, based on the 2010 census data. As of June 30, 2014, F&M is ranked 13<sup>th</sup>, out of 14 institutions, in deposit market share in the Bloomington MSA AA, with 0.84 percent of total deposits.

F&M's main office is located in Greene County, in a middle-income census tract. Greene County consists of just nine geographies of which three are moderate-income and six are middle-income. Greene County is lightly populated and mostly rural. The Crane Naval Surface Warfare Center, Cook Medical, and Indiana University are the largest employers in the county.

F&M's other office is located in Monroe County, in a middle-income census tract. Monroe County is comprised of the remaining 31 census tracts of which four are low-income, five are moderate-income, 14 are middle-income, and eight are upper-income. Monroe County contains the much larger city of Bloomington. Bloomington is more diverse and more populated, as it is home to Indiana University. Indiana University's campus contains all of the AA's low-income census tracts, while the majority of the moderate-income census tracts are nearby campus as well. These census tracts offer limited lending opportunities for F&M, as on-campus student housing and rental units dominate the housing market as opposed to owner-occupied housing.

F&M focuses on conventional mortgage lending and it does not compete for commercial loans to finance the rental housing market.

<b>Demographic Information for Full Scope Area: F&amp;M Bloomfield IN AA</b>						
Demographic Characteristics	Number (#)	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	40	10.00	20.00	50.00	20.00	0.00
Population by Geography	171,139	13.21	17.38	47.85	21.56	0.00
Owner-Occupied Housing by Geography	38,627	1.81	16.97	56.34	24.88	0.00
Business by Geography	11,831	6.31	16.19	54.29	23.20	0.00
Farms by Geography	504	1.39	14.29	71.43	12.90	0.00
Family Distribution by Income Level	35,807	20.88	16.99	20.55	41.59	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	13,558	6.18	26.07	54.14	13.61%	0.00
Median Family Income HUD Adjusted Median Family Income for 2013 Families Below Poverty Level Households Below Poverty Level		\$57,123 \$56,100 10% 22%	Median Housing Value Unemployment Rate (2013 Bureau of Labor Statistics)		\$131,576 5.90%	

(\* ) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census, 2013 Bureau of Labor Statistics, and 2013 HUD updated MFI

The community contact made for this AA noted that the major employers, Crane Naval Surface Warfare Center, Cook Medical, and Indiana University, generate a majority of economic activity within the AA. The local economy should experience positive economic growth from the I-69 highway extension project that will pass through southeastern Greene County and western Monroe County. Local community banks are involved in various organizations aimed at giving back to the community. There are needs for mortgage foreclosure remediation and financial literacy education. Additionally, various economic development projects would benefit from competitive lending rates.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

F&M’s performance in helping meet the credit needs of its AA through lending is satisfactory.

**Loan-to-Deposit (LTD) Ratio**

F&M’s LTD ratio is reasonable given the bank’s size, financial condition, and credit needs within the AA. The average LTD ratio during the 13-quarter review period is 62.73 percent. During this period, the LTD ratio ranged from a high of 70.41 percent to a low of 58.89 percent. The LTD ratio declined since the last evaluation, but stabilized over the final four quarters of the

review period. The declining ratio is attributed to economic conditions that decreased loan demand, increased loan prepayments, and increased deposit balances. The other similarly situated lenders have LTD ratios ranging from 105.63 percent to 70.18 percent. F&M historically operates with a lower LTD ratio when compared to peers due to the bank’s limited conventional mortgage loan product offerings compared to peer lenders. The peer group LTD ratios declined at a similar rate to F&M during the 13-quarter review period.

**Lending in Assessment Area**

F&M originates a substantial majority of its loan within their AA. During the performance evaluation period, F&M originated 92.86 percent of its loans within their AA by number and 92.31 percent by dollar value.

<b>Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage Refinance	77	91.67	7	8.33	84	8,244	91.05	810	8.95	9,054
Home Purchase	27	96.43	1	3.57	28	3,127	95.80	137	4.20	3,264
Totals	104	92.86	8	7.14	112	11,371	92.31	947	7.69	12,318

Source: Data reported under 2012-2013 HMDA

**Lending to Borrowers of Different Incomes**

F&M’s overall distribution of loans reflects reasonable penetration among individuals of different income levels. F&M’s percentage of refinance loans made to moderate-income borrowers is excellent when compared to other lenders in the AA, while home purchase loans made to moderate-income borrowers is poor when compared to other lenders in the AA. The bank’s overall performance is reasonable as home refinance loans carry more weight for F&M because these loans represent a significant majority of the bank’s lending activity.

F&M’s penetration to low-income borrowers is reasonable for residential real estate loans. The bank’s lending to low-income borrowers is well-below the percentage of loans made by other lenders in the AA as well as the percentage low-income families within the AA for both home purchase and home refinance loans. However, F&M’s results are reasonable given the high level of families with income below the poverty level. In the bank’s AA, 21.8 percent of households and 10.43 percent of families had income below the poverty level. This factor limited F&M’s lending opportunities to a large portion of low-income families who would not qualify for F&M’s conventional underwriting standards.

<b>Borrower Distribution of Residential Real Estate Loans in Assessment Area</b>					
Borrower Income Level	% of F&M's Loans		% of AA Lender's Loans		% of AA Families by Income Level
Loan Type	Purchase	Refinance	Purchase	Refinance	
Low	3.70	2.63	7.83	7.23	20.88
Moderate	7.41	21.05	18.61	15.27	16.99
Middle	33.33	22.37	25.82	23.86	20.55
Upper	55.56	53.95	47.74	53.63	41.59

Source: Data reported under 2012-2013 HMDA; 2013 Peer Mortgage Data

### Geographic Distribution of Loans

The geographic distribution of F&M's loans reflects reasonable dispersion within its AA . F&M's lending in moderate-income census tracts is reasonable. During the review period, F&M originated 11.54 percent of home mortgage loans in moderate-income census tract. The percentage of home purchase loans in moderate-income census tracts is above other lenders within the AA, while the percentage of home refinance loans is slightly below other lenders in the AA.

No lending within low-income census tracts is reasonable due to the nature of these geographies. All low-income census tracts are located within the Indiana University campus where only 1.81 percent of housing units are owner-occupied housing units. On-campus student housing and rental units dominate these geographies and offer few lending opportunities for F&M.

<b>Geographic Distribution of Residential Real Estate Loans in Assessment Area</b>					
Census Tract Income Level	% of F&M's Loans		% of AA Lender's Loans		% of AA Owner Occupied Housing Units
Loan Type	Purchase	Refinance	Purchase	Refinance	
Low	0.00	0.00	1.79	2.48	1.81
Moderate	14.81	9.21	13.32	11.73	16.97
Middle	74.07	81.58	48.74	54.12	56.34
Upper	11.11	9.21	36.15	31.67	24.88

Source: Data reported under 2012-2013 HMDA; 2013 Peer Mortgage Data

### Responses to Complaints

There were no consumer complaints related to the bank's CRA performance during the evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 195.28(c), in determining a Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any assessment area by an affiliate whose loans have been considered as part of the FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.