



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 21, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Farmers & Merchants National Bank
Charter Number 22351**

**114 South Park
Fairmont, Minnesota 56031**

**Office of the Comptroller of the Currency
Sioux Falls Duty Station
300 Dakota Avenue North, P.O. Box 1405
Sioux Falls, South Dakota 57101**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First Farmers & Merchants National Bank, Fairmont, Minnesota**, prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of August 21, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The bank's overall lending level is reasonable, given the institution's size, financial condition, and credit needs of the assessment area. A majority of the bank's loans are within its assessment area. And, the distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

The following table indicates the performance level of **First Farmers & Merchants National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST FARMERS & MERCHANTS NATIONAL BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	Analysis not meaningful.		
Response to Complaints	No complaints were received since the prior exam.		

DESCRIPTION OF INSTITUTION

First Farmers & Merchants National Bank is a \$30 million bank located in Fairmont, Minnesota. In addition to the main office, the bank has two ATMs in Fairmont. The bank is owned by The 215 Holding Company located in Minneapolis, Minnesota, which is a multi-bank holding company that owns four other community banks in southern Minnesota. The bank's loan volume is spread among several different types of lending. As of June 30, 1996, the dollar volume of the loan portfolio was broken down between the following loan types: residential real estate 33%, commercial and commercial real estate 31%, agriculture and agriculture real estate 24%, and consumer loans 12%. There are no financial or legal impediments to inhibit this bank from meeting the identified credit needs of its assessment area.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank has designated one assessment area which covers all of Martin County in south central Minnesota. The bank's designated assessment area meets the requirements of the regulation. The assessment area consists of six Block Numbering Areas (BNAs), all of which are middle-income. None of the BNAs are located in a Metropolitan Statistical Area. Martin County has a population of approximately 23,000. Minnesota's 1996 statewide nonmetropolitan median family income is \$36,200. And, the percentage of families in each income category within the assessment area is 17% low-, 18% moderate-, 27% middle-, and 38% upper-income.

Agriculture dominates the local economy with several small to medium sized companies providing diversity. The bank operates in a very competitive environment. Strong competition comes from eight other financial institutions that have their main office in the assessment area. Contacts with local leaders indicate the identified credit needs within the community are agricultural, small business, and residential real estate lending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Analysis

The bank's overall lending levels are satisfactory and reflect a positive response to community credit needs. Since the prior CRA examination, the quarterly loan-to-deposit average is 61%, which approximates the average lending level of other banks in the assessment area. The bank's loan-to-deposit ratio is increasing and has risen each of the last eleven quarters to 87% as of June 30, 1996. The June 30, 1996 average loan-to-deposit ratio for other financial institutions in the assessment area was 64%, with a range from 46% to 77%.

Credit Extended Inside and Outside of the Assessment Area

A majority of the bank's loans are within its assessment area. A zip code analysis, completed by the bank and verified by examiners, showed a good volume of outstanding loans were within the assessment area. The analysis revealed 86% of the number and 77% of the dollar

volume of loans were within the assessment area.

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

The distribution of the bank’s borrowers reflect a reasonable penetration of lending to businesses of different sizes. The bank’s record of lending to farms and businesses, based on gross revenues, is summarized in the following table. The information for this table was obtained from our sample of loans originated since the October 8, 1993 CRA examination.

Gross Revenues In (000s)	Agricultural / Commercial Loans	
	# of Borrowers	% of Borrowers
Less than \$100M	5	17%
\$101 - 250M	8	27%
\$251 - 500M	4	13%
\$501 - 1,000M	4	13%
Greater than \$1,000M	9	30%
Total	30	100%

The bank has also made reasonable efforts to lend to residential real estate customers with different income levels. Residential real estate lending consists of first purchase, refinance, and home improvement loans. We reviewed all residential real estate loans originated since January 1, 1995. The following table summarizes the bank’s residential real estate lending across different income levels:

Type of Loan	Sample Size	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
		#	%	#	%	#	%	#	%
Residential Real Estate	84	4	5%	14	17%	20	24%	46	54%

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be meaningful as all BNAs are middle-income.

Record of Compliance with Antidiscrimination Laws

We did not identify any violations of antidiscrimination laws or regulations, or disparate treatment of loan applicants.