



Comptroller of the Currency
Administrator of National Banks

Small
Bank

PUBLIC DISCLOSURE

October 5, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Farmers and Merchants National Bank of Luverne
Charter Number 13544**

**303 East Main Street
Luverne, MN 56156**

**Office of the Comptroller of the Currency
Sioux Falls Field Office
P.O. Box 1405
Sioux Falls, SD 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 and Merchants National Bank of Luverne**, prepared by the **Office of the Comptroller of the Currency**, as of October 5, 1998. 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 loan-to-deposit ratio is reasonable when compared to other area banks.
- A majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels.
- Loan activity also reflects a reasonable distribution to geographies with different income levels.

DESCRIPTION OF INSTITUTION:

First Farmers and Merchants National Bank of Luverne (FFM Luverne) is a \$104 million bank. The bank's main office is located at 303 East Main Street, Luverne, MN. The bank maintains branch facilities at 107 Main Street, Pipestone, MN. The bank also has three Automated Teller Machines (ATM) located at the main office, the branch location, and the Amoco Station located on South Kniss, Luverne. FFM Luverne is owned by the 215 Holding Company, a multibank holding company located in Minneapolis, MN, with total assets of \$268 million.

The institution is agricultural, retail, and commercial oriented and offers full service banking. Loan products offered include agricultural, real estate, consumer, and commercial loans. Outstanding loans on June 30, 1998 totaled \$62 million and represented 70% of net deposits. The loan portfolio is distributed as follows: 36% real estate; 32% agricultural; 26% commercial; and 6% consumer. There are no legal impediments or other factors which inhibit the bank's ability to meet the needs of the community. The previous Community Reinvestment Act Examination conducted December 1995 assigned a satisfactory rating.

DESCRIPTION OF THE ASSESSMENT AREA:

The Board has designated the bank's assessment area as Rock and Pipestone Counties, which are contiguous. The assessment area designation is based on the location of the main office and branch and is not part of a Metropolitan Statistical Area (MSA). The area includes block numbering areas (BNA) 9601.00, 9602.00, 9603.00, 9604.00, 9605.00, 9701.00, 9702.00, and 9703.00 which includes the communities of Luverne, Pipestone, Jasper, Edgerton, Hardwick, and Beaver Creek. The BNA's include one moderate income area and seven middle income areas. The population within this area totals 20,297 per 1990 Census Bureau data. Approximately 20% of the families are low income, 19% are moderate income, 26% are middle income, and 34% are upper income. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies. The U.S. Census 1990 median family income for the assessment area is \$28,933 and the 1998 updated non-MSA median family income in Minnesota is \$40,500. Employment is centered in agriculture and manufacturing.

Competition within the bank's assessment area is moderate. There are competing financial institutions in both Luverne and Pipestone, with another five institutions whose main offices are located in the neighboring towns of Hills, Hardwick, Edgerton, Jasper, and Ruthton. First Farmers and Merchants National Bank of Luverne recently purchased a competing Twin Cities Federal National Bank branch office in Pipestone, with the sale finalized on March 27, 1998.

As part of our evaluation, we contacted Mick Myers, the Executive Director of the Pipestone Chamber of Commerce. Mr. Myers noted that area banks are generous supporters of Chamber activities and are active in participation in Chamber activities. He also notes that local financial institutions offer a wide variety of credit products and are proactive in meeting the credit needs of the local population.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

First Farmers and Merchants National Bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's average loan-to-deposit ratio was 70.62% since the prior CRA Examination in December of 1995. The average loan-to-deposit ratio for banks in the surrounding area for the same time period was 69.59%, and ranged from 40.53% to 85.26%.

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 26 consumer loans, 23 business loans and 26 residential mortgages, which originated in 1997 and year-to-date 1998. This sample reflected that approximately 80% of the number and 64% of the dollar amount of loans were extended within the bank's assessment area. The breakdown by loan category is illustrated below:

Residential Mortgages	Number	Percent	Dollar Amt. (000's)	Percent
Inside Assessment Area	23	88.46%	877	94.95%
Outside Assessment Area	3	11.54%	47	5.05%

Business Loans	Number	Percent	Dollar Amt. (000's)	Percent
Inside Assessment Area	16	69.57%	5652	60.91%
Outside Assessment Area	7	30.43%	3628	39.09%

Consumer Loans	Number	Percent	Dollar Amt. (000's)	Percent
Inside Assessment Area	21	80.77%	91	69.85%
Outside Assessment Area	5	19.23%	39	30.15%

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

Our sample of residential and consumer loans extended within the assessment resulted in the following distribution:

DISTRIBUTION BY BORROWER INCOME								
Demographic Characteristics	Low Income		Moderate Income		Middle Income		Upper Income	
Family Income	20.21%		19.11%		26.45%		34.22%	
Loan Sample	#	\$ Amt	#	\$ Amt	#	\$ Amt	#	\$ Amt
Residential Loans	4.35%	.60%	21.74%	10.05%	17.39%	21.55%	56.52%	67.80%
Consumer Loans	42.86%	16.63%	14.29%	3.29%	28.57%	70.07%	14.29%	10.01%

The distribution of consumer loans reflects a reasonable penetration among individuals of different income levels.

The distribution of business and agriculture loans also reflects a reasonable penetration among businesses of different sizes. Based on our sample of business and agriculture loans made within the assessment area, 50% of these loans were to small businesses or small agriculture operations. Small commercial operations are defined as operations with revenues of less than \$1,000,000 and small agriculture operations are defined as operations with less than \$500,000. The following illustrates the dispersion of the small business and agriculture loans:

SMALL BUSINESS DISPERSION BASED ON REVENUES								
Revenue Ranges	Less than \$100,000		\$100,000 to \$500,000		\$500,000 to \$1,000,000		\$1,000,000 and greater	
Loan Sample	#	\$ Amt	#	\$ Amt	#	\$ Amt	#	\$ Amt
Commercial Loans	0	0	0	0	0	0	1	928
Agriculture Loans	2	212	6	1,221	6	2,921	1	370

Geographic Distribution of Loans:

Our sample of residential and consumer loans reflected the following distribution:

DISTRIBUTION BY BLOCK NUMBERING AREA								
Geography Characteristics	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts	
Number of Families	0		544		5,004		0	
Percentage	0.00%		9.81%		90.19%		0.00%	
Loan Sample	#	\$ Amt	#	\$ Amt	#	\$ Amt	#	\$ Amt
Residential Loans	0	0	4.35%	11.40%	95.65%	88.60%	0%	0%
Consumer Loans	0	0	4.76%	15.09%	95.24%	84.91%	0%	0%

The geographic distribution of loans reflects a reasonable dispersion throughout the bank’s assessment area. The bank’s lending activities are primarily concentrated within the middle income tracts. This situation is reasonably explained by the fact that seven out of eight BNA’s in the bank’s assessment area are middle income tracts. Additionally, the moderate income tract is north of Pipestone, MN and is not densely populated.

Responses to Complaints:

There have been no written complaints related to CRA performance since the prior CRA Examination.

Compliance with Antidiscrimination Laws:

In conjunction with the CRA evaluation, we performed a Fair Lending examination which included a review of the bank’s compliance with the Equal Credit Opportunity Act and the Fair Housing Act. No substantive violations of these antidiscrimination laws and regulations were identified.