



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 29, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Farmers & Merchants National Bank
Charter Number 22351

114 South Park
Fairmont, MN 56031-0000

Office of the Comptroller of the Currency

MINNEAPOLIS SOUTH
222 South Ninth Street Suite 800
Minneapolis, MN 55402

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 that support this rating include:

- The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of loan originations are made within the bank's assessment area.
- The borrower distribution of loans reflects reasonable penetration among businesses of different sizes and individuals of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment areas.

SCOPE OF EXAMINATION

We evaluated First Farmers and Merchants National Bank's Community Reinvestment Act (CRA) performance for the period beginning October 24, 2003 through June 30, 2008. The bank has two assessment areas (AA), Martin County AA and the Minneapolis/St. Paul AA. We completed a full scope review for the Martin County AA and a limited scope review of the Minneapolis/St. Paul AA. The Martin County AA carried the most weight in assigning the overall rating, since it contains 66% of the bank's loans and 68% of total deposits as of June 30, 2008. To determine the bank's lending performance, we selected primary products for each assessment area based on dollar and number volume of originations for the period beginning January 1, 2006 and ending June 30, 2008. Primary products were commercial loans for Martin County and both commercial and consumer loans for the Minneapolis/St. Paul AA. We selected a random sample of 20 loans from each of the primary products in order to evaluate lending within the assessment area and borrower income distribution. We used 2000 census information for demographic comparison purposes.

DESCRIPTION OF INSTITUTION

First Farmers and Merchants National Bank (FF&M Fairmont) is a \$72 million commercial bank located in Fairmont, Minnesota. The main bank is a full-service facility located in Fairmont, Minnesota. The bank has one branch located in downtown St. Paul that offers private banking services. This office has only two employees and there is limited public access to the office. The bank operates two automated teller machines (ATMs), one is located at the main bank in Fairmont and another is at a local grocery store in Fairmont. Neither ATM accepts deposits.

FF&M Fairmont provides traditional banking services, including loans for commercial, agricultural, consumer, and residential real estate purposes. As of June 30, 2008, outstanding loans by dollar volume included commercial (60%), agricultural (12%), residential real estate (12%), and consumer (16%). On that date, the bank's net loan-to-deposit ratio was 98.3%.

FF&M Fairmont is 99.79% owned by the 215 Holding Company, which is headquartered in Minneapolis, Minnesota. The remaining shares are owned by the members of the Board of Directors. Besides FF&M Fairmont, the holding company owns banks in Luverne, LeSueur, Grand Meadow, and Brownsdale, Minnesota. The holding company had total assets of \$405 million as of June 30, 2008.

FF&M Fairmont received a "Satisfactory" rating at its October 24, 2003 CRA examination. This Performance Evaluation assesses the bank's CRA activities from October 24, 2003 through June 30, 2008. There are no legal or financial circumstances impeding the bank's ability to meet the needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREAS

FF&M Fairmont has two AA, Martin County AA and the Minneapolis/St. Paul AA. The Martin County AA consists of six census tracts (CTs), 9901 through 9906. One CT is moderate-income and the remaining CTs are middle-income. The AA does not arbitrarily exclude any low- or moderate-income CTs. The population of the Martin County AA was 21,802 according to the 2000 U.S. Census Data. The U.S. Department of Housing and Urban Development (HUD) estimated median family income (MFI) for the non-metropolitan areas of Minnesota for 2008 was \$56,700. Economic conditions in the Martin County AA are generally good. Major employers include health and nursing care facilities, food processors, and manufacturing facilities. Unemployment in the Martin County AA stood at 5.4% in August 2008, which is below the rates for both the state of Minnesota (5.8%) and the U.S. overall rate (6.1%) on that date. The 2000 U.S. Census Data indicated that 10.85% of families were below the poverty level in the Martin County AA.

The Minneapolis/St. Paul AA consists of Washington, Hennepin, Dakota, and Ramsey Counties, which are part of the Minneapolis-St. Paul, Minnesota Metropolitan Statistical Area (MSA). The Minneapolis-St. Paul AA consists of 571 CT's: 47 tracts are low-income, 132 tracts are moderate-income, 237 tracts are middle-income, 151 tracts are upper-income, and 4 tracts are not applicable. The AA does not arbitrarily exclude any low- or moderate-income CT's. The population of the AA was 2,184,269 according to 2000 U.S. Census Data. The U.S. Department of Housing and Urban Development (HUD) estimated median family income (MFI) for the Minneapolis-St. Paul-Bloomington, Minnesota MSA for 2008 was \$80,900. Economic conditions in the Minneapolis-St. Paul AA are generally good. Major employers include health care facilities, universities, and manufacturing facilities. Unemployment in the Minneapolis-St. Paul AA ranged from 5.3 % to 6.0 % for the four counties included in the AA in August 2008. This is comparable to the rate for the state of Minnesota (5.8 %) and below the U.S. overall rate (6.1 %) on that date. The 2000 U.S. Census Data indicated that 6.90 % of families were below the poverty level in the Minneapolis-St. Paul AA.

There is reasonable competition from other financial institutions in the Martin County AA. On June 30, 2008, 12 financial institutions offered banking services in the Martin County AA. FF&M Fairmont ranked 4th in deposit market share, with 6.71% of the market share, based on June 2008 deposit information obtained from the Federal Deposit Insurance Corporation.

Banking competition in the Minneapolis-St. Paul AA is strong. On June 30, 2008, 133 financial institutions offered banking services in the Minneapolis-St. Paul AA. FF&M Fairmont ranked 103rd in deposit market share, with 0.03% of the market share, based on June 2008 deposit information obtained from the Federal Deposit Insurance Corporation.

Our community contact indicated that local banks are active in the community. Most local banks offer a wide range of products and services. The contact stated that the banks are meeting the area's primary credit needs. Small businesses have access to financing and community members have access to consumer and home loans. The contact stated that FF&M Fairmont and its employees have been very active in local community projects.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 22 quarters since the previous CRA examination is 95.90%. Similarly-situated banks have quarterly average loan-to-deposit ratios ranging from 65.50% to 79.81% over the same time frame. These banks have a presence in FF&M Fairmont's assessment area with total assets between \$46 million and \$84 million.

Institution	Asset Size as of 6/30/2008	Average Loan-to-Deposit Ratio 1Q03 to 2Q08
FF&M Fairmont	\$72 million	95.90%
State Bank of Fairmont	\$84 million	79.81%
Farmers State Bank of Trimont	\$46 million	74.94%
Triumph State Bank	\$47 million	65.50%

Lending in Assessment Area

FF&M Fairmont originated a majority of its loans to borrowers within its defined assessment areas. Based on a sample of 60 loans originated from 2006 to 2008, 85% by number and 94% by dollar volume were made to businesses and individuals within the bank's assessment areas.

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

The distribution of borrowers reflects reasonable penetration among businesses of different sizes and among individuals of different income levels.

Performance in the Martin County AA

FF&M Fairmont's distribution of credit among businesses of different sizes in the AA is reasonable. Based on a sample of 20 commercial loans, 90% of the bank's loans are originated to borrowers with gross annual revenues of less than \$1,000,000. This is comparable to the AA demographics, however the demographic data includes a significant percentage (40%) of businesses that have not reported their gross revenues. Bank management indicated that a significant percentage of these unknown businesses are likely smaller in size. Given this information, the bank's lending to businesses of different sizes shows reasonable loan penetration compared to demographics of the AA.

Borrower Distribution of Loans to Businesses in Martin County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	56%	4%	40%	100%
% of Bank Loans in AA by #	90%	10%	-	100%
% of Bank Loans in AA by \$	88%	12%	-	100%

*Source: 2007 Business Geo-Demographic Data

Conclusions for Areas Receiving Limited-Scope Reviews

Based on a limited-scope review, the bank's performance under the Borrower Distribution Test in the Minneapolis/St. Paul AA is weaker than the bank's overall "Satisfactory" performance under the Borrower Distribution Test in the Martin County AA. The weaker performance is a result of the bank's defined target market and business strategy for the St. Paul branch.

Geographic Distribution of Loans

The distribution of loans reflects a reasonable dispersion throughout the bank's AAs. There were no conspicuous gaps identified within the bank's AAs.

Performance in the Martin County AA

The bank's geographic distribution of commercial loans in this AA reflects an excellent dispersion throughout census tracts of different income levels. Based on a sample of 20 commercial loans, FF&M Fairmont's loans to borrowers located in moderate-income CT's exceeded community demographics. There were no low-income CT's in the Martin County AA. The following table details the bank's performance compared to community demographics.

Geographic Distribution of Commercial Loans In Martin County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	0%	0%	28%	30%	72%	70%	0%	0%

Conclusions for Areas Receiving Limited-Scope Reviews

Based on a limited-scope review, the bank’s performance under the Geographic Distribution Test in the Minneapolis/St. Paul AA is weaker than the bank’s overall “Excellent” performance under the Geographic Distribution Test in the Martin County AA. The weaker performance is a result of the bank’s defined target market and business strategy for the St. Paul branch.

Responses to Complaints

The bank has not received any complaints regarding its CRA performance since the last evaluation.

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.