

PUBLIC DISCLOSURE

March 31, 1999

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 Field Office
300 North Dakota Avenue, Suite 504
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.

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation:

Assessment Area - The geographic area in which an institution's CRA performance is assessed. Generally, an urban assessment area will not extend beyond the boundaries of a metropolitan statistical area (MSA). A rural assessment area may contain one or more neighboring counties.

Block Numbering Area - A small, statistical area within a nonmetropolitan county (also known as a "geography").

Community Development Loan - A loan with a **primary** purpose of community development. With one exception community development loans specifically exclude loans reported in Home Mortgage Disclosure Act (HMDA) or CRA (small loans to businesses and farms) Disclosure Statements. Multi-family rental housing loans can be reported under HMDA and count as community development loans.

Community Development Purpose - Affordable housing (including multifamily rental housing) for low- and moderate- income (LMI) individuals; community services targeted for LMI individuals; activities that promote economic development by financing businesses or farms that meet certain size and revenue standards prescribed by regulation; and, activities that vitalize or stabilize LMI geographies.

Income Levels - The regulation prescribes various income levels, relating to individuals, families and geographies: low-income = less than 50% of the median family income; moderate-income = at least 50%, but less than 80% of the median; middle-income = at least 80%, but less than 120% of the median; and, upper-income = 120% or more of the median.

Median Family Income - The median family income is determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

Small Business or Small Farm - A business or farm with gross annual revenues of \$1 million or less.

Small Loan to a Business or Farm - A loan of \$1 million or less to any business and a loan of \$500,000 or less to any farm.

GENERAL INFORMATION

The Community Reinvestment Act 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 Office of the Comptroller of the Currency, the institution's supervisory agency, as of **March 31, 1999**. 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."

- C First Farmers & Merchants National Bank meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio of 89 percent since the bank's prior CRA examination.
- C A majority of loans by both number (87 percent) and by dollar volume (67 percent) are located within the bank's defined assessment area.
- C The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers), and meets community demographics for lending to farms and businesses of different sizes.

DESCRIPTION OF INSTITUTION

First Farmers & Merchants National Bank, Fairmont, Minnesota (FF&M Fairmont) is a \$32 million commercial bank. The bank’s only office is a full-service facility located in downtown Fairmont. This office also has a drive-up window and a proprietary cash-dispensing automated teller machine (ATM). The bank owns another cash-dispensing ATM located in a grocery store.

FF&M Fairmont’s business focus is agricultural, commercial, and consumer lending. According to its Report of Condition and Income, the bank has the following outstanding loans by dollar volume on December 31, 1998: commercial (38 percent), agricultural (26 percent), residential real estate (26 percent) and consumer (10 percent). Net loans total 81 percent of total assets.

The bank is 99.6 percent owned by the 215 Holding Company, a \$273 million five-bank holding company headquartered in Minneapolis, Minnesota. Affiliate banks are located in Luverne, LeSueur, Brownsdale, and Grand Meadow, Minnesota.

FF&M Fairmont received a “Satisfactory” rating at its August 23, 1996, CRA examination. This Performance Evaluation assesses the bank’s CRA activities from January 1, 1997, through December 31, 1998. There are no financial, legal, or other factors which impede the bank’s ability to meet the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FF&M Fairmont identifies its assessment area as Martin County, Minnesota, which includes six block numbering areas (BNAs). The total population of the assessment area is 22,914 persons, according to 1990 U.S. Census Data.

The assessment area complies with regulatory requirements. It includes the FF&M Fairmont main office and ATMs, as well as a majority of the bank’s loans. The area does not arbitrarily exclude any low- or moderate-income BNAs.

The U.S. Department of Housing and Urban Development’s 1998 updated statewide non-MSA median family income (MFI) estimate for Minnesota is \$40,500. The following table summarizes the income levels of individual BNAs and families located within the bank’s assessment area:

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Number of BNAs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Martin County	0	0	6	0	17%	18%	27%	38%

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

The assessment area has only nine percent of families with incomes below the poverty level (less than 30 percent of MFI).

According to 1990 U.S. Census Data, the median housing value is affordable at \$38,790 and the average age of homes is 50 years. Nearly 70 percent of housing in the assessment area is owner-occupied. Rental units have an average gross rent of \$268 per month, which is also fairly low in relation to income levels. According to more recent information provided by the City of Fairmont, the median sales price of a home in Fairmont has increased to \$52,738.

Major employers in Fairmont are mainly manufacturers and include Fairmont Foods (450 employees), Weigh-Tronix (356), Fairmont Tamper (350), Fairmont Community Hospital (279), and 3M (200). Unemployment in Martin County is relatively low at 4.7 percent as of February 1999. However, this is above the 2.4 percent unemployment rate for the state of Minnesota.

Competition from other financial institutions is strong. Including FF&M Fairmont, there are four financial institutions chartered in Fairmont and 11 chartered in Martin County. The bank is the smallest of the four banks in Fairmont and ranks sixth among the 11 banks in Martin County based on asset size. FF&M Fairmont ranks seventh among 13 banks with offices in Martin County with deposit share of seven percent.

We did not identify any unmet credit needs in FF&M Fairmont's assessment area through our contact with a local economic development organization. Because of the expansion of the Fairmont economy, our contact identified lending to both large and small businesses as an important part of keeping the overall economy strong while the agricultural sector struggles due to low commodity prices. Our contact indicated that all area banks have expressed a willingness to provide financing, including joint financing programs with governmental agency programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio:

FF&M Fairmont's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 89.2 percent over 10 quarters from September 30, 1996, to December 31, 1998. FF&M Fairmont's net loan-to-deposit ratio trend is increasing and totals 95.2 percent on December 31, 1998.

FF&M Fairmont's net loan-to-deposit ratio compares favorably with other community banks of similar size (total assets between \$10 and \$50 million) in the assessment area. FF&M Fairmont ranks first among a total of nine similarly-situated banks chartered in the assessment area. The other eight banks had quarterly average net loan-to-deposit ratios averaging 69 percent and ranging from 52 percent to 84 percent over 10 quarters from September 30, 1996, through December 31, 1998.

Lending in Assessment Areas:

FF&M Fairmont originates a majority of its loans to borrowers located within its defined assessment area. Of loans originated in 1997 and 1998, about 87 percent by number and 67 percent by dollar volume were made to farms, businesses, and individuals located within the bank's assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT (000S)				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Agricultural	114	86%	\$6,141	85%
Commercial	191	84%	\$13,043	55%
Consumer	451	88%	\$4,240	90%
Residential	95	92%	\$3,455	84%
Total	851	87%	\$26,879	67%

Source: Bank records (verified by examiners)

The bank purchases a significant volume of commercial loan participations to hold in its own portfolio and for sale to affiliate banks. In 1997 and 1998, FF&M Fairmont purchased 21 loans totaling about \$9 million. These purchases significantly reduce the percentage of commercial loans by dollar volume originated inside the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

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

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. Lending to businesses and farms meets community demographics; lending to low- and moderate-income individuals exceeds community demographics.

Commercial lending activity in the assessment area (87 percent) meets community demographics of 90 percent. FF&M Fairmont originated 227 commercial loans totaling nearly \$24 million in 1997 and 1998. The largest number of loans in the assessment area were originated to small businesses with less than \$250,000 in annual revenues. The bank's commercial lending directly addresses community credit needs identified by our community contact. Examiners sampled 30 commercial and commercial real estate borrowers representing 32 percent of commercial borrowers with loans originated in the assessment area in 1997 and 1998. The following table compares the bank's commercial lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number	Percent of Number	Business Demographic Data
<\$50,000	2	7%	90%
\$ 50,000-\$100,000	2	7%	
\$100,000-\$250,000	11	37%	
\$250,000-\$500,000	4	13%	
\$500,000-\$1,000,000	7	23%	
>\$1,000,000	4	13%	10%
Totals	30	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

Agricultural lending activity in the assessment area meets community demographics. FF&M Fairmont originated 133 agricultural loans totaling \$7 million in 1997 and 1998. The largest number of loans in the assessment area were originated to small farms with less than \$250,000 in annual revenues. Examiners sampled 21 agricultural and agricultural real estate borrowers representing 51 percent of agricultural borrowers with loans originated in the assessment area in 1997 and 1998. The following table compares the bank's agricultural lending activity by revenue size to community demographics:

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

BORROWER DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number	Percent of Number	Agriculture Census Demographics (1997)
<\$ 50,000	4	19%	32%
\$ 50,000-\$100,000	3	14%	15%
\$100,000-\$250,000	8	38%	29%
\$250,000-\$500,000	4	19%	13%
>\$500,000	2	10%	11%
Totals	21	100%	100%

Source: Bank records (verified by examiners) and U.S. Agricultural Census Data (1997)

Consumer lending activity in the assessment area substantially exceeds the community demographics for both low-and moderate-income borrowers. FF&M Fairmont originated 515 consumer loans totaling nearly \$5 million in 1997 and 1998. The average consumer loan size is \$9,143. We noted a large volume of personal loans with origination amounts of less than \$2,000, which are affordable for low-and moderate-income individuals. Examiners sampled 52 consumer loans representing 11.5 percent of consumer loans originated in the assessment area in 1997 and 1998. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Number	Percent of Number	Percent of Families
Low	18	35%	17%
Moderate	18	35%	18%
Middle	11	21%	27%
Upper	5	9%	38%
Totals	52	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

We did not perform a review of the FF&M Fairmont's residential real estate lending activity by borrower income as this is not a major product line for the bank. FF&M Fairmont originated 103

home purchase, refinance, and home improvement loans totaling \$4 million in 1997 and 1998.
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Geographic Distribution of Loans:

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle-income BNAs.

Response to Complaints:

The bank has not received any CRA-related complaints since the last CRA examination.

OTHER INFORMATION

Fair Lending:

Examiners did not identify any instances of illegal discrimination or disparate treatment in the fair lending review performed during this compliance examination cycle. Our comparative file review used the benchmark approach to evaluate consumer used automobile lending based on gender.