



## **PUBLIC DISCLOSURE**

September 22, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Farmers & Merchants National Bank  
Charter Number 13544

303 E. Main  
Luverne, MN 56156

Office of the Comptroller of the Currency

Campbell Mithun Tower  
222 South Ninth Street  
Suite 800  
Minneapolis, MN 55402-3393

**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 reasonable given the bank's size, financial condition, and the credit needs of its assessment area.
- A substantial majority of loans are originated within the bank's assessment area.
- The distribution of loans reflects reasonable penetration among farms of different sizes.

**SCOPE OF EXAMINATION**

We evaluated First Farmers & Merchants Bank (FF&M Luverne) Community Reinvestment Act (CRA) performance using small bank procedures. The bank's CRA performance focused on the bank's primary loan products based on originations and purchases from January 1, 2012 to December 31, 2013. Agricultural loans were determined to be the bank's primary loan product. We selected a random sample of 20 agricultural loans originated during the evaluation period to determine the bank's lending performance. The following table shows loan originations by number and dollar volume:

<b>Loan Originations and Purchases in 2012 and 2013</b>		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Agriculture	48.94%	68.45%
Commercial	12.04%	22.71%
Consumer	30.81%	4.39%
Residential	8.21%	4.46%

*Source: Bank Loan Origination Report for 2012 and 2013*

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation to find similarly situated banks. The most recent deposit information is as of June 30, 2013.

**DESCRIPTION OF INSTITUTION**

FF&M Luverne is a \$165 million intrastate bank headquartered out of Luverne, MN with one branch located in Pipestone, MN. There have been no mergers, acquisitions, or branch openings/closings since the last CRA evaluation, and the bank does not have any deposit taking Automated Teller Machines. FF&M Luverne is 100 percent owned by 215 Holding Company, a multi-bank holding company located in Minneapolis, MN. 215 Holding Company is not engaged in any activity that materially affects the bank's CRA performance.

FF&M Luverne offers a wide-array of traditional banking products to meet the needs of the community. The bank's primary lending focus is agricultural and commercial loans. As of June 30, 2014, the bank's loan portfolio totaled \$129 million, comprising of 58.32

percent agriculture, 33.39 percent commercial, 4.61 percent consumer, and 3.68 percent residential real estate. As of June 30, 2014, tier 1 capital totaled 15.51 percent of risk-weighted assets.

There are no financial, legal, or other factors that impede FF&M Luverne's ability to meet its CRA obligations. FF&M Luverne was rated Satisfactory at the last CRA evaluation dated October 6, 2008.

## DESCRIPTION OF ASSESSMENT AREA

FF&M Luverne's assessment area (AA) consists of Rock and Pipestone counties located in southwest Minnesota. There are eight middle-income census tracts (CT) within the AA. The bank's AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE LUVERNE AA</b>	
<b>Population</b>	
Number of Families	5,241
Number of Households	7,811
% of Low-Income Families	20.00%
% of Moderate-Income Families	18.60%
% of Middle-Income Families	25.47%
% of Upper-Income Families	35.93%
<b>Geographies</b>	
Number of Census Tracts	8
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	100.00%
% Upper-Income Census Tracts	0.00%
<b>Median Family Income (MFI)</b>	
2010 MFI for AA	\$58,135
2013 HUD-Adjusted MFI	\$61,700
<b>Economic Indicators</b>	
2013 Average Unemployment Rate	3.60%
2010 Median Housing Value	\$91,539
% of Households Below Poverty Level	10.65%

*Source: 2010 U.S. Census data with updated information when available*

According to the Bureau of Labor Statistics, the average unemployment rate in 2013 for Rock and Pipestone counties was 3.60 percent, below the Minnesota unemployment rate of 5.10 percent. The primary source of employment in Rock and Pipestone

counties is agriculture. Employment is supplemented by a Veterans Home in Luverne and a significant wind energy sector in Pipestone County.

There are seven financial institutions operating within the bank’s AA. According to the June 30, 2013 FDIC Market Share Report, competition within the AA is moderate. Three institutions dominate the deposit market share. FF&M Luverne ranks third with 21.75 percent market share, behind First Bank & Trust with 27.40 percent market share and Minnwest Bank Luverne with 23.04 percent market share.

We contacted a local community official to better understand the AA demographics and to evaluate the primary credit needs of the AA. The community contact indicated that local financial institutions are active in the economy and community. The contact indicated that agricultural lending continues to be the primary credit need of the AA and banks are meeting the credit needs of the community. Furthermore, banks are heavily involved in the local community, providing support and volunteers for a wide variety of local events.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Lending Test

The bank’s performance under the lending is satisfactory.

### Loan-to-Deposit Ratio

FF&M Luverne’s loan-to-deposit ratio (LTD) is reasonable given the bank’s size and the credit needs of the AA. The bank’s LTD ratio averaged 88.45 percent over the 24 quarters since the previous CRA evaluation. The quarterly ratio ranged from a low of 79.36 percent (1Q11) to a high of 101.1 percent (3Q08) during this time.

The bank’s LTD compares favorably to similarly situated banks. Similarly situated banks are defined as those banks with total assets between \$151 million and \$279 million with a presence in the bank’s AA. The following table shows the bank’s LTD compared to similarly situated financial institutions:

<b>Loan-to-Deposit Ratio</b>	<b>Assets 6/30/14 (\$000s)</b>	<b>Average LTD 3Q08-2Q14 (%)</b>
<b>FF&amp;M Luverne</b>	<b>\$164,794</b>	<b>88.45%</b>
First Bank & Trust	\$191,551	78.81%
First Independent Bank	\$279,558	77.88%
Exchange State Bank	\$151,545	73.24%
First State Bank Southwest	\$230,128	69.77%

*Source: Call Report Data as of June 30, 2014.*

**Lending in Assessment Area**

FF&M Luverne originates a substantial majority of its loans to borrowers within the bank’s AA. The following table shows agricultural loans originated inside and outside of the bank’s AA:

<b>Agricultural Lending in the AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agriculture	18	90.00	2	10.00	20	1,675	96.43	62	3.57	1,737
Totals	18	90.00	2	10.00	20	1,675	96.43	62	3.57	1,737

Source: OCC Loan Sample

**Lending to Farms of Different Sizes**

The distribution of loans reflects reasonable penetration among farms of different sizes. FF&M Luverne’s lending to small farms is near the demographic comparative. The following table shows the bank’s lending to farms of different sizes:

<b>Borrower Distribution of Loans to Farms in the AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.68%	0.88%	0.44%	100%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100%
% of Bank Loans in AA by \$	82.15%	17.85%	0.00%	100%

Source: Agricultural Loan Sample; 2013 Dunn & Bradstreet Data

**Geographic Distribution of Loans**

The geographic distribution of loans does not provide a meaningful analysis as the bank’s AA has no low- or moderate-income census tracts.

**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**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography of the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

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

