

PUBLIC DISCLOSURE

March 29, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Farmers & Merchants National Bank
Charter Number 15304
112 South Main Street
LeSueur, Minnesota 56058

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, LeSueur, Minnesota**, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **March 29, 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 81 percent since the bank's prior CRA examination.
- C A majority of loans by both number (73 percent) and by dollar volume (60 percent) are located within the bank's defined assessment areas.
- C The bank meets community demographics in lending to individuals of different income levels (including low- and moderate-income borrowers) and to farms and businesses of different sizes.

DESCRIPTION OF INSTITUTION

First Farmers & Merchants National Bank, LeSueur, Minnesota (FF&M LeSueur) is a \$44 million commercial bank. The bank's only office is a full-service facility located in LeSueur. This office also has a drive-up window and a proprietary automated teller machine (ATM).

FF&M LeSueur's business focus is a mix of commercial, residential, agricultural, 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 (33 percent), one-to-four family residential real estate (30 percent), agricultural (23 percent), and consumer (14 percent). Net loans total 70 percent of assets.

The bank is 97.5 percent owned by the 215 Holding Company, a \$273 million five-bank holding company headquartered in Minneapolis, Minnesota. Affiliate banks are located in Luverne, Fairmont, Brownsdale, and Grand Meadow, Minnesota.

FF&M LeSueur received a "Satisfactory" rating at its December 19, 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 LeSueur identifies its assessment area as four contiguous block numbering areas (BNAs) located in portions of LeSueur and Sibley Counties. The bank did not designate both counties in whole due to the bank's location near the county lines and its inability to reach the large area. Total population of the assessment area is 16,252 persons, according to 1990 U.S. Census Data.

The assessment area complies with regulatory requirements. It includes the FF&M LeSueur main office and ATM, 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:

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Number of BNAs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Parts of LeSueur and Sibley Counties	0	0	3	1	13%	16%	23%	48%

Source: U.S. Census Data (1990)

The assessment area has only six 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 \$57,058 and the average age of homes is 47 years. Nearly 78 percent of housing in the assessment area is owner-occupied. Rental units have an average gross rent of \$312 per month, which is also fairly low in relation to income levels. However, according to more recent information provided by the LeSueur Chamber of Commerce, the tight housing market has caused housing prices to increase. The average sales price of homes in the area increased to \$108,000 last year.

Major employers in the LeSueur area include LeSueur Incorporated (600 employees), ADC Telecommunications (600), LeSueur Cheese Company (120), and Lake Prairie Egg (110). Unemployment in the assessment area is relatively low. LeSueur County unemployment for February 1999 was 5.5 percent; Sibley County was 5.8 percent. 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 LeSueur, there are 12 financial institutions chartered in LeSueur and Sibley Counties. The bank ranks fourth among the 12 banks based on asset size. FF&M LeSueur ranks fourth among 11 banks with offices in LeSueur County with deposit share of 11.4 percent.

We did not identify any unmet credit needs in FF&M LeSueur's assessment area through our contact with the Chamber of Commerce. Affordable housing appears to be the most pressing need in the assessment area. Our contact indicated that all area banks have expressed a willingness to provide financing, including joint financing programs with governmental agencies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio:

FF&M LeSueur'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 80.8 percent over nine quarters from December 31, 1996, to December 31, 1998. FF&M LeSueur's net loan-to-deposit ratio trend is increasing and totals 82.2 percent at December 31, 1998.

FF&M LeSueur's net loan-to-deposit ratio compares favorably with other community banks of similar size (total assets between \$40 and \$45 million) in the assessment area. FF&M LeSueur ranks first among a total of three similarly-situated banks chartered in the assessment area. The two other banks had quarterly average net loan-to-deposit ratios of 60 percent and 75 percent over nine quarters from December 31, 1996 through December 31, 1998.

Lending in Assessment Areas:

FF&M LeSueur originates a majority of its loans to borrowers located within its defined assessment area. Of loans originated in 1997 and 1998, about 73 percent by number and 60 percent by dollar volume were made to individuals, farms, and businesses 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
Consumer	745	73%	\$6,702	75%
Agricultural	157	84%	\$5,571	65%
Commercial	155	65%	\$7,594	46%
Residential	101	74%	\$3,689	68%
Total	1,158	73%	\$23,556	60%

Source: Bank records (verified by examiners)

The bank holds a significant volume of commercial paper as investments. Commercial paper totals \$1.5 million and is located outside of the assessment area. In 1997 and 1998, FF&M LeSueur purchased eight commercial and agricultural loans totaling \$1.7 million. These investments and 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 small businesses and farms and to low- and moderate-income individuals meets community demographics.

Commercial lending activity in the assessment area (90 percent) meets community demographics of 93 percent. FF&M LeSueur originated 240 commercial loans totaling nearly \$17 million in 1997 and 1998. The largest number of loans in the assessment area were originated to small businesses with \$50,000 to \$250,000 in annual revenues. Examiners sampled 30 commercial and commercial real estate borrowers representing 38 percent of commercial borrowers with loans originated in the assessment area in 1997 and 1998. Our sample was limited as the bank does not always obtain income information on smaller loans, which are more likely to originate for smaller businesses. 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	5	17%	93%
\$ 50,000-\$100,000	7	23%	
\$100,000-\$250,000	7	23%	
\$250,000-\$500,000	5	17%	
\$500,000-\$1,000,000	3	10%	
>\$1,000,000	3	10%	7%
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 LeSueur originated 188 agricultural loans totaling \$8.5 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 30 agricultural and agricultural real estate borrowers representing 59 percent of agricultural borrowers with loans originated in the assessment area in 1997 and 1998. Our sample was limited as the bank does not always obtain income information on smaller loans, which are more likely

to originate for smaller farms. 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			
Revenue	Number	Percent of Number	Agriculture Census Demographics (1997)
<\$ 50,000	8	27%	53%
\$ 50,000-\$100,000	7	23%	15%
\$100,000-\$250,000	8	27%	19%
\$250,000-\$500,000	6	20%	9%
>\$500,000	1	3%	4%
Totals	30	100%	100%

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

Residential real estate lending activity in the assessment area meets community demographics for low- and moderate-income borrowers. The bank is actively lending to low- and moderate-income borrowers, especially for home purchase and home improvement purposes. This lending directly addresses the affordable housing need identified by our community contact. FF&M LeSueur originated 136 residential real estate loans totaling over \$5 million in 1997 and 1998. Examiners sampled 100 percent of residential real estate loans originated in the assessment area in 1997 and 1998. The following table compares the bank's residential real estate lending activity by purpose and borrower income level to community demographics:

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY INCOME LEVEL									
Borrower Income Level	Purchase			Refinance			Home Improvement		
	Number	Percent of Number	Percent of Families	Number	Percent of Number	Percent of Families	Number	Percent of Number	Percent of Families
Low	4	13%	13%	1	2%	13%	4	14%	13%
Moderate	3	10%	16%	7	17%	16%	5	17%	16%
Middle	7	22%	23%	20	49%	23%	12	41%	23%
Upper	17	55%	48%	13	32%	48%	8	28%	48%

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY INCOME LEVEL									
Totals	31	100%	100%	41	100%	100%	29	100%	100%

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Using loan size as proxy, we determined that FF&M LeSueur meets community demographics for consumer lending. FF&M LeSueur originated 1,023 consumer loans totaling nearly \$9 million in 1997 and 1998. We were unable to complete analysis of consumer loans based on income levels as the bank does not consistently obtain customer income information. The average consumer loan size is \$8,745. 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.

Geographic Distribution of Loans:

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle- and upper-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 automobile lending based on gender.