



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**March 24, 2003**

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

**F & M Bank, National Association  
Oklahoma City, Oklahoma  
Charter Number 23348**

**11000 Surrey Hills Boulevard  
Yukon, Oklahoma 73099**

**Assistant Deputy Comptroller  
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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.

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## ***INSTITUTION'S CRA RATING***

**F&M Bank, N.A. is rated Satisfactory.**

The major factors that support this rating include:

- A majority of the bank's loans are made within the Assessment Area (AA).
- The loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- The bank meets the standard for satisfactory performance for lending to borrowers of different incomes and business of different sizes.
- The geographic distribution of loans is satisfactory throughout the AA.
- The bank has not received any consumer complaints regarding CRA performance.

F&M Bank, N.A. is committed to serving the community and demonstrates satisfactory lending performance.

## ***DESCRIPTION OF F&M BANK, N.A.***

F&M Bank, N.A. (F&M) is a \$44 million financial institution headquartered in Oklahoma City, Oklahoma. F&M is a wholly owned subsidiary of Farmers and Merchants Bancshares, Inc., a two-bank holding company located in Crescent, Oklahoma. At December 31, 2002, Farmers and Merchants Bancshares, Inc. had total assets of \$127 million. Farmers and Merchants Bank located in Crescent, Oklahoma, is an affiliate of F&M.

F&M's primary focus is commercial lending in the Northeast corner of Canadian County. F&M offers a wide variety of loan and deposit products. The Main Office and an Automated Teller Machine (ATM) are located at 11000 Surrey Hills Boulevard in Oklahoma City, Oklahoma. The branch is located at 1216 N. Piedmont Road and another ATM is located at the corner of Monroe and Piedmont Road in the AD Gas and Deli. Both locations are within Piedmont, Oklahoma.

As of December 31, 2002, F&M's total assets equaled \$44 million, of which \$23 million, or 52 percent, were composed of various types of loans to individuals, commercial businesses, and agricultural related enterprises. F&M's loan portfolio is summarized below:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate Loans	11,689	51.32
Commercial Loans	6,677	29.31
Consumer Loans	2,271	9.97
Residential Real Estate Loans	2,142	9.40
<b>Total</b>	<b>22,779</b>	<b>100.00</b>

The bank received an overall rating of "Satisfactory" at the last Community Reinvestment Act evaluation dated September 30, 1998. There are no legal or financial impediments to prevent the bank from meeting the credit needs of the assessment area.

## ***DESCRIPTION OF CANADIAN COUNTY***

The assessment area meets the requirements of the regulation, consists of whole geographies, does not reflect illegal discrimination, and does not arbitrarily exclude low- or moderate-income geographies.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	19,576
Number of Households	24,386
<i>Geographies</i>	
Number of Census Tracts/BNA	19
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	16%
% Middle-Income Census Tracts/BNA	42%
% Upper-Income Census Tracts/BNA	42%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$37,773
2002 HUD-Adjusted MFI	\$46,000
<i>Economic Indicators</i>	
Unemployment Rate	2.43%
2002 Median Housing Value	\$54,642
% of Households Below Poverty Level	9.41%

The assessment area (AA) is identified as all of Canadian County in Central Oklahoma. All of the bank's operations are located in the AA. Based on 1990 data, the United States Census Bureau identifies no census tracts as low-income, three tracts as moderate-income, eight tracts as middle-income, and eight tracts as upper-income. The total population of the AA approximates 71 thousand. Additionally, there were 20 thousand families and 24 thousand households. Of the 19 thousand families, 0.0 percent, 5.8 percent, 46.7 percent, and 47.5 percent report low, moderate, middle, and upper-incomes, respectively. The AA contains 27 thousand housing units with 24 thousand or 90 percent owner occupied. Households below the poverty level are nine percent and households that receive public assistance total three percent.

F&M's major competitors include local financial institutions, the branches of larger banks, one large savings institution, and several credit unions. The local economic conditions are stable. The local economy is dominated by agriculture. The major agricultural products are wheat and cattle. There are few significant manufacturing or industrial businesses in the area. Major employers are local school districts. The majority of local residents commute to work in nearby Oklahoma City.

A community contact was conducted with a local community development director in the AA. The director's organization serves the local area by providing assistance to developers and builders to construct business and houses. The contact indicated that credit needs of the area revolve around the need to attract additional businesses that will build the local tax base. The contact further stated that this bank is actively involved in all aspects of local the community.

## ***CONCLUSIONS ABOUT PERFORMANCE CRITERIA***

This Performance Evaluation (PE) assesses the bank's performance focusing primarily on five performance criteria: the loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses/farms of different sizes, geographic distribution of loans, and responses to complaints.

In evaluating the bank's lending performance a random sample of 70 loans was reviewed. Major loan products offered by the bank were sampled and consisted of the following: all residential real estate loans made since December 31, 2000 (15), consumer loans (35), and loans to small businesses/farms (20).

Consistent with available resources and capabilities, the bank is meeting the credit needs of the entire AA in a satisfactory manner.

### ***Loan-to-Deposit Ratio***

The loan-to-deposit ratio is satisfactory. This determination is based on the bank's quarterly average loan-to-deposit ratio of 65 percent since the preceding public evaluation. The actual ratio at December 31, 2002, was 60 percent. The average loan-to-deposit ratio for the 56 banks in Canadian and the surrounding counties since the preceding examination was 68 percent, with actual ratios ranging from 27 percent to 115 percent. The average loan-to-deposit ratio for similar banks located near F&M (listed in table below) was 70 percent. The other banks considered to be primary competitors are branches of larger banks with several locations.

<b>Institution</b>	<b>Assets as of (12/31/02) (000's)</b>	<b>Average LTD Ratio</b>
Community National Bank of Okarche	38,746	72.75%
The First Bank of Okarche	42,571	74.21%
Yukon National Bank	124,622	55.30%
Canadian State Bank	59,795	76.85%
<b><i>F &amp; M Bank, NA</i></b>	<b><i>43,916</i></b>	<b><i>64.62%</i></b>

### *Lending in Assessment Area*

F&M’s lending in the AA is satisfactory. A majority of the residential real estate, consumer, and small businesses/farms loans sampled were originated within the bank’s AA, as illustrated in the table below.

<b>TOTAL LOANS REVIEWED</b>								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	22	62.86	104	47.75	13	37.14	114	52.25
Residential R/E	12	80.00	841	92.32	3	20.00	70	7.68
Commercial/Ag	14	70.00	4,427	67.67	6	30.00	2,115	32.33
<b>Total Reviewed</b>	<b>48</b>	<b>68.57</b>	<b>5,372</b>	<b>70.03</b>	<b>22</b>	<b>31.43</b>	<b>2,299</b>	<b>29.97</b>

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

F&M’s overall distribution of loans by income level of borrowers meets the standard for satisfactory performance. The following tables represent the distribution of lending based on the sample of 12 residential real estate loans, 22 consumer loans, and 14 commercial/agricultural loans located in the AA.

F&M’s distribution of residential real estate loans by income level is satisfactory. The percentage of the number of home purchase loans to low-income and moderate-income borrowers is lower than the percentage of low-income and moderate-income families in the AA. The lack of penetration of loans in the low range is mitigated, as this level of income does not typically qualify for traditional residential real estate lending programs.

<b>RESIDENTIAL REAL ESTATE</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	13.48		14.02		24.36		48.14	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	<b>0.00</b>	<b>0.00</b>	<b>8.33</b>	<b>8.32</b>	<b>8.33</b>	<b>1.78</b>	<b>83.33</b>	<b>89.90</b>

Families are defined as a traditional family unit earning within the income levels noted in the graph.

F&M’s distribution of consumer loans by income levels is excellent. The percentage of the number of consumer loans to low-income and moderate-income borrowers is significantly higher than the percentage of low-income and moderate-income families in the AA. This distribution is excellent in light of the fact that 16.5 percent of the households are considered low income (and 9.41 percent of these households have incomes below the poverty level).



<b>CONSUMER</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	16.59		12.69		18.03		52.69	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	<b>40.00</b>	<b>41.72</b>	<b>30.00</b>	<b>21.15</b>	<b>25.00</b>	<b>28.18</b>	<b>5.00</b>	<b>8.95</b>

Households are defined as individual(s) living in a single unit (house or multifamily) with earnings falling within the areas noted above

F&M's loan distribution to small businesses/farms in the AA is good. The percentage of bank loans to businesses/farms with revenues less than \$1 million is higher than the percentage of businesses/farms with revenues less than \$1 million.

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES AND FARMS</b>		
Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses/Farms	80.51	4.68
% of Bank Loans in AA #	78.57	21.43
% of Bank Loans in AA \$	87.97	12.03

Note: Businesses/farms not reporting revenues was 14.81 percent.

### ***Geographic Distribution of Loans***

F&M's lending reflects a satisfactory distribution of loans throughout the assessment area. There are no low-income census tracts and only three moderate-income census tracts in the assessment area. The moderate-income tracts are located in Southern Yukon and in El Reno. F&M has little to no lending activity in these tracts due to the geographic distance between the bank and these tracts. Also, the North Canadian River provides a natural impediment. In addition, several other banking institutions are located closer to these areas.

Residential real estate lending in the moderate-income census tracts is nonexistent for the reasons described above.

<b>RESIDENTIAL REAL ESTATE</b>								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.00		5.42		46.14		48.44	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>41.67</b>	<b>26.98</b>	<b>58.33</b>	<b>73.02</b>

Consumer lending in the moderate-income census tracts is nonexistent for the reasons described above.

<b>CONSUMER</b>								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.00		7.26		47.42		45.32	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>59.09</b>	<b>48.88</b>	<b>40.91</b>	<b>51.12</b>

The level of business/farm loans extended in the moderate-income census tracts follows the same pattern as the residential real estate and consumer loans discussed above.

<b>BUSINESS LOANS</b>								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00		6.54		51.88		41.58	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>57.14</b>	<b>66.84</b>	<b>42.86</b>	<b>33.16</b>

### ***Responses to Complaints***

There have been no consumer complaints regarding the bank's Community Reinvestment Act performance during the evaluation period.

### ***Record of Compliance with Anti-discrimination Laws***

An analysis of public comments and consumer complaints received during 1998 - 2003 indicates that the bank has a good history of complying with anti-discrimination laws. Based on the analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation.