

## Assessment Areas

Minnesota – 27

Fillmore County – 045

Tract Codes

9602.00

9603.00

Mower County – 099

Tract Codes

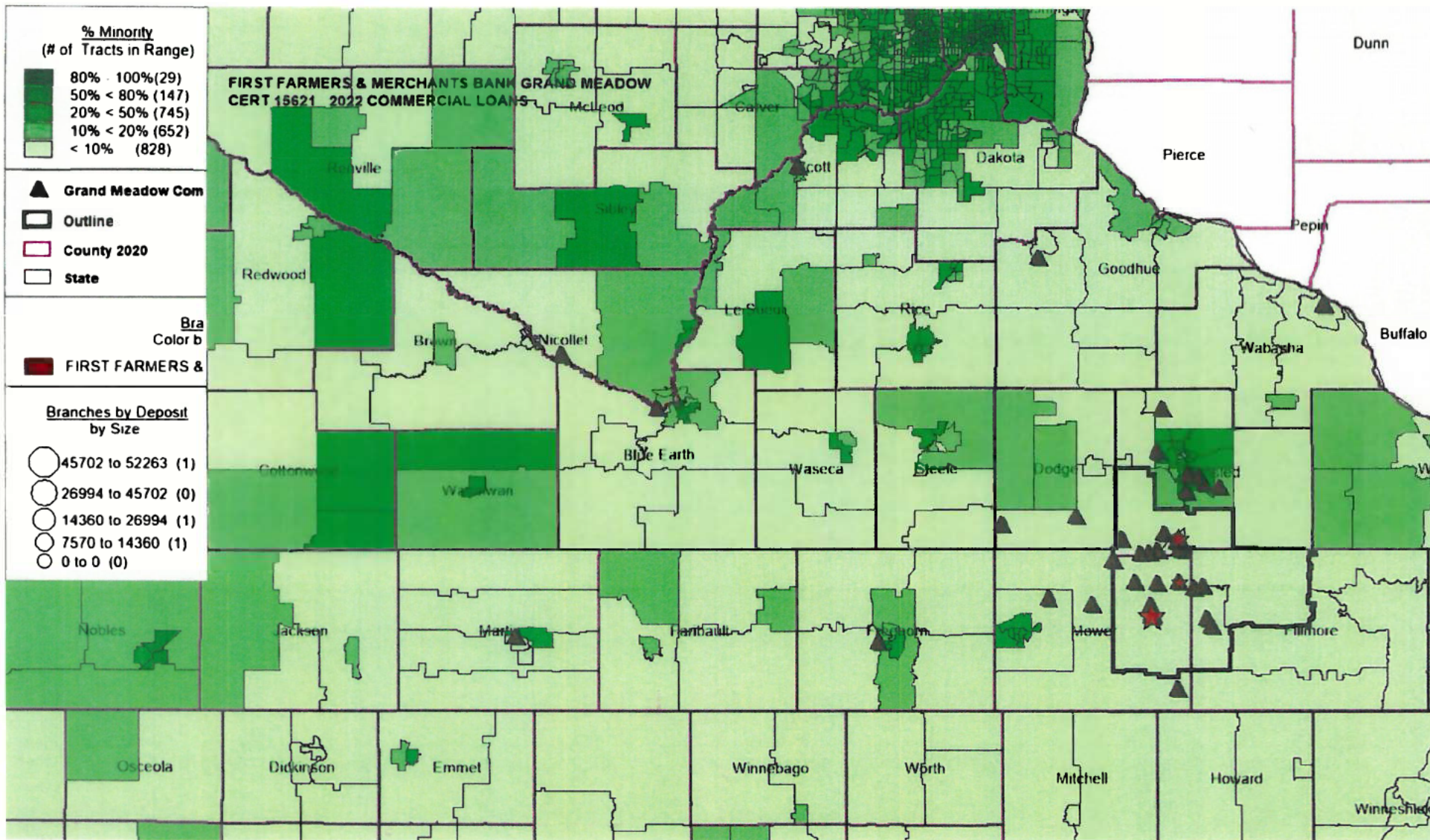
0014.00

Olmsted County – 109

Tract Codes

0021.00

0022.00





First Farmers & Merchants State Bank  
105 North Main Street  
Grand Meadow, MN 55936  
Phone: 507-754-5123  
Fax: 507-754-5124  
Email: [gmeadow@ffmbank.com](mailto:gmeadow@ffmbank.com)  
Census Tract #0014.00

**Hours**

Lobby: 8:30 a.m. to 3:00 p.m. Monday-Friday  
Drive Up: 8:00 a.m. to 3:30 p.m. Monday-Friday

**Branch Offices:**

First Farmers & Merchants State Bank  
19 East Main Street  
Racine, MN 55967  
Phone: 507-378-5121  
Census Tract #0014.00

**Hours**

Lobby: 8:00 a.m. to 12:00 p.m. Monday-Friday  
Drive Up: 8:00 a.m. – 12:00 p.m. Monday-Friday

First Farmers & Merchants State Bank  
111 20<sup>th</sup> Street NE  
Stewartville, MN 55976  
Phone: 507-533-4081  
Fax: 507-533-4082  
Email:  
Census Tract #0021.00

**Hours**

Lobby: 8:30 a.m. to 4:00 p.m. Monday-Friday  
9:00 a.m. to 12:00 p.m. Saturday  
Drive up: 8:00 a.m. to 5:00 p.m. Monday-Friday  
9:00 a.m. to 12:00 p.m. Saturday

**\*\*No locations have been opened or closed in the current or prior two calendar years\*\***

As a commitment to our current and prospective customers, we make every effort to provide a variety of products and services to assist in meeting their financial needs. One consideration in the delivery of these services is costs. We realize that many more financial products and services may exist in the market place; however, the cost of delivery may be restricted based upon cost of technology, personnel, our geographic location or regulatory burden in some instances.

We feel that we have been successful in meeting the consumer's needs with the following deposit-related services we currently offer:

Everyday Banking  
Interest Checking  
Golden Opportunity Checking  
Platinum Checking  
Health Savings Account  
Statement Savings  
Savers Plus  
Small Business Checking  
Business Checking  
Business Interest Checking  
Community Checking  
Sweep Account  
Business Statement Savings  
Savers Plus Business  
Minor Statement Savings  
Custodial Statement Savings (UTMA)  
Certificates of Deposit  
Freedom Step-Up Certificates  
IRA Savings  
IRA Certificates of Deposit  
Cash & Check Card  
Direct Deposits  
Internet Banking

Internet Bill Payment  
Mobile Banking  
Mobile Deposit  
Ready Check Overdraft Protection  
e-Statements  
Alerts  
Imaged Statements  
e-Corp Business Internet Banking  
Positive Pay for Business

ACH Origination  
Merchant Capture  
Card Control/Digital Wallet  
Credit Cards

(in participation with Elan Financial Services)

Cashier's Checks  
Wire Transfers  
Notary Services  
Safe Deposit Boxes  
Gift Cards  
Coin Counting  
After Hours Deposit

In the true measure of CRA success, meeting the credit needs of the public in our defined assessment area stands out. We are able to accomplish this through the offering of these loan products.

- Agricultural Loans
  - Operating
  - Livestock
  - Equipment
  - Real Estate
  - FSA Guaranteed
  - Rural Finance Authority Participations
  - SBA Guaranteed
- Commercial Loans
  - Small and Large Business Operating
  - Inventory
  - Receivables
  - Equipment (Direct and Indirect)
  - Real Estate
  - SBA Guaranteed
  - FSA Guaranteed
- Residential Real Estate
  - 1-4 Family
  - Home Construction
  - Multiple Family
  - In-House and Secondary Market  
(including FHA and VA)
- Consumer and Installment Loans
- Home Improvement Loans
- Home Equity Lines of Credit
- Personal Lines of Credit
- Debt Consolidation Loans
- Ready Check Overdraft Protection
- Auto Loans
- Recreational Vehicle Loans
- Credit Card Accounts  
(in participation with Elan Financial Services)

Equally important to you, the customer, is not just the availability of products and services, but at what cost do they come. Included for your review is our most recent list of transaction fees as posted to the general public.



## SERVICES AND PRICING

**Limits and Fees:** The following fees may be assessed against your account and the following transaction limitations, if any, apply to your account:

Account Activity Printout/Statement Copy (per statement): \$5.00

Account Research/Reconciliation: \$25.00 per hour

### Account Closing Fee

If account is closed within 6 months of opening: \$25.00

### Debit Card

Foreign ATM fee: ATM machines not owned by FF&M or

MoneyPass network fee: \$1.00 (per transaction)

Overnight Replacement Card: \$100.00

Replacement Card Fee: \$15.00

Temporary Card Fee (per card): \$5.00

### Card Limits

\$510 ATM daily limit

\$1,000 point of sale daily limit

(Point of sale limit applies to FF&M Debit Cards only)

### Personal Internet Banking: No charge

Bill Pay (per month): \$4.95

First 3 months: no charge

Platinum Checking customers: no charge

### Business Internet Banking (eCorp)

Basic eCorp for Business Banking: no charge

Enhanced eCorp for Business Banking (per month): \$21.95

First 3 months: no charge

Bill Pay (per month): \$4.95

First 3 months: no charge

Enhanced eCorp customers: no charge

eCorp Third Party Sender Fee (per month): \$100.00

### Merchant Capture

Basic eCorp customers (per month): \$39.95

First 3 months: no charge

Enhanced eCorp customers (per month): \$20.00

First 3 months: no charge

### Positive Pay (Enhanced eCorp only)

Check Positive Pay (per month): \$40.00 for first account, \$15.00 per additional account

ACH Positive Pay (per month): \$35.00 for first account, \$15.00 per additional account

Returned Item Fee (per item): \$2.50

Cancellation Fee: \$75.00 if cancelled within first 12 months

### Collection Items

Domestic and Foreign Collection Item: \$25.00 (per item)

Paper Statement Fee: \$5.00 per month, effective 30 days after account opening date, fee is waived when you enroll in e-Statements

### Miscellaneous Items

Cashier's Check: \$5.00 (per check)

Check Printing: fee depends on style of check ordered

Copy of Imaged Item: \$3.00 (per item)

Counter Check: \$1.00 (per check)

Stop Payment Fee: \$30.00

Effective for six months

Photocopies: \$0.25 (per sheet)

Garnishment/Execution Levy: \$75.00

Deposit of Canadian Checks: \$8.00 (per check)

Personal Money Order: \$5.00

Gift Card (per card): \$3.95

Travel Card (per card): \$5.95

Travel Card Reload Fee: \$2.95

Returned Deposited Item Fee (per check) for Business Accounts only: \$10.00

Deposit Bags - Zippered (each): \$5.00

Deposit Bags - Locked After Hours Bag: \$35.00

### Dormant Account Fee (per month for up to 12 months): \$5.00 per month if balance in the account is less than \$50.

**Inactive Account:** An account is considered inactive after 13 months of no transaction activity. No fee for inactive accounts.

**Dormant Account:** An account is considered dormant after 18 months of no transaction activity.

**Abandoned Account:** An account is considered abandoned after receiving one piece of undeliverable mail and all attempts to locate the owner have failed. No fee for abandoned accounts.

### Safe Deposit Box

Lost Safe Deposit Box Key: \$30.00

Drilling Safe Deposit Box Fee (minimum): \$200.00 or actual cost if higher

**Overdraft Paid Item and NSF Returned Item Charges**

Continuous Overdraft Charge: \$3.00 per day

A Continuous Overdraft Charge is assessed every business day the account has a negative balance. Checks and other withdrawals authorized by you which the bank pays as well as previous bank fees may result in a negative balance. This applies to checking and savings accounts.

Overdraft Paid Item Fee (per item): \$25.00

NSF Returned Item Fee (per item): \$25.00

The Overdraft Paid Item fee and NSF Returned Item fee applies to overdrafts created by check, in-person withdrawal, or by other electronic means, as applicable. An item or payment may be presented multiple times and may incur fees each time it is presented; we do not monitor or control the number of times a transaction is presented for payment. This applies to checking and savings accounts. (\$150.00 maximum/day)

**Wires**

Incoming Wire Transfer fee (Domestic): \$25.00

Incoming Wire Transfer fee (International): \$25.00

Outgoing Wire Transfer fee (Domestic): \$25.00

Outgoing Wire Transfer fee (International): \$75.00

Outgoing International Wires after 1:00 pm Monday through Friday will be processed on the next business day.

Outgoing Domestic Wires after 3:00 pm Monday through Friday will be processed on the next business day.

Incoming Wires received by 4:00 pm Monday through Friday will be processed the same business day.

## **PUBLIC DISCLOSURE**

June 17, 2020

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

First Farmers & Merchants State Bank of Grand Meadow  
Certificate Number: 15621

105 North Main Street  
Grand Meadow, Minnesota 55936

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Kansas City Regional Office

1100 Walnut Street, Suite 2100  
Kansas City, Missouri 64106

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 RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The following points summarize the bank's performance.

- The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and credit needs in the assessment areas.
- The bank originated a majority of its small farm and small business loans in its assessment areas.
- The assessment areas consist of all upper-income and middle-income geographies; therefore, a review of geographic distribution did not factor into the rating.
- The distribution by borrowers reflects reasonable penetration among farms and businesses of different revenue sizes.
- First Farmers & Merchants State Bank of Grand Meadow did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

## DESCRIPTION OF INSTITUTION

First Farmers & Merchants State Bank of Grand Meadow received a Satisfactory rating at its May 11, 2015 FDIC Performance Evaluation based on Interagency Small Institution Examination Procedures. The bank is chartered in Grand Meadow, Minnesota. First Farmers & Merchants State Bank of Grand Meadow is wholly-owned by 215 Holding Company, a five-bank holding company in Minneapolis, Minnesota. No affiliate lending was considered as a part of this evaluation.

The bank has a main office in Grand Meadow, Minnesota and a full-service branch office in Stewartville, Minnesota. Additionally, there is a limited-service branch office in Racine, Minnesota. There have been no new or closed branches, mergers, or acquisitions since the previous CRA evaluation.

The bank offers a wide variety of credit products including agricultural, commercial, residential real estate, and consumer loans. Additionally, First Farmers & Merchants State Bank of Grand Meadow participates in the following government lending programs: Small Business Administration, Rural Finance Authority, Farm Service Agency, Agriculture Best Management Practices Loan Program, and Farmer Mac. The bank also offers deposit products, such as checking accounts, savings accounts, and certificates of deposit. In addition to traditional banking services, customers have access to automated teller machines; online banking, including electronic bill pay; electronic statements; and mobile banking, including mobile deposit.

As of March 31, 2020, assets totaled \$70,807,000, loans totaled \$54,175,000, and deposits totaled \$57,509,000. The following table indicates that agricultural lending is the bank's primary focus.

<b>Loan Portfolio Distribution as of 3/31/2020</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	1,959	3.6
Secured by Farmland	22,417	41.4
Secured by 1-4 Family Residential Properties	4,221	7.8
Secured by Multifamily (5 or more) Residential Properties	91	0.1
Secured by Nonfarm Nonresidential Properties	6,914	12.8
<b>Total Real Estate Loans</b>	<b>35,602</b>	<b>65.7</b>
Commercial and Industrial Loans	4,907	9.1
Agricultural Production and Other Loans to Farmers	13,416	24.8
Consumer Loans	224	0.4
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	26	<1.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>54,175</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the credit needs of its assessment areas.

## DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to designate one or more assessment areas within which its CRA performance will be evaluated. First Farmers & Merchants State Bank of Grand Meadow has designated two contiguous assessment areas located in southeastern Minnesota: the Nonmetropolitan Assessment Area and the Rochester Metropolitan Statistical Area (MSA) Assessment Area. The Nonmetropolitan Assessment Area includes one census tract in Mower County, which is located in the nonmetropolitan area of Minnesota. The Rochester MSA Assessment Area includes two census tracts in Fillmore County and two census tracts in Olmstead County, which are located in the Rochester MSA. Additional details regarding demographic and economic characteristics of the assessment areas are discussed in later sections of this evaluation.

## SCOPE OF EVALUATION

### General Information

This evaluation covers the period from the prior evaluation dated May 11, 2015, to the current evaluation dated June 17, 2020. Examiners used the Interagency Small Institution Examination

Procedures to evaluate the bank's CRA performance. These procedures focus on the bank's performance under the Lending Test as outlined in the Small Bank Performance Criteria appendix.

Examiners conducted full-scope reviews of both assessment areas due to the level of the bank's operations in each area. However, to assess the overall performance, examiners gave greater weight to conclusions derived from the Nonmetropolitan Assessment Area because it comprises a majority of the bank's loans, deposits, and branches.

#### **Activities Reviewed**

Examiners determined that the bank's major products lines are small farm loans followed by small business loans. This conclusion considered discussions with management regarding the bank's business strategy, a review of bank records for the number and dollar volume of loans originated during the evaluation period, and a review of the Reports of Condition and Income. Management added that they are beginning to focus additional efforts on small business lending to diversify the loan portfolio. Agricultural lending was given the most weight in this evaluation as it represents the most significant portion of the loan portfolio. Home mortgage loans were not evaluated as they are not a lending focus for the bank.

Bank records indicate that the lending focus and product mix remained relatively consistent throughout the evaluation period. Therefore, examiners reviewed all small farm and small business loans originated or renewed in 2019, as this period was considered representative of the bank's performance during the entire evaluation period. D&B data for 2019 provided a standard of comparison for the bank's small farm and small business lending performance.

In 2019, the bank originated or renewed 92 small farm loans totaling \$11,449,000 and 72 small business loans totaling \$7,476,000. Examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration criterion. All small farm and small business loans originated inside the assessment areas were reviewed to evaluate the Borrower Profile criterion. The loans inside the assessment areas included 64 small farm loans totaling \$7,961,000, and 37 small business loans totaling \$3,722,000. The table below indicates the loan universes for this evaluation.

While the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because it is a better indicator of the farms and businesses served.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

First Farmers & Merchants State Bank of Grand Meadow demonstrated satisfactory performance under the Lending Test. The bank's Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance supports this conclusion.

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

The average net loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and the credit needs of the assessment areas. The net loan-to-deposit ratio, calculated from

Reports of Condition and Income data, averaged 96.0 percent over the past 20 quarters from June 30, 2015, to March 31, 2020. The ratio ranged from a low of 85.6 percent (December 31, 2015) to a high of 106.8 percent (September 30, 2018), with the ratio being at least 91.9 percent since March 31, 2016. As shown in the following table, the bank's average ratio is higher than comparable institutions. Comparable institutions were selected based on their asset size, lending focus, and geographic location.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 3/31/2020 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
First Farmers & Merchants State Bank of Grand Meadow – Grand Meadow, Minnesota	70,807	96.0
First Farmers & Merchants State Bank of Brownsdale – Brownsdale, Minnesota	78,436	83.5
Root River State Bank – Chatfield, Minnesota	67,625	59.3
First State Bank Minnesota – Le Roy, Minnesota	70,312	73.9
Source: Reports of Condition and Income 6/30/2015 - 3/31/2020		

#### **Assessment Area Concentration**

First Farmers & Merchants State Bank of Grand Meadow originated a majority of small farm and small business loans within its assessment areas, as shown in the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	64	69.6	28	30.4	92	7,961	69.5	3,488	30.5	11,449
Small Business	37	51.4	35	48.6	72	3,722	49.8	3,754	50.2	7,476
Source: Bank Data										

#### **Geographic Distribution**

The assessment areas do not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

#### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes. Examiners focused on the percentage of small farm and small business loans to operations with gross annual revenues of \$1 million or less. While examiners gave greater weight to the lending performance within the Nonmetropolitan Assessment Area, the performance in both the bank's assessment areas was consistent. Refer to the separate assessment area sections later in this evaluation for specific details.

#### **Response to Complaints**

The institution has not received any CRA-related complaints since the previous evaluation;

therefore, this criterion did not affect the rating.

### **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## NONMETROPOLITAN ASSESSMENT AREA – Full-Scope Review

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE NONMETROPOLITAN ASSESSMENT AREA

First Farmers & Merchants State Bank of Grand Meadow operates two offices in the Nonmetropolitan Assessment Area; a full-service branch in Grand Meadow, Minnesota, and a limited-service branch in Racine, Minnesota. The assessment area includes one census tract (14) in Mower County.

#### **Economic and Demographic Data**

Since the previous CRA evaluation, the designation of the assessment area's sole census tract changed from middle income to upper income. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	1	0.0	0.0	0.0	100.0
Population by Geography	3,339	0.0	0.0	0.0	100.0
Housing Units by Geography	1,375	0.0	0.0	0.0	100.0
Owner-Occupied Units by Geography	1,060	0.0	0.0	0.0	100.0
Occupied Rental Units by Geography	184	0.0	0.0	0.0	100.0
Vacant Units by Geography	131	0.0	0.0	0.0	100.0
Businesses by Geography	248	0.0	0.0	0.0	100.0
Farms by Geography	76	0.0	0.0	0.0	100.0
Family Distribution by Income Level	906	12.0	13.0	23.1	51.9
Household Distribution by Income Level	1,244	17.3	12.1	18.4	52.2
Median Family Income Nonmetropolitan MN	\$63,045	Median Housing Value			\$152,900
Families Below Poverty Level	4.9%	Median Gross Rent			\$681
Source: 2015 ACS Census; 2019 D&B Data.					

According to the 2017 Census of Agriculture data, the total number of farm operations in Mower County nominally increased from 2012 to 2017 (1,053 to 1,068 operations). However, the number of small farm operations (1.0 to 9.9 operated acres) has increased considerably during that same time period (72 to 129 operations).

D&B data for 2019 indicates that service industries (27.5 percent) represent the largest portion of area businesses; followed by agriculture, forestry, and fishing (23.5 percent); and transportation and communication (11.1 percent). In addition, 78.1 percent of area businesses have 4 or fewer employees, and 94.4 percent operate from a single location.



### **Competition**

The assessment area is a competitive market for credit products and financial services. According to the most recent FDIC Deposit Market Share Report, dated June 30, 2019, there are 11 financial institutions that operate in 17 locations within Mower County. The report includes a range of small community banks to large nationwide institutions. First Farmers & Merchants State Bank of Grand Meadow is ranked 7<sup>th</sup> with 6.4 percent of the deposit market share. Management also indicated the bank faces competition from other agricultural-related product and service providers that offer financing.

### **Community Contacts**

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether financial institutions are responsive to these needs. It also helps reveal what credit and community development opportunities are available. For this evaluation, examiners conducted an interview with a representative of an agricultural-based organization familiar with both assessment areas.

The contact stated that the vast majority of existing farm operations are financially stable as of May 2020, but cash flows for most operations have tightened in the past four to six years. It was noted that beef and milk prices are currently down, although there is a higher concentration of pork operations in the area due to the proximity of a large pork plant in a nearby town. The contact stated that local banks, credit unions, and alternative financing organizations (cooperatives, implement dealers, and equipment dealers) are meeting the farming-related financial needs of the area.

### **Credit Needs**

Considering information from bank management, the community contact, and demographic and economic data, examiners determined that small farm lending represents the primary credit need of the assessment area.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NONMETROPOLITAN ASSESSMENT AREA**

### **LENDING TEST**

First Farmers & Merchants State Bank of Grand Meadow demonstrated satisfactory performance under the Lending Test in the Nonmetropolitan Assessment Area. The bank's Borrower Profile performance supports this conclusion.

### **Geographic Distribution**

The Nonmetropolitan Assessment Area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.



### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes in the Nonmetropolitan Assessment Area.

#### ***Small Farm***

The distribution of small farm loans reflects reasonable penetration among farms of different sizes. As shown in the following table, the bank's performance is comparable to D&B data.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
≤ \$1,000,000	100.0	29	93.5	4,341	88.2
> \$1,000,000	0.0	2	6.5	580	11.8
<b>Total</b>	<b>100.0</b>	<b>31</b>	<b>100.0</b>	<b>4,921</b>	<b>100.0</b>
Source: 2019 D&B Data; Bank Data					

#### ***Small Business***

The distribution of small business loans reflects reasonable penetration among businesses of different sizes. Although the following table shows that First Farmers & Merchants State Bank of Grand Meadow's lending performance to businesses with gross annual revenues of \$1 million or less is lower than demographic data, this performance is considered reasonable. Specifically, 3 of the 5 loans to businesses with gross annual revenues greater than \$1 million were to the same borrower. Additionally, 2 businesses with gross annual revenues greater than \$1 million had combined loan amounts of over \$1,500,000, which largely skewed the dollar volume of loans in this revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	88.9	12	70.6	696	28.7
> \$1,000,000	5.9	5	29.4	1,729	71.3
Revenue Not Available	5.2	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>	<b>2,425</b>	<b>100.0</b>
Source: 2019 D&B Data; Bank Data					

## ROCHESTER MSA ASSESSMENT AREA – Full Scope Review

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE ROCHESTER MSA ASSESSMENT AREA

First Farmers & Merchants State Bank of Grand Meadow operates one full-service office in the Rochester MSA Assessment Area. The office is in Stewartville, Minnesota and is located in a middle-income census tract. The assessment area includes two census tracts in Fillmore County (9602 and 9603) and two census tracts in Olmsted County (21 and 22).

#### **Economic and Demographic Data**

Since the previous CRA evaluation, census tract 9603 changed from moderate income to middle income. Therefore, the assessment area is comprised of all middle-income census tracts. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	4	0.0	0.0	100.0	0.0
Population by Geography	18,161	0.0	0.0	100.0	0.0
Housing Units by Geography	7,818	0.0	0.0	100.0	0.0
Owner-Occupied Units by Geography	5,772	0.0	0.0	100.0	0.0
Occupied Rental Units by Geography	1,456	0.0	0.0	100.0	0.0
Vacant Units by Geography	590	0.0	0.0	100.0	0.0
Businesses by Geography	1,320	0.0	0.0	100.0	0.0
Farms by Geography	225	0.0	0.0	100.0	0.0
Family Distribution by Income Level	4,977	18.6	20.9	26.5	34.0
Household Distribution by Income Level	7,228	24.8	18.2	19.5	37.5
Median Family Income Rochester MSA	\$81,036	Median Housing Value			\$173,382
Families Below Poverty Level	5.8%	Median Gross Rent			\$717

*Source: 2015 ACS Census; 2019 D&B Data.*

According to the 2017 Census of Agriculture data, the total number of farm operations in Fillmore County decreased by approximately 10 percent (1,553 to 1,401), and the total number of farm operations in Olmsted County nominally decreased (1,150 to 1,139 operations) from 2012 to 2017. However, during the same time period, the number of small farm operations (1.0 to 9.9 operated acres) increased considerably in both Fillmore (68 to 114 operations) and Olmsted (86 to 127) counties.

D&B data for 2019 indicates that service industries (30.4 percent) represent the largest portion of area businesses; followed by agriculture, forestry, and fishing (14.6 percent); retail trade (11.6

percent); and construction (11.5 percent). In addition, 70 percent of area businesses have 4 or fewer employees, and 91.9 percent of businesses operate from a single location.

#### **Competition**

The assessment area is a competitive market for credit products and financial services. According to the June 30, 2019 FDIC Deposit Market Share Report, there are 26 financial institutions that operate 66 locations within Fillmore and Olmsted counties. The report includes a range of small community banks to large nationwide institutions. First Farmers & Merchants State Bank of Grand Meadow is ranked 23<sup>rd</sup> with 0.3 percent of the deposit market share. Management also indicated the bank faces competition from other agricultural-related product and service providers that offer financing.

#### **Credit Needs**

Considering information from bank management and demographic and economic data, examiners determined that small farm lending represents the primary credit need of the assessment area.

### **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE ROCHESTER MSA ASSESSMENT AREA**

#### **LENDING TEST**

First Farmers & Merchants State Bank of Grand Meadow demonstrated satisfactory performance under the Lending Test in the Rochester MSA Assessment Area. The bank's Borrower Profile performance supports this conclusion.

#### **Geographic Distribution**

The Rochester MSA Assessment Area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

#### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes in the Rochester MSA Assessment Area.

#### ***Small Farm***

The distribution of small farm loans reflects reasonable penetration of loans to farms with gross annual revenues of \$1 million or less. As shown in the following table, the bank's performance is comparable to D&B data.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
≤ \$1,000,000	97.8	29	87.9	2,599	85.5
> \$1,000,000	1.3	4	12.1	441	14.5
Revenue Not Available	0.9	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>33</b>	<b>100.0</b>	<b>3,040</b>	<b>100.0</b>
<i>Source: 2019 D&amp;B Data; Bank Data</i>					

### ***Small Business***

The distribution of small business loans reflects reasonable penetration of loans to businesses with gross annual revenues of \$1 million or less. As shown in the following table, the bank's performance is comparable to D&B data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	85.4	16	80.0	922	71.1
> \$1,000,000	5.7	4	20.0	375	28.9
Revenue Not Available	8.9	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>20</b>	<b>100.0</b>	<b>1,297</b>	<b>100.0</b>
<i>Source: 2019 D&amp;B Data; Bank Data</i>					

## **APPENDICES**

### **SMALL BANK PERFORMANCE CRITERIA**

#### **Lending Test**

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
- 4) The geographic distribution of the bank's loans; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the institution under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in

information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited-scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.



**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area** (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.



**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

## Public Comments

No public comments for current (2025) or prior two years (2024, 2023).

**Loan to Deposit Ratio**

March 2024	97.739%
June 2024	95.799%
September 2024	85.687%
December 2024	78.695%