

Section 1 – CRA Performance Evaluation

PUBLIC DISCLOSURE

January 27, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers and Merchants State Bank
Certificate Number: 13662

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Bloomfield, Nebraska 68718

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

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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.

Satisfactory performance under the Lending Test supports the rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the small farm loans reviewed were located inside the assessment area.
- The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.
- The distribution of borrowers reflects reasonable penetration among farms of different sizes.
- The institution did not receive any complaints regarding its Community Reinvestment Act (CRA) performance since the previous evaluation. As a result, this criterion did not affect the rating.

DESCRIPTION OF INSTITUTION

Background

Farmers and Merchants State Bank (Farmers and Merchants) is headquartered in Bloomfield, Nebraska. Lauritzen Investment Inc., Omaha, Nebraska, a one-bank holding company, owns the institution. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated February 18, 2014, using Interagency Small Institution Examination procedures.

Operations

Farmers and Merchants operates six full-service offices in the following northeast Nebraska communities: Bloomfield, Center, Crofton, Hartington, Niobrara, and South Yankton. The bank offers several loan products including agricultural, commercial, and consumer loans, primary focusing on agricultural lending. In addition, the bank provides a variety of deposit services including checking, savings, and certificates of deposit. Alternative banking services include Internet and mobile banking and five bank-owned automated teller machines. The institution has not opened or closed any offices or been involved in any mergers or acquisitions since the previous evaluation.

Ability and Capacity

Assets totaled \$134.8 million as of September 30, 2019, and included loans of \$94.1 million. Deposits totaled \$112.0 million as of the same date. The following table details the bank's loan portfolio composition.

Loan Portfolio Distribution as of 09/30/2019		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	15,437	16.4
Secured by 1-4 Family Residential Properties	104	0.1
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	1,974	2.1
Total Real Estate Loans	17,515	18.6
Commercial and Industrial Loans	6,851	7.3
Agricultural Production and Other Loans to Farmers	61,131	65.0
Consumer Loans	7,259	7.7
Obligations of State and Political Subdivisions in the U.S.	1,315	1.4
Other Loans	0	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	94,071	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments affecting the bank's ability to meet its assessment area's credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. Farmers and Merchants designated a single assessment area consisting of Cedar and Knox counties, two adjacent counties located in in northeast Nebraska. Neither county is located in a metropolitan statistical area. The following sections discuss economic and demographic information for the assessment area.

Economic and Demographic Data

According to the 2015 American Community Survey (ACS), Cedar and Knox counties contain five middle-income census tracts. Demographic information of the assessment area is listed in the following table.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.0	0.0	100.0	0.0	0.0
Population by Geography	17,231	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	8,937	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	5,648	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,643	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,646	0.0	0.0	100.0	0.0	0.0
Business by Geography	1,229	0.0	0.0	100.0	0.0	0.0
Farms by Geography	526	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	4,828	18.1	16.7	25.4	39.9	0.0
Household Distribution by Income Level	7,291	24.5	15.8	18.3	41.3	0.0
2015 Weighted Average Median Family Income for Nonmetropolitan Nebraska		\$61,457	Median Housing Value			\$92,348
			Median Gross Rent			\$508
			Families Below Poverty Level			7.1%

Source: 2015 ACS. Due to rounding, totals may not equal 100.0
 (*) The NA category consists of geographies that have not been assigned an income classification.

Based on the 2010 U.S. Census, Hartington, Creighton, and Bloomfield are the assessment area's largest communities with populations of 1,554, 1,154, and 1,028, respectively. The assessment area's remaining communities all have populations of less than 1,000. In general, the assessment area is rural in nature.

2018 D&B data indicates that agricultural, forestry, and fishing represent the assessment area's largest economic sector at 30.0 percent, followed by services at 29.2 percent. Additionally, 77.3 percent of the assessment area's business and farms have less than five employees and 87.3 percent operate from a single location. Major employers include local schools, county and municipal governments, medical facilities, and Michael Foods.

The assessment area's economy is generally stable and unemployment is low. Between 2017 and 2019, Cedar and Knox counties reported unemployment rates ranging from 2.2 to 3.4 percent. The national unemployment rate ranged between 3.7 and 4.3 percent, and the state of Nebraska's unemployment rate ranged between 2.8 and 3.0 percent during the same period. As of September 2019, Cedar and Knox counties reported unemployment rates of 2.5 and 2.4 percent, respectively. Comparatively, the state of Nebraska and national unemployment rates were 3.0 and 3.7 percent, respectively.

Competition

The assessment area is somewhat competitive for financial services. According to the June 30, 2018 FDIC Deposit Market Share data, 12 financial institutions operate 22 offices in the assessment area. Farmers and Merchants ranked first with a 23.8 percent deposit market share.

Community Contacts

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners conducted a community contact with a post-secondary academic institution. The contact stated that the agricultural economy has been hurt due to recent flooding and adverse weather. This has had a negative impact of the local communities since agriculture plays a large role in the area's economy. According to the contact, the primary credit need is agricultural loans.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small farm loans are the assessment area's primary credit need.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated February 18, 2014, to the current evaluation dated January 27, 2020. Examiners used Interagency Small Institution Examination Procedures to conduct the evaluation, which contains a Lending Test. Refer to the Appendices later in the evaluation for a description of this test.

Activities Reviewed

Examiners reviewed small farm loans to conduct the Lending Test. They selected this product based on the bank's business focus and the number and dollar volume of loans originated during the evaluation period. No other loan types, such as small business or home mortgage loans, represent a major product line. Therefore, examiners did not review any other loan products since they would not provide any material support for conclusions or the rating. Bank records indicated that its lending focus remained consistent throughout the evaluation period.

Examiners reviewed all small farm loans originated and purchased in 2019 to conduct the Assessment Area Concentration analysis. From here, they reviewed a sample of small farm loans located inside the assessment area to conduct the Borrower Profile analysis. 2018 D&B data provided a standard of comparison for the small farm loans reviewed. 2019 D&B data was unavailable as of the date of the evaluation. Bank management indicated that the loans reviewed were representative of the institution's performance during the entire evaluation period.

The following table illustrates the loans reviewed for this evaluation. The "Universe" columns represent the loans reviewed for the Assessment Area Concentration analysis, and the "Reviewed" columns represent the loans reviewed for the Borrower Profile analysis.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm	316	\$ 41,660	58	\$7,664

Examiners presented both the number and dollar volume of loans reviewed throughout the evaluation. However, they emphasized performance based on the number of loans when conducting the Borrower Profile analysis because this figure is a better indicator of the borrowers served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Farmers and Merchants demonstrated reasonable performance under the Lending Test. Reasonable performance under the Loan-to-Deposit, Assessment Area Concentration, and Borrower Profile criterion supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's net loan-to-deposit ratio, calculated from the Call Report, averaged 80.4 percent over the past 23 quarters from March 31, 2014, to September 30, 2019. The ratio ranged from a low of 72.0 percent on March 31, 2018, to a high of 89.3 percent on September 30, 2015.

Examiners compared Farmers and Merchant's average net loan-to-deposit ratio to three similarly situated banks to help evaluate its reasonableness. Similarly situated financial institutions are defined as institutions operating in and around the assessment area, with similar asset sizes and product

offerings. The bank's average net loan-to-deposit ratio compares reasonably to the ratios of the similarly situated financial institutions. The following table provides details.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 09/30/2019 (\$000s)	Average Net LTD Ratio (%)
Farmers & Merchants State Bank, Bloomfield, NE	\$ 134,781	80.4 %
Bank of Hartington, Hartington, NE	\$ 94,328	81.9 %
Brunswick State Bank, Brunswick, NE	\$ 130,116	99.8 %
Commercial State Bank, Wausa, NE	\$ 129,202	93.8 %
<i>Source: Reports of Condition and Income 03/31/2014 - 09/30/2019</i>		

Assessment Area Concentration

A majority of the small farm loans reviewed were located inside the assessment area, reflecting reasonable performance. The following table provides details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	261	82.6	55	17.4	316	33,941	81.5	7,719	18.5	41,660
<i>Source: 1/1/2019 - 12/31/2019 Bank Data. Due to rounding, totals may not equal 100.0</i>										

Geographic Distribution

The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.

Borrower Profile

The distribution of borrowers reflects reasonable performance. Examiners reviewed a sample of small farm loans located inside the assessment area to conduct the analysis, focusing on the institution's record of lending to farms with gross annual revenues of \$1 million or less.

Small Farm Loans

The distribution of small farm loans reflects reasonable penetration among farms of different sizes. Examiners sampled 58 small farm loans from inside the assessment area for 2019. As shown in the following table, the bank's performance in lending farms with gross annual revenues of \$1 million or less is consistent with the assessment area's demographics.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.5	55	94.8	6,678	87.1
>1,000,000	1.3	3	5.2	986	12.9
Revenue Not Available	0.2	0	0.0	0	0.0
Total	100.0	58	100.0	7,664	100.0

Source: 1/1/2019 - 12/31/2019 Bank Data. Due to rounding, totals may not equal 100.0

Response to Complaints

The bank did not receive 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. Therefore, this conclusion did not affect the institution's CRA rating.

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 bank'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 bank 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.