

PUBLIC DISCLOSURE

February 10, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers & Merchants Bank of Hale
Certificate Number: 01651**

**Main Street
P. O. Box 188
Hale, Missouri 64643-0188**

**Federal Deposit Insurance Corporation
2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108**

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.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) 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 Farmers & Merchants Bank of Hale, Hale, Missouri, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of February 10, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

Farmers & Merchants Bank of Hale has demonstrated an outstanding commitment to community reinvestment that is supported by the following conclusions.

- Nearly all of the agricultural and residential real estate loans originated by the bank are within the bank's assessment area, reflecting an outstanding commitment to meeting the credit needs of the assessment area.
- An analysis of agricultural and residential real estate loans reveals an excellent dispersion of loans among farms of different sizes and to borrowers of different income levels.
- The geographic distribution analysis of agricultural and residential real estate loans reflects a reasonable dispersion of loans among the geographies within the assessment area.
- The bank's average net loan-to-deposit ratio reflects an excellent willingness to provide credit given the institution's size, financial condition, and community credit needs.
- The bank's record of providing community development services and qualified investments enhances the bank's ability to meet the credit needs of the assessment area.

DESCRIPTION OF INSTITUTION

Farmers & Merchants Bank of Hale conducts operations from its only facility, which is located in Hale, Missouri (population 480).

As of September 30, 2002, the institution's total assets equaled \$14,878,000, of which total loans represented \$11,200,000. The bank's largest loan products by dollar volume are agricultural loans (includes agricultural real estate and agricultural operating), residential real estate loans, and commercial loans (includes commercial and industrial loans and commercial real estate), which represent 38, 33, and 19 percent of total loans, respectively. Bank management indicated that the bank has a community focus but concentrates on agricultural and residential real estate loans. A distribution of the bank's entire loan portfolio is reflected in Table 1.

<i>Table 1 – Loan Distribution as of September 30, 2002</i>		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans (%)</i>
<i>Construction and Land Development</i>	\$ 20	0%
<i>Secured by Farmland</i>	\$ 2,843	25%
<i>1-4 Family Residential Real Estate</i>	\$ 3,693	33%
<i>Multifamily (5 or more) Residential</i>	\$ 0	0%
<i>Commercial Real Estate</i>	\$ 1,045	9%
<i>Commercial and Industrial</i>	\$ 1,057	10%
<i>Agricultural</i>	\$ 1,404	13%
<i>Consumer</i>	\$ 1,138	10%
<i>All Other</i>	\$ 0	0%
<i>Total Loans Net of Unearned Income</i>	\$ 11,200	100%

Source: September 30, 2002, Report of Condition

The bank is not owned by a holding company. The institution is not subject to any financial or legal impediments that would impede its ability to help meet the credit needs of the assessment area. The volume of participation loans purchased and sold by the institution is immaterial and does not impact this evaluation. The bank was rated Outstanding at the previous CRA Performance Evaluation dated May 7, 1997.

DESCRIPTION OF ASSESSMENT AREA

The bank has defined its assessment area as block number areas (BNA) 9601 and 9602 in Carroll County and BNA 9802 in Livingston County. These BNAs comprise all of Carroll County, except the city of Carrollton, and the southern and western one-third of Livingston County. The bank facility is located in BNA 9601. The assessment area is mainly rural, and agriculture is the dominant industry. Communities within the assessment area include Hale, Bosworth, Tina, Norborne, Bogard, and Ludlow; each of these communities is less than 1,000 in population. Hale is located in the northeast corner of Carroll County, one mile south of the Carroll and Livingston County line.

All of the BNAs are classified as middle-income geographies. This classification is based on the 1990 U.S. Census median family income (MFI) for non-metropolitan Missouri, which is \$24,324. Unless otherwise stated, all demographic information presented is from the 1990 U. S. Census. A breakdown of income levels for the BNAs within the assessment area are presented in Table 2.

<i>Table 2 – Income Levels for the BNAs within the Assessment Area</i>		
<i>Income Level of BNA</i>	<i>Percent of MFI</i>	<i>1990 Kansas City MSA MFI</i>
<i>Low</i>	< 50%	< \$12,162
<i>Moderate</i>	50% to < 80%	\$12,162 to < \$19,459
<i>Middle</i>	80% to < 120%	\$19,459 to < \$29,189
<i>Upper</i>	120% and over	\$29,189 and over

Source: 1990 U.S. Census

Although the bank’s assessment area only contains middle-income geographies, there are low- and moderate-income families residing within those geographies. Of the 2,649 families in the assessment area, 404 families, or 15 percent, are low-income families, and 512, or 19 percent, are moderate-income families. Middle- and upper-income families represent 22 and 44 percent, respectively, of the families in the assessment area.

Of the 4,145 housing units in the assessment area, 67 percent are owner-occupied, 18 percent are occupied rental units, and 15 percent are vacant. Mobile homes comprise 12 percent of the housing stock. The median housing value for the entire assessment area is \$48,747, and the median age of the housing stock in the assessment area is 23 years. The gross median rent in the assessment area is \$299.

According to the 1997 Census of Agriculture, there are 1,690 farms in Carroll and Livingston Counties. Of these, 98 percent (1,658) had gross annual revenues of \$500,000 or less. As noted, the bank’s assessment area includes a portion of Livingston County. However, agricultural census data is only available on a county level; therefore, the number of farms mentioned previously will be higher than the

number of farms actually within the assessment area. The agricultural industry in the assessment area is divided between row crop farming (soybeans, corn, and wheat) and livestock production (mostly cow/calf operations). According to management, the current agriculture economy is depressed; however, the value of farm real estate has been increasing.

The Missouri Department of Economic Development, Labor Market Information Services reported that the unemployment rate in Carroll County increased significantly from 4.5 percent as of December 2001, to 5.2 percent as of December 2002. For the same 12-month period, the unemployment rate in Livingston County also increased from 3.1 percent to 3.7 percent. During the same period, the Missouri unemployment rate remained stable at 4.8 percent.

No significantly large employers are actually located within the assessment area; however, the nearby cities of Carrollton (population 4,406) and Chillicothe (population 8,804) provide a manufacturing and industrial base and numerous employment opportunities to area residents.

Management stated that the bank's primary competitors for agricultural loans include Chillicothe State Bank, Chillicothe, Missouri; Bank 21, The First National Bank, and Carroll County Trust Co., all located in Carrollton, Missouri; and a branch of Bank Midwest, National Association, headquartered in Kansas City, Missouri. Besides The Farmers & Merchants Bank of Hale, there are only two other financial institutions located within the assessment area.

During the evaluation, examiners interviewed a representative from the local community (community contact) to obtain a profile of the community, identify community development opportunities and general credit needs, and assess opportunities for participation by local financial institutions. The community contact confirmed that the economy is agriculturally based and that the farming economy is experiencing a downward trend. The contact was unaware of any unmet credit or community development needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Conclusions with respect to the following three performance criteria, *Lending in Assessment Area*, *Lending Among Farms of Different Sizes and to Borrowers of Different Incomes*, and *Geographic Distribution of Loans*, are based on a sample of the institution's loan portfolio. Examiners reviewed agricultural loans (including agricultural real estate loans and agricultural operating loans) and residential real estate loans, which together comprise 71 percent of the loan portfolio. A sample of outstanding agricultural loans and residential real estate loans originated in the last three years (January 1, 2000, through December 31, 2002) were reviewed for purposes of this evaluation. The agricultural loan sample consisted of 30 loans totaling \$1,076,101 from a universe of 93 loans totaling \$3,578,044. The residential real estate loan sample consisted of 28 loans totaling \$734,275 from a universe of 80 loans totaling \$2,687,467.

Lending in Assessment Area

Nearly all of the agricultural and residential real estate loans originated by the bank are within the bank's assessment area, reflecting a strong commitment to meeting the credit needs of the assessment area.

Agricultural Loans

All of the 30 agricultural loans sampled, or 100 percent, were originated within the assessment area.

Residential Real Estate Loans

Of the 28 real estate loans sampled 26, or 93 percent, were originated within the assessment area. The 26 loans originated inside the assessment area represent 93 percent of the dollar volume of residential real estate loans. One of the residential real estate borrowers outside of the assessment area is located in Chariton County, 14 miles east of Hale. The other borrower is located in Chillicothe, Missouri, 19 miles northwest of Hale.

b) Lending among Farms of Different Sizes and to Borrowers of Different Incomes

An analysis of agricultural and residential real estate loans reveals an excellent dispersion of loans among farms of different sizes and to borrowers of different income levels. Only loans originated within the assessment area are included in the analysis.

Lending among Farms of Different Sizes – Agricultural Loans

Table 3 shows the distribution of the agricultural loan sample among farms of varying sizes based on gross farm revenue levels. Table 3 also shows the percentage of farms, by gross farm revenue, located in Carroll and Livingston Counties based on the 1997 Census of Agriculture.

<i>Table 3 – Distribution of Farm Loans by Gross Annual Farm Revenue</i>					
<i>Gross Annual Revenue of the Farm</i>	<i>Percentage of Farms in Carroll and Livingston Counties by Sales Volume</i>	<i>Number of Loans</i>	<i>Percent of Total Number of Loans</i>	<i>Dollar Amount of Loans</i>	<i>Percent of Dollar Amount of Loans</i>
< \$100,000	85%	26	87%	\$ 897,601	83%
\$100,000 to < \$250,000	10%	2	7%	\$ 142,000	13%
\$250,000 to < \$500,000	3%	1	3%	\$ 32,000	3%
≥ \$500,000	2%	1	3%	\$ 4,500	1%
TOTALS	100%	30	100%	\$1,076,101	100%

Source: 1997 Census of Agriculture and bank data.

The bank has achieved an excellent loan penetration among farms of different sizes. The bank originated 87 percent of the agricultural loans to farms with gross farm revenue of \$100,000 or less, which is equally comparable to the percentage of farms within Carroll and Livingston Counties in the same revenue category. The 1997 Census of Agriculture determined that, on a statewide basis, of those small farm operations with sales less than \$100,000, approximately 59 percent did not obtain bank financing. This information suggests that an institution would not typically have many loans to operations with sales under \$100,000 since they may not have agricultural-related borrowing needs. This effectively limits the number of potential borrowers in this category. However, as indicated in Table 3, the bank made 87 percent of its farm loans to borrowers with less than \$100,000 in gross farm revenue which indicates that the bank is lending to a high percentage of the small farm operations that do have borrowing needs.

Lending to Borrowers of Different Income Levels – Residential Real Estate Loans

To evaluate the bank’s residential real estate loans, examiners used the 2000, 2001, and 2002 adjusted HUD MFI of \$37,400, \$39,600, and \$40,600, respectively, for the non-metropolitan portion of Missouri. Table 4 defines each income category.

Table 5 shows the distribution of residential real estate loans among borrowers of different income levels. In addition, the table includes the percentage of assessment area families within each income level according to 1990 U. S. Census data.

<i>Table 4 – Borrower Income Levels for Nonmetropolitan Missouri</i>				
<i>Borrower Income Level</i>	<i>Percent of MFI</i>	<i>2000 MFI</i>	<i>2001 MFI</i>	<i>2002 MFI</i>
<i>Low</i>	<i>< 50%</i>	<i>< \$18,700</i>	<i>< \$19,800</i>	<i>< \$20,300</i>
<i>Moderate</i>	<i>50% to < 80%</i>	<i>\$18,700 to < \$29,920</i>	<i>\$19,800 to < \$31,680</i>	<i>\$20,300 to < \$32,480</i>
<i>Middle</i>	<i>80% to < 120%</i>	<i>\$29,920 to < \$44,880</i>	<i>\$31,680 to < \$47,520</i>	<i>\$32,480 to < \$48,720</i>
<i>Upper</i>	<i>120% and over</i>	<i>\$44,880 and over</i>	<i>\$47,520 and over</i>	<i>\$48,720 and over</i>

Source: HUD Estimated 2000, 2001 and 2002 MFI

<i>Table 5 – Distribution of Residential Real Estate Loans by Borrower Income</i>					
<i>Borrower Income Level</i>	<i>Percent of Assessment Area Families</i>	<i>Number of Loans</i>	<i>Percent of Total Number of Loans</i>	<i>Dollar Amount of Loans</i>	<i>Percent of Dollar Amount of Loans</i>
Low	15%	4	15%	\$ 88,200	13%
Moderate	19%	13	50%	\$210,650	31%
Middle	22%	4	15%	\$158,554	23%
Upper	44%	5	20%	\$227,000	33%
TOTALS	100%	26	100%	\$684,404	100%

Source: 1990 U. S. Census and bank data

Based on the information presented in Table 5, the bank has an excellent residential real estate loan penetration among low- and moderate-income borrowers. The information reveals that the bank originated 15 percent, by number, of its residential real estate loans to low-income borrowers, which is comparable to the 15 percent of low-income families in the assessment area. This is considered a very strong performance since many of the low-income assessment area residents would have difficulty meeting down payment and other loan requirements. This effectively limits the number of possible borrowers in the low-income category. The bank originated 50 percent, by number, of its residential real estate loans to moderate-income borrowers, which substantially exceeds the percentage of moderate-income families in the assessment area. Moderate-income families represent 19 percent of the families in the assessment area. Given the fact that the bank originated 65 percent of its residential

real estate loans to low- and moderate-income borrowers, the bank's performance is considered excellent.

The bank offers a low down payment program for persons meeting low-income requirements according to the USDA Rural Development Housing income limits. The program began in January 2000 and the bank has made 23 loans since the program began. The down payment requirement under this program ranges from 0 to 10 percent depending upon circumstances. This program has enhanced the bank's lending efforts towards low- and moderate-income individuals.

c) Geographic Distribution of Loans

A geographic distribution analysis of the two loan samples revealed a reasonable dispersion of loans among the geographies within the assessment area considering demographic information and the location of the bank's office within the assessment area. Only loans originated within the assessment area are included in the analysis. As discussed in *Description of Assessment Area*, all three of the block numbering areas in the assessment area are middle income.

Agricultural Lending

The bank originated agricultural loans in all BNAs in the assessment area. All of the 30 agricultural loans sampled, totaling \$1,076,101, were originated in middle-income BNAs. Twenty-one loans, or 70 percent, were originated in BNA 9601, the bank is located in this BNA. Four and five loans were originated in BNA 9602 and BNA 9802, respectively.

Residential Real Estate Loans

The bank originated residential real estate loans in all BNAs in the assessment area. All 26 residential real estate loans sampled, totaling \$684,404, were originated in middle-income BNAs. Twenty-one loans, or 81 percent, were originated in BNA 9601, 3 loans, or 11 percent, were originated in BNA 9602, and 2 loans, or 8 percent, were originated in BNA 9802.

d) Loan-to-Deposit Ratio

The bank's average net loan-to-deposit ratio (ratio) reflects an excellent willingness to provide credit given the institution's size, financial condition, and community credit needs. The bank's ratio, based on 22 quarters since the previous evaluation, is 84 percent. The ratio has fluctuated from a high of 93 percent as of June 30, 2002 to a low of 72 percent as of December 31, 1998. This high degree of fluctuation is typical for an agricultural-based loan portfolio.

To evaluate the reasonableness of this ratio, examiners reviewed asset size and primary credit products offered by other banks within the area. Citizens Bank of Norborne, Norborne, Missouri, located in BNA 9602 in the southwest corner of Carroll County and a branch of Citizens Bank and Trust

Company, Chillicothe, Missouri, located in Ludlow, Missouri, in BNA 9802 of Livingston County, are the only institutions that have an office in one of the three BNAs that compose the subject bank's assessment area.

In Table 6, examiners compared the bank’s ratio over the prior 22 quarters to that of similarly situated banks (banks with similar asset size, structure, loan portfolio mix, and area served). Carrollton, within 20 miles of the bank, is not included in the bank’s assessment area; however, financial institutions in Carrollton directly compete with Farmers and Merchants Bank. Management concurred with the similarly situated banks listed in the table.

<i>Table 6 – Similarly Situated Banks</i>					
<i>Bank Name</i>	<i>Branches</i>	<i>Total Assets (000s)</i>	<i>Total Deposits (000s)</i>	<i>Net Loans (000s)</i>	<i>Average Net Loan to Deposit Ratio</i>
<i>Carroll County Trust Company Carrollton, Missouri</i>	0	\$70,789	\$49,200	\$31,733	53%
<i>The First National Bank Carrollton, Missouri</i>	1	\$32,980	\$26,817	\$15,015	56%
<i>Farmers and Merchants Bank Hale, Missouri</i>	0	\$14,878	\$11,931	\$11,018	84%
<i>Citizens Bank of Norborne Norborne, Missouri</i>	0	\$24,599	\$20,482	\$16,885	72%

Source: Bank financial data. The banks are listed in alphabetical order by city.

The table shows that The Farmers & Merchants Bank of Hale’s ratio of 84 percent is higher than the ratios of all other banks identified as similarly situated. The ratio also indicates an increase from the ratio at the previous evaluation when it was 76 percent. The bank’s ratio increased more than the ratios of the similarly situated banks. The Farmers & Merchants Bank of Hale’s ratio increased eight basis points, whereas Carroll County Trust Company, The First National Bank, and Citizens Bank of Norborne increased two, six, and six basis points, respectively.

Over the past 22 quarters, the bank’s net loans have increased \$3,012,000 (38 percent), whereas total deposits have increased \$2,219,000 (23 percent), positively impacting the ratio. Furthermore, the bank’s loan growth exceeded both The First National Bank and Citizens Bank of Norborne’s loan growth of 9 percent and 25 percent, respectively. Although Carroll County Trust Company’s loan growth at 65 percent exceeded The Farmers & Merchants Bank of Hale’s loan growth, Carrollton’s population of 4,406 is much larger than Hale’s population of 480.

e) Response to CRA-Related Complaints

Neither the bank nor the Federal Deposit Insurance Corporation has received a CRA-related complaint since the last evaluation.

f) Qualified Investments and Community Development Services

The bank's record of providing community development services and qualified investments enhances the bank's ability to meet the credit needs of the assessment area. Given that the bank has no low- or moderate-income BNAs in its assessment area, bank personnel are exhibiting extra effort to meet the community development needs of low- and moderate-income individuals through qualified investments and community development services.

General Definitions

"Qualified investments" is a defined term within the CRA regulation under Part 345.12(s) and includes a lawful investment, deposit, membership share, or grant that has as its primary purpose "community development".

"Community development" is also a defined term within the CRA regulation under Part 345.12(h). Any activity is considered a community development activity if it meets one of the following four criteria:

- Affordable housing for low- or moderate-income individuals.
- Community services targeted to low- or moderate-income individuals.
- Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of 13 CFR 121.802(a)(2) and (3) or have gross annual revenues of \$1 million or less.
- Activities that revitalize or stabilize low- or moderate-income geographies.

Qualified Investments

Since January 1, 2001, the bank has donated \$187 to organizations serving community development needs for low- and moderate-income individuals.

- The bank provided \$110 to the local Lion's Club, which provide glasses, hearing aids, and vision and hearing screenings for low- and moderate-income individuals.
- The bank donated \$77 to the local schools to help defray costs for free and reduced lunches to the school's students.

Community Development Services

The following are examples of the bank's community development services.

- A bank employee is the President of the Hale Housing Corporation, Hale, Missouri. The organization oversees the income-assisted apartments in Hale, the collection of rent, and pre-screens applicants to ensure they meet income restrictions. The bank also services all of the organization's deposit accounts for minimal fees and waives all deposit account service charges.
- A bank officer is a member of Mid-Missouri Energy, Inc., Carrollton, Missouri. This non-profit organization is responsible for attracting an ethanol plant to be constructed in mid Missouri. The plant has a very high chance of being located in Carrollton, Missouri, 25 miles south of Hale. The plant will offer approximately 40 full-time jobs.
- Two bank officers provide free financial education and "treasurer reviews" to the two churches in Hale. Both of these churches provide assistance to H.E.L.P. and the Ministerial Alliance. H.E.L.P. is an interdenominational agency, which provides credit counseling, a food pantry, and clothing to people in need. The Ministerial Alliance, which serves Carroll and Livingston Counties, assists low- and moderate-income individuals with electricity, fuel, and food costs.
- All loan officers are periodically trained through the Missouri Bankers Association on how to provide credit counseling for homebuyers. The loan officers use this training to provide assistance to loan applicants.
- The bank provides free checking and waives service charges for the Missouri Rural Crisis Center in Hale. This organization provides food for low- and moderate-income individuals in a three county area, which includes the bank's assessment area.
- Since the prior evaluation, the bank has provided a free checking account for low- and moderate-income individuals. In July 2002, the bank began offering this account for all customers.
- The bank will cash all government checks with no fees.
- The bank gives cash advances free of charge to individuals presenting benefit cards issued by the State of Missouri's Division of Family Services.

g) Compliance with Anti-Discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the evaluation.