

PUBLIC DISCLOSURE

October 13, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers and Merchants Bank
Certificate Number: 13415

225 East Renfrow Avenue
Arnett, Oklahoma 73832

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

1601 Bryan Street, Suite 1410
Dallas, Texas 75201

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.

TABLE OF CONTENTS

INSTITUTION RATING	1
DESCRIPTION OF INSTITUTION	1
DESCRIPTION OF ASSESSMENT AREA	2
SCOPE OF EVALUATION	5
CONCLUSIONS ON PERFORMANCE CRITERIA.....	6
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	9
APPENDICES	10
SMALL BANK PERFORMANCE CRITERIA.....	10
GLOSSARY	11

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.

Farmers and Merchants Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. The following points summarize the bank's Lending Test performance.

- The loan-to-deposit ratio is reasonable (considering seasonal variations and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending related activities are in the institution's assessment area.
- The assessment area does not include any low- or moderate-income geographies; therefore, this criterion was not evaluated.
- The distribution of borrowers reflects, given the demographics of the assessment area, excellent penetration among farms of different sizes and individuals of different income levels (including low- and moderate-income).
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

Background

Farmers and Merchants Bank (FMB) is a \$56.5 million community bank headquartered in Arnett, Oklahoma. The bank does not operate under a holding company structure nor does the bank maintain any affiliates or subsidiaries. The institution received a "Satisfactory" rating at its December 1, 2014 Federal Deposit Insurance Corporation (FDIC) CRA Performance Evaluation, based on Interagency Small Bank Examination Procedures.

Operations

FMB, located in rural northwestern Oklahoma, operates from a single office in Arnett, Oklahoma. The branch operates in an upper-income census tract in Ellis County. The bank did not open or close any offices and did not participate in any merger or acquisition activity, since the previous evaluation.

FMB offers consumer, commercial, and agricultural loans, primarily focusing on agricultural loans. The bank also offers an array of deposit products including checking, savings, money market accounts, and certificates of deposit. Alternative delivery services include telephone and online banking, and an automated teller machine at the bank’s sole office.

Ability and Capacity

As of the June 30, 2020 Report of Condition and Income, total assets equated to \$56.5 million, total loans equaled \$19.9 million, and total deposits stood at \$48.3 million. Since the prior evaluation, total assets declined 6.2 percent, net loans increased 11.0 percent, and total deposits decreased 10.4 percent.

The following table, which presents the outstanding loan portfolio as of June 30, 2020, demonstrates a similar loan distribution to that discussed under the Scope of Evaluation section. Agricultural loans (Secured by Farmland and Agricultural Production) at 60.1 percent, represent the largest loan category, followed by consumer loans at 20.8 percent.

Loan Portfolio Distribution as of 06/30/2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	3,215	16.2
Secured by 1-4 Family Residential Properties	585	2.9
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	1,144	5.7
Total Real Estate Loans	4,944	24.8
Commercial and Industrial Loans	2,062	10.4
Agricultural Production and Other Loans to Farmers	8,743	43.9
Consumer Loans	4,135	20.8
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	12	0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	19,896	100.0
<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 the assessment area (AA).

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more AAs within which its CRA performance will be evaluated. The bank designated a single AA consisting of Ellis County in its

entirety. The AA has not changed since the prior evaluation and conforms to CRA regulatory requirements.

Economic and Demographic Data

The AA includes two census tracts in a rural geographic area of the non-Metropolitan Statistical Area of Oklahoma. According to 2015 American Community Survey (2015 ACS) data, these census tracts reflect the following income designations: one middle- and one upper-income. Since the previous evaluation, census tract 9528 changed from a middle-income geography to an upper-income geography. The tract income change appears to have materially affected the area’s needs and opportunities. In addition, the middle-income census tract was designated as an underserved remote rural area, and Ellis County was declared a designated disaster area by the Federal Emergency Management Agency during the review period. The following table provides additional demographic data for the AA.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	2	0.0	0.0	50.0	50.0	0.0
Population by Geography	4,121	0.0	0.0	69.6	30.4	0.0
Housing Units by Geography	2,267	0.0	0.0	69.8	30.2	0.0
Owner-Occupied Units by Geography	1,318	0.0	0.0	68.2	31.8	0.0
Occupied Rental Units by Geography	392	0.0	0.0	73.2	26.8	0.0
Vacant Units by Geography	557	0.0	0.0	71.1	28.9	0.0
Businesses by Geography	288	0.0	0.0	73.3	26.7	0.0
Farms by Geography	48	0.0	0.0	52.1	47.9	0.0
Family Distribution by Income Level	1,127	18.2	11.7	15.3	54.8	0.0
Household Distribution by Income Level	1,710	22.4	12.8	14.0	50.8	0.0
Median Family Income Non-MSAs - OK		\$51,491	Median Housing Value			\$81,798
			Median Gross Rent			\$655
			Families Below Poverty Level			9.3%

Source: 2015 ACS Census and 2019 D&B Data
 (*) The NA category consists of geographies that have not been assigned an income classification.

Service-related businesses and agriculture represent the area’s primary industries and driving forces of the economy. Other notable industries in the area include forestry and fishing, and retail trade. The area’s major employers include local county and government municipalities, as well as public school districts. According to 2019 D&B data, the area included 48 farms, of which 98.0 percent of farms report gross annual revenues (GAR) of \$1 million or less.

Data obtained from the U.S. Bureau of Labor Statistics indicates that Ellis County reported an annual unemployment rate of 2.5 percent for 2019, while the State of Oklahoma reported an unemployment rate of 3.3 percent and the National unemployment rate stood at 3.6 percent, for the same time period.

Examiners used the 2019 Federal Financial Institutions Examination Council (FFIEC)-updated median family income (MFI) level to analyze consumer loans under the borrower profile criterion. The following table presents the low-, moderate-, middle- and upper-income categories, based on the 2019 FFIEC-updated MFI of \$55,800 for the area.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
OK NA Median Family Income (99999)				
2019 (\$55,800)	<\$27,900	\$27,900 to <\$44,640	\$44,640 to <\$66,960	≥\$66,960
<i>Source FFIEC</i>				

Competition

The AA reflects a limited level of competition for financial services, as FMB is the only financial institution operating in Arnett, Oklahoma. According to the FDIC Deposit Market Share data as of June 30, 2020, only three financial institutions operated three full-service offices within the AA. Of these institutions, FMB ranked second with a 32.9 percent deposit market share.

Community Contact

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying the credit and community needs. This information helps determine financial institutions’ responsiveness to these needs and shows available credit opportunities.

Examiners referenced an existing community contact knowledgeable of the area’s economic conditions, community credit needs, and potential opportunities for bank involvement. The contact stated that the area relies on energy and oil production, as well as agriculture. In addition, the contact noted rural farming communities continue rebuilding from severe damage due to storms, drought, and wildfires in the area. The contact indicated that the Farm Credit Bureau primarily provides agricultural lending in the area, while local banks help with consumer and business lending. The contact further stated there have not been any new businesses or infrastructure built within the area, and small business lending is a primary credit need. Overall, the contact noted that financial institutions have been responsive to the credit needs of the area.

Credit Needs

Considering information obtained from the community contact, demographic and economic data, and bank management, examiners determined that small business and small farm lending represent the primary credit needs of the AA.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from December 1, 2014, through October 13, 2020, the date of the previous evaluation to this evaluation’s date. To evaluate performance, examiners applied the CRA Small Bank Procedures, which include the Lending Test. The appendices list the evaluation criteria for these procedures.

Activities Reviewed

Small Bank procedures require examiners to determine the bank’s major product lines for review. Based on the number and dollar volume of lending in 2019 and management’s stated business strategy, examiners determined that the bank’s major product lines include agricultural loans at 42.5 percent and consumer loans at 33.7 percent by dollar volume of loans originated. None of the other typically reviewed loan types, including commercial and home mortgage loans, represent major product lines by dollar volume and thus would not materially affect any conclusions or the rating. Therefore, this evaluation does not include a review of them. The following table shows loan origination activity for the most recent full calendar year.

Loans Originated or Purchased				
Loan Category	\$(000s)	%	#	%
Construction and Land Development	0	0.0	0	0.0
Secured by Farmland	711	7.5	3	0.5
Secured by 1-4 Family Residential Properties	0	0.0	0	0.0
Multi-Family (5 or more) Residential Properties	0	0.0	0	0.0
Commercial Real Estate Loans	456	4.8	5	0.9
Commercial and Industrial Loans	1,811	19.0	66	11.5
Agricultural Loans	3,323	35.0	133	23.2
Consumer Loans	3,204	33.7	366	63.9
Other Loans	0	0.0	0	0.0
Total Loans	9,505	100.0	573	100.0
<i>Source: 2019 Bank Data</i>				

Examiners reviewed a sample of 47 small farm loans totaling \$1.3 million, from the universe of 136 small farm loans totaling \$4.0 million, originated in 2019. In addition, examiners reviewed a sample of 58 consumer loans totaling \$608,758, from the universe of 366 consumer loans totaling \$3.2 million, also originated in 2019. Examiners selected the samples based on a 90 percent confidence interval with a 10 percent level of precision. D&B data for 2019 provided the standard of comparison for the small farm lending, while the 2015 ACS data provided the standard of comparison for the consumer lending.

Examiners analyzed the full loan samples to arrive at a conclusion for the institution’s AA concentration performance, while only those loans identified as being within the bank’s AA were used to arrive at conclusions regarding the borrower profile. Given the dollar volume of lending,

examiners provided the bank’s record of originating small farms loans more weight when arriving at overall conclusions.

While the evaluation presents both the number and dollar volume of loans, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of farms and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

FMB demonstrated a satisfactory record regarding the Lending Test. The bank exhibited a reasonable record regarding its loan-to-deposit (LTD) ratio and originated a majority of the loans reviewed within its AA, which outweighed the excellent borrower profile performance.

Loan-to-Deposit Ratio

FMB exhibited a reasonable record regarding its LTD ratio given its size, financial condition, and AA credit needs. The LTD ratio, calculated from Report of Condition and Income data, averaged 37.5 percent over the past 23 calendar quarters from December 31, 2014, to June 30, 2020. This average represents a decline from the 45.8 percent average, net LTD ratio reflected at the prior evaluation. The ratio ranged from a low of 30.7 percent as of March 31, 2015, to a high of 43.7 percent as of September 30, 2019. Economic conditions driven by the energy and agricultural industries caused fluctuations in deposit volumes while loan opportunities declined, thus resulting in a negative impact on the overall LTD ratio.

The following table illustrates the bank’s average, net LTD ratio along with that of one comparable institution. Examiners selected the comparable institution based on their asset size, lending focus, and geographic location. As illustrated, FMB’s ratio falls 3.6 percentage points lower than the comparable institution.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 06/30/2020 (\$000s)	Average Net LTD Ratio (%)
Farmers and Merchants Bank, Arnett, OK	56,519	37.5
Cleo State Bank, Cleo Springs, OK	91,610	41.1
<i>Source: Reports of Condition and Income (12/31/2014 – 06/30/2020)</i>		

Assessment Area Concentration

A majority of loans and other lending related activities are in the institution’s AA. A majority of small farm and consumer loans originated inside the AA primarily supports this conclusion. Examiners considered the bank’s asset size and office structure, as well as the loan categories reviewed relative to the AA’s size and economy when arriving at this conclusion.

The following table shows that the bank originated a majority of their small farm and consumer lending, by number and dollar volume, inside the AA.

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	33	70.2	14	29.8	47	925	71.4	370	28.6	1,295
Consumer	36	62.1	22	37.9	58	424	69.6	185	30.4	609

Source: 2019 Bank Data

Geographic Distribution

The AA 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 loans reflects excellent distribution among farms of different sizes and individuals of different income levels (including low- and moderate-income) in the AA. Excellent performance regarding small farm lending not significantly hampered by the reasonable performance regarding consumer lending supports this conclusion. Examiners focused on the percentage by number of small farm loans to farms with GARs of \$1 million or less and consumer loans to low- and moderate-income borrowers.

Small Farm Loans

The distribution of small farm loans reflects excellent penetration among farms of different sizes. The following table shows that the bank originated 97.0 percent of its small farm loans to farms with GARs of \$1 million or less, reflecting excellent performance. Additionally, the table indicates the bank extended 90.9 percent of the reviewed loans to farms in the smallest two revenue categories, surpassing aggregate data, further supporting excellent performance.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
< \$100,000	50.0	25	75.8	544	58.8
\$100,000 - \$249,999	37.5	5	15.1	216	23.4
\$250,000 - \$499,999	6.3	2	6.1	65	7.0
\$500,000 - \$1,000,000	4.2	0	0.0	0	0.0
Subtotal <= \$1,000,000	98.0	32	97.0	825	89.2
>\$1,000,000	2.0	1	3.0	100	10.8
Revenue Not Available	0.0	0	0.0	0	0.0
Total	100.0	33	100.0	925	100.0

Source: 2019 D&B Data and 2019 Bank Data

Consumer Loans

The distribution of consumer loans to individuals of different income levels, including low- and moderate-income, reflects reasonable performance. As illustrated in the following table, the bank's level of lending to low-income borrowers falls below demographic data by 3.0 percentage points, reflecting reasonable performance. The table further shows that the bank's level of lending to moderate-income borrowers exceeds demographic data by 12.2 percentage points, reflective of excellent performance. Examiners placed more weight on performance to low-income borrowers given the greater lending opportunities as illustrated by the relative demographic figures. Overall, the level of lending to low- and moderate-income borrowers demonstrates reasonable performance.

Distribution of Consumer Loans by Borrower Income Category					
Borrower Income Level	% of Households	#	%	\$(000s)	%
Low	22.4	7	19.4	20	4.7
Moderate	12.8	9	25.0	141	33.2
Middle	14.0	8	22.2	74	17.5
Upper	50.8	12	33.3	189	44.6
Totals	100.0	36	100.0	424	100.0

Source: 2015 ACS Census Data and 2019 Bank Data.

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

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

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.