

PUBLIC DISCLOSURE

April 12, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Merchants and Farmers Bank of Salisbury
Certificate Number: 8259

507 North Weber Avenue
Salisbury, Missouri 65281

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 bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall 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, small business, and home mortgage loans reviewed are located in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects a reasonable penetration among farms and businesses of different sizes and individuals of different income levels.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

DESCRIPTION OF INSTITUTION

Background

The Merchants and Farmers Bank of Salisbury is a full-service community bank located in central Missouri. The bank is a subsidiary of Widmer Bancshares, Inc., Salisbury, Missouri, a one-bank holding company. The bank does not have any lending affiliates. The Merchants and Farmers Bank of Salisbury received a "Satisfactory" rating at its FDIC performance evaluation dated January 20, 2015, using Interagency Small Institution Examination Procedures.

Operations

The Merchants and Farmers Bank of Salisbury operates four office locations in Missouri. The main office is located in Salisbury, which is in Chariton County, a nonmetropolitan area in central Missouri. Three additional full service branch locations are located in Columbia (Boone County), Fayette (Howard County), and Hardin (Ray County). Boone and Howard Counties are located in the Columbia, Missouri Metropolitan Statistical Area (MSA) and Hardin County is located in the Kansas City, Missouri-Kansas MSA. The bank has not opened or closed any offices since the prior evaluation.

The institution offers agricultural, commercial, home mortgage, and consumer loans through traditional loan products. In addition, the bank has been an active originator of loans under the Small Business Administration’s Paycheck Protection Program (PPP) established in 2020 to provide relief financing to small businesses during the Coronavirus pandemic. Furthermore, bank officials also modified several loans to assist borrowers adversely affected by the COVID-19 pandemic. Agricultural loans continue to be a longstanding primary lending focus.

The bank offers a variety of deposit services, including checking, savings, and money market deposit accounts, as well as certificates of deposit. Alternative banking services include internet, mobile, and telephone banking, and electronic bill pay. In addition, the bank has four automated teller machines (ATMs), two of which are deposit-taking, one located at the main office and one at the Columbia branch. The ATMs located at the Fayette and Hardin branches are cash dispensing.

Ability and Capacity

The bank’s total assets were \$113.6 million as of December 31, 2020, and included total loans of \$53.8 million and total securities of \$30.8 million. The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of 12/31/2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	1,457	2.7
Secured by Farmland	17,821	33.1
Secured by 1-4 Family Residential Properties	13,704	25.5
Secured by Multi-family (5 or more) Residential Properties	-	0.0
Secured by Non-farm Non-Residential Properties	8,566	15.9
Total Real Estate Loans	41,548	77.2
Commercial and Industrial Loans	2,330	4.3
Agricultural Production and Other Loans to Farmers	8,016	14.9
Consumer	1,895	3.5
Obligations of States and Political Subdivisions in the U.S.	-	0.0
Other Loans	-	
Lease Financing Receivables (net of unearned income)	-	0.0
Less: Unearned Income	-	0.0
Total Loans	53,789	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 assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires financial institutions to designate one or more assessment areas within which its performance will be evaluated. The Merchants and Farmers Bank of Salisbury designated three assessment areas, all in Missouri: the Nonmetropolitan Missouri Assessment Area, the Columbia Assessment Area, and the Kansas City Assessment Area. The Nonmetropolitan Missouri Assessment Area is comprised of Chariton County, which has three middle-income census tracts, all of which are designated as underserved. The Columbia Assessment Area represents a portion of the Columbia, Missouri MSA and the Kansas City Assessment Area includes Ray County, which is part of the Kansas City Missouri-Kansas MSA. Refer to individual assessment area sections for additional information. The following table provides some details regarding the assessment areas.

Assessment Area	Counties in Assessment Area	# of Census Tracts
Nonmetropolitan Missouri	Chariton	3
Columbia	Boone, Howard	32
Kansas City	Ray	4

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation, dated January 20, 2015, to the current evaluation, dated April 12, 2021. Examiners used the Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance.

Examiners conducted full-scope reviews for the three assessment areas. However, the assessment areas received different weights when arriving at conclusions. Specifically, the bank's performance in the Nonmetropolitan Missouri Assessment Area received the most weight compared to its performance in the Columbia and Kansas City Assessment Areas. This is because a majority of lending activities and deposits are located in the Nonmetropolitan Assessment Area.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Nonmetropolitan Missouri	59,401	66.2	59,860	64.4	1	25.0
Columbia	28,688	32.0	22,021	23.7	2	50.0
Kansas City	1,586	1.8	11,079	11.9	1	25.0
Total	89,675	100.0	92,960	100.0	4	100.0

Source: Bank Loan Data (02/16/2021); FDIC Summary of Deposits (06/30/2020); Bank Branch Data (04/12/2021)

Activities Reviewed

Examiners generally review small farm, small business, and home mortgage loans if each of these categories is a major product line of the institution. Agricultural loans have been a longstanding primary business focus, followed by commercial and home mortgage loans. Based on this information, along with the origination activity and loan portfolio composition, examiners reviewed

all three loan categories, with the most weight given to small farm lending when determining overall conclusions.

For the three loan categories reviewed, examiners focused on loans originated in 2020. The number and volume of loans increased in 2020 with the addition of the PPP loans. However, despite this increase in small business lending, bank management stated that the bank's 2020 lending patterns for location and size/income of its borrowers would generally be representative of its overall lending patterns since the previous evaluation.

Origination activity in 2020 showed 138 small farm loans totaling \$9.1 million, 76 small business loans totaling \$3.6 million, and 28 home mortgage loans totaling \$2.4 million. All of these loans were included in the Assessment Area Concentration analysis. The Geographic Distribution and Borrower Profile analyses then focused on loans originated in the assessment areas.

The Geographic Distribution and Borrower Profile analyses use prescribed data as standards of comparison. The sources for this prescribed data are 2020 D&B data for the small business and farm loans, and 2015 ACS data for the home mortgage loans. Additionally, although both the number and dollar volume of loans are analyzed, examiners emphasize performance by number of loans because it is a better indicator of the number of individuals and farms/businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Merchants and Farmers Bank of Salisbury demonstrates reasonable performance under the Lending Test. This conclusion is supported by a reasonable loan-to-deposit ratio and reasonable performance in assessment area concentration, geographic distribution, and borrower profile rating criteria.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's performance was evaluated based on the average quarterly loan-to-deposit ratios since the previous evaluation (24 quarters.) The bank's average loan-to-deposit ratio compares reasonably to similarly situated banks (similar asset size, geographic location, and lending focus). See the following table for details.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 12/31/2020 (\$000s)	Average Net LTD Ratio (%)
The Merchants and Farmers Bank of Salisbury	113,606	63.1
Preferred Bank	129,191	37.5
Tri-County Trust Company	63,555	81.6
Citizens Community Bank	121,647	79.3
Community Bank of Richmond	65,695	85.9
<i>Source: Reports of Condition and Income 03/31/2015 through 12/31/2020</i>		

Assessment Area Concentration

Overall, a majority of lending is in the assessment area. Although a majority of small business lending by dollar volume is outside the assessment area, this primarily was attributed to five loans to the same borrower totaling approximately \$540 thousand and one relatively large loan totaling approximately \$800 thousand. See the following table for 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	116	84.1	22	15.9	138	7,440	81.6	1,683	18.4	9,123
Small Business	58	76.3	18	23.7	76	1,494	40.9	2,155	59.1	3,649
Home Mortgage	26	92.9	2	7.1	28	2,283	95.0	120	5.0	2,403
<i>Source: Bank Data Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution of loans is reasonable. Examiners focused on the percentage of loans in the low- and moderate-income census tracts. The bank’s reasonable performance in the Columbia Assessment Area received the most weight in determining this conclusion. While the bank’s performance in the Kansas City Assessment Area was poor due to limited lending, it did not affect the overall conclusion. Since the Nonmetropolitan Missouri Assessment Area does not contain any low- or moderate-income census tracts, a review of the geographic distribution criterion would not result in meaningful conclusions. Additional details are provided in the individual assessment area sections.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels. Examiners focused on the percentage of small farm and small business loans to entities with gross annual revenues of \$1 million or less, as well as percentage of home mortgage loans to low- and moderate-income borrowers. Reasonable performance was noted for both the Nonmetropolitan Missouri Assessment Area and the Columbia Assessment Area. Although the bank’s performance in the Kansas City Assessment Area was poor

due to limited lending, this assessment area received the least weight when determining conclusions. Additional details are provided in the individual assessment area sections.

Response to Complaints

The bank has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test 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 evidence of discriminatory or other illegal credit practices.

NONMETROPOLITAN MISSOURI ASSESSMENT AREA
Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE
NONMETROPOLITAN MISSOURI ASSESSMENT AREA

The Nonmetropolitan Missouri Assessment Area is the bank’s primary market, accounting for the majority of the bank’s lending and deposits. The assessment area includes Chariton County, in its entirety. The bank’s main office and one deposit-taking ATM are located in this assessment area.

Economic and Demographic Data

The Nonmetropolitan Missouri Assessment Area is comprised of three census tracts, all classified as middle-income tracts based on 2015 ACS data. The following table illustrates select demographic characteristics of this assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Nonmetropolitan Missouri						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	3	0.0	0.0	100.0	0.0	0.0
Population by Geography	7,650	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	4,153	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	2,272	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	675	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,206	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	595	0.0	0.0	100.0	0.0	0.0
Farms by Geography	173	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	1,937	17.9	17.7	20.2	44.2	0.0
Household Distribution by Income Level	2,947	22.3	16.9	18.3	42.5	0.0
Median Family Income Non-MSAs - MO		\$48,341	Median Housing Value			\$74,695
			Median Gross Rent			\$498
			Families Below Poverty Level			11.2%
<i>Source: 2015 ACS and 2020 D&B Data</i>						
<i>Due to rounding, totals may not equal 100.0%</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The Federal Financial Institutions Examination Council (FFIEC) updates median family income figures annually. The updated median family incomes for nonmetropolitan areas of Missouri and the corresponding low-, moderate-, middle-, and upper-income thresholds are presented in the following table.

Median Family Income Ranges – Nonmetropolitan Missouri				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$54,400)	<\$27,200	\$27,200 to <\$43,520	\$43,520 to <\$65,280	≥\$65,280
<i>Source: FFIEC</i>				

According to 2020 D&B data, service industries represent the largest portion of assessment area businesses and farms at 27.3 percent, followed by agriculture (22.5 percent), and non-classifiable establishments (12.5 percent). In addition, 71.4 percent of the assessment area's businesses and farms have four or fewer employees and 88.8 percent operate from a single location.

Competition

The Nonmetropolitan Missouri Assessment Area is competitive for financial products and services. According to the FDIC's June 30, 2020 deposit data, Chariton County contains five financial institutions operating six offices. Of these institutions, The Merchants and Farmers Bank of Salisbury ranked second in deposit market share with 24.5 percent of the deposits.

The assessment area contains moderate competition and demand for small business, small farm, and home mortgage loans. Although the bank is not required to report these loans, aggregate CRA and HMDA data for those reporting institutions provides insight on the level of competition and demand for small business, small farm, and home mortgage loans. The aggregate CRA data for 2019, the most recent available, showed 9 lenders reporting 101 small farm loans and 25 lenders reporting 93 small business loans. The aggregate 2019 HMDA data, the most recent available, showed 32 lenders reporting 106 home mortgage loans.

Community Contact(s)

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

Examiners reviewed a recent community contact with an individual knowledgeable of assessment area economic conditions and agricultural needs. The contact stated that agriculture is the primary source of employment and that small businesses have had an increased need for credit in recent years. In addition, the contact noted home mortgage credit as a need, with stable housing stock conditions and availability. Lastly, the contact indicated that area financial institutions are meeting these credit needs.

Credit Needs

Examiners identify the credit needs of an assessment area based on information from the community contact, bank management, and demographic and economic data. Accordingly, examiners determined small farm, small business, and home mortgage loans are the primary credit needs in this area, particularly given discussions with the community contact and the noted demographic data.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NONMETROPOLITAN MISSOURI ASSESSMENT AREA

LENDING TEST

The Merchants and Farmers Bank of Salisbury demonstrated reasonable performance under the Lending Test in the Nonmetropolitan Missouri Assessment Area. Reasonable performance under the Borrower Profile criterion supports this conclusion.

Agricultural lending is a primary focus in the Nonmetropolitan Missouri Assessment Area. Examiners reviewed small farm, small business, and home mortgage loans in evaluating the institution's performance in the Nonmetropolitan Missouri Assessment Area. Examiners placed the greatest weight on small farm loans, followed by small business loans, then home mortgage loans when drawing conclusions. This is because agricultural loans represent the largest percentage of the bank's lending volume in the assessment area, followed by small business loans, then home mortgage loans.

Geographic Distribution

Examiners did not conduct a geographic distribution analysis in the Nonmetropolitan Missouri Assessment Area. Since the assessment area does not contain any low- or moderate-income census tracts, such an analysis would not result in meaningful conclusions.

Borrower Profile

The distribution of borrowers reflects overall reasonable performance for this criterion, primarily based on the reasonable penetration among farms of different sizes which received the most weight.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms with gross annual revenues of \$1 million or less as bank performance is comparable to D&B data. See the following table for details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Nonmetropolitan Missouri					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.8	93	96.9	5,635	89.4
>1,000,000	0.6	3	3.1	666	10.6
Revenue Not Available	0.6	0	0.0	0	0.0
Total	100.0	96	100.0	6,301	100.0
<i>Source: 2020 D&B Data, Bank Data.</i>					
<i>Due to rounding, totals may not equal 100.0%</i>					

Small Business Loans

The distribution of borrowers reflects excellent penetration among businesses with gross annual revenues of \$1 million or less. As displayed in the following table, the bank's performance exceeds comparable demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Nonmetropolitan Missouri					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	78.5	44	86.3	930	72.2
>1,000,000	5.4	7	13.7	358	27.8
Revenue Not Available	16.1	0	0.0	0	0.0
Total	100.0	51	100.0	1,288	100.0
<i>Source: 2020 D&B Data, Bank Data.</i>					
<i>Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The distribution of borrowers reflects a poor penetration among low- and moderate-income borrowers. Lending in the low-income category is less than the percentage of these families in the assessment area. However, 11.2 percent of the families in the assessment area are below the poverty level and may have reduced capacity for a home loan. Nevertheless, there is no lending activity to moderate-income borrowers, which reflects poor performance for this criterion. See the following table for details.

Distribution of Home Mortgage Loans by Borrower Income Level					
Assessment Area: Nonmetropolitan Missouri					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	17.9	1	7.1	17	1.6
Moderate	17.7	0	0.0	0	0.0
Middle	20.2	8	57.1	377	36.6
Upper	44.2	5	35.7	637	61.8
Not Available	0.0	0	0.0	0	0.0
Total	100.0	14	100.0	1,031	100.0
<i>Source: 2015 ACS; Bank Data</i>					
<i>Due to rounding, totals may not equal 100.0%</i>					

COLUMBIA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE COLUMBIA ASSESSMENT AREA

The Columbia Assessment Area accounts for the second largest share of loans and deposits and two of the branches. The assessment area includes Boone and Howard Counties, in their entirety. The bank’s Fayette and Columbia offices are located in this assessment area. ATMs are located at each branch. The ATM at the Columbia branch takes deposits, while the one at the Fayette branch does not. Howard County was added to the Columbia, Missouri MSA since the previous evaluation.

Economic and Demographic Data

The Columbia Assessment Area is comprised of 32 census tracts, including 3 low-income, 5 moderate-income, 14 middle-income, 7 upper-income, and 3 without income designations based on 2015 ACS data. The following table illustrates select demographic characteristics of this assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Columbia						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	32	9.4	15.6	43.8	21.9	9.4
Population by Geography	180,952	4.0	11.9	50.1	27.1	7.1
Housing Units by Geography	76,728	4.6	13.4	50.6	27.2	4.1
Owner-Occupied Units by Geography	40,251	1.5	9.9	57.0	31.2	0.4
Occupied Rental Units by Geography	30,458	8.2	16.9	42.9	23.2	8.7
Vacant Units by Geography	6,019	6.8	19.2	47.2	21.3	5.5
Businesses by Geography	12,744	9.5	13.2	43.5	26.9	6.9
Farms by Geography	563	1.6	10.8	69.8	16.7	1.1
Family Distribution by Income Level	40,736	20.7	16.8	22.0	40.5	0.0
Household Distribution by Income Level	70,709	26.4	14.7	16.1	42.8	0.0
Median Family Income MSA - 17860 Columbia, MO MSA		\$69,408	Median Housing Value			\$162,892
			Median Gross Rent			\$794
			Families Below Poverty Level			9.1%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The Federal Financial Institutions Examination Council (FFIEC) updates median family income figures annually. The updated median family incomes for the Columbia, Missouri MSA and the corresponding low-, moderate-, middle-, and upper-income thresholds are presented in the following table.

Median Family Income Ranges – Columbia, MO MSA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$77,100)	<\$38,550	\$38,550 to <\$61,680	\$61,680 to <\$92,520	≥\$92,520
<i>Source: FFIEC</i>				

According to 2020 D&B data, service industries represent the largest portion of assessment area businesses and farms at 42.3 percent, followed by non-classifiable establishments (15.8 percent), and retail trade (12.4 percent). In addition, 61.2 percent of the assessment area’s businesses and farms have four or fewer employees and 86.7 percent operate from a single location.

Competition

The Columbia Assessment Area is competitive for financial products and services. According to the FDIC’s June 30, 2020 deposit data, the assessment area contains 34 financial institutions operating 80 offices. Of these institutions, The Merchants and Farmers Bank of Salisbury ranked 20th in deposit market share with 0.4 percent of the deposits.

The assessment area contains strong competition and demand for small business, small farm, and -home mortgage loans. Although the bank is not required to report these loans, aggregate CRA and HMDA data for those reporting institutions provides insight on the level of competition and demand for small business, small farm, and home mortgage loans. The aggregate CRA data for 2019, the most recent available, showed 19 lenders reporting 162 small farm loans and 77 lenders reporting 3,555 small business loans. The aggregate 2019 HMDA data, the most recent available, showed 246 lenders reporting 6,135 home mortgage loans.

Community Contact(s)

Examiners reviewed a recent community contact with an individual knowledgeable of assessment area economic conditions. The contact stated that numerous businesses have been moving into Columbia in recent years, leading to increased employment opportunities prior to the Coronavirus pandemic; however, uncertainty about future growth due to trade wars and the pandemic have contributed to worsening conditions for agricultural enterprises. In addition, the contact noted significant population growth in Columbia, which has led to an increased demand for housing. Lastly, the contact indicated that area financial institutions are meeting these credit needs.

Credit Needs

Examiners identify the credit needs of an assessment area based on information from the community contact, bank management, and demographic and economic data. Accordingly, examiners determined small farm, small business, and home mortgage loans are the primary credit needs in this area, particularly given discussions with the community contact and the noted demographic data.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE COLUMBIA ASSESSMENT AREA

LENDING TEST

The Merchants and Farmers Bank of Salisbury demonstrated reasonable performance under the Lending Test in the Columbia Assessment Area. Reasonable performance under the Geographic Distribution and Borrower Profile criteria supports this conclusion.

Agricultural lending is a primary focus in the Columbia Assessment Area. Examiners reviewed small farm, small business, and home mortgage loans to evaluate the institution's performance in the Columbia Assessment Area. Examiners placed the greatest weight on small farm loans when drawing conclusions. This is because agricultural loans represent a higher percentage of the bank's lending volume in the assessment area.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the Columbia Assessment Area. The geographic distribution of small farm and small business loans supports this conclusion. Although home mortgage lending did reflect excellent dispersion, this product received the least weight.

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion throughout the Columbia Assessment Area. Although there is no lending penetration in low-income tracts, there is limited loan demand and opportunity in these areas. D&B data show there are only nine farms located in the three low-income tracts in this assessment area. The percentage of small farm loans in moderate-income census tracts slightly exceeds the percentage of farms located in those geographies.

Geographic Distribution of Small Farm Loans					
Assessment Area: Columbia					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low	1.6	0	0.0	0	0.0
Moderate	10.8	2	11.8	275	27.3
Middle	69.8	15	88.2	733	72.7
Upper	16.7	0	0.0	0	0.0
Not Available	1.1	0	0.0	0	0.0
Totals	100.0	17	100.0	1,008	100.0
<small>Source: 2020 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</small>					

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the Columbia Assessment Area. Although there is no lending penetration in low-income census tracts, the bank's penetration to moderate-income tracts significantly exceeds the percent of businesses. Further, there is significant competition for small business loans in this assessment area.

Geographic Distribution of Small Business Loans					
Assessment Area: Columbia					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	9.5	0	0.0	0	0.0
Moderate	13.2	2	28.6	9	4.4
Middle	43.5	4	57.1	192	93.2
Upper	26.9	1	14.3	5	2.4
Not Available	6.9	0	0.0	0	0.0
Totals	100.0	7	100.0	206	100.0
<i>Source: 2020 D&B Data; Bank Data</i>					
<i>Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the Columbia Assessment Area. The lending penetration in low- and moderate-income tracts far exceeds the percent of owner-occupied housing units despite significant competition for home mortgage loans in this assessment area.

Geographic Distribution of Home Mortgage Loans					
Assessment Area: Columbia					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low	1.5	1	8.3	266	21.2
Moderate	9.9	2	16.7	178	14.2
Middle	57.0	8	66.7	773	61.7
Upper	31.2	1	8.3	35	2.8
Not Available	0.4	0	0.0	0	0.0
Total	100.0	12	100.0	1,252	100.0
<i>Source: 2015 ACS, Bank Data</i>					
<i>Due to rounding, totals may not equal 100.0%</i>					

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels. Reasonable performance for all three products reviewed supports this conclusion.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms with gross annual revenues of \$1 million or less as bank performance exceeds D&B data. While all of the bank's small farm loans are to farms with gross annual revenue less than or equal to \$1 million, this is reasonable considering the high percentage of farms in the assessment area in this revenue category. See the following table for details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Columbia					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	95.7	17	100.0	1,008	100.0
>1,000,000	1.2	0	0.0	0	0.0
Revenue Not Available	3.0	0	0.0	0	0.0
Total	100.0	17	100.0	1,008	100.0
<i>Source: 2020 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses with gross annual revenues of \$1 million or less. As illustrated in the following table, the percentage of small business loans to businesses with gross annual revenues of \$1 million or less lags the percentage of businesses in this revenue category. As previously mentioned, competition for business loans in this assessment area is significant. Given this information, the bank's performance is considered reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Columbia					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	82.5	5	71.4	116	56.3
>1,000,000	4.7	2	28.6	90	43.7
Revenue Not Available	12.8	0	0.0	0	0.0
Total	100.0	7	100.0	206	100.0
<i>Source: 2020 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among low- and moderate-income borrowers. Lending in the low-income category slightly lags the percentage of families in the assessment area in this income category. However, 9.1 percent of the families in the assessment area are below the poverty level and may have reduced capacity for a home loan. Lending in the moderate-income category exceeds the demographic information. Overall, lending is reasonable in comparison to the demographic information. See the following table for details.

Distribution of Home Mortgage Loans by Borrower Income Level					
Assessment Area: Columbia					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	20.7	2	16.7	103	8.2
Moderate	16.8	3	25.0	133	10.6
Middle	22.0	0	0.0	0	0.0
Upper	40.5	7	58.3	1,016	81.2
Not Available	0.0	0	0.0	0	0.0
Total	100.0	12	100.0	1,252	100.0
<i>Source: 2015 ACS; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

KANSAS CITY ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE KANSAS CITY ASSESSMENT AREA

The Kansas City Assessment Area accounts for the lowest share of loans and deposits and one of the branches. The assessment area includes Ray County in its entirety. The bank’s Hardin branch is located in this assessment area, along with a cash dispensing ATM located at the branch.

Economic and Demographic Data

The Kansas City Assessment Area is comprised of four census tracts, including one moderate-income and three middle-income census tracts based on 2015 ACS data. The following table illustrates select demographic characteristics of this assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Kansas City						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.0	25.0	75.0	0.0	0.0
Population by Geography	23,031	0.0	26.3	73.7	0.0	0.0
Housing Units by Geography	9,966	0.0	27.7	72.3	0.0	0.0
Owner-Occupied Units by Geography	6,616	0.0	21.0	79.0	0.0	0.0
Occupied Rental Units by Geography	2,030	0.0	47.5	52.5	0.0	0.0
Vacant Units by Geography	1,320	0.0	31.2	68.8	0.0	0.0
Businesses by Geography	1,129	0.0	36.0	64.0	0.0	0.0
Farms by Geography	150	0.0	18.0	82.0	0.0	0.0
Family Distribution by Income Level	6,161	25.6	20.1	22.6	31.7	0.0
Household Distribution by Income Level	8,646	25.9	18.4	19.4	36.2	0.0
Median Family Income MSA - 28140 Kansas City, MO-KS MSA		\$72,623	Median Housing Value			\$120,842
			Median Gross Rent			\$696
			Families Below Poverty Level			9.9%
<i>Source: 2015 ACS and 2020 D&B Data</i>						
<i>Due to rounding, totals may not equal 100.0%</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The Federal Financial Institutions Examination Council (FFIEC) updates median family income figures annually. The updated median family incomes for the Kansas City, Missouri-Kansas MSA and the corresponding low-, moderate-, middle-, and upper-income thresholds are presented in the following table.

Median Family Income Ranges - Kansas City, MO-KS MSA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2020 (\$85,900)	<\$42,950	\$42,950 to <\$68,720	\$68,720 to <\$103,080	≥\$103,080
<i>Source: FFIEC</i>				

According to 2020 D&B data, service industries represent the largest portion of assessment area businesses and farms at 32.5 percent, followed by non-classifiable establishments (16.1 percent), and agriculture (11.7 percent). In addition, 68.7 percent of the assessment area's businesses and farms have four or fewer employees and 90.2 percent operate from a single location.

Competition

The Kansas City Assessment Area is competitive for financial products and services. According to the FDIC's June 30, 2020 deposit data, the assessment area contains eight financial institutions operating nine offices. Of these institutions, The Merchants and Farmers Bank of Salisbury ranked eighth in deposit market share with 3.7 percent of the deposits.

The assessment area contains strong competition and demand for small farm, small business, and -home mortgage loans. Although the bank is not required to report these loans, aggregate CRA and HMDA data for those reporting institutions provides insight on the level of competition and demand for these loan products. The aggregate CRA data for 2019, the most recent available, showed 13 lenders reporting 62 small farm loans and 27 lenders reporting 332 small business loans. The aggregate 2019 HMDA data, the most recent available, showed 129 lenders reporting 734 home mortgage loans.

Community Contact(s)

Examiners reviewed a recent community contact with an individual knowledgeable of assessment area economic conditions. The contact stated that agriculture and manufacturing continue to remain stable sources of employment in the area and that the economy has remained stable to improving over the last few years. The contact cited Richmond, Missouri as an area where population has been increasing with residents who commute to Kansas City for work. This population increase has led to bolstering the local economy and has helped the housing market and conditions to improve. The contact stated there are several banks in the area and that they were meeting the area's credit needs.

Credit Needs

Examiners identify the credit needs of an assessment area based on information from the community contact, bank management, and demographic and economic data. Accordingly, examiners determined small farm, small business, and home mortgage loans are the primary credit needs in this area, particularly given discussions with the community contact and the noted demographic data.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE KANSAS CITY ASSESSMENT AREA

LENDING TEST

The bank's limited lending activity in this assessment area reflects poor responsiveness to the assessment area credit needs. There were only three small farm loans in this assessment area, and no small business or home mortgage loans.

Geographic Distribution

The bank originated three small farm loans which were all located in middle-income census tracts, which compares reasonably to the demographic data. However, based on the overall limited volume of lending performance for this criterion is poor.

Borrower Profile

The bank originated three small farm loans which were all to farms with \$1 million or less in gross annual revenues, which compares reasonably to the demographic data. However, based on the overall limited volume of lending performance for this criterion is poor.

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 geographic distribution of the bank's loans;
- 4) 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; 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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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.