

# **PUBLIC DISCLOSURE**

January 8, 2024

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Farmers and Merchants Bank  
Certificate Number: 4144

621 Main Street  
Maysville, Oklahoma 73057

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

600 North Pearl Street, Suite 700  
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.

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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 (AA), including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

- The loan-to-deposit (LTD) ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and AA's credit needs.
- A majority of loans are inside the institution's AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

## DESCRIPTION OF INSTITUTION

Farmers and Merchants Bank (FMB) maintains its headquarters in Maysville, Oklahoma, located approximately 50 miles south of Oklahoma City in Garvin County. The H. Pat Henson Company, also located in Maysville, owns FMB as well as Peoples State Bank, Blair, Oklahoma. However, this evaluation does not include any affiliate lending activity. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated April 23, 2018, based on Small Institution Procedures.

The institution operates from one office with a drive-through facility. FMB offers standard loan products including commercial, agricultural, and consumer loans, with a focus on commercial lending. The bank provides a variety of deposit products including checking, savings, certificate of deposit, and individual retirement accounts. Alternative banking services include 24-hour telephone banking and night depository services. No branching changes or merger or acquisition activity occurred during the evaluation period.

As of the September 30, 2023, Call Report, the bank reported total assets of \$23.3 million, total loans of \$14.4 million, and total deposits of \$21.4 million. Since the prior evaluation, total assets increased by 20.6 percent, total loans increased by 37.3 percent, and total deposits increased by 20.2 percent. As shown in the following table, commercial loans represent the largest category of loans outstanding as of September 30, 2023, which reflects a distribution generally consistent with that of the loans originated and purchased in 2022.

<b>Loan Portfolio Distribution as of 9/30/2023</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	11	<0.1
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	0	0.0
<b>Total Real Estate Loans</b>	<b>11</b>	<b>&lt;0.1</b>
Commercial and Industrial Loans	12,561	87.4
Agricultural Production and Other Loans to Farmers	364	2.5
Consumer Loans	1,432	10.0
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	6	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(3)	(<0.1)
<b>Total Loans</b>	<b>14,371</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income. Due to rounding, totals may not equal 100.0.</i>		

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

## **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires each financial institution to define one or more AAs within which examiners will evaluate its CRA performance. FMB designated one AA consisting of all of Garvin County located in the Oklahoma Non-Metropolitan Statistical Area (MSA). The AA conforms to CRA regulatory requirements. Due to changes resulting from the 2020 U.S. Census Data, the income designation for one census tract changed from middle income to moderate income during the evaluation period.

### **Economic and Demographic Data**

Based on 2020 U.S. Census Data, the Oklahoma Non-MSA AA contains 1 moderate-, 7 middle-, and 1 upper-income census tract(s). The following table provides additional demographic and economic 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)	9	0.0	11.1	77.8	11.1	0.0
Population by Geography	25,656	0.0	8.9	84.6	6.4	0.0
Housing Units by Geography	12,872	0.0	8.3	85.3	6.4	0.0
Owner-Occupied Units by Geography	7,032	0.0	7.1	84.2	8.7	0.0
Occupied Rental Units by Geography	3,343	0.0	9.2	87.9	3.0	0.0
Vacant Units by Geography	2,497	0.0	10.5	85.3	4.2	0.0
Businesses by Geography	2,640	0.0	7.6	87.5	4.9	0.0
Farms by Geography	186	0.0	1.6	88.7	9.7	0.0
Family Distribution by Income Level	6,848	20.2	19.3	20.8	39.7	0.0
Household Distribution by Income Level	10,375	21.3	16.5	21.2	41.0	0.0
Median Family Income – OK Non-MSA		\$58,565	Median Housing Value Median Gross Rent Families Below Poverty Level			\$103,758 \$663 11.3%
<i>Source: 2020 U.S. Census Data and 2022 D&amp;B Data. 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>						

According to the community contact, major employers in the AA include Burford Company, Bemis Company, Inc., CUDD Pressure Control, and a Walmart Distribution Center. The following table shows the annual unemployment rate for the AA, State of Oklahoma, and nationwide declined during the evaluation period.

Unemployment Rates				
Area	2020	2021	2022	2023*
	%	%	%	%
Garvin County	6.4	3.9	2.9	2.9
State of Oklahoma	6.3	4.0	3.0	2.9
National Average	8.1	5.3	3.6	3.6
<i>Source: Bureau of Labor Statistics. *As of October 2023.</i>				

## **Competition**

The AA reflects a high level of competition for financial services, based on its population. According to the FDIC Deposit Market Share data as of June 30, 2023, Garvin County contained 11 financial institutions operating 18 branches. Of these institutions, FMB ranked 11<sup>th</sup> with a 2.6 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 local financial

institutions' responsiveness to these needs and shows available credit and community development opportunities.

Examiners conducted a community contact with an individual from an economic development entity. The contact indicated that although some small business growth occurred, the area experienced an overall declining economy due to a reduction in jobs as well as lack of affordable housing and job training. In addition, some employers such as an oil production company and a trucking company left the area. Housing values remain stagnant, with six months representing the average length of time a single-family home stays on the market.

Finally, the contact stated a high level of opportunity and involvement in community development exists in the area, and local lenders remain willing to work with borrowers to meet their banking needs.

### **Credit Needs**

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

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated April 23, 2018, to the current evaluation dated January 8, 2024. To assess performance, examiners applied Small Institution Procedures, which include the Lending Test. The appendix lists the test's criteria.

### **Activities Reviewed**

For the Lending Test, CRA Small Institution Procedures require examiners to determine the bank's major product lines for review. Initially, examiners may select from among the same loan categories used for CRA Large Bank Evaluations: home mortgage, small business, small farm, and consumer loans. The following table shows the bank's lending activity for 2022.

<b>Loans Originated or Purchased</b>				
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Construction and Land Development	0	0.0	0	0.0
Secured by Farmland	0	0.0	0	0.0
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	0	0.0	0	0.0
Commercial and Industrial Loans	8,807	84.5	236	54.3
Agricultural Loans	0	0.0	0	0.0
Consumer Loans	1,611	15.5	199	45.7
Other Loans	0	0.0	0	0.0
<b>Total Loans</b>	<b>10,418</b>	<b>100.0</b>	<b>435</b>	<b>100.0</b>
<i>Source: 2022 Bank Data. Due to rounding, totals may not equal 100.0.</i>				

Considering the dollar volume and number of loans originated during 2022, as well as the products commonly reviewed for CRA, examiners determined the major product line consists of commercial lending. This evaluation does not include a review of consumer loans since they do not reflect a major product line, when considering both number and dollar volume, and would not materially affect any conclusions or the rating.

This evaluation includes a review of a sample of 55 small business loans totaling \$1.3 million taken from a universe of 236 small business loans totaling \$8.8 million originated or purchased in 2022, which represents the most recent completed calendar year of available data. D&B data for 2022 provided a standard comparison for small business loans.

While the evaluation presents both the number and dollar volume of loans, examiners emphasized performance by number of loans when arriving at conclusions for the performance factors because the number of loans better indicates the number of businesses served.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

FMB demonstrated satisfactory performance under the Lending Test. Reasonable records regarding the LTD ratio and geographic distribution, an excellent record regarding borrower profile, and a majority of loans originated inside the AA support this conclusion.

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

FMB's LTD ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and AA credit needs. The LTD ratio, calculated from Call Report data, averaged 66.7 percent over the past 23 quarters, from December 31, 2017, to September 30, 2023. The ratio ranged from a high of 72.3 percent on December 31, 2019, to a low of 47.3 percent as of March 31, 2022.

Examiners compared FMB's average net LTD ratio to two similarly situated financial institutions operating in and around the AA with similar asset bases and product lines. As illustrated in the

following table, FMB’s average net LTD ratio reflects a reasonable level compared to the similar institutions.

<b>Loan-to-Deposit (LTD) Ratio Comparison</b>		
<b>Bank Name and Location</b>	<b>Total Assets as of 9/30/2023 (\$000s)</b>	<b>Average Net LTD Ratio (%)</b>
<b>Farmers and Merchants Bank – Maysville, OK</b>	<b>23,344</b>	<b>66.7</b>
American Exchange Bank – Lindsay, OK	79,951	32.2
First National Bank of Lindsay – Lindsay, OK	97,555	83.3
<i>Source: Reports of Condition and Income 12/31/2017 – 9/30/2023.</i>		

**Assessment Area Concentration**

A majority of loans are inside the AA. The following table shows that FMB originated a majority of its small business loans, both by number and dollar volume, inside the AA.

<b>Lending Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>				<b>Total #</b>	<b>Dollars Amount of Loans \$(000s)</b>				<b>Total \$(000s)</b>
	<b>Inside</b>		<b>Outside</b>			<b>Inside</b>		<b>Outside</b>		
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Small Business	42	76.4	13	23.6	55	920	68.3	428	31.7	1,348
<i>Source: 2022 Bank Data.</i>										

**Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout the AA. Reasonable performance regarding small business loans supports this conclusion.

***Small Business Loans***

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. Although FMB did not originate any small business loans in the sole moderate-income census tract, this performance falls 7.6 percentage points below demographic data, which remains within a reasonable range.

Examiners also considered the impact of the changes to the income designations of the census tracts during the evaluation period as a result of the 2020 U.S. Census Data. Specifically, prior to 2022, which represents the effective date of the 2020 U.S. Census Data, the AA did not contain any moderate-income census tracts. Therefore, FMB’s performance further evidences a reasonable record when also considering this performance context data given that during a majority of the evaluation period, the AA did not contain a moderate-income census tract.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	0.0	0	0.0	0	0.0
Moderate	7.6	0	0.0	0	0.0
Middle	87.5	36	85.7	799	86.8
Upper	4.9	6	14.3	121	13.2
<b>Total</b>	<b>100.0</b>	<b>42</b>	<b>100.0</b>	<b>920</b>	<b>100.0</b>

*Source: 2022 D&B Data; 2022 Bank Data. Due to rounding, totals may not equal 100.0.*

### **Borrower Profile**

The distribution of borrowers reflects excellent penetration among businesses of different sizes. Excellent performance regarding small business loans supports this conclusion.

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

The distribution of borrowers reflects excellent penetration among businesses of different sizes. Examiners focused on the bank’s level of lending to businesses with gross annual revenue of \$1 million or less when arriving at this conclusion. The following table shows the bank originated more than nine out of every ten small business loans to businesses with gross annual revenue of \$1 million or less, which reflects excellent performance.

<b>Detailed Distribution of Small Business Loans by Gross Annual Revenues</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
< \$100,000	62.7	19	45.2	366	39.8
\$100,000 - \$249,999	16.6	10	23.8	145	15.8
\$250,000 - \$499,999	4.8	12	28.6	372	40.4
\$500,000 - \$1,000,000	2.4	0	0.0	0	0.0
<b>Subtotal &lt;= \$1,000,000</b>	<b>86.5</b>	<b>41</b>	<b>97.6</b>	<b>883</b>	<b>96.0</b>
>\$1,000,000	3.6	1	2.4	37	4.0
Revenue Not Available	9.8	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>42</b>	<b>100.0</b>	<b>920</b>	<b>100.0</b>

*Source: 2022 D&B Data; 2022 Bank Data. Due to rounding, totals may not equal 100.0.*

### **Response to Complaints**

FMB did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

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

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