



PUBLIC DISCLOSURE

January 27, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**FARMERS AND MERCHANTS BANK
RSSD# 163857**

**116 SOUTH GRAND
CRESCENT, OKLAHOMA 73028**

**Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198**

NOTE: 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's CRA Rating	2
Description of Institution	2
Description of Assessment Area.....	3
Conclusions	6

GENERAL INFORMATION

INSTITUTION'S CRA RATING: *This institution is rated "Satisfactory".*

Farmers & Merchants Bank (FMB) has a satisfactory record of helping meet the credit needs of its assessment area, including low- and moderate-income families, in a manner consistent with its resources, management philosophy, and credit needs of the community. Four of the five criteria used in evaluating small bank lending performance were relevant to this review and are as follows:

Loan-to-Deposit (LTD) Ratio;

Lending Inside the Assessment Area;

Lending to Borrowers of Different Income Levels and Businesses of Different Revenue Sizes; and

Lending Across Geographies of Different Income Classifications.

The fifth evaluation criteria was not reviewed, because FMB had not received any complaints regarding its performance under the Community Reinvestment Act (CRA) since the previous examination.

Conclusions for each performance criterion were based on data compiled from a statistical sample of loan files for two major products, HMDA loans and small business loans. The products represent a substantial majority of FMB's loan portfolio. A detailed discussion of the conclusions is presented later in this public disclosure.

The analysis concluded that FMB's LTD ratio is reasonable given the assessment area's credit needs and the competitive environment in which it operates. In addition, a majority of the bank's loans are originated to borrowers located inside the bank's designated assessment area. The distribution of loans to individuals of different income levels and to businesses of different revenue sizes is satisfactory. Furthermore, the bank's record of lending to geographies of different income levels reflects a reasonable dispersion.

DESCRIPTION OF INSTITUTION

FMB has two full service locations in Logan County, Oklahoma. The main bank located in Crescent, Oklahoma, is a full service facility with a drive-thru and a cash dispensing automated teller machine (ATM). The branch in Guthrie, Oklahoma, is also a full-service facility with a cash dispensing ATM and a drive-thru. The main bank and branch offer convenient banking hours Mondays through Fridays, and their lobbies and drive-thrus are open Saturday mornings.

Based on its financial condition, size, and credit product offerings, FMB has the ability to meet the credit needs of its assessment area. According to the September 30, 2002

Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$84,491M, of which gross loans represented \$49,944M or 59 percent. The bank is primarily a commercial and residential real estate lender but offers a variety of credit products to meet the needs of its assessment area, as illustrated in Table 1.

Loan Type	Amount (\$000)	Percent of Total
Commercial	17,484	35.0
Residential Real Estate	13,240	26.5
Agricultural	9,223	18.5
Consumer	6,402	12.8
Other	3,595	7.2
<i>Gross Loans</i>	49,944	100.0

No legal or financial factors exist that would hinder FMB's ability to meet the credit needs of its assessment area. A rating of Satisfactory was assigned at the bank's previous CRA performance evaluation conducted on January 5, 1999 by the Federal Deposit Insurance Corporation (FDIC).

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

FMB's designated assessment area ("area") includes all of Logan County, a small county in the northeast part of the Oklahoma City Metropolitan Statistical Area (MSA). Of the eight census tracts ("tracts") in Logan County, four are moderate-income, three are middle-income, and one is upper-income. The main bank in Crescent and the branch office in Guthrie are located in moderate-income census tracts 6007.00 and 6001.00, respectively. Moderate-income tracts were not isolated to any part of the assessment area, and large concentrations of area families, housing units, and businesses were in moderate-income tracts. More specifically, the moderate-income tracts contained 51.9 percent of the area's population, 46.9 percent of area families, 54.4 percent of the area's housing units, and 55.3 percent of the area's owner-occupied housing units. In addition, Dun & Bradstreet data revealed that the moderate-income tracts contained 53.6 percent of the area's nonfarm businesses with reported revenues.

Information obtained from the U.S. Census Bureau for 1990 and 2000, Dun & Bradstreet Business Geodemographic Data for 2001, the FDIC, the U.S. Department of Agriculture (USDA), community contacts, and other economic and employment data was used by the examiner to determine the reasonableness of the bank's lending levels and loan distributions within the assessment area. Interviews with local community members included representatives from a local government agency and a business development organization.

Population

The assessment area population grew from 29,011 in 1990 to 33,924 in 2000, a notable increase of 16.9 percent. This was a higher growth rate than the Oklahoma City MSA, where the total population grew by 12.9 percent over the same time period. In 1990, the area population in group or institutionalized quarters was 7.1 percent, where 3.2 percent of the individuals were housed in college dormitories. In 2000, the area population in group or institutionalized quarters decreased slightly to 6.1 percent.

The area contained a higher concentration of families¹, compared to the MSA overall. In 1990, 75.7 percent of area households were families, compared to 69.9 percent for the MSA. As previously noted, 46.9 percent of the area's households that were families were located in moderate-income tracts. By 2000, the family concentrations had decreased slightly to 72.6 percent for the assessment area and 66.8 percent for the MSA.

Reflecting its large student population, the area's concentration of individuals 18 to 24 years old was relatively high. In 1990, 12.2 percent of the area population was 18 to 24 years old, while the MSA was lower at 10.8 percent. The area also contained a large older population. In 1990, 13.3 percent of the area population was over 64 years old compared to 11.0 percent for the MSA.

Contacts with local community members noted that while the population in Crescent has been stable, Logan County's population has increased considerably in recent years. In addition, there has been an increase in the student population at schools and universities in Guthrie and Logan County.

¹ Families are a subset of households and consist of households with at least two individuals related by birth, marriage, or adoption.

Income

In 1990, the assessment area's median family income of \$29,572 was 91.3 percent that of the Oklahoma City MSA wide median family income of \$32,406, making it a middle-income area overall.²

The area also contained larger concentrations of low- and moderate-income families and families living in poverty than the MSA as a whole. According to U.S. Census Data, 13 percent of the area's families were living in poverty.

Housing

The assessment area contained high concentrations of owner-occupied and single-family housing units, which is a likely result of the area's high percentage of families. Of the total area housing stock, 64.2 percent were owner-occupied units, and 78.1 percent were single-family housing units. When compared to the MSA, the percentages were lower at 55.6 and 68.0 percent, respectively. The area also contained a high concentration of housing units built before 1950, which indicates an increased need for rehabilitation as the age of housing stock widens. Census data for 1990 showed that the area's percentage of housing units built before 1950 was 26.5 percent compared to 17.5 percent for the MSA.

Area housing was less expensive than the MSA overall; however, the affordability of housing was similar because of the area's lower income levels. In 1990, the area's median housing value was \$49,926, and the area housing affordability rate³ was 49.5. When compared to the MSA, the median-housing value was 7.9 percent higher at \$53,871, and the affordability rate was 49.9. In 2000, the area's median-housing value of \$74,100 remained lower than the MSA's at \$79,000.

Interviews with local community members noted that Logan County has essentially served as a bedroom community for inhabitants working or sending their children to schools in Oklahoma City. According to one contact, the housing in Crescent has remained stable. Another contact noted that many individuals from Oklahoma City are acquiring acreage in surrounding rural areas and building new homes on the property.

² The median-family incomes for the Oklahoma City MSA that would be used for borrower income analyses were \$46,000 in 2002, \$45,400 in 2001, and \$44,100 in 2000.

³ Affordability rates are calculated using median-household income/median-housing value. The higher the rate, the more affordable the housing stock.

Employment

Logan County's economy relied heavily on service industries and was more dependent on farming than was the economy in the MSA. Dun & Bradstreet Geodemographic Data for 2001 showed that 8.7 percent of the businesses in Logan County were farm related, compared to 2.7 percent for the MSA. Its primary farm products were wheat and cattle. The assessment area's largest employers include Langston University, area public school systems and job training services, Autoquip Corporation, and Logan County Hospital.

Unemployment rates indicate that the area's economy may be stabilizing. U.S. Census Data for 1990 shows that 7.0 percent of the area's civilian labor force was unemployed. For 2000, the respective percentage declined to 5.7 percent. Statistics for the MSA show that its annualized unemployment rate increased from 2.4 percent in 2000 to 3.9 percent in 2001, but according to more recent data, unemployment is decreasing. From October 2001 to October 2002, the MSA's unemployment rate fell from 4.5 percent to 3.8 percent.

Contacts with local community members stated that the area's economy has been declining in recent years. They noted that tax revenues are down in most of the surrounding communities except for Guthrie, which has benefited from increased sales tax revenues generated from various community activities and events. Tax revenues for Crescent are expected to decline, as city bonds maturing will renew at significantly lower rates in the coming months. Area farmers are also becoming less reliant on the agricultural industry, as a greater percentage of farming businesses now operate on a part-time basis.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors were considered in evaluating FMB's CRA performance. The factors include: 1) a review of the bank's level of lending in relation to its deposits and that of other comparable financial institutions; 2) the concentration of loans originated by the bank within its assessment area; 3) the bank's penetration of lending among borrowers of different income levels and among businesses of different revenue sizes; and 4) the distribution of lending to geographies of different income levels. The bank has not received any complaints relative to its performance under the CRA since the last examination. Therefore, the bank's responsiveness to CRA complaints was not included in the evaluation.

Two individuals from the local community were interviewed to obtain insight about the credit needs of the community and perceptions of local financial institutions' ability to meet those credit needs. These contacts stated that area financial institutions are meeting the credit needs of the assessment area and commended the financial institutions

for actively participating in programs that provide tremendous support to local government and civic organizations. The bank's performance under the CRA is considered satisfactory based on the following assessment criteria analysis.

Loan-to-Deposit Ratio

FMB's net LTD ratio is considered reasonable given the bank's assessment area credit needs, its size and financial condition, and the competitive environment in which it operates. As of September 2002, the bank's ratio averaged 69.9 percent over the 15 quarters since its last CRA examination.

FMB's eight-quarter average LTD ratio is lower than two of its competitor banks and the national peer group, but is higher than its state peer group. The average LTD ratio from the previous eight quarters from December 2000 to September 2002 for three competitor banks ranged from 71.3 percent to 89.8 percent, compared to FMB's LTD ratio over the same period of 71.6 percent. In addition, the average LTD ratio for state and national peer groups was 66.9 percent and 74.5 percent, respectively, over the same time period.

The bank's net LTD was fairly stable over the previous eight quarters, reaching a high of 74.9 percent in March 2001 and a low of 65.3 percent in March 2002. FMB operates in a competitive environment where financing is available at other institutions within Guthrie and in neighboring communities such as Perkins and Oklahoma City. On June 30, 2002, the bank was the 31st largest of 65 FDIC-insured financial institutions with offices in the MSA and had a 0.6 percent deposit market share.

Lending Inside the Assessment Area

A majority of the bank's lending occurred within its assessment area and is considered reasonable. Table 2 summarizes the percentage of loans reviewed by product type, which are located within the bank's assessment area. Based on 136 loans reviewed, 83.1 percent were originated to borrowers inside the bank's assessment area. In terms of dollar volume, the loans originated inside the bank's assessment area represented 68.0 percent of the total.

Table 2 LOANS WITHIN THE BANK'S ASSESSMENT AREA		
Loan Type	Percentage of Loans Reviewed – by Number	Percentage of Loans Reviewed – by Dollar Amount
Home Purchase	77.6	60.6
Home Improvement	92.6	89.2
Home Refinancing	87.5	82.8
Business	82.9	65.8
All Loans Reviewed	83.1	68.0

Lending to Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes

HMDA Loans:

The bank's distribution of HMDA loans to borrowers of different income levels is satisfactory, given economic and demographic factors impacting the assessment area. Table 3 provides the distribution of home mortgage lending by product type.

Table 3 Percentage Distribution of HMDA Loans Reviewed Within the Bank's Assessment Area By Income Level of Borrower				
Income Level of Borrower	Percentage of Families within Assessment Area*	Percent of Home Purchase Loans	Percent of Home Improvement Loans	Percent of Home Refinance Loans
LOW (Less Than 50 Percent of Median Income)	25.7	17.8	28.0	7.1
Moderate (50 To 80 Percent Of Median Income)	19.3	28.9	20.0	7.1
Middle (80 To 120 Percent Of Median Income)	21.4	11.1	28.0	28.6
Upper (Greater Than 120 Percent Of Median Income)	33.6	42.2	24.0	57.2
Total	100.0	100.0	100.0	100.0

* The Percentage of Families within the Assessment Area is based on 1990 U.S. Census Data.

As illustrated in Table 3, the percentages of low- and moderate-income borrowers for the home purchase and home improvement loans are within range or, in a few cases, exceed

the percentage of low- or moderate-income families in the assessment area. However, the percentages of low- and moderate-income borrowers for the home refinance loans were markedly lower. Information obtained during the examination indicates that area demand for refinancing loans has been low. Demographic factors further show that the assessment area has a high concentration of families and older housing stock, which may increase the demand for home purchases or for home improvements as older homes become in need of repair.

Small Business Loans:

FMB's record of lending to small businesses, defined under the CRA as those businesses with gross annual revenues of \$1 million or less, is considered satisfactory. Of the 29 business loans originated within the assessment area, 26 loans or 89.7 percent were to small businesses. According to 2001 Dun & Bradstreet Business Geodemographic Data, the percentage of small businesses with reported income within the bank's assessment area was 95 percent. In addition, 21 of the 26 loans or 80.8 percent were in amounts of \$100 thousand or less, which are amounts typically needed by smaller businesses.

Distribution of Loans by Income Level of Geography

FMB's geographic distribution of loans reflects a reasonable dispersion throughout its assessment area, given the economic and demographic factors of the area. Table 4 depicts the bank's level of lending in census tracts of different income levels. The table further compares the bank's performance to the percentage of owner-occupied housing units and small businesses in each income category. Loans made to borrowers outside the assessment area were not included.

FMB's assessment area includes eight tracts, of which four are moderate-income, three are middle-income, and one is upper-income. The majority of the loans sampled within the assessment area were originated in moderate-income tracts, which is expected given the large concentrations of area families, housing units, and businesses in these tracts. As Table 4 illustrates, the percentage of HMDA loans originated by the bank in moderate-income tracts was notably higher than the percentage of owner-occupied housing units located in those tracts. The bank's distribution of small business loans was also higher than the percentage of small businesses with reported income data located in those tracts.

Table 4 Distribution of Loans in the Bank's Assessment Area By Income Level of Geography				
Income Level of Geography	HMDA Loans		Small Business Loans	
	Percent of Loans Reviewed	Percent of Owner-Occupied Housing Units *	Percent of Loans Reviewed	Percent of Small Businesses **
Moderate (50 to 80 percent of median)	78.6	46.9	69.2	53.0
Middle (80 to 120 percent of median)	19.1	41.5	26.9	38.2
Upper (Greater than 120 percent of median)	2.3	11.6	3.9	8.8
Total	100.0	100.0	100.0	100.0
* Based on 1990 U.S. Census Bureau Data.				
** Derived from Dun & Bradstreet Business Geodemographic Data for 2001.				
Note: There were no low-income geographies within the bank's assessment area.				

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

FMB is in compliance with the substantive provisions of the antidiscrimination laws and regulations. A review of bank policies, credit applications, loans, denials, and interview procedures revealed no prohibited practices designed to discourage loan applicants. Further, the bank was not engaged in other illegal credit practices inconsistent with helping to meet community credit needs.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank’s record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Block Numbering Areas (BNAs) – BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

Community Development – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

Community Development Loan – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank).

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan and
2. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

Community Development Service – A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank’s retail banking services, benefits the banks assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area and has not been claimed by other affiliated institutions.

Consumer Loans – Loans to individuals for household, family and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract or a block numbering area.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

Low-Income – Less than 50 percent of the area median income

Moderate-Income – At least 50 percent and less than 80 percent of the area median income

Middle-Income – At least 80 percent and less than 120 percent of the area median income

Upper-Income – At least 120 percent or more of the area median income

Metropolitan Statistical Area (MSA) - The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Qualified Investment – A lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Small Business – A business with gross annual revenues of \$1 million or less.

Small Business Loan – A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

Small Farm – A farm with gross annual revenues of \$1 million or less.

Small Farm Loan – A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”