

# **PUBLIC DISCLOSURE**

**April 7, 2002**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Merchants & Farmers Bank of Greene County**

**Eutaw, Alabama**

**RSSD ID Number: 376237**

**FEDERAL RESERVE BANK OF ATLANTA  
1000 Peachtree Street, N.E.  
Atlanta, Georgia 30309-4470**

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to the institution does not represent an analysis, conclusion of opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.
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<b>TABLE OF CONTENTS</b>
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	<b>PAGE</b>
GENERAL INFORMATION	1
INSTITUTION'S CRA RATING	1
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF ASSESSMENT AREA: Greene County, Alabama	3
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA	7
Loan-to-Deposit Ratio Analysis	7
Assessment Area Concentration	7
Lending to Borrowers of Different Incomes and Businesses of Different Sizes	8
Geographic Distribution of Loans	9
Complaints	10
Compliance with Antidiscrimination Laws	10

<b>TABLES</b>
---------------

	<b>PAGE</b>
COMPOSITION OF THE LOAN PORTFOLIO	2
BANK ASSESSMENT AREA DEMOGRAPHICS	4
ANALYSIS OF LENDING IN THE ASSESSMENT AREA	7
RESIDENTIAL LOAN ORIGINATIONS BY BORROWER INCOME	8
SMALL BUSINESS LOAN ORIGINATIONS BY BUSINESS REVENUE AND LOAN SIZE	9
GEOGRAPHIC DISTRIBUTION OF LOANS – RESIDENTIAL REAL ESTATE LOANS	9
GEOGRAPHIC DISTRIBUTION OF LOANS – SMALL BUSINESS LOANS	10

<b>DEFINITIONS</b>
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**Income Definitions**

Throughout this evaluation, the following definitions are used for the various income levels. These levels are defined in the CRA.

*Low-Income* - An individual income, or median family income for geographies, that is less than 50 percent of the area median income.

*Moderate-Income* - An individual income, or median family income for geographies, that is at least 50 percent but less than 80 percent of the area median income.

*Middle-Income* - An individual income, or median family income for geographies, that is at least 80 percent but less than 120 percent of the area median income.

*Upper-Income* - An individual income, or median family income for geographies, that is 120 percent or more of the area median income.

**Other Definitions**

ATM -	Automated Teller Machine
BNA-	Block Numbering Area
HUD -	Department of Housing and Urban Development
LTD -	Loan-to-Deposit Ratio
MSA -	Metropolitan Statistical Area
REIS -	Regional Economic Information System

<b>GENERAL INFORMATION</b>
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Because the percentages presented in tables were rounded to the nearest whole number in most cases, some columns may not total exactly 100 percent.

<b>GENERAL INFORMATION</b>
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**The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.**

**This document is an evaluation of the CRA performance of Merchants & Farmers Bank of Greene County (Merchants & Farmers Bank) prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of April 7, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.**

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

Merchants & Farmers Bank's compliance with the Community Reinvestment Act (CRA) is outstanding. The bank's average LTD ratio for the past nineteen quarters ending December 31, 2002, is **REASONABLE** given the institution's size, financial condition, and competition within the assessment area. A **SUBSTANTIAL MAJORITY** of the bank's loans were extended to individuals and businesses **IN** its assessment area. Based on samples of small business and residential real estate loans, lending to borrowers of different incomes and businesses of different revenue sizes is **EXCELLENT**. The geographic distribution of the bank's loans reflects **EXCELLENT** dispersion throughout the entire assessment area. The bank has received no CRA-related complaints since the previous examination. In addition, the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations.

**DESCRIPTION OF INSTITUTION**

Merchants & Farmers Bank is a small traditional community bank that operates one full service facility in Eutaw, Alabama. The main office includes a drive-through window and one ATM. The bank operates four additional stand-alone ATMs throughout Greene County. The bank is a wholly owned subsidiary of Merchants & Farmers Bancshares and has an affiliated insurance company, Merchants & Farmers Insurance Agency, Incorporated. From December 31, 1997, to December 31, 2002, total assets of the bank increased from \$35.4 million to \$43.4 million (22.6 percent). As of December 31, 2002, net loans totaled \$20.1 million and deposits totaled \$34.1 million. The bank received a rating of Outstanding at the previous CRA performance evaluation as of August 18, 1997.

Merchants & Farmers Bank is a full service community bank that offers a wide variety of credit products to meet community credit needs. These credit products include consumer, residential mortgage, business, and commercial real estate loans. The bank's business strategy encourages small business and consumer purpose loans. The bank's competition in the immediate area consists of one branch of Citizens Trust Bank (formerly Citizens Federal Savings Bank), Atlanta, Georgia. According to June 30, 2002 FDIC Summary of Deposits data, Merchants & Farmers Bank had 78.2 percent of the deposits in Greene County.

The composition of the loan portfolio according to the December 31, 2002 Consolidated Reports of Condition and Income (Call Report) is as follows:

<b>COMPOSITION OF LOAN PORTFOLIO</b>				
<b>Loan Type</b>	<b>12/31/2002</b>		<b>12/31/1997</b>	
	<b>\$ (000s)</b>	<b>Percent</b>	<b>\$ (000s)</b>	<b>Percent</b>
Construction and Development	\$381	1.9%	\$259	1.6%
Secured by One- to Four- Family Dwellings	\$7,618	38.0%	\$6,311	38.0%
Other Real Estate:				
Farmland	\$1,408	7.0%	\$718	4.3%
Multifamily	\$331	1.6%	\$234	1.4%
Nonfarm nonresidential	\$2,618	13.0%	\$1,001	6.0%
Commercial and Industrial	\$3,045	15.2%	\$3,592	21.7%
Loans to Individuals	\$4,084	20.3%	\$3,918	23.6%
Agricultural Loans	\$588	2.9%	\$558	3.4%
<b>Total</b>	<b>\$20,073</b>	<b>100.00%</b>	<b>\$16,591</b>	<b>100.00%</b>

\* This table does not include the entire loan portfolio. Specifically, it excludes loans to depository institutions, bankers acceptances, lease financing receivables, obligations of state and political subdivisions, and other loans that do not meet any other category. Contra assets are also not included in this table.

<b>DESCRIPTION OF INSTITUTION</b>
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As indicated by the table, the bank's loan portfolio as of December 31, 2002, consisted primarily of one- to four- family residential loans and loans to individuals. This is consistent with the bank's strategy. No known legal impediments exist that would restrain the bank from meeting the credit needs of its assessment area.

**DESCRIPTION OF ASSESSMENT AREA: Greene County, Alabama**

The bank's assessment area includes all of Greene County, Alabama, which is not located within an MSA. Greene County is located approximately 230 miles southwest of Atlanta, Georgia and 30 miles southwest of Tuscaloosa in southwestern Alabama. Cities located within the assessment area include Boligee, Eutaw, Forkland, and Union. The Greene County assessment area consists of four BNAs, of which one is low-income and three are moderate-income. No middle- or upper-income BNAs exist in the assessment area.

**Demographic Data by Block Numbering Area**

The following table provides demographic information that was used in analyzing the bank's CRA performance. Certain components of the data in the table are discussed in the report as they apply to particular parts of the analysis.

MERCHANTS AND FARMERS ASSESSMENT AREA								
DEMOGRAPHICS								
2002 HUD MFI (Statewide Non-Metro): <b>\$39,300</b>	Tract Distribution		Families					
	#	%	Families by Tract		Families <Poverty as a % of Families by Tract		Families by Family Income	
#			%	#	%	#	%	#
Income Categories								
Low	1	25.0%	279	11.1%	149	53.4%	1,063	42.4%
Moderate	3	75.0%	2,231	88.9%	836	37.5%	373	14.9%
Middle	0	0.0%	0	0.0%	0	0.0%	407	16.2%
Upper	0	0.0%	0	0.0%	0	0.0%	667	26.6%
NA	0	0.0%	0	0.0%	0	0.0%	-	-
<b>Total</b>	<b>4</b>	<b>100.0%</b>	<b>2,510</b>	<b>100.0%</b>	<b>985</b>	<b>39.2%</b>	<b>2,510</b>	<b>100.0%</b>
<b>Housing Units by Tract</b>								
	Total Units	Owner Occupied		Rental Occupied		Vacant		
		#	%	#	%	#	%	
Low	504	238	9.5%	47.2%	146	29.0%	120	23.8%
Moderate	3,658	2,259	90.5%	61.8%	869	23.8%	530	14.5%
Middle	0	0	0.0%	0.0%	0	0.0%	0	0.0%
Upper	0	0	0.0%	0.0%	0	0.0%	0	0.0%
NA	0	0	0.0%	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>4,162</b>	<b>2,497</b>	<b>100.0%</b>	<b>60.0%</b>	<b>1,015</b>	<b>24.4%</b>	<b>650</b>	<b>15.6%</b>
<b>Total Businesses by Tract and Revenue Size</b>								
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
	#	%	Under \$1 Million		Over \$1 Million		Revenue not Reported	
			#	%	#	%	#	%
Low	50	13.7%	36	13.0%	2	11.8%	12	16.9%
Moderate	314	86.3%	240	87.0%	15	88.2%	59	83.1%
Middle	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Upper	0	0.0%	0	0.0%	0	0.0%	0	0.0%
NA	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>364</b>	<b>100.0%</b>	<b>276</b>	<b>100.0%</b>	<b>17</b>	<b>100.0%</b>	<b>71</b>	<b>100.0%</b>
			Percentage of Total Businesses:		75.8%		4.7%	
							19.5%	

Sources: 1990 Census Data, 2002 Dun & Bradstreet business demographic data.  
 NA Tracts are tracts without household or family income.



<b>DESCRIPTION OF ASSESSMENT AREA (Continued)</b>
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**Population**

According to the 1990 U.S. Census, the population in the bank's assessment area was 10,153 persons. As of July 1, 2002, the total estimated population was 10,035, representing a decrease of 1.2 percent.

**Income Characteristics**

At the time of the 1990 Census, there were 2,510 families in the assessment area. Of those families, 42.4 percent were low-income and 14.9 percent were moderate-income. In addition, 39.2 percent of the low-income families in the assessment area had incomes below poverty level. According to HUD, the estimated 2002 median family income for nonmetropolitan areas of Alabama was \$39,300. By comparison, the estimated 2003 median family income for Greene County was \$27,400.

**Housing Data**

According to 1990 Census data, the majority (60.0 percent) of the housing units in the bank's assessment area were owner-occupied and the median housing value for all types of units in the assessment area was \$34,164. The median housing value is much lower than the state of Alabama at \$53,205. Housing in the assessment area was primarily comprised of one-unit detached dwellings (65.6 percent) and the median age of the housing stock was 20 years. As of the 1990 Census, 3,658 (87.9 percent) total housing units and 2,259 (90.5 percent) owner-occupied housing units were located in moderate-income BNAs. The remaining housing units were located in a low-income BNA.

**Employment Statistics**

A review of data from REIS as of 1995 indicates that the farm industry is the largest employment sector in the bank's assessment area. According to REIS data, from 1990 to 1995 the farm industry experienced a 7.7 percent decrease in employment compared with a decrease in all industries of 4.4 percent. Types of agriculture in the assessment area include catfish farms, timber, and livestock operations. Other industries in the assessment area include manufacturing and service. According to the U.S. Bureau of Labor Statistics, the annualized unemployment rates (not seasonally adjusted) for the assessment area have ranged from 18.8 percent in 1997 to 10.7 percent in 2001. By comparison, the unemployment rate for the state of Alabama ranged from 5.1 percent in 1997 to 5.9 percent in 2001.

<b>DESCRIPTION OF ASSESSMENT AREA (Continued)</b>
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**Business Size Characteristics**

The demographic table earlier in this report provides key demographic business data by BNA in Merchants & Farmers Bank's assessment area. The Dun and Bradstreet information for 2001 illustrates that of the 293 businesses in the bank's assessment area that reported revenue, 92.5 percent had total revenues less than \$1 million and were therefore considered to be small businesses.

**Competition**

Merchants & Farmers Bank is located in a moderately competitive banking market. The level of competition is considered lower than normal given the bank's size, local area population, and the current economic growth being experienced in the area. There is one larger financial institution operating an office in Greene County, and seven other financial institutions operating nineteen branches in the surrounding counties (Hale, Pickens, and Sumter Counties). Only one institution is similar in size to Merchants & Farmers Bank. Local competition does not appear to have adversely affected the bank's ability to serve the credit needs of its assessment area.

**Community Contacts**

As part of the CRA examination, information was obtained from two community contacts regarding local economic conditions and community credit needs. The contacts acknowledged that the local economy has suffered from the departure of several manufacturing companies as well as the increase in foreign competition in the catfish industry.

The contacts generally had positive comments regarding the degree of involvement of the financial institutions in the community. They indicated that the general banking and credit needs are being adequately served in the community. However, there have been limited opportunities for participation by local financial institutions in community development and other credit-related projects. The contacts indicated that the local financial institutions will participate in these projects when the opportunities arise.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Loan-to-Deposit Ratio Analysis**

The bank's average LTD ratio for the nineteen-quarter period ended December 31, 2002, was 58.8 percent. The bank's ratio has ranged from 52.7 percent to 65.7 percent during that period. The bank's average net LTD ratio was compared with the ratios of the one financial institution of similar asset size with branch offices in the area immediately surrounding the bank's assessment area. Merchants & Farmers Bank's average net LTD ratio was slightly higher than the ratio of its competitor. The bank's loan-to-deposit ratio is **REASONABLE** given the bank's size, financial condition, and assessment area credit needs.

**Assessment Area Concentration**

A sample of 91 small business and 119 residential real estate loans originated since the previous performance evaluation was analyzed to determine the extent of the bank's lending inside the assessment area. As illustrated in the following table, a **SUBSTANTIAL MAJORITY** (by both number and dollar volume) of the bank's residential real estate loans and small business loans sampled were originated **IN** the assessment area.

<b>LENDING INSIDE AND OUTSIDE ASSESSMENT AREA</b>				
<b>Loan Type</b>	<b>IN</b>			
	Number	Percent	\$ (000s)	Percent
Small Business	83	91.2%	\$1,527	93.7%
Residential	106	89.1%	\$3,279	88.1%
<b>Total In</b>	<b>189</b>	<b>90.0%</b>	<b>\$4,806</b>	<b>89.8%</b>
	<b>OUT</b>			
	Number	Percent	\$ (000s)	Percent
Small Business	8	8.8%	\$103	6.3%
Residential	13	10.9%	\$443	11.9%
<b>Total Out</b>	<b>21</b>	<b>10.0%</b>	<b>\$546</b>	<b>10.2%</b>

The above table indicates that 90 percent (189) of the loans analyzed were originated inside the bank's assessment area. In addition, 89.8 percent (\$4.8 million) of the total dollar amount of loans were originated in the bank's assessment area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)**

**Lending to Borrowers of Different Incomes and Businesses of Different Sizes**

To assess Merchants & Farmers Bank’s performance relative to this criterion, 102 residential real estate loans secured by properties located within the bank’s assessment area and 83 small business loans originated within the bank’s assessment area were analyzed. Borrower income classifications were assigned in accordance with the definitions outlined earlier in this report. For this analysis, the distribution of residential real estate loans by borrower income levels and small business lending by revenue size was compared with the available demographic information.

Of the 125 residential real estate loans sampled that were originated in the assessment area during the review period, 102 included income information. According to the following chart, 41.2 percent of the 102 residential real estate loans were originated to low-income borrowers, whereas low-income families represent 42.4 percent of total families. The demographics table on page 3 illustrates that 39.2 percent of the families in the assessment area have incomes below the poverty level. Assuming the families below poverty level are also low-income, non-poverty, low-income families represent only 3.1 percent of total families. The banks lending far exceeds this percentage. While families below the poverty level are not ineligible for credit, it is recognized that they have a lower capacity for debt repayment and therefore, may not qualify for residential real estate loans.

<b>RESIDENTIAL LOANS BY BORROWER INCOME</b>		
<b>Borrower Income Level</b>	<b>#</b>	<b>%</b>
Low-Income	42	41.2%
Moderate-Income	19	18.6%
Middle-Income	15	14.7%
Upper-Income	26	25.5%
Income Not Available	0	0.0%
<i>Total</i>	<i>102</i>	<i>100.0%</i>

The above chart indicates that 18.6 percent of the residential loans were made to moderate-income families, which represent 14.9 percent of total families.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)**

Of the 83 business loans sampled during the review period, 66 loans (79.5 percent) were extended to businesses with gross annual revenues of less than \$1 million. As noted earlier, 92.5 percent of the businesses in the assessment area are considered to be small businesses. In addition, 96.4 percent (80 loans) of the small business loans originated were in amounts of \$100,000 or less.

<b>SMALL BUSINESS LOANS</b>		
<b>Business Revenue:</b>	<b>#</b>	<b>%</b>
\$1 Million or Less	66	79.5%
Over \$1 Million	4	4.8%
Not Available	13	15.7%
<b>Loan Size:</b>		
\$100,000 or Less	80	96.4%
\$100,001 - \$250,000	3	3.6%
\$250,001 - \$1 Million	0	0.0%
<i>Total</i>	<i>83</i>	<i>100.0%</i>

As indicated above, 13 of the loans did not have business revenue information available. It can be inferred by the data, however, that if 92.5 percent of the businesses in the area are considered small businesses, a majority of those 13 loans were made to businesses with revenues less than \$1 million. Based on the data, Merchants & Farmers Bank's lending performance reflects **EXCELLENT** penetration among individuals of different income (including low- and moderate-income) levels and businesses of different sizes.

**Geographic Distribution of Loans**

The following table shows the dispersion of residential real estate loans throughout the assessment area:

<b>GEOGRAPHIC DISTRIBUTION</b>		
<b>Tract Income Level</b>	<b>Residential</b>	
	<b>#</b>	<b>%</b>
Low-Income	28	27.5%
Moderate-Income	74	72.5%
Middle-Income	0	0.0%
Upper-Income	0	0.0%
<i>Total Assessment Area</i>	<i>102</i>	<i>100.0%</i>

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)**

As illustrated in the table above, 27.5 percent of the residential loans originated within Merchants & Farmers Bank’s assessment area were to borrowers residing in the low-income BNA, which is well above the percentage of families living in that BNA at 11.1 percent, and above the percentage of owner-occupied units in the BNA at 9.5 percent. In addition, 72.5 percent of the loans were made to borrowers residing in moderate-income BNAs, which contain 88.9 percent of total families and 90.5 percent of owner-occupied housing units.

According to 2001 Dun and Bradstreet business demographic data, 13.0 percent of the businesses with revenues of less than \$1 million are located in the low-income BNA and 87.0 percent are located in moderate-income BNAs. As illustrated in the table below, 12.0 percent of small business loans were originated in the low-income BNA and 88.0 percent of small business loans were originated in moderate-income BNAs.

<b>GEOGRAPHIC DISTRIBUTION</b>		
<b>Tract Income Level</b>	<b>Small Business</b>	
	<b>#</b>	<b>%</b>
Low-Income	10	12.0%
Moderate-Income	73	88.0%
Middle-Income	0	0.0%
Upper-Income	0	0.0%
<i>Total Assessment Area</i>	83	100.0%

Lending to businesses located in low- and moderate-income BNAs appears to be consistent with the percentage of businesses located in those areas.

Given the demographics of the assessment area, and taking into consideration the competition in bank’s local market area, the geographic distribution of loans reflects **EXCELLENT** dispersion throughout the assessment area.

**Complaints**

No CRA-related complaints have been received since the previous performance evaluation.

**Compliance With Antidiscrimination Laws**

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discrimination or the use of illegal credit practices was noted during the review of bank policies and procedures. No practices have the intent or the effect of discouraging applicants for credit.

<b>CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)</b>
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**Qualified Investments**

Merchants & Farmers Bank is a participant in the Alabama Multifamily Loan Coalition, a nonprofit corporation providing a loan pool for member banks to participate in multifamily housing loans specifically targeted to affordable housing statewide. The lending pool provides small community banks and large regional lenders the opportunity to provide long-term financing for affordable multifamily housing development and rehabilitation. To date, Merchants & Farmers Bank has committed \$400,000, of which approximately \$342,000 has been loaned to finance 1,412 housing units throughout the state. The bank is considering another \$400,000 commitment in 2003, which would bring their total commitment to the pool to \$800,000. This investment record **ENHANCES** credit availability in the assessment area.