

PUBLIC DISCLOSURE

October 6, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M Bank - Iowa
RSSD# - 689740

11 North 1st Avenue
Marshalltown, Iowa 50158

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, IL 60604-1413

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.

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INSTITUTION'S CRA RATING

F&M Bank's CRA Performance is rated **Satisfactory**. The following table illustrates the performance level of F&M Bank with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory		X	X
Low Satisfactory	X		
Needs to Improve			
Substantial Noncompliance			

* Note: The lending test is more heavily weighted than the investment and service tests when arriving at an overall rating.

The major factors supporting the institution's rating include:

- Adequate responsiveness to credit needs in the combined assessment area with respect to lending activity;
- A substantial majority of loans originated within the combined assessment area;
- Good penetration throughout the assessment area, particularly within those geographies identified as low- or moderate-income;
- A good distribution of loans to borrowers of different income levels and businesses of different sizes;
- Poor performance in community development lending across the assessment area;
- Little use of innovative and/or flexible lending products to serve assessment area needs;
- A significant level of qualified community development investments;

- A good responsiveness to credit and community development needs with respect to investment activity;
- Readily accessible delivery systems to geographies and individuals of different income levels, and;
- An adequate level of community development services.

SCOPE OF EXAMINATION

The bank's CRA Performance was evaluated in the context of information about the institution and assessment area, such as asset size, financial condition, competition, and economic and demographic characteristics. Performance within the designated assessment area was evaluated using Interagency Examination Procedures for Large Institutions. Loan products included residential real estate, small business and small farm loans found on the 2006 and 2007 Loan Application Registers (LARs) reported under the Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA).

- **Lending in the Assessment Area** – HMDA and CRA loans were reviewed to determine the percentage of loans originated in the assessment area.
- **Geographic Distribution of Lending in the Assessment Area** – HMDA and CRA loans were analyzed to evaluate the extent to which the bank is making loans in geographies of different income levels, particularly those designated as low- or moderate-income.
- **Lending to Borrowers of Different Incomes and to Businesses and Farms of Different Sizes** – HMDA loans were analyzed to assess the distribution among borrowers of different income levels and CRA loans to determine the distribution among businesses and farms with different revenue levels.
- **Community Development Lending** – The volume and complexity of community development loans made during 2006 and 2007 was reviewed.
- **Innovative or Flexible Lending Practices** – The degree to which the bank uses innovative and flexible lending practices to address the credit needs of low- and moderate-income individuals or geographies was assessed.
- **Investments** – Qualified investments made during 2006 and 2007 were reviewed and evaluated to determine the use of innovative or complex investments, as well as responsiveness to credit and community development needs.
- **Services** – The distribution of the bank's branch offices, banking services, hours of operation, availability of loan and deposit products, and the extent and innovativeness of community development services were reviewed.

- **Response to Substantiated Complaints** – Neither F&M Bank nor this Reserve Bank received any CRA-related complaints related to this institution since the previous examination.

In addition to the factors listed above, information obtained through discussions with six community representatives was considered in the overall evaluation. Included were representatives from affordable housing groups, economic development organizations, and small business associations. Representatives stated that locally-owned financial institutions are more actively involved in the communities than other institutions. If decision-makers were not located within a local bank branch, there was a sense that the process of getting involvement in a community development opportunity is challenging. Community contacts believe that banks have historically been good corporate citizens; however, their direct involvement continues to diminish.

DESCRIPTION OF THE INSTITUTION

F&M Bank is a subsidiary of Citizens Republic Bancorp, Inc., a two-bank holding company located in Flint, Michigan. The lead bank under Citizens Republic Bancorp, Inc. is Citizens Bank, also located in Flint. While there have been no changes to F&M Bank’s structure since the previous evaluation dated July 17, 2006, a merger between Citizens Bank and Republic Bank, Lansing, Michigan was consummated in April 2007.

F&M Bank’s main office is located in Marshalltown, Iowa, approximately 60 miles northeast of Des Moines. In addition to the main office in Marshalltown, there are 10 branches located throughout North Central Iowa as well as in the Ames Metropolitan Statistical Area (MSA). The branch and ATM network has not changed since the previous evaluation. Exhibit #1 below details the F&M Bank branch locations:

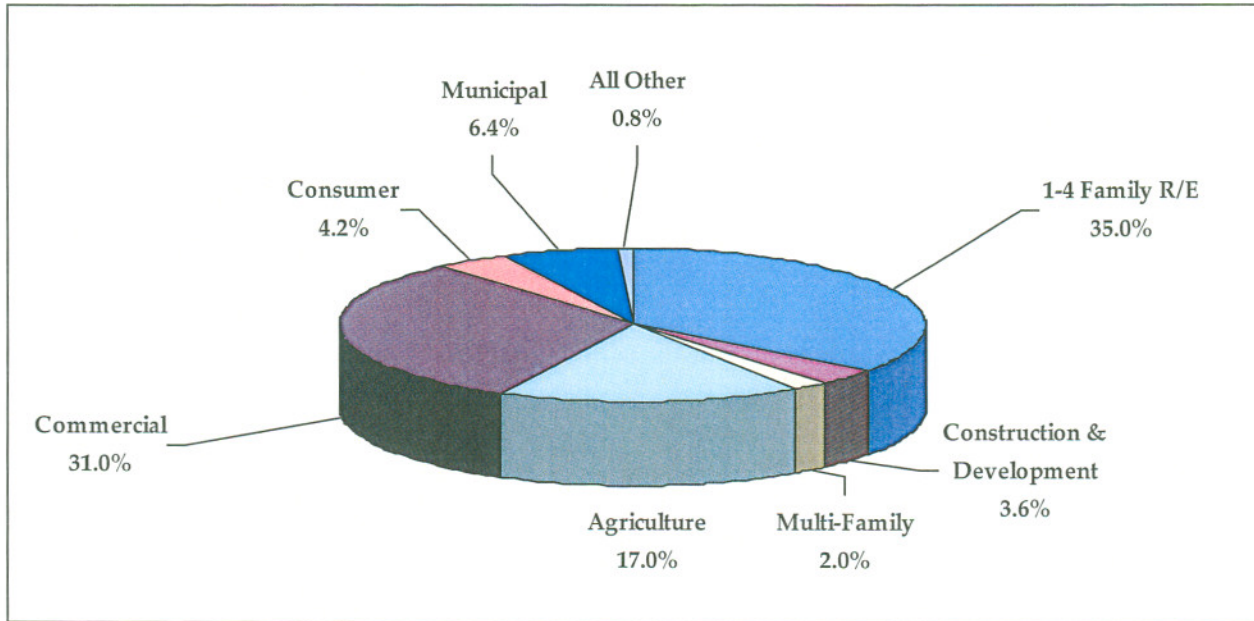
Exhibit #1	
F&M Bank Branch Network	
Branch Location	# of Branches
Marshalltown	2
Ames	1
Eldora	1
Gladbrook	1
Grinnell	1
Newton	1
Prairie City	1
Story City	2
Sully	1
Total	11

There are 11 full-service ATMs as well as 2 cash-dispensing ATMs located throughout the assessment area.

According to the Uniform Bank Performance Report, the bank had \$401.8 million in total assets as of June 30, 2008. Total assets since the previous evaluation have declined by 12.5%. The decrease in asset size is attributed to strategic decisions at the holding company level.

Exhibit #2 illustrates the distribution of the loan portfolio. As shown, primary loan products include residential real estate loans at 35.0% and commercial loans at 31.0%.

Exhibit #2 – Composition of F&M Bank’s Loan Portfolio – June 30, 2008



The bank’s peer group includes all commercial banks with assets between \$300 million and \$1 billion. Local competitors for loans and deposits are listed in Exhibit #3, which is based on the FDIC Summary of Deposits as of June 30, 2008. F&M Bank competes for deposits with large national bank branches such as U.S. Bank and Wells Fargo Bank as well as community banks. In the non-metropolitan areas, the bank’s market share exceeds many of the larger institutions.

Exhibit #3			
F&M Bank and Local Competitors Deposit Market Share			
Bank	Deposits (\$000's)	Market Share %	# Branches in Market
Ames MSA			
First National Bank of Ames	\$362,249	25.3	4
US Bank, N.A.	147,960	10.3	4
First American Bank	139,871	9.8	3
F&M Bank	52,529	3.7	3
Non-MSA Iowa			
F&M Bank	\$288,782	7.8	8
Well Fargo Bank, N.A	239,921	6.5	7
Midwestone Bank	227,078	6.2	5
US Bank, N.A.	216,587	5.9	7

The combined assessment area has not changed since the previous evaluation and includes the Ames MSA, as well as the following Iowa counties in their entirety: Hardin, Marshall, Jasper and Poweshiek. The assessment area also includes portions of Hamilton, Tama, Marion and Mahaska counties. Refer to the Appendix B of this evaluation for detailed maps of the assessment area. Exhibit #4 illustrates the demographics of the combined assessment area.

Exhibit #4								
Combined Assessment Area Demographics Ames MSA #11180 & Non Metropolitan								
Income Categories	Tract Distribution		Families by Tract Income		Families Below Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	3.5	1,136	2.0	252	22.2	8,458	15.0
Moderate-income	1	1.7	901	1.6	155	17.2	9,873	17.5
Middle-income	44	75.9	42,369	75.1	2,319	5.5	14,421	25.6
Upper-income	10	17.2	11,978	21.3	393	3.3	23,632	41.9
Unknown-income*	1	1.7	0	0.0	0	0.0	0	0.0
TOTALS	58	100.0	56,384	100.0	3,119	5.5	56,384	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	2,821	706	1.2	25.0	1,980	70.2	135	4.8
Moderate-income	1,668	876	1.5	52.5	648	38.8	144	8.6
Middle-income	69,275	44,924	75.6	64.8	19,690	28.4	4,661	6.7
Upper-income	18,169	12,863	21.7	70.8	4,456	24.5	850	4.7
Unknown-income*	16	0	0.0	0.0	14	87.5	2	12.5
TOTALS	91,949	59,369	100.0	64.6	26,788	29.1	5,792	6.3

Income Categories	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Under \$1 million		Over \$1 million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	410	4.7	350	4.5	57	8.0	3	1.5
Moderate-income	138	1.6	120	1.6	17	2.4	1	0.5
Middle-income	6,185	71.5	5,581	72.0	443	62.4	161	82.6
Upper-income	1,872	21.6	1,661	21.4	185	26.1	26	13.3
Unknown-income*	50	0.6	38	0.5	8	1.1	4	2.1
TOTALS	8,655	100.0	7,750	100.0	710	100.0	195	100.0
				89.5		8.2		2.3

Income Categories	Total Farms by Tract		Farms by Tract & Revenue Size					
			Under \$1 million		Over \$1 million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	8	0.3	6	0.2	2	8.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	2,079	88.3	2,057	88.3	22	88.0	0	0.0
Upper-income	265	11.3	265	11.4	0	0.0	0	0.0
Unknown-income*	3	0.1	2	0.1	1	4.0	0	0.0
TOTALS	2,355	100.0	2,330	100.0	25	100.0	0	0.0
				98.9		1.1		0.0

Information about businesses and farms is from 2006 Dun & Bradstreet demographic data; all other information is based on 2000 U.S. Bureau of Census data.

*Tract which includes Iowa State University

Of the 58 census tracts served by the bank, 3 tracts (5.2%) are designated low- or moderate-income. However, low- or moderate-income families, as defined by median family income, represent 32.5% of the combined assessment area. Housing in the assessment area is comprised of 64.6% owner-occupied units, 29.1% rental units, and 6.3% vacant. By comparison, the State of Iowa's housing stock consists of 67.5% owner-occupied, 25.8% rental, and 6.7% vacant units.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Specific information on the bank's overall lending is discussed under each assessment area. In addition, the data utilized in analyzing the performance of the assessment areas can be found in Appendix C of this evaluation.

LENDING TEST

The overall lending performance is considered *low satisfactory* based on the analysis of the bank's performance in both the Ames MSA and non-metropolitan portion of the assessment area.

Lending Activity

Lending levels reflect an adequate responsiveness to assessment area credit needs. A review of lending activity for the sample period shows that F&M Bank originated 1,273 HMDA and CRA-reportable loans totaling \$144.7 million. The previous CRA evaluation of lending data during the years of 2004 and 2005 revealed the bank funded 2,008 HMDA and CRA loans totaling \$172.6 million. The variance between the prior evaluation period and the current period is a decline of 36.6% of the number and 16.2% of the total dollar amount of HMDA and CRA loans. Most of the decline in numbers and dollar volume occurred in home purchase and home improvement lending. Management attributed the decline in HMDA lending to a combination of a generally weakening economy during the review period, to staffing changes among mortgage lenders, and a change to a lending platform that no longer supported certain mortgage loan products. Exhibit #5 illustrates HMDA and CRA related lending by number and dollar amount.

Exhibit #5				
Summary of Lending Activity				
F&M Bank				
January 1, 2006 to December 31, 2007				
Loan Type	#	%	\$(000s)	%
Home Purchase – Conventional	170	13.4	13,859	9.6
Home Purchase – FHA	23	1.8	1,835	1.3
Home Improvement	204	16.0	4,829	3.3
Refinancing	305	24.0	17,022	11.8
Total HMDA related	702	55.1	37,545	26.0
Total Small Business related	289	22.7	71,353	49.3
Total Small Farm related	282	22.2	35,765	24.7
Total CRA-related	571	44.9	107,118	74.0
Total Loans	1,273	100.0	144,663	100.0

Assessment Area Concentration

A substantial majority of both HMDA- and CRA-reportable loans were originated within the assessment area. Overall, the bank's performance is considered strong, with 91.3% of the number and 91.1% of the dollar amount of loans being originated within the combined assessment area. Exhibit #6 illustrates the percentage of lending by category.

Exhibit #6								
Lending Inside and Outside the Assessment Area								
Loan Product	Inside				Outside			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home Improvement	193	94.6	\$4,135	85.6	11	5.4	\$694	14.4
Home Purchase -	147	86.5	\$11,844	85.5	23	13.5	\$2,015	14.5
Home Purchase - FHA	22	95.7	\$1,716	93.5	1	4.3	\$119	6.5
Refinancing	284	93.1	\$15,704	92.3	21	6.9	\$1,318	7.7
Total HMDA related	646	92.0	\$33,399	89.1	56	8.0	\$4,146	10.9
Small Bus. - Secured by Real	51	85.0	\$4,893	52.5	9	15.0	\$4,424	47.5
Small Business	205	89.5	\$59,513	95.9	24	10.5	\$2,523	4.1
Total Small Bus. related	256	88.6	\$64,406	90.3	33	11.4	\$6,947	9.7
Small Farm	260	92.2	\$33,948	94.9	22	7.8	\$1,817	5.1
Total Small Farm related	260	92.2	\$33,948	94.9	22	7.8	\$1,817	5.1
Total Loans	1,162	91.3	\$131,753	91.1	111	8.7	\$12,910	8.9

Geographic Distribution

Generally, while there has been some fluctuation in the number of HMDA and small business and farm loans from 2006 to 2007, geographic distribution of loans reflects a good penetration throughout the assessment area and a good record of serving the credit needs of low-income geographies. Geographic distribution of HMDA and CRA lending is illustrated in Exhibits #7, #8 and #9, along with demographic comparisons for each loan product.

HMDA-Reportable Lending

Exhibit #7								
Geographic Distribution of HMDA Loans								
Census Tract	Census Tracts		Owner-Occupied Units		2006 HMDA Loans		2007 HMDA Loans	
	#	%	#	%	#	%	#	%
Low	2	3.5	706	1.2	0	0.0	0	0.0
Moderate	1	1.7	876	1.5	24	5.7	9	4.0
Middle	44	75.9	44,924	75.6	303	71.6	168	75.4
Upper	10	17.2	12,863	21.7	96	22.7	46	20.6
Unknown	1	1.7	0	0.0	0	0.0	0	0.0
Total	58	100.0	59,369	100.0	423	100.0	223	100.0

HMDA-reportable loans funded in low- or moderate-income census tracts during 2006 significantly exceeded aggregate HMDA lending of 1.9% within the same tracts. Lending in low- or moderate-income census tracts comprised 5.7%, which is comparable to the percentage of low- or moderate-income geographies in the assessment area of 5.2%. In 2007, the percentage of HMDA-reportable loans within low- or moderate-income census tracts declined from the

previous year to 4.0%; however, this still exceeds aggregate lending, which remained at 1.9%.

Only 2.7% of the assessment area's owner-occupied housing units are located in low- or moderate-income census tracts, with the bank's lending in both years exceeding the percentage of owner-occupied housing units. Of the housing units located in low-income census tracts, only 25.0% are owner-occupied and within the moderate-income tract, only 52.5% are owner-occupied. This indicates a limited demand for mortgage products exists within these geographies.

CRA-Reportable Lending

Exhibit #8								
Geographic Distribution of Small Business Loans								
Census Tract	Census Tracts		Businesses by Tract		2006 Small Business Loans		2007 Small Business Loans	
	#	%	#	%	#	%	#	%
Low	2	3.5	410	4.7	8	7.4	2	2.1
Moderate	1	1.7	138	1.6	1	0.9	2	2.1
Middle	44	75.9	6,185	71.5	81	75.0	79	81.4
Upper	10	17.2	1,872	21.6	18	16.7	14	14.4
Unknown	1	1.7	50	0.6	0	0.0	0	0.0
Total	58	100.0	8,655	100.0	108	100.0	97	100.0

CRA-reportable small business loans originated in 2006 within low- or moderate-income tracts exceeded aggregate lending of 7.4% as well as the 6.3% of small businesses located within low- or moderate-income tracts (6.3%). A decline of small business loans in low- or moderate-income census tracts occurred in 2007, which resulted in lending within low- and moderate-income geographies dropping below aggregate lending of 6.7% as well as the percentage of businesses located in low- or moderate-income census tracts. Management attributed the decrease in lending within low- or moderate-income geographies to strong competition from other financial institutions in many of the communities within the assessment area.

Exhibit #9								
Geographic Distribution of Small Farm Loans								
Census Tract	Census Tracts		Farms by Tract		2006 Small Farm Loans		2007 Small Farm Loans	
	#	%	#	%	#	%	#	%
Low	2	3.5	8	0.3	0	0.0	0	0.0
Moderate	1	1.7	0	0.0	0	0.0	0	0.0
Middle	44	75.9	2,079	88.3	138	95.2	107	91.3
Upper	10	17.2	265	11.3	7	4.8	8	8.7
Unknown	1	1.7	3	0.1	0	0.0	0	0.0
Total	58	100.0	2,355	100.0	145	100.0	115	100.0

As illustrated in Exhibit #9, the bank did not fund any small farm loans in the low- or moderate-income geographies of the assessment area during either year. This is reasonable, however, as only 0.3% of small farms are located within assessment area's low- or moderate-income tracts.

Borrower Distribution

The distribution of borrowers reflects a good penetration among customers of different income levels and businesses of different sizes, and the bank exhibited a good record of serving the needs of low-income borrowers and small businesses and farms. The distribution of HMDA- and CRA-reportable loans by borrower income and revenue size is illustrated in Exhibits #10, #11, and #12 below.

HMDA-Reportable Lending

Exhibit #10						
Income Distribution of HMDA Loans						
Income Level	Families by Income		2006 HMDA Loans		2007 HMDA Loans	
	#	%	#	%	#	%
Low	8,458	15.0	60	14.2	37	16.6
Moderate	9,873	17.5	97	22.9	54	24.2
Middle	14,421	25.6	114	27.0	68	30.5
Upper	23,632	41.9	144	34.0	61	27.4
Unknown	0	0.0	8	1.9	3	1.3
Total	56,384	100.0	423	100.0	223	100.0

The distribution of HMDA-reportable loans exhibits an excellent penetration among borrowers of different income levels, particularly those of low or moderate income levels. In 2006, HMDA-reportable lending to low- and moderate-income borrowers comprised 37.1% of total HMDA-reportable loans. Lending to low- and moderate-income borrowers exceeded both the aggregate lending of 31.5% and the 32.5% of families in the assessment area that are classified as low- or moderate-income. In 2007, the percentage of HMDA-reportable loans to these borrowers increased to 40.8% and was again higher than aggregate lending, which remained at 31.5%.

CRA-Reportable Lending

Exhibit #11						
Income Distribution of Small Business Loans						
Income Level	Businesses by Revenue Size		2006 Business Loans		2007 Business Loans	
	#	%	#	%	#	%
Less than or Equal to \$1 Million	7,750	89.5	64	59.2	71	73.2
Greater than \$1 Million	710	8.2	37	34.3	21	21.6
Revenue not Reported	195	2.3	7	6.5	5	5.2
Total	8,655	100.0	108	100.0	97	100.0

In 2006, loans to businesses with gross annual revenues of \$1 million or less comprised 59.2% of CRA-reportable loans, which was well below the percentage of businesses in the assessment area with this revenue level. Though lending activity was below demographics, it exceeded aggregate lending to businesses of this revenue level, which was 46%. Of the loans to small businesses, 76.6% were funded in dollar amounts of \$100,000 or less. Loans in these amounts are typically more beneficial to small businesses, thus stimulating the assessment area's economy.

The percentage of loans to businesses with revenues of \$1 million or less increased significantly to 73.2% in 2007, which is more in line with the percentage of small businesses in the assessment area. Lending to small businesses far exceeded aggregate lending of 45.2% for the same period. Of the loans to small businesses, 76.1% were funded in dollar amounts of \$100,000 or less.

Exhibit #12						
Income Distribution of Small Farm Loans						
Income Level	Farms by Revenue Size		2006 Farm Loans		2007 Farm Loans	
	#	%	#	%	#	%
Less than or Equal to \$1 million	2,330	98.9	128	88.3	98	85.2
Greater than \$1 million	25	1.1	14	9.6	14	12.2
Revenue not Reported	0	0.0	3	2.1	3	2.6
Total	2,355	100.0	145	100.0	115	100.0

Lending to farms with gross annual revenues of \$1 million or less remained fairly stable from 2006 to 2007. Lending to these farms was higher than the percentage of aggregate lending to farms of the same revenue levels, which was 82.8% in 2006 and 79.2% in 2007. Of the total farms in the assessment area, 98.9% have revenue levels of \$1 million or less. Both F&M Bank and aggregate lending to small farms fell short of the percentage of small farms in the assessment area; however, lending represents adequate penetration to small farms as a substantial majority of small farm loans are to these entities.

Of small farm loans in 2006 and 2007, the majority were in the amounts of \$100,000 and less. Again, focus is on loans of this dollar amount because they are the most beneficial to small farms. Loans of this size comprised 64.1% of all small farms in 2006 and in 66.3% in 2007.

Community Development Lending

F&M Bank did not originate any community development loans within the combined assessment area during the review period. In May of 2006, the bank refinanced a loan on a multi-family housing complex located outside its assessment area, which would meet the definition of community development by providing affordable housing to low- or moderate-income individuals. According to contacts within the assessment area, there are community development credit needs and opportunities available in which institutions can participate. Opportunities include loan programs for the purposes of revitalization or stabilization of low- or moderate-income areas, affordable housing for low- or moderate-income individuals, and economic development for small businesses.

Innovative and Flexible Programs

The bank made little use of innovative and/or flexible lending programs that are government-assisted or targeted to low- or moderate-income borrowers. During 2006 and 2007, the bank offered mortgage loans through the Iowa Finance Authority (IFA). IFA offers first-time homebuyers affordable loans, which are targeted to low- and moderate-income borrowers. In 2006, 24 IFA loans were originated totaling \$1.9 million; however, participation in this program significantly decreased in 2007 to only 3 loans totaling \$144,000. While the use of the IFA program is commendable, the total dollar amount of loans funded in partnership with this program fell from \$7.5 million during the previous evaluation. The decrease in activity under this program is partially attributed to the decline in demand for home purchase loans, which was driven by economic factors impacting the housing market. Moreover, the bank discontinued offering loans through the IFA program in 2008 due to a change to a loan platform that no longer supported these loans.

Another flexible lending program available by the bank is through the Small Business Administration (SBA). Loans in this program are partially guaranteed by the SBA and are targeted to small businesses. In 2007, one SBA loan was funded in the amount of \$140,000. Bank personnel were unable to determine the reasons for the limited use of this program, but management indicated that this program would be a focus going forward.

Mortgage loans are available through the secondary market, in which borrowers can access a variety of loan products not offered by the bank. While not necessarily targeted to low- or moderate-income borrowers, secondary market loans provide customers with more options when selecting a mortgage product. Loan originations sold on the secondary market are included in the lending test with the HMDA-reportable loans.

INVESTMENT TEST

The bank's performance under the lending test is *high satisfactory*. The bank had a significant level of qualified community development investments and grants. The bank made rare use of innovative and/or complex investments to support community development initiatives; however, community development investment and grant activities represent a good responsiveness to assessment area needs.

Since the previous evaluation, the bank made one new community development investment totaling \$190,000, which was a bond purchased from the IFA. Funds from this bond were used for the promotion of home ownership. As discussed previously in this evaluation, the IFA offers loan products targeted to first-time homebuyers at low- or moderate-income levels. The IFA serves the entire state of Iowa, so the bond serves to benefit the assessment area and a larger geographic area.

The bank made a total of \$41,500 in donations and grants to non-profit community development organizations located in the assessment area. Donations and grants in 2006 totaled \$19,400 and were given to organizations with primary purposes of providing affordable housing to low- and moderate-income individuals, providing community services for low- and moderate-income individuals, and economic development by financing or assisting small businesses. Donations in 2007 increased to \$22,100 and were given to organizations for the purposes of community services to low- and moderate-income individuals and economic development. A comparison of investment and contributions from the current and prior evaluation period is illustrated in Exhibit #13.

Exhibit #13					
2006-2007 Summary of Community Development Investments					
	Number	2004-2005 Amount (\$000's)	Number	2006-2007 Amount (\$000's)	Percentage Change
New Investments	2	360	1	190	(47.2%)
Prior Period Investments	2	933	3	740	(20.7%)
Total Investments	4	1,293	4	930	(28.1%)
Grants & Donations	25	61	18	42	(31.1%)
Total	29	1,354	21	972	(28.2%)

The bank has prior period investments with a balance of \$739,754 from the purchase of Fannie Mae mortgage-backed security pool and a housing bond through the state of Iowa. Since the prior evaluation, the bank has experienced a 28% decline in the dollar amount of qualified investments. The decline is attributed to the general weakening economic factors across the country toward the end of 2007, particularly the sub-prime market's impact on mortgage-backed securities. The bank's investments are heavily reliant upon mortgage-backed securities, of which the market availability decreased during the evaluation period. Further, the value of

the mortgage-backed security pool has decreased from \$932,834 as of the previous evaluation to \$614,754 as of December 31, 2007, a decline of 34.1%.

Donations also exhibited a decrease in dollar amount since the previous evaluation. Total community development grants and donations decreased 31.1% since the previous evaluation period. However, the dollar amount of donations increased 13.9% from 2006 to 2007. Ten organizations benefited from donations from F&M Bank in 2006, compared to seven organizations in 2007.

The majority of investment activity and grants and donations are for affordable housing. Based on comments received from community representatives, there is a general need for affordable housing throughout the communities in the assessment area. The focus on affordable housing related investments suggests that the bank is responding to community needs.

SERVICE TEST

Delivery systems are readily accessible to geographies and individuals of different income levels in the assessment area. The bank did not open or close any branches or ATMs during the evaluation period. Services provided do not vary by branch location, and location hours do not vary in a way that inconveniences low- or moderate-income geographies and/or individuals.

Retail Services

The bank operates 11 branches, 11 full-service ATMs, and 2 cash dispensing ATMs within its assessment area. The two cash dispensing ATMs are located at the Marshalltown Medical & Surgical Center and at an Eldora Casey's General Store. The bank has 18.2% of its branches located in low- and moderate-income census tracts. This significantly exceeds the demographics of the combined assessment area, as 5.2% of the census tracts are low- and moderate-income and only 3.6% of the assessment area's families are located within these tracts.

Lobby and drive-up hours of operation at the branches are reasonable, as reflected in Exhibit #14. All branch locations maintain Saturday hours either in the lobby or drive-up.

Exhibit #14				
Branch Locations and Hours of Operation				
Branch Address	ATM	Census Tract Income Level	Lobby Hours	Drive-up Hours
Ames MSA Assessment Area				
Ames 402 Lincoln Way Ames, IA 50010	Yes	Low	M-F 9:00-5:00 Sat 9:00 -12:00	M-F: 8:30- 5:00 Sat 9:00-12:00
Story City 522 Broad Street Story City, IA 50248	Yes	Middle	M-TH 9:00-4:00 F 9:00 -5:00	M-F: 8:00-4:00 Sat 8:30-11:30
Story City (Drive Up) 1463 Broad Street Story City, IA 50248	Yes	Middle	N/A	M-F 8:00-5:00 Sat 8:30-11:00
Non-MSA Iowa Assessment Area				
Eldora 1402 Washington St. Eldora, IA 50627	Yes	Middle	M-Th 8:30-3:30 F 8:30-5:30	M-Th 8:30-5:00 F 8:30-5:30 Sat 8:30-12:00
Gladbrook 401 Second Street Gladbrook, IA 50635	Yes	Middle	M-Th 9:00-4:00 F 9:00-5:00 Sat 9:00-11:00	N/A
Grinnell 1030 Broad Street Grinnell, IA 50112	Yes	Middle	M-Th 8:30-4:30 F 8:30-5:00 Sat 8:30-11:00	M-Th 8:00-5:00 F 8:00-5:30 Sat 8:00-11:00
Marshalltown 11 N. First Avenue Marshalltown, IA 50158	Yes	Moderate	M-F 8:30-4:30	M-Th 8:30-5:00 F 8:30-5:30 Sat: 8:30-12:00
Newton 511 First Avenue East Newton, IA 50208	Yes	Middle	M-Th 8:30-4:00 F 8:30-5:00 Sat 8:30-11:00	M-Th 7:30-5:00 F 7:30-5:30 Sat 8:30-11:00
Prairie City 301 W. Jefferson Prairie City, IA 50228	Yes	Middle	M-Th: 8:30-3:30 F 8:30-6:00	M-Th 8:00-4:00 F 8:00-6:00 Sat 9:00-12:00
Southridge 3 E. Southridge Rd Marshalltown, IA 50158	Yes	Upper	M-F 8:30-5:30 Sat 8:30-12:00	M-F 7:30-5:30 Sat: 7:30-12:00
Sully 610 Fourth Street Sully, IA 50251	Yes	Middle	M-F 9:00-4:00	M-Th 8:00-4:00 F 8:00-5:30 Sat 8:30-11:00

Alternative delivery systems were also reviewed as part of this evaluation, which include the following:

- Telephone banking – Customers may obtain information about their accounts, transfer funds, check balances, deposits and checks/withdrawals by using a toll free number.
- Internet Banking – Existing customers can utilize internet banking through www.fmbanks.com which allows customers to access account information, transfer funds and also gives customers the ability to pay bills online.

Community Development Services

F&M Bank provided an adequate level of qualified community development services within its assessment area, although there was a significant decrease in the level of community development services performed from 2006 to 2007. During 2006, bank representatives participated in 11 qualified community development services totaling 266 hours. Services were for the purposes of affordable housing for low- and moderate-income individuals and economic development for small businesses in the assessment area. In 2007, the number of community services performed by bank personnel decreased to only 3 qualified activities totaling approximately 177 hours.

During 2006, the majority of activities consisted of a mortgage loan officer providing seminars within the assessment area to discuss the bank's affordable mortgage products. This individual is no longer with the bank, and as a result, the level of community development services has significantly declined. While not an all-inclusive list of services, some examples of qualified community development activities performed by bank personnel were as follows:

- An officer with F&M Bank served as the chair of the Economic Development Commission in Prairie City, Iowa. The Economic Development Commission provides technical assistance with financing programs for small businesses.
- An officer served on the Jasper County Economic Development Commission (EDC), providing assistance to small businesses on financial matters. The primary purpose of the Jasper County EDC is to attract new businesses and provide assistance to existing businesses throughout Jasper County.
- A mortgage loan officer at the Marshalltown office held events with various area realty groups in Marshalltown, Brooklyn, and Newton, Iowa, to discuss the bank's affordable loan products for low- to moderate-income clients. The loan officer also held seminars with various groups in the Marshalltown/Tama area regarding home buying and predatory lending.

- A bank officer served as a representative on the Story City Housing Rehabilitation committee, which has as its main purpose to provide affordable housing to low-income families and rehabilitation of homes in Story City.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

F&M Bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and Fair Housing Act. A review of loan policies and procedures, articulated lending standards, and pricing and underwriting practices since the previous evaluation revealed no patterns or practices of discriminatory treatment or other illegal credit practices on a prohibited basis.

DESCRIPTION OF OPERATIONS IN THE AMES, IOWA MSA

The Ames MSA includes 20 census tracts. The demographics of this assessment are shown in Exhibit #15. This assessment area is served by three branches and three full service ATMs. F&M Bank ranks 10th out of 20 financial institutions in the assessment area, and as of June 30, 2008, held 3.7% of the deposit market share.

Exhibit #15								
Assessment Area Demographics Ames MSA #11180								
Income Categories	Tract Distribution		Families by Tract Income		Families Below Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	10.0	1,136	6.7	252	22.2	3,061	17.9
Moderate-income	0	0.0	0	0.0	0	0.0	3,149	18.5
Middle-income	13	65.0	12,392	72.6	576	4.6	4,238	24.8
Upper-income	4	20.0	3,536	20.7	105	3.0	6,616	38.8
Unknown-income*	1	5.0	0	0.0	0	0.0	0	0.0
TOTALS	20	100.0	17,064	100.0	933	5.5	17,064	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	2,821	706	4.1	25.0	1,980	70.2	135	4.8
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	21,932	12,713	74.3	58.0	8,351	38.1	868	4.0
Upper-income	5,861	3,704	21.6	63.2	1,915	32.7	242	4.1
Unknown-income*	16	0	0.0	0.0	14	87.5	2	12.5
TOTALS	30,630	17,123	100.0	55.9	12,260	40.0	1,247	4.1
Income Categories	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Under \$1 million		Over \$1 million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	410	14.5	350	14.0	57	21.0	3	4.8
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	1,607	56.8	1,450	58.1	115	42.3	42	66.7
Upper-income	763	27.0	657	26.4	92	33.8	14	22.2
Unknown-income*	50	1.7	38	1.5	8	2.9	4	6.3
TOTALS	2,830	100.0	2,495	100.0	272	100.0	63	100.0
Percentage of Total Businesses:				88.2		9.6		2.2

Income Categories	Total Farms by Tract		Farms by Tract & Revenue Size					
			Under \$1 million		Over \$1 million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	8	1.9	6	1.5	2	28.6	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	322	76.9	318	77.1	4	57.1	0	0.0
Upper-income	86	20.5	86	20.9	0	0.0	0	0.0
Unknown-income*	3	0.7	2	0.5	1	14.3	0	0.0
TOTALS	419	100.0	412	100.0	7	100.0	0	0.0
Percentage of Total Farms:				98.3		1.7	0.0	0.0

*Tract which includes Iowa State University

The population of the assessment area, as of 2000 U.S. Bureau of Census Information, was 79,981. The estimated 2006 and 2007 HUD-adjusted median family incomes for the Ames MSA are \$67,000 and \$66,500, respectively. Unemployment rates in the assessment area are lower than the State of Iowa average. The 2006 unemployment rate for Ames MSA was 2.7%, compared to the State of Iowa at 3.8%. In 2007, the unemployment rate in the Ames MSA grew slightly from the prior year to 2.8%, while the State of Iowa's rate remained at 3.8%. According to one community representative, the Ames MSA does not experience the same unemployment fluctuations that the rest of the nation experiences due to the type of employers in the Ames area. Major employers in Story County are all located in Ames and include Iowa State University, the City of Ames, Sauer-Danfoss, and the Iowa Department of Transportation.

According to 2000 U.S. Bureau of Census information, the assessment area has a total of 30,630 housing units of which 55.9% are owner-occupied, 40.0% are rental units and 4.1% are vacant. The assessment area has considerably more rental properties as compared to the state of Iowa, within which 67.5% are owner-occupied, 25.8% are rental units, and 6.7% are vacant. This is attributed to the considerable representation of college students in the Ames MSA. The median housing value is \$110,560, which is significantly higher than the median housing value of \$82,100 for the State of Iowa.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE AMES, IOWA MSA

LENDING TEST

Lending Activity

Overall lending levels reflect an adequate responsiveness to the credit needs in the Ames MSA. In 2006, the bank originated 34 HMDA-reportable loans and 16 CRA-reportable loans. The bank originated 16 HMDA-reportable loans and 11 CRA-reportable loans in 2007. The decrease in HMDA-reportable loans can be attributed to a decrease in mortgage personnel at the branches. The decrease in CRA-reportable loans is not as significant as the decrease in HMDA-reportable loans.

Lending activity in the Ames MSA assessment area represented 7.1% of HMDA-reportable loans and 4.7% of CRA-reportable loans. This is a small percentage of loans; however, the Ames MSA is comprised of only one county, and the total population of the Ames MSA has a significant representation of university students. Per the U.S. Census Bureau information, the 2007 population of the Ames, Iowa MSA was estimated at 84,752. According to Iowa State University, the university had 26,000¹ students as of 2008. This indicates that approximately one-third of the population of the Ames MSA is comprised of Iowa State University students. Full-time students do not have a significant demand for loan products, thereby limiting the available population for which to lend.

The bank originated only one small farm loan in each year, which is appropriate given that farms located in the Ames MSA comprise only 17.8% of all farms in the combined assessment area. For purposes of the lending test, CRA-reportable loans include only small business loans due to the fact that only one small farm loan was originated in the assessment area during each year. The two farm loans were for small dollar amounts of \$103,000 in 2006 and \$13,000 in 2007. The limited universe and dollar amount of this loan product does not impact lending performance. CRA-reportable loans for the lending test, therefore, will consist of 15 small business loans in 2006 and 10 in 2007.

Geographic Distribution

F&M Bank has a good penetration of CRA-reportable loans within low-income census tracts within the Ames MSA. The bank exhibits an adequate record of serving the needs of low-income geographies. The distribution of HMDA- and CRA-reportable loans are illustrated in Exhibits #16 and #17 below.

HMDA-Reportable Loans

Exhibit #16								
Geographic Distribution of HMDA Loans								
Census Tract	Census Tracts		Owner-Occupied Units		2006 HMDA Loans		2007 HMDA Loans	
	#	%	#	%	#	%	#	%
Low	2	10.0	706	4.1	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	13	65.0	12,713	74.3	28	82.4	10	62.5
Upper	4	20.0	3,704	21.6	6	17.6	6	37.5
Unknown	1	5.0	0	0.0	0	0.0	0	0.0
Total	20	100.0	17,123	100.0	34	100.0	16	100.0

¹ The population of students is used for illustrative purposes only, and it does not include students residing in the Ames MSA attending other colleges.

F&M Bank did not fund any HMDA-reportable loans in tracts designated as low-income during 2006 or 2007. Aggregate lending in low-income geographies in 2006 and 2007 equaled 2.0% and 2.1%, respectively. Low-income census tracts comprise 10.0% of the assessment area; however, only 4.1% of owner-occupied housing units are located in these geographies. A limited level of owner-occupied housing indicates that there may be limited demand for mortgage products.

CRA-Reportable Loans

Exhibit #17								
Geographic Distribution of Small Business Loans								
Census Tract	Census Tracts		Total Businesses by Tract		2006 Small Business Loans		2007 Small Business Loans	
	#	%	#	%	#	%	#	%
Low	2	10.0	410	14.4	8	53.3	2	20.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	13	65.0	1,607	56.8	5	33.3	5	50.0
Upper	4	20.0	763	27.0	2	13.4	3	30.0
Unknown	1	5.0	50	1.8	0	0.0	0	0.0
Total	20	100.0	2,830	100.0	15	100.0	10	100.0

In 2006, 53.3% of small business loans were originated within low-income census tracts. The bank's performance in this area was significantly above both aggregate lending of 15.4% and the demographic comparison of 14.4%, which represents the number of businesses located in low-income tracts. In 2007, the bank originated 20.0% of CRA-reportable loans within low-income geographies. While the performance declined from 2006, this still exceeds the assessment area demographics as well as aggregate lending of 13.5% within low-income geographies in the same period.

Borrower Distribution

F&M Bank lending reflects a good distribution among borrowers of different income levels or businesses of different sizes. The distribution of HMDA- and CRA-reportable loans is illustrated in Exhibits #18 and #19 below.

HMDA-Reportable Lending

Exhibit #18						
Income Distribution of HMDA Loans						
Income Level	Families by Income		2006 HMDA Loans		2007 HMDA Loans	
	#	%	#	%	#	%
Low	3,061	17.9	2	5.9	2	12.5
Moderate	3,149	18.5	9	26.5	3	18.8
Middle	4,238	24.8	12	35.3	4	25.0
Upper	6,616	38.8	10	29.4	6	37.5
Unknown	0	0.0	1	2.9	1	6.2
Total	17,064	100.0	34	100.0	16	100.0

The distribution of HMDA-reportable loans among borrowers of different income levels reflects adequate penetration to those of low- or moderate-income. In 2006, 32.4% of HMDA-reportable loans were made to low- or moderate-income borrowers. This is slightly above aggregate lending to these borrowers of 30.9%, but it is below the percentage of low- and moderate-income borrowers in the assessment area of 36.4%. In 2007, the percentage of HMDA-reportable loans decreased slightly to 31.3% which was again slightly higher than peer lending performance of 29.9%.

CRA-Reportable Lending

Exhibit #19						
Income Distribution of Small Business Loans						
Income Level	Businesses by Revenue Size		2006 Business Loans		2007 Business Loans	
	#	%	#	%	#	%
Less than or Equal to \$1 Million	2,495	88.2	6	40.0	9	90.0
Greater than \$1 Million	272	9.6	8	53.3	1	10.0
Revenue not Reported	63	2.2	1	6.7	0	0.0
Total	2,830	100.0	15	100.0	10	100.0

With regard to small business lending in 2006, 40.0% of small business loans were originated to businesses with revenues of \$1 million or less which was slightly lower than aggregate lending of 44.3%. Both F&M Bank's lending and aggregate lending performance in this category fell well below the 88.2% of businesses of this size in the assessment area. Of the loans originated to small businesses, 83.3% were in amounts of \$100,000 or less. Emphasis is placed on this category because loans in these amounts are most beneficial to small businesses.

The percentage of loans to businesses with revenues of \$1 million or less increased dramatically in 2007, with 90.0% of loans being originated to businesses of this revenue level. This percentage was much more comparable to the percentage of businesses of this size in the

assessment area. Aggregate lending of 44.5% was significantly below the bank's performance. While the percentage of loans to businesses of this size improved dramatically in 2007, the percentage of these loans that are in the amount of \$100,000 or less decreased to 55.6%. This still represents the majority of loans to small businesses and is considered reasonable.

Community Development Lending

F&M Bank did not make any community development loans in the Ames MSA during the review period. Representatives contacted within the Ames MSA during the examination indicated that there are community development lending opportunities in the Ames MSA. Programs identified were for the purposes of affordable housing, such as revolving loan programs, homebuyer assistance and neighborhood sustainability programs.

INVESTMENT TEST

Qualified community development investment activity since the previous evaluation is adequate. The bank made rare use of innovative or complex investments to support community development initiatives; however, exhibited an adequate responsiveness to community development needs. While there were no new investments in the Ames MSA during the evaluation period, two qualified donations were granted during this period totaling \$5,000. Prior period investments included a pool of mortgage-backed securities, which included home mortgage loans to low- and moderate-income borrowers. Two borrowers out of the pool of twelve were located within the Ames MSA. The remaining ten borrowers were located in other metropolitan areas within the State of Iowa.

Donations to organizations within the Ames MSA were for the purposes of providing community services to low- and moderate-income individuals. Twelve percent of total donations during the evaluation period were made within this assessment area; however, only one organization benefited from the donations during both years. The total dollar amount of community development grants and donations in the Ames MSA increased 25% since the previous evaluation; however, three organizations benefited from donations during the previous evaluation period, compared to one organization during this evaluation period.

SERVICE TEST

Delivery systems are readily accessible to geographies and individuals of different income levels in the assessment area. Services provided do not vary by branch location, and location hours do not vary in a way that inconveniences low- or moderate-income geographies and/or individuals.

Retail Services

The bank operates three branches and three full-service ATMs in the assessment area, including one branch and ATM located in a low-income census tract. Saturday hours are maintained either in the lobby or drive-up at all branch locations, which provides convenience and flexibility to customers throughout the MSA. Branch locations and hours are illustrated in Exhibit #14 included with the discussion of retail services within this public evaluation, under the *Conclusions with Respect to Performance Tests* of the combined assessment area.

Community Development Services

F&M Bank provided a limited level of community development services in the Ames MSA. There was only one activity conducted within the Ames MSA that qualified as a community development service, in which 38 hours were dedicated by one bank officer to serve on the finance committee of the City of Story City’s housing rehabilitation committee. The service was completed in 2006, and there were no qualified community development services in 2007.

DESCRIPTION OF OPERATIONS IN NON-METROPOLITAN IOWA

The non-metropolitan Iowa assessment area consists of 38 census tracts, which include Hardin, Marshall, Jasper, and Poweshiek Counties in their entireties as well as portions of Hamilton, Tama, Marion, and Mahaska Counties. The demographics of this assessment are shown in Exhibit #20. This assessment area is served by eight branches, eight full service ATMs and two cash dispensing ATMs. F&M Bank ranked 1st out of 53 financial institutions in the assessment area in deposit market share as of June 30, 2008 with 7.8% of all deposits.

Exhibit #20								
Combined Assessment Area Demographics								
Non Metropolitan Area - 2007								
Income Categories	Tract Distribution		Families by Tract Income		Families Below Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	5,397	13.7
Moderate-income	1	2.6	901	2.3	155	17.2	6,724	17.1
Middle-income	31	81.6	29,977	76.2	1,743	5.8	10,183	25.9
Upper-income	6	15.8	8,442	21.5	288	3.4	17,016	43.3
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
TOTALS	38	100.0	39,320	100.0	2,186	5.6	39,320	100.0

	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	1,668	876	2.1	52.5	648	38.8	144	8.6
Middle-income	47,343	32,211	76.2	68.0	11,339	24.0	3,793	8.0
Upper-income	12,308	9,159	21.7	74.4	2,541	20.6	608	4.9
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
TOTALS	61,319	42,246	100.0	68.9	14,528	23.7	4,545	7.4
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Under \$1 million		Over \$1 million		Revenue Not Reported	
			#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	138	2.4	120	2.3	17	3.9	1	0.8
Middle-income	4,578	78.6	4,131	78.6	328	74.9	119	90.1
Upper-income	1,109	19.0	1,004	19.1	93	21.2	12	9.1
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
TOTALS	5,825	100.0	5,255	100.0	438	100.0	132	100.0
				90.2		7.5		2.3
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Under \$1 million		Over \$1 million		Revenue Not Reported	
			#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	1,757	90.8	1,739	90.7	18	100.0	0	0.0
Upper-income	179	9.2	179	9.3	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
TOTALS	1,936	100.0	1,918	100.0	18	100.0	0	0.0
Percentage of Total Farms:				99.1		0.9		0.0

The 2006 and 2007 estimated median family incomes for non-metropolitan Iowa, provided by HUD, were \$52,800 and \$53,100, respectively. Unemployment data for the assessment area is shown in Exhibit #21. Most counties have unemployment rates similar to the State of Iowa with the exception of Jasper County. Jasper County was impacted by the shutdown of operations at Maytag Corporation in 2007. Maytag had been one of the largest employers in that county for a number of years.

Exhibit #21		
Summary of Unemployment		
County	2006	2007
Hamilton	3.7	3.3
Hardin	3.9	3.9
Jasper	5.3	6.4
Mahaska	3.8	3.7
Marion	3.6	3.7
Marshall	3.8	4.2
Poweshiek	4.0	4.0
Tama	4.3	4.4
State of Iowa	3.8	3.8

*Source: Iowa Workforce Development

A sample of major employers in the assessment area are illustrated in Exhibit #22. The majority of top employers are part of the manufacturing industry, followed by wholesale and retail trade.

Exhibit #22		
Summary of Employers		
F&M Bank		
Company	Location	Business Line
Iowa Select Farms LLP	Hardin County	Hog Farm
IVESCO, LLC	Hardin County	Farm Supplies
NRG Media	Hamilton County	Radio Broadcast Station
Van Diest Supply Company	Hamilton County	Chemicals & Allied Products
The Vernmon Company	Jasper County	Wholesale/Nondurable Goods
Iowa Telecommunications Services	Jasper County	Telephone Communications
Clow Valve Company	Mahaska County	Chemical Preparations
One Source Heating & AC	Mahaska County	Plumbing & Heating
Pella Corporation	Marion County	Millwork
Vermeer Manufacturing Company	Marion County	Construction Machinery
JBS – Swift & Co.	Marshall County	Pork Processing
Fisher Controls Int.	Marshall County	Industrial Valves
Marshalltown School District	Marshall County	Education
Grinnell Regional Medical Center	Poweshiek County	Medical/Hospital
Grinnell Mutual Reinsurance	Poweshiek County	Finance & Insurance
Diematic Inc.	Tama County	Manufacturing Motor Vehicle Parts
Sac & Fox Tribe of the Mississippi	Tama County	Executive/Legislative Combined

The assessment area has a total of 61,319 housing units of which 68.9% are owner-occupied, 23.7% are rental units and 7.4% are vacant. This is comparable to housing characteristics of non-metropolitan Iowa, which consists of 68.6% owner-occupied, 22.7% rental, and 8.7% vacant units. According to the 2000 census, the median housing value is \$77,664 which is higher than

the \$69,296 median housing value in non-metropolitan Iowa.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-METROPOLITAN IOWA

LENDING TEST

Lending Activity

Overall lending levels reflect a good responsiveness to the credit needs of the non-metropolitan assessment area. The bank originated 389 HMDA-reportable loans in 2006 and 207 in 2007. In 2007, the bank originated 237 CRA-reportable loans and 201 in 2007. Lending in the assessment area comprised 84.9% of HMDA-reportable loans and 76.7% of CRA-reportable loans. Lending in this portion of the assessment area represents the significant majority of overall lending, which is understandable given that it comprises the vast majority of the total assessment area served by the bank, and 8 of the 11 banking offices are located in the non-metropolitan assessment area.

Geographic Distribution

F&M Bank’s geographic distribution of loans reflects a good penetration within the moderate-income census tract of the non-metropolitan assessment area. There are no low-income geographies located in the assessment area. The geographic distribution of HMDA and CRA lending is illustrated in Exhibits #23 and #24 below. The distribution of small farm loans is not included in this test due to the fact that there are no farms located in the assessment area’s moderate-income census geography.

HMDA-Reportable Lending

Exhibit #23								
Geographic Distribution of HMDA Loans								
Census Tract	Census Tracts		Owner-Occupied Units		2006 HMDA Loans		2007 HMDA Loans	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	1	2.6	876	2.1	24	6.2	9	4.4
Middle	31	81.6	32,211	76.2	275	70.7	158	76.3
Upper	6	15.8	9,159	21.7	90	23.1	40	19.3
Total	38	100.0	42,246	100.0	389	100.0	207	100.0

In 2006, 6.2% of the HMDA-reportable loans were made in the moderate-income census tract, which exceeded aggregate lending 1.9%. This also exceeds the percentage of the assessment owner-occupied housing units that are located in the moderate-income census tract. In 2007, the bank originated 4.4% of HMDA-reportable loans within the one moderate-income

geography. Lending in 2007 again exceeded aggregate lending of 1.8%.

CRA-Reportable Lending

Exhibit #24								
Geographic Distribution of Small Business Loans								
Census Tract	Census Tracts		Total Businesses by Tract		2006 Small Business Loans		2007 Small Business Loans	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	1	2.6	138	2.4	1	1.1	2	2.3
Middle	31	81.6	4,578	78.6	76	81.7	74	85.1
Upper	6	15.8	1,109	19.0	16	17.2	11	12.6
Total	38	100.0	5,825	100.0	93	100.0	87	100.0

In 2006, 1.1% of small business loans were originated within the moderate-income census tract. This performance is comparable to that of the aggregate lending of 1.6%, though it is slightly below the percentage of businesses located in the moderate-income geography. Lending within the moderate-income tract increased in 2007 to represent 2.3% of loans, which is more in line with the percentage of businesses in the same geography, and exceeded aggregate lending of 1.5% to businesses located in this tract.

Borrower Distribution

F&M Bank has a good distribution of loans among individuals of different income levels and businesses of different sizes within the non-metropolitan assessment area. In particular, the bank exhibits an excellent record of serving low-income borrowers. Distribution of HMDA- and CRA-reportable lending among borrowers of different income levels and businesses and farms of different sizes are illustrated below in Exhibits #25, #26, and #27 below.

HMDA-Reportable Lending

Exhibit #25						
Income Distribution of HMDA Loans						
Income Level	Families by Income		2006 HMDA Loans		2007 HMDA Loans	
	#	%	#	%	#	%
Low	5,397	13.7	58	14.9	35	16.9
Moderate	6,724	17.1	88	22.6	51	24.6
Middle	10,183	25.9	102	26.2	64	30.9
Upper	17,016	43.3	134	34.4	55	26.6
Unknown	0	0.0	7	1.9	2	1.0
Total	39,320	100.0	389	100.0	207	100.0

In 2006, 37.5% of HMDA-reportable loans were made to low- or moderate-income borrowers, which is higher than both the aggregate lending to these borrowers at 31.8% and the 30.8% of families that are low- or moderate-income. The following year the bank's lending to low- or moderate-income borrowers further increased to 41.5% and was again greater than peer lending of 32.6% and the percentage of low- and moderate-income families in the assessment area.

CRA-Reportable Lending

Exhibit #26						
Income Distribution of Small Business Loans						
Income Level	Businesses by Revenue Size		2006 Business Loans		2007 Business Loans	
	#	%	#	%	#	%
Less than or Equal to \$1 Million	5,255	90.2	58	62.4	62	71.3
Greater than \$1 Million	438	7.5	29	31.2	20	23.0
Revenue not Reported	132	2.3	6	6.4	5	5.7
Total	5,825	100.0	93	100.0	87	100.0

With regard to small business lending in 2006, 62.4% of the loans were originated to businesses with revenues of \$1 million or less. This exceeds aggregate lending for the same year of 47.1% but falls well below the percentage of businesses of that revenue level. Of the loans funded to small businesses, 75.9% were funded in dollar amounts of \$100,000 or less. Loans in this category are generally most beneficial to small businesses.

The following year, the bank improved its lending to small businesses, as 71.3% of small business loans were to businesses with revenues of \$1 million or less. Aggregate lending performance of 45.8% was significantly below the bank's performance. Of the loans funded to businesses with revenues of \$1 million or less, 79.0% were funded in dollar amounts of \$100,000 or less.

Exhibit #27						
Income Distribution of Small Farm Loans						
Income Level	Farms by Revenue Size		2006 Farm Loans		2007 Farm Loans	
	#	%	#	%	#	%
Less than or Equal to \$1 million	1,918	99.1	127	88.2	97	85.1
Greater than \$1 million	18	0.9	14	9.7	14	12.3
Revenue not Reported	0	0.0	3	2.1	3	2.6
Total	1,936	100.0	144	100.0	114	100.0

Small farm lending in 2006 represented 88.2% of loans originated to farms with revenues of \$1 million or less. The bank's performance is slightly below the percentage of farms in the assessment area of this revenue size. The bank's performance exceeds aggregate lending of 83.6%. In 2007, small farm lending fell slightly at the bank to 85.1% but still exceeded peer

lending of 79.4%. Lending in both years is reasonable, given that the percentage of farms with revenues below \$1 million almost make up 100% of the universe. In 2006, 64.6% of loans to small farms were in dollar amounts of \$100,000 or less; and in 2007, 66.0% were for this smaller dollar amount.

Community Development Lending

F&M Bank did not make any community development loans in the non-metropolitan assessment area. Community representatives contacted during the evaluation stated that there are community development credit needs in the assessment area; however, F&M Bank has no reported involvement in these opportunities.

INVESTMENT TEST

The bank had a significant level of qualified community development investments and grants. The bank made rare use of innovative or complex investments to support community development initiatives and exhibited a good responsiveness to credit and community development needs.

The bank made one new investment in the form of a statewide housing bond through the IFA, which serves the assessment area plus a greater geographic area. Prior period investments benefiting this assessment area included another housing bond through the state of Iowa, which again benefits the assessment area plus a greater geographic area. The prior period investment in a mortgage-backed security pool did not have a direct benefit on the non-metropolitan assessment area as all borrowers in the pool were located in different areas throughout the State of Iowa.

In addition to qualified investments, contributions totaling \$36,500 were given to organizations in the non-metropolitan assessment area. Grants and donations in 2006 totaled \$16,900 and in 2007 totaled \$19,600. Donations were for the purposes of providing community services to individuals of low- or moderate-incomes and for economic development. Nine community development organizations benefited from donations and grants in 2006, and 8 benefited in 2007.

SERVICE TEST

Delivery systems are readily accessible to geographies and individuals of different income levels in the assessment area. Services provided do not vary by branch location, and location hours do not vary in a way that inconveniences the moderate-income geography and/or low-to moderate-income individuals.

Retail Services:

The bank operates eight branches in the assessment area, including one branch and ATM located in a moderate-income census tract. Eight full-service ATMs as well as two cash dispensing ATMs are also operated within the assessment area. Saturday hours are maintained either in the lobby or drive-up at all locations, which offers more flexibility to customers to access the bank's products and services. Products and services do not vary in a way that inconveniences the assessment area.

Community Development Services:

F&M Bank provided a relatively high level of community development service within the non-metropolitan assessment area. In 2006, bank personnel reported having participated in 11 community development activities, totaling 228 hours. In 2007, however, the number of community development services fell to 3 services with a total of 177 hours. The majority of activities were for the purposes of affordable housing. As discussed previously in this report, the decrease in community development services is due to the departure of a very actively involved mortgage loan originator at the bank. This employee had conducted a number of seminars at various organizations throughout the non-metropolitan assessment area to discuss the bank's loan products suitable for low- and moderate-income individuals.

APPENDIX A

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.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

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.

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, which 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).

Full review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract or a block numbering area 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 applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, 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 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.

Metropolitan area (MA): Any primary metropolitan statistical area ("PMSA"), metropolitan statistical area ("MSA"), or consolidated metropolitan area ("CMSA"), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

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 percent and less than 120 percent, in the case of 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 percent and less than 80 percent, in the case of geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

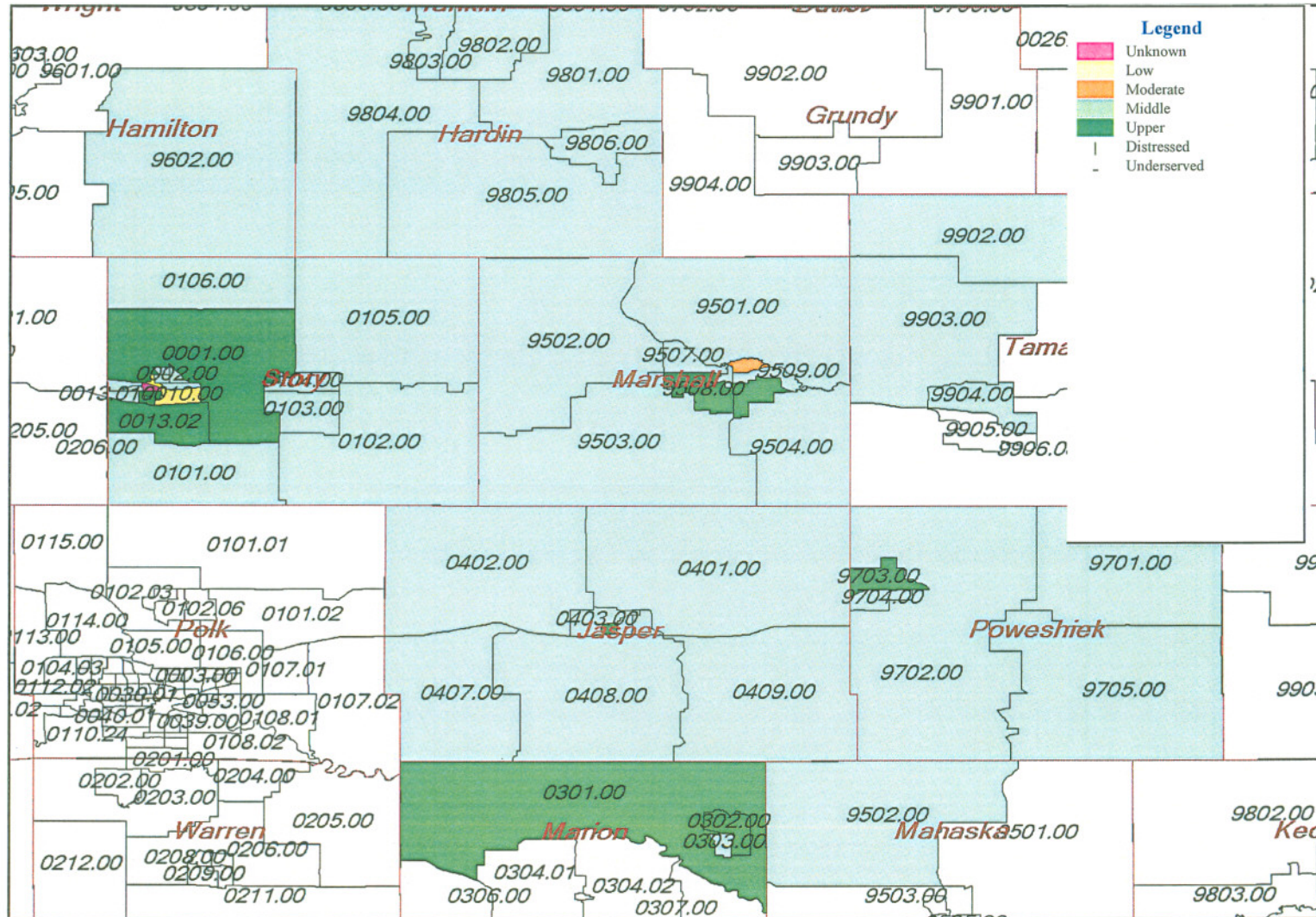
Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development. **Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by non-farm or non-residential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by non-farm residential real estate as "small business loans" if the loans are reported on the TFR as non-mortgage, commercial loans.

Small loan(s) to business(es): loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

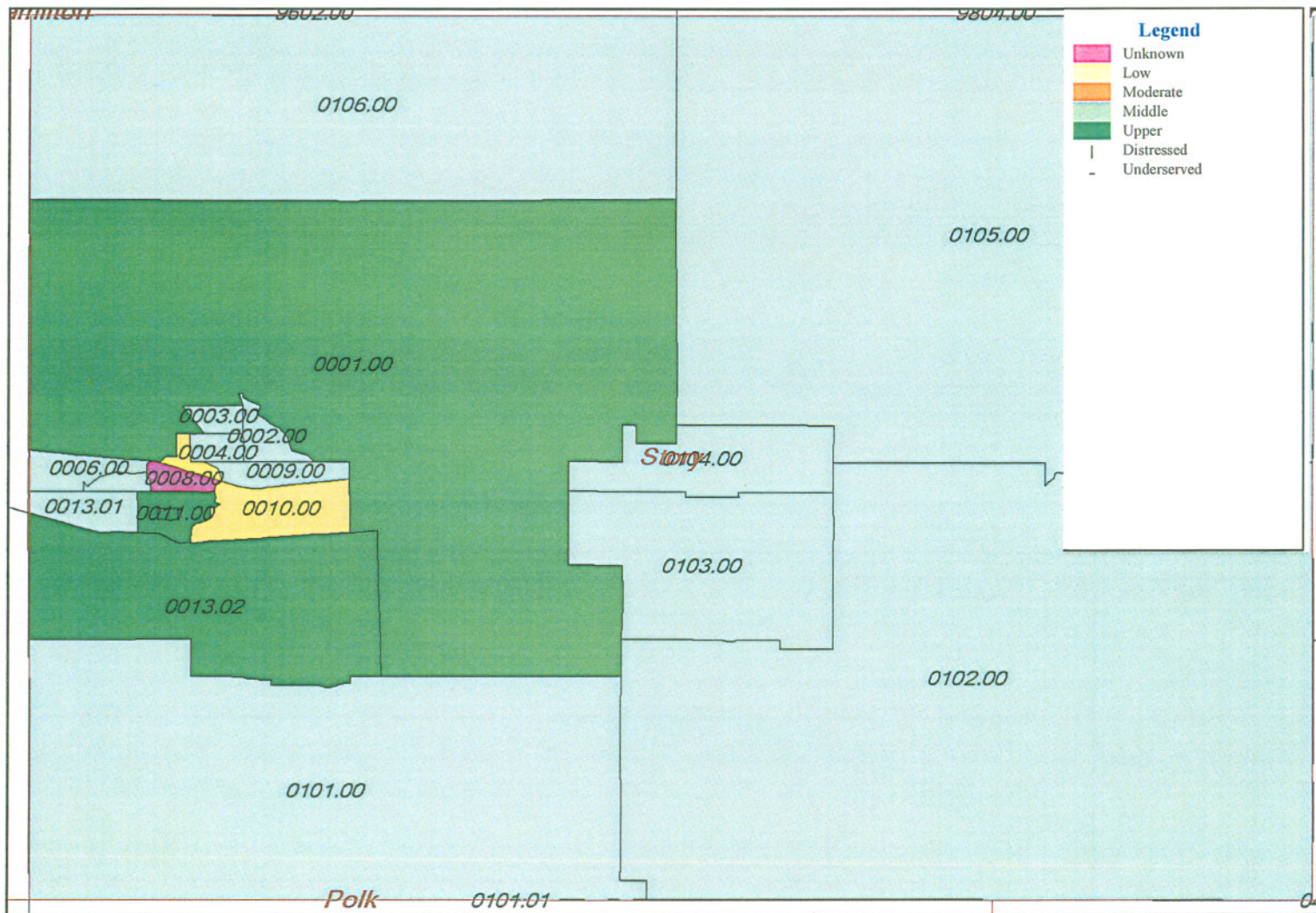
Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of geography.

APPENDIX B
F & M Bank
Combined Assessment Area Map



F&M Bank
Ames, Iowa MSA



F&M Bank Non-Metropolitan Assessment Area

