



PUBLIC DISCLOSURE

OCTOBER 16, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**FARMERS BANK OF LINCOLN
RSSD# 742355**

**101 SOUTH HIGHWAY 65
LINCOLN, MISSOURI 65338**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

Farmers Bank of Lincoln (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA), including low- and moderate-income (LMI) individuals. The bank's average net loan-to-deposit (NLTD) ratio is reasonable considering the characteristics of the bank, performance of local competitors, and credit needs of the communities it serves. A majority of the bank's loans were originated inside the AA. The bank's distribution of loans by income level of geographies demonstrates excellent performance, while the distribution of loans to borrowers of different income levels and farms of different revenue sizes is considered reasonable.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions*. The evaluation was performed in the context of information about the bank and its AA, such as asset size, financial condition, economic and demographic characteristics, and competition. Four of the five criteria used to evaluate a small bank's lending performance under the CRA were relevant to this review and are listed as follows:

- NLTD ratio
- Lending Inside the AA
- Distribution of Loans by Income Level of Geographies
- Distribution of Loans by Income Level of Borrower and Revenue Size of Farms

The bank's responsiveness to complaints was not evaluated as the bank has not received any CRA-related complaints since the previous examination.

The evaluation included a full-scope review of the bank's lending performance in the Benton County, Missouri AA. Conclusions regarding the bank's lending performance were based on its major product lines, residential real estate and small farm loans, determined through conversations with bank management, a review of its March 31, 2017 Reports of Condition and Income (Call Report), and a review of all outstanding loan originations since the prior CRA examination. As defined under the CRA, small farm loans include those with loan amounts of \$500,000 or less. A statistically derived sample of 88 residential real estate loans and 61 small farm loans was selected from all outstanding loans originated between August 26, 2013 and December 31, 2016.

The evaluation of the bank's lending was based on a comparison between its performance and area demographics, including the 2006-2010 American Community Survey (ACS) five-year estimate and the 2016 Dun & Bradstreet (D&B) data. The income levels of geographies within the AA were classified based on the 2016 FFIEC census tract designations. The borrower distribution analysis was based on the bank's lending to borrowers of different income categories and to small farms with gross annual revenues of \$1 million (MM) or less. For the

evaluation of borrower characteristics, borrower income levels were calculated based on the FFIEC's 2016 Estimated Median Family Income (MFI) Report. While the evaluation assessed both residential real estate and small farm products over a four-year period between 2013 and 2016, loan data for each year was combined and evaluated aggregately given the overall low volume of loans in each individual year. Lending was compared to the most recent year of demographic data, which did not significantly change over the four-year period.

The evaluation of the bank's performance focused on the number of loans originated for each product as well as the dollar volume of those originations. Only loans originated inside the bank's AA were analyzed with respect to the geographic and borrower distribution, with greater weight placed on the bank's largest product, residential real estate loans. To augment the evaluation, two community contacts were conducted to ascertain the credit needs of the AA, the responsiveness of area banks to those credit needs, the availability of community development opportunities, and local economic conditions. The contacts consisted of a local realtor and a county government official.

DESCRIPTION OF INSTITUTION

The bank is a \$114.5MM institution headquartered in Lincoln, Missouri, a rural community located approximately 24 miles southwest of Sedalia, Missouri, and 12 miles northeast of Warsaw, Missouri. The bank has two locations: the main bank in downtown Lincoln and a branch in Warsaw, Missouri. Both are full-service locations, with each having a cash-dispensing only automated teller machine.

Table 1 provides a breakdown of the bank's loan portfolio by product type as of the March 31, 2017 Call Report. Gross loans represent \$82.8MM or 72.3 percent of total assets. Based on dollar volume, the bank is primarily a residential real estate and agricultural lender, but it offers a variety of other loan products to meet the credit needs of its AA. In addition, the bank holds the largest market share presence in its AA. According to the June 30, 2016 Federal Deposit Insurance Corporation (FDIC) Market Share Report, the bank has a market share of 28.8 percent, followed by four other FDIC-insured financial institutions within the AA.

TABLE 1 THE BANK'S LOAN PORTFOLIO AS OF MARCH 31, 2017		
Loan Type	Amount \$(000)	Percent of Total
Residential Real Estate	45,607	55.1
Agricultural	18,088	21.8
Commercial	16,165	19.5
Consumer	2,934	3.5
Other	25	0.1
Gross Loans	82,819	100.0

Based on the bank's asset size, product offerings, and financial condition, it has the ability to

meet the credit needs of its AA. No financial or legal impediments exist that would adversely impact the bank's ability to meet the credit needs of its AA. The bank received a Satisfactory rating at its previous CRA evaluation performed by the Federal Reserve Bank of Kansas City as of August 26, 2013.

DESCRIPTION OF THE BANK'S AA¹

The bank's delineated AA consists of Benton County, Missouri, in its entirety, which remains unchanged since the previous CRA evaluation. The AA is predominantly rural and includes one moderate-income and five middle-income census tracts. All five middle-income census tracts within the AA are considered distressed and underserved given the rural nature of the AA. The county is located between the Truman Reservoir and the Lake of the Ozarks in west-central Missouri.

Table 2 reflects the AA demographics based on 2010 U.S. Census Data, 2010 ACS five-year estimate data (ACS census estimates), 2016 FFIEC census tract definitions, and 2016 D&B data. Discussion of population, income, economic, and housing characteristics is based on updated demographic data, as available, including the 2011-2015 ACS (2015 ACS) five-year estimate data.

Population Characteristics

Based on 2015 ACS data estimates, the AA population is 18,854, which reflects a 1.1 percent decline from the 2010 U.S. Census population of 19,056. Conversely, statewide population levels increased 0.9 percent during the same timeframe. Based on population, Benton County is ranked 57th out of 115 counties in Missouri. According to the 2015 ACS data estimates, the AA's median age is 52.5 years, which is substantially higher than Missouri's median age of 38.2 years. Approximately 33.8 percent of the AA's population is 62 years or older, which is almost double the 18.5 percent figure for the state of Missouri. A community member noted that retirees typically move to the AA to take advantage of the local recreational amenities.

Income Characteristics

AA residents are slightly less affluent than the statewide population. Based on 2015 ACS data estimates, MFI of the AA equals \$41,531, while the state of Missouri's MFI is \$60,809. Similar trends are noted for median housing income (MHI); 2015 ACS data estimates depict MHI of \$33,042 for the AA and \$48,173 for the state of Missouri. The area also benefits from a slightly higher affordability ratio² at 34.0 percent due to lower housing prices, compared to 33.6 percent for the state. Based on the 2010 U.S. Census, the percentage of AA families below the poverty line is 12.7 percent, which was slightly higher than the statewide rural areas

¹ Sources of economic and demographic data include 2010 U.S. Census data, 2015 ACS five-year estimate data, 2016 Dun & Bradstreet (D&B) data, and the U.S. Bureau of Labor Statistics.

² The housing affordability ratio is calculated by dividing the median household income by the median housing value. A lower ratio reflects less affordable housing.

at 12.4 percent, but substantially higher than the state of Missouri at 10.0 percent. The 2015 ACS data estimates show an increase in the percentage of families below the poverty line at 13.9 percent and 11.1 percent for the AA and the state of Missouri, respectively.

Economic Characteristics/Employment

The AA's economy is considered stable. A community member noted a contrast between the regional areas of Benton County. While the northern part of the county is highly reliant on the agricultural sector, the southern part depends on tourism revenues given the proximity to the Truman Reservoir and Lake of the Ozarks. Despite the decline in population since 2010, Benton County has experienced steady growth in recent years given the amenities in the area, which appeal to those individuals seeking to purchase a vacation home or second residence.

Although the bank is not highly concentrated in agricultural lending, it is considered a key business line for the bank. The local agricultural economy has remained stable. Conversely, a community member stated that a lack of succession planning for farming operations may stifle this market in the years to come. In recent years, several farms have been sold rather than continuing on to the next family generation. Additionally, per the community member, many small farm owners serve as part-time farmers while maintaining full-time jobs elsewhere.

Primary industries within the AA include local government, retail business, healthcare, and food service. Based on 2010 ACS data, the majority of workers aged 16 years and older had an average commute time between 30 and 34 minutes. The 2015 ACS data estimates noted a decrease in the average commute time to 10 to 14 minutes. A community member noted that the expansion of Highway 65 to four lanes has reduced the overall commute time for those commuting to work. The community member further stated that while former residents, such as college students, have expressed interest in returning to the area, the lack of available skilled, higher wage jobs creates income gaps for these individuals. As a result, several residents continue to commute to adjacent counties for employment opportunities. While the overall area is considered economically stable, a community member asserted that there is a need for further business development opportunities in the AA, which has been a focus for economic development associations.

Based on the 2010 U.S. Census, the average unemployment rate for the AA and the state of Missouri were 6.6 percent and 7.4 percent, respectively. In 2016, the Benton County's average unemployment rate remained fairly stable at 6.5 percent, while the annual average for the state of Missouri decreased to 4.5 percent.

Housing Characteristics

As reflected in Table 2, the AA has 13,983 housing units, of which approximately 5,710 or 40.8 percent of the properties are vacant. According to a community member, a large percentage of these vacancies are due to the high presence of vacation or second homes in the area. With the close proximity to Truman Reservoir and Lake of the Ozarks, the area is a popular tourist attraction as well as a desired location for part-time retirees. As these homes

are not considered permanent owner-occupied residences, median housing values for the AA may be somewhat overstated. Furthermore, the percentage of owner-occupied units accounts for less than half (49.7 percent) of the housing inventory, and mobile homes comprise 19.2 percent of the total owner-occupied housing inventory. A community member stated that homes within the city limits tend to be older, smaller, and less desirable, reducing the overall demand for home purchases in the area. The member further stated that housing inventory includes some newer, larger homes; however, these homes are typically outside the immediate city limits. The community member asserted that there has been very little housing development activity within the county.

While a community member noted the existence of special credit programs, such as a first-time home buyer and the U. S. Department of Agriculture Rural Development programs to assist prospective homebuyers, they also noted demand for smaller dollar financing for homes within the city limits. As such, this may not conform to area banks' underwriting standards, specifically at larger institutions, which may lead to gaps in financing for those residents seeking homeownership. Ultimately, the community member believes that smaller, local banks have been able to accommodate these lower dollar requests but demand for purchases (outside of the vacation/second home market) has not been very strong.

**TABLE 2
BENTON COUNTY 2016 AA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,335	23.1
Moderate	1	16.7	744	12.9	164	22.0	1,164	20.2
Middle	5	83.3	5,025	87.1	567	11.3	1,288	22.3
Upper	0	0.0	0	0.0	0	0.0	1,982	34.4
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	6	100.0	5,769	100.0	731	12.7	5,769	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	1,169	873	12.6	74.7	182	15.6	114	9.8
Middle	12,814	6,074	87.4	47.4	1,144	8.9	5,596	43.7
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	13,983	6,947	100.0	49.7	1,326	9.5	5,710	40.8
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	17	25.8	17	26.2	0	0.0	0	0.0
Middle	49	74.2	48	73.8	1	100.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	66	100.0	65	100.0	1	100.0	0	0.0
Percentage of Total Farms:				98.5		1.5		0.0

Based on 2010 ACS five-year estimate data, 2016 FFIEC census tract designations, and 2016 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s overall record of meeting its AA’s credit needs through its lending activities is satisfactory. The bank’s NLTD ratio reflects a reasonable effort to extend credit, and a majority of the bank’s loans were made within the delineated AA. The distribution of lending by income level of geographies is excellent, while the distribution of lending based on borrower income level and revenue size of farms is reasonable.

Net Loan-to-Deposit Ratio:

This performance criterion evaluates the bank's average NLTD ratio to determine the reasonableness of lending in light of performance context, such as the bank's capacity to lend, the availability of lending opportunities, and the demographic and economic factors present in the AA.

The bank's average NLTD ratio reflects a reasonable effort to extend credit based on the institution's size, financial condition, credit needs of the AA, and in comparison to the average NLTD ratios of other similarly situated banks. The bank's average NLTD ratio over the most recent 16-quarters since its prior CRA evaluation and through March 31, 2017, was 84.2 percent. This average is comparable to four other similarly situated banks in and around the bank's AA, whose ratios ranged from 77.2 percent to 88.0 percent over the same time period.

AA Concentration:

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. The evaluation analyzes both the number and dollar volume of originations.

The bank's effort to extend credit within its AA is reasonable. As illustrated in Table 3, a majority of the loans sampled, or 62.4 percent, were extended to borrowers within its AA. The bank originated 60.2 percent of its residential real estate loans and 65.6 percent of its small farm loans inside its AA. Although a majority of the bank's lending occurred within the AA, it is noted that a majority of the loans outside of the AA were made within neighboring counties, specifically Pettis, Henry, and Hickory. For small farm loans, only nine loans within the universe were greater than \$100M, which coincides with the credit needs of the community and provides context for the lower level of small farm loan originations by dollar volume within the AA.

Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Residential Real Estate Loans	53	4,957	60.2	70.6	35	2,066	39.8	29.4
Small Farm Loans	40	2,005	65.6	57.9	21	1,455	34.4	42.1
Total Loans	93	6,962	62.4	66.4	56	3,521	37.6	33.6

Distribution by Income Level of Geographies:

This core performance criterion focuses on the bank's lending among geographies of different income levels, with particular emphasis placed on the bank's lending performance in LMI geographies. As the AA contains one moderate-income and five middle-income tracts, low- and upper-income tract performance was not evaluated. Overall, the bank's lending reflects an excellent distribution by income level of geographies. This data is reflected in Table 4.

For evaluative purposes, the bank’s residential real estate lending was compared to the percentage of owner-occupied units in each census tract income category, while the bank’s small farm lending was compared to the percentage of farms operating in each census tract income category.

**TABLE 4
DISTRIBUTION BY INCOME LEVELS OF GEOGRAPHIES
BENTON COUNTY AA**

Census Tract Income Level	Residential Real Estate Loans				% of Owner- Occupied Units ¹
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	19	2,167	35.8	43.7	12.6
Middle	34	2,790	64.2	56.3	87.4
Upper	0	0	0.0	0.0	0.0
Unknown ³	0	0	0.0	0.0	0.0
Census Tract Income Level	Small Farm Loans				% of Farms ²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	21	1,037	52.5	51.7	25.8
Middle	19	968	47.5	48.3	74.2
Upper	0	0	0.0	0.0	0.0
Unknown ³	0	0	0.0	0.0	0.0

¹ Based on 2010 ACS five-year estimate data and 2016 FFIEC census tract designations.
² Based on 2016 D&B data.
³ Does not include tracts where the income level is unknown. Only includes tract locations not known.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Although the AA only has one moderate-income tract, the bank’s lending performance was notably strong for residential real estate and small farm loans in this geography. The bank benefits by having its main location within the sole moderate-income tract. However, the bank also operates in a highly competitive environment that includes at least five other financial institutions, which limits lending opportunities for these products.

Residential Real Estate Loans

Lending performance for residential real estate loans by income level of geography is excellent. The bank’s lending within the one moderate-income tract exceeded the percentage of owner-occupied units in this geography by both number and dollar volume, while lending to middle-income tracts fell below the percentage of owner-occupied units by number and dollar volume.

Lending performance for residential real estate loans is highly impacted by the AA’s high level of vacancies (40.8 percent of the housing stock). A community member revealed that a large portion of the vacant housing stock consists of vacation homes and second residences given the close proximity to the Truman Reservoir and Lake of the Ozarks. These housing types have generally inflated the median housing values in the AA. Moreover, owner-occupied residences represent less than half of the total housing inventory, which implies a lower

demand for homeownership within the AA. When coupled with a highly competitive marketplace, lending opportunities for residential real estate loans are limited.

Small Farm Loans

Lending performance for small farm loans by income level of geography is excellent. The bank's lending in the moderate-income tract exceeded the percentage of farms within this geography by both number and dollar volume, while lending in the middle-income tracts fell below the percentage of farms in these geographies.

Distribution by Borrower Income and Revenue Size of Businesses and Farms:

This performance criterion evaluates the bank's lending to borrowers of different income levels and to farms of different revenue sizes. Emphasis is placed on lending to LMI individuals and to farms with gross annual revenues of \$1MM or less.

The bank's residential loans were compared to the percentages of low-, moderate-, middle-, and upper-income families located in the AA. The bank's small farm loans were compared to the percentage of small farms in the AA by revenue size. Based on the AA's demographic profile and economic conditions, the bank's overall borrower distribution of loans represents a reasonable distribution among individuals of different income levels and farms of different revenue sizes. Results of the analysis are illustrated in Table 5.

TABLE 5 DISTRIBUTION BY INCOME LEVEL OF BORROWER AND REVENUE SIZE OF FARMS BENTON COUNTY AA					
Borrower Income Level	Residential Real Estate Loans				% of Families¹
	#	\$(000)	#%	\$%	
Low	11	515	20.8	10.4	23.1
Moderate	5	287	9.4	5.8	20.2
Middle	16	1,232	30.2	24.8	22.3
Upper	21	2,924	39.6	59.0	34.4
Farm Revenue	Small Farm Loans				% of Farms by Revenue²
	#	\$(000)	#%	\$%	
\$1MM or Less	40	2,006	100.0	100.0	98.5
Over \$1MM	0	0	0.0	0.0	1.5
Income Not Known	0	0	0.0	0.0	0.0

¹ Based on 2010 ACS five-year estimate data.
² Based on 2016 D&B data.
 (Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Residential Loans

Lending performance for residential real estate loans by borrower income level is reasonable. The bank's percentage of residential real estate loans to low-income borrowers was similar to

the percentage of families within the AA by number, but had slightly lower performance by dollar volume. Lending to moderate-income borrowers was well below the percentage of moderate-income families within the AA by number and dollar volume, while lending to middle- and upper-income borrowers exceeded the percentage of families in these income categories by both number and dollar. This performance level is reasonable given that the AA is a “resort” area due to its proximity to the Truman Reservoir and Lake of the Ozarks, which are popular tourist attractions and venues for vacation homes. As such, the higher level of lending to middle- and upper-income borrowers is consistent with the higher home values and socio-economic characteristics within this market.

Small Farm Loans

Lending performance for small farm loans by revenue size is excellent. All small farm loans were made to farms with gross annual revenues of \$1MM or less, which slightly exceeded the percentage of small farms operating in the AA at 98.5 percent. Opportunities to lend to larger farms or those with gross annual revenues greater than \$1MM is limited, with only 1.5 percent of farms in the AA with these revenues.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank’s fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or illegal credit practices inconsistent with helping to meet community credit needs was identified.