PUBLIC DISCLOSURE

August 24, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers and Merchants Bank
RSSD #205243

111 West Clayton Street
Baldwyn, Mississippi 38824

Federal Reserve Bank of St. Louis

P.O. Box 442
St. Louis, Missouri 63166-0442

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 the 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.

The Lending Test is rated: Satisfactory
The Community Development Test is rated: Satisfactory

Farmers and Merchants Bank meets the criteria for a Satisfactory rating based on the evaluation of the bank's lending and community development activities. The factors supporting the institution's rating are as follows:

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.

- A majority of loans and other lending-related activities are in the assessment area.

- The borrower's profile analysis reveals reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI) levels and businesses of different revenue sizes.

- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

- There were no CRA-related complaints filed against the bank since the previous CRA evaluation.

- The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of its assessment area, considering the bank's capacity and the need and availability of such opportunities for community development in its assessment area. The bank has responded to these needs through community development loans, qualified investments, and community development services.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) Intermediate Small Institution Examination Procedures. The intermediate small bank examination procedures entail two performance tests—the Lending Test and the Community Development Test. The residential real estate, small business, and consumer motor vehicle loan categories were used to evaluate the bank's lending performance, as these loan categories are considered the bank's core business lines based on lending volume. Therefore, the loan activity represented by these credit products is deemed indicative of the bank's overall lending performance. However, as the bank has a particular emphasis on home mortgage lending, performance based on the 1–4 family residential real estate loan category carried the most significance toward the bank's overall performance conclusions. The following table details the performance criterion and the corresponding time periods used in each analysis.

Performance Criterion	Time Period
LTD Ratio	June 30, 2016 – March 31, 2020
Assessment Area Concentration	January 1, 2018 – December 31, 2018
Geographic Distribution of Loans	
Loan Distribution by Borrower's Profile	
Response to Written CRA Complaints	April 12, 2016 – August 23, 2020
Community Development Activities	

Lending Test analyses often entail comparisons of bank performance to assessment area demographics and the performance of other lenders, based on Home Mortgage Disclosure Act (HMDA) and CRA aggregate lending data. Unless otherwise noted, assessment area demographics are based on 2015 American Community Survey data; certain business and farm demographics are based on 2018 Dun & Bradstreet data. When analyzing bank performance by comparing lending activity to both demographic data and aggregate lending data, greater emphasis is generally placed on the aggregate lending data, because it is expected to describe many factors impacting lenders within an assessment area. Aggregate lending datasets are updated annually and are, therefore, expected to predict more relevant comparisons. In addition, the bank's lending levels were evaluated in relation to those of comparable financial institutions operating in the same general region. Three other banks were identified as similarly situated peers, with asset sizes ranging from $312.4 million to $609.4 million as of June 30, 2020.

As part of the Community Development Test, the bank's performance was evaluated using the following criteria, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area.

- The number and dollar amount of community development loans.
- The number and dollar amount of qualified investments and grants.
- The extent to which the bank provides community development services.

The review included community development activities initiated from the date of the bank's previous CRA evaluation to this review date. In addition, investments made prior to the date of the previous CRA evaluation, but still outstanding as of this review date, were also considered.

To augment this evaluation, three community contact interviews conducted with members of the local community were referenced to ascertain specific credit needs, opportunities, and local market conditions within the bank's assessment area. Information from these interviews also assisted in evaluating the bank's responsiveness to identified community credit needs and community development opportunities. Key details from these community contact interviews are included in the *Description of Assessment Area* section.

DESCRIPTION OF INSTITUTION

Farmers and Merchants Bank is a full-service retail bank offering both consumer and commercial loan and deposit products. The bank is headquartered in Baldwyn, Mississippi. The bank's branch network consists of ten offices (including the main office), all of which have drive-up accessibility and automated teller machines (ATMs) on site. In addition, the bank operates six stand-alone ATMs. In December of 2019, the bank opened a new branch in the city of Farmington, Mississippi. No branches were closed during the review period. Based on its branch network and full-service online banking capabilities, the bank is well positioned to deliver financial services to its entire assessment area.

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credit needs of its customers, and the bank appeared capable of meeting assessment area credit needs based on its available resources and financial products. As of June 30, 2020, the bank reported total assets of $385.2 million. As of the same date, loans and leases outstanding were $212.0 million (55.0 percent of total assets), and deposits totaled $322.1 million. The bank's loan portfolio composition by credit category is displayed in the following table.

Distribution of Total Loans as of June 30, 2020		
Credit Category	**Amount ($000s)**	**Percentage of Total Loans**
Construction and Development	$22,720	10.7%
Commercial Real Estate	$43,735	20.6%
1–4 Family Residential	$64,463	30.4%
Farmland	$8,649	4.1%
Farm Loans	$2,133	1.0%
Commercial and Industrial	$37,550	17.7%
Loans to Individuals	$27,158	12.8%
Total Other Loans	$5,572	2.6%
TOTAL	**$211,980**	**100%**

As indicated by the above table, a significant portion of the bank's lending resources is directed to loans secured by 1–4 family residential properties, commercial real estate loans, and loans to individuals. It is also worth noting that by number of loans originated, loans to individuals (such as consumer motor vehicle loans) represent a significant product offering for the bank. Consumer loans not related to residential real estate are typically made in smaller dollar amounts relative to other credit products.

The bank received a Satisfactory rating at its previous CRA evaluation conducted on April 12, 2016, by the Federal Deposit Insurance Corporation (FDIC).

DESCRIPTION OF ASSESSMENT AREA

General Demographics

The bank's assessment area, which has a population of 198,997, is located in northeastern Mississippi. The nonmetropolitan statistical area **(**nonMSA) assessment area consists of five counties in the state: Alcorn, Itawamba, Lee, Prentiss, and Union. Lee County is by far the largest, with a population of 85,036 and the largest city in the assessment area—Tupelo. The remaining four counties are comparable in size, ranging from 23,451 (Itawamba) to 37,319 (Alcorn). Outside Tupelo, the assessment area is generally rural in nature.

According to the FDIC Deposit Market Share Report as of June 30, 2020, there are 14 FDIC-insured depository institutions in the assessment area that operate 89 offices. Farmers and Merchants (operating 10, or 11.2 percent of offices in the assessment area) ranked sixth in terms of deposit market share, with 6.0 percent of the total assessment area deposit dollars.

Commercial lending products represent a credit need in the assessment area, along with the need for a standard blend of consumer loan products. Other particular credit needs in the assessment area, as noted primarily from community contacts, include small-dollar loans to businesses, specifically Small Business Administration loan products.

Income and Wealth Demographics

The following table summarizes the distribution of assessment area census tracts by income level and the family population within those tracts.

Assessment Area Demographics by Geography Income Level						
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**Unknown**	**TOTAL**
Census Tracts	0	4	25	12	1	**42**
	0%	9.5%	59.5%	28.6%	2.4%	**100%**
Family Population	0	3,889	32,722	16,289	0	**52,900**
	0%	7.4%	61.9%	30.8%	0.0%	**100%**

As shown above, 9.5 percent of the census tracts in the assessment area are LMI geographies, but only 7.4 percent of the family population resides in these tracts. These LMI tracts are spread throughout Prentiss, Union, and Lee counties. Prentiss and Union counties both contain one moderate-income tract, and Lee County contains two tracts, both south of the city of Tupelo.

Based on 2015 American Community Survey data, the median family income for the assessment area was $47,325. At the same time, the median family income for nonMSA Mississippi was $43,702. More recently, the FFIEC estimates the 2018 median family income for the state of Mississippi to be $47,000. The following table displays population percentages of assessment area families by income level compared to the nonMSA family population of the state of Mississippi as a whole.

Family Population by Income Level						
Dataset	**Low-**	**Moderate-**	**Middle-**	**Upper-**	**Unknown**	**TOTAL**
Assessment Area	10,313	8,957	9,861	23,769	0	**52,900**
	19.5%	16.9%	18.6%	44.9%	0.0%	**100%**
NonMSA Mississippi	97,362	67,374	70,672	172,047	0	**407,455**
	23.9%	16.5%	17.3%	42.2%	0.0%	**100%**

As shown in the table above, 36.4 percent of families within the assessment area were considered LMI, which is below the LMI family percentages of 40.4 percent in the nonMSA portion of the state. The percentage of families living below the poverty threshold in the assessment area, 15.8 percent, also falls below the 20.3 percent level in nonMSA Mississippi. Considering these factors, the assessment area appears more affluent than the nonMSA portion of the state.

Housing Demographics

Based on housing values, income levels, and rental costs, affordability of housing in the assessment area appears to be similar to the nonMSA portion of the state of Mississippi. The median housing value for the assessment area is $93,486, which is above the figure for nonMSA Mississippi—$84,106. The assessment area housing affordability ratio of 41.2 percent is in line with the nonMSA figure of 41.0 percent. Similarly, the median gross rent for the assessment area of $631 per month is nearly equal to the $628 per month for the nonMSA portion of the state. Of note, the median age of houses in the assessment area is 40 years. The age of assessment area homes, and corresponding need for expensive repairs, was cited by community contacts as a barrier for LMI individuals seeking to purchase a home.

Furthermore, rental units are numerous in the assessment area’s moderate-income census tracts, comprising 38.2 percent of housing units in those census tracts, compared to less than 26.0 percent in the assessment area’s middle- and upper-income geographies. The prevalence of rental housing limits opportunity for financial institutions to originate 1–4 family residential real estate loans in the assessment area’s moderate-income geographies.

Industry and Employment Demographics

The assessment area supports a diverse business community, including a robust small business sector, as evidenced by Dun & Bradstreet data, which indicate 88.5 percent of assessment area businesses have gross annual revenues of less than $1 million. County business patterns indicate that there are 81,892 paid employees in the assessment area. The majority are employed in Lee County, with 47,722 paid employees. The county with the next largest employment structure, Alcorn, has 12,408 paid employees. By percentage of employees, the three largest job categories in the assessment area are manufacturing (24.8 percent), health care and social assistance (16.5 percent), and retail trade (14.2 percent). There is some differentiation amongst the counties—with Alcorn having health care and social assistance as its largest labor category, and Itawamba and Prentiss having retail trade as their second largest labor category—but generally the labor categories across counties are similar. The table below details unemployment data from the U.S. Department of Labor, Bureau of Labor Statistics (not seasonally adjusted) for the assessment area compared to the nonMSA portion of the state as a whole.

Unemployment Levels for the Assessment Area		
Time Period (Annual Average)	**Assessment Area**	**NonMSA Mississippi**
2018	4.0%	5.2%
2019	4.5%	5.9%
2020 year-to-date (YTD)	8.2%	8.8%

As shown in the above table, unemployment levels for the assessment area and the nonMSA portion of the state have shown an increasing trend over the previous two-and-a-half years. Unemployment levels were generally consistent across the assessment area counties in 2018 and 2019, ranging from highs in Prentiss County (4.4 percent and 4.9 percent, respectively) to lows in Union County (3.6 percent and 4.2 percent, respectively). Greater disparities between assessment area counties occurred in 2020 YTD data, with the gap between the lowest level of unemployment (Alcorn County at 6.6 percent) and the highest level of unemployment (Lee County at 9.1 percent) reaching over 2.5 percent.

Community Contact Information

Information from three community contacts was used to help shape the performance context in which the bank's activities in this assessment area were evaluated. Two of the community contact interviews took place prior to the COVID-19 pandemic: one was conducted with an individual specializing in affordable housing, and one was with a small business development specialist. The information provided in these interviews remains relevant for this analysis, which primarily focuses on the bank's 2018 lending data. A third interview was conducted with an individual working in a nonprofit lending organization to help understand the impact of the pandemic on the local community.

The first two contacts agreed that economic conditions vary across the assessment area counties, with greater growth in Lee, Prentiss, and Union Counties. Both contacts indicated that Lee County was the largest jobs center in the assessment area, with the majority of employers located around the city of Tupelo. Both contacts also noted the assessment area's aging population, as younger residents migrate to larger cities such as Birmingham, Memphis, and Nashville seeking improved employment opportunities. Finally, the contacts agreed that banking conditions in the area are good, with a number of financial institutions accessible to the local residents. However, per the contacts, a large percent of LMI residents tend to patronize finance companies, payday lenders, and check cashing facilities for their financial needs.

While housing in the area appears affordable, contacts noted that the age of assessment area housing stock presents challenges for LMI home buyers, who struggle to finance both the home purchase and necessary home improvements. Additional barriers for LMI individuals include poor credit histories or the inability to set aside funds for down payments. One contact stated that specialized mortgage products and loans for renovations and repairs are the greatest credit needs for LMI individuals in the assessment area. Similarly, one contact noted that the greatest credit barrier for small business startups is saving sufficient funds for down payments. In addition, the contact indicated a need for SBA products and small business counseling to assist entrepreneurs in creating sound financial plans, understanding city ordinances, and obtaining licenses.

More recently, the third contact stated that COVID-19 resulted in an intermittent period of high unemployment beginning in April 2020, and declining and leveling off by June. The contact noted that government stimulus efforts have helped support stable loan demand and a low level of small business closures. On an individual level, there have been few loan defaults and few requests for loan workouts or forbearance. One area of concern, per the contact, is the reduction of community development lending and investments in the area in 2020.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Loan-to-Deposit (LTD) Ratio

One indication of the bank's overall level of lending activity is its LTD ratio. The chart below displays the bank's average LTD ratio in comparison to those of regional peers. The average LTD ratio represents a 16-quarter average, dating back to the bank's last CRA evaluation.

LTD Ratio Analysis			
Name	**Headquarters**	**Asset Size ($000s) as of June 30, 2020**	**Average LTD Ratio**
Farmers and Merchants Bank	Baldwyn, Mississippi	$385,170	65.2
Regional Banks	New Albany, Mississippi	$609,351	68.0
	Iuka, Mississippi	$312,375	58.6
	Oxford, Mississippi	$427,736	70.0

Based on data from the previous table, the bank's level of lending is in line with that of other banks in the region. During the review period, all four banks' LTD ratios experienced generally stable trends. Therefore, compared to data from regional banks, the bank's average LTD ratio is reasonable given its size, financial condition, and assessment area credit needs.

Assessment Area Concentration

For the loan activity reviewed as part of this evaluation, the following table displays the number and dollar volume of loans inside and outside the bank's assessment area.

Lending Inside and Outside of Assessment Area January 1, 2018 through December 31, 2018						
Loan Type	**Inside Assessment Area**		**Outside Assessment Area**		**TOTAL**	
1–4 Family Residential Real Estate	112	88.2%	15	11.8%	127	100%
	$8,417	91.9%	$741	8.1%	$9,157	100%
Small Business	77	83.7%	15	16.3%	92	100%
	$6,693	86.4%	$1,053	13.6%	$7,746	100%
Consumer Motor Vehicle	144	91.7%	13	8.3%	157	100%
	$1,626	89.2%	$197	10.8%	$1,823	100%
TOTAL LOANS	**333**	**88.6%**	**43**	**11.4%**	**376**	**100%**
	$16,736	**89.4%**	**$1,990**	**10.6%**	**$18,726**	**100%**

A majority of loans and other lending-related activities were made in the bank's assessment area. As shown above, 88.6 percent of the total loans were made inside the assessment area, accounting for 89.4 percent of the dollar volume of total loans.

Loan Distribution by Borrower's Profile

Overall, the bank's loan distribution by borrower's profile is reasonable, based on performance from all three loan categories reviewed. While the bank's small business loan distribution by borrower's profile is excellent, performance in the 1–4 family residential real estate and consumer loan categories is reasonable. For this analysis, greater emphasis is placed on performance in the 1–4 family residential real estate loan category, given its significance in bank's lending portfolio.

Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC ($47,000 for NonMSA Mississippi, as of 2018). The following table shows the distribution of 1–4 family residential real estate loans by borrower income level in comparison to family population income demographics for the assessment area. Additionally, 2018 aggregate data for the assessment area is displayed.

Borrower Distribution of RRE Loans Assessment Area: NonMSA Mississippi							
Borrower Income Level	**Bank Loans**				**Families by Family Income %**	**Aggregate HMDA Data**	
	#	**#%**	**$**	**$%**		**#%**	**$ %**
Low	8	7.1%	284	3.4%	19.5%	4.3%	1.7%
Moderate	19	17.0%	923	11.0%	16.9%	13.3%	8.4%
Middle	21	18.8%	1,119	13.3%	18.6%	19.7%	16.0%
Upper	50	44.6%	3,155	37.5%	44.9%	48.7%	57.9%
Unknown	14	12.5%	2,935	34.9%	0.0%	13.9%	16.0%
TOTAL	**112**	**100.0%**	**8,417**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

As displayed in the preceding table, the bank's percentage of lending to low-income borrowers (7.1 percent) is below the low-income family population figure (19.5 percent), but in line with the 2018 aggregate lending level to low-income borrowers (4.3 percent). Considering the heightened levels of poverty in the area, with 15.8 percent of families living below the poverty line, and with the community contacts commenting on the challenges low-income individuals face in finding affordable housing in the area, this reflects reasonable performance. The bank's level of lending to moderate-income borrowers (17.0 percent) is in line with the moderate-income family population percentage (16.9 percent) and the 2018 aggregate lending level to moderate-income borrowers (13.3 percent), reflecting reasonable performance. Therefore, considering performance to both income categories, the bank's overall distribution of loans by borrower's profile is reasonable.

Next, small business loans were reviewed to determine the bank's lending levels to businesses of different sizes. The following table shows the distribution of 2018 small business loans by loan amount and business revenue size compared to Dun & Bradstreet and aggregate data.

Small Business Loans by Revenue and Loan Size Assessment Area: NonMSA Mississippi									
Business Revenue and Loan Size		2018							
		Count			Dollars			Total Businesses
		Bank		Aggregate	Bank		Aggregate	
		#	%	%	$ (000s)	$ %	$ %	%
Business Revenue	$1 Million or Less	75	97.4%	48.9%	$6,456	96.5%	47.6%	88.5%
	Over $1 Million/ Unknown	2	2.6%	51.1%	$238	3.5%	52.4%	11.5%
	TOTAL	**77**	**100.0%**	**100.0%**	**$6,693**	**100.0%**	**100.0%**	**100.0%**
Loan Size	$100,000 or Less	56	72.7%	86.5%	$1,715	25.6%	29.0%	
	$100,001–$250,000	14	18.2%	7.6%	$2,147	32.1%	22.3%	
	$250,001–$1 Million	7	9.1%	6.0%	$2,832	42.3%	48.7%	
	Over $1 Million	0	0.0%	0.0%	$0	0.0%	0.0%	
	TOTAL	**77**	**100.0%**	**100.0%**	**$6,693**	**100.0%**	**100.0%**	
Loan Size / Revenue $1 Million or Less	$100,000 or Less	55	73.3%		$1,664	25.8%		
	$100,001–$250,000	13	17.3%		$1,960	30.4%		
	$250,001–$1 Million	7	9.3%		$2,832	43.9%		
	Over $1 Million	0	0.0%		$0	0.0%		
	TOTAL	**75**	**100.0%**		**$6,456**	**100.0%**		

The bank's level of lending to small businesses is excellent. The bank originated the vast majority of its small business loans (97.4 percent) to businesses with revenues of $1 million or less. In comparison, assessment area demographics estimate that 88.5 percent of businesses in the assessment area had annual revenues of $1 million or less, and the 2018 aggregate lending level to small businesses is 48.9 percent.

Lastly, consumer motor vehicle loans were reviewed to determine the level of the bank's lending to LMI borrowers compared to the assessment area demographics.

Borrower Distribution of Consumer Motor Vehicle Loans Assessment Area: NonMSA Mississippi					
Borrower Income Levels	**2018**				
	Count		**Dollar**		**Households**
	#	**%**	**$ (000s)**	**$ %**	**%**
Low	18	12.5%	$132	8.1%	21.6%
Moderate	44	30.6%	$468	28.8%	15.3%
Middle	35	24.3%	$401	24.6%	16.1%
Upper	44	30.6%	$581	35.7%	46.9%
Unknown	3	2.1%	$45	2.8%	0.0%
TOTAL	**144**	**100.0%**	**$1,626**	**100.0%**	**100.0%**

As displayed in the preceding table, the bank's percentage of lending to low-income borrowers (12.5 percent) is below the low-income household population figure (21.6 percent). This represents poor performance. Conversely, the bank's level of lending to moderate-income borrowers (30.6 percent) is well above the moderate-income household population percentage (15.3 percent), exhibiting excellent performance. Therefore, considering performance in both income categories, the bank's overall distribution of consumer motor vehicle loans by borrower's profile is reasonable.

Geographic Distribution of Loans

As noted previously, the assessment area includes zero low-income and four moderate-income census tracts, representing 9.5 percent of all assessment area census tracts. Overall, the bank's geographic distribution of loans in this assessment area reflects reasonable penetration throughout these moderate-income census tracts, based on the 1–4 family residential real estate, small business, and consumer motor vehicle loan categories. As previously stated, performance in the 1–4 family residential real estate loan category carried the most significance in determining the overall rating of reasonable for geographic distribution.

The following table displays the geographic distribution of 2018 1–4 family residential real estate loans compared to owner-occupied housing demographics and aggregate performance for the assessment area.

Geographic Distribution of RRE Loans Assessment Area: nonMSA NonMSA Mississippi							
Tract Income Levels	**Bank Loans**				**% of Owner-Occupied Units**	**Aggregate HMDA Data**	
	#	**#%**	**$**	**$%**		**#%**	**$ %**
Low	0	0.0%	0	0.0%	0.0%	0.0%	0.0%
Moderate	8	7.1%	465	5.5%	6.3%	5.9%	4.7%
Middle	85	75.9%	6,306	74.9%	61.7%	51.9%	44.7%
Upper	19	17.0%	1,646	19.6%	32.0%	42.2%	50.6%
Unknown	0	0.0%	0	0.0%	0.0%	0.0%	0.0%
TOTAL	**112**	**100.0%**	**8,417**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Bank performance in moderate-income census tracts was in line with comparison data and deemed reasonable. The bank's total penetration of moderate-income census tracts by number of loans (7.1 percent) is comparable to the percentage of owner-occupied housing units in moderate-income census tracts (6.3 percent). The bank's performance in moderate-income census tracts is also in line with that of other lenders based on aggregate lending data, which indicates that 5.9 percent of aggregate loans inside this assessment area were made to borrowers residing in moderate-income census tracts. Therefore, overall geographic distribution of 1–4 family residential real estate loans is reasonable.

Second, the bank's geographic distribution of small business loans was reviewed. The following table displays 2018 small business loan activity by geography income level compared to the location of businesses throughout the bank's assessment area and 2018 small business aggregate data.

Geographic Distribution of Small Business Loans Assessment Area: NonMSA Mississippi							
Tract Income Levels	**2018**						
	Count			**Dollar**			**Businesses**
	Bank		**Aggregate**	**Bank**		**Aggregate**	
	#	**%**	**%**	**$ 000s**	**$ %**	**$ %**	**%**
Low	0	0.0%	0.0%	$0	0.0%	0.0%	0.0%
Moderate	6	7.8%	13.3%	$584	8.7%	23.2%	13.5%
Middle	57	74.0%	45.6%	$5,054	75.5%	40.7%	51.4%
Upper	14	18.2%	38.0%	$1,056	15.8%	34.6%	34.8%
Unknown	0	0.0%	3.1%	$0	0.0%	1.5%	0.3%
TOTAL	**77**	**100.0%**	**100.0%**	**$6,693**	**100.0%**	**100.0%**	**100.0%**

The bank's percentage of loans in moderate-income census tracts (7.8 percent) is below the 2018 aggregate lending percentage in moderate-income census tracts (13.3 percent) and the percentage of small businesses in moderate-income census tracts (13.5 percent), representing poor performance. Therefore, the bank's overall geographic distribution of small business loans is poor.

Lastly, the bank's geographic distribution of consumer motor vehicle loans was reviewed. The following table displays 2018 consumer motor vehicle purchase loan activity by geography income level compared to the demographic data throughout the bank's assessment area.

Geographic Distribution of Consumer Motor Vehicle Loans Assessment Area: NonMSA Mississippi					
Tract Income Levels	**Bank Loans**				**% of Households**
	#	**#%**	**$ (000s)**	**$ %**	
Low	0	0.0%	$0	0.0%	0.0%
Moderate	8	5.6%	$71	4.4%	7.9%
Middle	113	78.5%	$1,350	83.0%	61.8%
Upper	23	16.0%	$205	12.6%	30.3%
Unknown	0	0.0%	$0	0.0%	0.0%
TOTAL	**144**	**100.0%**	**$1,626**	**100.0%**	**100.0%**

The analysis of consumer motor vehicle loans revealed reasonable performance to borrowers residing in moderate-income census tracts. The bank's total penetration of moderate-income tracts by number of loans (5.6 percent) is in line with the percentage of households in moderate-income census tracts (7.9 percent). Therefore, overall geographic distribution of consumer motor vehicle loans is reasonable.

Lastly, based on review of all three loan categories, Farmers and Merchants Bank had loan activity in all of the assessment area's moderate-income census tracts. No conspicuous lending gaps were noted in moderate-income geographies. This information supports the conclusion that the bank's overall geographic distribution of loans is reasonable.

Responses to Complaints

No CRA-related complaints were filed against the bank during this review period (April 12, 2016 through August 23, 2020).

COMMUNITY DEVELOPMENT TEST

The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of the assessment area, considering the bank's capacity and the need and availability of such opportunities for community development in the assessment area. The bank has addressed the community development needs of the assessment area through community development loans, qualified investments, and community development services.

During the review period, the bank made 154 qualifying loans totaling approximately $16.4 million. The majority of the loans were made with an economic development purpose (74 loans), followed by loans for affordable housing (61 loans) and loans made with a purpose of revitalizing and stabilizing LMI and distressed/underserved geographies (19 loans). Some of the bank's larger qualified loans include a $3.8 million loan to a business that predominantly employs LMI individuals, a $1.5 million loan supporting affordable housing in Alcorn County, and a $1.0 million dollar loan for a real estate development company employing LMI individuals.

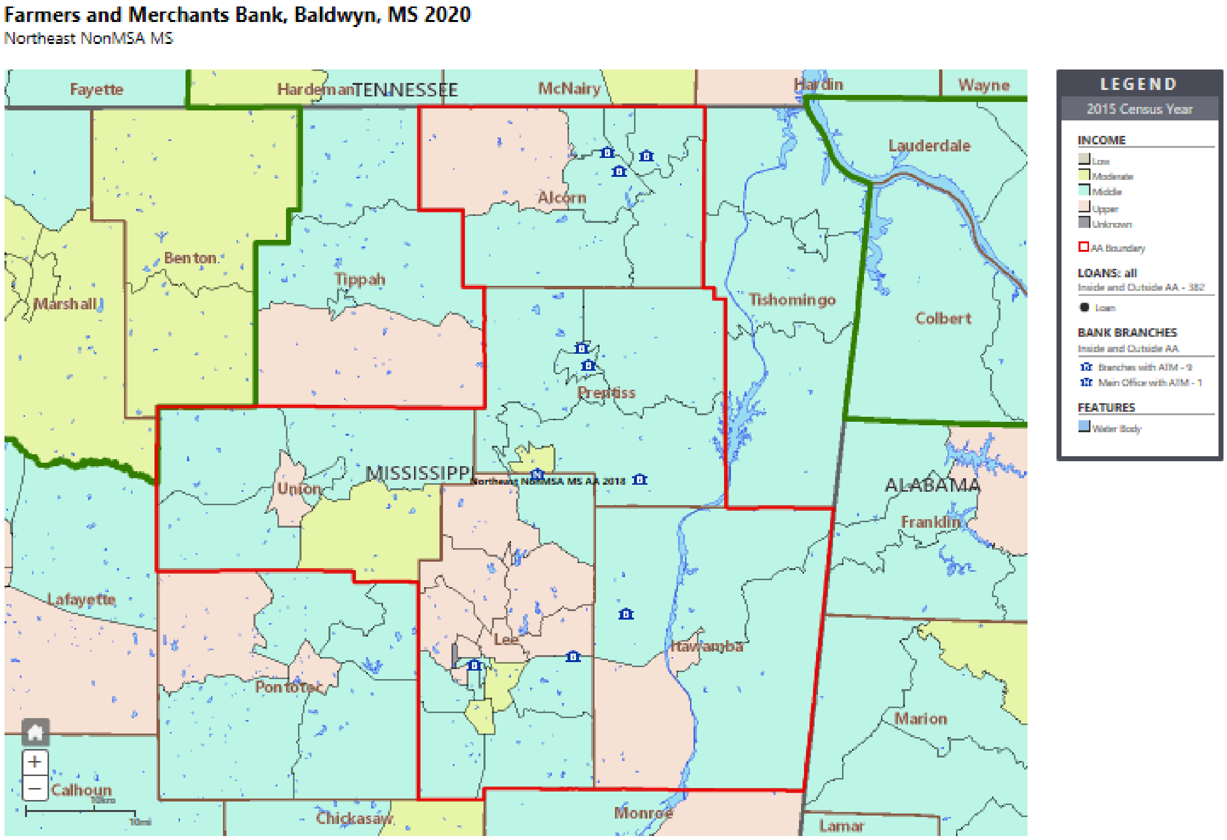
Community development investments and donations made to the assessment area totaled $2.6 million. This amount included 9 qualified investments (one new investment totaling $410 thousand and eight investments from the prior review period but still outstanding, totaling $2.2 million) and 12 donations totaling $1,440. Of the nine investments, one was for $550,000 supporting essential infrastructure in distressed middle-income census tracts in the city of Booneville, Mississippi. Through a 2017 bond, the bank invested $410,000 to support a school where the majority of students are LMI. The bank also invested in two separate bonds that similarly support schools with a majority of LMI students, totaling over $500,000. Finally, during the review period the bank made deposits totaling $2.7 million in qualified Community Development Financial Institutions throughout the country.

During the review period, 22 separate employees contributed community development services across the assessment area. The vast majority of these employees contributed their time and talent by teaching financial literacy courses in schools across five counties, where the majority of students are eligible for free or reduced lunches. Notably, other employees sat on the boards of economic development and community service organizations in the area.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Based on findings from the Consumer Affairs examination, including a fair lending analysis performed under Regulation B – Equal Credit Opportunity and the Fair Housing Act requirements, conducted concurrently with this CRA evaluation, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

ASSESSMENT AREA DETAIL



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.

Assessment area: One or more of the geographic areas delineated by the bank and used by the regulatory agency to assess an institution's record of CRA performance.

Census tract: A small subdivision of metropolitan and nonmetropolitan 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 on 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 contact: Interviews conducted as part of the CRA examination to gather information that might assist examiners in understanding the bank's community, available opportunities for helping to meet local credit and community development needs, and perceptions on the performance of financial institutions in helping meet local credit needs. Communications and information gathered can help to provide a context to assist in the evaluation of an institution's CRA performance.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- and moderate-income (LMI) individuals; (2) community services targeted to LMI individuals; (3) 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; (4) activities that revitalize or stabilize LMI geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or (5) Neighborhood Stabilization Program (NSP) eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and 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.

Demographics: The statistical characteristics of human populations (e.g., age, race, sex, and income) used especially to identify markets.

Distressed nonmetropolitan middle-income geography: A middle-income, nonmetropolitan geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders who 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 income of applications, the amount of loan requested, and the disposition of the application (e.g., 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 refinancing of home improvement and home purchase loans.

Household: One or more persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

Housing affordability ratio: Calculated by dividing the median household income by the median housing value. It represents the amount of single family, owner-occupied housing that a dollar of income can purchase for the median household in the census tract. Values closer to 100 percent indicate greater affordability.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., 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 a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median family income: The dollar amount that divides the family income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The median family income is based on all families within the area being analyzed.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

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 a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

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

Nonmetropolitan statistical area (nonMSA): Not part of a metropolitan area. (See metropolitan area.)

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.

Performance context: The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context in which an institution's record of performance should be evaluated. The performance context is not a formal or written assessment of community credit needs.

Performance criteria: These are the different criteria against which a bank's performance in helping to meet the credit needs of its assessment area(s) is measured. The criteria relate to lending, investment, retail service, and community development activities performed by a bank. The performance criteria have both quantitative and qualitative aspects. There are different sets of criteria for large banks, intermediate small banks, small banks, wholesale/limited purpose banks, and strategic plan banks.

Performance evaluation (PE): A written evaluation of a financial institution's record of meeting the credit needs of its community, as prepared by the federal financial supervision agency responsible for supervising the institution.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small businesses/small farms: A small business/farm is considered to be one in which gross annual revenues for the preceding calendar year were $1 million or less.

Small loan(s) to business(es): That is, "small business loans" are included in "loans to small businesses" as defined in the Consolidated Reports 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 secured by either 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): That is, "small farm loans" are included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Reports 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.

Underserved middle-income geography: A middle-income, nonmetropolitan geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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