



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 27, 2006

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**The Farmers and Merchants National Bank of Fairview
Charter Number 9767**

**312 North Main
Fairview, OK 73737**

**Comptroller of the Currency
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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.

The major factors that support this rating include:

- The bank's lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area.
- The bank's loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- The bank generates a majority of its loans within the defined assessment area.
- The bank exceeds the standard for satisfactory performance for lending to borrowers of different incomes and businesses of different sizes.

The Farmers and Merchants National Bank of Fairview, Oklahoma is committed to serving the community. This is demonstrated by satisfactory lending performance as described in this Public Disclosure.

DESCRIPTION OF THE FARMERS and MERCHANTS NATIONAL BANK

The Farmers and Merchants National Bank (F&M) is a community bank headquartered in Fairview, Oklahoma. The bank is 100% owned by Fairview Bancshares, Inc., a one-bank holding company. The bank and drive-in facility are located at 312 N. Main in downtown Fairview. The bank has one automated teller machine located on the premises. There are no branches.

The bank's primary focus is to serve agricultural, consumer and commercial customers in Fairview and the surrounding areas. The bank meets these needs by providing traditional loan and deposit products, as well as telephone and Internet access services.

As of March 31, 2006, the bank's total assets equaled \$67.9 million, of which \$24.6 million, or 36 percent, were composed of various types of loans to individuals, commercial businesses, and agricultural related enterprises. Specifically, the bank's loan portfolio consists of the following:

| Loan Category | \$ (000) | % |
|--------------------------------|---------------|----------------|
| Agricultural Loans | 5,595 | 22.70% |
| Commercial Loans | 4,995 | 20.27% |
| Residential Real Estate Loans | 4,399 | 17.85% |
| Consumer Loans | 3,955 | 16.05% |
| Agricultural Real Estate Loans | 3,630 | 14.73% |
| Commercial Real Estate Loans | 2,071 | 8.40% |
| Total | 24,645 | 100.00% |

In addition to the loans held by F&M, the bank also provides services for customers to obtain long-term mortgage loans through secondary market investors. In 2005, the bank brokered 9 mortgage loans for the secondary market totaling \$499,470. For year-to-date 2006, the bank has brokered 3 loans totaling \$253,500.

There are no legal or financial impediments to prevent the bank from meeting the credit needs within the assessment area. The bank received an overall rating of Satisfactory at the last Community Reinvestment Act examination dated January 17, 2002.

DESCRIPTION OF F&M's ASSESSMENT AREA

The assessment area adopted by F&M consists of whole geographies, does not reflect illegal discrimination and does not arbitrarily exclude low- or moderate-income geographies. It meets the requirements of the CRA regulation.

The following demographic and economic characteristics for the assessment area are based on 2000 U.S. Census data.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA | |
|---|----------|
| <i>Population</i> | |
| Number of Families | 2,225 |
| Number of Households | 3,056 |
| <i>Geographies</i> | |
| Number of Census Tracts/BNA | 3 |
| % Low-Income Census Tracts/BNA | 0% |
| % Moderate-Income Census Tracts/BNA | 0% |
| % Middle-Income Census Tracts/BNA | 100% |
| % Upper-Income Census Tracts/BNA | 0% |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | \$37,864 |
| 2004 HUD-Adjusted MFI | \$41,300 |
| <i>Economic Indicators</i> | |
| 2000 Median Housing Value | \$53,246 |
| % of Households Below Poverty Level | 13% |

F&M has defined their assessment area as three contiguous census tracts within Major County in Northwest Oklahoma. There are no low- or moderate-income census tracts; all of the census tracts are middle-income. The total population of the assessment area equates to 7,545, with 469 or 6.22 percent of the population as minority. The largest minority representation consists of Hispanic, at 4.02 percent of the population. Of the 2,225 families, 16.58 percent are low-income families and 19.24 percent are moderate-income families.

The local economic conditions are stable. The demand for cattle and related loans has been down over the past year due to the recent drought effects on wheat pastures. Agriculture remains the primary industry with small grain (wheat) and livestock (cattle) as the main cash commodities produced in the area. The area has benefited from an increase in the oil and gas related businesses. The major employers in the area are Fairview Public Schools, USG (Gypsum Plant), Fairview Municipal Hospital and Fairview Fellowship Home (Retirement and Nursing).

F&M faces competition from a savings and loan institution and a branch of an out of area bank in Fairview. Additional competition comes from the financial institutions and credit unions in the larger city of Enid.

A community contact was made during the examination to help ascertain the credit needs of the assessment area. The immediate credit needs of the community are being fulfilled, according to the contact. There is a general need for housing in the area in a variety of price ranges. F&M is involved in community development activities and programs in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation (PE) assesses F&M's performance focusing primarily on five performance criteria: the loan-to-deposit ratio; lending in the assessment area; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and responses to CRA related complaints.

We concentrated on the bank's primary loan products. As of March 31, 2006, the bank's primary loan products are agricultural and consumer loans. Therefore, we utilized 2004, 2005 and 2006 originations for these loan types to evaluate the lending performance component.

Loan-to-Deposit Ratio (LTD)

The bank's loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. This determination is based on the bank's quarterly average LTD ratio from December 31, 2001 through December 31, 2005 of approximately 50 percent. The average quarterly LTD of the twenty-four banks chartered in Alfalfa, Blaine, Dewey, Garfield, Kingfisher, Major, Woods and Woodward Counties range from a low of 24.8 percent to a high of 99.3 percent.

The quarterly average loan-to-deposit ratios for the five similarly situated banks in the area are listed in the table below.

| Institution | Assets as of 12/31/2005 \$ (000) | Average LTD Ratio |
|------------------------------------|--|----------------------|
| Community National Bank of Okarche | 46,927 | 76.72% |
| <i>F&M – Fairview</i> | <i>66,347</i> | <i>49.73%</i> |
| First National Bank in Okeene | 76,901 | 49.67% |
| State Guaranty Bank, Okeene | 30,825 | 44.96% |
| Cleo State Bank, Cleo Springs | 38,421 | 31.96% |
| Farmers State Bank, Meno | 26,119 | 24.87% |

Lending in Assessment Area

F&M's lending in their assessment area meets the standard for satisfactory performance. The majority of the loans are originated in the bank's assessment area. This conclusion is based on the samples of 24 consumer loans and 24 agricultural loans that originated in 2004, 2005 and 2006, as depicted in table below.

| Total Loans Reviewed | | | | | | | | | | |
|-----------------------------|------------------------|----------|----------------|----------|--------------|--------------------------------|----------|----------------|----------|--------------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Consumer | 18 | 75.00 | 6 | 25.00 | 24 | \$149 | 76.80 | \$ 45 | 23.20 | \$194 |
| Agricultural | 20 | 83.33 | 4 | 16.67 | 24 | \$757 | 84.11 | \$143 | 15.89 | \$900 |
| Totals | 38 | 79.17 | 10 | 20.83 | 48 | \$906 | 82.82 | \$188 | 17.18 | \$1,094 |

Source: Sample of 48 loans used to determine CRA performance

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

F&M exceeds the standard for satisfactory performance for lending to borrowers of different incomes and business/farms of different sizes. The following tables represent the distribution of lending based on the sample of 20 agricultural loans and 20 consumer loans extended within the assessment area.

| Borrower Distribution of Loans to Farms | | | | |
|--|---------------------|------------------------|---------------------------------|--------------|
| Farm Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Farms | 97.46% | 0% | 2.54% | 100% |
| % of Bank Loans in AA by # | 100.00% | 0% | 0% | 100% |
| % of Bank Loans in AA by \$ | 100.00% | 0% | 0% | 100% |

Source: Loan sample and U.S. Census data

The sample of agricultural loans revealed that all of the loans were extended to small farms with annual gross revenues of less than \$1 million per year.

| Borrower Distribution of Consumer Loans in F&M's Assessment Area | | | | | | | | |
|---|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans |
| Consumer Loans | 18.24% | 20.00% | 16.46% | 35% | 19.50% | 20.00% | 45.62% | 25.00% |

Source: U.S. Census data and consumer loan sample

The number of consumer loans extended to low- and moderate-income households compares favorably to the percentages of those households represented in the assessment area.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be meaningful since there are no low- or moderate-income census tracts in the assessment area.

Responses to Complaints

F&M has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.