



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 17, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Farmers & Merchants National Bank
Charter Number 15304**

**112 South Main Street
Le Sueur, MN 56058**

**Comptroller of the Currency
Minneapolis West Field Office
920 Second Avenue South Suite 800
Minneapolis, MN 55402**

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 bank's average net loan to deposit ratio of 77 percent is reasonable and compares favorably with those of other similarly situated banks.
- A majority of the bank's loans (77 percent) are located within the bank's defined assessment areas.
- Distribution of loans by revenue or income level of the borrower meets the area demographics for commercial loans and is good for residential real estate and consumer loans.

DESCRIPTION OF INSTITUTION

First Farmers and Merchants National Bank (FF&M), LeSueur, Minnesota is an \$86 million commercial bank located approximately 50 miles southwest of the Twin Cities Area. The bank's main office is a full-service facility located in downtown LeSueur. FF&M LeSueur acquired the Cannon Falls location in June 2002. Cannon Falls is located approximately 40 miles southeast of the Twin Cities Area.

FF&M LeSueur's business focus is commercial, residential real estate, agricultural, and consumer lending. According to its Report of Condition and Income, FF&M LeSueur has the following outstanding loans by dollar volume on December 31, 2002: Commercial (23,249,000 or 42 percent), Residential Real Estate (\$19,758,000 or 36 percent), Agricultural (\$6,925,000 or 13 percent) and Consumer (\$3,702,000 or 7 percent). Net loans total 63 percent of total assets.

The bank is 99.67 percent owned by the 215 Holding Company, a \$322 million five-bank holding company headquartered in Minneapolis, Minnesota. Affiliate banks are located in Luverne, Fairmont, Brownsdale, and Grand Meadow, Minnesota.

FF&M LeSueur received a "Satisfactory" rating at its March 29, 1999, CRA examination. This Performance Evaluation assesses the bank's CRA activities from January 1, 1999 through December 31, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREAS

The bank's assessment areas comply with regulatory requirements. They include all FF&M branches, as well as the majority of the bank's loans. The areas do not arbitrarily exclude any low- or moderate-income block numbering areas (BNAs) or census tracts (CTs).

FF&M LeSueur has identified two separate assessment areas. The LeSueur assessment area includes portions of LeSueur County (BNA #9501 and #9502), Sibley County (BNA #9701.98 and #9704), and Nicollet County (BNA #9802). All BNA's are either middle or upper income tracts. The assessment areas include the communities of Arlington, Henderson, LeSueur and Nicollet. The assessment area borders on, but does not include, the cities of St Peter and Mankato. According to 1990 US Census Data, the total population of the LeSueur assessment area is 20,740 persons.

Major employers in the LeSueur assessment area include ADC Telecommunications (650 employees), LeSueur Inc (640 employees), Minnesota Valley Health Center (185 employees), LeSueur/Henderson Public Schools (175 employees), Davisco International, Inc (120 employees) and M.G. Waldbaum Inc (110 employees). According to the US Department of Labor statistics, the March 2003 unemployment rate for Minnesota was 4.9 percent compared to the National rate of 6.2 percent. As of March 2003, the statewide unemployment rate for counties in this assessment area ranged from 3.7 percent to 7.4 percent.

The Cannon Falls assessment area includes portions of Goodhue County (BNA #9804, #9805, and #9806) and Dakota County (BNA #614). While Dakota County is part of the Minneapolis/St Paul metropolitan statistical area (MSA), FF&M designated only one BNA from the MSA as it is located adjacent to the city of Cannon Falls. The assessment areas include the communities of Cannon Falls, Hampton, and Goodhue. The assessment area borders on, but does not include, the city of Red Wing. All BNAs are either middle or upper income tracts. According to the 1990 US Census Data, the total population of the Cannon Falls assessment area is approximately 16,440 persons.

Major employers in the Cannon Falls assessment area include Midwest of Cannon Falls Inc (375 employees), Cannon Equipment Co (315 employees), Cannon Falls Public Schools (240 employees), Kid Duds (175 employees), Fil-Mor Express Inc (170 employees), Gemini Inc (160 employees) and Bergquist Co (100 employees). In addition, many local residents work in the Twin Cities area, which offers a variety of employment opportunities. Unemployment rates in Goodhue and Dakota counties are 5.8 percent and 3.8 percent, respectively.

The US Department of Housing and Urban Development's 2002 updated statewide non-MSA median family income (MFI) estimate for Minnesota is \$48,500. The following table summarizes the income levels of individual BNA's and families located within the bank's assessment area:

Income Distribution of Geographies and Families								
Assessment Area	Number of Geographies				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
LeSueur Area	0 (0%)	0 (0%)	3 (60%)	2 (40%)	13%	16%	23%	48%
Cannon Falls Area	0 (0%)	0 (0%)	3 (50%)	3 (50%)	11%	15%	28%	46%
Total	0 (0%)	0 (0%)	6 (55%)	5 (45%)	12%	16%	26%	46%

Source: U.S. Census Data (1990)

Competition from other financial institutions is strong. Including FF&M LeSueur, there are ten financial institutions serving the bank's assessment areas. FNB has deposit share of 2.87 percent, ranking ninth among the ten institutions. Based on asset size, FF&M LeSueur ranks third out of seven similarly situated banks in the assessment areas.

Credit needs in the LeSueur assessment area are typical of those in most small towns and surrounding rural communities and include commercial, small farm, residential and consumer lending. The Cannon Falls assessment area is more urban and the credit needs are for residential, consumer and commercial lending.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FF&M LeSueur's net loan to deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 77 percent over the 16 quarters from January 1, 1999 to December 31, 2002. FF&M LeSueur's net loan-to-deposit ratio trend is increasing and totaled 80.92 percent as of December 31, 2002.

FF&M LeSueur's net loan-to-deposit ratio compares favorably with other community banks of similar size (total assets between \$57 and \$107 million) in the assessment area. The average loan-to-deposit ratio for the seven similarly situated banks in the assessment area is 67 percent with a range from 65 percent to 94 percent over the last 16 quarters from March 31, 1999 to September 30, 2002.

Lending in Assessment Area

FF&M LeSueur originates a majority of its loans to borrowers within its defined assessment areas. Of loans originated from 1999 to 2002, 77 percent by number and 44 percent by dollar volume were made to businesses and individuals located within the bank's assessment area. We sampled 60 loans to assess the bank's loan origination activity. The following table illustrates our findings:

LENDING IN ASSESSMENT AREAS BY NUMBER AND DOLLAR AMOUNT (000s)				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Commercial	20	55%	\$1,614,835	34%
Residential Real Estate	20	85%	\$1,038,110	73%
Consumer	20	90%	\$185,404	93%
Total	60	77%	\$2,838,349	44%

Source: Bank records (verified by examiners)

The bank's dollar volume of loans in the assessment area is less than 50 percent; however, FF&M LeSueur has several affiliate banks and large commercial loans are participated throughout the affiliate network. FF&M also is the lead bank on several large syndicated loans. This skews the results when stated as a percentage of dollars. Of the 9 loans out of the assessment area, 5 loans were participations purchased and represent 58 percent of the total dollars of sampled commercial loans. During this evaluation period, the bank had approximately 36 purchased participations totaling \$18 million. Also during this evaluation period, the bank sold approximately \$18 million in participations and syndicated loans to their affiliates.

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

The distribution of loans by income or annual revenues of the borrower meets the area demographics for commercial lending and is good for both agricultural and consumer lending.

Commercial lending activity in the assessment area reasonably meets community demographics. FFM originated 285 commercial loans totaling \$68 million from 1999 through 2002. The majority (87 percent) of the bank's loans are originated to commercial borrowers with gross annual revenues of less than \$500,000. Examiners sampled 60 commercial and commercial real estate borrowers representing 21 percent of commercial borrowers with loans originated in the assessment area from 1999 through 2002. The following table shows the summary of results from that sample:

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE			
Gross Annual Revenue	LeSueur Assessment Area		
	Number	Percent of Number	Business Demographic Data
<\$50,000	7	12%	
\$50,000-\$100,000	10	17%	
\$100,000-\$250,000	10	17%	
\$250,000-\$500,000	15	25%	
\$500,000-\$1,000,000	8	13%	93%
>\$1,000,000	10	17%	7%
Totals	60	100%	100%

Source: Bank records (verified by examiners) and US Census Business Demographic Data (1990)

Residential real estate lending activity in the LeSueur assessment area meets community demographics for both low- and moderate income borrowers. This is very strong performance as 6 percent of families are below the poverty level. The following table shows the summary of results:

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY INCOME LEVEL			
Borrower Income Level	LeSueur Assessment Area		
	Number	Percent of Number	Percent of Families
Low	2	10%	12.56%
Moderate	3	15%	16.02%
Middle	10	50%	22.98%
Upper	5	25%	48.44%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and US Census Data (1990)

Consumer lending activity in the assessment area exceeds the community demographics for both low- and moderate- income borrowers. The following table compares the bank’s consumer lending activity by borrower income level to community demographics:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Cannon Falls Assessment Area		
	Number	Percent of Number	Percent of Households
Low	4	20%	14%
Moderate	5	25%	11%
Middle	5	25%	21%
Upper	6	30%	54%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and US Census Data (1990)

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle- and upper-income BNAs.

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

Fair Lending Review

An analysis of 1998, 1999, 2000, 2001, and 2002 public comments and consumer compliant information was performed according to the OCC’s risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.