

# **PUBLIC DISCLOSURE**

December 17, 2018

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Farmers and Merchants State Bank  
Certificate Number: 15610

101 West Jefferson  
Winterset, Iowa 50273

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Kansas City Regional Office

1100 Walnut Street, Suite 2100  
Kansas City, Missouri 64106

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.

## TABLE OF CONTENTS

Institution Rating .....	1
Scope of Evaluation .....	2
Description of Institution .....	4
Description of Assessment Areas .....	5
Conclusions on Performance Criteria .....	10
Discriminatory or Other Illegal Credit Practices Review .....	19
Glossary .....	20

## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas (AAs), including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Farmers and Merchants State Bank's (FMSB) satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and AAs' credit needs.
- Overall, FMSB made a majority of its small farm, small business, and home mortgage loans in the AAs.
- The geographic distribution of loans reflects excellent dispersion among the geographies, based on the performance in the Des Moines Assessment Area, indicating the bank's strong willingness to extend loans throughout its AAs.
- The distribution of borrowers reflects an overall reasonable penetration of lending among farms and businesses of different revenue sizes and individuals of varying incomes, when compared to relevant demographics and applicable aggregate data.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the CRA rating.

## SCOPE OF EVALUATION

### **General Information**

This evaluation covers the period from the prior evaluation dated February 4, 2013, to the current evaluation. Examiners used the Interagency Small Institution CRA Examination Procedures to evaluate FMSB's CRA performance.

The following performance criteria were considered under the Lending Test:

- Loan-to-deposit ratio
- AA concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

The evaluation does not include any lending activity performed by affiliates.

### **Loan Products Reviewed**

Agricultural loans, including loan secured by farmland, make up the largest loan category, representing 60.3 percent of total loans according to FMSB's September 30, 2018, Consolidated Reports of Condition and Income (Call Report). Home mortgage loans, are the bank's second largest loan category, representing 17.8 percent of total loans. A third significant category consists of commercial loans, including commercial real estate loans, at 12.9 percent. The remainder of the loan portfolio, comprised of consumer loans at 4.8 percent, construction and land development loans at 3.9 percent, and other loans at 0.3 percent, was not reviewed because these are not major product lines or a primary lending focus of the bank. The bank has experienced an increase of 12.1 percent in the loan portfolio since the previous evaluation. This growth is almost entirely due to a 22.9 percent increase in agricultural loans. During this same time period, commercial loans decreased 11.1 percent and home mortgage loans decreased by 7.7 percent.

The institution maintains one contiguous AA, described in more detail later in the evaluation. Because FMSB has offices in the Des Moines-West Des Moines, Iowa Metropolitan Statistical Area (MSA) and in the nonmetropolitan areas of Iowa, the analysis that follows will be presented and analyzed as two separate AAs, hereby referred to as the Des Moines AA and the Nonmetropolitan AA.

A full scope evaluation was conducted of both lending areas. The Des Moines lending area provides significantly more lending of the loan types analyzed, so greater weight in this evaluation was given to conclusions reached for this lending area. Specifically, examiner review of the institution's loan trial revealed 89 percent of agricultural, commercial, and residential real estate lending is derived from the Winterset and Saint Charles offices, located in the Des Moines Lending Area. Similarly, FDIC Summary of Deposits as of June 30, 2018, also shows 87 percent of deposits are derived from the Winterset and Saint Charles offices. Within the respective analyses for each lending area, small farm lending will receive more weight after considering the portfolio distribution, the relative growth rates by loan types, and the relative

weight of the credit needs of the area. Discussion with bank management indicated that they are primarily an agricultural lender, although their philosophy is to extend quality loans of all types. There were no lending products originated by a bank affiliate considered in this CRA performance evaluation.

Examiners reviewed a selection of small farm and small business loans originated from January 1, 2017, through December 31, 2017. However, due to the low volume of small business loans originated in 2017 in the Nonmetropolitan AA, only small farm loans originated in 2017 from that AA were analyzed. In addition, because the bank is required to report loan data as outlined in the Home Mortgage Disclosure Act (HMDA), examiners reviewed all residential real estate loans originated and purchased from January 2016 through December 2017 for CRA evaluation purposes. The Loan Application Register (LAR) contains information on loans extended by FMSB for the purchase or refinance of residential real estate, home improvement, and multi-family housing. Income information for the bank's residential real estate loans was obtained from the LAR. The following table details the loan samples and universes from which they were selected.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
<b>Small Business</b>				
Des Moines AA	62	5,663	26	2,501
Small Business Total	66	5,890	26	2,501
<b>Small Farm</b>				
Des Moines AA	180	13,559	36	3,144
Nonmetropolitan AA	58	3,516	25	1,628
Small Farm Total	238	17,075	61	4,772
<b>Home Mortgage 2016</b>				
Des Moines AA	35	3,918	35	3,918
Nonmetropolitan AA	16	1,267	16	1,267
<b>Home Mortgage 2017</b>				
Des Moines AA	43	5,866	43	5,866
Nonmetropolitan AA	11	1,143	11	1,143
<b>Home Mortgage Total</b>	105	12,194	105	12,194
<i>Source: Bank Records from 01/01/2017 through 12/31/2017 and 2016 and 2017 HMDA LARs</i>				

For CRA evaluation purposes, small farm loans and small business loans are defined using definitions in the Call Report. These definitions, as well as that for home mortgage loans, are detailed in the Glossary at the end of this document. Examiners obtained the data necessary for this evaluation from an automated loan download, individual customer loan files, and bank management. Examiners reviewed the number and dollar volume of small farm, small business, and home mortgage loans. While the number and dollar volume of loans are presented, examiners emphasized performance by number of loans, which is a better indicator of the number of consumers, farms, and businesses served.

## DESCRIPTION OF INSTITUTION

### **Background**

FMSB is a wholly-owned subsidiary of a one-bank holding company Farmers & Merchants Bancorp., Winterset, Iowa. The institution received a Satisfactory rating at its previous FDIC CRA Performance Evaluation dated February 4, 2013, based on Interagency Small Institution Examination Procedures.

### **Operations**

FMSB is a commercial bank operating from four offices located in Winterset, Iowa (2); Orient, Iowa; and St. Charles, Iowa. FMSB maintains a full-service automated teller machine (ATM) at all four locations. Various products and services, including agricultural, commercial, consumer, and residential real estate loans are offered. Specialty loans are offered through the Small Business Administration and Farm Services Agency, including Young Farmer loans. Long-term home mortgage loans are offered through the secondary market. The bank provides a variety of deposit-related products that include checking, savings, money market accounts, and certificates of deposit. FMSB maintains a Website and offers online banking. The bank has not opened or closed any office locations since the prior CRA Evaluation. Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the credit needs of its AAs.

### **Ability and Capacity**

Assets totaled approximately \$190 million as of September 30, 2018, representing an increase of 3.7 percent since the September 30, 2012, Call Report. Total deposits were \$166 million, demonstrating a 7.3 percent increase, and total loans were approximately \$114 million, representing an increase of 12.0 percent during the same period. Management indicated that the increases are attributed to normal growth over time in agricultural lending. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 9/30/2018		
Loan Category	\$(000s)	%
Construction and Land Development	4,441	3.9
Secured by Farmland	34,725	30.5
1-4 Family Residential	19,961	17.5
Multi-family (5 or more) Residential	306	0.3
Commercial Real Estate	7,458	6.6
<b>Total Real Estate Loans</b>	<b>66,891</b>	<b>58.8</b>
Commercial and Industrial	7171	6.3
Agricultural	33,864	29.8
Consumer	5,434	4.8
Other	410	0.3
Less: Unearned Income	(0)	(0.0)
<b>Total Loans</b>	<b>113,770</b>	<b>100.0</b>
Source: Call Report		

## DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more AAs within which its CRA performance will be evaluated. As mentioned previously, FMSB's designated AA will be analyzed as two separate AAs. The Nonmetropolitan AA consists of Adair County middle-income Nonmetropolitan census tracts (CTs) 9601, 9602, and 9603; and Union County middle-income Nonmetropolitan CT 9901. The Des Moines Assessment Area consists of Warren County middle-income CT 212, Madison County middle-income CTs 601 and 603, and Madison County moderate-income CT 602. The bank has established office locations in Adair County CT 9602 in the city of Orient, Iowa, and in Madison County CT 601 and 602 in the cities of St. Charles and Winterset, Iowa. The composition of the AAs has not changed since the 2012 evaluation. The geographies in the AAs have not experienced any changes between the 2010 U.S. Census and the 2015 American Community Survey (ACS) data.

Each CT is designated as low-, moderate-, middle-, or upper-income by comparing the 2010 U.S. Census Bureau median family income (MFI) of the geography to the appropriate MFI for the area. Refer to the Glossary for a definition of the various income definitions used in this evaluation. The applicable figures used to determine the income categories for the geographies that comprise the institution's AAs are detailed in the table below.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
<b>Des Moines-West Des Moines, IA MSA Median Family Income (19780)</b>				
2016 (\$76,900)	<\$38,450	\$38,450 to <\$61,520	\$61,520 to <\$92,280	≥\$92,280
2017 (\$82,200)	<\$41,100	\$41,100 to <\$65,760	\$65,760 to <\$98,640	≥\$98,640
<b>IA Nonmetropolitan Median Family Income</b>				
2016 (\$63,300)	<\$31,650	\$31,650 to <\$50,640	\$50,640 to <\$75,960	≥\$75,960
2017 (\$63,900)	<\$31,950	\$31,950 to <\$51,120	\$51,120 to <\$76,680	≥\$76,680
<i>Source: FFIEC</i>				

During the entire evaluation period, all middle-income CTs in Adair County have been designated as underserved. The following sections discuss demographic and economic information for the two AAs.

### Des Moines AA

#### **Economic and Demographic Data**

Based on the 2015 ACS data, the Des Moines AA consists of three middle-income CTs and one moderate-income CT. The following table illustrates select demographic characteristics of the Des Moines AA.

Demographic Information of the Assessment Area						
Assessment Area: Des Moines						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.0	25.0	75.0	0.0	0.0
Population by Geography	19,484	0.0	26.6	73.4	0.0	0.0
Housing Units by Geography	8,300	0.0	27.2	72.8	0.0	0.0
Owner-Occupied Units by Geography	5,926	0.0	19.7	80.3	0.0	0.0
Occupied Rental Units by Geography	1,776	0.0	56.2	43.8	0.0	0.0
Vacant Units by Geography	598	0.0	15.1	84.9	0.0	0.0
Businesses by Geography	1,402	0.0	30.5	69.5	0.0	0.0
Farms by Geography	264	0.0	6.1	93.9	0.0	0.0
Family Distribution by Income Level	5,362	18.7	21.7	24.2	35.4	0.0
Household Distribution by Income Level	7,702	22.8	16.0	21.6	39.6	0.0
Median Family Income MSA - 19780 Des Moines-West Des Moines, IA MSA		\$76,385	Median Housing Value			\$159,774
			Median Gross Rent			\$807
			Families Below Poverty Level			3.9%
Source: 2010 U.S. Census & 2015 ACS and 2017 D&B Data Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The analysis of small farm and small business loans under the borrower profile criterion compares the distribution of farms and businesses by gross annual revenue level. According to 2017 D&B data, there were 264 farms in the AA. Revenues for these farms are listed below.

- 99.2 percent have \$1 million or less.
- 0.4 percent has more than \$1 million.
- 0.4 percent have unknown revenues.

The 2012 Agricultural Census data shows that approximately 58 percent of all agricultural operations in the two counties that comprise this AA do not borrow, indicating that approximately 42 percent of agricultural operations in the AA have credit needs. The data also shows that 39 percent of the farmers are classified as full-time farmers, indicating that the remaining 61 percent likely have other sources of revenue.

A comparison of 2007 and 2012 Agricultural Census reports reveals that the number of farms increased by 1.0 percent, and the average size of farms decreased by 3.0 percent in Madison County. The number of farms in Warren County increased by 12.0 percent, while the average size of farms decreased by 2.0 percent. During the same period, the State of Iowa reported a 5.0



percent decrease in the number of farms, and a 4.0 percent increase in the average size of farms. The contrary trends in these counties reflect the increasingly urban influence leading to more and smaller homesteads.

According to 2017 D&B data, there were 1,402 businesses in the AA. Revenues for these businesses are listed below.

- 86.3 percent have \$1 million or less.
- 3.9 percent have more than \$1 million.
- 9.8 percent have unknown revenues.

According to 2017 D&B data, service industries represent the largest portion of farm and business operations at 38.9 percent; followed by agriculture, forestry, and fishing service industries at 16.2 percent; construction at 12.4 percent, and retail trade at 10.2 percent. In addition, 83.7 percent of AA farms and businesses have four or fewer employees, and 91.8 percent operate from a single location.

Average Unemployment Rates				
Area	2015	2016	2017	Oct 2018
	%	%	%	%
Madison County	4.0	3.5	3.6	2.3
Warren County	3.5	3.2	2.8	1.7
<b>Iowa Average</b>	<b>3.8</b>	<b>3.6</b>	<b>3.1</b>	<b>2.4</b>
<b>National Average</b>	<b>5.3</b>	<b>4.9</b>	<b>4.4</b>	<b>3.7</b>
<i>Source: Bureau of Labor Statistics</i>				

The AA's unemployment rate is relatively low, reflecting a healthy economy. As illustrated, the unemployment rates for the counties in the AA generally declined from 2015 to May 2018, similar to the State of Iowa and the nation as a whole. The unemployment rates of the AA counties are similar to the rate for Iowa and well below the national rate.

### **Competition**

The AA is considered competitive in the market for financial services. The FDIC Deposit Market Share Report as of June 2018 reflects 11 FDIC-insured institutions operating from 24 locations within Madison and Warren counties. These institutions range from small community banks to larger financial institutions operating branch locations in the area. FMSB ranks 3rd with 13.3 percent of deposit market share.

### **Community Contact**

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying the credit needs and economic conditions of the community. This information helps determine whether local financial institutions are responsive to community credit needs and provides context regarding available opportunities for area financial institutions. In conjunction with this evaluation, examiners conducted an interview with a local economic development organization in the Des Moines AA. The contact stated that residential real estate construction within rural Madison County is significant and increasing. They state recent apartment construction has increased rental units in the area, but an overall lack of affordable housing in the

area persists. Furthermore, the contact stated targeted down payment programs exist and encourage home ownership and long-term residency. The contact stated that it was a difficult year for agriculture overall, but income for landowners is buoyed by rental income from windmill projects. In addition, livestock has helped maintain income for some farmers. Furthermore, the contact stated that local business conditions in Madison County were relatively positive. While there is not currently significant growth, the contact mentioned all but one vacant commercial building in downtown Winterset has been filled in the last two years. Additionally, they stated the largest employers are public schools, a hospital, and local governments. The contact was not aware of any illegal or discriminatory credit practices by local financial institutions. Overall, the contact had a positive perception of local financial institutions and indicated that credit needs are being reasonably met.

Considering information from the community contact, bank management, demographic and economic data, and Call Report data, examiners determined that small farm, small business, and home mortgage loans, including affordable housing, represent primary credit needs in the Des Moines AA. Opportunity exists for originating such loans in light of the decline in agricultural commodity prices, small business expansion, and the need for affordable housing in the area.

#### Nonmetropolitan AA

#### **Economic and Demographic Data**

Based on the 2015 ACS data, the Nonmetropolitan AA consists of four middle-income CTs. The following table illustrates select demographic characteristics of the AA.

Demographic Information of the Assessment Area						
Assessment Area: Nonmetropolitan AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.0	0.0	100.0	0.0	0.0
Population by Geography	9,768	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	4,800	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	3,226	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,003	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	571	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	664	0.0	0.0	100.0	0.0	0.0
Farms by Geography	256	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,698	19.4	20.2	27.3	33.1	0.0
Household Distribution by Income Level	4,229	24.0	16.6	23.9	35.5	0.0
Median Family Income Nonmetropolitan IA		\$61,934	Median Housing Value			\$90,856
			Median Gross Rent			\$580
			Families Below Poverty Level			7.7%
Source: 2010 U.S. Census & 2015 ACS and 2017 D&B Data; Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The analysis of small farm loans under the Borrower Profile criterion compares the distribution of farms by gross annual revenue level. According to 2017 D&B data, there were 256 farms in the AA. Revenues for these farms are listed below.

- 98.0 percent have \$1 million or less.
- 1.6 percent has more than \$1 million.
- 0.4 percent have unknown revenues.

According to 2017 D&B data, the largest industries in the AA as a percentage of total industries are: services at 35.7 percent; agriculture, forestry, and fishing at 26.9 percent; and retail trade at 10.7 percent. In addition, 81.4 percent of area farms and businesses have 4 or fewer employees, and 87.5 percent operate from a single location.

The 2012 Agricultural Census data shows that approximately 47 percent of all agricultural operations in the counties within the AA do not borrow, thus no more than 53 percent of agricultural operations in the assessment area have credit needs. The data also shows that 50 percent of the farmers in the counties within the AA are classified as full-time farmers, indicating that the remaining 50 percent likely have other sources of revenue.

A comparison of 2007 and 2012 Agricultural Census reports reveals that the number of farms decreased by 5.0 percent, and the average size of farms increased by 10.0 percent in Adair County. The number of farms in Union County decreased by 5.0 percent, while the average size of farms increased by 5.0 percent. During the same period, the State of Iowa reported a 5.0 percent decrease in the number of farms, and a 4.0 percent increase in the average size of farms.

<b>Average Unemployment Rates</b>				
<b>Area</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Oct 2018</b>
	%	%	%	%
Adair County	3.3	3.0	2.8	1.7
Union County	4.2	3.8	3.1	2.7
<b>Iowa Average</b>	<b>3.8</b>	<b>3.6</b>	<b>3.1</b>	<b>2.4</b>
<b>National Average</b>	<b>5.3</b>	<b>4.9</b>	<b>4.4</b>	<b>3.7</b>
<i>Source: Bureau of Labor Statistics</i>				

The AA's unemployment rate is relatively low, reflecting a healthy economy. As illustrated, the unemployment rates for the counties in the AA generally declined from 2015 to October 2018, similar to the State of Iowa and the nation as a whole. The unemployment rates of the AA counties are similar to the rate for Iowa and well below the national rate.

### **Competition**

The AA is considered competitive in the market for financial services. The FDIC Deposit Market Share Report as of June 2018 reflects 10 FDIC-insured institutions operating from 16 locations within Adair and Union counties. These institutions range from small community banks to larger financial institutions operating branch locations in the area. FMSB ranks 8<sup>th</sup> with 3.2 percent of deposit market share.

### **Community Contact**

As part of the evaluation process, examiners contact third parties active in the AA to assist in identifying the credit needs and economic conditions of the community. This information helps determine whether local financial institutions are responsive to community credit needs and provides context regarding available opportunities for area financial institutions. Examiners referenced one existing community contact conducted with a community development organization operating in the rural part of the AA.

The contact stated the agricultural economy is stable to declining due to reduced land values and commodity prices over the past few years. However, the contact stated the benefit of this was livestock farmers are experiencing lower feed prices. The contact stated the greatest credit need was funding for agricultural start-up operations. Start-up operations are challenged by the lack of capital required by local banks as farms have been increasing in size and borrowing needs. Since start-up operations generally require more capital than existing operations and carry more risk, it has been difficult for start-up operations to find financing. The contact stated the commercial economy was stable. Support services of the agricultural sector are stable and some businesses in the area are expanding. The contact stated the greatest credit need is for expansion and working capital loans for commercial borrowers. The contact stated they were not able to express an opinion on housing in the area. The contact was not aware of any illegal or discriminatory credit practices by local financial institutions. Overall, the contact had a positive perception of local financial institutions and indicated that credit needs are being reasonably met.

Considering the information from the community contact, bank management, and demographic and economic data, examiners determined that small farm loans are a primary credit need of the Nonmetropolitan AA.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

FMSB demonstrated reasonable performance under the Lending Test. The performance under AA Concentration, Borrower Profile, and Geographic Distribution primarily support this conclusion.

### **Loan-to-Deposit Ratio**

FMSB's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and AAs credit needs. The bank's net loan-to-deposit ratio, calculated from Call Report data, averaged 65.9 percent over the past 23 calendar quarters from March 31, 2013, to September 30, 2018. The ratio ranged from a low of 58.8 percent as of March 31, 2014, to a high of 73.2 percent as of June 30, 2015. As of September 30, 2018, FMSB's net loan-to-deposit ratio was 67.7 percent.

Over the prior 22 quarter-ends, the bank's loan-to-deposit ratio reveals a steady trend. Assets have grown 3.7 percent while deposits have grown 7.3 percent since the previous evaluation, but loans have increased approximately 12 percent during that time. As previously mentioned, management stated this increase is due to FMSB's normal loan portfolio growth in agricultural lending.

Historically, FMSB loan-to-deposit ratio averaged 76 percent during the prior evaluation period but had declined to 63 percent before the current evaluation period. Management explained that Farm Services is a major competitor for farm lending and that the lending portfolio is under continuing pressure for those loans.

Examiners compared the bank's average net loan-to-deposit ratio to four similarly-situated financial institutions to help evaluate its reasonableness. These institutions were considered similarly-situated due to similarities in size, business focus, resources, markets served, market conditions, and product mix. FMSB's average net loan-to-deposit is the lowest in the group as reflected in the next table.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 09/30/18 \$(000s)</b>	<b>Average Net Loan- to-Deposit Ratio (%)</b>
<b>Farmers &amp; Merchants State Bank, Winterset, Iowa</b>	<b>189,692</b>	<b>65.9</b>
Iowa State Savings Bank, Creston, Iowa	200,400	83.4
The First National Bank, Creston, Iowa	253,824	90.7
FNB Bank, Fontanelle, Iowa	198,866	88.3
American State Bank, Osceola, Iowa	211,847	83.9
<i>Source: Call Reports 03/31/13 through 09/30/18</i>		

Management responded that the listed banks are not true competitors in the Des Moines AA. The rural areas where the comparable banks are located are true agricultural areas. The only true comparable bank for the Winterset area is Union State Bank, also of Winterset, Iowa, with \$89 million in assets and an average net loan-to-deposit ratio of 63.3 percent. Management explained that Winterset is an established bedroom community where many residents commute to nearby Des Moines both for work and for banking.

Another major factor which is contributing to the downward pressure on the net loan-to-deposit ratio has been the shifting of the deposit base to short-term government funds. There are over \$32 million in public deposits, because the bank has become the repository for several local governments and bond issues pending disbursements.

The institution also has the ability to originate mortgage loans through secondary market relationships; these loans are not included in the table above. FMSB originated 132 home mortgage loans totaling \$23,744,000 through the secondary market for the last eleven months of 2013 through July 2018.

FMSB does not have a fixed loan-to-deposit goal, but tries to make all loans it can in its AAs. The community contact commented that the local Winterset banks are doing a good job of meeting local credit needs. Overall, FMSB is maintaining a reasonable net loan-to-deposit ratio given the deposit mix, area credit needs, and opportunities for extending credit.

## **AA Concentration**

The bank made a majority of its small farm loans, small business loans, and home mortgage loans, by number and dollar volume, within its AAs. These results reflect management's commitment to lend within the local communities. See the following table.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total  #	Dollar Amount of Loans \$(000s)				Total  \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2016	43	84.3	8	15.7	51	4,649	89.7	536	10.3	5,185
2017	47	87.0	7	13.0	54	6,159	87.9	850	12.1	7,009
Subtotal	90	85.7	15	14.3	105	10,808	88.6	1,386	11.4	12,194
Small Business	25	96.2	1	3.8	26	2,461	98.4	40	1.6	2,501
Small Farm	55	90.2	6	9.8	61	4,515	94.6	257	5.4	4,772
Source: Bank data; Due to rounding, totals may not equal 100.0										
HMDA Evaluation Period: 1/1/2016 - 12/31/2017										
Small Business and Small Farm Evaluation Period: 1/1/2017 - 12/31/2017										

## **Geographic Distribution**

The geographic distribution of loans reflects an overall excellent dispersion, indicating the bank's willingness to extend loans throughout the AAs. Examiners focused on the percentage by number of loans in low- and moderate-income CTs. Since the Nonmetropolitan AA consists of four middle- income CTs, review of this criterion would not result in meaningful conclusions for that AA. Therefore, conclusions reached for this criterion relied solely on FMSB's performance in the Des Moines AA.

### **Des Moines AA**

FMSB's performance in the Des Moines AA under this criterion is considered excellent. The bank's excellent small farm, small business, and home mortgage lending performance support this conclusion.

### **Small Farm Loans**

The distribution of small farm borrowers reflects excellent distribution of loans to farms in low- and moderate-income CTs. The following table shows that 13.3 percent of the sampled small farm loans were originated in the moderate-income CT, which is more than twice the demographics that reported that 6.1 percent of farms in the AA are located in the moderate-income CT.

<b>Geographic Distribution of Small Farm Loans</b>					
<b>Assessment Area: Des Moines</b>					
<b>Tract Income Level</b>	<b>% of Farms</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	0.0	0	0.0	0	0.0
Moderate	6.1	4	13.3	676	23.4
Middle	93.9	26	86.7	2,211	76.6
Upper	0.0	0	0.0	0	0.0
Not Available	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>30</b>	<b>100.0</b>	<b>2,887</b>	<b>100.0</b>
<i>Source: 2017 D&amp;B Data; Bank Data. Due to rounding, totals may not equal 100.0</i>					

### ***Small Business Loans***

The distribution of small business borrowers reflects excellent distribution of loans to businesses in low- and moderate-income CTs. The following table shows that 60.0 percent of the sampled small business loans were originated in the moderate-income CT, which is approximately double the demographics that reported that 30.5 percent of businesses in the AA are located in the moderate-income CT.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Assessment Area: Des Moines</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	0.0	0	0.0	0	0.0
Moderate	30.5	15	60.0	710	28.9
Middle	69.5	10	40.0	1,750	71.1
Upper	0.0	0	0.0	0	0.0
Not Available	0.0	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>	<b>2,460</b>	<b>100.0</b>
<i>Source: 2017 D&amp;B Data; Bank Data. Due to rounding, totals may not equal 100.0</i>					

### ***Home Mortgage Loans***

The distribution of home mortgage borrowers reflects excellent distribution of loans to borrowers in low- and moderate-income CTs. The following table shows that 44.1 and 48.7 percent of the home mortgage loans were originated in the moderate-income CT, which exceeds the aggregate lending data for both years. Further, the FMSB percentage is increasing while the aggregate lending data shows a decreasing trend.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Des Moines						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	0.0	0.0	0	0.0	0	0.0
2017	0.0	0.0	0	0.0	0	0.0
Moderate						
2016	24.9	27.0	15	44.1	1,198	30.7
2017	19.7	25.4	19	48.7	1,529	28.6
Middle						
2016	75.1	73.0	19	55.9	2,710	69.3
2017	80.3	74.6	20	51.3	3,812	71.4
Upper						
2016	0.0	0.0	0	0.0	0	0.0
2017	0.0	0.0	0	0.0	0	0.0
Totals						
2016	100.0	100.0	34	100.0	3,908	100.0
2017	100.0	100.0	39	100.0	5,341	100.0

Source: 2010 U.S. Census & 2015 ACS; 1/1/2016 - 12/31/2017 Bank Data, 2016 & 2017 HMDA Aggregate Data,  
Due to rounding, totals may not equal 100.0

### Nonmetropolitan AA

The bank's performance in the Nonmetropolitan AA under this performance criterion was not evaluated because there are no low- or moderate-income CTs in the AA.

### Borrower Profile

The distribution of borrowers reflects an overall reasonable penetration among farms and businesses of different revenue sizes and individuals of different income levels (including low- and moderate-income) in both the Des Moines and the Nonmetropolitan AAs. Examiners focused on the percentage by number of small farm and small business loans to farms and businesses with GARs of \$1 million or less, and home mortgage loans to low- and moderate-income borrowers.

The bank's reasonable performance in both AAs supports this conclusion. Only loans originated inside the AAs were analyzed. As previously indicated, small business loans were only reviewed in the Des Moines AA. Refer to comments under each separately analyzed AA for more specific analysis.



### Des Moines AA

The loan distribution by borrower income reflects reasonable penetration among farms and businesses of different revenue sizes and individuals of different income levels. The bank's reasonable performance of small farm, small business, and home mortgage lending supports this conclusion.

#### **Small Farm Loans**

The distribution of small farm borrowers reflects reasonable penetration of loans to farms with GARs of \$1 million or less.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Des Moines					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	99.2	28	93.3	2,137	74.0
>1,000,000	0.4	2	6.7	750	26.0
Revenue Not Available	0.4	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>30</b>	<b>100.0</b>	<b>2,887</b>	<b>100.0</b>
Source: 2017 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0					

The table shows that 93.3 percent of the sampled small farm loans were originated to farms with GARs of \$1 million or less, which compares reasonably to the D&B data. Furthermore, 2012 Ag Census data shows 61 percent of farm operations in the counties that make up the Des Moines AA have occupations other than farming. The Census data also shows that 58 percent of farmers pay no loan interest. Finally, a majority of farms (56 percent) report sales less than \$10,000, indicated limited lending needs. This information suggests, and management concurred, that there is a large volume of hobby farms and small homesteads, having other primary sources of income, or operating with little to no borrowing needs.

#### **Small Business Loans**

The distribution of small business borrowers reflects reasonable penetration of loans to businesses with GARs of \$1 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Des Moines					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	86.3	22	88.0	1,893	77.0
>1,000,000	3.9	3	12.0	567	23.0
Revenue Not Available	9.8	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>	<b>2,460</b>	<b>100.0</b>
Source: 2017 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0					

The table shows that 88.0 percent of the sampled small business loans were originated to businesses with GARs of \$1 million or less. This performance compares reasonably to D&B data, which reported 86.3 percent of small businesses fall into this revenue category.

### ***Home Mortgage Loans***

The distribution of home mortgage borrowers reflects reasonable penetration of loans to low-income borrowers and excellent penetration to moderate-income borrowers. Overall, performance in this criterion is reasonable.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Assessment Area: Des Moines</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2016	20.7	8.6	6	17.6	453	11.6
2017	18.7	12.9	4	10.3	132	2.5
<b>Moderate</b>						
2016	19.9	15.9	10	29.4	595	15.2
2017	21.7	18.1	10	25.6	860	16.1
<b>Middle</b>						
2016	21.8	23.4	5	14.7	511	13.1
2017	24.2	20.0	6	15.4	296	5.5
<b>Upper</b>						
2016	37.7	38.9	10	29.4	2,203	56.4
2017	35.4	32.8	12	30.8	3,388	63.4
<b>Not Available</b>						
2016	0.0	13.2	3	8.8	146	3.7
2017	0.0	16.2	7	17.9	665	12.5
<b>Totals</b>						
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>34</b>	<b>100.0</b>	<b>3,908</b>	<b>100.0</b>
<b>2017</b>	<b>100.0</b>	<b>100.0</b>	<b>39</b>	<b>100.0</b>	<b>5,341</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census &amp; 2015 ACS ; 1/1/2016 - 12/31/2017 Bank Data, 2016 &amp; 2017 HMDA Aggregate Data, Due to rounding, totals may not equal 100.0</i>						

In 2016, the bank's originations to low-income borrowers exceeded aggregate data. Originations to low-income borrowers in 2017 were 10.3 percent, which is slightly below aggregate lending percentage of 12.9 percent. According to 2015 ACS data, 21 percent of low-income borrowers are below the poverty line. Median housing value in the AA is \$150,852, indicating low-income families may have difficulty qualifying for a mortgage under conventional underwriting

standards. Management noted that individuals with incomes below the poverty level have difficulty meeting the 20 percent down payment and limits on debt-to-income requirements. Based on these factors, lending to low-income borrowers is reasonable.

Originations to moderate-income borrowers in 2017 were 25.6 percent, which is significantly above aggregate lending of 18.1 percent. In 2016, the origination rates were higher, at 29.4 percent, and also exceeded aggregate data. Based on the comparison to aggregate data, lending to moderate-income borrowers is excellent.

A declining trend in lending to low- and moderate-income borrowers is noted. This trend is offset by increased lending to investors. Management noted that 8 out of 10 of the loans to investors, shown as “income not available” were for average loan amounts of less than \$60,000 and were affordable rental properties. FMSB is also financing multi-family units, which qualify for affordable housing. Management has worked closely with local economic development agencies to facilitate affordable housing through the process of developing planned urban development projects which have created duplexes with affordable housing, most recently 40 units (80 homes).

#### Nonmetropolitan AA

The loan distribution by borrower revenues and incomes reflects overall reasonable penetration among farms of different revenue sizes and individuals of different income levels. The bank’s excellent small farm lending performance and reasonable home mortgage lending performance supports this conclusion.

#### **Small Farm Loans**

The distribution of small farm borrowers reflects excellent penetration of loans to farms with GARs of \$1 million or less. The following table shows that 100.0 of the sampled small farm loans were originated to farms with GARs of \$1 million or less. Comparatively, D&B data reported that there were 98.0 percent of farms in the AA with GARs of \$1 million or less.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: Nonmetropolitan AA					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.0	25	100.0	1,628	100.0
>1,000,000	1.6	0	0.0	0	0.0
Revenue Not Available	0.4	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>	<b>1,628</b>	<b>100.0</b>
Source: 2017 D&B Data, 1/1/2017 - 12/31/2017 Bank Data. Due to rounding, totals may not equal 100.0					

## Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Nonmetropolitan AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	15.7	10.8	1	11.1	31	4.2
2017	19.4	8.1	0	0.0	0	0.0
Moderate						
2016	18.0	23.8	3	33.3	137	18.5
2017	20.2	29.5	3	37.5	124	15.2
Middle						
2016	29.9	20.5	0	0.0	0	0.0
2017	27.3	25.6	2	25.0	158	19.3
Upper						
2016	36.4	31.4	5	55.6	573	77.3
2017	33.1	22.7	2	25.0	487	59.5
Not Available						
2016	0.0	13.5	0	0.0	0	0.0
2017	0.0	14.1	1	12.5	49	6.0
Totals						
2016	100.0	100.0	9	100.0	741	100.0
2017	100.0	100.0	8	100.0	818	100.0

Source: 2010 U.S. Census & 2015 ACS ; 1/1/2016 - 12/31/2017 Bank Data, 2016 & 2017 HMDA Aggregate Data, "--" data not available.  
Due to rounding, totals may not equal 100.0

Originations to low-income borrowers in 2016 were comparable to the aggregate lending percentage, although only one loan was reported. In 2017, there were no loans, which is below the aggregate lending of 8.1 percent. Management noted the one investor loan for \$49,000 in 2017 was for affordable housing. The limited volume was likewise attributed to the competitive market and FMSB's limited presence of a single lender in Adair County.

According to 2015 ACS data, 39.7 percent of low-income borrowers are below the poverty line. Median housing value in the AA is \$90,856, indicating low-income families may have difficulty qualifying for a mortgage under conventional underwriting standards. However, this level of lending is reasonable, especially taking into account that 39.7 percent of the low-income families in the assessment area are below the poverty level. Based on calculations derived from the

average median housing values within the assessment area and industry-standard underwriting criteria, these low-income families are more likely to experience difficulty qualifying for home loans due to monthly payment and down-payment requirements.

During the evaluation period, originations to moderate-income borrowers in 2016 were 33.3 percent, which is much higher than comparable aggregate lending data of 23.8 percent. In 2017, originations to moderate-income borrowers were 37.5 percent, which is above comparable aggregate lending data of 29.5 percent. This is considered to be excellent performance.

Overall, the bank's performance lending to borrowers of different income levels is reasonable.

#### **Response to Complaints**

As stated previously, the institution has not received any CRA-related complaints since the prior evaluation; therefore, this factor did not affect the rating.

### **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this area of review did not affect the institution's overall CRA rating.

## 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.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**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.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family 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).

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, 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 that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

**Home Mortgage Loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

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

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, 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 Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**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 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 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area:** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**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.

**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.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

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

**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.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.