

PUBLIC DISCLOSURE

December 3, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers and Merchants State Bank
Certificate Number: 15610

101 West Jefferson Street
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.

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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, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Farmers and Merchants State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and credit needs of the assessment areas.
- A majority of small farm, small business, and home mortgage loans are inside the bank's assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the applicable assessment area.
- The overall distribution of borrowers reflects reasonable penetration of lending among farms and businesses of different revenue sizes, as well as individuals of different income levels.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

Farmers and Merchants State Bank is a wholly-owned subsidiary of Farmers & Merchants Bancorp, Winterset, Iowa, a one-bank holding company. The institution is headquartered in Winterset and operates two full-service branch offices in Orient and St. Charles, Iowa, and a limited-service facility in Winterset. Management has not opened or closed any offices and has not engaged in any merger or acquisition activities since the prior evaluation. Farmers and Merchants State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation dated December 17, 2018, based on Interagency Small Institution Examination Procedures.

The institution offers various agricultural, commercial, residential real estate, and consumer loan products. Discussion with bank management indicated that they are primarily an agricultural lender, although their philosophy remains to extend quality loans of all types. Farmers and Merchants State Bank offers specialized credit products through arrangements with the Small Business Administration, Farm Service Agency, and the U.S. Department of Agriculture. The bank also offers long-term residential real estate financing through a secondary market relationship. Further, the bank provides a variety of deposit-related products that include checking, savings, money market, certificate of deposit, and individual retirement accounts. Alternative banking products and services include debit cards, direct deposit, online and mobile banking, electronic statements, and electronic bill payment. The bank also offers trust services. Finally, four automated teller machines are operated at each office; two of which are deposit taking.

Farmers and Merchants State Bank also implemented measures to accommodate customers affected by the COVID-19 pandemic. Specifically, the bank maintained normal business hours throughout the pandemic and offered a skip-a-payment option to consumer (non-real estate) loan customers; 76 customers took advantage of this service. Such efforts are considered highly responsive to the needs of low- and moderate-income individuals, small businesses, and small farms affected by the pandemic.

Assets totaled approximately \$239.8 million as of September 30, 2024, representing an increase of 26.4 percent since the September 30, 2018, Consolidated Reports of Condition and Income (Call Report). Total deposits equaled approximately \$211.7 million, representing a 27.2 percent increase, and total loans equaled approximately \$150.1 million, representing a 31.9 percent increase during the same timeframe. Management indicated that the increases are attributed to organic growth over time. The following table illustrates the composition of the loan portfolio as of September 30, 2024.

Loan Portfolio Distribution as of 9/30/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	7,947	5.3
Secured by Farmland	40,788	27.2
Secured by 1-4 Family Residential Properties	35,385	23.6
Secured by Multifamily (5 or more) Residential Properties	155	0.1
Secured by Nonfarm Nonresidential Properties	12,261	8.2
Total Real Estate Loans	96,536	64.4
Commercial and Industrial Loans	8,768	5.8
Agricultural Production and Other Loans to Farmers	35,096	23.4
Consumer Loans	8,480	5.6
Other Loans	1,218	0.8
Lease Financing Receivable (net of unearned income)	0	0
Less: Unearned Income	(0)	(0)
Total Loans	150,098	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the credit needs of its assessment areas.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which examiners will evaluate its CRA performance. Farmers and Merchants State Bank has defined two separate but contiguous geographic areas within the State of Iowa encompassing nine census tracts dispersed among Adair, Madison, Union, and Warren counties. The counties of Madison and Warren lie within the Des Moines-West Des Moines, Iowa Metropolitan Statistical Area; thus, these portions of the bank's lending area are analyzed and presented as the "Des Moines Assessment Area." Conversely, Adair and Union counties lie within the nonmetropolitan portion of Iowa; these portions of the bank's lending area are analyzed and presented as the "Nonmetropolitan Assessment Area." Refer to subsequent sections for detailed information on each assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated December 17, 2018, to the current evaluation date of December 3, 2024. Examiners used Interagency Small Institution Examination Procedures to evaluate Farmers and Merchants State Bank's CRA performance. These procedures include a Lending Test, which is further described in the Appendices. Examiners conducted full-scope reviews of the institution's two distinct lending areas. The evaluation attributed greater weight to results from the Des Moines Assessment Area given its market share of lending and bank offices. The following table reflects the distribution of loans, deposits, and branches by assessment area.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Des Moines	137,844	95.0	184,791	88.2	3	75.0
Nonmetropolitan	7,076	5.0	24,765	11.8	1	25.0
Total	144,920	100.0	209,556	100.0	4	100.0
Source: Bank Data (original amounts of outstanding agriculture, commercial, and residential real estate loans originated during the review period); FDIC Summary of Deposits (6/30/2024). Due to rounding, totals may not equal 100.0%.						

Activities Reviewed

Examiners determined that the institution's major product lines are agricultural, commercial, and residential real estate loans. This conclusion considered the bank's business focus, loan portfolio composition, and lending activity during the evaluation period. Therefore, small farm, small business, and home mortgage lending were reviewed at the current evaluation. Based on the same aforementioned factors, examiners attributed greater weight to small farm lending within both assessment areas when arriving at overall Lending Test conclusions.

Management stated that the loan activity during 2023 was representative of the bank's performance during the evaluation period. For the Assessment Area Concentration review, examiners evaluated lending performance based on all small farm and small business loans originated in calendar year 2023, as well as Home Mortgage Disclosure Act (HMDA) data collected and reported for 2023. For the Geographic Distribution review, examiners evaluated lending performance using all loans granted inside the Des Moines Assessment Area. For the Borrower Profile analysis, examiners evaluated all home mortgage loans, and a sample of small farm loans, originated inside both assessment areas. In addition, examiners evaluated a sample of small business loans granted inside the Des Moines Assessment Area; however, all small business loans granted inside the Nonmetropolitan Assessment Area were reviewed due to lower volume. The following table provides universe and sample information.

Loan Products Reviewed						
Loan Category	Universe		Universe Inside Assessment Areas		Reviewed*	
	#	\$(000s)	#	\$(000s)	#	\$(000s)
Small Farm	324	26,754	284	23,743	59	4,603
Small Business	126	12,861	105	10,980	57	4,684
Home Mortgage	65	9,191	50	7,528	50	7,528
Source: Bank Data; HMDA Reported Data; (*) Loans reviewed for the Borrower Profile Analysis.						

When arriving at small farm and small business conclusions, 2023 D&B data provided a standard of comparison. For home mortgage conclusions, 2020 U.S. Census data and 2023 HMDA aggregate data provided a standard of comparison. Examiners primarily focused on lending performance to aggregate data since it is typically a better indicator of market conditions and loan demand.

Examiners obtained the data necessary for this evaluation from the automated loan download, institution records, individual customer loan files, and interviews with bank management.

Examiners analyzed lending performance by both number and dollar volume of loans. However, examiners emphasized performance by number of loans when evaluating Geographic Distribution and Borrower Profile criteria as it is generally a better indicator of the number of farms, businesses, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Farmers and Merchants State Bank demonstrated reasonable performance under the Lending Test. The bank's Loan-to-Deposit Ratio, Assessment Area Concentration, Geographic Distribution, and Borrower Profile performance supports this conclusion. The following sections describe each performance criterion and how they support the overall rating.

Loan-to-Deposit Ratio

Farmers and Merchants State Bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's net loan-to-deposit ratio, calculated from Call Report data, averaged 65.9 percent over the 24 calendar quarters from December 31, 2018, to September 30, 2024. The net loan-to-deposit ratio ranged from a low of 58.1 percent as of March 31, 2022, to a high of 72.9 percent as of March 31, 2020. The bank's average net-loan-to-deposit ratio was also 65.9 percent at the last evaluation.

During the review period, bank's loan-to-deposit ratio reveals fluctuation but has remained steady and on an increasing trend. Management explained that the oscillating activity is tied to the cyclical nature of the agricultural business. As noted previously, both total loans and deposits have experienced growth; however, total loans have outpaced deposits by 4.7 percentage points. This shows the bank's commitment to extending credit.

Examiners compared the bank's average net-loan-to-deposit ratio with those of four similarly-situated institutions. Along with one other institution, Farmers and Merchants State Bank's average net loan-to-deposit ratio was the lowest in the group, as reflected in the following table. Comparable institutions were selected based on similarities in lending focus, asset size, and markets served. For the period reviewed, ratios of the other banks ranged from a low of 56.7 percent to a high of 101.6 percent.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/24 (\$000s)	Average Net Loan-to-Deposit Ratio (%)
Farmers and Merchants State Bank, Winterset, Iowa	239,750	65.9
Iowa State Savings Bank, Creston, Iowa	257,140	65.9
FNB Bank, Fontanelle, Iowa	271,375	93.0
American State Bank, Osceola, Iowa	326,613	83.2
Union State Bank, Greenfield, Iowa	128,529	82.2
<i>Source: Reports of Condition and Income 12/31/2018 – 9/30/2024</i>		

Further, Farmers and Merchants State Bank originates mortgage applications through the secondary market; these transactions are not reflected in the loan-to-deposit ratio. Since the previous evaluation, the institution has originated and sold 86 home mortgage loans totaling over \$18.2 million to the secondary market. While secondary market activity does not influence the average net loan-to-deposit ratio, this outlet offers additional options to home mortgage borrowers and provide liquidity to originate other loans. Secondary market lending is responsive to assessment area credit needs by providing long-term home mortgage financing.

Assessment Area Concentration

The bank made a majority of small farm, small business, and home mortgage loans, by number and dollar volume, within its assessment areas. Overall, this concentration demonstrates the bank's willingness to meet the credit needs of the assessment areas. See the following table for details.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans				Total (000s) \$
	Inside		Outside			Inside (000s)		Outside (000s)		
	#	%	#	%		\$	%	\$	%	
Small Farm	284	87.7	40	12.3	324	23,743	88.7	3,011	11.3	26,754
Small Business	105	83.3	21	16.7	126	10,980	85.4	1,881	14.6	12,861
Home Mortgage	50	76.9	15	23.1	65	7,528	81.9	1,663	18.1	9,191
Source: Bank Data; HMDA Data. Due to rounding, totals may not equal 100.0%										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the Des Moines Assessment Area. The review of this criterion focused on the institution's record of lending in the single moderate-income census tract within the Des Moines Assessment Area. The Nonmetropolitan Assessment Area has no low- or moderate-income census tracts. Refer to comments under the Des Moines Assessment Area for a more specific analysis.

Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration among farms and businesses of varying sizes and individuals of differing income levels. The bank's reasonable lending performance in both assessment areas supports this conclusion. Examiners focused on the number of loans to farms and businesses with gross annual revenues of \$1 million or less, and on the number of home mortgage loans to low- and moderate-income borrowers. Refer to comments under each separately analyzed assessment area for a more specific analysis.

Response to Complaints

The institution did not receive any CRA-related complaints since the prior evaluation; therefore, this criterion did not affect the rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping meet community credit needs.

DES MOINES ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN DES MOINES ASSESSMENT AREA

The Des Moines Assessment Area is comprised of Madison County in its entirety and Warren County census tract 212. This assessment area encompasses three of Farmers and Merchants State Bank's offices.

Economic and Demographic Data

According to 2020 U.S. Census data, this assessment area is comprised of one moderate- and four middle-income census tracts. A comparison of 2015 American Community Survey data with the most recent 2020 U.S. Census evidences that a single Madison County geography was divided to create census tracts 601.01 and 601.02. The following table illustrates select demographic characteristics of the Des Moines Assessment Area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.0	20.0	80.0	0.0	0.0
Population by Geography	20,369	0.0	25.7	74.3	0.0	0.0
Housing Units by Geography	8,754	0.0	29.1	70.9	0.0	0.0
Owner-Occupied Units by Geography	6,593	0.0	24.4	75.6	0.0	0.0
Occupied Rental Units by Geography	1,553	0.0	52.8	47.2	0.0	0.0
Vacant Units by Geography	608	0.0	19.6	80.4	0.0	0.0
Businesses by Geography	2,895	0.0	26.1	73.9	0.0	0.0
Farms by Geography	370	0.0	9.2	90.8	0.0	0.0
Family Distribution by Income Level	6,004	17.0	20.0	23.7	39.4	0.0
Household Distribution by Income Level	8,146	20.7	16.9	19.2	43.2	0.0
Median Family Income - Des Moines-West Des Moines, Iowa Metropolitan Statistical Area		\$89,538	Median Housing Value			\$208,543
			Median Gross Rent			\$816
			Families Below Poverty Level			3.5%
Source: 2020 U.S. Census and 2023 D&B Data. (*) The NA category consists of geographies that have not been assigned an income classification. Due to rounding, totals may not equal 100.0%						

According to 2023 D&B data, service industries represent the largest portion of commercial and agricultural operations in the assessment area at 28.3 percent; followed by non-classifiable entities at 23.0 percent; agriculture, forestry, and fishing at 11.3 percent; and construction at 10.5 percent. Additionally, 67.9 percent of assessment area businesses and farms have four or fewer employees, and 95.7 percent operate from a single location.

The following table details the FFIEC-estimated median family incomes for the Des Moines-West Des Moines, Iowa Metropolitan Statistical Area used to analyze home mortgage lending under the Borrower Profile criterion

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2023 (\$105,000)	<\$52,500	\$52,500 to <\$84,000	\$84,000 to <\$126,000	≥\$126,000
Source: FFIEC				

Competition

The Des Moines Assessment Area is highly competitive with regard to financial services, especially considering the more rural nature of these counties. The FDIC Deposit Market Share Report as of June 2024 reflect 11 institutions operating 24 offices within the two assessment area counties. These institutions range from small community banks to larger financial institutions operating

branch locations inside the area. Farmers and Merchants State Bank ranks 3rd with 11.7 percent of deposit market share.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in understanding economic conditions and identifying credit needs. This information helps to determine whether local financial institutions are responsive to community credit needs and provides context regarding available lending opportunities. For the Des Moines Assessment Area, examiners conducted an interview with an individual from an economic research and education organization that serves Madison County.

The community contact stated that economic conditions in the area are strong. Agriculture is the number one focus in the area and has the greatest impact on the community. In 2023, agricultural conditions were extremely profitable due to high commodity prices and yields. This also left farmers cash heavy and showing limited borrowing need. Ownership changes in agriculture operations is shown due to life events of older generation farmers and as larger operations organically absorb the small ones. Input costs and equipment prices are a barrier to beginning farmers.

With respect to the commercial industry, the contact stated that small businesses in the area are very profitable. New businesses have opened and there are less empty storefronts. However, small businesses still struggle to find quality employees in the area and inflation has caused customers to have fewer discretionary dollars to spend. Concerning the housing market, the representative stated that housing continues to be unaffordable. Low- and moderate-income individuals are struggling to afford traditional housing and becoming dependent on multi-family housing options. Higher interest rates have slowed borrowers a bit, but the area is still seeing higher demand than supply. Overall, the contact noted that credit needs are being met and area financial institutions provide a variety of lending options to eligible applicants. There is a high degree of competition for all lending types in the area, but especially for agricultural lending. However, there is also a high degree of loyalty and personal connection to locally-owned banks where many borrowers continue to do business.

Credit Needs

Based on information from the community contact, bank management, and economic and demographic data, examiners determined that commercial, agricultural, and home mortgage loans represent primary credit needs of the Des Moines Assessment Area. Call Reports filed by area financial institutions also support this assertion.

CONCLUSIONS ON PERFORMANCE CRITERIA IN DES MOINES ASSESSMENT AREA

LENDING TEST

Farmers and Merchants State Bank demonstrated reasonable performance under the Lending Test in the Des Moines Assessment Area. This conclusion is supported by the Geographic Distribution and Borrower Profile analyses.

Geographic Distribution

Farmers and Merchants State Bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable performance with respect to small farm and small business loans primarily supports this conclusion.

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion. As shown in the following table, the bank's lending in the moderate-income census tract is less than D&B data. However, the assessment area's sole moderate-income census tract primarily consists of the city of Winterset, where limited agricultural opportunities exist.

Geographic Distribution of Small Farm Loans					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Moderate	9.2	9	5.0	733	5.5
Middle	90.8	171	95.0	12,491	94.5
Totals	100.0	180	100.0	13,224	100.0
<i>Source: 2023 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. As shown in the following table, the bank's lending in the moderate-income census tract exceeds D&B data. Although the bank's percentage of loans in the moderate-income census tract is higher than demographics, examiner review of bank data noted multiple loans were granted to the same borrowers in both tract income level categories. The bank's distribution on the basis of individual borrowers more closely reflects demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	26.1	30	33.0	3,227	31.8
Middle	73.9	61	67.0	6,924	68.2
Totals	100.0	91	100.0	10,151	100.0
<i>Source: 2023 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion. As shown in the following table, Farmers and Merchants State Bank's lending in the moderate-income census tract significantly exceeds both HMDA aggregate and demographic data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate	24.4	26.7	17	40.5	2,092	29.7
Middle	75.6	73.3	25	59.5	4,944	70.3
Totals	100.0	100.0	42	100.0	7,036	100.0
Source: 2020 U.S. Census; Bank Data; 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%						

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of differing sizes, as well as individuals of varying income levels. The bank's reasonable performance with respect to small farm and small business loans primarily supports this conclusion.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different revenue levels given additional considerations. First, Farmers and Merchants State Bank strives to retain and grow existing relationships. This focus is evidenced by borrower relationships initiated with small or start-up operations that continue as the operation grows. The review reflected in the following table includes five loans within the larger revenue category granted customers that management stated have grown during their banking relationship, thereby transitioning from the smaller revenue category. This corroborates comments made by the community contact with respect to customer banking loyalty. Secondly, as reported by the community contact, high commodity prices and yields have resulted in increased revenues for area farmers.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	99.5	29	85.3	1,529	71.8
>\$1,000,000	0.3	5	14.7	600	28.2
Revenue Not Available	0.3	0	0.0	0	0.0
Total	100.0	34	100.0	2,129	100.0
Source: 2023 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.					

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different revenue. Examiner and management comments made in the small farm analysis above with respect to customer growth over time are also true for small business lending. In addition, the community contact mentioned area businesses being very profitable, equating to increased revenue levels. The following table reflects the bank's performance and corresponding demographic data for small business lending in this assessment area.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	92.8	35	81.4	2,764	71.7
>\$1,000,000	1.8	8	18.6	1,091	28.3
Revenue Not Available	5.5	0	0.0	0	0.0
Total	100.0	43	100.0	3,855	100.0
Source: 2023 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%					

Home Mortgage Loans

The overall distribution of home mortgage loans to applicants of different income levels, including low- and moderate-income borrowers, is excellent. As shown in the table below, the institution's performance in lending to low-income borrowers in 2023 exceeds aggregate lending data. Lending to moderate-income borrowers was modestly below that of aggregate lending data. Further review of bank data revealed that 31.0 percent of loans were for investment property. When excluding these loan types, the distribution is shown to be even more favorable to both low- and moderate-income borrowers when evaluated against corresponding census data. Examiners note improved performance when compared to the prior evaluation.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	17.0	11.9	10	23.8	899	12.8
Moderate	20.0	19.5	7	16.7	891	12.7
Middle	23.7	26.0	11	26.2	1,568	22.3
Upper	39.4	28.6	11	26.2	3,202	45.5
Not Available	0.0	13.9	3	7.1	476	6.8
Totals	100.0	100.0	42	100.0	7,036	100.0
Source: 2020 U.S. Census; Bank Data; 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%.						

NONMETROPOLITAN ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NONMETROPOLITAN ASSESSMENT AREA

The Nonmetropolitan Assessment Area is comprised of Adair County in its entirety and Union County census tract 1901. Farmers and Merchants State Bank operates from one branch office in this assessment area.

Economic and Demographic Data

According to 2020 U.S. Census data, this assessment area is comprised of four middle-income census tracts. During the entire evaluation period, all three census tracts in Adair County have been designated as underserved. A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating 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. The following table illustrates select demographic characteristics of the Nonmetropolitan Assessment Area.

Demographic Information of the Assessment Area						
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	9,713	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	4,758	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	2,949	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,161	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	648	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,193	0.0	0.0	100.0	0.0	0.0
Farms by Geography	275	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,625	17.1	18.1	23.0	41.8	0.0
Household Distribution by Income Level	4,110	22.2	18.0	18.2	41.7	0.0
Median Family Income - Nonmetropolitan Iowa		\$71,763	Median Housing Value			\$107,724
			Median Gross Rent			\$608
			Families Below Poverty Level			6.7%
Source: 2020 U.S. Census and 2023 D&B Data. (*) The NA category consists of geographies that have not been assigned an income classification. Due to rounding, totals may not equal 100.0%						

According to 2023 D&B data, service industries represent the largest portion of commercial and agricultural operations in the assessment area at 26.7 percent; followed by non-classifiable entities at 22.0 percent; agriculture, forestry, and fishing at 18.7 percent; and retail trade at 9.1 percent. Additionally, 66.4 percent of assessment area businesses and farms have four or fewer employees, and 91.9 percent operate from a single location.

The following table details the FFIEC-estimated median family incomes for nonmetropolitan Iowa used to analyze home mortgage lending under the Borrower Profile criterion.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2023 (\$86,300)	<\$43,150	\$43,150 to <\$69,040	\$69,040 to <\$103,560	≥\$103,560
Source: FFIEC				

Competition

The Nonmetropolitan Assessment Area is moderately competitive with regard to financial services. The FDIC Deposit Market Share Report as of June 2024 reflect ten institutions operating 16 offices within the two assessment area counties. These institutions range from small community banks to larger financial institutions operating branch locations inside the area. Farmers and Merchants State Bank ranks 8th with 2.9 percent of deposit market share.

Credit Needs

Based on information from bank management and economic and demographic data, examiners determined that agricultural, commercial, and home mortgage loans represent primary credit needs of the Nonmetropolitan Assessment Area. Call reports filed by area financial institutions also support this assertion.

CONCLUSIONS ON PERFORMANCE CRITERIA IN NONMETROPOLITAN ASSESSMENT AREA

LENDING TEST

Farmers and Merchants State Bank demonstrated reasonable performance under the Lending Test in the Nonmetropolitan Assessment Area, as supported by the Borrower Profile analysis.

Geographic Distribution

This assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of differing sizes, as well as individuals of varying income levels. The bank's reasonable performance in all three products supports this conclusion.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different revenue levels given additional considerations. Specifically, three of the five loans within the larger revenue category were granted to the same borrower, which inflates results to this category. Management further commented that these operations with larger revenues are long-time customers that have grown over time. The following table reflects the bank's performance and corresponding demographic data for small farm lending in this assessment area.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	97.1	20	80.0	2,081	84.1
>\$1,000,000	1.8	5	20.0	393	15.9
Revenue Not Available	1.1	0	0	0	0
Total	100.0	25	100.0	2,474	100.0
Source: 2023 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%.					

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different revenue levels given additional considerations. Specifically, two of the three loans within the larger revenue category were granted to the same borrower, which inflates results to this category. Management further commented that these operations with larger revenues are long-time customers that have grown over time. The following table reflects the bank's performance and corresponding demographic data for small business lending in this assessment area.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	88.0	11	78.6	644	77.7
>\$1,000,000	2.9	3	21.4	185	22.3
Revenue Not Available	9.1	0	0.0	0	0.0
Total	100.0	14	100.0	829	100.0
Source: 2023 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%					

Home Mortgage Loans

The overall distribution of home mortgage loans to applicants of different income levels, including low- and moderate-income borrowers, is reasonable. As reflected in the following table, the bank's lending penetration to low-income borrowers exceeds aggregate HMDA data while lending to moderate-income borrowers is modestly less than this benchmark. Home mortgage lending activity continues to be limited in this assessment area, which is consistent with the prior evaluation. With low lending volume, even the smallest shift in activity can significantly impact borrower income distribution results. As such, performance is considered reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	17.1	12.8	2	25.0	90	18.3
Moderate	18.1	29.9	2	25.0	145	29.4
Middle	23.0	28.7	2	25.0	135	27.5
Upper	41.8	17.1	2	25.0	122	24.8
Not Available	0.0	11.6	0	0.0	0	0.0
Totals	100.0	100.0	8	100.0	492	100.0
Source: 2020 U.S. Census; Bank Data; 2023 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%						

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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 institution 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).

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 (e.g, geographic distribution, borrower profile, 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 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 Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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 (e.g, 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.

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 (also known as **non-MSA**): 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.