

# **PUBLIC DISCLOSURE**

**April 14, 2025**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Farmers and Merchants Bank  
RSSD #205243**

**111 West Clayton Street  
Baldwyn, Mississippi 38824**

**Federal Reserve Bank of St. Louis**

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

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of the institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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**INSTITUTION'S CRA RATING: This institution is rated SATISFACTORY.**

**The Lending Test is rated:**

**Satisfactory**

**The Community Development Test is rated:**

**Satisfactory**

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

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- A majority of loans and other lending-related activities are in the AA.
- The borrower's profile analysis reveals reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI) levels, and businesses of different revenue sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.
- There were no CRA-related complaints filed against the bank since the previous CRA evaluation.
- The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of its AA, considering the bank's capacity and the need and availability of such opportunities for community development in its AA. The bank has responded to these needs through community development loans, qualified investments, and community development services.

During the COVID-19 pandemic, the bank responded to the needs of the community through its participation in the CARES Act<sup>1</sup> Paycheck Protection Program (PPP). The bank's participation in the PPP was also considered in the bank's rating.

## **SCOPE OF EXAMINATION**

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Intermediate Small Bank Institution Examination Procedures*, which entail two performance tests: the Lending Test and the Community Development Test. Residential real estate and small business loans were used to evaluate the bank's lending performance, as these loan categories are considered the bank's core business lines based on lending volume and the bank's stated business strategy. Therefore, the loan activity represented by these credit products is deemed indicative of the bank's overall lending performance. However, as the bank has a particular

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<sup>1</sup> Coronavirus Aid, Relief, and Economic Security Act, signed into law on March 27, 2020.

emphasis on home mortgage lending, performance based on the 1–4 family residential real estate loan category carried the most significance toward the bank’s overall performance conclusions. The following table details the performance criteria and the corresponding time periods used in each analysis.

Performance Criterion	Time Period
LTD Ratio	September 30, 2020 – December 31, 2024
Assessment Area Concentration	January 1, 2023 – December 31, 2023
Loan Distribution by Borrower’s Profile	
Geographic Distribution of Loans	
Response to Written CRA Complaints	August 24, 2020 – April 13, 2025
Community Development Activities	

Lending Test analyses often entail comparisons of bank performance to AA demographics and the performance of other lenders, based on Home Mortgage Disclosure Act (HMDA) and CRA aggregate lending data. Unless otherwise noted, AA demographics are based on 2020 American Community Survey (ACS) data, and certain business demographics are based on 2023 Dun & Bradstreet data. When analyzing bank performance by comparing lending activity to both demographic data and aggregate lending data, greater emphasis is generally placed on the aggregate lending data, because it is expected to describe many factors impacting lenders within an AA. Aggregate lending datasets are updated annually and are, therefore, expected to predict more relevant comparisons. In addition, the bank’s lending levels were evaluated in relation to those of comparable financial institutions operating in the same general region. Three other banks were identified as similarly situated peers, with asset sizes ranging from \$483.8 million to \$817.4 million as of December 31, 2024.

As part of the Community Development Test, the bank’s performance was evaluated using the following criteria, considering the bank’s capacity and the need and availability of such opportunities for community development in the bank’s AA:

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

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

To augment this evaluation, one community contact interview was conducted to ascertain specific credit needs, opportunities, and local market conditions within the bank’s AA. Information from this interview also assisted in evaluating the bank’s responsiveness to identified community credit needs and community development opportunities. Key details from this community contact interview are included in the *Description of Assessment Area* section.

## **DESCRIPTION OF INSTITUTION**

Farmers and Merchants Bank is a full-service retail bank offering both consumer and commercial loan and deposit products. The bank is wholly owned by FMB Bancshares, Inc., a holding company headquartered in Baldwyn, Mississippi. The bank's branch network consists of 11 offices (including the main office), 10 of which have full-service automated teller machines (ATMs) on site. Cash-only ATMs are located at 2 offices. In addition to being full-service facilities, the main office and 10 branches have drive-up accessibility. Further, the bank operates three stand-alone ATMs located in local convenience stores. Lastly, the bank also conducts secondary market loan operations out of a loan processing office in Baldwyn. The bank did not close any branch offices during this review period. However, the bank converted a loan production office operating in Itawamba County to a full-service branch. Based on this branch network and the bank's full-service online banking capabilities, the bank is well positioned to deliver financial services to its entire AA.

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credit needs of its customers, and the bank appeared capable of meeting AA credit needs based on its available resources and financial products. As of December 31, 2024, the bank reported total assets of \$528.9 million. As of the same date, loans and leases outstanding were \$322.8 million (61.0 percent of total assets), and deposits totaled \$426.9 million. The bank's loan portfolio composition by credit category is displayed in the following table.

<b>Distribution of Total Loans as of December 31, 2024</b>		
<b>Credit Category</b>	<b>Amount \$ (000s)</b>	<b>Percentage of Total Loans</b>
1-4 Family Residential	109,507	33.9
Commercial Real Estate	72,113	22.3
Construction and Development	51,606	16.0
Loans to Individuals	34,730	10.8
Commercial and Industrial	33,318	10.3
Farmland	8,393	2.6
Total Other Loans	6,833	2.1
Multifamily Residential	4,372	1.4
Farm Loans	1,888	0.6
<b>TOTAL</b>	<b>322,760</b>	<b>100</b>
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

As indicated by the table above, a significant portion of the bank's lending resources is directed to loans secured by 1-4 family residential properties and commercial real estate loans. The bank also originates and subsequently sells a significant volume of loans related to residential real estate. As these loans are sold on the secondary market shortly after origination, this activity is not captured in the table.

The bank received a Satisfactory rating at its previous CRA evaluation conducted on August 24, 2020, by this Reserve Bank.

**DESCRIPTION OF ASSESSMENT AREA****General Demographics**

The bank's AA, which has a population of 166,294, is located in northeastern Mississippi. The AA consists of the entirety of four counties: Alcorn, Itawamba, Lee, and Prentiss, which are located in a nonmetropolitan statistical area (nonMSA) portion of the state. Lee County is the largest county in the AA, with a population of 83,343, and contains Tupelo, the largest city in the AA. The remaining three counties are significantly smaller, with their populations ranging from 23,863 (Itawamba County) to 37,740 (Alcorn County). The AA, outside the city of Tupelo, is generally rural.

According to the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report data as of June 30, 2024, there are 17 FDIC-insured depository institutions in the AA that operate 79 offices. Farmers and Merchants Bank (operating 11, or 13.9 percent of, offices in the AA) ranked third in terms of deposit market share, with 7.1 percent of the total AA deposit dollars.

Commercial lending products represent a credit need in the AA, along with the need for a standard blend of consumer loan products. Other particular credit needs in the AA, as noted primarily by the community contact, include assistance with financial education and credit building.

**Income and Wealth Demographics**

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

Assessment Area Demographics by Geography Income Level						
Dataset	Low-	Moderate-	Middle-	Upper-	Unknown-	TOTAL
Census Tracts	1	3	27	14	2	47
	2.1%	6.4%	57.4%	29.8%	4.3%	100.0%
Family Population	439	1,859	26,127	14,437	270	43,132
	1.0%	4.3%	60.6%	33.5%	0.6%	100.0%

As shown above, 8.5 percent of the census tracts in the AA are LMI geographies, but only 5.3 percent of the family population resides in these tracts. These LMI tracts are located predominantly in Alcorn County, which contains three LMI tracts, while Prentiss County contains the remaining LMI tract.

Based on 2020 ACS data, the median family income for the AA was \$60,881. At the same time, the median family income for nonMSA Mississippi was \$53,003. More recently, the FFIEC estimates the 2023 median family income for nonMSA Mississippi to be \$64,200. The following table displays population percentages of AA families by income level compared to the nonMSA family population of the state of Mississippi as a whole.

Family Population by Income Level						
Dataset	Low-	Moderate-	Middle-	Upper-	Unknown-	TOTAL
Assessment Area	7,304	6,892	8,166	20,770	0	<b>43,132</b>
	16.9%	16.0%	18.9%	48.2%	0.0%	<b>100.0%</b>
NonMSA Mississippi	89,246	62,630	68,326	158,072	0	<b>378,274</b>
	23.6%	16.6%	18.1%	41.8%	0.0%	<b>100.0%</b>

As shown in the table above, 32.9 percent of families in the AA were considered LMI, which is lower than the LMI family percentage of 40.2 percent in nonMSA Mississippi. Additionally, although not shown in the table above, the percentage of families living below the poverty threshold in the AA, 10.6 percent, is below the 17.0 percent level in nonMSA Mississippi. Considering these factors, families in the AA appear to be more affluent than those in the nonMSA portion of the state.

### **Housing Demographics**

Based on housing values, income levels, and rental costs, housing in the AA appears to be slightly more affordable than the nonMSA portion of the state of Mississippi.

Housing Cost Burden (%)						
Area	Cost Burden – Renters			Cost Burden – Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Assessment Area	67.8	32.3	35.4	47.7	28.3	13.7
NonMSA Mississippi	62.7	36.2	37.8	50.1	21.5	16.9
<i>Cost burden is housing cost that equals 30 percent or more of household income.</i>						

As shown in the table above, both renters and owners in the AA are slightly less cost burdened than those in nonMSA Mississippi. However, these housing costs do not appear to impact low-income and moderate-income renters and owners similarly. Low-income renters are more cost burdened than nonMSA Mississippi, whereas moderate-income renters are less cost burdened. Conversely, low-income owners are less cost burdened than nonMSA Mississippi, where moderate-income owners are more cost burdened. Notwithstanding this data, a lack of entry-level homes and the inability to make a down payment were cited by the community contact as barriers for LMI individuals wanting to purchase homes in the AA.

### **Industry and Employment Demographics**

The AA supports a large and diverse business community, including a strong small business sector, as evidenced by Dun & Bradstreet data indicating that 90.0 percent of AA businesses have gross annual revenues of \$1 million or less. Furthermore, according to the U.S. Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages data, there are 78,677 employees in the AA (including 9,907 governmental employees). By percentage of nongovernmental employees, the three largest job categories in the AA are manufacturing (24.2 percent), retail trade

(15.5 percent), and healthcare and social assistance (15.3 percent). The table below details BLS unemployment data (not seasonally adjusted) for the AA compared to the nonMSA portion of the state.

Dataset	Unemployment Levels (%)				
	Time Period (Annual Average)				
	2020	2021	2022	2023	2024
Assessment Area	7.6	4.6	3.4	2.8	2.9
NonMSA Mississippi	8.3	5.8	4.1	3.4	3.4

As shown in the table above, unemployment levels for the AA as well as the nonMSA portion of the state have dropped steeply since peaking in 2020. Additionally, unemployment levels in the AA have consistently remained lower than the overall nonMSA levels.

### **Community Contact Information**

Information from one community contact was used to help shape the performance context in which the bank’s activities in the AA were evaluated. The interview was conducted with an individual specializing in local government. The interviewee categorized the local economy as doing well, emphasizing that most employers are typically able to fully meet their staffing needs and that job seekers were typically able to secure employment.

While housing in the area appears affordable, the contact noted that the low volume of housing stock—particularly entry-level housing stock—presents a challenge for first-time LMI buyers, who may struggle to finance a home purchase. Additionally, the contact indicated that LMI homebuyers find additional barriers in poor credit history or an inability to set aside funds for down payments. Further, the contact indicated that LMI homeowners also face difficulty maintaining or repairing their homes and that LMI homeowners often require credit products or grants to cover the cost of these expenses.

The community contact indicated that opportunities exist for the area’s financial institutions to engage in educational activities in the area regarding financial literacy. The community contact highlighted the need for financial literacy education for LMI individuals entering the workforce so that those individuals may eventually have the ability to purchase a home or acquire financing for a small business. Lastly, Farmers and Merchants Bank was specifically identified as being active in the community, with its mortgage loan programs being highlighted as helping LMI homebuyers address difficulties in producing down payments for homes.



## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LENDING TEST

#### Loan-to-Deposit (LTD) Ratio

One indication of the bank's overall level of lending activity is its LTD ratio. The table below displays the bank's average LTD ratio in comparison to those of regional peers. The average LTD ratio represents an 18-quarter average, dating back to the bank's last CRA evaluation.

LTD Ratio Analysis			
Name	Headquarters	Asset Size \$ (000s) as of December 31, 2024	Average LTD Ratio (%)
Farmers and Merchants Bank	Baldwyn, Mississippi	528,886	63.7
Regional Banks	New Albany, Mississippi	774,450	61.6
	Oxford, Mississippi	817,381	57.2
	Pontotoc, Mississippi	483,846	63.9

Based on data from the previous table, the bank's level of lending is slightly above or in line with that of other banks in the region. During the review period, the LTD ratio experienced a generally increasing trend, with an average of 63.7 percent. In comparison, the average LTD ratios for most regional peers were slightly lower and had a generally stable trend. Therefore, compared to data from regional banks, the bank's average LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs.

#### Assessment Area Concentration

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

Lending Inside and Outside the Assessment Area January 1, 2023, through December 31, 2023								
Loan Type	Inside				Outside			
	#	# %	\$ (000s)	\$ %	#	# %	\$ (000s)	\$ %
1-4 Family Residential Real Estate	96	87.3	12,929	89.2	14	12.7	1,570	10.8
Small Business	100	83.3	5,358	84.6	20	16.7	975	15.4
<b>TOTAL LOANS</b>	<b>196</b>	<b>85.2</b>	<b>18,287</b>	<b>87.8</b>	<b>34</b>	<b>14.8</b>	<b>2,544</b>	<b>12.2</b>
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>								

A majority of loans and other lending-related activities were made in the bank's AA. As shown above, 85.2 percent of the total loans were made inside the AA, accounting for 87.8 percent of the dollar volume of total loans.

**Loan Distribution by Borrower's Profile**

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

Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC (\$64,200 for nonMSA Mississippi as of 2023). The following table shows the distribution of 2023 1–4 family residential real estate loans by borrower income level in comparison to family population income demographics for the AA. Additionally, 2023 aggregate data for the AA is displayed.

Distribution of 2023 Residential Real Estate Lending by Borrower Income Level Assessment Area: Northeastern Mississippi							
Borrower Income Level	Bank and Aggregate Loans						Families by Family Income
	Bank		Aggregate	Bank		Aggregate	
	#	# %	# %	\$ (000s)	\$ %	\$ %	%
Low	11	11.5	5.5	610	4.7	2.4	16.9
Moderate	6	6.3	15.3	199	1.5	9.5	16.0
Middle	12	12.5	21.1	598	4.6	17.1	18.9
Upper	43	44.8	41.5	6,049	46.8	48.8	48.2
Unknown	24	25.0	16.6	5,473	42.3	22.2	0.0
TOTAL	96	100.0	100.0	12,929	100.0	100.0	100.0
Source: 2023 FFIEC Census Data 2016–2020 U.S. Census Bureau: American Community Survey NOTE: Percentages may not total 100.0 percent due to rounding.							

As displayed in the preceding table, the bank's percentage of lending to low-income borrowers (11.5 percent) is below the low-income family population figure (16.9 percent) but above the 2023 aggregate lending level to low-income borrowers (5.5 percent), reflecting reasonable performance. The bank's level of lending to moderate-income borrowers (6.3 percent) is below both the moderate-income family population percentage (16.0 percent) and the 2023 aggregate lending level to moderate-income borrowers (15.3 percent), reflecting poor performance. Considering the level of poverty in the area, with 10.6 percent of families living below the poverty line, and with the community contact commenting on the challenges faced by low-income individuals in finding affordable housing in the area, the bank's overall distribution of loans by borrower's profile is reasonable.

Next, small business loans were reviewed to determine the bank's lending levels to businesses of different sizes. The following table shows the distribution of 2023 small business loans by loan amount and business revenue size compared to Dun & Bradstreet and aggregate data.

Distribution of 2023 Small Business Loans by Revenue and Loan Size Assessment Area: Northeastern Mississippi								
Business Revenue and Loan Size		2023						
		Count			Dollars			Total Businesses
		Bank		Aggregate	Bank		Aggregate	%
		#	%	%	\$ (000s)	\$ %	\$ %	
Business Revenue	\$1 Million or Less	93	93.0	52.9	4,819	89.9	43.2	90.0
	Over \$1 Million/ Unknown	7	7.0	47.1	539	10.1	56.8	10.0
	<b>TOTAL</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>	<b>5,358</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Loan Size	\$100,000 or Less	84	84.0	87.5	1,899	35.4	27.5	
	\$100,001– \$250,000	10	10.0	6.8	1,393	26.0	20.9	
	\$250,001– \$1 Million	6	6.0	5.7	2,066	38.6	51.6	
	Over \$1 Million	0	0.0	0.0	0	0.0	0.0	
	<b>TOTAL</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>	<b>5,358</b>	<b>100.0</b>	<b>100.0</b>	
Loan Size  Revenue \$1 Million or Less	\$100,000 or Less	78	83.9		1,661	34.5		
	\$100,001– \$250,000	10	10.8		1,393	28.9		
	\$250,001– \$1 Million	5	5.4		1,765	36.6		
	Over \$1 Million	0	0.0		0	0.0		
	<b>TOTAL</b>	<b>93</b>	<b>100.0</b>		<b>4,819</b>	<b>100.0</b>		

*Note: Percentages may not total 100.0 percent due to rounding.*

The bank's level of lending to small businesses is excellent. The bank originated the majority of its small business loans (93.0 percent) to businesses with revenues of \$1 million or less. In comparison, AA demographics estimate that 90.0 percent of businesses in the AA had annual revenues of \$1 million or less, and the 2023 aggregate lending level to small businesses is 52.9 percent. Furthermore, the bank originated 83.9 percent of its small business loans in dollar amounts less than \$100,000, further evidencing the bank's willingness to meet the credit needs of small businesses.

### **Geographic Distribution of Loans**

As noted previously, the AA includes one low-income and three moderate-income census tracts, representing 8.5 percent of all AA census tracts. Overall, the bank's geographic distribution of loans in the AA reflects reasonable penetration throughout these LMI census tracts, based on the 1–4 family residential real estate and small business loan categories. Furthermore, based on reviews from both loan categories, the bank had loan activity in 78.7 percent of all AA census tracts, and there were no conspicuous lending gaps noted in LMI areas. This information supports the conclusion that the bank's overall geographic distribution of loans is reasonable.

The following table displays the geographic distribution of 2023 1–4 family residential real estate loans compared to owner-occupied housing demographics and aggregate performance for the AA.

Distribution of 2023 Residential Real Estate Lending by Income Level of Geography Assessment Area: Northeastern Mississippi							
Geographic Income Level	Bank and Aggregate Loans						Owner- Occupied Units
	Bank		Aggregate	Bank		Aggregate	
	#	# %	# %	\$ (000s)	\$ %	\$ %	
Low	0	0.0	0.4	0	0.0	0.3	0.6
Moderate	3	3.1	3.1	197	1.5	2.2	3.5
Middle	79	82.3	53.3	11,687	90.4	46.3	61.8
Upper	10	10.4	42.2	896	6.9	50.4	33.7
Unknown	4	4.2	1.0	150	1.2	0.8	0.4
TOTAL	96	100.0	100.0	12,929	100.0	100.0	100.0
Note: Percentages may not total 100.0% due to rounding.							

The analysis of 1–4 family residential real estate loans revealed reasonable lending performance to borrowers residing in low-income geographies. While the bank originated no loans in the only low-income census tract, the bank’s level of lending is only slightly below the percentage of owner-occupied housing units in the low-income geography (0.6 percent). Further, the bank’s performance in the low-income census tract is comparable to the aggregate lending level (0.4 percent).

Bank performance in moderate-income census tracts was similar to comparison data and deemed reasonable. The bank’s level of lending in moderate-income census tracts (3.1 percent) is similar to the percentage of owner-occupied housing units in moderate-income census tracts (3.5 percent). Additionally, the bank’s performance in moderate-income census tracts is identical to aggregate lending performance. Therefore, the bank’s overall geographic distribution of 1–4 family residential real estate loans is reasonable.

Second, the bank’s geographic distribution of small business loans was reviewed. The following table displays 2023 small business loan activity by geography income level compared to the location of businesses throughout the bank’s AA and 2023 small business aggregate data.

Geographic Distribution of Small Business Loans Assessment Area: Northeastern Mississippi							
Tract Income Levels	2023						
	Count			Dollars			Businesses
	Bank		Aggregate	Bank		Aggregate	
	#	# %	# %	\$ (000s)	\$ %	\$ %	
Low	1	1.0	2.1	159	3.0	1.6	3.3
Moderate	2	2.0	2.5	316	5.9	4.0	3.1
Middle	76	76.0	54.7	4,069	76.0	57.6	60.0
Upper	18	18.0	37.0	665	12.4	33.4	30.6
Unknown	3	3.0	3.7	148	2.8	3.4	3.0
<b>TOTAL</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>	<b>5,357</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<i>Note: Percentages may not total 100.0% due to rounding.</i>							

The bank's level of lending in the low-income census tract (1.0 percent) is comparable to the estimated percentage of businesses operating inside this census tract (3.3 percent) and 2023 aggregate lending levels in the low-income geography (2.1 percent). Accordingly, the bank's performance in the low-income census tract is reasonable. The bank's percentage of loans in moderate-income census tracts (2.0 percent) is comparable to both the 2023 aggregate lending percentage in moderate-income census tracts (2.5 percent) and the percentage of small businesses in moderate-income census tracts (3.1 percent), representing reasonable performance. Therefore, the bank's overall geographic distribution of small business loans is reasonable.

### **Responses to Complaints**

No CRA-related complaints were filed against the bank during this review period (August 24, 2020 through April 13, 2025).

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test is rated satisfactory. The bank demonstrates adequate responsiveness to the community development needs of its AA, considering the bank's capacity and the need and availability of such opportunities for community development in the AA. The following table summarizes the bank's qualified community development activity during the review period, along with qualified prior period investments that remain outstanding.

Total Community Development Activities Inside the Assessment Area		
Community Development Component	#	\$
Loans	162	\$20.2 million
PPP Loans	46	\$1.3 million
Investments, Current and Prior	5	\$1.9 million
Current Period	5	\$1.9 million
Prior Period, Still Outstanding	0	\$0
Donations	43	\$78,159
Services	15 employees	15 organizations

During the review period, the bank made 208 qualifying loans in its AA totaling approximately \$21.5 million. Of the 208 qualifying loans, 46 were PPP loans throughout LMI census tracts in the AA totaling \$1.3 million. Of the remaining 162 loans, 107 were for economic development and 50 were for affordable housing. Of note are a \$3.8 million loan to repair and maintain a water system that serves an LMI community as well as a \$799,550 loan to a small business that employs LMI individuals.

The bank also made community development investments and donations in its AA totaling \$2.0 million. This amount included five new qualified investments totaling \$1.9 million and 43 donations totaling \$78,159. Of note, two of the investments were municipal bonds issued to make improvements to local water and sewage systems. Furthermore, 18 donations were to three separate organizations having an economic development purpose and 15 donations were to six separate organizations having a community service purpose.

During the review period, eight bank personnel used financial expertise to serve 15 different community development organizations within the bank's AA. Service activities included providing financial expertise to organizations that deliver grants and loans to small businesses, providing financial expertise to community service organizations as board members, and offering financial expertise to help revitalize low-income areas through community development.

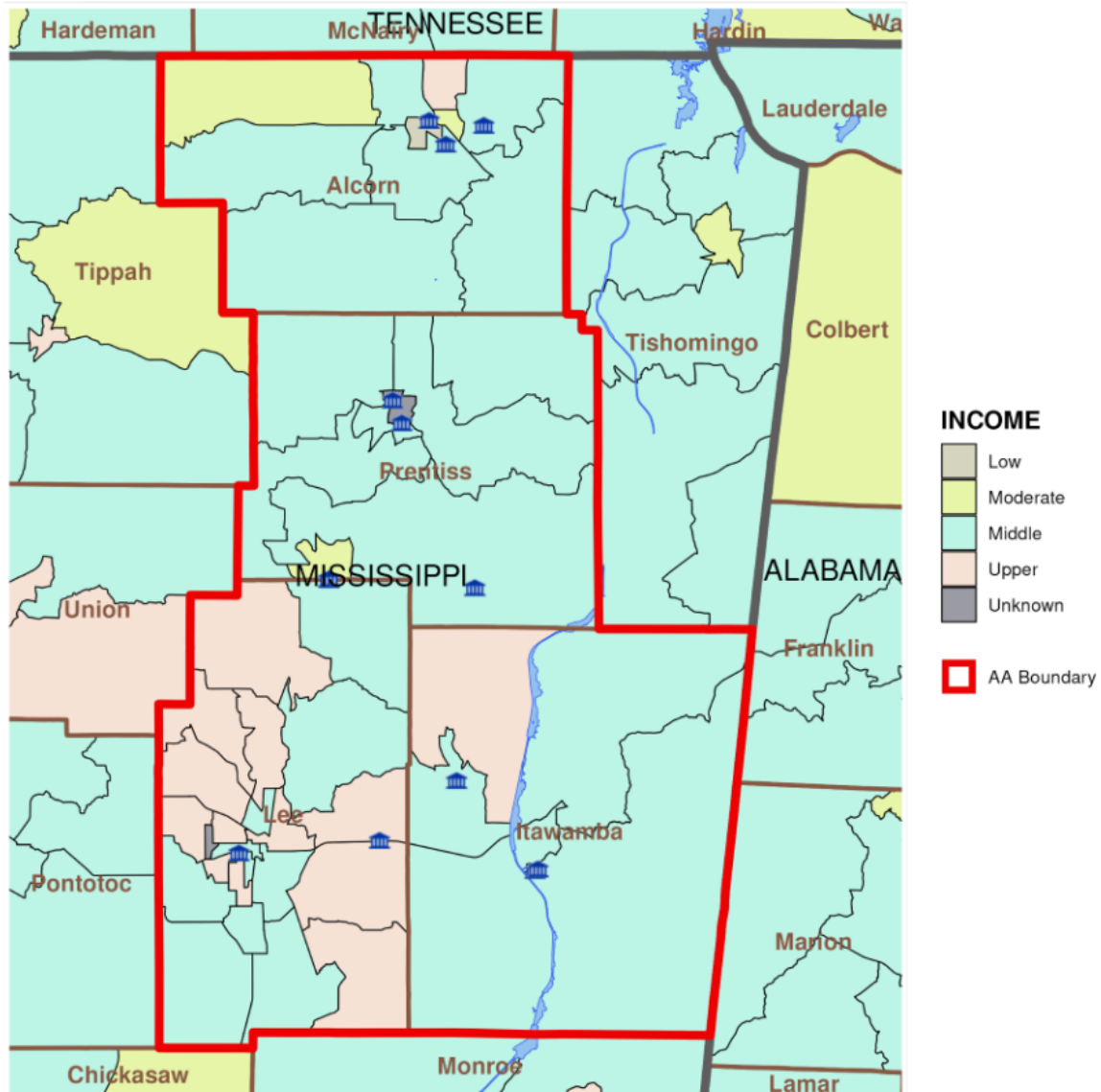
## FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

APPENDIX A – ASSESSMENT AREA DETAIL

**Farmers and Merchants Bank**

Northeastern NonMSA MS AA 2023 - Tract Income



## **APPENDIX B – GLOSSARY**

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

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

**Census tract:** A small subdivision of metropolitan and nonmetropolitan counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely, depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

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

**Community development:** An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; (4) activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or (5) Neighborhood Stabilization Program (NSP) eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and geographies.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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



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

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

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

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

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders who do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancing of home improvement and home purchase loans.

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

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

**Limited-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

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

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

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

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

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

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

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

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

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

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

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

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

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

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

**Small loan(s) to business(es):** That is, "small business loans" are included in "loans to small businesses" as defined in the Consolidated Reports of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are secured by either nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** That is, "small farm loans" are included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

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

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