

PUBLIC DISCLOSURE

August 18, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Merchants & Farmers Bank of Greene County
06010830

Eutaw, Alabama

Federal Reserve Bank of Atlanta
104 Marietta Street, N.W.
Atlanta, Georgia 30303

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to the institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Merchants & Farmers Bank of Greene County prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of August 18, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The bank has an outstanding record of helping to meet the credit needs of its assessment area. The loan-to-deposit ratio is reasonable considering the bank's size, resources, and the large number of small dollar loans.

A substantial majority of the bank's loans are within its assessment area. The bank's performance with respect to lending to borrowers of different incomes and to businesses of different sizes exceeds standards for satisfactory performance. The geographic distribution of loans also exceeds standards for satisfactory performance. No complaints regarding the bank's CRA performance have been received since the previous examination, and no evidence of discrimination or other illegal credit practices was noted during the examination.

DESCRIPTION OF INSTITUTION

Merchants & Farmers Bank of Greene County is a subsidiary of Merchants & Farmers Bancshares, Inc., also located in Greene County, Alabama. The bank has one office located at 251 Prairie Avenue, Eutaw, Alabama.

On June 30, 1997, Merchants & Farmers Bank had total assets of \$34.6 million, which is a slight decrease of approximately 2 percent since June 30, 1996. No legal or financial impediments that would hinder the bank's ability to meet the credit needs of the community were identified. At the February 20, 1996 CRA examination, the bank was rated satisfactory.

Merchants & Farmers Bank offers a variety of credit products to meet the community's credit needs. The types of credit products offered by the bank, as listed in the bank's public file, include consumer loans, real estate loans with a duration of 10 years or less, and small business loans.

The composition of the loan portfolio according to the June 30, 1997 Consolidated Reports of Condition and Income is as follows:

LOAN TYPE	PERCENTAGE
Construction and development	1.8%
Secured by one- to four-family dwellings	38.7%
Other real estate:	
Farmland	4.7%
Multifamily	1.4%
Nonfarm nonresidential	5.8%
Commercial and industrial	21.0%
Loans to individuals	22.7%
All other	3.9%
Total	100.0%

As illustrated by the table above, a large portion of the loan portfolio is made up of one- to four-family residential real estate loans, loans to individuals, and commercial and industrial loans. The bank has identified small dollar loans as a need in the community. Since the previous examination, the bank has originated 2,461 loans, the majority being for less than \$5,000.

DESCRIPTION OF ASSESSMENT AREA: GREENE COUNTY

The bank's assessment area of Greene County includes four incorporated areas: Mantua-West, Eutaw, Boligee, and Forkland-Tishabee. The county is predominately rural and is made up of block numbering areas (BNAs) 9743, 9744, 9745, and 9746. With a population of 10,153 according to the 1990 Census, Greene County is the least populated county in the state of Alabama. The estimated population for 1996 was 9,947 - a decrease of 2 percent. Census data indicates a historical decrease in population, and the population in the year 2000 is projected to be 9,550.

The bank's assessment area has one low-income BNA and three moderate-income BNAs. There are no middle-income or upper-income BNAs. Because 90 percent of the population lives in moderate-income BNAs, it is expected that the majority of loans would be originated in these BNAs, particularly in BNA 9744, which includes 48 percent of the total population. 1990 Census data shows 2,510 families in the assessment area and a median family income of \$15,663, which was significantly lower than the median family income of \$28,688 for the state of Alabama. 57.5 percent of the families have low or moderate incomes, and 39.2 percent have incomes below the poverty level. Most of the families with incomes below the poverty level reside in the Boligee and Forkland-Tishabee areas. 16.3 percent of the families are middle-income and 26.2 percent are upper-income.

The condition of the economy has declined, and the potential for growth is limited. According to the Bureau of Labor Statistics, the unemployment rate for the county as of May 1997 was 17.6 percent, which was significantly higher than the state of Alabama's unemployment rate of 4.1 percent. Greene County's unemployment rate can be attributed to the lack of industries and skilled laborers in the area. Only 50.8 percent of the total population 16 years old or older are in the labor force. According to community contacts, one of the major employers, Vanco, a major textile employer, closed for business, eliminating 250 jobs in the area. Also, because of the declining revenues from the operations of Greenetrack, a dog racing facility located in Greene County, the county filed for Chapter 9 bankruptcy.

According to the 1990 Census data, 60 percent of the 4,162 housing units in the bank's assessment area were owner-occupied, 24.4 percent were renter-occupied, and 15.6 percent were vacant. The assessment area has mostly single-family units (67.5 percent) followed by mobile homes (26.1 percent). Most of the housing units are located in moderate-income BNAs. The median housing value for the assessment area was \$34,345 as of the 1990 Census.

DESCRIPTION OF ASSESSMENT AREA: GREENE COUNTY (CONTINUED)

Because of the economic condition of Greene County and contiguous Sumter County, the areas were designated as Enterprise Communities.¹ According to management, the counties received \$3 million in Social Services Block Grant (SSBG) funds. These funds support loan programs for small start-up businesses, infrastructure repair and development, and the implementation of job and computer skills training in area schools. Two small business loans have been funded in Greene and Sumter counties.

Leadership Greene County was formed to assist in the economic, social, and political development of Greene County. Future and potential leaders from various areas are selected to participate in a nine-month class to understand the political and economic framework of the community and explore ways of making the community a better place in which to live. Reportedly, Leadership Greene County has resulted in better communication and race relations with leaders in the community. Additionally, Leadership Greene County was instrumental in the development of the Tire Wheel Assembly (TWA) Company in Boligee, Alabama. TWA puts the tires on the rims of the Mercedes automobiles built at a plant in Vance, Alabama. TWA employs 20 people.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Based on information from the bank's Consolidated Reports of Condition and Income, the bank's average loan-to-deposit ratio for the six quarters ended June 30, 1997, is 51.1 percent. During this time, the bank's loan-to-deposit (LTD) ratio has fluctuated but has shown an overall increase from 48.4 percent on March 31, 1996, to 54.6 percent on June 30, 1997. The most recent LTD ratio is the highest quarter-end ratio in the last six quarters. The LTD ratio range is typical for the bank and seems reasonable considering the bank's size, resources, and the large number of small dollar loans. The bank's only competition in Greene County is a branch of a savings

¹The Department of Housing and Urban Development (HUD) and the United States Department of Agriculture (USDA) designate Enterprise Communities by determining what communities meet poverty criteria. An Enterprise Community is an approach to addressing the needs of poverty-stricken communities. Designated Enterprise Communities receive approximately \$3 million in Social Services Block Grant (SSBG) funds for redevelopment activities proposed by the community.

and loan institution headquartered in Birmingham. The six-quarter average LTD ratio for this thrift is 54.4 percent, which is similar to the average LTD ratio of Merchants & Farmers Bank of Greene County. The bank's LTD ratio meets the standards for satisfactory performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Lending in Assessment Area

To evaluate the bank's performance, 73 motor vehicle loans and 66 small business loans were analyzed to determine the percentage of loans within the assessment area. 62 (85 percent) of the motor vehicle loans and 59 (89 percent) of the small business loans were extended in the bank's assessment area. Overall, 121 (87 percent) of the loans were within the bank's assessment area. Merchants & Farmers Bank's lending within the assessment area exceeds standards for satisfactory performance.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank does not require written applications for consumer loans and therefore does not collect income information. Also, the bank does not collect revenue or income information for most small business loans. However, because most of the small business loans in the sample were for small amounts (less than \$100,000), it is likely that they were extended to small businesses because these businesses typically borrow small amounts. The chart below depicts the distribution of the sample of business loans originated within the assessment area by loan size.

LOAN AMOUNT	NUMBER OF LOANS	PERCENTAGE
Less than \$100,000	56	95%
\$100,000 to \$250,000	1	2%
\$250,001 to \$1,000,000	2	3%
Total	59	100%

As shown by the chart above, a vast majority (95 percent) of the loans were in amounts less than \$100,000. This high percentage indicates the bank's willingness to meet the credit needs of small businesses.

The following chart shows the distribution of all loans made since the previous examination by loan amount.

LOAN AMOUNT	NUMBER OF	PERCENT
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	LOANS	AGE
Less than \$500	247	10%
\$500 - \$1,000	603	25%
\$1,000 - \$5,000	987	40%
\$5,000 - \$10,000	268	11%
Greater than \$10,000	356	14%

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA
 (CONTINUED)**

Lending to Borrowers of Different Incomes and Businesses of Different Sizes (Continued)

As shown in the above table, approximately 75 percent of the total loans originated since the previous examination were in amounts of \$5,000 or less. This illustrates the bank's willingness to make small dollar loans. These loans are needed in the assessment area, particularly by low- and moderate-income borrowers. As noted earlier, a very high percentage of the families in the assessment area (39.2 percent) are below the poverty level. Assuming that low- and moderate-income individuals are in greater need of small dollar loans and considering that low- and moderate-income families make up 57.5 percent of the families in Greene County, the bank is most likely reaching low- and moderate-income individuals with its small dollar loans. Using loan amount as an indicator of business revenue size and borrower income level, a large percentage of the bank's loans were extended to small businesses and to low- and moderate-income borrowers. The bank exceeds standards for satisfactory performance in this category.

Geographic Distribution of Loans

The geographic distribution of the sampled motor vehicle loans and small business loans originated inside the bank's assessment area is shown in the following table.

BNA INCOME LEVEL	NUMBER OF BNAs	PERCENT OF POPULATION	PERCENT OF MOTOR VEHICLE LOANS BY #	PERCENT OF MOTOR VEHICLE LOANS BY \$	PERCENT OF SMALL BUSINESS LOANS BY #	PERCENT OF SMALL BUSINESS LOANS BY \$
Low-Income	1	10.6%	9.7%	7.1%	10.2%	6.9%
Moderate-Income	3	89.4%	90.3%	92.9%	89.8%	93.1%
Total	4	100%	100%	100%	100%	100%

The distribution of both motor vehicle loans and small business loans in BNAs of different income levels is highly representative of the population in the assessment area. Approximately 42 percent of the households residing in the assessment area are below the poverty level. Approximately 57 percent of households in low-income BNAs are below the poverty level. This figure decreases to 40 percent in moderate-income BNAs. A potential borrower is approximately 50 percent again as likely to be below the poverty level in a low-income BNA than a moderate-income BNA.

Further analysis indicated the level of lending to each BNA in the assessment area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA
 (CONTINUED)**

Geographic Distribution of Loans (Continued)

The majority of both types of loans were made to individuals residing in Eutaw (BNA 9744), the most populated BNA in the bank's assessment area and where the bank is located. BNA 9745 is a low-income BNA; the others are moderate-income.

BNA	NUMBER OF MOTOR VEHICLE LOANS	PERCENT OF TOTAL MOTOR VEHICLE LOANS SAMPLED	NUMBER OF SMALL BUSINESS LOANS	PERCENT OF SMALL BUSINESS LOANS SAMPLED
9743	0	0%	5	9%
9744	56	90%	42	71%
9745	6	10%	6	10%
9746	0	0%	6	10%
Total	62	100%	59	100%

According to management, very few loans are extended to individuals in BNAs 9743 and 9746 because the residents of those areas do their business in cities in neighboring counties. Residents in the Mantua-West area (BNA 9743) conduct most of their business in Aliceville. Similarly, residents of Forkland-Tishabee (BNA 9746) conduct most of their business in the city of Demopolis. Given the locations of the residents and the cities in the area, it is reasonable that the bank makes few loans in these BNAs. A few loans were originated in BNA 9745, which is close to Eutaw. It is expected that a substantial majority of the bank's motor vehicle and small business loans would be originated in BNA 9744 because the bank is located in this BNA and 48 percent of the assessment area's population lives in this area. Considering the bank's size, resources, competitive factors, and

the demographic makeup of the assessment area, the geographic distribution of the bank's loans exceeds standards for satisfactory performance.

Complaints

Since the previous examination, no CRA-related complaints have been filed against Merchants & Farmers Bank of Greene County.

Compliance with Antidiscrimination Laws

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discrimination or the use of illegal credit practices was noted during the review of bank policies and procedures. No practices have the intent or the effect of discouraging applicants for credit.