



PUBLIC DISCLOSURE

February 23, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M Bank and Trust Company
Charter Number 705608

505 Broadway
Hannibal, MO 63401-4443

Office of the Comptroller of the Currency

500 N. Broadway
Suite 1700
St. Louis, MO 63102

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

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

State Name: Missouri Rating: Satisfactory
State Name: Illinois Rating: Satisfactory

F&M Bank and Trust Company's (F&M) overall rating is a blend of the state ratings for Missouri (MO) and Illinois (IL). F&M's lending performance reflects a satisfactory response to the community credit needs. We based our conclusion on the following:

- The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- The institution originated a majority of loans inside its AAs.
- The distribution of loans to borrowers of different income levels reflects excellent penetration in the MO Non-MSA AA.
- The geographic distribution of loans reflects reasonable dispersion within the census tracts (CTs) in the AAs.

Scope of Examination

This Performance Evaluation is an assessment of the record of F&M Bank and Trust Company in meeting the credit needs of the communities in which it operates. F&M was evaluated under the Small Bank performance criteria, which includes a lending test. The lending test evaluates the institution's record of helping to meet the credit needs of its AAs through its lending activities. The scope of the CRA evaluation period is December 1, 2009 through February 23, 2016. The lending test analysis includes loans originated and purchased from January 1, 2012 through December 31, 2014. During this period, F&M was a Home Mortgage Disclosure Act (HMDA) reporter with three separate assessment areas (AAs).

We reviewed all of the institution's loan originations and purchases from 2012, 2013, and 2014 to determine its primary products. During this period, 73% (1085) by number and 88% (\$170MM) by dollar of total loans originated by F&M were in residential real estate lending (RRE). Based on this information we determined F&M's primary product to be RRE. We conducted a full scope review of the Non-Metropolitan Statistical Area (Non-MSA) AA and the Illinois Non-MSA. We conducted a limited scope review of the St. Louis Metropolitan Statistical Area (MSA) AA. The institution's Non-MSA AA in Missouri carried the most weight toward our conclusion for the following reasons:

- This AA held a substantial majority of F&M's deposits (90%, on average) for the years 2012-2014.
- Over the same period, F&M exited the St. Louis MSA AA in June 2014 and the Illinois Non-MSA AA in November 2014.

- There were only four loans originated in the St. Louis MSA in 2014; we omitted these loans from our analysis, as they would not provide meaningful results.

The lending test analysis included all RRE loans reported under HMDA for 2012, 2013, and 2014. To ascertain the data integrity of the reported HMDA loans, we reviewed a sample of 60 applications for each year (2012-2014) and concluded that the publicly filed data was accurate and reliable. We compared RRE loans originated and purchased in these years to 2010 Census Information and 2013 or 2014 HMDA peer aggregate data.

Description of Institution

F&M Bank and Trust Company is a wholly owned subsidiary of Farmers & Merchants Bancorp, Inc. (Bancorp), a unitary, non-diversified holding company. Bancorp is a shell entity that does not engage in any significant activity.

F&M Bank and Trust Company is currently an intrastate federally chartered stock institution located in Hannibal, MO. The institution maintains three full-service branches in Missouri, which includes the home office. All three branches have deposit-taking ATMs. As of December 31, 2015, F&M had total assets of \$119 million, Tier 1 Capital of \$11 million, and a loan-to-deposit ratio of 99%.

Until late 2014, F&M was an interstate institution with branches in both Missouri and Illinois. In August 2010, F&M purchased Gorman Home Loans, referred to by F&M as the Gorman Division; a loan production office (LPO) located in St. Louis County. In September 2010, F&M converted the LPO to a full-service branch. Subsequently, this branch closed in December 2012, and the Gorman Division was sold in May 2013. Also in May 2013, F&M closed the lobby of the Market Street branch in Hannibal, MO. In 2014, F&M closed three branches, one in O'Fallon, MO (June), one in Quincy, IL (November), and the remainder of the Market Street branch in Hannibal, MO (November). As a result, F&M no longer includes the St. Louis MSA and Illinois Non-MSA as part of its assessment area. In 2015, F&M sold the branches in Shelbina, MO and Palmyra, MO. F&M also closed its Trust Operations in 2015. As of January 1, 2015, F&M is no longer a HMDA loan reporter.

F&M Bank and Trust Company offers traditional banking and loan services with a primary focus in RRE loans. As of December 31, 2015, the institution reported \$86 million in outstanding loans and had a net loans and leases to total assets ratio of 72%. The loan portfolio consists of the following:

Loan Portfolio Summary by Loan Product December 31, 2015		
Loan Category	\$(000)	%
Commercial Loans	\$ 32,941	38%
Residential Loans	\$ 45,943	53%
Farm Loans	\$ 2,711	3%
Consumer Loans	\$ 4,894	6%
Total Loans	\$86,489	100%

Source: Call Report December 31, 2015

F&M's primary business strategy is to originate mortgage loans for sale on the secondary market and retain adjustable rate and nonconforming loans in the portfolio. The institution retains the servicing of the loans it sells. F&M management has current plans to diversify the institution's lending portfolio with increased consumer and small business lending. The institution currently has no financial or legal impediments that would affect its ability to meet the credit needs of its AAs, including those of low- and moderate-income families and geographies. However, F&M's ability to lend in its AAs during the evaluation period was impacted by the terms of an enforcement action with its primary regulatory agency from August 28, 2012 through January 14, 2016. We took the formal agreement and its impact on lending activities into consideration when determining performance under the CRA. F&M received a rating of Satisfactory at its last CRA evaluation dated November 30, 2009.

Conclusions with Respect to Performance Criteria

F&M Bank and Trust does a reasonable job of meeting the credit needs of its AAs, including those of low- and moderate-income people, given the demographics, economic factors, and competitive pressures faced by the institution.

Loan-to-Deposit Ratio

F&M's loan-to-deposit ratio (LTD) is more than reasonable given the institution's size, its financial condition, and the credit needs of the AAs. The institution's quarterly LTD ratio averaged 94.18% over the 25 quarters since the last CRA evaluation, with a low of 83.52% and a high of 103.74%.

The institution's LTD ratio is comparable to other institutions of similar size, location, and product offerings. F&M ranks second highest out of 23 similarly situated institutions. The other 22 institutions had quarterly LTD ratios averaging 75.10% and ranging from 38.67% to 96.92% over the same period.

Lending in Assessment Area

F&M originated a majority of RRE loans inside its AAs. The institution generated 62% of its RRE loans by number and 56% by dollar volume in the AAs between 2012 and 2014.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

State Rating

State of Missouri

CRA Rating for Missouri: Satisfactory

Description of Assessment Areas

F&M management designated two AAs in the state of Missouri.

Missouri Non-MSA Area

F&M management has designated the full counties of Marion, Monroe, Ralls, and Shelby as its Missouri Non-MSA AA. The AA is comprised of 17 CTs. Based on the 2010 Census Median Family Income of \$45,746, 13 CTs are classified as middle-income and four are classified as upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2014 FFIEC Updated Median Family Income of the AA is \$48,800. Per the 2010 Census, there were 15,042 families in the AA, 16.83% of the population was age 65 and older, 15.71% of households were in retirement, and 9.51% of families lived below the poverty level. The median housing value in the AA was \$91,557. Local housing for the AA was 84.45% 1-4 family units, with 61.20% owner-occupied and 14.97% vacant.

According to the U.S. Bureau of Labor Statistics, as of October 31, 2015, the unemployment rates for the counties of Marion, Monroe, Ralls, and Shelby were 3.8%, 4.1%, 3.5%, and 3.6%, respectively. The state of Missouri unemployment rate was 4.1% and the national rate was 5.0%. Major employers in the AA include the school districts of the four counties in the AA, Hannibal Regional Hospital, General Mills, BASF, and Continental Cement. The most prominent type of business in the AA is services followed by agriculture, forestry, and fishing.

Competitive pressure is strong. Based on FDIC-reported deposit information as of June 30, 2015, 16 institutions compete for business within the area. The institution ranks 4th and has an 8.07% deposit market share in this AA.

To further our understanding of the community's credit needs, we contacted a local community organization knowledgeable about the areas served by the bank. Our contact did not identify any unmet credit needs.

St. Louis MSA AA

F&M management has designated a Missouri portion of the St. Louis MO-IL MSA #41180, consisting of all of St. Louis County and St. Charles County, as its AA. The AA is comprised of 278 CTs. Based on the 2010 Census Median Family Income of \$67,013, there are 12 CTs classified as low-income, 45 CTs classified as moderate-income, 93 CTs classified as middle-income, 127 CTs classified as upper-income, and one unclassified CT that represents a large conservation area. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA no longer existed as of June 30, 2014 due to the closure of branches as further described in the Description of the Institution. As previously stated, our review of this AA focused on loans originated in 2012 and 2013, which resulted in our use of income, unemployment, and deposit data from 2013 for the most relevant comparison.

The 2013 FFIEC Updated MSA Median Income of the AA is \$69,200. Per the 2010 Census, there were 359,626 families in the AA, 13.49% of the population was age 65 and older, 19.32% of households were in retirement, and 5.83% of families lived below the poverty level. The median housing value for the AA was \$207,150. Local housing for the AA was 83.56% 1-4 family units, with 69.73% owner-occupied and 6.79% vacant.

According to the U.S. Bureau of Labor Statistics, as of December 31, 2013, the unemployment rates for the counties of St. Louis and St. Charles were 5.8% and 4.8%, respectively. The state of Missouri unemployment rate was 6.2% and the national rate was 6.7%. Major employers in the AA include BJC HealthCare, Wal-Mart Stores Inc., Boeing Defense, Space & Security, Washington University in St. Louis, and SSM Health Care. The most prominent type of business in the AA is services, followed by retail trade.

Competitive pressure is substantial. Based on FDIC-reported deposit information as of June 30, 2013, 62 institutions compete for business within the area. The institution ranks 61st and has a 0.01% deposit market share in this AA.

To further our understanding of the community's credit needs, we referenced a community contact form completed on a community-based development organization knowledgeable about the areas served by the institution. Our contact identified several credit and non-credit related needs in the AA, such as social services, affordable housing, and economic development.

Lending to Borrowers of Different Incomes

F&M Bank and Trust's level of RRE lending to borrowers of different incomes reflects reasonable penetration in the AAs, given the institution's product offerings and local economic conditions. Again, our conclusions were heavily weighted by the institution's performance in the Missouri Non-MSA AA because this AA held a substantial majority

of F&M's deposits during the evaluation period, and F&M was exiting the St. Louis MSA during the evaluation period.

Missouri Non-MSA AA

F&M exceeds the standards of satisfactory performance in the MO Non-MSA AA. The institution's percentage of RRE loans originated to low-income borrowers is above the HMDA peer average. Given the percentage of families below the poverty level (9.51%), the percentage of RRE loans originated to low-income borrowers is reasonable even though it falls well below the percentage of low-income families. The institution's percentage of RRE loans originated to moderate-income borrowers is also above the HMDA peer average and significantly exceeds the percentage of families in that category.

2012-2014 Borrower Distribution of Residential Loans in the MO Non-MSA Assessment Area				
Borrower Income	Number of Loans	Percentage of Loans	Percent of Families	HMDA Peer Averages (2014)
Low-Income	28	7.80%	15.34%	5.44%
Moderate-Income	84	23.40%	16.40%	19.68%
Middle-Income	76	21.17%	23.01%	27.04%
Upper-Income	171	47.63%	45.25%	47.84%
Income NA	-	-	-	-
Total	359	100.0%	100.0%	100.0%

Source: 2010 Census data; F&M Bank and Trust's 2012-2014 HMDA data; 2014 Peer HMDA data

St. Louis MSA AA

Based on a limited scope review for 2012-2013, F&M's performance in the St. Louis MSA AA was weaker than the performance in the Non-MSA AA under the full scope review. The bank's performance in this AA is mitigated by the facts that F&M had a very small presence in the AA, had strong competition in the AA, and implemented a strategy to exit this AA during the evaluation period.

Geographic Distribution of Loans

F&M Bank and Trust's geographic distribution of RRE loans reflects poor dispersion, though this is mitigated by the lack of a meaningful geographic distribution of loan analysis in the primary Missouri Non-MSA AA, as well as the banks minimal operations in the St. Louis MSA AA during the evaluation period.

Missouri Non-MSA AA

The AA consists of 13 middle-income and four upper-income CTs. As such, an analysis of the geographic distribution of loans within this AA would not provide meaningful information.

St. Louis MSA AA

Based on a limited scope review for 2012-2013, the geographic distribution of residential loans originated by F&M does not meet the standard of satisfactory performance in the St. Louis MSA AA. The bank's performance in this AA is mitigated by the facts that F&M had a very small presence in the AA, had strong competition in the AA, and implemented a strategy to exit this AA during the evaluation period.

Responses to Complaints

Neither F&M Bank and Trust nor the OCC received any complaints regarding F&M's CRA performance during the review period.

State Rating

State of Illinois

CRA Rating for Illinois: Satisfactory

Description of Assessment Area

Illinois Non-MSA AA

For most of the evaluation period, F&M Bank and Trust management has designated all of Adams County in west central Illinois as its AA. The AA is comprised of 18 CTs. Based on the 2010 Census Median Family Income of \$54,499, one CT is classified as low-income, four CTs are classified as moderate-income, nine CTs are classified as middle-income, and four CTs are classified as upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2014 FFIEC Updated Median Family Income of the AA is \$58,600. Per the 2010 Census, there were 17,658 families in the AA, 17.43% of the population was age 65 and older, 19.03% of households were in retirement, and 8.33% of families lived below the poverty level. The median housing value in the AA was \$102,821. Local housing for the AA was 87.20% 1-4 family units, with 67.04% owner-occupied and 9.16% vacant.

According to the U.S. Bureau of Labor Statistics, as of October 31, 2014, Adams County's unemployment rate of 4.8% was below the State of Illinois rate of 6.0% and below the national rate of 5.7%. Major employers in the Adams County area include Blessing Health System, Quincy Public Schools, Titan International, and Knapheide Manufacturing. The most prominent type of business in the county is services, followed by retail trade.

Competitive pressure is strong. Based on FDIC-reported deposit information as of June 30, 2014, 17 institutions compete for business within the area. The institution ranked 17th and had a 0.19% deposit market share in this AA.

To further our understanding of the community's credit needs, we referenced a community contact form completed on a community-based development organization knowledgeable about the areas served by the institution. Our contact did not identify any unmet credit needs.

Lending to Borrowers of Different Incomes

For 2012-2014, F&M meets the standard of satisfactory performance in the IL Non-MSA AA. The institution's percentage of RRE originated to low-income borrowers is within a reasonable range but below the HMDA peer average. Given the percentage of families below the poverty level (8.33%), the percentage of RRE loans originated to low-income borrowers is reasonable even though it falls well below the percentage of low-income families. The institution's percentage of RRE loans originated to moderate-income borrowers is lower than the HMDA peer average but is above the percentage of families in that category.

2012-2014 Borrower Distribution of Residential Loans in the IL Non-MSA Assessment Area				
Borrower Income	Number of Loans	Percentage of Loans	Percent of Families	HMDA Peer Averages (2014)
Low-Income	3	10.34%	18.35%	12.17%
Moderate-Income	6	20.69%	18.09%	25.07%
Middle-Income	10	34.48%	22.38%	29.03%
Upper-Income	10	34.48%	41.18%	33.72%
Income NA	-	-	-	-
Total	29	100.0%	100.0%	100.0%

Source: 2010 Census data; F&M Bank and Trust's 2012-2014 HMDA data; 2014 Peer HMDA data

Geographic Distribution of Loans

For 2012-2014, the geographic distribution of RRE originated by F&M exceeds the standards of satisfactory performance in the Illinois Non-MSA AA. The institution's percentage of RRE loans originated in low-income CTs is significantly above the HMDA peer average and the percent of owner-occupied housing units. The institution's percentage of RRE loans originated in the moderate-income CTs is also above the HMDA peer average and percent of owner-occupied housing units.

2012-2014 Geographic Distribution of Residential Loans in the IL Non-MSA Assessment Area				
Type Census Tract	Number of Loans	Percentage of Loans	Percent of OOHUs	HMDA Peer Averages (2014)
Low-Income	1	3.45%	0.43%	0.59%
Moderate-Income	5	17.24%	13.02%	14.52%
Middle-Income	12	41.38%	53.74%	53.52%
Upper-Income	11	37.93%	32.80%	31.38%
Income NA	-	-	-	-
Total	29	100.0%	100.0%	100.0%

Source: 2010 Census data; F&M Bank and Trust's 2012-2014 HMDA data; 2014 Peer HMDA data

Responses to Complaints

Neither F&M Bank and Trust nor the OCC received any complaints regarding F&M's CRA performance during the review period.