

Public Disclosure

August 4, 1999

Community Reinvestment Act Performance Evaluation

**The Farmers & Merchants National Bank of Ashland
Charter Number 13435**

**1501 Silver Street
Ashland, Nebraska 68003**

**Office of the Comptroller of the Currency
Omaha South Field Office
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Note: 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.

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 CRA performance of **The Farmers & Merchants National Bank of Ashland** prepared by The Office of the Comptroller of the Currency, as of **August 4, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

- Lending levels are reasonable given the bank's size, financial condition, and assessment area credit needs.
- A substantial majority of the bank's agriculture and residential real estate loans are within the assessment area.
- The bank is lending to individuals of different incomes.
- The bank is lending to farms of different sizes.
- We did not identify any illegal discrimination or disparate treatment of applicants.

Description of Institution

The Farmers & Merchants National Bank of Ashland (F&M) is a \$35 million financial institution located in Nebraska. Total loans are 68% of total assets. The bank has two ATM machines, one at the Country Market in Ashland, the other at the Greenwood Truck Stop in Greenwood. The community is primarily agricultural. The City of Ashland serves as a bedroom community for Omaha and Lincoln, Nebraska. The bank has no branch offices. Individual stockholders own the bank. The bank has no legal or financial impediment which precludes it from fulfilling its obligation under the CRA.

The bank offers a number of agricultural, commercial, real estate, and consumer loan products. The loan portfolio consists of 25% residential real estate, 46% agriculture, 20% commercial, and 9% consumer. The bank also refers secondary market loans to a third party. These loans are not reflected in the loan portfolio mix.

The bank received a “satisfactory” rating at the last CRA examination dated August 12, 1996.

Description of Assessment Area

The assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income geographies or block numbering areas (BNA). The assessment area includes BNA 9884 and 9885 in Southeastern Saunders County and BNA 9958 in western Cass County. Cass County is within the Omaha Metropolitan Statistical Area (MSA).

The bank’s designated assessment area has two different median family incomes. The portion of the assessment area that is in Saunders County uses the 1999 statewide nonmetropolitan median family income of \$39,800. The portion of the assessment area in Cass County uses the 1999 Omaha MSA median family income of \$53,600. The 1990 Census reveals that the family income distribution is 12.7% low-, 21.0% moderate-, 28.3% middle-, and 38.0% upper-income. The total population of the assessment areas is 8,932 according to the 1990 Census.

Agriculture and agriculture-related businesses are the dominant industries in the assessment area. Many community residents commute to Omaha and Lincoln for employment. The bank and local business owners contacted by examiners identified the primary credit needs of the community as agriculture, affordable housing, and small business loans.

F&M and four other financial institutions are chartered within the bank’s designated assessment area. The bank also has competitors that are outside the assessment area. The

market is very competitive because Ashland is located halfway between Omaha and Lincoln, the two largest Nebraska population areas.

Conclusions with Respect to Performance Criteria

The bank's lending levels are reasonable.

F&M's average quarterly loan-to-deposit (LTD) ratio since the last examination is reasonable and slightly above average for other area financial institutions. The bank's LTD ratio is 80% as of June 30, 1999 and the average quarterly LTD ratio since the last CRA examination is 82%. LTD ratios of other area financial institutions range from 44% to 97%, with an average of 74%.

The bank is lending in the Assessment Area.

F&M originates a substantial majority of its loan within the assessment area. The following tables summarize the degree of the bank's lending within its assessment area. The samples include loans originated since September 31, 1996.

IN/OUT RATIO FOR AGRICULTURAL LOANS				
	Number of Loans	% of Total Number	\$ of Loans (\$000)	% of Total \$
Inside Assessment Area	19	90%	\$4,051	85%
Outside Assessment Area	2	10%	\$714	15%
TOTAL	21	100%	\$4,765	100%

F&M originates a substantial majority of its agriculture loans inside the assessment area. Based on the agricultural loans we sampled, 90% by number, and 85% by dollar volume were inside the assessment area.

IN/OUT RATIO FOR RESIDENTIAL REAL ESTATE LOANS				
	Number of Loans	% of Total Number	\$ of Loans (\$000)	% of Total \$
Inside Assessment Area	20	91%	\$1,211	83%
Outside Assessment Area	2	9%	\$240	17%
TOTAL	22	100%	\$1,451	100%

F&M originates a substantial majority of its residential real estate loans inside the assessment area. Our sample of real estate loans showed 91% by number, and 83% by dollar volume were inside the assessment area.

The bank does an effective job of lending to farms of different sizes and makes loans to individuals of different income levels.

The following tables demonstrate the bank’s willingness to make loans to farms of all sizes and to individuals of different income levels. Examiners analyzed the bank’s primary products, agriculture and residential loans originated between September 30, 1996 and August 4, 1999. Agriculture lending was compared to the 1992 Agriculture Census data and residential lending was compared to the 1990 Census data.

LOANS TO FARMS OF DIFFERENT SIZES					
Gross Revenues of Farms **	\$ of Loans	% of Total \$ Loans	Number of Loans	% of Total Number	% of Farms in Area*
\$10,000-\$100,000	\$526	11%	5	24%	67%
\$100,001-\$250,000	\$2,272	48%	10	48%	24%
\$250,001-\$500,000	\$1,347	28%	4	19%	7%
Over \$500,000	\$620	13%	2	9%	2%
TOTAL	\$4,765	100%	21	100%	100%

* Information is from the 1992 U.S. Agriculture Census for counties in the bank’s AA.

** Revenue information taken from latest tax return or income statement in each credit file.

The bank does an effective job of lending to farms of different sizes. The majority of loans originated are to small and moderate-sized farms with sales less than \$250,000. Farms with less than \$250,000 in revenues were 72% by number and 59% by dollar volume. Although the bank’s ratio for lending to small and moderate-sized farms is below the Agricultural Census ratio of 91%, it is reasonable. Saunders and Cass Counties have a large number of low revenue hobby farms that do not have borrowing needs.

RESIDENTIAL LENDING TO INDIVIDUALS OF DIFFERENT INCOME LEVELS					
Borrower Income Category	\$ of Loans (\$000)	% of Total \$ Loans	Number of Loans	% of Total Number	% of Families in Income Category

Low-Income	\$34	2%	2	9%	13%
Moderate-Income	\$351	24%	6	27%	21%
Middle-Income	\$371	26%	6	27%	28%
Upper-Income	\$694	48%	8	37%	38%
TOTAL	\$1,450	100%	22	100%	100%

The bank is lending to individuals of different income levels. The sample showed the bank originated 9% and 27% by number to low- or moderate-income families, respectively. This is reasonable compared to the level of low- and moderate-income families in the assessment area. The bank also has a secondary market loan program to provide long term fixed rate loans with lower down payment requirements through PHH Mortgage. Currently, the bank takes secondary market applications and forwards them on to PHH.

Geographic Distribution of Loans

We did not complete an evaluation of the bank's geographic distribution of loans. All the BNAs in the assessment area are middle-income tracts. A geographic distribution is not meaningful with no low- or moderate-income BNAs.

Complaints

The bank received no written complaints related to its CRA performance during this examination period.

Fair Lending

We did not detect any substantive violations of fair lending laws during the examination. The bank has satisfactory policies, procedures, and training. The review compared automobile loan terms of approved individual females to approved individual males from March 31, 1999 to August 4, 1999.