



PUBLIC DISCLOSURE

August 21, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers and Merchants National Bank of Fairview
Charter Number 9767**

**312 North Main
Fairview, OK 73737**

Office of the Comptroller of the Currency

**ADC-Oklahoma City Field Office
The Harvey Parkway Building 301 NW 63rd Street, Suite 490
Oklahoma City, OK. 73116-7908**

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.



Table of Contents

Institution’s CRA Rating 2

Scope of Examination2

Description of Institution3

Description of Assessment Area.....3

Conclusions with Respect to Performance Criteria5

INSTITUTION'S OVERALL CRA RATING: SATISFACTORY

The Lending Test is rated: Satisfactory

The bank's lending performance is satisfactory given its size, financial condition, and the credit needs in its assessment area.

The major factors that support this rating include:

- A substantial majority of loans are originated inside the bank's assessment area.
- The loan-to-deposit ratio is reasonable and commensurate with similarly situated institutions.
- The borrower distribution of loans indicates excellent penetration among businesses of different sizes, with reasonable, and near to excellent, penetration among agricultural operations of different sizes.
- No complaints were received about the bank's performance in helping to meet the credit needs of its assessment area.

The Farmers & Merchants National Bank of Fairview, Oklahoma, is committed to serving the community. This is demonstrated by the satisfactory lending performance as described in this Public Evaluation.

SCOPE OF EXAMINATION

The Farmers & Merchants National Bank of Fairview (F&M) was evaluated under the Community Reinvestment Act Small Bank examination procedures, which is based upon a "Lending Test." The Lending Test evaluates the bank's record of meeting the credit needs of its assessment area through its lending activities. The bank's assessment area was reviewed and includes the three census tracts located within Major County.

This performance evaluation is based upon 2010 U.S. Census information with certain demographic data updated through 2016. F&M's primary lending products are agricultural and commercial/business loans, including these loans secured by real estate. Loans sampled from these primary lending products included loans originated or refinanced during the review period 2015, 2016, and through June 30, 2017.

DESCRIPTION OF INSTITUTION

Farmers and Merchants National Bank (F&M) is located in Fairview, Oklahoma. F&M is wholly owned by Fairview Bancshares, Inc., a one-bank holding company. The bank has one location at 312 N Main Street in Fairview, OK. The bank owns and operates one ATM that is located in the parking lot of the main bank building. This ATM accepts deposits for F&M customers only and dispenses cash. It is linked to major ATM networks, which allows F&M customers access to their F&M bank accounts via ATM networks across the United States; and both customers, and non-customers having accounts at network banks, can obtain cash through the Fairview machine. No branches or additional ATMs have been established or opened or closed since the last CRA Performance Evaluation in May 2012.

F&M's primary focus is to serve agricultural, business, and home loan customers in its assessment area. Its primary loan products are agricultural and commercial/business loans. The bank provides traditional loan and deposit services along with limited electronic banking services in order to fully serve its Major County assessment area and surrounding communities. As of June 30, 2017, F&M had total assets of \$109.2 million, of which \$39.1 million, or 36 percent, were comprised of various types of loans to agricultural enterprises, commercial businesses, home lending (residential real estate loans), and consumer/vehicle loans as depicted in the following table:

Loan Portfolio Composition as of June 30, 2017		
Loan Category	\$ (000)s	%
Commercial and Commercial Real Estate	\$11,494	29.38%
Residential Real Estate	\$9,684	24.57%
Agricultural & Ag Real Estate	\$14,754	37.71%
Individual	\$3,186	8.14%
Other	\$10	0.03%

Source: 6-30-2017 Call Report

F&M is not under any legal or financial constrictions that would hinder the bank's ability to meet the credit needs of the assessment area. The bank is well-capitalized. The previous CRA review, dated May 14, 2012, was issued with a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

F&M's CRA assessment area (AA) consists of whole geographies and does not reflect illegal discrimination or arbitrarily exclude any low- or moderate-income geographies. The assessment area is comprised of all of Major County, Oklahoma. Major County is located in the northwestern region of the state and includes two middle-income census tracts (9551 and 9552) and one upper-income census tract (9553). The City of Fairview is located in this upper-income census tract. The bank's building location, drive-through, and ATM are located in the City of Fairview. The

following table, based on 2010 U.S. Census, with certain updates to 2016 demographics, describes major demographic and economic characteristics of Major County, the F&M CRA AA:

Demographic and Economic Characteristics of the Assessment Area (Major County)					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	3	0.00	0.00	66.66	33.33
Population by Geography	7,527	0.00	0.00	62.91	37.09
Owner-Occupied Housing by Geography	2,543	0.00	0.00	65.59	34.41
Businesses by Geography (non-farm)	510	0.00	0.00	41.96	58.04
Farms by Geography	88	0.00	0.00	65.91	34.09
Family Distribution by Income Level	2,236	14.62	14.80	22.63	47.94
Household Distribution by Income Level	3,138	18.99	12.59	16.44	51.98
Census Weighted Average of Median Family Income (MFI) Non-MSA		\$54,068	Median Housing Value		\$78,815
HUD- MFI NONMETRO: 2017*		\$53,900	Households Below the Poverty Level		12.01%
HUD- MFI NONMETRO: 2016*		\$52,500	Households on Social Security		35.79%
HUD- MFI NONMETRO: 2015*		\$51,300	Households on Retirement		16.32%

Source: 2010 U.S. Census Data;

*: HUD Estimated Median Family Income report

Currently, the local economy of the F&M assessment area is good. It is driven by the oil & gas industry and the agricultural industry. Although slower 18 months ago, oil & gas related activities have continued to increase in Major County. This growth, along with increased oil and gas activity in neighboring counties, has greatly increased the number and movement of workers through the county. This has correspondingly improved the sales and profits of ancillary businesses such as restaurants, gas stations, and hotels. Agriculture production has remained flat but is holding steady and agriculture continues to be an important source of employment in the AA. Locally, in the City of Fairview, there is a shortage of residential rentals and homes available for sale. This has resulted from the increase in employment at oil and gas businesses in western Oklahoma. These workers occupy the limited supply of housing. However, there are no plans for new housing starts or rental additions in the City of Fairview because the economy and the need for housing are so closely tied to the volatile oil and gas industry. Most new construction in the county is coming from existing families constructing new houses.

Major employers in the area are USG (Gypsum Plant), Fairview Public Schools, Fairview Fellowship Home (retirement and nursing community), and Bramco, Inc (heavy metal fabrication).

Unemployment in Major County is low at 3.8%, compared to the unemployment rate in the State of Oklahoma at 4.6% (as of May 2017).

There are several competing financial institutions in Major County and in nearby counties. In addition to F&M National Bank, Fairview Savings & Loan, and a branch of Community National Bank of Okarche, OK serve the local community. Cleo State Bank is also located in Major County at Cleo Springs. Blaine County is east of and contiguous to Major County, and includes First National Bank of Okeene, Community State Bank of Canton, and Cornerstone Bank in Watonga. Finally, numerous other banking options are located in the City Enid, Oklahoma located approximately 40 miles to the northeast in neighboring Garfield County.

As part of the performance evaluation, a community contact was conducted with a representative of the Major County Economic Development Corporation. The contact indicated the credit needs of the Major County businesses and residents are being met. F&M in particular is very involved in the community through providing credit to businesses and farmers and through employee involvement in business development activities and in local volunteer positions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

The Lending Test is rated Satisfactory

The bank's lending performance is satisfactory given its size, financial condition, and the credit needs in its assessment area.

This evaluation assesses F&M's performance focusing primarily on four performance criteria: the loan-to-deposit ratio; lending in the assessment area; lending to businesses of different sizes; and responses to CRA related complaints. Lending to borrowers of different incomes is not evaluated because residential real estate lending and individual/consumer lending are not primary products. Since F&M's assessment area does not include any low- or moderate-income census tracts, a geographic distribution of loans within the assessment area would not be meaningful and has not been performed.

To assess F&M's lending performance, a total of 29 agriculture and 22 commercial/business loans originated during the review period 2015, 2016, and through June 30, 2017 were evaluated. This was 100% of the commercial/business loans made during the review period. Based on the analysis and consistent with available resources and capabilities, F&M is meeting the credit needs of the assessment area in a satisfactory manner.

Loan-to-Deposit Ratio

F&M's loan-to-deposit ratio (LTD) is reasonable and commensurate with similarly situated institutions. At March 31, 2017 it was **43.75 percent** and has shown steady growth in the past three years. The Bank's average quarterly LTD ratio since the last CRA performance evaluation, May 14, 2012, has been **38.93 percent**. Ratios from five similar banks in the area were sampled for comparison. The other five institutions had a combined average LTD of 54.17% with a high average of 69.44% and a low average of 38.57%. F&M's average LTD ratio exceeds the average LTD ratio of one of the comparable banks and is very near the LTD ratio of another comparable bank. Management's philosophy is to continue to strive for sound loan growth in its small but competitive assessment area.

The following table shows the total assets and quarterly average LTD for F&M and the five institutions used for comparison ending 3-31-2017.

Banks	Assets as of 3-31-2017 \$(000)s	Average LTD as of 3-31-2017
Cleo State Bank	\$93,874	38.57%
<i>F&M National Bank of Fairview</i>	<i>\$109,208</i>	<i>38.93%</i>
Cornerstone Bank	\$194,461	41.54%
Community State Bank of Canton	\$48,963	60.62%
The Seiling State Bank	\$107,403	60.71%
First National Bank of Okeene	\$75,203	69.44%

Source: Call Report data EOQ 6/30/12 through 3/31/2017.

Lending in Assessment Area

F&M's lending in its assessment area (AA) exceeds the standard for satisfactory performance. A substantial majority of the sampled commercial/business and agricultural loans were originated inside F&M's assessment area. This conclusion is based on a random sample of 22 commercial/business loans and 29 agricultural loans that were originated during the review period. Forty-one (41) of the tested loans (80.39% of the number of loans) and \$4.7 million of the tested loans (65.89% of the dollar amount) were originated inside F&M's AA. The ratio of the dollar amount of loans originated inside the AA is skewed downward because of the impact of just one large business participation loan (\$1.5 million) where the proceeds were used outside the AA. The following table depicts F&M's lending in its assessment area:

Table 1 - Lending in the Assessment Area (AA)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	19	86.36%	3	13.64%	22	2,051,400	55.38%	1,652,594	44.62%	3,703,994
Agriculture	22	75.86%	7	24.14%	29	2,668,091	77.14%	790,897	22.86%	3,458,988
Totals	41	80.39%	10	19.61%	51	4,719,491	65.89%	2,443,491	34.11%	7,162,982

Source: Samples of 2015 - 2017 Commercial/business loans and Agriculture loans

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The borrower distribution of loans indicates excellent lending penetration among businesses of different sizes and reasonable, near to excellent, lending penetration among agricultural operations of different sizes. The following tables represent the distribution of lending based on the sample of 19 commercial/business loans and 22 agricultural loans originated within F&M's assessment area during 2015, 2016, and through June 30, 2017. This sample included 100 percent of the commercial/business loans made during the review period.

F&M's distribution of the number of commercial/businesses loans to businesses with gross annual revenues of \$1 million or less exceeds the standard for satisfactory performance and reflects excellent penetration in lending to small businesses in the AA. However, the distribution of loan dollars extended in the AA to commercial/businesses with gross annual revenues of \$1 million or less is only reasonable but meets the standard. The ratio of the distribution of loan dollars extended to commercial/businesses with gross annual revenues of \$1 million or less is skewed downward by just three larger loans made to three different businesses with more than \$1 million gross annual revenue. The skewing effect occurs because these three credits comprise 47 percent of the total loan dollars extended in the AA. However, all 19 of the commercial/businesses loans originated during the review period were for \$350,000 or less, and 15 of those loans were to small businesses that had gross annual revenues of \$1 million or less. See the table below.

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.69%	8.63%	15.69%	100%
% of Bank Loans in AA by #	78.95%	21.05%	0.00	100%
% of Bank Loans in AA by \$	49.30%	50.70%	0.00	100%

Source: 2015 -2017 Business Demographic from PCI Corporation, Inc CRA Wiz.
Samples of 2015 - 2017 Commercial/business loans.

F&M's distribution to loans to agricultural operations of different sizes meets the standard for satisfactory performance. It reflects reasonable, and near to excellent, lending penetration to small

farms. The number and dollars of loans made to small farms having \$1 million or less in gross annual revenues is less than but near to the demographic comparator. See the table below.

Table 2A - Borrower Distribution of Loans to Farms in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	100.00%	0.00%	0.00%	100%
% of Bank Loans in AA by #	95.45%	4.55%	0.00%	100%
% of Bank Loans in AA by \$	91.85%	8.15%	0.00%	100%

*Source: 2015 -2017 Business Demographic from PCI Corporation, Inc CRA Wiz.
Samples of 2015 - 2017 Agricultural loans.*

Geographic Distribution of Loans

An analysis of the geographic distribution of loans sampled would not be meaningful since there are no low- or moderate-income census tracts in F&M's assessment area.

Responses to Complaints

There have been no consumer complaints pertaining to F&M's CRA performance during this evaluation period.

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.