



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

---

## **PUBLIC DISCLOSURE**

**August 08, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Farmers-Merchants National Bank of Paxton  
Charter Number 14458**

**101 North Taft Street  
Paxton, IL 60957**

**Comptroller of the Currency  
Central Illinois & Central Indiana  
3001 Research Road Suite E2  
Champaign, IL 61822**

**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 Outstanding.**

- **A substantial majority of the loans are originated within the bank's assessment area.**
- **The distribution of loans reflects good penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes, given the demographics of the assessment area.**
- **The bank's loan-to-deposit ratio is reasonable based on the institution's size, financial condition, assessment area's credit needs, and competition.**

## DESCRIPTION OF INSTITUTION

Farmers-Merchants National Bank of Paxton (FMNB) is a \$91 million intrastate institution located in Paxton, Illinois. Paxton is located in Ford County on Interstate Highway 57 in east central Illinois, approximately 25 miles north of Champaign, Illinois. The bank is 100% owned by FM Bancorp, Inc., a one-bank holding company. FMNB has branch facilities located in Melvin and Piper City, Illinois. Automated teller machines (ATMs) are available at the Paxton and Piper City branches and a gas station/convenience store in Sibley. The bank also offers banking by Internet and telephone. FMNB has not closed any branches during this evaluation period. The Piper City branch was acquired in January 2003. The bank also has a 30% owner interest in Tri-Capital L.L.C. in Indianapolis, Indiana, which is a loan production joint venture started in 2002 with another bank and a real estate development company.

The bank offers a full range of retail and commercial banking products normally associated with a community bank. Gross loans total \$52 million on December 31, 2004, representing 58% of total assets. The following represents the bank's loan and lease portfolio mix as of December 31, 2004:

Residential Real Estate Loans	\$ 18 million	35%
Commercial Loans	\$ 17 million	33%
Agricultural Loans	\$ 11 million	22%
Consumer Loans	\$ 5 million	10%

During the years of 2003 and 2004, the bank originated 1,822 loans totaling \$61.0 million. According to bank reports, 318 of these loans were 1-4 family residential real estate (\$21 million), 210 were commercial (\$18 million), 198 were agricultural (\$14 million), and 1,096 were consumer (\$8 million).

The bank offers standard loan products to the community. Farm Services Administration (FSA) guaranteed loans are also offered, and currently total \$167,000 to two farm borrowers originated in 2002. Between 2001 and 2004, the bank originated 44 Rural Development loans totaling \$2.6 million, which are guaranteed by the United States Department of Agriculture (USDA). The

Rural Development program provides 100% financing for residential real estate loans to moderate-income borrowers. The bank also participates in selling residential real estate loans into the secondary market, \$12.5 million in 2003 and 2004.

Tier one capital totals \$11 million. There are no financial, legal, or other impediments that would hinder the bank's ability to help meet the credit needs of its assessment area. Bank activities are consistent with the bank's size, its financial capacity, local economic conditions, and credit needs of the community. The bank was rated "Outstanding" at its last CRA examination on February 24, 1999.

## DESCRIPTION OF THE ASSESSMENT AREA

The bank has two assessment areas. One assessment area (AA) consists of all five census tracts (#9616, #9617, #9618, #9619, and #9620) in Ford County, which is located in the Champaign-Urbana, IL, Metropolitan Statistical Area (MSA). Ford County was included in the revised boundaries of the Champaign-Urbana MSA in 2004. The second assessment area consists of census tract #9507 in Iroquois County, which is not located in an MSA. The census tracts in Ford County and the census tract in Iroquois County are all designated as middle-income. Prior to 2004, the bank's assessment area consisted of all five census tracts in Ford County and census tract #9507 in Iroquois County as one combined assessment area. These assessment areas conform to the regulation and do not arbitrarily exclude low- or moderate-income areas. The following demographic information for the assessment area is based on 2000 census data:

<b>Demographic Information for Assessment Area</b>	<b>MSA 2004</b>	<b>Non-MSA 2004</b>	<b>Non-MSA 2003</b>
Population:	14,241	2,920	17,161
Housing Stock: <i>1-4 family housing units</i>	92%	94%	93%
Occupancy: <i>owner-occupied, renter-occupied, vacant</i>	71%, 22%, 7%	71%, 14%, 15%	71%, 21%, 8%
Home Values: <i>Median home value</i>	\$70,824	\$85,600	\$73,603
Age of Homes: <i>Median year of homes built</i>	1949	1960	1951
Income: <i>Updated Median family income</i>	\$58,400	\$49,000	\$48,200
Family Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	19%, 26%, 28%, 27%	9%, 16%, 30%, 45%	13%, 19%, 26%, 42%
Household Income Levels (%): <i>Low-, moderate-, middle-, upper-income</i>	17%, 16%, 23%, 44%	11%, 14%, 19%, 56%	16%, 16%, 22%, 46%

	2004 Business Data	2004 Business Data	2003 Business Data
Farms: % of small farms in the assessment area	99%	98%	98%
Businesses: % of small businesses in the assessment area	66%	68%	64%
Percent of farms not reporting revenue figures	0%	0%	0%
Percent of businesses not reporting revenue figures	28%	30%	30%

Note: MSA 2004 represents all five census tracts in Ford County. Non-MSA 2004 represents census tract #9507 in Iroquois County. Non-MSA 2003 represents all five census tracks in Ford County plus census tract #9507 in Iroquois County.

The local economy is stable and driven by agriculture, small business, and light industry. Some of the major employers in the area are the local school districts and a hospital. Baltimore Air Coil and HI Concrete Technology are also large area employers. The December 2004 unemployment rate for Ford County was 5.1% and Iroquois County was 5.1%. The state unemployment rate was 6.0%, compared to the national rate of 5.4%.

FMNB faces competition from several community banks with locations in Paxton, Gibson City, Buckley, Loda, Roberts, Onarga, Cropsey, and Cissna Park, and from larger regional and national competition located in Champaign and Bloomington, Illinois. A local government official was contacted during the examination. The contact indicated that the area's financial institutions are meeting the community's credit needs.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review concentrated on the bank's primary loan products for the years 2003 and 2004, which based on origination information provided by the bank, was primarily commercial and residential real estate loans. We utilized 2000 census data and the bank's 2004 Home Mortgage Disclosure Act (HMDA) report. As part of this CRA evaluation, we tested a representative sample of FMNB's publicly filed data on home mortgage loans. We determined the data was accurate and reliable.

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

The overall distribution of loans reflects good penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes, given the demographics of the assessment area.

#### Residential Real Estate Loans

The distribution of loans reflects, given the demographics of the assessment area, good penetration overall for residential real estate loans among individuals of different income levels (including low- and moderate-income). Based on the 2004 HMDA loan data, the bank's performance in originating residential real estate loans (purchase) to both low- and moderate-income borrowers in the MSA is favorable compared to the demographic data at 46% versus 45%. While 2004 originations in the non-MSA to low-income borrowers are less favorable than the demographic data, loans to moderate-income borrowers are favorable. Other factors impacting residential real estate lending in this assessment area include high home costs, which make it difficult for low-income borrowers to own a home. Two lake subdivisions located near Loda, Illinois, have increased home costs in this census tract in recent years. In addition, we note that originations for home refinance to low- and moderate-income borrowers in this assessment area are significantly more favorable than the demographic data. (Please see the second table below.) Based on our loan sample, the bank's 2003 performance in originating residential real estate loans (purchase) to both low- and moderate-income borrowers in the Non-MSA is favorable compared to the demographic data at 35% versus 32%. The following table shows the distribution of residential real estate loan originations (purchase) among borrowers of different income levels within the assessment area:

<b>Borrower Distribution of Residential Real Estate Loans (Purchase) in the Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
MSA 2004	19%	25%	26%	21%	28%	25%	27%	25%
Non-MSA 2004	9%	0%	16%	17%	30%	17%	45%	66%
Non-MSA 2003	13%	5%	19%	30%	26%	40%	42%	25%

*Source: Sample of 20 residential real estate loans originated in the AA for 2003, 2004 HMDA data, and 2000 U.S. Census data.*

Based on the 2004 HMDA loan data, the bank's performance in originating residential real estate loans (refinance) to both low- and moderate-income borrowers in the MSA is favorable compared to the demographic data at 46% versus 45%. Originations in 2004 in the non-MSA to both low- and moderate-income borrowers are significantly more favorable compared to the demographic data at 54% versus 25%. Based on our loan sample, 2003 originations of residential real estate loans (refinance) in the non-MSA to low- and moderate-income borrowers are less favorable than the demographic data. However, as noted above, 2003 originations for purchase mortgages to low- and moderate-income borrowers are more favorable than the demographic data. The following table shows the distribution of residential real estate loan originations (refinance) among borrowers of different income levels within the assessment area:

<b>Borrower Distribution of Residential Real Estate Loans (Refinance) in the Assessment Area</b>				
Borrower	Low	Moderate	Middle	Upper

Income Level								
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
MSA 2004	19%	15%	26%	31%	28%	42%	27%	12%
Non-MSA 2004	9%	23%	16%	31%	30%	38%	45%	8%
Non-MSA 2003	13%	5%	19%	15%	26%	20%	42%	60%

Source: Sample of 20 residential real estate loans originated in the AA for 2003, 2004 HMDA data, and 2000 U.S. Census data.

The bank's overall performance for originating loans to purchase and refinance residential homes for low- and moderate-income borrowers in both assessment areas during 2003 and 2004 exceeds the demographic characteristics of the assessment areas.

### Commercial Loans

The bank's performance of lending to businesses of different sizes is more than reasonable. Eighty-five percent of the number of business loans sampled in the MSA 2004 and Non-MSA 2003 assessment areas was made to small businesses. Ninety-five percent of the number of business loans sampled in the Non-MSA 2004 assessment area was made to small businesses. Small businesses are businesses with annual gross revenues of less than one million dollars. Demographic data for the AAs shows that sixty-six percent of the businesses in the MSA 2004 AA, sixty-eight percent in the Non-MSA 2004 AA, and sixty-four percent in the Non-MSA 2003 have revenues equal to or less than one million dollars. The bank's performance in lending to small businesses exceeds the assessment areas' demographic characteristics.

<b>Borrower Distribution of Loans to Businesses in the Assessment Area (MSA 2004)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses*	66%	6%	28%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	46%	54%	0%	100%

Source: This table is based on 20 commercial loans from the AA that were originated in 2004.

<b>Borrower Distribution of Loans to Businesses in the Assessment Area (Non-MSA 2004)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses*	68%	2%	30%	100%
% of Bank Loans in AA by #	95%	0%	5%	100%
% of Bank Loans in AA by \$	98%	0%	2%	100%

Source: This table is based on 20 commercial loans from the AA that were originated in 2004. One small loan totaling \$10,919 in the sample did not have revenue information in the file.

<b>Borrower Distribution of Loans to Businesses in the Assessment Area (Non-MSA 2003)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total

% of AA Businesses*	64%	6%	30%	100%
% of Bank Loans in AA by #	85%	5%	10%	100%
% of Bank Loans in AA by \$	82%	2%	16%	100%

*Source: This table is based on 20 commercial loans from the AA that were originated in 2003. Two loans totaling \$216,500 in the sample did not have revenue information in the file.*

### **Geographic Distribution of Loans**

A geographic distribution analysis was not performed, as all the census tracts in both the MSA and non-MSA assessment areas are designated middle-income. These assessment areas do not include any low- or moderate-income census tracts.

### **Lending in Assessment Area**

A substantial majority of loans are originated within the bank’s assessment areas. Based on a sample of 139 loans originated in 2003 and 2004, 87% of the number was made within the bank’s assessment area.

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit ratio is reasonable based on the institution's size, financial condition, assessment area's credit needs, and local competition. During the past twenty-four quarters through December 31, 2004, FMNB's loan-to-deposit ratio has averaged 66%. This average ratio is comparable to the 67% quarterly average for five similarly situated banks, with total assets between \$61 million and \$86 million, headquartered in Ford and Champaign Counties. When adjusted for \$12.5 million in residential real estate loans sold into the secondary market during the assessment period, the bank’s loan-to-deposit ratio would be 82% as of December 31, 2004. This compares favorably to the ratios of the similarly situated banks noted above, which range from 51% to 82%.

### **Responses to Complaints**

FMNB has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices.