

PUBLIC DISCLOSURE

December 22, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers and Merchants Bank
Certificate Number: 13801

6464 Merchants Drive
LaOtto, Indiana 46763

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Chicago Regional Office

300 South Riverside Plaza, Suite 1700
Chicago, Illinois 60606

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 RATING	1
DESCRIPTION OF INSTITUTION.....	1
DESCRIPTION OF ASSESSMENT AREAS	2
SCOPE OF EVALUATION.....	3
CONCLUSIONS ON PERFORMANCE CRITERIA	4
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	6
Indiana Non-MSA Assessment Area – Full-Scope Review.....	7
Fort Wayne MSA Assessment Area – Full-Scope Review	14
APPENDICES.....	19
SMALL BANK PERFORMANCE CRITERIA.....	19
GLOSSARY	20

INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Farmers and Merchants Bank's (FMB's) Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. The following points summarize performance.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans are in the institution's assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among businesses of different sizes and individuals of different income levels.
- The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

DESCRIPTION OF INSTITUTION

Background

FMB, headquartered in LaOtto, Indiana (DeKalb County), operates within the northeastern part of the state. FMB is a wholly owned subsidiary of FM Fincorp, a one-bank holding company also in LaOtto. The bank has no other subsidiaries or affiliates. No merger or acquisition activities have occurred since the previous evaluation. The bank received a Satisfactory CRA rating at its previous FDIC Performance Evaluation, dated December 17, 2015, based on Interagency Small Institution Examination Procedures.

Operations

FMB operates four full-service offices in northeastern Indiana. The bank offers loan products including commercial, agricultural, home mortgage, and consumer loans, primarily focusing on commercial and home mortgage loans. The bank provides a variety of deposit accounts including checking, savings, money market, and certificates of deposit. Alternative banking services include ATMs and internet banking. FMB did not open or close any office locations since the previous evaluation.

Ability and Capacity

Bank assets totaled \$216.7 million as of September 30, 2021, including total loans of \$110.7 million and total securities of \$71.9 million. Deposit balances totaled \$194.7 million for this same timeframe. The loan portfolio distribution has remained largely stable since the previous evaluation, with commercial and industrial loans making up a slightly larger percentage of total loans compared to the 2015 evaluation. The following table details the loan portfolio distribution as of September 30, 2021.

Loan Portfolio Distribution as of 9/30/2021		
Loan Category	\$(000s)	%
Construction and Land Development	1,669	1.5
Secured by Farmland	15,100	13.6
Secured by 1-4 Family Residential Properties	49,564	44.8
Secured by Multifamily (5 or more) Residential Properties	813	0.7
Secured by Nonfarm Nonresidential Properties	10,653	9.6
Total Real Estate Loans	77,799	70.2
Commercial and Industrial Loans	21,344	19.3
Agricultural Loans	4,948	4.5
Consumer Loans	4,596	4.1
Other Loans	2,090	1.9
Less: Unearned Income	(48)	(<0.0)
Total Loans	110,729	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that would limit FMB’s ability to meet the credit needs of its assessment areas.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which examiners evaluate the institution’s CRA performance. FMB has delineated two assessment areas. Both assessment areas are entirely in Indiana, and both are unchanged from the previous evaluation. Brief descriptions of these two assessment areas are below.

- Fort Wayne, Indiana, Metropolitan Statistical Area (Fort Wayne MSA) assessment area
 - o Census tracts 0103.06, 0103.07, 0103.08, and 0104.00 in Allen County
 - o Census tract 0501.00 in Whitley County

- Nonmetropolitan Indiana (Indiana Non-MSA) assessment area
 - o Census tracts 0206.01, 0206.02, and 0207.00 in DeKalb County
 - o Census tracts 9717.00, 9718.00, 9719.00, and 9725.00 in Noble County

The assessment areas conform to the requirements of the CRA regulation, do not arbitrarily exclude low- and moderate-income geographies, and do not reflect illegal discrimination. Refer to the

separate assessment area sections of this evaluation for more specific information on each assessment area.

The following table outlines the distribution of loans, deposits, and office locations between the two assessment areas.

Assessment Area Breakdown of Loans, Deposits, and Offices						
Assessment Area	Loans*		Deposits		Bank Offices	
	\$(000s)	%	\$(000s)	%	#	%
Fort Wayne MSA	17,683	48.3	128,394	68.4	2	50.0
Indiana Non-MSA	18,951	51.7	59,434	31.6	2	50.0
Total	36,634	100.0	187,828	100.0	5	100.0

*Source: Bank Data; FDIC Summary of Deposits (6/30/2021). *Loans include 2019 and 2020 small business and home mortgage loans.*

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated December 17, 2015, to the current evaluation dated December 22, 2021. Examiners used the Interagency Small Institution CRA Examination Procedures to evaluate FMB’s performance from December 17, 2015 to December 22, 2021. Examiners conducted full-scope reviews of both assessment areas. Performance in each area carried equal weight in arriving at overall conclusions given the relatively equal dollar volume of lending in each assessment area in 2019 and 2020.

The bank’s CRA performance was evaluated based on the following criteria:

- Loan-to-Deposit (LTD) Ratio
- Assessment Area Concentration
- Geographic Distribution
- Borrower Profile
- Response to CRA-related Complaints

This evaluation does not include any affiliate activity.

Activities Reviewed

Examiners determined FMB’s major product lines are small business and home mortgage loans based on the number and dollar volume of loans originated during the evaluation period. Examiners did not review small farm and consumer loans because they did not represent major product lines.

For this evaluation, examiners analyzed small business and home mortgage loans originated in 2019 and 2020. Examiners reviewed lending performance for both years given the increases in both small business and home mortgage loan originations from 2019 to 2020. Examiners analyzed all small business loans compiled in internal bank records. FMB originated 117 small business loans

totaling \$12.7 million in 2019 and 245 small business loans totaling \$21.8 million in 2020. D&B data provided standards of comparison for these loans. A significant number of the bank's small business loans in 2020 were loans originated through the Paycheck Protection Program (PPP). The federal government established PPP to provide emergency assistance to businesses during the COVID-19 pandemic. FMB originated 100 PPP loans totaling \$6.0 million in 2020. The Borrower Profile sections of this evaluation contain additional information regarding these PPP loans.

This evaluation also considered all home mortgage loans that FMB reported under Home Mortgage Disclosure Act (HMDA) data collection requirements in 2019. The bank was exempt from HMDA data collection requirements in 2020, so examiners used bank records to gather and analyze home mortgage loan data for that year. FMB reported 66 home mortgage loans totaling \$11.6 million in 2019 and originated 98 home mortgage loans totaling \$17.2 million in 2020. American Community Survey (ACS) data for 2015 served as a standard of comparison for these loans in both years. Examiners also compared the bank's performance to HMDA aggregate data in 2019; however, since the bank did not report HMDA data in 2020, this evaluation does not include comparisons to 2020 HMDA aggregate data.

The bank's record of small business lending contributed more weight to overall conclusions compared to home mortgage loans. This weighting is due to the relatively higher volume of small business loans in both 2019 and 2020. Finally, although this evaluation presents both number and dollar volume of loans, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

FMB demonstrated satisfactory performance under the Lending Test. Reasonable performance under each of the following criteria supports this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is reasonable considering the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio grew steadily throughout much of the evaluation period, increasing from 64.8 percent as of December 31, 2015, to 76.0 percent as of March 31, 2020. However, the LTD ratio has declined in recent quarters as deposit balances have grown rapidly while loan balances have remained relatively constant. This rapid growth in deposits is consistent with nationwide trends during the COVID-19 pandemic.

Examiners evaluated the bank's LTD ratio through comparisons to three similarly situated institutions. Examiners selected these institutions based on asset size, geographic location, and lending focus. FMB maintained an average LTD ratio similar to one institution and below two institutions as shown in the following table. FMB's average ratio most closely aligned with The Campbell & Fetter Bank, whose most recent CRA evaluation concluded that its LTD ratio was reasonable. Given this comparison, as well as the bank's steadily increasing LTD ratio throughout much of the evaluation period, performance under this criterion is reasonable.

Loan-to-Deposit Ratio (LTD) Comparison		
Bank	Total Assets as of 9/30/2021 (\$000s)	Average Net LTD Ratio (%)
Farmers and Merchants Bank (LaOtto IN)	216,685	68.3
The Garrett State Bank (Garrett IN)	304,587	87.7
Community State Bank (Avilla IN)	368,635	92.9
The Campbell & Fetter Bank (Kendallville IN)	372,691	72.8
<i>Source: Reports of Condition and Income 12/31/2015 - 9/30/2021</i>		

Assessment Area Concentration

A majority of loans and other lending-related activities are in the institution's assessment areas. FMB originated a majority of its small business and home mortgage loans by number and dollar volume within its assessment areas in both years. See the following table for details.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business										
2019	59	50.4	58	49.6	117	8,361	65.9	4,318	34.1	12,679
2020	135	55.1	110	44.9	245	11,957	54.8	9,846	45.2	21,803
Subtotal	194	53.6	168	46.4	362	20,318	58.9	14,164	41.1	34,482
Home Mortgage										
2019	39	59.1	27	40.9	66	6,655	57.3	4,965	42.7	11,620
2020	63	64.3	35	35.7	98	9,661	56.1	7,546	43.9	17,207
Subtotal	102	62.2	62	37.8	164	16,316	56.6	12,511	43.4	28,827
Total	296	56.3	230	43.7	526	36,634	57.9	26,675	42.1	63,309
<i>Sources: Bank Data; HMDA Reported Data 2019 Due to rounding, totals may not equal 100.0</i>										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. This conclusion is solely based on performance in the Indiana Non-MSA assessment area since the Fort Wayne MSA assessment area does not include any low- or moderate-income census tracts. A review of the Geographic Distribution criterion for the Fort Wayne MSA assessment area would not result in meaningful conclusions. Refer to the separate assessment area sections of this evaluation for more information.

Borrower Profile

The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among businesses of different sizes and individuals of different income levels. The bank demonstrated reasonable performance under this criterion in both assessment areas. Refer to the separate assessment area sections of this evaluation for more information.

Response to Complaints

FMB did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

Indiana Non-MSA Assessment Area – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN INDIANA NON-MSA ASSESSMENT AREA

The Indiana Non-MSA assessment area includes contiguous portions of DeKalb County and Noble County. The bank operates two offices, including the main office, in this assessment area.

Economic and Demographic Data

The assessment area includes seven census tracts, including one moderate-income tract, five middle-income tracts, and one upper-income tract. The assessment area does not have any low-income tracts. This tract distribution represents a slight change from the previous evaluation, when the assessment area contained no low- nor moderate-income census tracts based on 2010 U.S. Census data.

The assessment area’s moderate-income tract is in Noble County and includes portions of the town of Kendallville. This is the only moderate-income tract throughout either assessment area. Both bank offices are in middle-income tracts, although the bank’s Kendallville office is located less than two miles from the moderate-income tract.

The following table details additional demographic and economic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Indiana Non-MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	7	0.0	14.3	71.4	14.3	0.0
Population by Geography	32,286	0.0	15.1	64.4	20.6	0.0
Housing Units by Geography	13,324	0.0	16.1	64.2	19.7	0.0
Owner-Occupied Units by Geography	9,299	0.0	14.1	64.3	21.7	0.0
Occupied Rental Units by Geography	3,210	0.0	24.5	62.9	12.6	0.0
Vacant Units by Geography	815	0.0	5.9	69.3	24.8	0.0
Businesses by Geography	2,126	0.0	15.4	65.1	19.4	0.0
Family Distribution by Income Level	9,083	18.1	18.2	21.5	42.2	0.0
Household Distribution by Income Level	12,509	20.1	15.9	20.4	43.7	0.0
Median Family Income Non-MSAs - IN		\$55,715	Median Housing Value			\$113,509
Families Below Poverty Level		10.3%	Median Gross Rent			\$630
<small>Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (*) The NA category consists of geographies that have not been assigned an income classification.</small>						

The assessment area contains rural areas and several small towns north of the Fort Wayne MSA. The largest town in the assessment area is Kendallville, which has a population of approximately 9,000. Other towns include Avilla (Noble County) and Garrett (DeKalb County). The assessment area’s population has remained stable since the previous evaluation.

Major employers in the assessment area include Kraft Heinz in Kendallville and CSX Transportation in Garrett. At the onset on the COVID-19 pandemic in 2020, unemployment rates in northeast Indiana spiked to some of the highest levels in the state. Unemployment rates in the assessment area have trended downward since these initial spikes. However, the total labor force has also declined slightly over the most recent 12 months. As of October 2021, the unemployment rate in DeKalb County was 1.9 percent, and the unemployment rate in Noble County was 2.4 percent. Both of these were below the Indiana statewide unemployment rate of 2.5 percent for the same timeframe. In general, the unemployment rate in Noble County was slightly higher than the rate in DeKalb County throughout the evaluation period.

Examiners used the 2019 and 2020 FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table shows the median family income ranges for this assessment area.

Median Family Income Ranges – Indiana Non-MSA (99999)				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2019 (\$61,200)	<\$30,600	\$30,600 to <\$48,960	\$48,960 to <\$73,440	≥\$73,440
2020 (\$63,800)	<\$31,900	\$31,900 to <\$51,040	\$51,040 to <\$76,560	≥\$76,560
<i>Source: FFIEC</i>				

Competition

The assessment area is moderately competitive in the market for financial services. According to FDIC Deposit Market Share data as of June 30, 2021, 13 FDIC-insured banks operated 32 offices across DeKalb and Noble counties, including portions of the counties that are outside the assessment area. Within this group of banks, FMB had the ninth highest deposit market share at 3.6 percent.

FMB is not required to report CRA small business data, and therefore, this evaluation does not include comparisons to CRA small business aggregate data. However, aggregate data is reflective of loan demand and therefore is noted here for illustrative purposes. In 2019, 51 lenders reported 965 small business loan originations and purchases throughout all of DeKalb and Noble counties. Additionally, in 2019, 114 lenders reported nearly 1,300 home mortgage loan originations and purchases in the assessment area. FMB ranked 20th, with a market share of 1.4 percent of loans by number. In 2020, 139 lenders reported nearly 1,900 home mortgage loan originations and purchases in the assessment area. Had FMB reported HMDA data in 2020, it would have ranked 18th among this group of lenders in terms of market share by number of loans.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit and community development needs. This information helps determine

whether local financial institutions are responsive to those needs. It also shows what credit and community development opportunities are available.

Examiners contacted a representative of a community development-related organization that operates in the assessment area. The contact noted the relatively high low- and moderate-income population throughout northeast Indiana, including the assessment area. However, the contact stated that the area's economy recovered rapidly from the early days of the COVID-19 pandemic and jobs are generally plentiful for area residents. The contact cited affordable housing and expanded broadband internet access, particularly in rural areas, as significant local needs. Overall, the contact was not aware of any major unmet credit needs and stated that consumers benefit from competition among numerous local financial institutions.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small business and home mortgage loans represent primary credit needs in the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA IN INDIANA NON-MSA ASSESSMENT AREA

LENDING TEST

FMB demonstrated reasonable performance under the Lending Test in this assessment area. Geographic Distribution and Borrower Profile performance were both reasonable.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Strong small business lending performance outweighed poor home mortgage lending performance. As such, overall Geographic Distribution performance in the assessment area is reasonable.

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area. In both 2019 and 2020, the percentage of bank lending in the assessment area's moderate-income tract exceeded the percentage of businesses located in that tract, both by number and dollar volume. Notably, in 2020, the percentage of bank lending was more than double the percentage of businesses. The following table details the distribution of small business lending by tract income category.

Geographic Distribution of Small Business Loans					
Assessment Area: Indiana Non-MSA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate					
2019	15.5	8	21.1	1,040	16.3
2020	15.4	21	34.4	1,859	29.1
Middle					
2019	65.5	16	42.1	2,699	42.2
2020	65.1	12	19.7	674	10.6
Upper					
2019	19.0	14	36.8	2,657	41.5
2020	19.4	28	45.9	3,855	60.3
Totals					
2019	100.0	38	100.0	6,396	100.0
2020	100.0	61	100.0	6,388	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data</i>					
<i>Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects poor dispersion throughout the assessment area. As shown in the following table, throughout 2019 and 2020, the bank only originated one loan in the moderate-income tract. This percentage of lending lagged demographic data in 2020 and both demographic and aggregate data in 2019.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Indiana Non-MSA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate						
2019	14.1	11.6	0	0.0	0	0.0
2020	14.1	--	1	4.0	162	4.4
Middle						
2019	64.3	68.2	8	47.1	860	35.0
2020	64.3	--	9	36.0	968	26.1
Upper						
2019	21.7	20.1	9	52.9	1,595	65.0
2020	21.7	--	15	60.0	2,582	69.6
Totals						
2019	100.0	100.0	17	100.0	2,455	100.0
2020	100.0	--	25	100.0	3,712	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data</i>						
<i>Due to rounding, totals may not equal 100.0%</i>						

Borrower Profile

The distribution of loans reflects reasonable penetration to businesses of different sizes and individuals of different income levels. Although home mortgage lending performance was poor, the more heavily weighted small business lending performance was reasonable. As such, overall Borrower Profile performance in the assessment area is reasonable.

Small Business Loans

The distribution of small business loans reflects reasonable penetration to businesses of different sizes. As shown in the following table, although lending to businesses with revenues of \$1 million or less was below demographic data in 2019, lending to these businesses still represented nearly two thirds of total bank lending, reflecting reasonable performance.

In 2020, lending to businesses in this revenue category was well below the demographic data. However, this distribution is significantly influenced by the volume of PPP loan originations, for which the bank was not required to collect revenue information and are reflected as “revenue not available” in the following table. Excluding these PPP loans, lending to businesses with revenues of \$1 million or less was 68.3 percent and still more than double the percentage by number of lending to business with revenues over \$1 million. This level of lending is still below demographic data. The demographic data represents the percentage of businesses of different sizes operating within the assessment area and does not necessarily represent those businesses seeking or who may qualify for bank financing. Therefore, examiners conducted a supplemental analysis to further evaluate the bank’s lending performance by comparing it to three similarly situated institutions. Examiners selected these institutions based on asset size, geographic location, and lending focus.

Small business lending penetration for the similarly situated institutions ranged from 52.4 percent to 78.9 percent in 2020. These results provide additional support for reasonable performance in 2020.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Indiana Non-MSA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2019	78.3	25	65.8	2,470	38.6
2020	80.3	28	45.9	2,372	37.1
>\$1,000,000					
2019	7.2	13	34.2	3,926	61.4
2020	6.4	13	21.3	1,942	30.4
Revenue Not Available					
2019	14.5	--	--	--	--
2020	13.3	20	32.8	2,074	32.5
Totals					
2019	100.0	38	100.0	6,396	100.0
2020	100.0	61	100.0	6,388	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data: "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The distribution of home mortgage loans reflects poor penetration among individuals of different income levels. This assessment is primarily due to the nominal percentage of total lending to moderate-income borrowers, which significantly lagged both aggregate and demographic data in 2019 and demographic data by an even greater amount in 2020. Lending to low-income borrowers was more consistent and only slightly below aggregate data in 2019. However, given the significant gap between lending to moderate-income borrowers and the relevant comparison data, overall performance under this criterion is poor.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Indiana Non-MSA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	18.1	6.7	1	5.9	65	2.6
2020	18.1	--	2	8.0	227	6.1
Moderate						
2019	18.2	19.7	2	11.8	100	4.1
2020	18.2	--	2	8.0	132	3.6
Middle						
2019	21.5	22.5	1	5.9	345	14.1
2020	21.5	--	5	20.0	565	15.2
Upper						
2019	42.2	31.5	12	70.6	1,800	73.3
2020	42.2	--	12	48.0	2,131	57.4
Not Available						
2019	0.0	19.6	1	5.9	145	5.9
2020	0.0	--	4	16.0	657	17.7
Totals						
2019	100.0	100.0	17	100.0	2,455	100.0
2020	100.0	--	25	100.0	3,712	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data</i>						

Fort Wayne MSA Assessment Area – Full-Scope Review

DESCRIPTION OF INSTITUTION’S OPERATIONS IN FORT WAYNE MSA ASSESSMENT AREA

The Fort Wayne MSA assessment area includes contiguous portions of Allen County and Whitley County. The bank operates two offices in this assessment area.

Economic and Demographic Data

The assessment area includes one middle-income tract and four upper-income tracts. There were no changes to the distribution of tracts by income designation since the previous evaluation.

The following table details additional demographic and economic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Fort Wayne MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.0	0.0	20.0	80.0	0.0
Population by Geography	26,413	0.0	0.0	20.0	80.0	0.0
Housing Units by Geography	9,776	0.0	0.0	24.1	75.9	0.0
Owner-Occupied Units by Geography	8,374	0.0	0.0	21.0	79.0	0.0
Occupied Rental Units by Geography	1,066	0.0	0.0	40.1	59.9	0.0
Vacant Units by Geography	336	0.0	0.0	51.8	48.2	0.0
Businesses by Geography	1,832	0.0	0.0	18.3	81.7	0.0
Family Distribution by Income Level	7,481	8.4	14.7	23.7	53.2	0.0
Household Distribution by Income Level	9,440	10.7	11.1	18.7	59.6	0.0
Median Family Income MSA - 23060 Fort Wayne, IN MSA		\$60,681	Median Housing Value			\$158,274
Families Below Poverty Level		2.8%	Median Gross Rent			\$791
<small>Source: 2015 ACS and 2020 D&B Data Due to rounding, totals may not equal 100.0% (*) The NA category consists of geographies that have not been assigned an income classification.</small>						

The assessment area includes largely rural areas directly north of Fort Wayne and does not include the more populous portion of Allen County, including most of the city of Fort Wayne. Overall, population within the assessment area has grown by 1,500 residents since the previous evaluation.

The Fort Wayne area economy relies heavily on the manufacturing sector. According to Moody’s Analytics, the local economy is recovering from the effects of the COVID-19 pandemic, but manufacturing growth has remained largely flat in 2021. Healthcare, logistics, and education have been recent sources of economic growth. Allen County is home to numerous large employers,

although most of these are located outside the assessment area. These employers include Parkview Health Systems and General Motors. Within the assessment area specifically, C&A Tool Engineering in Churubusco (Whitley County) is a major employer.

Data obtained from the U.S. Bureau of Labor Statistics shows that unemployment rates rose significantly in 2020 due to the COVID-19 pandemic. By the end of the evaluation period, unemployment rates had dropped to pre-pandemic levels, although the labor force similarly declined during this period. As of October 2021, the unemployment rate in Allen County was equal to the Indiana statewide rate of 2.5 percent, while the unemployment rate in Whitley County was below the statewide rate, at 1.9 percent.

The following table shows the 2019 and 2020 FFIEC-updated median family income ranges for this assessment area.

Median Family Income Ranges – Fort Wayne MSA (23060)				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2019 (\$65,800)	<\$32,900	\$32,900 to <\$52,640	\$52,640 to <\$78,960	≥\$78,960
2020 (\$67,800)	<\$33,900	\$33,900 to <\$54,240	\$54,240 to <\$81,360	≥\$81,360

Source: FFIEC

Competition

The assessment area is moderately competitive in the market for financial services. According to FDIC Deposit Market Share data as of June 30, 2021, 21 FDIC-insured banks operated 98 offices across the two whole counties, including portions of the counties that are outside the assessment area. Within this group of banks, FMB had the 11th highest deposit market share at 1.5 percent. Numerous large national and regional banks dominate the market for deposits in the Fort Wayne MSA. However, most of these banks are located in the more urbanized portions of Allen County that are not included in FMB’s assessment area.

In 2019, 89 lenders reported over 7,000 small business loan originations and purchases throughout all of Allen and Whitley counties. Additionally, in 2019, 149 lenders reported nearly 2,000 home mortgage loan originations and purchases in the assessment area. FMB ranked 24th, with a market share of 1.1 percent of loans by number. In 2020, 177 lenders reported nearly 3,000 home mortgage loan originations and purchases in the assessment area. Had FMB reported HMDA data in 2020, it would have ranked 18th among this group of lenders in terms of market share by number of loans.

Community Contact

Examiners contacted a representative of a community development-related organization that operates in the assessment area. The contact cited affordable housing as a significant need in the assessment area. The contact said that in many cases, local banks offer products, particularly home mortgage products that meet the needs of low- and moderate-income families. However, banks often struggle to reach these potential borrowers and successfully market their products to them. As such, opportunities exist for local banks to conduct more extensive outreach in low- and moderate-income communities. The contact also identified small business lending as an opportunity for increased bank involvement. The contact provided examples of local small businesses, particularly

start-ups and minority- or women-owned businesses, that struggle to obtain financing from local banks.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that opportunities exist within the assessment area for affordable housing and local small business financing.

CONCLUSIONS ON PERFORMANCE CRITERIA IN FORT WAYNE, IN MSA ASSESSMENT AREA

LENDING TEST

FMB demonstrated reasonable performance under the Lending Test in this assessment area. This conclusion is solely based on reasonable Borrower Profile performance given that the assessment area does not contain any low- or moderate-income census tracts, and therefore, Geographic Distribution performance was not analyzed.

Geographic Distribution

This assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, examiners did not evaluate this criterion.

Borrower Profile

The distribution of loans reflects reasonable penetration to businesses of different sizes and individuals of different income levels. Home mortgage lending performance was excellent, although the more heavily weighted small business lending performance was reasonable. As such, overall Borrower Profile performance in the assessment area is reasonable.

Small Business Loans

The distribution of small business loans reflects reasonable penetration to businesses of different sizes. As shown in the following table, lending to businesses with revenues of \$1 million or less was slightly below, but comparable to, demographic data in 2019. In 2020, lending to businesses in this revenue category was well below the demographic data. However, this distribution is largely due to the volume of PPP loans, for which the bank was not required to collect revenue information and are reflected as “revenue not available” in the following table. Excluding PPP loans, FMB’s percentage of lending to businesses with revenues of \$1 million or less was 88.9 percent, which is only slightly below the comparable demographic ratio in 2020. As such, performance is reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Fort Wayne MSA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2019	88.3	18	85.7	1,736	88.3
2020	90.1	24	32.4	3,728	66.9
>\$1,000,000					
2019	3.8	3	14.3	229	11.7
2020	3.2	3	4.1	208	3.7
Revenue Not Available					
2019	7.9	--	--	--	--
2020	6.7	47	63.5	1,633	29.3
Totals					
2019	100.0	21	100.0	1,965	100.0
2020	100.0	74	100.0	5,569	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The distribution of home mortgage loans reflects excellent penetration among individuals of low- and moderate- income levels. Lending to low-income borrowers was particularly strong. As shown in the following table, the percentage of lending to low-income borrowers exceeded demographic data in 2019 and was more than double the aggregate level. Lending to low-income borrowers was comparable to demographic data in 2020. These levels are particularly notable because low-income families' limited resources often limit the opportunities to lend to this income segment.

Lending to moderate-income families was well below aggregate and demographic data in 2019 but improved significantly in 2020. Lending to moderate-income families outpaced the overall increase in home mortgage lending from 2019 to 2020, exceeding demographic data by more than 6.0 percentage points in 2020. Given this substantial increase, in conjunction with strong lending to low-income borrowers in both years, the bank demonstrated strong performance under this criterion.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Fort Wayne MSA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	8.4	3.3	2	9.1	150	3.6
2020	8.4	--	3	7.9	288	4.8
Moderate						
2019	14.7	14.8	1	4.5	185	4.4
2020	14.7	--	8	21.1	865	14.5
Middle						
2019	23.7	21.5	6	27.3	800	19.0
2020	23.7	--	6	15.8	698	11.7
Upper						
2019	53.2	47.9	12	54.5	2,970	70.7
2020	53.2	--	20	52.6	3,998	67.2
Not Available						
2019	0.0	12.6	1	4.5	95	2.3
2020	0.0	--	1	2.6	100	1.7
Totals						
2019	100.0	100.0	22	100.0	4,200	100.0
2020	100.0	--	38	100.0	5,949	100.0
<i>Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data Due to rounding, totals may not equal 100.0%</i>						

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the institution under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited-scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.