



PUBLIC DISCLOSURE

June 19, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**FARMERS STATE BANK OF FORT MORGAN
RSSD# 309758**

**123 EAST KIOWA AVENUE
FORT MORGAN, COLORADO 80701**

**Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198**

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 Examination	2
Description of Institution	3
Description of Assessment Area	3
Conclusions	5
Glossary	9

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

The Farmers State Bank of Fort Morgan, Fort Morgan, Colorado (the bank), has a satisfactory record of helping to meet the credit needs of its entire assessment area (AA), including low- and moderate-income families, in a manner consistent with its resources, operating philosophy, and credit needs of the community. Three of the five criteria used in evaluating small bank lending performance were relevant to this review and are as follows:

- Loan-to-Deposit (LTD) Ratio
- Lending Inside the AA
- Lending to Businesses and Farms of Different Revenue Sizes and Borrowers of Different Income Levels

Two of the evaluation criteria used in evaluating small bank lending performance were not reviewed during this evaluation. The geographic distribution of loans was not evaluated because the bank's AA is only comprised of middle-income census tracts. Therefore, an analysis of the bank's lending to geographies of various income levels would not be meaningful. The bank's responsiveness to complaints under the Community Reinvestment Act (CRA) also was not evaluated because the bank has not received any such complaints.

Conclusions for each performance criteria were based on data compiled from a statistically-derived sample of loan files for each major product line. The major product lines were determined through discussions with bank management, a review of the Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's last CRA examination in June 2002. The three loan types selected for review were commercial, agricultural, and residential real estate loans.

The bank's LTD ratio indicated a reasonable effort to extend credit in a competitive lending market. In addition, a substantial majority of the bank's lending activity occurred inside its AA. The bank's distribution of loans among businesses and farms of different revenue sizes and borrowers of different income levels was reasonable based on area demographics. The bank's performance under the CRA remains unchanged from the previous evaluation.

SCOPE OF EXAMINATION

The performance of the bank was assessed using the Federal Financial Institutions Examination Council (FFIEC) Interagency Small Bank Examination Procedures. The bank's performance was based on an analysis of its small business, small farm, and residential real estate loan originations. The loan samples were selected from agricultural loans originated between October 2005 and April 2006, and commercial and residential real estate loans originated between April 2005 and April 2006. The sample size consisted of a total of 86 loans, of which 29 were small business; 27 were residential real estate; and, 30 were agricultural loans. To augment the evaluation, interviews were conducted with members of the

local community to ascertain specific credit needs and the bank's level of achievement in helping to meet such needs.

DESCRIPTION OF INSTITUTION

The bank operates from one location in Fort Morgan, Colorado, with an onsite automated teller machine (ATM) and a drive-thru facility. In addition, the bank recently opened a second cash dispensing ATM at the Colorado Plains Medical Center in Fort Morgan. The bank is wholly-owned by F.S.B. Bancorporation Inc. of Fort Morgan, Colorado, and the Farmers State Bank of Fort Morgan, Colorado Employee Stock Ownership Plan (ESOP). According to the June 30, 2005 Federal Deposit Insurance Corporation (FDIC) Market Share Report, the bank has approximately \$115 million in deposits with a deposit market share of 27.9 percent, ranking it first of nine banks in Morgan County, Colorado.

The analysis of CRA performance identified no legal impediments to the bank's ability to lend in its community. The bank holds a relatively dominant position in Morgan County and caters to the small business, agricultural, and residential real estate lending needs of the area. The bank has the ability to meet the credit needs of its AA based on its asset size, financial condition, and credit products offered. As of the March 31, 2006 Call Report, the bank reported total assets of \$146,972M, of which loans represented \$66,729M, or 45 percent. As illustrated in Table 1, commercial, agricultural, and residential real estate loans represent the majority of the bank's loan portfolio at 98 percent.

TABLE 1 FARMERS STATE BANK'S LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Commercial	26,518	39.7
Agricultural	26,266	39.4
Real Estate	12,536	18.8
Consumer	1,175	1.7
Other	234	0.4
<i>Total Gross Loans</i>	66,729	100.0

The bank's performance under the CRA was last evaluated at the June 3, 2002 examination at which time it also was assigned a satisfactory rating.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank is located in the northeastern part of the state in Fort Morgan, Colorado. Fort Morgan is the largest town in the county and serves as the county seat. According to 2000

census data, the AA is designated as a rural area that includes eight middle-income census tracts in Morgan County.

Population estimates in 2000 for the bank's AA totaled 27,171 and for Fort Morgan, 11,034. Within the previous decade, the city's population increased by 21.7 percent. Community contacts stated that the increase is due to the rapidly growing Hispanic population. The Hispanic population in the county has grown by over 115 percent over the last decade.

According to 2000 census data, the AA was a middle-income area overall with a median family income (\$39,096) that was 88.2 percent of the median family income for the statewide rural area (\$44,319). The area was comparable to the statewide rural area for concentrations of low- and moderate-income (LMI) families. In addition, the area's families living below the poverty level at 8.5 percent was comparable to the statewide rural average of 8.7 percent.

The majority of the housing stock was comprised of owner-occupied units at 62.8 percent. The housing stock in the AA also was significantly older with a median age of 37 years compared to 25 years for the statewide rural area. In addition, area housing was considered more affordable with an affordability ratio¹ of 36.6 percent compared to 32.0 percent in the statewide rural areas.

According to 2000 census data, the area's unemployment rate of 4.2 percent was slightly lower than the statewide rural rate of 4.5 percent. The area has a large concentration of businesses and farms with revenues under \$1 million. Dun & Bradstreet data from 2005 indicated that 91.2 percent of businesses in the area that reported revenues were considered small businesses, and 92.9 percent of farms were considered small farms.

Two members of the community were interviewed to gain perspective on local economic conditions and potential credit needs. One community member discussed a need for more retail businesses to provide job opportunities to the area. Another community member stated that the area was in need of major industries to create jobs. The dairy and beef industries have a large presence in the county with Cargill Meat Solutions Corporation (beef processing), Leprino Foods (cheese processing), Colorado Plains Medical Center (hospital), and Western Sugar (sugar processing) representing the area's major employers. Other major employers include the county government and the school district.

Morgan County also is trying to entice manufacturing industries into the area. The county has five industrial parks: three in Fort Morgan, one in Brush, and one in Wiggins.

Other characteristics of the AA, based on 2000 census data, are summarized in Table 2.

¹ The affordability ratio is calculated by dividing the median household income by the median housing value. A higher ratio indicates more affordable housing.

**TABLE 2
FARMERS STATE BANK ASSESSMENT AREA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,335	19.2
Moderate-income	0	0.0	0	0.0	0	0.0	1,751	25.1
Middle-income	8	100.0	6,967	100.0	592	8.5	1,636	23.5
Upper-income	0	0.0	0	0.0	0	0.0	2,245	32.2
Total Assessment Area	8	100.0	6,967	100.0	592	8.5	6,967	100.0
	Housing Units by Tract*	Housing Tracts By Type						
		Owner-occupied			Rental		Vacant	
		#	% by Tract	% by Unit	#	% by Unit	#	% by Unit
Middle-income	10,410	6,533	100.0	62.8	3,006	28.9	871	8.4
Total Assessment Area	10,410	6,533	100.0	62.8	3,006	28.9	871	8.4
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Middle-income	1,120	100.0	1,021	100.0	57	100.0	42	100.0
Total Assessment Area	1,120	100.0	1,021	100.0	57	100.0	42	100.0
Percentage of Total Businesses:				91.2		5.1		3.7
	Total Farms by Tract**	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Middle-income	196	100.0	182	100.0	14	100.0	0	0.0
Total Assessment Area	196	100.0	182	100.0	14	0.0	0	0.0
Percentage of Total Farms				92.9		7.1		0.0

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's net loan-to-deposit (NLTD) ratio, based on an average of the last 16 quarters since the previous CRA examination, was 57.8 percent and was considered reasonable given the bank's financial condition, credit needs, and local competition in its AA. An eight-quarter period was utilized for comparison with local, state, and national peer group averages. Based on eight consecutive quarters through March 31, 2006, the bank's NLTD ratio of 56.1 percent fell below that of one similarly situated competitor bank, as well as state and national peer groups. However, the bank's eight quarter NLTD ratio was above that of the other competitor bank. State and national peer group averages were 82.5 and 65.4 percent, respectively.

Although the bank's NLTD ratio is slightly lower than its peer group, the bank has a relatively large number and dollar volume of public deposits. The total deposits from the previous eight quarters through March 31, 2006 were calculated excluding public deposits, resulting in a NLTD ratio of 64.8 percent.

Another factor that may impact the bank's NLTD ratio includes the number of competitor banks within the city of Fort Morgan. There are eight competitor financial institutions within Fort Morgan, including branch offices of larger banks with a wider variety of product offerings. The number of local banks in relation to the local population has created a highly competitive market.

Summary of Lending Performance

TABLE 3 SUMMARY OF LENDING PERFORMANCE								
Lending within the AA								
	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Residential Real Estate	23	85.2	1,841	83.3	4	14.8	369	16.7
Small Business	25	86.2	2,935	39.5	4	13.8	4,496	60.5
Small Farm	22	73.3	3,728	80.5	8	26.7	902	19.5
TOTAL	70	81.4	8,504	59.6	16	18.6	5,767	40.4
Distribution by Borrower Income Level and Revenue Size of Business and Farms								
	% of Bank Loans				% of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Residential Real Estate	8.7	26.1	21.7	43.5	19.2	25.1	23.5	32.2
	% of Bank Loans				% of Small Businesses			
Small Business	83.3				91.2			
	% of Bank Loans				% of Small Farms			
Small Farms	100.0				92.9			

Lending in the Bank's Assessment Area

As indicated in Table 3, a substantial majority of the bank's small business, small farm, and residential real estate loans are originated inside the AA. The bank originated 81.4 percent of the sampled loans inside its AA. The bank's performance in this lending test is therefore considered strong.

Geographic Distribution of Loans

This core performance criterion focuses on the bank's penetration of loans among geographies of different income levels, primarily low- and moderate-income geographies. An analysis of the bank's lending to geographies of various income levels would not be meaningful because all of the geographies in the bank's AA are classified as middle-income tracts. Consequently, this factor was not evaluated.

Lending to Businesses and Farms of Different Sizes

This core performance criterion focuses on the bank's level of lending to businesses and farms with gross annual revenues less than or equal to \$1 million. Table 3 illustrates the bank's lending to small businesses and farms. The bank's lending performance to small businesses is considered reasonable. Of the 24 commercial loans originated within the bank's AA that reported gross annual revenues, 83.3 percent were made to small businesses. According to 2005 Dun & Bradstreet data, 91.2 percent of area businesses are considered small businesses. In addition, a review of the loans originated to small businesses revealed that 85.0 percent were for amounts less than or equal to \$100M. Loans for these amounts demonstrate the bank's willingness to meet the credit needs of small businesses within its AA. The bank's level of lending to small farms is considered more than reasonable as it exceeds the level suggested by the demographics. Of the 22 agricultural loans originated within the bank's AA that reported gross annual revenues, 100.0 percent were originated to small farms.

Lending to Borrowers of Different Income Levels

Based on an analysis of the demographics of the AA, the bank's distribution of residential real estate loans to borrowers of different income levels is considered reasonable. The percentage of loans to borrowers of different income levels was compared to the percentages of families in the AA that were designated low-, moderate-, middle-, and upper income. While fewer loans were made to low-income borrowers compared to the percentage of low-income families in the AA, the bank's distribution of residential real estate loans to moderate-income borrowers exceeded the proportion of moderate-income families in the AA. Of the residential real estate loans originated within the bank's AA, 8.7 and 26.1 percent were made to low- and moderate-income borrowers, respectively, compared to 19.2 percent of low-income families and 25.1 percent of moderate-income families in the area, as illustrated in Table 3.

Record of Responding to Complaints

The bank has not received any complaints about its CRA performance in meeting AA credit needs. Therefore, the bank's performance in responding to complaints was not assessed.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. A review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants. Further, the bank has not engaged in other illegal credit practices inconsistent with helping to meet community credit needs.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank’s record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Census tracts are designed to be homogenous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons and average about 4,000 inhabitants.

Community Development – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, designated distressed or underserved nonmetropolitan middle-income areas or designated disaster areas.

Community Development Loan – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank).

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan and
2. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

Community Development Service – A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank’s retail banking services, benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area and has not been claimed by other affiliated institutions.

Consumer Loans – Loans to individuals for household, family and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract delineated by the U.S. Bureau of the Census in the most recent decennial census.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

Low-Income – Less than 50 percent of the area median income

Moderate-Income – At least 50 percent and less than 80 percent of the area median income

Middle-Income – At least 80 percent and less than 120 percent of the area median income

Upper-Income – At least 120 percent or more of the area median income

Metropolitan Statistical Area (MSA) – The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Qualified Investment – A lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Small Business – A business with gross annual revenues of \$1 million or less.

Small Business Loan – A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

Small Farm – A farm with gross annual revenues of \$1 million or less.

Small Farm Loan – A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”