



PUBLIC DISCLOSURE

SEPTEMBER 10, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**FIRST STATE BANK OF THAYER
RSSD# 421155**

**115 NEOSHO AVENUE
THAYER, KANSAS 66776**

**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.

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

First State Bank of Thayer has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources, operating philosophy, and credit needs of the community.

The bank's net loan-to-deposit (NLTD) ratio denoted a reasonable effort to extend credit in the AA consistent with safe and sound banking practices. In addition, a majority of the bank's lending activity occurred within its AA and its distribution of loans among borrowers of different income levels and to businesses and farms of different revenue sizes was reasonable.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was reviewed using the Federal Financial Institutions Examination Council (FFIEC) Interagency Small Bank Examination Procedures. Three of the five core criteria used in evaluating small bank lending performance were relevant to the review and are listed as follows:

- NLTD Ratio
- Lending Inside the AA
- Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Revenue Sizes

The fourth criterion, the geographic distribution of loans, was not considered since the bank's AA is comprised of only middle-income census tracts. Also, the bank's responsiveness to complaints under the CRA, the fifth core criterion used to assess small bank performance, was not evaluated as the bank has not received any complaints.

The bank's average NLTD ratio since the bank's last CRA examination was reviewed, and the average for the most recent eight quarters ending March 31, 2007 was compared to the NLTD ratios of four similarly-situated competitor banks in the area (banks with total assets less than \$100 million operating in Neosho County and Wilson County, Kansas), and its state and national peer groups. Conclusions for the remaining performance criteria were based on data compiled from a statistically derived sample of 61 loans consisting of the bank's major product lines: residential real estate, commercial, and agricultural loans. The residential real estate loan sample included 24 loans originated between May 19, 2004 and May 18, 2007. The commercial loan sample included 18 loans originated between February 27, 2004 and June 14, 2007. Lastly, the agricultural loan sample of 19 loans included loans originated between August 6, 2004 and June 20, 2007.

Additional insight about the financial institutions in the area and their ability to meet the credit needs of the community were obtained from three members of the local community. The community contacts included a representative from a housing authority, a small business agency, and a city clerk's office.

DESCRIPTION OF INSTITUTION

The bank is a full-service financial institution located in Thayer, Kansas. Thayer is a small rural community of approximately 500 residents located 86 miles northeast of Joplin, Missouri, and 124 miles south of Topeka, Kansas. The bank's only office is readily accessible to the entire community. Five other financial institutions in the area compete with the bank. As of June 30, 2006, the bank had the smallest market share of deposits with approximately 4.0 percent.

The analysis of the bank's CRA performance considers the bank's financial capacity, local economic conditions, and demographics, including the competitive environment in which the bank operates. Based on its financial condition, size, and credit offerings, the bank has the ability to meet the credit needs of its AA. As of the March 31, 2007 Consolidated Report of Condition and Income (Call Report), the bank's assets totaled \$9.7 million, of which net loans comprised \$5.0 million or 51.3 percent. The bank is primarily a residential real estate and agricultural lender, but offers other traditional loan products to meet the credit needs of its AA. Table 1 illustrates the composition of the bank's loan portfolio as a percentage of gross loans as of March 31, 2007.

TABLE 1 BANK'S LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Residential Real Estate	2,509	49.9
Agricultural	1,196	23.8
Consumer	680	13.5
Commercial	617	12.2
Other	29	0.6
Total Gross Loans	5,031	100.0

There are no legal, financial, or other factors that would significantly hinder the bank's ability to meet its AA's credit needs. The bank received a satisfactory rating at its previous evaluation on June 30, 2003 conducted by the Federal Deposit Insurance Corporation (FDIC).

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's delineated AA is comprised of the eastern half of Wilson County, Kansas, and the western half of Neosho County, Kansas. The area is rural in nature containing six small communities: Buffalo, Benedict, Altoona, Earlton, Thayer, and Galesburg; and the city of Chanute, which accounts for 59.4 percent of the AA's population. Chanute is the center of economic activity for the AA, and many of the individuals residing in the smaller surrounding towns commute to Chanute daily. The AA consists of five middle-income census tracts, including four in Neosho County and one in Wilson County. The 2000 Census data reports the

population of the entire AA as 15,245. The overall AA population is declining, with approximately a 4 percent decrease in both Neosho and Wilson Counties (2006 estimated Census Bureau data). In addition, the census tract in Wilson County was listed as distressed in 2007 due to population loss.

The AA is somewhat less affluent than statewide nonmetropolitan areas, with a median-family income (MFI) of \$37,896, which is 91 percent of the Kansas nonmetropolitan MFI of \$41,637. The area has a higher percentage of families living below the poverty level at 9.6 percent compared to the statewide rural area at 8.2 percent. The first quarter 2007 unemployment rate for Neosho County is slightly above the statewide rural unemployment rate, at 4.6 percent and 4.5 percent respectively. Wilson County, however, has a slightly lower unemployment rate at 4.0 percent, compared to the state average of 4.5 percent.

The AA's economy is diversified with agriculture, retail services, and construction as the major industries and employers. Three community contacts involved in economic development and community services were interviewed to gain perspective on local economic conditions and potential credit needs. The local economy was described as stable and expanding. New businesses in the area of Chanute, Kansas are starting up quite frequently and new elementary and high schools are attracting more families to the area.

Due to the lack of high paying jobs (community contacts indicated many individuals' hourly wages are below \$8.00 an hour), the greatest demand is affordable housing within the \$40,000 to \$50,000 price range. Housing is less affordable in the AA compared to rural Kansas as a whole. In 2000, the area's median housing value was \$45,184, resulting in a housing affordability rate of 69.0 percent. In rural Kansas, the median housing value was \$59,679 and the housing affordability rate was 56.0 percent. The area's median housing stock age was 50 years, which was seven years older than statewide rural areas at 43 years. According to community contacts, a new housing project for LMI families is scheduled for construction in 2008. However, only two duplexes are being built and this is not enough to satisfy the community's housing needs.

Table 2 summarizes the characteristics of the bank's overall AA based on 2000 Census data and 2006 Dun & Bradstreet (D&B) business information.

**TABLE 2
BANK'S ASSESSMENT AREA DEMOGRAPHICS**

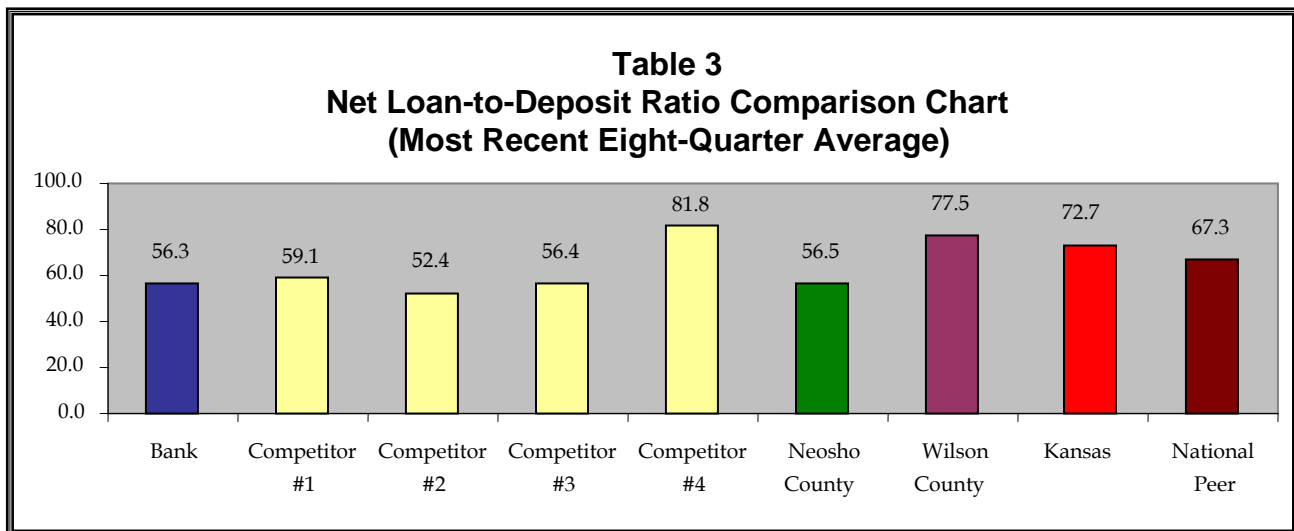
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	833	19.5
Moderate-income	0	0.0	0	0.0	0	0.0	946	22.1
Middle-income	5	100.0	4,273	100.0	412	9.6	1,122	26.3
Upper-income	0	0.0	0	0.0	0	0.0	1,372	32.1
Total Assessment Area	5	100.0	4,273	100.0	412	9.6	4,273	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Middle-income	6,800	4,595	100.0	67.6	1,523	22.4	682	10.0
Total Assessment Area	6,800	4,595	100.0	67.6	1,523	22.4	682	10.0
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Middle-income	612	100.0	546	100.0	41	100.0	25	100.0
Total Assessment Area	612	100.0	546	100.0	41	100.0	25	100.0
Percentage of Total Businesses:				89.2		6.7		4.1
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Middle-income	113	100.0	113	100.0	0	0.0	0	0.0
Total Assessment Area	113	100.0	113	100.0	0	0.0	0	0.0
Percentage of Total Farms:				100.0		0.0		0.0

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's record of meeting the credit needs of its AA was considered satisfactory, based on the cumulative performance in the bank's AA. Data utilized for this analysis included the bank's performance data, area demographic information, and input obtained from members of the local community. The analysis showed that a majority of the loans were made inside the bank's AA, with a reasonable distribution of loans among borrowers of different income levels and to businesses and farms of different sizes. A more detailed analysis of the lending performance in each AA is provided in subsequent sections of this evaluation.

Loan-to-Deposit Ratio

The bank's average NLTD ratio is considered reasonable based on the institution's size, financial condition, local economic conditions, credit needs of its AA, and the NLTD ratios of competing institutions and peer groups. The bank's NLTD ratio averaged 54.0 percent for the 16 quarters since the prior examination. In addition, the bank's NLTD ratio averaged 56.3 percent for the eight quarters ending on March 31, 2007. The bank's respective eight quarter average was compared to that of four similarly situated competitor banks. The competitor banks' average NLTD ratios ranged from 52.4 percent to 81.8 percent over the same period. The bank's eight-quarter average NLTD ratio was also compared to the NLTD ratio averages of banks located in Neosho and Wilson Counties and to national peer group averages. The county averages ranged from 56.5 to 77.5 percent and the national average was 67.3 percent. The bank's peer group consisted of all insured commercial banks having total assets between \$18 million and \$129 million and located in a non-metropolitan area. As noted in Table 3, the bank's average NLTD ratio compared favorably to all of the individual competitor banks within Neosho County and to the aggregate Neosho County peer group. It should be noted that 97.8 percent of all bank lending occurs in Neosho County.



Lending Within the Assessment Areas

Based on the sample of loans reviewed during the examination, the bank originated a majority of its loans within its delineated AA. Three loan products, residential real estate, commercial, and agricultural loans, were reviewed in the analysis. Of the 61 loans reviewed, 73.8 percent were originated to borrowers within the bank's AA. The percentage and number of loans originated by product type is summarized in Table 4.

TABLE 4 SUMMARY OF LENDING PERFORMANCE								
Lending within the Assessment Area								
	Inside AA*				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Residential Real Estate	19	79.2	763	75.4	5	20.8	249	24.6
Small Business	10	55.6	427	49.1	8	44.4	443	50.9
Small Farm	16	84.2	353	60.4	3	15.8	231	39.6
TOTAL	45	73.8	1,544	62.6	16	26.2	923	37.4

*Note: Only loans originated within the bank's AA are considered for the remaining lending distribution tests.

Although the percentage of loans extended to small businesses within the AA was 55.6 percent, the bank's performance is considered reasonable. Most of the small businesses within the bank's AA are located in Chanute, Kansas, which is mostly served by the bank's affiliate, Bank of Commerce, in addition to four other competitors.

Distribution of Lending Among Borrowers of Different Income Levels and to Businesses and Farms of Different Revenue Sizes

Based on the demographics and economic conditions of the AA, the bank's distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses and farms of different revenue sizes. The analysis of lending to residential real estate borrowers, small businesses, and small farms focused on the number of loans originated, rather than the dollar volume, as it is a better indicator of the number of individuals benefiting from these products. The results of the loan distribution are summarized in Table 5.

TABLE 5 SUMMARY OF LENDING PERFORMANCE								
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	10.5	15.8	0.0	73.7	19.5	22.1	26.3	32.1
	% of Bank Loans				% of Small Businesses			
Small Business	90.0				89.2			
	% of Bank Loans				% of Small Farms			
Small Farms	100.0				100.0			

Residential Real Estate

Based on the demographics of the area, the bank's level of lending to LMI borrowers was considered reasonable. While the bank's percentage of residential real estate loans made to LMI borrowers was below the percentage of LMI families in the area, the bank is limited to extend this type of credit since there is a shortage of affordable housing in the AA. Furthermore, the 2000 Census data indicates that 9.6 percent of the families in the AA are below the poverty line making them economically unviable to purchase residential property.

According to information provided by community contacts, the majority of the LMI families reside in the northern part of Chanute. The bank does not have a branch in Chanute, which is at least 15 miles north of Thayer. Moreover, the commuting patterns do not provide access to the bank's sole facility. Lastly, Chanute has five financial institutions serving the community's credit needs, including the bank's affiliate, Bank of Commerce.

Small Business

The bank's level of lending to small businesses, which is defined by the CRA as a business with gross annual revenues of \$1 million or less, was considered reasonable. Table 5 illustrates that the percentage of loans in the bank's sample to small businesses is similar to the percentage of small businesses in the AA that reported revenue data to D&B. The analysis revealed that a majority of the bank's loans were to small businesses. In addition, approximately 80.0 percent of the loans were in an amount of \$100 thousand or less, which is an amount typically needed by smaller businesses.

Small Farm

The bank's level of lending to small farms, which is defined by the CRA as a farm with gross annual revenues of \$1 million or less, was considered reasonable. Table 5 illustrates that the percentage of loans to small farms is similar to the percentage of small farms in the AA. In addition, all of the loans extended to small farms were in an amount of \$100 thousand or less, which is an amount typically loaned to smaller farms.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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. Furthermore, the bank has not engaged in other illegal 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.

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

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.”