



PUBLIC DISCLOSURE

FEBRUARY 25, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**SHERIDAN STATE BANK
RSSD# 555658**

**29 NORTH GOULD STREET
SHERIDAN, WYOMING 82801**

**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***

Sheridan State Bank (the bank) has a satisfactory record of helping to meet the credit needs of its assessment area (AA) 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 the review and are as follows:

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

Two of the five criteria were not reviewed during this examination. The evaluation of the geographic distribution of loans focuses primarily on lending in low- and moderate-income (LMI) census tracts. Because the bank's AA is comprised of only middle-income tracts, an analysis of loan distribution among geographies of different income levels would not be meaningful and was not conducted. The bank's responsiveness to complaints under the Community Reinvestment Act (CRA) was also not evaluated because the bank has not received any complaints regarding its CRA performance.

The bank's NLTD ratio indicated a reasonable effort to extend credit in a rural lending market. In addition, a substantial majority of the bank's lending activity occurred inside its AA. The bank's distribution of loans to borrowers of different income levels and among businesses of different revenue sizes was reasonable based on area demographics.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council (FFIEC) Interagency Small Bank Examination Procedures. Conclusions for each performance criteria were based on data compiled from a sample of loan files for each major product line. The bank's major product lines were determined through discussions with bank management, a review of the bank's September 30, 2007 Report of Condition and Income (Call Report), and a review of the number of loan originations since the last CRA examination on December 9, 2002. Loan products evaluated were residential real estate and commercial loans. The review included statistical samples of 33 residential real estate loans from a universe of 53 loans originated between January 12, 2007 and January 11, 2008. In addition, a statistical sample of 42 commercial loans from a universe of 80 loans originated in a six-month period from July 12, 2007 through January 11, 2008, was reviewed.

To augment the evaluation, interviews were conducted with members of the local community to ascertain the specific credit needs, opportunities, and local market conditions within the AA that the bank serves and to evaluate the bank's responsiveness in helping to meet such needs.

DESCRIPTION OF INSTITUTION

The bank is a full-service financial institution located in Sheridan, Wyoming, serving all of Sheridan County. Sheridan is located in north central Wyoming, abutting the state of Montana. The bank opened a new main office in November 2007, which has a full-service automated teller machine (ATM) and drive-through. The bank also operates a branch and another ATM in Sheridan at a local grocery store. According to the June 30, 2007 Federal Deposit Insurance Corporation deposit market share report, the bank ranked second out of eight institutions in the county with a 20.7 percent market share.

The bank has the ability to meet the credit needs of its AA based on its size, financial condition, and resources. According to the September 30, 2007 Call Report, the bank had assets of \$154 million, net loans of \$82.7 million, and total deposits of \$142.5 million. The bank is primarily a commercial and residential real estate lender; however, it offers a variety of credit products to meet the needs of its AA. Commercial loans represent 70.0 percent of the bank's loan portfolio by dollar volume, followed by residential real estate loans at 20.3 percent. The bank's remaining loan portfolio was comprised of a smaller volume of agriculture and consumer loans. The bank's loan portfolio, as of the September 30, 2007 Call Report, is illustrated in Table 1.

TABLE 1 SHERIDAN STATE BANK'S LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Commercial	59,184	70.0
Real Estate	17,144	20.3
Agriculture	5,160	6.1
Consumer	2,631	3.1
Other	392	0.5
Total Gross Loans	84,511	100.0

The bank's performance under the CRA was last evaluated on December 9, 2002, when it was assigned an outstanding rating.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank has designated one AA, which is comprised of six middle-income census tracts (tracts) in Sheridan County. The town of Sheridan is the county seat for Sheridan County. The population of the bank's entire AA, according to the 2006 Census estimated data, is 27,673. The population has increased 4.2 percent from 2000 to 2006. In 2000, 15.5 percent of the population aged 65 years and over was higher when compared to statewide nonmetropolitan areas at 11.7 percent.

The AA is slightly less affluent than other rural areas of Wyoming. The AA's median family income (MFI) of \$42,669 is lower than rural Wyoming's MFI of \$45,685. The area also had a higher concentration of LMI families than other nonmetropolitan areas of the state at 39.5 percent and 37.5 percent, respectively. The percentage of families living below the poverty level in the AA was slightly higher at 8.6 percent than other rural areas in Wyoming at 8.1 percent. The AA's unemployment rate was lower at 4.5 percent when compared to other Wyoming rural areas at 5.2 percent.

A sizable percentage of housing in the AA is owner-occupied at 61.2 percent and is comparable to the percentage of owner-occupied housing in the statewide nonmetropolitan area. The area housing stock, however, was slightly older with a median age of 30 years compared to the statewide rural median age of 27 years. In addition, the median housing value for the AA was higher at \$99,330, compared to \$91,500 for the statewide nonmetropolitan area. This resulted in less affordable housing than in the statewide nonmetropolitan areas, with a housing affordability ratio¹ of 35.0 percent compared to 41.0 percent.

Community members stated the large employers in the area include the Sheridan County School District, the Sheridan Memorial Hospital, Wal-Mart, and the Holiday Inn. The community contacts indicated that there was a need for affordable housing and day care in the area. They also mentioned that the local financial institutions were very involved with the community and assisted in meeting the area's credit needs.

¹ Affordability rates are calculated using median household income and median housing values, with lower rates indicating less affordable housing.

Table 2 summarized the characteristics of the bank's AA based on 2000 Census data and 2007 Dun & Bradstreet (D&B) data.

TABLE 2 SHERIDAN STATE 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	1,458	20.5
Moderate-income	0	0.0	0	0.0	0	0.0	1,355	19.0
Middle-income	6	100.0	7,116	100.0	614	8.6	1,660	23.3
Upper-income	0	0.0	0	0.0	0	0.0	2,643	37.2
Total Assessment Area	6	100.0	7,116	100.0	614	8.6	7,116	100.0
	Housing Units by Tract	Housing Tracts by Type						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Middle-income	12,577	7,691	100.0	61.2	3,476	27.6	1,410	11.2
Total Assessment Area	12,577	7,691	100.0	61.2	3,476	27.6	1,410	11.2
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Middle-income	1,537	100.0	1,393	100.0	110	100.0	34	100.0
Total Assessment Area	1,537	100.0	1,393	100.0	110	100.0	34	100.0
	Percentage of Total Businesses:			90.6		7.2		2.2
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Middle-income	124	100.0	118	100.0	5	100.0	1	100.00
Total Assessment Area	124	100.0	118	100.0	5	100.0	1	100.0
	Percentage of Total Farms:			95.2		4.0		0.8

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average NLTD ratio is considered reasonable based on the institution's size, financial condition, competitive factors, AA credit needs, and the NLTD ratios of competing institutions and its state and national peer groups. During the 20-quarter period since the bank's previous CRA evaluation, the bank's average NLTD was 64.2 percent. Over the most recent eight quarters, the bank NLTD ratio of 58.6 percent was lower than three similarly

situated competitor banks operating in the bank's AA, whose NLTD ratios ranged between 69.3 percent and 91.3 percent. The bank's eight-quarter average was lower than the state and national peer groups of 74.7 percent and 72.9 percent, as well. The bank's NLTD ratios are considered reasonable due to the competitive environment in which the bank operates. In addition, the bank has a significant level of public funds against which it must pledge securities and therefore, reduces the bank's funds available to be lent.

Summary of Lending Performance

TABLE 3 SUMMARY OF SHERIDAN STATE BANK'S LENDING PERFORMANCE								
Lending within the Assessment Area								
	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Residential Real Estate	29	87.9	6,937	89.5	4	12.1	814	10.5
Small Business	38	90.5	6,758	74.3	4	9.5	2,343	25.7
TOTAL	67	89.3	13,695	81.3	8	10.7	3,157	18.7
Distribution by Borrower Income Level and Revenue Size of Business								
	% of Bank Loans				% of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Residential Real Estate	3.4	6.9	10.3	79.4	20.5	19.0	23.3	37.2
Small Business	% of Bank Loans				% of Small Businesses			
	73.7				90.6			

Lending in the Bank's Assessment Area

The bank originated a majority of the sampled loans within its AA. Of the 75 loans reviewed, 89.3 percent were originated to borrowers within the bank's AA. The bank's performance in this lending test is considered reasonable.

Lending to Borrowers of Different Income Levels and Businesses of Different Revenue Sizes

This core performance criterion evaluates the bank's distribution of lending to borrowers of different income levels, particularly LMI individuals, and focuses on the bank's level of lending to businesses of different revenue sizes, primarily those with gross annual revenues of \$1 million or less. The residential real estate loans were compared to the percentage of families located in the AA by income level, while the bank's commercial loans were compared to the percentage of small businesses in the AA. Based on the demographics and economic conditions of the AA, the bank's distribution of loans represented a satisfactory penetration among individuals of different income levels and businesses of different revenue sizes.

Residential Real Estate Loans

The bank's level of lending to borrowers of different income levels is considered reasonable. As illustrated in Table 3, the percentage of loans to low-income borrowers at 3.4 percent and to moderate-income borrowers at 6.9 percent was substantially lower than the percentage of families classified as LMI at 39.5 percent. Through discussions with bank management and community contacts, the low penetration of loans originated is due to the lack of affordable housing. Many retired individuals have moved into the area, raising the housing prices and reducing the amount of low- and moderate-priced homes. As previously mentioned, the housing affordability rate is 35.0 percent, and was lower than other rural parts of the state at 41.0 percent. In 2005, the Sheridan County Assessor reported a 27.0 percent increase in the average price of a home in Sheridan County since 2003. In 2005, the average home was priced at \$186,000, which is usually not economically feasible for the LMI borrowers.

To address the credit needs of the area, the bank offers several flexible residential lending programs. The bank offers a First-Time Homeownership Program through the Wyoming Community Development Authority (WCDA), and participates in loan programs through the Federal Housing Authority (FHA) and the Veterans Administration (VA). The bank is also developing affordable housing in Sheridan in conjunction with the Federal Home Loan Bank of Seattle and Volunteers of America.

Small Business Loans

The bank's level of lending to businesses with annual gross revenues of \$1 million or less was considered reasonable. As shown in Table 3, the bank made 73.7 percent of its loans to small businesses compared to 90.6 percent of small businesses in the AA. The lending in the AA is very competitive with at least seven competitor banks in the area. The bank's commitment to small business lending was further demonstrated by 55.3 percent of its business loans sampled being made in amounts of \$100,000 or less, which are amounts typically needed by smaller businesses. Community members confirmed the bank is meeting the small business credit needs of the community.

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. Further, 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.

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 family income (MFI). In nonMSA areas, the level is based on the statewide, nonMSA median family income.

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

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

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

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

LMI – Collectively, low- and moderate-income families or tracts.

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.”