



PUBLIC DISCLOSURE

NOVEMBER 26, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**FIRST STATE BANK
RSSD # 563756**

**1405 16TH STREET
WHEATLAND, WYOMING 82201**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
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 **Outstanding***

First State Bank (the bank) has an outstanding record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) geographies and individuals, in a manner consistent with its resources and operating philosophy.

For its size, financial capacity, and the competitive conditions within its AA, the bank’s net loan-to-deposit (NLTD) ratio indicated a more than reasonable effort to extend credit in a competitive lending market, consistent with safe and sound banking practices. A majority of the bank’s lending activity occurred within its AA. The bank’s geographic distribution of loans reflected an excellent dispersion throughout its AA, and the bank’s distribution of loans to borrowers of different income levels and to farms of different revenue sizes was reasonable. In addition, the bank’s significant level of community development lending, investments, and services in its AA further enhanced the bank’s lending performance and contributes to an outstanding rating.

SCOPE OF EXAMINATION

The bank’s Community Reinvestment Act (CRA) performance was reviewed using the Federal Financial Institutions Examination Council (FFIEC) Interagency Small Institution Examination Procedures. The evaluation included a full scope review of the bank’s performance within its only AA, a two-county area in southeastern Wyoming.

The rating for the lending test considered the bank’s NLTD ratio, the level of lending inside its AA, the distribution of loans by geographic income level, and lending to borrowers of different income levels and farms of different revenue sizes. The bank’s responsiveness to CRA complaints, the fifth core lending test criterion used to assess the CRA performance, was not evaluated, as the bank had not received any CRA-related complaints since the last examination.

Conclusions about the bank’s performance were based on two of the bank’s major product lines, motor vehicle and agricultural loans. The major product lines were determined through a review of the Report of Condition and Income (Call Report) and of all outstanding loan originations since the bank’s prior CRA evaluation on September 15, 2008. Statistically-derived samples of 120 motor vehicle loans from a universe of 293 loans and 84 agricultural loans from a universe of 144 loans originated during a six-month time period between April 1, 2012 and September 30, 2012 were selected. Examiners also considered the bank’s community development lending, investments, and services to augment the overall rating. Conclusions about these community development activities were based on a review period from September 15, 2008 through November 23, 2012.

Table 1 SUMMARY OF LOANS REVIEWED				
Loan Type	#	\$(000s)	# %	\$ %
Motor Vehicle	120	1,265	59.0	16.0
Agriculture	84	6,497	41.0	84.0
Total Loans Reviewed	204	7,762	100.0	100.0

The evaluation of the bank's CRA record was based on a comparison between the bank's performance and area demographics, including the 2006 - 2010 American Community Survey Census data and 2011 Dun & Bradstreet (D&B) business data. A comparison between the bank's record and the records of local peer institutions was also considered. Only loans inside the bank's AA were analyzed with respect to the geographic and borrower distribution criteria. To reach a conclusion about the overall performance regarding geographic and borrower characteristics in the bank's sole AA, the examiners gave greater weight to agricultural loans due to their significant number and dollar volume and to the bank's borrower distribution given that the AA includes five moderate-income tracts and only one middle-income geography.

The geographic distribution analysis was based on the bank's penetration within different geographic income categories, particularly within the moderate-income tracts. Tract income classifications are based on 2010 Census data. The borrower distribution analysis was based on the bank's penetration to individuals of different income categories, particularly LMI borrowers, and to farms of different sizes, particularly those with gross annual revenues under \$1 million. For the evaluation of borrower characteristics, borrower income levels were based on 2012 estimated median family income figures published by the FFIEC.

Interviews were conducted with community members to ascertain the credit needs of the communities, the responsiveness of area banks to those credit needs, the availability of community development opportunities, and local economic conditions.

DESCRIPTION OF INSTITUTION

The bank operates three locations in southeast Wyoming and is headquartered in Wheatland, Wyoming, located 70 miles north of Cheyenne along Interstate 25. The bank has \$280 million in assets and is owned by Wheatland Bancshares, Inc., a small, noncomplex bank holding company. One branch is located in Guernsey, Wyoming, about 30 miles northeast of the main office, and the other branch is located in Torrington, Wyoming, about 60 miles to the east of Wheatland and approximately 10 miles west of the Nebraska state border. Each office offers drive-through facilities and a cash dispensing automated teller machine (ATM). In addition, the bank also provides seven additional ATMs throughout its two county AA. According to the June 30, 2012 Federal Deposit Insurance Corporation Summary of Deposits, the bank is the market leader out of eight total banks, with a deposit market share of 38.1 percent.

The bank offers a wide variety of commercial, agricultural, and retail products and services, with an emphasis in agricultural and commercial lending. The bank also offers secondary market loans and has a significant amount of off-balance sheet items, including a large amount of available credit lines to loan customers. The September 30, 2012 Call Report lists the bank's total loans and deposits at \$181 million and \$249 million, respectively. As shown in Table 2, agricultural loans represent 42.4 percent of the portfolio, followed closely by commercial loans, with residential real estate, consumer, and other loans collectively constituting only 20.0 percent of the loan portfolio. Although consumer loans are small in terms of portfolio mix, they represent the largest product offering based on number of annual originations, at approximately

40.0 percent of total originations.

The bank has the ability to meet the credit needs of its AA based on the bank's asset size, product offerings, and financial condition. No financial or legal impediments exist that would negatively impact the institution's ability to meet the credit needs of its AA. The bank received a satisfactory rating at its previous CRA evaluation conducted on September 15, 2008 by the Federal Reserve Bank of Kansas City.

Loan Type	Amount \$(000s)	Percent of Total
Agricultural	76,842	42.4
Commercial	68,016	37.6
Residential Real Estate	20,340	11.2
Consumer	13,325	7.4
Other	2,501	1.4
Gross Loans	181,024	100.0

DESCRIPTION OF THE BANK'S ASSESSMENT AREA¹

The bank has delineated all of Goshen and Platte Counties, Wyoming, as its AA. According to 2010 FFIEC Census tract designations, the AA is comprised of five moderate-income and one middle-income tracts. Based on 2000 Census tract designations, the area included five middle-income and one moderate-income tracts. Three of the middle-income tracts were considered underserved² from 2005 through 2011. The bank's AA is largely rural and is located in southeastern Wyoming, with Goshen County bordering the Nebraska panhandle.

The 2010 AA population equaled 21,916, an increase of 2.7 percent from 2000. The AA has an aging population, with 34.8 percent of the total population age 55 and over, which increased by 27.2 percent since 2000. In addition, Goshen County now has a high percentage (8.1 percent) of residents living in group quarters due to the location of Eastern Wyoming College and the Wyoming Medium Correctional Institution. These populations may have lower demand for consumer loan products.

¹ Sources of economic and demographic data include the Commerce Department's Bureau of Economic Analysis, the U.S. Census Bureau, Federal Deposit Insurance Corporation Regional Economic database, U.S. Department of Agriculture (USDA) National Agricultural Statistics Services, Wyoming Community Development Authority – A profile of Wyoming Volume 1, and the State of Wyoming Labor Market Information.

² A nonmetropolitan middle-income geography will be designated as underserved by the USDA if it meets specific criteria for population size, density, and dispersion, which indicate the area's population is sufficiently small, thin, and distant from a population center such that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

The local economy has been stable over the last few years and remains insulated from the national economic downturn and financial crisis. At the end of 2011, unemployment in Goshen and Platte County was 5.7 percent and 5.9 percent, respectively, and compared similarly to the Wyoming statewide unemployment rate of 6.0 percent, yet well below the national rate of 9.0 percent. The AA's economy has traditionally been dependent on agriculture, particularly cattle ranches and farms producing wheat, alfalfa, corn, and sugar beets. Commodity prices and profits have been high. However, the area has recently been in a drought, following two years of abundant rainfall. Like other areas in the Midwest, the United States Department of Agriculture (USDA) has designated each county as a primary disaster area due to the drought conditions. According to management and local community leaders, ranchers and farmers have managed through the drought well due to accessible water sources, but these sources are diminishing quickly. If these conditions persist, agricultural production may decline. State and local government offices, energy, and tourism in Platte County and manufacturing and retail in Goshen County diversify the AA's economy. In addition to school districts, the major employers in the area are Basin Electric Power, Wyoming Premium Farms, Burlington Northern and Santa Fe Railroad, and the Wyoming Medium Correctional Facility.

Area	2010	2011	2Q'12
Platte County	7.0	5.9	5.5
Goshen County	6.3	5.7	5.7
Wyoming	7.0	6.0	5.4
U.S.	9.6	9.0	8.0

The AA is less affluent than the overall nonmetropolitan statewide area, which resulted in a higher percentage of LMI households and families. The AA median family income for 2012 was \$51,609, or 75.6 percent of the nonmetropolitan statewide value of \$68,300. Similarly, the 2011 per capita personal income for Goshen County was 72.3 percent of the state per capita amount of \$47,898, which is the second lowest for all counties in Wyoming. The 2011 per capita personal income in Platte County ranked 11 out of 23 counties and was at 91.9 percent of the state level. However, the poverty level for the AA was slightly less than the nonmetropolitan statewide area, especially in Platte County. This may suggest that despite the lower income levels, wages are sufficient to maintain a sufficient standard of living and more low-income individuals and families may be creditworthy.

The 2010 median housing value of \$125,128 was much lower than the state value of \$175,520, indicating more affordable housing in the area. The housing affordability rate³ reveals that the AA is slightly more affordable than the nonmetropolitan statewide average, and LMI borrowers may have a slightly improved opportunity to qualify for housing credit. While housing prices are lower, the age of housing stock is considerably older, with nearly a third of all homes built prior to 1950, suggesting uninhabitable homes or housing in need of rehabilitation. Demographic data shows that median gross rents in the AA are slightly below the nonmetropolitan statewide average. Furthermore, housing data indicates a small volume of duplex and multifamily units, indicating that the supply of affordable rentals may be in demand.

³ The housing affordability rate is calculated by dividing the median household income by the median housing value. A higher ratio reflects more affordable housing.

Table 4 demonstrates additional income, housing, and census tract characteristics for the Nonmetropolitan Southeast Wyoming AA based on the 2006 - 2010 American Community Survey Census data and 2011 D&B business data.

Income Categories	Tract Distribution		Households by Tract Income		% of Households Below Poverty Level by Tract		Households by Household Income	
	#	%	#	%	#	%	#	%
	Low-income	0	0.0	0	0.0	0	0.0	2,833
Moderate-income	5	83.3	7,189	79.9	667	79.4	1,973	22.0
Middle-income	1	16.7	1,809	20.1	173	20.6	1,875	20.9
Upper-income	0	0.0	0	0.0	0	0.0	2,497	27.8
Total AA	6	100.0	8,978	100.0	840	100.00	8,978	100.0

	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied		Rents		Vacant		
		#	%	#	%	#	%	
Moderate-income	8,857	5,283	79.8	60.8	1,906	22.0	1,458	17.2
Middle-income	1,988	1,335	20.2	67.2	474	23.8	179	9.0
Total AA	10,845	6,598	100.0	67.0	2,380	22.4	1,637	15.7

	Total Farms by Tract		Farms by Tract & Revenue Size					
	#	%	Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Moderate-income	242	91.3	235	97.5	6	100.0	1	50.0
Middle-income	23	8.7	22	95.0	0	0.0	1	50.0
Total AA	265	100.0	258	100.0	6	100.0	2	100.0
Percentage of Total Farms:			97.4		1.9		8.8	

Based on 2010 Census data and 2011 D&B business demographic data.

Members of the community were contacted to gain a perspective of the area economic conditions and ascertain possible credit needs and opportunities. Recent contacts included interviews with a director of a local economic development organization and a president of a local nonprofit farming cooperative. According to both contacts, the economy suffered only a slight downturn a few years ago, and has remained relatively stable. The local economy is dependent on agriculture, which has benefitted from high crop prices but is now beginning to suffer from severe drought. One contact noted that the area is indirectly benefiting from oil and gas activity related to the Niobrara oil fields in surrounding counties, with some small oil development companies considering relocating into the area, which will bring additional jobs. Both contacts stated that housing construction is rising due to a slight immigration of young adults to the area as retirements and the addition of the college in Torrington, Wyoming have created job opportunities. One contact also added that the age of area residents is the highest in Wyoming and one of the highest nationally.

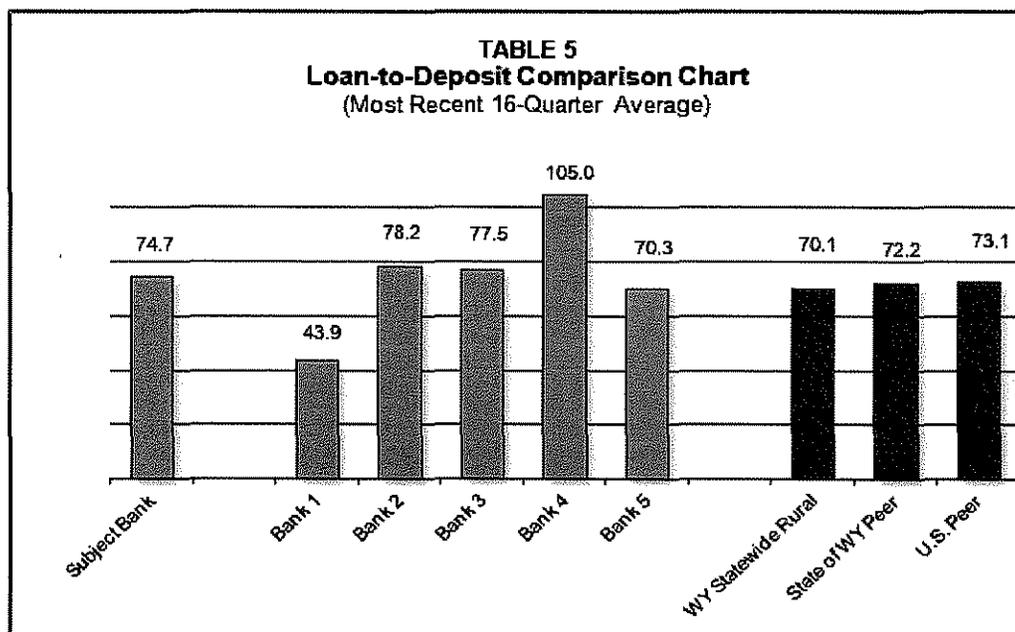
Both community contacts expressed that the most pressing need in each county was a larger revenue stream for the local governments. The area is sparsely populated and does not have the minerals (oil and gas) that benefit many other counties in the state. As a result, there is not very much revenue to support infrastructure and community needs. The contacts also stated that there was a shortage of affordable rental units for younger families and those earning lower wages, and that the area older housing units are in need of repairs. One contact indicated that recreational facilities and centers are needed. Both contacts were not aware of any community development opportunities for loans or investments, but one indicated that there may be a need in the future for a planned low-income apartment complex in Wheatland.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the CRA is considered outstanding based on an assessment of its average NLTD ratio, its level of lending within its AA, lending to LMI borrowers and farms of different revenue sizes, and the level of community development activities. Data utilized for this analysis included the bank's lending performance data, area demographic information, and input from local community members.

Net Loan-to-Deposit Ratio:

The bank's NLTD ratio was considered more than reasonable based on the bank's size, financial condition, AA credit needs, and the NLTD ratios of competing institutions and peer groups. The bank's average NLTD ratio was 74.7 percent over the most recent 16 quarters ending September 30, 2012. As Table 5 shows, this ratio is comparable to three of five area competitor banks and aggregate peer figures for the overall nonmetropolitan statewide area, the entire state, and the nation.



The conclusion under the NLTD criterion was strengthened by the fact that the bank generates a large volume of secondary market loans, line of credits, and other commitments that are not captured on the bank's balance sheet and, therefore, not reflected in the NLTD ratio. For instance, adding approximately \$18 million in secondary market loans originated year-to-date and \$25 million in unfunded loan commitments would significantly bolster the NLTD ratio. In addition, the bank also holds approximately \$34 million in municipal and local government deposits for which the bank must pledge securities as collateral and are unavailable to lend. Subtracting these deposits would also bolster the NLTD.

Assessment Area Concentration:

As demonstrated in Table 6 below, the bank originated a majority of its loans within its AA. Only loans within the bank's AA are considered for the remaining loan distribution tests discussed within this performance evaluation. Furthermore, the continuing analyses and tables focus on the number of originations as opposed to the dollar volume, as this better represents the number of affected applicants.

Table 6 LENDING INSIDE AND OUTSIDE THE BANK'S AA								
Loan Type	Inside				Outside			
	#	\$(000s)	# %	\$ %	#	\$(000s)	# %	\$ %
Motor Vehicle	99	1,064	82.5	84.1	21	201	17.5	15.9
Agricultural	60	4,843	71.4	74.5	24	1,654	28.6	25.5
Total Loans	159	5,907	77.9	76.1	45	1,855	22.1	23.9

Distribution by Income Level of Geographies:

The geographic distribution of the bank's motor vehicle and agricultural loans reflected an excellent penetration among geographies of different income levels. Table 7 below shows the bank's geographic lending performance compared to demographic data. Motor vehicle lending activity was compared to the percentage of households in each census tract income level, while the bank's agricultural lending activity was compared to the percentage of farms located in each census tract income level.

Motor Vehicle Loans

The bank's dispersion of consumer motor vehicle lending to borrowers in moderate-income tracts was considered excellent. As shown in Table 7, the percentages by both the number and dollar amount of loans originated in moderate-income tracts exceeded the number of households located in these geographies. Conversely, the percentage of lending in the middle-income tracts was below the demographic household figure. Since five of six AA tracts are moderate-income, including the tracts where the bank's Wheatland and Guernsey banking offices are located, it was expected that the bank's penetration of lending in these tracts would be strong.

Agricultural Loans

The bank’s geographic distribution of agricultural loans also exhibited an excellent penetration throughout the AA. The bank originated 96.7 percent of farm loans in moderate-income tracts, which is higher than the percentage of farms located in these tracts. By dollar amount, the 89.4 percent of dollars lent was just slightly below the percentage of farms in these tracts.

Census Tract Income Level	Motor Vehicle Loans				% of Households ¹
	#	\$(000s)	#%	\$%	
Moderate-income	85	905	85.9	85.1	79.9
Middle-income	14	159	14.1	14.9	20.1
Census Tract Income Level	Agricultural Loans				% of Farms ²
	#	\$(000s)	#%	\$%	
Moderate-income	58	4,331	96.7	89.4	91.3
Middle-income	2	512	3.3	10.6	8.7

¹ Based on 2006 - 2010 American Community Survey Census data.
² Based on 2011 D&B data.

Distribution by Borrower Income Level and Revenue Size of Farms:

The distribution of motor vehicle and agricultural loans reflected a reasonable penetration among individuals of different income levels and farms of different revenue sizes. Table 8 shows the bank’s lending for motor vehicle loans to borrowers of different income levels compared to the percentage of low-, moderate-, middle-, and upper-income households in the AA. The analysis also evaluated the bank’s level of lending to farms of different revenue sizes, concentrating on those with gross annual revenues of \$1 million or less.

Motor Vehicle Loans

The bank has an excellent penetration of lending to borrowers of different income levels relative to area demographics. As shown in Table 8, the number percentage and dollar percentage to both low-income and moderate-income borrowers exceed the percentage of LMI households in the area.

Agricultural Loans

The bank’s distribution of agricultural loans to farms of different sizes reflected a reasonable dispersion. The bank’s penetration of 93.3 percent to farms with gross revenues of \$1 million or less is just below the 97.4 percentage of small farms in the AA; however, by dollar volume, the bank’s percentage slips to 77.2 percent. When stratifying the bank’s lending by loan size,

81.7 percent of the loans were made in amounts of \$100,000 or less. Generally, smaller loan amounts indicate a bank's propensity to serve smaller farm operations.

Borrower Income Level	Motor Vehicle Loans				% of Households ¹
	#	\$(000s)	# %	\$ %	
Low-income	45	342	45.5	32.1	29.3
Moderate-income	29	351	29.3	33.0	22.0
Middle-income	15	201	15.2	18.9	20.9
Upper-income	10	170	10.1	16.0	27.8
Census Tract Income Level	Agricultural Loans				% of Farms by Revenue ²
	#	\$(000s)	# %	\$ %	
\$1MM or less	56	3,737	93.3	77.2	97.4
Over \$1MM	3	1,076	5.0	22.2	1.9
Revenues Not Known	1	30	1.7	0.6	0.8

¹ Based on 2006 - 2010 American Community Survey Census data.
² Based on 2011 D&B Data.
 (Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Community Development Lending, Investments, and Services

The bank's community development lending, investments, and services were significant, and were considered to enhance the bank's CRA performance by meeting community development needs within the AA. Table 9 summarizes the number and dollar volume of community development activities initiated by the bank since the previous CRA evaluation.

The bank's community development activities were compared with the recent performance of several similarly-situated intermediate small banks located in eastern Wyoming and western Nebraska. Overall, the total dollar volume of activities surpassed the performance of these peer banks.

The majority of the bank's community development loans were to local municipal governments or school districts to provide public services in areas that were considered underserved middle-income tracts at origination date, and which are now moderate-income tracts according to the 2010 Census level designations. In addition, two community development loans were for the development of affordable multiunit apartment complexes for low-income residents.

The bank's investments included 13 prior period investments for \$597 thousand in local municipal bonds that were used for infrastructure projects. Recent investments included the purchase of seven mortgage revenue bonds issued by the Wyoming Community Development Authority providing housing to LMI homebuyers. In addition, the bank donates to a large number of organizations and events within the communities it serves; however, sufficient documentation was not provided at this review to support CRA qualified donations for community services to LMI individuals or for economic development towards small businesses and small farms.

Similarly, bank officers serve on a number of community organizations in the AA and provide financial expertise and leadership, but documentation for qualification for community development services was not sufficient for all activities. Four qualified services were provided to local economic development authorities, a local government housing authority, and a community organization that supports Head Start programs for children of LMI families.

**Table 9
QUALIFIED COMMUNITY DEVELOPMENT ACTIVITIES**

Community Development Purpose	Community Development Loans		Community Development Investments		Community Development Services
	#	\$(000s)	#	\$(000s)	#
Affordable Housing	2	1,796	7	2,400	1
Community Services	0	0	0	0	1
Economic Development	0	0	0	0	4
Revitalization and Stabilization	8	1,552	13	547	0
Totals	10	3,348	20	2,947	6

For retail services and delivery systems, two of the bank's three branches and five of seven ATMs are located in moderate-income tracts.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No apparent signs of discrimination were identified and the bank was not engaged in any illegal credit practices inconsistent with helping to meet community credit needs.