



PUBLIC DISCLOSURE

OCTOBER 6, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**FIRST STATE BANK
RSSD# 702050**

**101 NORTH MICKEY MANTLE BOULEVARD
COMMERCE, OKLAHOMA 74339**

**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 COMMUNITY REINVESTMENT ACT RATING: *This institution is rated Satisfactory.*

First State Bank (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA) consistent with its resources and operating philosophy. The bank's average net loan-to-deposit (NLTD) ratio reflected a reasonable effort to extend credit and a majority of the loans subject to this evaluation were originated within the bank's AA. Lastly, lending levels reflected a reasonable penetration throughout the AA based on the income level of geographies and reasonable penetration among businesses of different revenue sizes and borrowers of different income levels.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC) Interagency Procedures for Small Institutions. Four of the five criteria used to evaluate small bank CRA performance were relevant to this review:

- NLTD Ratio
- Lending Inside the AA
- Distribution of Loans by Income Level of Geography
- Lending to Businesses of Different Revenue Sizes and Borrowers of Different Income Levels

The fifth criterion, the bank's responsiveness to complaints under the CRA, was not evaluated because the bank has not received any CRA-related complaints since the last examination.

Conclusions regarding the four performance criteria were based on data compiled from the bank's major product lines, which consisted of commercial loans and consumer motor vehicle-secured loans. These two products represent the bank's major product lines by dollar volume. The major product lines were determined through a review of the bank's Report of Condition and Income (Call Report) as of March 31, 2015. The CRA evaluation included a review of the entire universe of 37 commercial loans originated between January 1, 2012 and December 31, 2014, and a statistical sample of 53 consumer loans originated between January 1, 2014 and December 31, 2014.

For evaluative purposes, the bank's performance for commercial and consumer loans was compared to 2014 FFIEC census data, and 2014 Dun & Bradstreet (D&B) business demographic data. Moreover, the bank's NLTD was compared to similarly-situated financial institutions that operate in or around the bank's AA.

To augment the evaluation, an interview with a member of the local community was utilized to gain additional perspective related to the credit needs of the area, the responsiveness of area banks to those credit needs, and local economic conditions.

DESCRIPTION OF INSTITUTION

The bank is a wholly-owned subsidiary of First Picher Bancshares, Inc., and operates a full-service office in Commerce, Oklahoma. The town is a nonmetropolitan community located in the northeastern corner of the state and is rural in nature. In addition, the bank maintains two cash-dispensing automated teller machines, including one at its main office and another within a flea market in Commerce, Oklahoma.

The most recent data from June 30, 2015, provided by the Federal Deposit Insurance Corporation (FDIC) indicates the bank's deposit market share of 2.2 percent ranked 8th out of 11 FDIC-insured institutions that operate within the bank's AA. According to the March 31, 2015 Call Report, the bank's total assets equaled \$11.3 million, with approximately \$5.8 million in gross loans. Table 1 illustrates the composition of the bank's loan portfolio by product line. The residential real estate loans noted in Table 1 are primarily comprised of 1- to 4-family rental properties which more closely align with commercial-purpose lending. Accordingly, residential real estate loans were combined with commercial loans for this evaluation.

Loan Type	Amount \$(000)	Percent of Total
Commercial	2,346	40.6
Residential Real Estate	1,709	29.6
Consumer	1,592	27.5
Agricultural	103	1.8
Other	28	0.5
Gross Loans	5,778	100.0

The analysis of the bank's CRA performance considered the bank's financial capacity, local economic conditions, AA demographics, and the competitive operating environment. There are no known legal impediments to the bank's ability to lend within its AA. The bank received a satisfactory rating at its previous CRA evaluation conducted by the Federal Reserve Bank of Kansas City on August 11, 2011.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's delineated AA includes the northern portion of Ottawa County, Oklahoma. The AA consists of seven census tracts, including two moderate-income tracts and five middle-income tracts. There are no low-income or upper-income census tracts in the AA.

Population Trends and Characteristics

Since the prior examination, Ottawa County's total population increased 0.8 percent from 31,848 to 32,105 residents, according to the 2010 Census and 2014 Census estimates, respectively. The city of Commerce's population has also remained steady with a modest population increase of 0.8 percent from 2,473 to 2,492, according to the 2010 Census and

2014 Census estimates, respectively.

Income Characteristics

Overall, the affluence of the bank's AA population is slightly less than the state of Oklahoma and statewide rural areas. According to the 2014 FFIEC census data, the median household income of the AA was \$35,449, which was less than the figures for the state as well as rural areas statewide, at \$42,979 and \$38,071, respectively. The AA's percentage of low-income households was 25.5 percent, which was similar to demographics for Oklahoma and statewide rural areas, at 24.0 and 24.4 percent, respectively. The AA's percentage of moderate-income households was 17.7 percent, which was higher than figures for the state and rural areas statewide, at 16.5 and 16.1 percent, respectively. The AA's percentage of middle-income households was 20.8 percent, which was also higher than the figures for the state and statewide rural areas, at 17.9 and 17.6 percent, respectively. The AA's percentage of upper-income households was 36.2 percent, which was lower than the figures for Oklahoma and statewide rural areas, at 41.7 and 41.8 percent, respectively. A community contact stated that the AA population is elderly and a large group of individuals receive disability benefits.

Housing Characteristics

Overall, a majority of the housing stock in the AA is owner-occupied and 1- to 4-family; however, a community member stated a need for housing due to historical floods that have damaged homes throughout Ottawa County. According to 2014 FFIEC census data, 63.3 percent of the housing stock in the AA was owner-occupied, which was greater than the figures for the entire state and rural areas statewide, at 59.0 percent and 58.3 percent, respectively. The AA's portion of rental properties (23.1 percent) was slightly lower than figures for Oklahoma (27.5 percent) and statewide rural areas (24.0 percent). The AA's ratio of vacant properties, at 13.6 percent, was nearly identical to the figure for the state of Oklahoma, at 13.5 percent, but below the demographic of 17.7 percent for rural areas statewide. A community member stated that the median age of the housing stock in Ottawa County is 40 years or older.

Economic and Employment Characteristics

Overall, the bank's AA had a higher unemployment rate than figures for Oklahoma and statewide rural areas due to the rural nature of the area and limited number of employment opportunities. According to 2014 FFIEC census data, the AA had an unemployment rate of 8.9 percent, which was higher than figures for the state and statewide rural areas, at 6.1 percent and 6.2 percent, respectively. A community member stated that unemployment in the bank's AA is high, as the area is primarily rural with little availability of jobs.

Table 2 summarizes other AA characteristics based on 2014 FFIEC census data and 2014 D&B business demographic data.

**TABLE 2
 2014 OTTAWA COUNTY AA DEMOGRAPHICS**

Income Categories	Tract Distribution		Households By Tract Income		Households < Poverty Level as a % of Households by Tract		Households By Household Income	
	#	%	#	%	#	%	#	%
Low-Income	0	0.0	0	0.0	0	0.0	2,372	25.4
Moderate-Income	2	28.6	2,177	23.4	634	38.2	1,645	17.6
Middle-Income	5	71.4	7,145	76.6	1,028	61.8	1,935	20.8
Upper-Income	0	0.0	0	0.0	0	0.0	3,370	36.2
Total AA	7	100.0	9,322	100.0	1,662	100.0	9,322	100.0
	Housing Units By Tract	Housing Type By Tract						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Moderate-Income	2,512	1,329	19.5	52.9	848	33.8	335	13.3
Middle-Income	8,282	5,500	80.5	66.4	1,645	19.9	1,137	13.7
Total AA	10,794	6,829	100.0	63.3	2,493	23.1	1,472	13.6
	Total Businesses by Tract	Businesses By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Moderate-Income	314	37.8	275	37.8	26	37.7	13	37.1
Middle-Income	517	62.2	452	62.2	43	62.3	22	62.9
Total AA	831	100.0	727	100.0	69	100.0	35	100.0
Percent of Total Businesses:			87.5		8.3		4.2	

Based on 2014 FFIEC census data & 2014 D&B business demographic Data

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's record of meeting the credit needs of its AA is considered satisfactory. An evaluation of the bank's 16-quarter average NLTD ratio, distribution of lending within its AA, distribution by income level of geographies, and distribution to businesses of different revenue sizes and borrowers of different income levels was conducted. Data utilized for this analysis included lending performance data for the bank, area demographic information, and information obtained from a member of the community. The analysis showed that a majority of the bank's loans were made within its AA and a reasonable distribution of loans was originated among geographies of different income levels and to businesses of different revenue sizes and borrowers of different income levels.

Net Loan-to-Deposit Ratio:

This performance criterion utilizes the bank's average NLTD ratio to evaluate the reasonableness of lending in light of performance context regarding the bank's capacity to lend, availability of lending opportunities, and demographic and economic factors present in the AA.

The bank's NLTD ratio was considered reasonable based on its size, financial condition, local economic conditions, credit needs of the AA, and the NLTD ratio of competing institutions that operate in the local area. The bank's NLTD ratio averaged 61.2 percent over the most recent 16-quarters ending March 31, 2015. The bank's 16-quarter average was comparable to three similarly-situated competitor banks, whose average NLTD ratios ranged from 57.7 percent to 80.6 percent over the same period.

Assessment Area Concentration:

This core performance criterion evaluates the concentration of loans originated by the bank within its AA. As depicted in Table 3, the bank originated a majority of its motor vehicle and commercials loans within its AA by both number and dollar amount. Only loans within the bank's AA are considered for the remaining loan distribution tests discussed within this Performance Evaluation.

Bank Loans	Inside AA				Outside AA			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Motor Vehicle	48	401	90.6	91.6	5	37	9.4	8.4
Small Business	29	1,300	78.4	70.0	8	557	21.6	30.0
TOTAL LOANS	77	1,701	85.6	74.1	13	594	14.4	25.9

Distribution by Income Level of Geographies:

This component of the evaluation compared the bank's lending throughout its AA to the percentages of households and small businesses located in each income tract level, emphasizing lending within moderate-income tracts. Because there are no low- or upper-income tracts, this criterion was given less weight than the borrower distribution in the overall evaluation. Despite excellent geographic distribution to small businesses, the bank's location in the moderate-income census tract helps to explain the concentration of lending. For this reason, the overall distribution of loans by income level of geographies was reasonable.

**TABLE 4
 DISTRIBUTION BY INCOME LEVEL OF GEOGRAPHIES
 2014 OTTAWA COUNTY AA**

Census Tract Income Level	Motor Vehicle Loans				% of Households
	#	\$(000)	#%	\$%	
Moderate	14	107	29.2	26.6	23.4
Middle	34	295	70.8	73.4	76.6
Total	48	402	100.0	100.0	100.0
Census Tract Income Level	Small Business Loans				% of Businesses
	#	\$(000)	#%	\$%	
Moderate	14	811	48.3	62.4	37.8
Middle	15	489	51.7	37.6	62.2
Total	29	1,300	100.0	100.0	100.0

Household demographic figures based on 2014 FFIEC census data.
 Small business loans originated in 2012, 2013, and 2014 are included herein. D&B business demographic data between 2012, 2013, and 2014 were all comparable.
 (NOTE: Total percentages may vary due to automated rounding differences.)

Motor Vehicle Loans

The geographic distribution of loans secured by motor vehicles was reasonable. The bank's distribution of lending in moderate-income tracts for motor vehicle loans was 29.2 percent by number (26.6 percent by dollar amount), which was greater than the 23.4 percent of households located in these geographies. Lending in the middle-income tracts was lower than the demographic figure, as noted in Table 4.

Small Business Loans

The geographic distribution of small business loans was excellent. The distribution of lending in moderate-income tracts for small business loans was 48.3 percent by number (62.4 percent by dollar amount), which was greater than the 37.8 percent of businesses located in these geographies. Lending within the middle-income tracts was lower by number compared to the demographic.

Distribution by Borrower Income and Revenue Size of Businesses:

Lending to borrowers of different income levels and businesses of different revenue sizes was considered reasonable. This criterion evaluates the bank's lending to borrowers of different income levels, particularly low- and moderate-income individuals, and the bank's lending to businesses of different revenue sizes, particularly businesses with gross annual revenues of \$1MM or less.

TABLE 5 DISTRIBUTION BY INCOME LEVEL OF BORROWER AND REVENUE SIZE OF BUSINESS 2014 OTTAWA COUNTY AA					
Borrower Income Level	Motor Vehicle Loans				% of Households
	#	\$(000)	#%	\$%	
Low	14	53	29.2	13.2	25.4
Moderate	8	97	16.7	24.2	17.6
Middle	17	150	35.4	37.4	20.8
Upper	9	101	18.8	25.2	36.2
Total	48	401	100.0	100.0	100.0
Business Revenue	Small Business Loans				% of Businesses by Revenue
	#	\$(000)	#%	\$%	
\$1MM or less	29	1,300	100.0	100.0	87.5
Over \$1MM	0	0	0.0	0.0	8.3
Income Not Known	0	0	0.0	0.0	4.2
Total	29	1,300	100.0	100.0	100.0

Household demographic figures based on 2014 FFIEC census data.
 Small business loans originated in 2012, 2013, and 2014 are included herein. D&B business demographic data between 2012, 2013, and 2014 were all comparable.
 (NOTE: Total percentages may vary due to automated rounding differences.)

Motor Vehicle Loans

Lending to individuals of different income levels was considered reasonable. As shown in Table 5, the bank’s distribution of motor vehicles loans to low-income borrowers at 29.2 percent by number (13.2 percent by dollar amount) was above the percentage of low-income households in the bank’s AA at 25.4 percent. Lending to moderate-income borrowers at 16.7 percent by number was lower than the percentage of moderate-income households at 17.6 percent. The bank’s lending to middle-income households was greater than the demographic data, although lending to upper-income households was less than the demographic figure.

Small Business Loans

Lending to businesses of different revenue sizes was considered excellent. As shown in Table 5, the bank’s distribution of loans to business with \$1MM or less in gross annual revenue was 100.0 percent. The volume of lending by number compared favorably to the percentage of small businesses in the AA, at 87.5 percent.

In addition, 93.1 percent of small business loans were originated in amounts of \$100,000 or less, indicating the bank’s willingness and commitment to provide credit to smaller businesses.

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 evidence of discriminatory acts or practices was identified. Furthermore, the bank has not engaged in any illegal credit practices inconsistent with helping to meet community credit needs.