



## **PUBLIC DISCLOSURE**

MAY 10, 2010

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**THE FIRST STATE BANK  
RSSD# 183154**

**308 NORTH MAIN STREET  
FAIRFAX, OKLAHOMA 74637**

**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 **Satisfactory***

The First State Bank (the bank) has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) families and neighborhoods, consistent with its resources, operating philosophy, and credit needs of the communities it serves.

The bank's net loan-to-deposit (NLTD) ratio indicated a reasonable effort to extend credit in a competitive lending market, considering the credit needs of the AA, the bank's financial position, and the ratios of other similarly-situated financial institutions. A majority of the bank's loans were originated to borrowers within its AA. In addition, the bank's distribution of loans to individuals of different income levels and to businesses and farms of different revenue sizes, including loans to LMI individuals and small businesses and small farms, was reasonable. Furthermore, the bank's lending reflected a reasonable dispersion of loans throughout its AA, including LMI neighborhoods.

**SCOPE OF EXAMINATION**

The bank's Community Reinvestment Act (CRA) performance was evaluated using the interagency small bank examination procedures. Four of the five criteria used to evaluate small bank CRA performance were relevant to this review and are as follows:

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

The bank's responsiveness to complaints under the CRA, the fifth core criterion used to assess small bank performance, was not evaluated because the bank has not received any CRA-related complaints.

The examination evaluated the bank's performance in the criteria articulated above in the context of demographic information of the area in which the bank operates. Conclusions regarding the four performance criteria were based on data compiled from the bank's major product lines. 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 February 2006. Loan products evaluated were consumer motor vehicle, agricultural, and commercial loans. The review included statistical samples of 30 consumer motor vehicle loans from a universe of 74 loans originated between March 3, 2009 and February 23, 2010; 27 agricultural loans from a universe of 60 loans originated in a six-month period from July 26, 2009 through January 23, 2010; and 25 commercial loans from a universe of 51 loans originated from September 7, 2006 through January 29, 2010.

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 the bank serves and to evaluate the bank's responsiveness in helping to meet those needs.

### **DESCRIPTION OF INSTITUTION**

The bank's main office is located in Fairfax, Oklahoma, approximately 65 miles northwest of Tulsa and about 20 miles southeast of Ponca City, Oklahoma. A limited service branch, which has no loan officer, is located in nearby Ralston, Oklahoma. Both offices are located within the Tulsa Metropolitan Statistical Area (MSA). The June 30, 2009 Federal Deposit Insurance Corporation (FDIC) Market Share Report indicated the bank has \$33.0 million in deposits with a deposit market share of 0.18 percent, ranking it 50<sup>th</sup> out of 65 banks within the Tulsa MSA. In the market area of Osage and Pawnee Counties, the bank ranked 9<sup>th</sup> out of 14 banks, with a deposit market share of 6.2 percent.

The bank has the ability to meet the credit needs of its defined AA based on its asset size, financial condition, and credit products offered. As of December 31, 2009, total assets were \$39,537M, of which loans represented \$18,484M, or 46.8 percent. As illustrated in Table 1, commercial and agricultural loans are the bank's two largest products.

<b>Loan Type</b>	<b>Amount (\$000)</b>	<b>Percent of Total</b>
Commercial	7,256	39.3
Agricultural	6,599	35.7
Consumer	2,524	13.6
Real Estate	2,033	11.0
Other	72	.4
<b>Total Gross Loans</b>	<b>18,484</b>	<b>100.0</b>

There are no legal or financial factors that prevent the bank from meeting the credit needs of its AA. The bank received a satisfactory rating at its previous CRA evaluation conducted by the Federal Reserve Bank of Kansas City on February 27, 2006.

### **DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank's AA consists of two census tracts in Osage County and two census tracts in Pawnee County. The two counties are contiguous and both are part of the Tulsa, Oklahoma MSA. Based on the 2000 Census boundary data, one tract in Osage County is middle-income, and one is a moderate-income tract. The bank's main location is in a middle-income tract in Osage County. The two census tracts in Pawnee County are both moderate-income. The

bank's deposit-taking branch in Ralston is located in one of the moderate-income tracts in Pawnee County.

The AA's median family income (MFI) equaled \$36,559 as of the 2000 Census, approximately 20.0 percent lower than the 2000 metropolitan MFI of \$45,678. Osage County's MFI was higher than the AA at \$40,784, while Pawnee County's MFI was only slightly higher than the AA at \$37,274. The percentage of AA families living below the poverty level was higher at 11.6 percent than the percentage of families living below poverty in both Osage and Pawnee Counties at 10.3 percent and 9.6 percent, respectively. In addition, the percentage of AA families below poverty was higher when compared to the Tulsa MSA at 9.0 percent and the statewide percentage of 11.2 percent.

According to 2000 Census data, the AA's population was 12,061, comprising only 1.4 percent of the MSA population and only 19.8 percent of the combined populations of Osage and Pawnee Counties. From 2000 to July 2008, the overall population of Osage and Pawnee Counties increased by 1.2 percent; however, the population in the towns of Fairfax and Ralston, where the bank's offices are located, declined by 6.5 percent and 2.5 percent, respectively. The AA has a larger family population compared to statewide and the Tulsa MSA. The AA's age group of 65 and older is also higher at 16.7 percent than the Tulsa MSA at 12.0 percent and the statewide at 13.2 percent. Comments from a local community member indicated that the town of Fairfax is an affordable small town with a high number of retired residents. While the AA is considered part of the Tulsa MSA, it is a rural area demographically.

Agricultural operations in the bank's area have increased in the last several years, based on 2007 Census of Agriculture (Ag Census) data. The number of farms increased by 4 percent in both Osage and Pawnee Counties from 2002 to 2007. Interviews with local community members revealed that cattle ranching is the predominant agricultural business in the area. Osage County includes some of the largest ranches, as evidenced by its ranking as first in both the state of Oklahoma and the entire United States for bison inventories, and second in the state for cattle/calves inventories, according to Ag Census data. The main crops grown in both counties include wheat and soybeans. According to Ag Census data, Osage County's agricultural economy is growing more than in Pawnee County. The market value of crop and livestock sales increased by over 100 percent from 2002 to 2007, while the market value for these two commodities increased by only 2 percent in Pawnee County during the same time period.

The 2000 Census data shows that the area had a lower labor force at 58.5 percent compared to 65.4 percent for the MSA and 62.1 percent for the state. The AA's unemployment rate was 5.3 percent which was slightly higher than the MSA's unemployment rate of 4.8 percent and the state's rate of 5.2 percent. Major employers in the area are the local schools, the hospital, and a nursing home. According to community contacts, a large portion of the labor force commutes to Pawnee, Ponca City, and Tulsa for work.

Based on 2000 Census data, the AA had a higher percentage of owner-occupied housing units, mobile homes and vacant units, and a lower percentage of rental units compared to the MSA and the state as a whole. The AA median housing value of \$47,074 was much lower than the MSA median value of \$79,950 and the statewide median value of \$67,700. The affordability ratio, which is calculated by dividing the median housing income by the median household value, was also higher in the AA when compared to the MSA and the state, indicating that homes are more affordable in the AA. However, the median age of the housing stock in the AA is much older than the MSA or the state. Comments from a community member indicated that the cost of building a new home in the town of Fairfax was prohibitive because the cost to build would exceed the value.

Community members were interviewed to gain a perspective on area credit needs and local economic conditions. These discussions revealed that the area's credit needs are affordable housing and small business lending. Their perceptions were that the local financial institutions are involved in the community and meet the credit needs of the area.

Table 2 summarizes income-related demographic and economic characteristics of the bank's AA based on 2000 Census and 2009 Dun & Bradstreet (D&B) data.

**TABLE 2  
THE FIRST 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	951	27.4
Moderate-income	3	75.0	1,926	55.6	223	11.6	773	22.3
Middle-income	1	25.0	1,540	44.4	180	11.7	708	20.4
Upper-income	0	0.0	0	0.0	0	0.0	1,034	29.9
Total Assessment Area	4	100.0	3,466	100.0	403	11.6	3,466	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Moderate-income	3,237	2,134	55.7	65.9	571	17.6	532	16.4
Middle-income	2,460	1,699	44.3	69.1	387	15.7	374	15.2
Total Assessment Area	5,697	3,833	100.0	67.3	958	16.8	906	15.9
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Moderate-income	228	58.3	200	57.3	14	66.7	14	66.7
Middle-income	163	41.7	149	42.7	7	33.3	7	33.3
Total Assessment Area	391	100.0	349	100.0	21	100.0	21	100.0
	Percentage of Total Businesses:			89.2		5.4		5.4
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Moderate-income	38	71.7	38	71.7	0	0.0	0	0.0
Middle-income	15	28.3	15	28.3	0	0.0	0	0.0
Total Assessment Area	53	100.0	53	100.0	0	0.0	0	0.0
	Percentage of Total Farms:			100.0		0.0		0.0

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Net Loan-to-Deposit Ratio**

The bank's average NLTD ratio is considered reasonable based on the institution's size, financial condition, AA credit needs, and NLTD ratios of competing institutions and national and state peer groups. During the 16-quarter period since the bank's previous CRA evaluation, the average NLTD ratio was 49.5 percent. Over the most recent eight quarters, the bank's NLTD ratio averaged 54.6 percent. This figure was higher than the 8-quarter averages of one of four peer banks that operate near the bank's AA whose average NLTD ratios ranged from 35.1 percent to 68.4 percent over the same time period. The bank's NLTD ratio, as well as the NLTD ratios of three of the competitor banks, was below the national and state peer group ratios.

Discussions with bank management indicated the three competitor banks with higher NLTD ratios are located in larger communities with higher loan demand and more lending opportunities. Although the bank's volume of real estate lending was much lower than three competitor banks with stronger NLTD ratios, the bank had a higher volume of agricultural lending than most of the competitor banks. The bank also indicated that due to a large senior population in its AA, there is limited loan growth. Therefore, the bank has purchased participation loans to help compensate for the limited loan demand.

**Summary of Lending Performance**

TABLE 3 THE FIRST STATE BANK'S SUMMARY OF LENDING PERFORMANCE								
Lending within the Assessment Area								
	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Small Business	21	84.0	672	91.4	4	16.0	63	8.6
Small Farm	22	81.5	746	78.9	5	18.5	200	21.1
Consumer Motor Vehicle	28	93.3	176	96.2	2	6.7	7	3.8
<b>TOTAL</b>	<b>71</b>	<b>86.6</b>	<b>1,594</b>	<b>85.5</b>	<b>11</b>	<b>13.4</b>	<b>270</b>	<b>14.5</b>
Distribution by Income Level of Geographies								
	% of Bank Loans				% of Small Businesses/Farms			
	Moderate		Middle		Moderate		Middle	
Small Business	33.3		66.7		57.3		42.7	
Small Farms	36.4		63.6		71.7		28.3	
	% of Bank Loans				% of Households			
	Moderate		Middle		Moderate		Middle	
Consumer Motor Vehicle	28.6		71.4		56.3		43.7	
Distribution by Borrower Income Level and Revenue Size of Business and Farms								
	% of Bank Loans				% of Small Businesses			
	86.7				89.2			
	% of Bank Loans				% of Small Farms			
	100.0				100.0			
	% of Bank Loans*				% of Households			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Consumer Motor Vehicle	71.4	14.3	3.6	3.6	29.7	20.4	18.9	31.0

\*Total does not equal 100 percent as borrower income was unknown for some loans.



### **Lending in the Bank's Assessment Area**

This core performance criterion evaluates the concentration of loans originated by the bank within its AA, as summarized in Table 3. A majority of the loans, 86.6 percent by number and 85.5 percent by dollar volume, were originated within the bank's AA. The bank's performance in this lending test is considered reasonable.

### **Distribution of Loans by Income Level of Geographies**

This performance criterion evaluates the bank's distribution of loans among geographies of various income levels, with emphasis on lending in the LMI tracts. The distribution of consumer, small business, and small farm loans among geographies of various income levels is considered reasonable compared to the percentage of households, businesses, and farms in each of the geographies, as illustrated in Table 3.

#### ***Small Business Loans:***

Table 3 indicates the bank's level of lending in the moderate-income tracts is less than the percentage of small businesses in those tracts. Discussions with bank management indicated that all of the bank's loans are originated at its main office, which is located in a middle-income tract in Osage County.

Traffic patterns are not conducive for customers from neighboring communities in the moderate-income tracts to seek credit from the bank, particularly given the number of financial institutions conveniently located in the moderate-income tracts. According to the FDIC Market Share Report, the bank faces competition from 13 other financial institutions in the moderate-income tracts. Given these geographic and competitive factors, the bank's geographic distribution is considered reasonable.

#### ***Small Farm Loans:***

The geographic distribution of small farm loans within the AA is reasonable. Eight small farm loans were made in the moderate-income census tracts, representing 36.4 percent of the loans sampled, which is lower than the demographics. There are only 38 small farms in the AA moderate-income tracts. Given the bank's main location in a middle-income tract as well as competitive factors, the bank's lending opportunities in the moderate-income tracts are limited. In addition, information from a local community member indicated most agricultural borrowers go to the Farm Credit Association (FCA) because it offers better rates and terms than the local banks can offer.

#### ***Consumer Motor Vehicle Loans:***

The bank's level of motor vehicle loans originated in the moderate-income tracts is below the demographic data, as illustrated in Table 3. A discussion with a local business owner indicated that consumers purchasing automobiles typically obtain lending from the automobile

dealers or from local banks. There is one used car lot in the town of Fairfax, which is located in a middle-income tract. Since the dealership does not offer financing, customers are referred to the bank for financing, particularly since it's the only financial institution within a 15 mile radius. In addition, a number of other financial institutions are located in the moderate-income tracts of the bank's AA and provide strong competition to the bank. Therefore, the bank's lending performance in this category is considered reasonable.

### **Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Revenue Sizes**

This performance criterion evaluates the bank's lending to borrowers of different income levels, primarily LMI individuals, and the bank's lending to businesses and farms of different revenue sizes, particularly those with gross annual revenues of \$1 million or less. The analysis of lending to LMI individuals, small businesses and small farms, focuses on the number of loans originated rather than dollar volume, as this is a better indicator of the number of individuals benefiting from these products.

#### ***Small Business Loans:***

The bank's level of lending to small businesses was considered reasonable. Table 3 illustrates that the percentage of loans to small businesses was similar when compared to the percentage of small businesses in the AA that reported revenue data, according to D&B data. The bank's commitment to small business lending is further demonstrated by its volume of small dollar loans to small businesses. The loan sample revealed that 100 percent of the loans were in amounts of \$100,000 or less, which are amounts typically needed by smaller businesses.

#### ***Small Farm Loans:***

Table 3 illustrates the bank's lending to small farms in the AA. The bank made 100 percent of its agricultural loans to small farms. The bank's commitment to supporting its community through small farm lending was further demonstrated by 90.9 percent of the small farm loans sampled being made for amounts of \$100,000 or less. Therefore, the bank's performance in this criterion is considered reasonable.

#### ***Consumer Loans:***

The bank's level of lending to borrowers of different income levels was considered good. The total percentage of consumer automobile loans to LMI borrowers was 85.7 percent, which exceeded the percentage of households in the AA classified as LMI at 50.1 percent. Refer to Table 3 for specific information on the bank's distribution of lending to borrowers of various income levels.

**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 and procedures, credit applications, loans and denials, and staff interviews revealed no prohibited practices designed to discourage loan applicants. Also, the bank had not engaged in other illegal credit practices inconsistent with helping to meet the credit needs of its communities.

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

**Small Loan(s) to Business(es)** – A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (“Call Report”). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s)** – A loan included in “loans to small farms” as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500 thousand or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.