

PUBLIC DISCLOSURE

December 8, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers State Bank
12830**

**P.O. Box 36
Lanesville, Indiana 47136**

**Federal Deposit Insurance Corporation
Chicago Regional Office
Division of Supervision and Consumer Protection
500 West Monroe, Suite 3500
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NOTE: 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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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Farmers State Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **December 8, 2004**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION RATING

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

The Farmers State Bank adequately serves the credit needs of its delineated assessment area. The following comments summarize the bank's satisfactory performance:

- A majority of credit extensions have been made within the bank's assessment area.
- The bank's distribution of mortgage loans to persons of various income levels is considered adequate.
- The bank has displayed a willingness to make credit available as evidenced by its loan-to-deposit ratio.

In combination, these factors warrant the assigned rating

DESCRIPTION OF INSTITUTION

The Farmers State Bank (TFSB) is a commercial bank headquartered in Lanesville, Indiana. It is a subsidiary of FSB Bancshares, Inc., a one-bank holding company located in Lanesville. As of the evaluation date, the bank has four full-service locations. Three offices are located in Harrison County. Along with the main office in Lanesville, there are full-service branches in Corydon and Elizabeth. In addition, the bank has one office in Georgetown (Floyd County). Furthermore, automated teller machines (ATMs) are present at each bank location.

All of TFSB's facilities are community-oriented and full-service financial institutions that provide a full range of retail and commercial banking services and products to individuals, small-to medium-size businesses and not-for-profit organizations. The bank offers a traditional variety of deposit, credit, and other financial products to meet the needs of its surrounding communities. Deposit products consist of a conventional mix of savings, checking, certificate of deposit, and money market deposit accounts. In addition, the institution offers a full array of credit products for commercial and consumer borrowers including residential mortgages, consumer installment loans, and lines of credit. Other benefits provided by TFSB include an informational website which details the bank's various deposit and lending products, and 24-Hour Banker, banking by phone. With 24-Hour Banker customers can make account balance inquiries, determine the last six transactions, and transfer funds between designated checking, savings and loan accounts.

As shown in Table 1, the bank's primary business line is residential real estate which makes up 82 percent of the bank's loan portfolio as of September 30, 2004.

Table 1 - Loan Distribution as of September 30, 2004		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans (%)</i>
<i>Construction and Land Development</i>	\$2,050	4%
<i>Secured by Farmland</i>	\$283	<1%
<i>1-4 Family Residential</i>	\$39,850	82%
<i>Multi-Family (5 of more) Residential</i>	\$750	2%
<i>Commercial</i>	\$1,319	3%
<i>Total Real Estate Loans</i>	\$44,252	91%
<i>Commercial and Industrial</i>	\$1,627	3%
<i>Agricultural</i>	\$310	<1%
<i>Consumer</i>	\$2,144	4%
<i>Other</i>	\$311	<1%
<i>Less: Unearned Income</i>	(\$0)	0%
<i>Total Loans</i>	\$48,644	100%

Source: Report of Condition

The bank does not sell mortgage loans in the secondary market. There are no financial or legal impediments that hinder the bank's ability to provide credit within the established assessment area. However, the bank does operate in a competitive environment. According to the FDIC's Division of Research and Statistics, as of November 10, 2004, there were 15 office facilities of 8 different commercial banks and savings institutions within the assessment area in which TFSB operates. There are no similarly situated financial institutions to reasonably compare TFSB due to differences in asset sizes, branching networks, product lines, and areas served.

The Farmers State Bank was assigned a CRA rating of "Outstanding" at the prior Community Reinvestment Act evaluation, performed as of November 16, 1998.

DESCRIPTION OF THE ASSESSMENT AREA

Farmers State Bank has chosen three census tracts in Floyd County (711.01, 711.02, and 712) and four census tracts in Harrison County (603, 604, 605, and 606) as its assessment area. These tracts are all contiguous. There are no low- or moderate-income census tracts in this assessment area. Low- and moderate-income geographies are not arbitrarily excluded, and no evidence of illegal discrimination is present. All of the bank's offices are located in the Louisville-KY-IN Metropolitan Statistical Area; thus, the bank is subject to the data collection requirements of the Home Mortgage Disclosure Act. The assessment area is located in southern Indiana. It has a total population of 36,188, and there are 10,364 families in the assessment area.

Two of the three tracts in Floyd County are middle-income. One tract is upper-income. The towns included in these tracts are Georgetown (population 2,415), Floyds Knobs (population 9,777), and Greenville (population 586). The Farmers State Bank had 4 percent of the deposits in this area as of September 20, 2004.

The four tracts in Harrison County are middle-income. These tracts contain the city of Corydon (population 2,720) and towns of Lanesville (population 618), Elizabeth (population 137), and Laconia (population 29). The Farmers State Bank has 15 percent of the deposits in this area as of September 30, 2004.

In 2000, there were 13,980 housing units in the bank's assessment area. Of this number, 83 percent were owner-occupied units, 13 percent were rental units, and 5 percent were vacant units. The median age of the housing stock was 23 years. The median value of these units was \$111,926, compared to a statewide median value of \$92,500 for Indiana. The median gross rent for the assessment area was \$510. The statewide median gross rent was higher at \$521.

Census information from 2000 reveals that 13 percent of families residing within the assessment area are low-income; 17 percent are moderate-income; 25 percent are middle-income; and 45 percent are upper-income. Three percent of the families residing in the assessment area have incomes below the poverty line.

The major employment sectors in the assessment area are services and retail trade. According to the Bureau of Labor Statistics, the unemployment rate for Harrison County, and Floyd County was 4.0 percent, and 3.7 percent, respectively for September 2004. The Indiana rate was 5.2 percent and the United States rate was 6.0 percent for the same month in 2004.

Unless otherwise stipulated, the demographic information contained in this evaluation is based upon 2000 Census Bureau data. Individual and geographic income designations are defined as a percentage of the Indiana State median family income (MFI) for metropolitan areas. The U.S. Department of Housing and Urban Development (HUD) issues annual estimates for updated MFI. HUD bases its annual estimates on the most recent U.S. census data, and factors in inflation and other economic variables to arrive at a MFI that more closely reflects current economic conditions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

All mortgage loans originated in the first 10 months of 2004 were reviewed to evaluate the bank's performance under each of performance categories discussed below. Consumer and commercial loans were not evaluated because consumer and commercial loans represent just 3 percent and 6 percent, respectively, of the bank's loan portfolio.

LEVEL OF LENDING

The Farmer State Bank's average loan-to-deposit (LTD) ratio is reasonable considering its market focus, size, competition from other area lenders, and local loan demand. The bank's average quarter-ending loan-to-deposit ratio for the time period December 31, 1998, to September 30, 2004, was approximately 85 percent and indicates that a substantial majority of deposits are being reinvested in lending activities. There are several other local institutions within the assessment area whose average loan-to-deposit ratios range from 78 to 108 percent over this same time frame. Therefore, the bank's level of lending is comparable to the level of lending of the local financial institutions.

LENDING IN THE ASSESSMENT AREA

The bank's performance of making loans available to families that are located within the bank's assessment area is adequate. The institution's performance meets the requirements of the regulation as a majority of the loans, both by number (61 percent) and dollar amount (64 percent), are funded within the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES

Evaluation procedures included a review of the income distribution of assessment area borrowers for mortgage loans. The bank's lending distribution to borrowers of different incomes was reviewed. The income levels used were based on an annual Median Family Income (MFI), for the Louisville KY-IN Metropolitan Statistical Area (31140) for 2004 (\$57,530).

Table A-1 in Appendix A shows the break down of the estimated median family income for 2004 and classifies the incomes that would qualify a family as low-, moderate-, middle-, or upper-income during that year.

The overall distribution of loans to borrowers of varying incomes is adequate. Table 2 provides information on the bank's distribution of mortgage loans by borrower income. The bank's performance in funding loans to low-income borrowers is adequate.

Thirteen percent of the families residing within the assessment area are low-income. However, not all low-income families are potential borrowers for mortgage loans. The percentage of low-income families in the assessment area needs to be adjusted to compensate for families living below the poverty level. Three percent of families within the assessment area are classified as

living below the poverty level. Families living below the poverty level are generally not in a position to service a mortgage loan. The adjusted percentage of low-income families of 10 percent with incomes above the poverty level is more of a realistic figure with which to make a comparison.

The bank funded 20 percent of its mortgage loans by number to low-income borrowers which, based on the foregoing analysis, is double the adjusted percentage of low-income families in the assessment area. This performance is good.

The bank's level of lending to moderate-income families is also good. Seventeen percent of families within the bank's assessment area are moderate-income. The bank has extended 36 percent by number of its mortgage loans to moderate-income borrowers, which compares very well to the demographic data for the community.

The dollar volume of lending also appears to be good to low- or moderate-income borrowers. These individuals typically purchase and occupy more affordable homes that are commensurate with their family income level. This would account for the lower dollar percentage of lending to these families since the purchase cost of their homes would tend to be lower.

Table 2 - Distribution of Home Loans by Borrower Income					
Borrower Income Level	% of Total Families	Total Number		Total Dollar	
		#	%	\$	%
Low*	13	14	20	604	12
Moderate	17	25	36	1,694	34
Middle	25	15	21	1,236	25
Upper	45	13	19	1,181	24
N/A	0	3	4	240	5
Total	100	70	100	4,955	100

Source: U.S. Census and Bank Reports (2004)

*-Approximately 3 percent of the family population lives below the poverty level leaving approximately 10 percent of the low-income families in a potential borrowing capacity.

GEOGRAPHIC DISTRIBUTION OF LOANS

Given that there are no low- or moderate-income census tracts in the assessment area, no analysis was performed and this performance criterion bears no weight in the overall rating.

RESPONSE TO COMPLAINTS

The Farmers State Bank has not received any written consumer complaints regarding its performance under the Community Reinvestment Act (CRA) since the prior performance evaluation.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

No violations of the substantive provisions of any anti-discriminatory laws and regulations were identified during the evaluation.

Recent loan originations and rejected credit applications were reviewed to ascertain compliance with applicable fair housing and fair lending laws and regulations. This evaluation did not identify any acts, policies, or practices that are inconsistent with the substantive provisions of these laws and regulations including the Equal Credit Opportunity Act and the Fair Housing Act.

Appendix A

Table A-1

Louisville KY-IN Metropolitan Statistical Area Median Family Income*					
Year	Median Family Income	LOW	MODERATE	MIDDLE	UPPER
2004	\$57,530	<\$28,765	\$28,765 - \$46,024	\$46,024 - \$69,036	≥ \$69,036

Source: U. S Department of Housing and Urban Development

*Low-income is less than 50 percent of the Louisville KY-IN Metropolitan Statistical Area Median Family Income, Moderate-income is greater than 50 percent and less than 80 percent of the of the Louisville KY-IN Metropolitan Statistical Area Median Family Income, Middle-income is greater than 80 percent and less than 120 percent of the of the Louisville KY-IN Metropolitan Statistical Area Median Family Income, and Upper-income is greater than 120 percent of the Louisville KY-IN Metropolitan Statistical Area Median Family Income.