

PUBLIC DISCLOSURE

May 14, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First State Bank
Certificate Number: 2303**

**Main and Broadway
P.O. Box 45
Camargo, OK 73835-0045**

**Federal Deposit Insurance Corporation
Division of Supervision and Consumer Protection
1910 Pacific Avenue, 19th Floor
Dallas, Texas 75201**

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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INSTITUTION'S RATING

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

The FDIC rated the institution "Satisfactory" at its previous April 18, 2002, evaluation. For this \$23 million, one-office bank, headquartered in Camargo, Oklahoma, examiners evaluated the bank using CRA small bank performance criteria factors. A detailed discussion of each performance factor is provided elsewhere in this performance evaluation. Examiners selected small farm loans and small business loans as the products for evaluation. Summary comments for the applicable performance criteria are presented below.

- The institution's average net loan-to-deposit ratio of 80 percent reflects a strong level of lending, considering the bank's resources, business strategy, lending philosophy, and assessment area's credit needs.
- The institution attained a satisfactory record of lending within its assessment area. The bank's performance within the assessment area is 72 percent by number of loans and 66 percent by dollar volume. The bank's record of lending for its primary loan product, agricultural loans, was 83 and 76 percent, respectively.
- Borrower profile, consisting of the distribution of loans to farms of different sizes and businesses of different sizes, reflects satisfactory lending activity to smaller farms and small businesses in the assessment area.
- Geographic distribution was not given any weight, as the entire assessment area is comprised of middle-income census tracts.
- The bank has not received any CRA related complaints since the previous evaluation. Therefore, this factor was not evaluated.

SCOPE OF EXAMINATION

The bank's principal lending focus in accordance with its March 31, 2007, Report of Condition (Call Report) is agricultural lending at 41 percent. Commercial lending is a significant product at 31 percent. Residential 1-4 family lending at 6 percent, consumer lending at 22 percent, and construction and land development at less than 1 percent follow. Residential 1-4 family lending at 6 percent is considered a minor product and was not evaluated. Therefore, examiners reviewed commercial and agricultural loans for the lending in the assessment area, borrower profile, and geographic distribution sections of this evaluation.

A sample of loans was identified from loans originated within the most recent 12 month period as of the electronic download of the bank's loan trial. Borrower profiles were evaluated from random samples of loans identified in the assessment area. The universe and sampling breakout is as follows:

The agricultural sample consisted of 36 loans totaling \$1,612,361 from a universe of 94 loans totaling \$3,130,246. The commercial sample consisted of 36 loans totaling \$1,152,499 from a universe of 99 loans totaling \$3,582,785. These samples are derived on the basis of a 90 percent confidence interval within a 15 percent precision level subject to a minimum of 36 loans in each sample including original balances of \$500 thousand or less for farm loans and \$1 million or less for business loans. Since agricultural lending is the largest loan category and management confirmed that this is their primary lending focus, this loan product is weighted more heavily than commercial lending. Results based on the dollar volume of loans were considered more significant than the number of loans.

DESCRIPTION OF INSTITUTION

The First State Bank, Camargo, Oklahoma was established in 1911. Banking facilities consist of one main office located on Highway 34 in Camargo, Dewey County. The institution provides full-service banking primarily for small farmers and consumer customers. The bank offers a full line of deposit products including debit cards and originates agricultural, commercial, real estate, Farm Security Agency, and consumer loans. The bank offers convenient hours of operation Monday through Friday. The office is located in a middle-income census tract in western Dewey County.

As of March 31, 2007, management reported total assets of \$22,705,000, total deposits of \$21,047,000, and total equity capital of \$1,559,000. The loan portfolio comprises 83 percent of the total assets. As of December 31, 2006, the ratio of net loans to deposits was 93 percent. The institution has no minimum loan dollar requirement, and numerous loans are originated at small dollar amounts.

Based upon the dollar amount of loans outstanding reported in the Consolidated Report of Condition as of March 31, 2007, the primary business focus is agricultural lending comprising 41 percent of the dollar volume of the loan portfolio. The other major loan category is commercial lending. These two categories account for 72 percent of the portfolio. Table 1 following provides further details of the bank's loan distribution.

Table 1 – Loan Distribution as of 3/31/2007		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	102	1
Secured by Farmland	3,528	19
1-4 Family Residential	1,034	6
Commercial Real Estate	333	2
Multifamily	0	0
Total Real Estate Loans	4,997	27
Commercial and Industrial	5,397	29
Agricultural	4,241	23
Consumer	4,058	22
Other	45	<1
Less Unearned Income	(3.00)	<1
Total Loans*	18,735	100

Source: March 31, 2007 Report of Condition; *Totals may not equal 100 due to rounding.

The institution’s financial condition, full line of product offerings, and lack of legal impediments allow management the ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

Management of The First State Bank has designated six census tracts (CTs) in Dewey, Ellis, and Roger Mills Counties as its assessment area. All of the tracts are considered middle-income areas. The institution’s only office is approximately 45 miles north of Interstate 40 in the southwest corner of CT 9592.00.

The assessment area is primarily agriculturally based. Most industries in the assessment area are either small farms or oil- and gas-related businesses. Nearly all remaining businesses support these two industries through the schools, county services, restaurants, lodging, or banking. A member of management identified the following entity as the largest employer who has a significant impact on the well-being of the community: Dewey County government offices. The County of Ellis and Hammon Independent School District are the largest employers in Ellis and Roger Mills Counties, respectively. Table 2 summarizes demographic data about the area.

Table 2 – Demographic & Economic Characteristics of the Assessment Area	
<u>Population in Area</u>	
Assessment Area Population	12,254
<u>Median Family Income:</u>	
2000 Assessment Area Median Family Income	\$35,105
2006 Estimated Median Family Income	\$42,600*
<u>Percentage of Farms Based on Gross Annual Revenues:**</u>	
0 - \$100,000	66%
\$100,000-\$250,000	25%
\$250,000-\$500,000	6%
\$500,000 - \$1,000,000	0%
Over \$1,000,000	3%
<u>Percentage of Businesses Based on Gross Annual Revenues:**</u>	
0 - \$100,000	59%
\$100,000-\$250,000	21%
\$250,000-\$500,000	7%
\$500,000 - \$1,000,000	7%
Over \$1,000,000	6%

Source: 2000 U.S. Census, * Department of Housing and Urban Development (HUD); **Dun & Bradstreet.

The glossary provides definitions of geographic and economic terms used in this evaluation.

Based upon the 2000 U.S. Census data for the assessment area, there are 1,241 non-farm business establishments in the assessment area, which comprised 83 percent of total businesses in the area. Non-Classifiable Establishments represent 29 percent of businesses in the area and Services represent 21 percent of the businesses in the area. Furthermore, the data indicates that 56 percent of businesses have less than five employees and 90 percent operate out of a single location. Dun and Bradstreet data reports 97 percent of the farming operations and 94 percent of the businesses have gross annual revenues of \$1 million or less. The figures demonstrate the prevalence of small businesses and farms in the area.

Recent 2006 data indicates previous lower energy prices and interest rates are encouraging new investment and consumer spending in Oklahoma. The employment growth rate for 2006 was -.07 percent in Dewey County, -1.9 percent in Ellis County, and -3.1 percent in Roger Mills County, all below the state growth rate of 1.3 percent and the national growth rate of 2.1 percent. According to the Bureau of Labor Statistics, the unemployment rate for Dewey County decreased from 3.7 percent in 2002 to 3.2 percent in 2006. For the same time period Ellis County unemployment decreased from 3.4 percent to 2.8 percent, and Roger Mills County unemployment decreased from 3.3 percent to 2.8 percent. The Oklahoma state unemployment rates for the same time period decreased from 4.8 percent to 4.0 percent.

One community contact was utilized in conjunction with this evaluation. The contact is of the opinion the local economy is exceptional. The contact also stated the credit needs in this community revolve around the agricultural industry.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The First State Bank demonstrated a strong level of lending with regard to this performance factor. Examiners considered the bank's size, capacity, lending strategy, assessment area credit needs, and the ratios of other comparable banks when arriving at this conclusion. As of December 31, 2006, the bank's average net loan-to-deposit ratio for the 19 quarters since the last evaluation is 80 percent. The quarterly net loan-to-deposit ratios for this time period varied from a low of 66 percent in June, 2002, to a high of 94 percent in September, 2006. These factors reflect management's commitment to maintaining a loan-to-deposit ratio that meets the credit needs of Camargo and the surrounding area.

There are five other banks headquartered in the assessment area. The following three banks were identified for comparison. Based on the June 30, 2006, Summary of Deposits report, The First State Bank has the smallest market share of deposits. The data for these banks for the same time period is depicted in Table 3 below and presented in alphabetical order by city.

Table 3 – Net Loan-to-Deposit (Dollar Volume in Thousands)		
Bank Name and Location	Total Assets 12/31/06	Average Loan-to-Deposit Ratio
<i>The First State Bank Camargo, Oklahoma</i>	20,610	80%
Comparable Banks		
Farmers & Merchants Bank Arnett, Oklahoma	28,528	74%
The First National Bank of Seiling Seiling, Oklahoma	60,353	36%
The Shattuck National Bank Shattuck, Oklahoma	28,528	43%

Source: Call Reports September 30, 2002 through December 31, 2006.

The banks listed above were selected for comparison purposes primarily on location, asset size, and portfolio make-up. Of the bank's identified comparisons, Farmers & Merchants Bank was viewed as most comparable to The First State Bank. Comparing the subject bank's ratio to the other institutions in the locale, the loan-to-deposit ratio of this bank represents a strong response to the credit needs of its customers.

Lending in the Assessment Area

The institution attained an adequate record of lending within its assessment area. Additionally, examiners considered the following factors when evaluating this performance factor: the bank's asset size, office structure, the assessment area's size, the economy, and the loan products reviewed. Examiners considered the number of loans more significant than the dollar volume, as smaller dollar loans have less impact on lending totals but, characteristically, are the requested product of smaller farms and businesses. Table 4 shows the distribution of sampled loans.

Table 4 - Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	30	83	6	17	36	1,230	76	382	24	1,612
Commercial	22	61	14	39	36	591	51	561	49	1,152
Total	52	72	20	28	72	1,821	66	943	34	2,764

Source: Sample of 2006/2007 Bank Loan Trial Balance;

As noted in the table above, the performance within the assessment area is 72 percent for number and 66 percent for dollar volume. Since these ratios are greater than 50 percent, this performance meets the standards for a satisfactory rating.

Lending to Farms and Businesses of Different Sizes

The distribution of loans to farms and businesses of different sizes reflects a satisfactory performance to farming and business entities. Conclusions were derived through an analysis of loans originated inside the assessment area with emphasis placed on the loan distribution to small farms and smaller-sized businesses. Examiners reviewed 30 agriculture loans and 22 commercial loans originated in the last 12 months within the assessment area. In arriving at the overall conclusion, examiners placed more weight on the bank's record regarding agricultural lending, since it is management's most significant lending category reviewed for this evaluation.

Farms of Different Sizes

The institution displayed a good penetration of lending to small farms. Examiners focused primarily upon gross annual revenues as a direct indication of the bank's efforts at offering credit to smaller farm operations. As depicted in Table 5, 100 percent of the sample of the bank's agricultural portfolio is centered in farms reporting gross annual revenues of less than \$500,000. However, lending to farms with revenues of less than \$100,000 was 40 percent, which is less than the percentage of farms of that size.

Table 5 – Distribution of Small Farm Loans by Gross Annual Revenues					
Gross Annual Revenues (000s)	Distribution of Small Farms (% of #) 2005*	Small Farm Loans in Last 12 Months**			
		#	%	\$ (000s)	%
\$0-<\$100	66	12	40	302	25
≥\$100-<\$250	25	16	53	701	57
≥\$250-<\$500	6	2	7	227	18
≥\$500-<\$1,000	0	0	0	0	0
>\$1,000	3	0	0	0	0
Total	100	30	100	1,230	100

Source: * Farm Revenue Breakout (Dun & Bradstreet);**Sample of 2006/2007 Loan Trial Balance.

As this table indicates, lending to farming entities is weighted toward small farms with gross annual revenues of less than \$1,000,000. The bank’s lending indicated a good dispersion to farming entities of all sizes and did not focus on those with over \$1,000,000 in gross revenues. This is evidenced by 93 percent of the sampled loans by number being made to farms with gross annual revenues of less than \$250,000. Overall, the bank’s lending performance is good compared to the assessment area demographics.

Businesses of Different Sizes

The institution displayed reasonable dispersion of lending to businesses of different sizes within the assessment area. Examiners focused primarily upon businesses’ gross annual revenues as a direct indication of the bank’s efforts at lending to smaller businesses. Table 6 shows that substantially all of the bank’s lending is to small business with gross annual revenues of less than \$1,000,000.

Table 6 – Distribution of Commercial Loans by Gross Annual Revenues					
Gross Annual Revenues (000s)	Distribution of Small Businesses (% of #) 2005*	Commercial Loans in Last 12 Months**			
		#	%	\$ (000)	%
\$0-<\$100	59	9	41	225	38
≥\$100-<\$250	21	8	36	166	28
≥\$250-<\$500	7	4	18	135	23
≥\$500-<\$1,000	7	0	0	0	0
+\$1,000 or NA	6	1	5	65	11
Total	100	22	100	591	100

Source: *Business Revenue Breakout (Dun & Bradstreet); ** Sample of 2006/2007 Loan Trial Balance.

As this table indicates, lending to businesses is weighted toward small businesses with gross annual revenues of less than \$1,000,000. This is evidenced by the fact that only one of the sampled loans was made to businesses with gross annual revenues of over \$1,000,000. It is also noted that 41 percent of the sampled loans the bank originated were to businesses with less than \$100,000 in gross annual revenues, which is less than the 59 percent of businesses of that size. The dollar volume originated is reasonable. The overall analysis indicates the bank is concentrating heavily in serving the smaller business operations in the assessment area.

Overall, the Borrower Profile conclusion for lending (relating to the bank’s lending to farms of different sizes and businesses of different sizes) is satisfactory. Both loan products reflect satisfactory performance, and management performance in agricultural lending is given more weight.

Geographic Distribution

There is no weight given to this factor, as the entire assessment area is comprised of middle-income census tracts.

Response to Complaints

The bank has not received any CRA related complaints since the previous evaluation. Therefore, this factor was not evaluated.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

GLOSSARY

CENSUS TRACT (CT) - an area defined by the Census Bureau.

DUN AND BRADSTREET – a leading provider of business information for credit, marketing and purchasing decisions in the U.S. and worldwide.

GEOGRAPHIES – are defined the same as census tracts.

LOW-INCOME -

- for a census tract - this income range is less than 50 percent of the 2000 median family income (MFI) for all non metropolitan statistical areas (non-MSAs) in the state. The 2000 Oklahoma statewide MFI for non-MSAs is \$35,250.
- for individuals - income levels less than 50 percent of the most recent MFI as estimated by the Department of Housing and Urban Development (HUD). The 2005 Oklahoma MFI for non-MSAs is \$41,400 and the 2006 Oklahoma MFI for non-MSAs is \$42,600. .

MEDIAN FAMILY INCOME (MFI) - designated income as determined by the Census Bureau or as adjusted by HUD.

MIDDLE-INCOME - determined using the same methodology as for low-income. The percentage used for middle-income designation is 80 percent - 119 percent of MFI.

MODERATE-INCOME - determined using the same methodology as for low-income. The percentage used for moderate-income designation is 50 percent - 79 percent of MFI.

SMALL BUSINESS LOAN – Loans with original amounts of \$1,000,000 or less.

SMALL FARM LOAN – Loans with original amounts of \$500,000 or less.

UPPER-INCOME - determined using the same methodology as for low-income. The percentage used for upper-income designation is greater than or equal to 120 percent of MFI.