PUBLIC DISCLOSURE

AUGUST 20, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

FIRST STATE BANK IN TEMPLE
RSSD# 325459

111 SOUTH COMMERCIAL
TEMPLE, OKLAHOMA 73568

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.***

First State Bank in Temple (the bank) has a Satisfactory record of meeting the credit needs of its assessment area (AA) in a manner consistent with its resources and operating philosophy. The bank also received a Satisfactory rating at its previous Community Reinvestment Act (CRA) evaluation conducted by the Federal Reserve Bank of Kansas City (Reserve Bank) on August 11, 2014.

- The bank is meeting the credit needs of its community based on an analysis of its lending activity.
- The bank's net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and AA credit needs.
- A substantial majority of the bank's loans are originated in the AA.
- Lending reflects a reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI), and farms of different revenue sizes.
- Neither the bank nor the Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions.* The evaluation was performed in the context of information about the bank and its AA, such as asset size, financial condition, economic and demographic characteristics, and competition. Lending performance was assessed within the bank's AA, comprised of one census tract in Stephens County, one census tract in Jefferson County, and Cotton County in its entirety; all in southwestern Oklahoma. An analysis of the geographic distribution of loans was not performed because the bank's AA is comprised solely of middle-income census tracts. Additionally, the bank's response to substantiated complaints was not reviewed as neither the bank nor this Reserve Bank have received any CRA-related complaints since the previous evaluation. The following criteria were reviewed:

- **NLTD Ratio** – A 15-quarter average NLTD ratio was calculated for the bank and compared to a sample of local competitors.
- **Lending in the AA and Lending to Borrowers of Different Income Levels and to Farms of Different Sizes** – Statistically-derived samples of the bank's motor vehicle

and small farm loans originated from January 1, 2017 through December 31, 2017, were reviewed to determine:
- The percentage of loans originated in the AA;
- The distribution among borrowers of different income levels, particularly those considered LMI, and to farms with different revenue sizes.

- **Community Contacts** – Two community representatives from government and agricultural development organizations were contacted to provide insight into the needs of LMI individuals and small farms within the AA.

DESCRIPTION OF INSTITUTION

The bank is a community bank headquartered in Temple, Oklahoma. The bank's characteristics include:

- Total assets of $26.2 million as of December 31, 2017.
- One full-service location in Temple, Oklahoma.
- No owned or operated automated teller machines.
- Loan portfolio primarily comprised of agricultural loans (80.3 percent of total loans) as of December 31, 2017.

TABLE 1
FIRST STATE BANK IN TEMPLE LOAN PORTFOLIO
AS OF DECEMBER 31, 2017

Loan Type	Amount $(000)	Percent of Total
Agricultural	13,475	80.3
Consumer	1,342	8.0
Residential Real Estate	1,085	6.5
Commercial	873	5.2
Other	0	0.0
Gross Loans	**16,775**	**100.0**

There are no known legal, financial or other factors impeding the bank's ability to meet the credit needs of the communities it serves.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA[1]

The bank's AA is comprised of Cotton County in its entirety and one census tract located in each of Stephens and Jefferson Counties.

- See Appendix A for an AA map.
- All four census tracts in the AA are middle-income.
- Cotton County is located within the Lawton, Oklahoma Metropolitan Statistical Area (MSA).
- The AA's composition has changed slightly since the August 11, 2014 evaluation. The census tract located in Jefferson County was previously a moderate-income census tract and has since changed to a middle-income census tract, according to the 2015 American Community Survey (ACS) data.
- As of June 30, 2017, the bank's combined market share of Federal Deposit Insurance Corporation (FDIC)-insured deposits ranked 14th of 15 institutions in Cotton, Jefferson, and Stephens counties with a 1.5 percent deposit market share.
- First Bank and Trust Company in Duncan, Oklahoma, had the largest level of AA FDIC-insured deposits with a 25.1 percent market share.

PERMORMANCE CONTEXT

- See Appendix B for demographic information.
- The AA counties have small populations, equaling 57,251 as of the 2015 U.S. Census Bureau Decennial Census data.
- The AA county populations declined slightly from 2010 to 2015, while the statewide population grew by 2.6 percent over the same time period.

[1] The following demographic data is based on 2010 and 2015 ACS five-year estimate data and 2017 D&B data. Additional demographic data was also utilized based on U.S. Census Bureau Decennial Census data and the Bureau of Labor Statistics.

TABLE 2 SOUTHWESTERN OKLAHOMA AA POPULATION CHANGE			
Area	**2010 Population**	**2011-2015 Population**	**Percentage Change (%)**
Cotton County	6,193	6,112	-1.3
Stephens County	45,048	44,806	-0.5
Jefferson County	6,472	6,333	-2.1
State of Oklahoma	3,751,351	3,849,733	2.6
Based on U.S. Census Bureau Decennial Census.			

- Median family income (MFI) in Cotton County grew significantly, at 13.4 percent, compared to statewide growth at 8.2 percent over a ten-year period between 2006 and 2015 based on five-year ACS data.

- The MFI in Stephens and Jefferson counties grew at lower rates of 2.1 percent and 3.8 percent, respectively.

- According to a community representative, it is uncertain whether or not MFI will continue to grow at similar levels over the next five years. MFI in the AA is influenced largely by agricultural conditions. Farmers across the AA and other rural areas of Oklahoma have suffered from drought conditions, which are expected to significantly impact future crop yields.

TABLE 3 SOUTHWESTERN OKLAHOMA AA MEDIAN FAMILY INCOME CHANGE 2000 AND 2010			
Area	**2006-2010 Median Family Income ($)**	**2011-2015 Median Family Income ($)**	**Percentage Change (%)**
Cotton County	50,486	57,260	13.4
Stephens County	54,908	56,070	2.1
Jefferson County	41,042	42,601	3.8
State of Oklahoma	53,607	58,029	8.2
Based on U.S. Census Bureau Decennial Census and ACS.			

- Median housing values and gross rents in the AA increased at varying levels over a ten-year period from 2006-2015.

- For median housing values, Stephens County experienced the greatest increase at 21.6 percent; significantly outpacing the growth experienced by Cotton County, at 10.8 percent, as well as the State, at 13.0 percent. However, Jefferson County experienced a very low growth rate of only 0.9 percent.

- Median gross rents increased at similar rates, approximately 15.0 percent to 17.0 percent, for Stephens and Jefferson Counties as well as the State. However, Cotton County experienced an increase of only 6.0 percent.

TABLE 4
SOUTHWESTERN OKLAHOMA AA HOUSING COSTS CHANGE

Area	Median Housing Value		Percentage Change (%)	Median Gross Rent		Percentage Change (%)
	2006-2010	2011-2015		2006-2010	2011-2015	
Cotton County	72,100	79,900	10.8	533	565	6.0
Stephens County	80,900	98,400	21.6	556	649	16.7
Jefferson County	56,100	56,600	0.9	399	468	17.3
State of Oklahoma	104,300	117,900	13.0	633	727	14.8

Based on U.S. Census Bureau Decennial Census and ACS.

- A community representative attributed unemployment increases in 2016 to substantial declines in oil prices that began in 2015.

- The AA economy and the state as a whole are heavily reliant on the oil and gas industry, and price declines resulted in significant layoffs from major AA employers throughout 2015 and 2016.

- According to a community representative, economic conditions in the AA have recently improved since the decline of the oil and gas industry in 2015. Unemployment in all three counties of the AA decreased in 2017 as oil prices steadily rose and conditions in other important industries improved.

TABLE 5
SOUTHWESTERN OKLAHOMA AA UNEMPLOYMENT RATES (%)

Area	2013	2014	2015	2016	2017
Cotton County, OK	5.6	4.6	4.2	4.8	4.0
Stephens County, OK	5.4	4.5	6.0	9.5	6.3
Jefferson County, OK	5.3	4.6	5.7	7.2	5.6
State of Oklahoma	5.3	4.5	4.4	4.8	4.3

Based on Bureau of Labor Statistics: Local Area Unemployment Statistics.

- Major employers in the AA include Halliburton, Goodyear Tires, Bar-S Foods, Chemical Packaging Corp., Warner Jewelry Case Co., and the regional hospital in Duncan.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

The bank's NLTD ratio is reasonable given its size, financial condition, AA credit needs, and comparison to several of its local competitor FDIC-insured institutions.

TABLE 6
COMPARATIVE NET LOAN-TO-DEPOSIT RATIOS

Institution	NLTD Ratio (%) 15-Quarter Average
First State Bank in Temple	72.4
Competitors	
First State Bank (Ryan, Oklahoma)	68.9
Walters B&TC (Walters, Oklahoma)	54.3
First Farmers NB (Waurika, Oklahoma)	45.1
First National Bank of Fletcher (Fletcher, Oklahoma)	27.2

Assessment Area Concentration

A substantial majority of the bank's motor vehicle and small farm loans, by number and dollar, are originated inside the AA.

TABLE 7
LENDING INSIDE AND OUTSIDE THE BANK'S AA

Bank Loans	Inside				Outside			
	#	$(000)	#%	$%	#	$(000)	#%	$%
Motor Vehicle Loans	43	416	89.6	91.4	5	39	10.4	8.6
Small Farm Loans	40	3,662	97.6	99.5	1	17	2.4	0.5

Distribution by Borrower Income and Revenue Size of Farms:

Overall, the bank's lending demonstrates reasonable penetration among individuals of different income levels and farms of different revenue sizes. More weight was placed on the bank's small farm lending performance due to the bank's agricultural lending focus.

Motor Vehicle Secured Loans

The borrower distribution of motor vehicle lending is excellent.

- Lending to low-income borrowers significantly exceeded the demographic figure by number, while lending to moderate-income borrowers was more consistent with the demographic figure.

- Additionally, 67.5 percent of loans by number were originated to LMI borrowers.
- More weight was given to the bank's performance by number as this is more indicative of the number of borrowers served.

TABLE 8
DISTRIBUTION OF 2017 MOTOR VEHICLE SECURED LOANS BY BORROWER INCOME LEVELS
SOUTHWESTERN OKLAHOMA AA

Borrower Income Level	Motor Vehicle Secured Loans				% of Households[1]
	#	$(000)	#%	$%	
Low	22	108	51.2	25.9	25.0
Moderate	7	85	16.3	20.4	16.9
Middle	4	90	9.3	21.6	15.9
Upper	9	119	20.9	28.5	42.3
Unknown	1	15	2.3	3.6	0.0

[1] The percentage of households by income levels is based on 2015 ACS five-year estimate data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Farm Loans

The borrower distribution of small farm lending is reasonable.

- All small farm loans were originated to farms with gross annual revenues of $1MM or less, which aligns with the demographic figure.

TABLE 9
DISTRIBUTION OF 2017 SMALL FARM LOANS BY REVENUE SIZE OF FARMS
SOUTHWESTERN OKLAHOMA AA

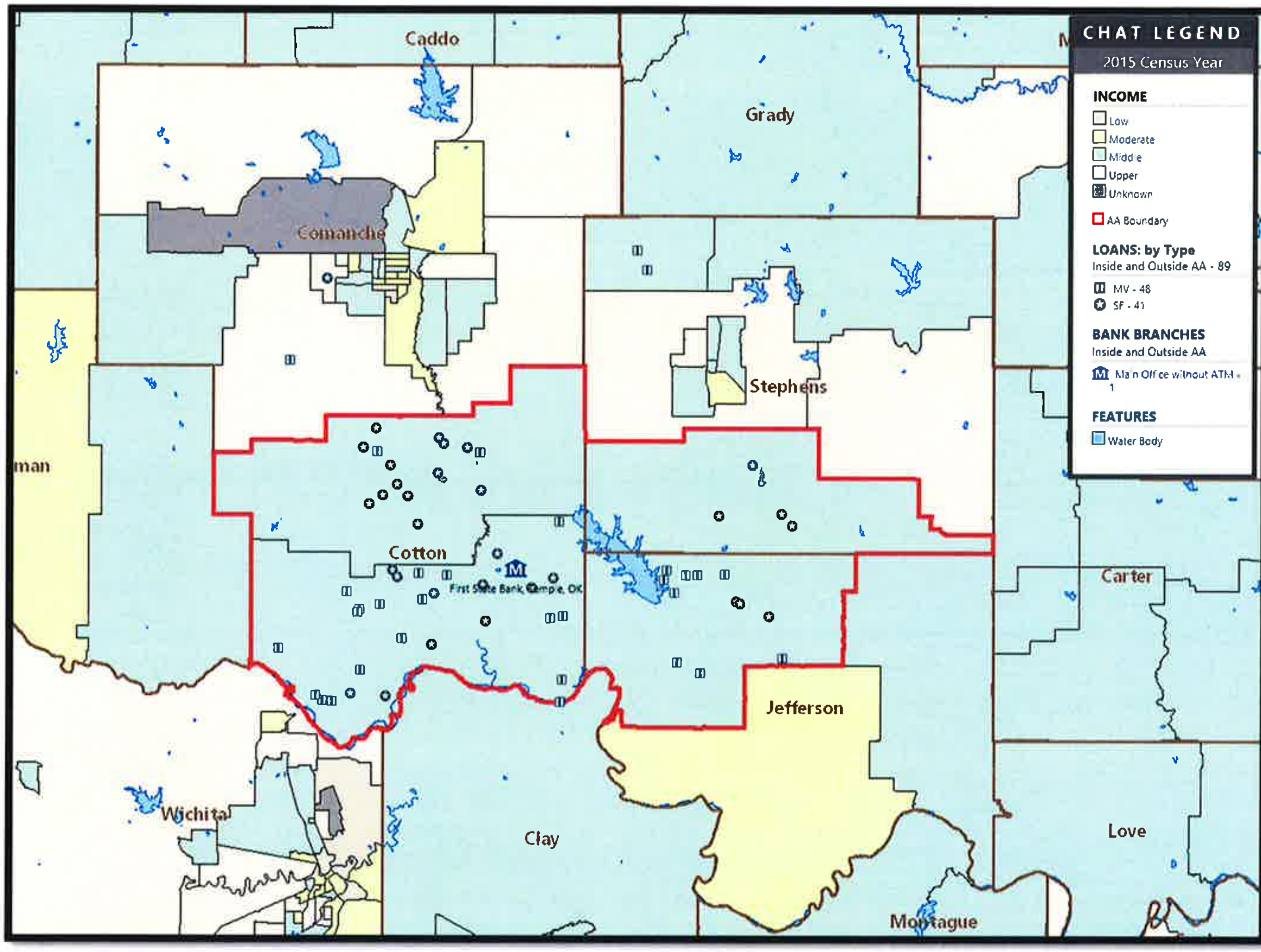
Farm Revenue	Small Farm Loans				% of Farms by Revenue[1]
	#	$(000)	#%	$%	
$1MM or less	40	3,662	100.0	100.0	100.0
Over $1MM	0	0	0.0	0.0	0.0
Unknown	0	0	0.0	0.0	0.0

[1] The percentage of farms by revenue size is based on 2017 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

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 or illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – MAP OF THE AA



APPENDIX B – DEMOGRAPHIC INFORMATION

TABLE B-1
2017 SOUTHWESTERN OKLAHOMA AA DEMOGRAPHICS

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	833	21.2
Moderate	0	0.0	0	0.0	0	0.0	741	18.9
Middle	4	100.0	3,929	100.0	453	11.5	650	16.5
Upper	0	0.0	0	0.0	0	0.0	1,705	43.4
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**4**	**100.0**	**3,929**	**100.0**	**453**	**11.5**	**3,929**	**100.0**

	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	7,157	4,365	100.0	61.0	1,440	20.1	1,352	18.9
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	**7,157**	**4,365**	**100.0**	**61.0**	**1,440**	**20.1**	**1,352**	**18.9**

	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = $1 Million		Over $1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	315	100.0	265	100.0	32	100.0	18	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**315**	**100.0**	**265**	**100.0**	**32**	**100.0**	**18**	**100.0**
Percentage of Total Businesses:				**84.1**		**10.2**		**5.7**

	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = $1 Million		Over $1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	46	100.0	46	100.0	0	0.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**46**	**100.0**	**46**	**100.0**	**0**	**0.0**	**0**	**0.0**
Percentage of Total Farms:				**100.0**		**0.0**		**0.0**

Based on 2017 FFIEC Census tract definitions, 2015 ACS five-year estimate data, and 2017 D&B data.
(NOTE: Total percentages may vary by 0.1 percent due to automated rounding differences.)

APPENDIX C – SCOPE OF EXAMINATION

SCOPE OF EXAMINATION FIRST STATE BANK IN TEMPLE	
Products Reviewed	Motor Vehicle and Small Farm loans
Time Period Reviewed	January 1, 2017 through December 31, 2017

Affiliate(s)	Affiliate Relationship	Products Reviewed
None	N/A	N/A

List of Assessment Areas and Type of Examination			
Assessment Area	**Type of Examination**	**Branches Visited**	**Other Information**
Southwestern Oklahoma	Full Scope	None	N/A

APPENDIX D – GLOSSARY

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Affordability ratio: To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Census tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, which is further classified into “male householder” (a family with a male household and no wife present) or “female householder” (a family with a female householder and no husband present).

Fair market rent: Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and Internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

Geography: A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home mortgage loans: Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area: A metropolitan statistical area (**MSA**) or a metropolitan division (**MD**) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs. A metropolitan statistical area that crosses into two or more bordering states is called a multistate metropolitan statistical area (**MMSA**). Performance within each MMSA is analyzed separately as a full-scope review and receives its own ratings under the Lending, Investment and Service Tests provided the financial institution has its main office, branch, or deposit-taking ATM located in each applicable state making up the MMSA.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Small loans to business: 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 are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small loans to farms: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.