

PUBLIC DISCLOSURE

March 17, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

The Bank of Star Valley
2396604
10-56-0008

P.O. Box 8007
Afton, WY 83110

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.

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 Bank of Star Valley, Afton, Wyoming prepared by Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of March 17, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S CRA RATING: *This institution is rated **Outstanding**.*

The bank's performance under the Community Reinvestment Act is considered outstanding. The bank's lending activity has grown substantially since its inception which is reflected in a high loan-to-deposit ratio over the past three quarters. A substantial majority of the bank's lending activity is within the bank's assessment area. The distribution of the bank's borrowers reflects an excellent penetration among individuals of different income levels, particularly low- and moderate-income individuals, and businesses of different sizes. Finally, the bank's record of providing services enhances credit availability throughout its assessment area.

The following table indicates the performance level of The Bank of Star Valley with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The Bank of Star Valley PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	Analysis Not Meaningful		
Response to Complaints	No Complaints Received Since Last Examination		
Investments	No Rating	N/A	N/A
Services	X	N/A	N/A

DESCRIPTION OF INSTITUTION

The Bank of Star Valley is located in Afton, Wyoming in the extreme western part of the state. Afton is located in the Star Valley region in northern Lincoln County near the Idaho state line. The Bank of Star Valley is a de novo bank and became a member of the Federal Reserve System effective March 28, 1996. The bank has no branch offices and has recently installed an automatic teller machine (ATM) in the community of Alpine, located in the northern Star Valley. This is the bank's first performance evaluation under the CRA.

The bank has experienced rapid growth since its opening. According to the bank's

December 31, 1996 Report of Condition (Call Report), the bank had total assets of \$14,166,000. The bank has been actively lending in its assessment area since its opening primarily focusing on meeting the small business lending needs of Star Valley. Management anticipates that, depending on economic conditions and local demand, the composition of loans will be 45 percent commercial loans, 35 percent installment loans, and 20 percent residential real estate-related loans. The bank's year-end Call Report reflects the following lending activity:

DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO AS OF DECEMBER 31, 1996		
Type of Loan	Amount (In Thousands)	Percentage of Total Loans
Commercial Loans	\$2,358	27
Loans Secured by Real Estate:		
Secured by nonfarm, nonresidential properties	173	2
Loans secured by 1- to 4-family residential properties	1,998	23
Secured by farmland	107	1
Construction and land development	703	8
Secured by multifamily (5 or more) residential properties	0	0
Agricultural Loans	783	9
Consumer Loans	2,620	0
Other	13	0
Total	8,755	100

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is the northern half of Lincoln County. Except for the Star Valley region, the assessment area is mountainous national forests. Star Valley has one main highway running through it and contains the town of Afton and several other communities including Alpine, Freedom, Thayne, and Smoot, Wyoming. Virtually all of the assessment area's population live in the Star Valley region. According to 1990 U.S. Census data, the assessment area has a population of 6,859 and consists of two middle-income block numbering areas (BNAs). The BNA containing the town of Afton has 64 percent of this population. Star Valley is served by three banks which have offices primarily in Afton. The only other bank facility in Star Valley is a branch office located in Thayne. **Carla - Please refer to Attachment A for a map of the bank's assessment area.**

Two community contacts were made during the examination. One was representative of economic activity in Afton, and another was representative of business needs in the community of Alpine, which is located in the northern part of the bank's assessment area. According to bank management and community contacts, the overall economy has had good growth over the past five to six years. This growth is expected to continue, however, at a slower rate. Small businesses are doing well, but experience seasonal fluctuations. Real estate prices have been steady for the past few years, and are slightly higher in the Alpine area. Major industries and employers in the Star Valley region are the school district, Aviot Aircraft, Inc., J. R. Simplot (phosphate mining), Wyoming Woolens, Freedom Arms, Inc., Lower Valley Power and Light, Maverick Country Stores, Inc., dairy, and construction.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is considered outstanding given the bank's size, financial condition, and assessment area credit needs. The bank's average loan-to-deposit ratio for the three full quarters since its inception and ending December 31, 1996 was 75.9 percent. This figure reflects that the bank is very active in making loans in its assessment area compared to credit demand in the area. For a local comparison, another bank with a main office in Lincoln County had a three-quarter loan-to-deposit ratio of 53.7 percent. For a more regional comparison, all banks located in the southwest quadrant of the state had an average three-quarter loan-to-deposit ratio of 64.1 percent. The bank is also more active in making loans compared to all Wyoming banks of similar size. For Wyoming banks with total assets of \$25 million or less, the average three-quarter loan-to-deposit ratio was 64.8 percent.

Lending in Assessment Area

To evaluate the bank's lending activity within its assessment area, a sample of 145 loans was reviewed during the examination. This consisted of 69 consumer loans, 36 consumer real estate-secured loans, and 40 commercial loans.

Based on this sample, a substantial majority of the bank's lending activity is within its assessment area and therefore meets the standards for outstanding under this performance criteria. The sample reflects that 91 percent of consumer loans, 100

percent of consumer real estate loans, and 97 percent of business loans were within the bank's assessment area. Overall, 95 percent of the total loans in the sample, 98 percent by dollar volume, were within the bank's assessment area. The following table details the bank's lending activity within its assessment area.

DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
	Inside the Assessment Area				Outside the Assessment Area			
	Number of Loans	%	\$ Amount of Loans	%	Number of Loans	%	\$ Amount of Loans	%
Consumer	63	91	449,044	89	6	9	57,606	11
Consumer real estate	36	100	954,700	100	0	0	0	0
Commercial	39	97	1,514,651	99	1	3	7,070	1
Total	138	95	2,918,395	98	7	5	64,676	2

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

According to 1990 U.S. Census data, there are 1,720 families in the bank's assessment area. These families are classified into the following income categories:

INCOME CLASSIFICATION OF FAMILIES WITHIN THE BANK'S ASSESSMENT AREA				
	Low ¹	Moderate ²	Middle ³	Upper ⁴
Percentage of Families	22	24	27	26

- 1 Less than 50 percent of the median family income
- 2 At least 50 percent and less than 80 percent of the median family income
- 3 At least 80 percent and less than 120 percent of the median family income
- 4 120 percent or more of the median family income
(Median family income is based on the state of Wyoming's nonmetropolitan statistical area (nonMSA) median family income.)

The bank's distribution of lending to borrowers of different income levels within its assessment area is reflected in the following table:

INCOME CLASSIFICATION OF BORROWERS IN BANK'S LOAN SAMPLE				
	Low	Moderate	Middle	Upper
Percentage of Consumer Loans - #	22	41	24	13
Percentage of Consumer Loans - \$	11	34	26	29
Percentage of Consumer R/E Loans - #	11	28	33	28
Percentage of Consumer R/E Loans - \$	5	28	28	39

Given the demographics of the assessment area, the bank's loan sample indicates that the distribution of borrowers within the bank's assessment area reflects an excellent penetration among individuals of different income levels, particularly low- and moderate-income individuals. The sample indicates that 63 percent of consumer loans were to low- and moderate-income individuals. This is substantially higher than the demographic figure of 46 percent for the assessment area based on median family income. For consumer real estate-secured loans, 39 percent of loans were to low- and moderate-income individuals, which is lower than the demographic figure. However, since higher-income individuals typically own a higher percentage of homes, this distribution of real estate-related lending activity is considered reasonable.

The bank's lending to businesses of different sizes is also more than reasonable. The loan sample indicates that 87 percent of business loans originated within the assessment area were to small businesses with annual revenues less than \$1,000,000. Further, 44 percent of business loans were to businesses with annual revenues less than \$100,000. The following table shows an excellent distribution of loans to small businesses of different sizes when considering the bank's size:

DISTRIBUTION OF BUSINESS LOANS SAMPLED WITHIN THE ASSESSMENT AREA	
Revenue Category ¹	Percentage of Loans
Less than \$100,000	44
Greater than or equal to \$100,000 but less than \$250,000	18

DISTRIBUTION OF BUSINESS LOANS SAMPLED WITHIN THE ASSESSMENT AREA	
Greater than or equal to \$250,000 but less than \$500,000	10
Greater than or equal to \$500,000 but less than \$1,000,000	15
Greater than or equal to \$1,000,000	13

¹ Based on Gross Annual Revenue Figures

Geographic Distribution of Loans

The bank's assessment area consists of two middle-income BNAs. Therefore, the income distribution of geographies in the assessment area is not sufficient for a meaningful analysis of the geographic distribution of the bank's loans in its assessment area. It is noted, however, that the bank's lending activity in each of the BNAs is reflective of the demographics of the assessment area. The loan sample indicated that 59 percent of total loans were located in the BNA containing Afton and the surrounding area. This BNA has 63 percent of the assessment area families. The loan sample also indicated that the bank is originating loans in every community located throughout its assessment area.

Response to Complaints

The bank has not received any complaints about its performance in meeting assessment area credit needs. Therefore, no assessment of the bank's performance in responding to complaints was made.

Investments

Community contacts and bank management indicated that there are few, if any, investment opportunities in the assessment area. No qualified investments made by the bank was noted during the examination. Therefore, this criteria is not rated.

Services

The bank's record of providing branches, ATMs, and other services and delivery systems enhances credit availability throughout its assessment area. The bank has recently installed an ATM in Alpine, a community with no banking facilities or other ATMs. Further, in lieu of opening other ATMs throughout its assessment area, the bank waives a one dollar fee to customers using non-proprietor ATMs located throughout Star Valley.

The bank also acts as a residential mortgage loan broker bringing applicants and lenders together to obtain a residential mortgage loan. The bank handles the entire application and loan process which includes making the credit decision. The bank communicates with the borrower and lender, and assists the borrower through loan closing where a lender will then fund the loan. Since its inception, the bank has enhanced credit availability in its assessment area by processing 29 residential mortgage loans totaling \$2,123,200.

The bank is also active in providing community development services throughout its assessment area. The bank president has worked with several businesses in the community to obtain innovative financing which helped preserve or expand these businesses and create jobs for the community. According to management, the bank's biggest contribution to enhancing the credit needs of the community through economic development is by helping small business people with developing a business plan or other needs requiring financial expertise.

In other community development services, the president is involved with an economic development panel to bring new businesses or enhance existing businesses in the community. The president also serves on the audit and budgeting committees of the local power and light company which has recently been certified to bring natural gas into the area. The president was involved in financing this project through the utilization of industrial revenue bonds. This project should create numerous jobs during the construction phase and create several new permanent jobs.

Compliance with Antidiscrimination Laws and Regulations

There were no substantive violations of the antidiscrimination laws and regulations identified during the fair lending component of the compliance examination. Violations of Regulation B (Equal Credit Opportunity Act) were noted during the examination and are easily corrected by management. These findings would not lower the bank's overall CRA rating.