



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

July 30, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Southwest National Bank  
Charter Number 12346

400 East Douglas  
Wichita, KS 67201

Office of the Comptroller of the Currency

3450 N. Rock Road, Suite 505  
Wichita, KS 67226-1355

**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.

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

The Lending Test is rated Satisfactory.

The Community Development Test is rated Satisfactory.

- Southwest National Bank's quarterly average loan-to-deposit ratio of 97% is more than reasonable when compared to the average of 81% for peer banks.
- A majority of the bank's primary loan products have been granted in the assessment area. The loan samples indicate that 68% of the number and 92% of the dollar volume of loans were granted within the assessment area.
- Southwest National Bank's lending reflects reasonable penetration to borrowers of different incomes and businesses of different sizes. The bank extended 15% of the consumer loans to low-income borrowers, which is near the demographic ratio for the assessment area, and 25% to moderate-income borrowers, which exceeds the assessment area demographics. Sixty percent of the number of business loans was granted to businesses with gross annual revenues of one million dollars or less. This level is near the demographics for small businesses in the AA.
- Southwest National Bank's geographic distribution of loans reflects reasonable dispersion to borrowers and businesses located in low- and moderate-income tracts. The bank extended 20% of consumer loans to borrowers in moderate-income tracts, which is near the demographic ratio. The number of business loans extended in both low- and moderate-income tracts significantly exceeds the demographic ratios.
- Southwest National Bank demonstrates satisfactory responsiveness to the community development needs of its assessment area.

## **SCOPE OF EXAMINATION**

Consumer loans are the bank's primary loan product. During the evaluation period, consumer loans represented 61% of originations by dollar volume and 96% by number. Loans to businesses also represent a significant dollar amount during the evaluation period at 34%. The evaluation of lending products included a review of twenty consumer loans and twenty business loans originated during 2010, 2011, and year-to-date August 1, 2012. The bank's business strategy has not changed; therefore the loans granted during these years are representative of all loans granted since the September 24, 2007 Community Reinvestment Act (CRA) examination.

The community development test included a review of community development loans, qualified investments, and community development services. The evaluation period for community development was from September 24, 2007 to August 15, 2012.

## **DESCRIPTION OF INSTITUTION**

Southwest National Bank (Southwest) is a \$435 million intrastate financial institution headquartered in Wichita, Kansas. The bank is a wholly owned subsidiary of Republic Financial Corporation, a \$449 million one-bank holding company also headquartered in Wichita, Kansas. In addition to the holding company, the bank has the following affiliates: All American Supply Co. and JKR Laboratories, Inc.

Southwest has six branches (including the main office), one motor bank, five deposit-taking automated teller machines (ATMs), and two walk-up (cash-dispensing only) ATMs located in Wichita, Kansas. Each branch, with the exception of the main bank, has a drive-up facility and a deposit-taking ATM. No branches have been closed since the previous CRA examination.

Southwest is a full-service banking institution offering a full range of commercial, real estate, and consumer credit products. Net loans and leases represent 74% of the bank's total assets. On June 30, 2012, the bank's \$330 million loan portfolio consisted of 59% consumer loans, 13% one-to-four family and multi-family residential real estate loans, and 28% business loans. On June 30, 2012, Tier One Capital was \$37 million. The bank's primary focus during the evaluation period was consumer and business loans.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its assessment area. The Office of the Comptroller of the Currency last evaluated Southwest National Bank's CRA performance on September 24, 2007. The bank received an overall rating of "Satisfactory" under the Intermediate Small Bank Performance Standards.

## **DESCRIPTION OF ASSESSMENT AREA**

Southwest's assessment area (AA) consists of the Wichita Metropolitan Statistical Area (MSA) #48620, which includes all of Butler, Harvey, Sedgwick, and Sumner Counties in south central

Kansas. The delineation of the AA does not reflect any illegal discrimination, or arbitrarily exclude any low- or moderate-income geographies. In 2010 and 2011, the AA had 143 census tracts. Five census tracts (3%) were designated low-income, 40 (28%) designated moderate-income, 64 (45%) middle-income, and 34 tracts (24%) designated as upper-income. The number and distribution of census tracts changed for 2012. In 2012, there are 150 census tracts, of which 13 (9%) are designated as low-income tracts, 45 (30%) moderate-income, 52 (35%) middle-income, and 40 (26%) are upper-income tracts.

As of the 2000 U.S. Census, the population of the AA was 571,166. The demographics reflect that 32% of the population is not in the work force and 12% are over the age of 65. Demographics also show that of the 220,709 households in the AA, 15% are retired, 9% are below the poverty level, and 3% receive public assistance. The Housing and Urban Development (HUD) Updated 2012 MSA Median Family Income is \$65,000. The median housing value from the 2000 U.S. Census data was \$78,755 and 63% of the housing units are owner-occupied.

The economy in the Wichita MSA experienced stress during the recession, particularly in the aircraft and construction industries. The aircraft industry is the major employer in the assessment area. Significant firms include: Spirit AeroSystems; Cessna; Boeing Defense, Space, & Security; and Bombardier Learjet. Local and county governments, including school districts, also provide a significant level of employment, as do regional healthcare facilities. Companies such as AGCO Corporation, Johnsons Controls (York International), Cox Communications, and Cargill Meat Solutions (each employing over 800 individuals) provide some business diversity. The unemployment rate for the Wichita MSA in June 2012 was 7.3%. This is higher than the June 2012 Kansas statewide unemployment rate of 6.2%, but compares favorably to the June 2012 national rate of 8.2%.

Southwest faces strong competition in the AA. Based on the Federal Deposit Insurance Corporation's most recent deposit market share report (June 30, 2011), a total of 56 financial institutions have offices in the AA. Southwest ranks 8<sup>th</sup> in market share with 2.79% of deposits. Management identified five of these financial institutions as competitors. Compared to its competitors, Southwest is the smallest bank by asset size. Only one competitor has a smaller deposit share in the AA.

Examiners reviewed one community contact recently performed by the OCC and contacted one additional community professional. The contacts identified affordable housing, small business development, and financial education as the primary credit needs of the community. While contacts stated that some local financial institutions are serving their communities, both contacts expressed their personal opinions that there is room for improvement in the lending activities of most local financial institutions.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Lending Test**

The bank's performance under the lending test is satisfactory.

**Loan-to-Deposit Ratio**

The bank’s lending level is more than reasonable. The average quarterly loan-to-deposit ratio since the last CRA examination is 97%, compared to 81% for the peer banks. Management identified five banks in the AA as competitors. The average loan-to-deposit ratio for these banks ranges from 74% to 87%.

**Lending in Assessment Area**

Southwest extended a majority of its primary loan products to borrowers located in the AA. We found the bank made 68% of the number and 92% of the dollar amount of loans within the AA.

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

Southwest’s lending level to borrowers of different incomes and businesses of different sizes reflects reasonable penetration.

The consumer loan sample indicated the bank granted 15% of the loans to low-income borrowers, which is near the demographics of 21%. The bank granted 25% of the consumer loans to moderate-income individuals, which significantly exceeds the demographics of 17%.

<b>Borrower Distribution of Consumer Loans in Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21%	15%	17%	25%	21%	10%	41%	50%

Source: Loan sample and 2000 U.S. Census data

The business loan sample indicated 60% of the number of loans was extended to businesses with revenues of one million dollars or less. The bank’s performance is near the AA demographic percentage of 67%. Eighty-four percent of the dollar amount of loans was extended to businesses with revenues of one million dollars or less. The AA demographics reflect that 30% of the businesses in the AA have unknown or unavailable revenue information.

<b>Borrower Distribution of Business Loans in Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	67%	3%	30%	100%
% of Bank Loans in AA by #	60%	25%	15%	100%
% of Bank Loans in AA by \$	84%	10%	6%	100%

Source: Loan sample and 2000 Business Geodemographic Data

**Geographic Distribution of Loans**

An analysis of the geographic distribution of credit within the AA indicates that the bank has reasonable dispersion to borrowers and businesses in low- and moderate-income tracts.

While the consumer sample did not include any loans to borrowers located in the low-income geographies, bank reports reflect that consumer loans were made in all of the low-income census tracts in the AA. Based on loans with an outstanding balance during the examination, consumer loans granted to individuals in low-income tracts represent approximately 0.72% of the dollar volume of all consumer loans made during the evaluation period. Based on the consumer loan sample, the bank granted 20% of the number of consumer loans to borrowers located in moderate-income tracts. This level is near to the AA demographics reflecting that 25% of the households in the AA are located in moderate-income tracts.

<b>Geographic Distribution of Consumer Loans in Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	2%	0%	25%	20%	51%	35%	22%	45%

Source: Loan sample and 2000 U.S. Census data

The geographic distribution of business loans is more than reasonable. The bank granted 20% of the number of business loans to borrowers located in low-income tracts and 35% of the number of business loans to borrowers located in moderate-income tracts. These levels significantly exceed the demographics showing 2% of the businesses in the AA are in low-income tracts and 20% of the businesses are located in moderate-income tracts.

<b>Geographic Distribution of Business Loans in Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	2%	20%	20%	35%	49%	20%	29%	25%

Source: Loan sample and 2000 Business Geodemographic Data

**Responses to Complaints**

The bank has not received any CRA-related complaints since the previous CRA examination.

**Community Development Test**

The bank’s performance under the community development test is satisfactory.

**Community Development Loans**

Southwest’s level of community development lending represents 22% of the bank’s June 30, 2012 Tier One Capital and reflects a strong commitment to community development lending in the AA. The bank granted twenty loans, totaling \$8.3 million for community development during the evaluation period. Sixteen of the loans totaling \$4.1 million were granted to build 277

affordable housing units for low- and moderate-income individuals. One loan for \$4 million was granted to a business that will provide approximately 80 jobs in a low-income area. The bank also granted loans to stabilize a moderate-income area and to provide education to children residing in a moderate-income area.

### **Qualified Investments**

Southwest's level of qualified investments and donations represents less than one percent of the bank's June 30, 2012 Tier One Capital, reflecting an adequate commitment to community development investment needs. The bank provided \$37 thousand in qualified donations to six organizations during this evaluation period. Donations were primarily to non-profit organizations that provide financial education and social services to low- and moderate-income individuals. In addition, on January 1, 2012, the bank provided a \$250 thousand commitment to a loan consortium with the purpose of financing small businesses. Loans will be targeted to small businesses in the low- and moderate-income tracts in the downtown district and will help to provide stabilization in these areas.

### **Community Development Services**

Southwest's performance in providing community development services in its AA is satisfactory. Four of the bank's six branches are accessible to low- and moderate-income tracts. Two branches are located within low- and moderate-income tracts. One branch in a middle-income tract is located on the street that separates the middle-income tract from a moderate-income tract. An additional branch is located in a middle-income tract, but two moderate-income tracts are within one-quarter mile from the branch.

Southwest also provides two specific financial services for low- and moderate-income individuals. The bank provides trust services for a reduced fee to individuals who are clients of an organization that provides community services to low- and moderate-income individuals. Additionally, Southwest participates in an international funds transfer program to Mexico sponsored by the Federal Reserve. Through the program, transfers to Mexico are provided at fee that is lower than the fee of a nonparticipating competitor. The fee amount is fixed and does not increase with the size of the transfer. This program benefits primarily low-and moderate-income individuals.

### **Responsiveness to Community Development Needs**

Southwest demonstrates satisfactory responsiveness to community development needs. The bank supports the community development lending needs of affordable housing and small business lending, and is active in the delivery of community development services such as financial services and educational opportunities to low- and moderate-income individuals.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.