



## **INTERMEDIATE SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

---

### **PUBLIC DISCLOSURE**

**September 24, 2007**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Southwest National Bank  
Charter Number: 12346**

**400 East Douglas  
Wichita, KS 67201**

**Comptroller of the Currency  
Wichita Field Office  
3450 North Rock Road Suite 505  
Wichita, KS 67226**

**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 average loan-to-deposit ratio of 93% is more than reasonable when compared to the average of 75% for peer banks.
- A majority of the bank's primary loan products have been granted in the assessment area. The loan sample indicated that 88% of the number and 99% of the dollar volume of loans were granted within the assessment area.
- Southwest National Bank has demonstrated a good level of lending to borrowers of different incomes and businesses of different sizes. The dealer car loan sample indicated that 25% of the loans were granted to low-income borrowers and 30% were granted to moderate-income borrowers. Lending levels to businesses of different sizes is adequate, as 65% of the commercial real estate loans were granted to businesses with gross annual revenues of one million dollars or less.
- Southwest National Bank's geographic distribution of loans reflects reasonable dispersion to borrowers and businesses located in low- and moderate-income tracts.

### **SCOPE OF EXAMINATION**

The evaluation of lending products included a review of twenty dealer car loans and twenty commercial real estate loans originated during 2005, 2006, and year-to-date 2007. These were the primary loan products the bank granted since the previous 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, 2002 to September 24, 2007.

### **DESCRIPTION OF INSTITUTION**

Southwest National Bank (Southwest) is a \$318 million intrastate financial institution headquartered in Wichita, Kansas. The bank is a wholly owned subsidiary of Republic Financial Corporation, a \$319 million one-bank holding company headquartered in Wichita, Kansas. In addition to the holding company, the bank has the following affiliates: All American Supply Co. and JKR Laboratories, Inc. On September 17, 2004, the bank merged with Twin Lakes National Bank. Also at this time, the bank changed its name from The Southwest National Bank of Wichita to Southwest National Bank.

Southwest has five branches (including the main office), one motor bank, four 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 88% of the bank's total assets. On June 30, 2007, the bank's \$282 million loan portfolio consisted of 66% individual loans, 27% real estate loans, and 7% commercial loans. On June 30, 2007, tier one capital was \$27 million. The bank's primary focus during the evaluation period was individual 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 The Southwest National Bank of Wichita's CRA performance on September 23, 2002. The bank received an overall rating of "Satisfactory" under the Small Bank Performance Standards.

## **DESCRIPTION OF WICHITA MSA 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. The AA has 143 census tracts that are designated 3% low-income, 28% moderate-income, 45% middle-income, and 24% upper-income. As of the 2000 U.S. Census, the population of the AA was 571,166. The 2000 U.S. Census demographics show that 24% 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) Estimated 2007 Median Family Income is \$56,600. The median housing value from the 2000 U.S. Census data was \$78,755 and 63% of the housing units are owner-occupied.

The assessment area's economy is good. Major employers include Spirit AeroSystems, Cessna, Koch Industries, healthcare industries, and the school districts. The AA has a stable manufacturing base, with many of the airplane plants currently hiring new employees. The unemployment rate for the Wichita MSA in August 2007 was 4.1%. This compares favorably to the August 2007 Kansas statewide unemployment rate of 4.3% and the national rate of 4.6%.

Southwest faces strong competition in the AA. A total of 59 financial institutions have offices in the AA and Southwest ranks 8<sup>th</sup> in market share with 3.08% of deposits. Examiners selected twelve similarly situated institutions for comparison. The comparison institutions have total assets ranging from \$78 million to \$6.6 billion, with Southwest ranking 5<sup>th</sup> in total assets among this group.

Examiners reviewed six community contacts recently performed by the OCC. The contacts identified affordable housing and small business loans as the primary credit needs of the communities. The contacts indicated that local financial institutions are meeting the credit needs of the communities and that these institutions are active in the communities they serve.

# 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 was 93%, compared to 75% for the peer banks. For peer banks, examiners selected 12 similarly situated banks that have a majority of their deposits or offices in the AA and bank management considered competition. The average loan-to-deposit ratio for these banks ranges from 52% to 102%.

## Lending in Assessment Area

Southwest's lending in its AA is good, as it extended a majority of its primary loan products to borrowers located in the AA. We found the bank made 88% of the number and 99% of the dollar amount of loans in the AA. The loan sample included twenty dealer car loans and twenty commercial real estate loans originated or purchased this year and the prior two calendar years.

## 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 is good. To assess the bank's performance, examiners selected a sample of twenty dealer car loans and twenty commercial real estate loans. These loan products represent the primary loan types originated since the last CRA examination.

Lending levels to borrowers of different incomes is good. The dealer car loan sample indicated the bank granted 25% of the car loans to borrowers with low-income, compared to demographics of 21%. The bank granted 30% of the car loans to moderate-income individuals, compared to demographics of 17%.

Borrower Distribution of Dealer Car Loans in Assessment Area								
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%	25%	17%	30%	21%	5%	41%	40%

Source: Loan sample and U.S. Census data

The volume of lending to businesses of different sizes is adequate. The bank's commercial real estate loan sample indicated 65% of the loans made were to businesses with revenues of one million dollars or less. The bank's performance exceeded demographics of 58%. However, the demographics show 36% of the businesses in the AA have unknown or unavailable revenue information.

<b>Borrower Distribution of Commercial Real Estate Loans in Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	58%	6%	36%	100%
% of Bank Loans in AA by #	65%	25%	10%	100%
% of Bank Loans in AA by \$	51%	47%	2%	100%

*Source: Loan sample and 2007 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.

The geographic distribution of dealer car loans is reasonable. While the sample did not include any loans to borrowers located in the low-income geographies, bank management provided a list of dealer car loans made in all five of the low-income census tracts. These car loans in the low-income tracts represented 0.66% of the dealer loans made during the evaluation period. The bank granted 30% of the number of dealer car loans to borrowers located in moderate-income tracts. This compares favorably to the demographics showing that 25% of the households in the AA are located in moderate-income tracts.

<b>Geographic Distribution of Dealer Car 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%	30%	51%	40%	22%	30%

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

The geographic distribution of commercial real estate loans is more than reasonable. The bank granted 5% of the number of commercial real estate loans to borrowers located in low-income tracts. This exceeds demographics showing 2% of the businesses in the AA are in low-income tracts. The bank granted 30% of the number of commercial real estate loans to borrowers located in moderate-income tracts. This compares favorably to the demographics, showing that 25% of the businesses in the AA are located in moderate-income tracts.

<b>Geographic Distribution of Commercial Real Estate 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 /Farms	% of Number of Loans
Commercial RE	2%	5%	25%	30%	49%	20%	24%	45%

*Source: Loan sample and 2007 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 is adequate. The bank granted four loans, totaling \$1,210 thousand, for community development during the evaluation period. One of the loans, for \$1,050 thousand, was granted to build fifteen affordable housing units for low- and moderate-income individuals. Two of the loans, totaling \$150 thousand, were to finance a small business that helps to stabilize a low-income area. One of the loans, for \$10 thousand, was to finance a small business that helps to stabilize a moderate-income area.

### **Qualified Investments**

The bank showed adequate responsiveness to community development investment needs. The bank provided \$19 thousand in qualified investments and donations to two organizations during this evaluation period. The bank's qualified investments address community services targeted to low- and moderate-income individuals. These qualified investments occurring during the evaluation period are listed below:

- Donation of \$15 thousand towards the construction of a community facility that will serve low- and moderate-income individuals.
- Donations of four thousand dollars to help support an organization that provides educational and social services to low- and moderate-income individuals.

### **Community Development Services**

Southwest's performance in providing community development services in the Wichita MSA AA is adequate. The bank provided trust services for a reduced fee to low- and moderate-income individuals who are clients of an organization that provides community services to low- and moderate-income individuals. The bank provided low-cost bank accounts and other financial services to low- and moderate-income individuals that were residents of a facility for persons with developmental disabilities. The bank also granted a standby letter of credit to a church to help support a local homeless shelter and soup kitchen. Southwest was instrumental in obtaining an affordable housing grant for a borrower. This grant, for \$67.5 thousand, was through the Federal Home Loan Bank of Topeka's Affordable Housing Program and requires the housing be for low- and moderate-income individuals or families. The bank's involvement in these community organizations has helped promote community development.

### **Bank's responsiveness, through community development activities, to community development lending, investment, and services needs**

The bank showed satisfactory responsiveness to community development needs. The bank supported community needs which included affordable housing and small business lending.

## **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.