



PUBLIC DISCLOSURE

August 12, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Southwest National Bank
Charter Number 12346

400 East Douglas
Wichita, KS 67201

Office of the Comptroller of the Currency

2959 N. Rock Road, Suite 510
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 (Southwest) quarterly average loan-to-deposit ratio of 85 percent is reasonable when compared to the average of 74 percent for peer banks.
- A majority of the bank's primary loan products have been granted in the assessment area (AA). The loan samples indicated that 67 percent of the number and 91 percent of the dollar amount were granted within the assessment area.
- Southwest's lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration. The bank extended an average of 7.50 percent of consumer loans to low-income borrowers and an average of 27.50 percent of consumer loans to moderate-income borrowers. Lending to moderate-income borrowers was significantly above the demographics. An average of 45 percent of the number of business loans were granted to businesses with gross annual revenues of one million dollars or less. This level is below the demographics for small businesses in the AA.
- Southwest's geographic distribution of loans reflects reasonable dispersion to borrowers and businesses located in low- and moderate-income (LMI) tracts. The bank extended an average of 12.50 percent of consumer loans to borrowers in low-income tracts, significantly above the demographics. The number of business loans extended in low-income tracts, 30 percent, was also significantly above the demographics. Lending in moderate-income tracts for both consumer and business loans was below the demographics.
- 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 92 percent of total originations by number and 43 percent of the dollar volume. Loans for automobiles represented the majority of consumer loans at 83 percent; therefore, our consumer loan sample will consist of automobile loans. Loans to businesses represented a similar dollar volume at 44 percent, but only 5 percent of the number. This full-scope CRA evaluation considered both consumer and business loan products.

There will be two evaluation periods for analyzing income penetration and geographical dispersion. The years 2014 and 2015 will be evaluated together due to the metropolitan area geographic boundary revisions implemented by the Office of Management and Budget (OMB) as of January 1, 2014. The year 2013, prior to OMB revisions, will be evaluated using the geographic boundaries in place prior to January 2014. The CRA analysis used a sample of twenty consumer automobile loans and twenty business loans from each evaluation period. The

2014-2015 evaluation period will receive the most consideration. The total number of loans granted in 2014 exceeds the number granted in 2013 by 33 percent. Lending activity through May 31, 2015 indicates that 2015 loan volume will also exceed that of 2013.

The OMB boundary changes did not create a significant difference in the number of LMI households or LMI geographies from 2013 to 2014/2015. Since the impact is not significant, the tables and/or text in this evaluation will contain data from each evaluation period, but will also combine the outcomes of both evaluation periods as an average.

The community development test included a review of qualified community development loans, investments and services. The evaluation period for community development was from August 16, 2012 to August 31, 2015.

Description of Institution

Southwest National Bank is a \$445 million intrastate financial institution headquartered in Wichita, Kansas. The bank is a wholly owned subsidiary of Republic Financial Corporation, a \$42 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 Company and JKR Laboratories, Inc. On June 30, 2015, the bank's tier one capital was \$41 million.

Southwest has seven locations (including the main office), six deposit taking automated teller machines (ATMs), and one walk-up cash dispensing ATM located in Wichita, Kansas. Five branches have a drive-up facility and a deposit-taking ATM. Four of the bank's seven branches are accessible to low- and moderate-income tracts. Three branches are located in low- or moderate-income tracts. Twenty-eight percent of the bank's deposit related business occurred in low- and moderate-income census tracts. The bank began limited services for residents at the Reflection Ridge Resort Lifestyle Retirement Community facility during March 2015. The bank has not closed any branches since the previous CRA examination.

Southwest is a full-service banking institution offering a full range of commercial, real estate, and consumer credit products. On June 30, 2015, net loans and leases represented 77 percent of the bank's total assets. The bank's \$343 million loan portfolio consisted of 53 percent consumer loans; 17 percent one-to-four family and multi-family residential real estate loans; and 30 percent business loans. 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 July 30, 2012. The bank received an overall rating of "Satisfactory" under the Intermediate Small Bank performance standards.

Description of Assessment Area

Southwest’s assessment area consists of the Wichita Metropolitan Statistical Area (MSA) #48620, which includes all of Butler, Harvey, Kingman, Sedgwick, and Sumner Counties in south central Kansas. Kingman County became part of the Wichita MSA in March 2013. The delineation of the AA does not reflect any illegal discrimination, or arbitrarily exclude any low- or moderate-income geographies.

The OMB geographic boundary revisions effective January 1, 2014 did not have a significant impact on the demographics within the Wichita AA. While the number of census tracts remains unchanged from 2013 to 2014, the number of census tracts designated as LMI changed slightly, as did the distribution of households and businesses located in LMI tracts.

Geography Fluctuations for Wichita MSA AA							
Demographic	Year	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts)	2013	152	8.55	29.61	35.53	26.31	0.00
	2014	152	7.90	30.26	34.21	27.63	0.00
Households by Geography	2013	240,815	6.12	27.61	39.21	27.06	0.00
	2014	240,815	5.77	27.96	37.37	28.90	0.00
Businesses by Geography	2013	47,571	8.90	20.76	38.05	32.29	0.00
	2014	39,706	9.44	20.72	36.73	33.11	0.00

Source: 2010 U.S. Census data

As of the 2010 U.S. Census, the population of the AA was 630,919. The demographics reflect that 30 percent of the population is not in the work force and 12 percent are over the age of 65. The demographics also reflect that of the 240,815 households in the AA, 16 percent are retired, 12 percent are below the poverty level, and 3 percent receive public assistance. The Housing and Urban Development (HUD) Updated 2014 MSA Median Family Income for 2014 is \$65,600, up slightly from \$63,042 as reported by HUD for 2013. The 2014-updated Weighted Average of Median Housing value was \$114,039 and 63 percent of the housing units are owner-occupied.

The June 2015 economic and consumer credit analysis performed by Moody Analytics for Wichita concludes that the city’s business cycle is still in the recovery status. The number of high-wage jobs has increased slightly since December, but aggregate wage growth still trails the national average. Foreclosure inventory per household has fallen below the U.S. level, but the lack of new jobs is suppressing new-home construction.

Current economic drivers are the high-tech, manufacturing, and defense industries. Wichita State University's innovation campus will house firms specializing in high-tech production techniques such as 3D printing while also preparing students for jobs in advanced manufacturing. Aerospace is Wichita's most important manufacturing segment, accounting for more than one-half of total manufacturing jobs. Commercial aircraft manufacturing currently has multi-year backorders. Increases in defense spending at McConnell Air Force Base will support some growth outside of aircraft production as the base was selected to house new tanker jets in 2016.

Spirit Aero Systems is the metro area's largest employer with over 10,000 employees. Textron Aviation (Cessna) is the second largest employer with 8,300 employees. Via Christi Regional Medical Center is ranked third with 5,900 employees, followed by McConnell Air Force Base at 5,100 employees.

Federal, state, and local governments, including universities are significant employers with approximately 34,000 jobs. Healthcare facilities, such as Wesley Medical Center, Robert J. Dole VA Medical Center, and the Newton Medical Center also provide a significant level of employment. AGCO Corporation (agriculture), Johnsons Controls (York International), Cox Communications, Cargill Meat Solutions, and Dillons (grocery) provide some business diversity with each employing over 900 individuals.

The unemployment rate for the Wichita MSA in June 2015 was 5.2 percent. This is higher than the June 2015 Kansas statewide unemployment rate of 4.5 percent and consistent with the June 2015 national unemployment rate of 5.3 percent.

Southwest faces strong competition in the AA. Based on the Federal Deposit Insurance Corporation's most recent deposit market share report (June 30, 2014), a total of 56 financial institutions have offices in the AA. Southwest ranks seventh in market share with 2.79 percent of deposits. Management identified six of these financial institutions as primary competitors. Compared to its competitors, Southwest ranks last in total asset size. When comparing the volume of deposits inside the assessment area, Southwest ranks fifth with two competitors having a smaller deposit share in the AA.

Examiners reviewed two community contacts recently performed by the OCC. The contacts identified home purchase, home improvement and small business development as primary lending needs in the community. There is also a need for banks to serve as volunteers for committees as well as financial education for consumers.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the Lending Test is satisfactory.

Loan-to-Deposit Ratio

The bank's lending level is reasonable. The average quarterly loan-to-deposit ratio since the last CRA examination is 85 percent, compared to 74 percent for peer banks. Management identified

six banks in the AA as competitors. The average loan-to-deposit ratio for these banks ranges from 57 percent to 93 percent.

Lending in Assessment Area

Southwest extended a majority of its primary loan products to borrowers located in the AA. We found the bank made 67 percent of the number and 91 percent 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.

Lending to moderate-income consumer borrowers significantly exceeds the demographics for both evaluation periods. For all years in the evaluation period, the bank granted an average of 27.50 percent of auto loans to moderate-income borrowers. The average AA demographics reflect that 16.66 percent of households have a moderate-income level. The bank extended an average of 7.50 percent of loans to low-income borrowers, which is significantly below the demographics of 22.91 percent. Based on 2010 census information, the maximum household income for low-income borrowers is \$26 thousand. The bank's average loan size was \$19 thousand. Loans of this size may be prohibitive for most low-income borrowers. Notably, the bank achieved greater penetration with low-income borrowers in the 2014-2015 evaluation period.

Borrower Distribution of Consumer Loans in the Wichita AA								
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
2013	22.92	5.00	16.63	20.00	18.65	30.00	41.80	45.00
2014-2015	22.90	10.00	16.68	35.00	18.62	35.00	41.80	20.00
Average - 2013-2015	22.91	7.50	16.66	27.50	18.64	32.50	41.80	32.50

Source: Loan samples and 2010 U.S. Census data

The business loan samples for all years in the evaluation period indicated an average of 45.00 percent of the number of loans was extended to businesses with revenues of one million dollars or less (small businesses). This level is below the demographics, which reflect that 70.55 percent of AA businesses are small businesses. Performance was strongest during the 2013 evaluation period with 45.00 percent of the number and 59.19 percent of the dollar amount going to small businesses. The latter evaluation period of 2014 – 2015 also reflects 45.00 percent of the number of loans originated went to small businesses, but only 19.65 percent of the dollar amount.

Borrower Distribution of Business Loans in Wichita AA – All Years			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown
% of AA Businesses	70.55	5.22	24.24
% of Bank Loans in AA by #	45.00	47.50	7.50
% of Bank Loans in AA by \$	39.42	53.09	7.49

Source: Loan samples and 2010 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 consumer loans to borrowers located in low-income tracts significantly exceeds the demographics. Considering performance for all years in the evaluation periods, the bank granted an average of 12.50 percent of consumer loans in low-income tracts. The demographics reflect that only 5.95 percent of the tracts are designated as low-income. The samples reflect that the bank granted an average of 25.00 percent of loans in moderate-income tracts. Lending in moderate-income tracts is near the demographics of 27.79 percent.

Geographic Distribution of Consumer Loans in the Wichita AA								
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
2013	6.12	10.00	27.61	25.00	39.21	40.00	27.06	25.00
2014-2015	5.77	15.00	27.96	25.00	37.37	50.00	28.90	10.00
Average - 2013-2015	5.95	12.50	27.79	25.00	38.29	45.00	27.98	17.50

Source: Loan samples and 2010 U.S. Census data

The business loan samples for all years indicate the bank granted an average of 30.00 percent of the number of business loans to borrowers located in low-income tracts. This level is significantly above the demographics reflecting that 9.17 percent of businesses are located in low-income tracts. Loans granted in moderate-income tracts comprised an average of 10 percent of loans; below demographics, which reflect that 20.74 percent of businesses are located in those census tracts.

Geographic Distribution of Business Loans in the Wichita AA								
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
2013	8.90	40.00	20.76	10.00	38.05	10.00	32.29	40.00
2014-2015	9.44	20.00	20.72	10.00	36.73	30.00	33.11	40.00
Average - 2013-2015	9.17	30.00	20.74	10.00	37.39	20.00	32.70	40.00

Source: Loan samples and 2010 Business Geodemographic Data

An analysis of the bank’s loans originated during the combined evaluation periods reflects that the bank originated loans in all low- and moderate-income tracts within the assessment area.

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 nine percent of the bank’s June 30, 2015 tier one capital and reflects a strong commitment to community development lending in the assessment area. The bank granted 18 community development loans during the evaluation period totaling \$3.77 million. Twelve loans, totaling \$2.93 million, were to provide affordable housing to LMI individuals and families. Three loans, totaling \$120 thousand were to small businesses that are stabilizing and revitalizing LMI areas. The bank loaned \$230 thousand to provide housing services for homeless individuals in a low-income area. The bank also granted a \$496 thousand loan to finance a preschool to provide education to children residing in an LMI area.

Qualified Investments

Southwest’s level of qualified investments and donations represents less than one percent of the bank’s June 30, 2015 tier one capital, reflecting an adequate commitment to community development investment needs. The bank provided \$29 thousand in qualified investments and donations to eight organizations during the evaluation period. The qualified investments were to organizations that target low- and moderate-income individuals and areas in the community. The donations were primarily to non-profit organizations that provide education, social services, and shelter to low- and moderate-income individuals.

Community Development Services

Southwest’s performance in providing community development services in the AA is satisfactory. The bank provides trust services for a reduced fee to individuals who are clients of

an organization that provides community services to LMI individuals. In another program, the bank participates with the Federal Reserve in an international funds transfer program to Mexico. The bank offers these transfers at a very low cost as compared to nonparticipating competitors. The service primarily benefits LMI individuals. Additionally, officers of the bank assisted an organization in filing an application for a grant that allowed the organization to fund their mission to provide housing services for homeless individuals in a low-income area.

Southwest demonstrated innovative efforts in providing financial literacy education to LMI students. The bank collaborated with a local organization to provide internet videos launched by scanning a 2-D barcode in a publication targeted to LMI students. Bank personnel create the script, appear in the video, and produce the video. Four training videos have been produced to date.

Responsiveness to Community Development Needs

Southwest demonstrated adequate responsiveness to community development needs. The bank supported community development needs, which included affordable housing, small business lending, and grant assistance. The bank continues to be active in the delivery of community development services such as financial services and educational opportunities to LMI individuals.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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