



**Comptroller of the Currency
Administrator of National Banks**

SMALL BANK

PUBLIC DISCLOSURE

June 7, 1999

COMMUNITY REINVESTMENT ACT Performance Evaluation

**Southwest Bank, n.a.
Charter Number 18323**

**1100 West Oklahoma
Ulysses, Kansas 67880**

**OFFICE OF THE COMPTROLLER OF THE CURRENCY
Western District
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| <p>Note: This evaluation is not, nor should it be construed as, an assessment of the</p> |
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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 **Southwest Bank, n.a.** in Ulysses, Kansas, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 7, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- C The bank's loan-to-deposit ratio is satisfactory given the bank's size, financial condition, and assessment area credit needs.
- C A majority of the bank's loans are originated within their assessment area.
- C The bank's lending to borrowers of different income and businesses of different sizes is satisfactory.
- C The geographic distribution of loans was not reviewed because the entire assessment area is middle-income and the analysis would not be meaningful.

DESCRIPTION OF INSTITUTION

Southwest Bank, n.a. (Southwest) is an independent bank owned 100% by Western Kansas Bancshares, Inc., a one-bank holding company, with its main office in Ulysses, Kansas. The bank has three other branches in the towns of Elkhart, Hugoton, and Syracuse, Kansas. The branches were all acquired at the time of the Southwestern Savings and Loan Association (S&L) acquisition in the third quarter of 1997. Since that acquisition, the bank has closed two of the former S&L offices, one in downtown Ulysses and one in Scott City.

The main office offers full banking services, and has a drive-up facility and an ATM. The branches offer all services that the main office does except safety deposit boxes (available only at the main office and Hugoton branch) and ATM (available at the main office only). Loan officers from Ulysses and Hugoton serve the Syracuse and Elkhart branches on a rotating basis.

As of March 31, 1999 Southwest had \$51 million in total assets. Total outstanding loans were \$33 million, or 65% of total assets. Based on the dollar amount of these loans, 27% were residential real estate, 26% agricultural business, 17% commercial, 12% agricultural real estate, 7% commercial real estate, 7% consumer, and 4% other loans. There are no legal or financial impediments preventing the bank from meeting the credit needs of its assessment area.

The bank's lending focus is primarily to businesses (including agribusiness), and consumers (including residential real estate lending). This evaluation focuses on agribusiness loans and loans to commercial businesses for its analysis. Although the bank has 27% of its loans in residential real estate, this is primarily the result of the acquisition of the S&L in 1997. Originations of residential real estate loans have not been a major activity of the bank since the last evaluation.

The evaluation period for this performance evaluation is the nine quarters since the last evaluation. The last performance evaluation was dated February 21, 1997, when the bank also received a Satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is the counties of Grant, Hamilton, Morton, and Stevens, Kansas. Southwest's offices are located in these counties, in the cities of Ulysses, Elkhart, Hugoton, and Syracuse. The entire area is a non-metropolitan statistical area (non-MSA) comprising a total of 6 block numbering areas (BNAs), all of which are middle-income. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

The 1990 census weighted average median family income for this area is \$28,068. The weighted average of MSA/non-metropolitan median family income per the updated 1998 Housing and Urban Development (HUD) figures is \$38,200 for this area. There are no low- or moderate-income tracts, but there are low- and moderate-income families in the bank's assessment area. Based on current year area median family income, 15% are low-income, 17% are moderate-income, 24% are middle-income, and 44% are upper-income families.

The population of this 6 BNA assessment area is 18,075. The economy is largely driven by agriculture, and oil and gas production. In addition to individual farmers, major employers in the agricultural sector include feed yards, dairies, and grain cooperatives. In the oil and gas sector, major employers include producers, as well as field support businesses.

The banking environment within the four county assessment area includes 8 other banks. The peer group comparisons used for loan-to-deposit ratios in the analysis included Grant County Bank in Ulysses; First National Bank of Syracuse and Valley State Bank in Hamilton County; First National Bank of Elkhart and Peoples First Bank in Morton County; Citizens State Bank in Stevens County; and First National Bank of Scott City and Security State Bank in Scott County, where the bank had a branch until the last quarter of 1998. All banks are considered of a similar size to Southwest, ranging from \$34 million to \$110 million.

Two community contacts were conducted during this examination. In the opinion of one contact, credit needs in the community were for affordable housing, and small consumer loans to help consumers establish credit. The other contact thought the need was not for credit, but for local inhabitants to support local retail businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is satisfactory given the bank's size, financial condition, and assessment area credit needs. The bank's average loan-to-deposit ratio for the nine quarters since the last examination is 78%. As of March 31, 1999 it was 74%.

By comparison, eight local area competitors had an average loan-to-deposit ratio of 70% over the last 9 quarters, and a ratio of 69% at March 31, 1999. These banks used for comparison from Southwest's assessment area range in size from \$34 million to \$110 million, which makes them similar to Southwest at \$51 million.

Lending in the Assessment Area

Southwest has a majority of its loans within its assessment area. The bank does not track this data on an ongoing basis for loan originations. We tested our sample of 20 agribusiness loans totaling \$1,517,000 and 20 commercial business loans totaling \$3,272,000. The results are in the following table:

| Percentage of loans inside/outside bank's assessment area (AA) | % of Dollar Amount of Loans | | % of Number of Loans | |
|--|-----------------------------|------------|----------------------|------------|
| | Inside AA | Outside AA | Inside AA | Outside AA |
| Commercial Business | 94% | 6% | 85% | 15% |
| Agribusiness | 60% | 40% | 70% | 30% |

Because the sample was small, and easily skewed by one or two large loans, we also tested the bank's originations of all loans since the last evaluation by zip code and analyzed the data. The results are still satisfactory. We found that 67% of the dollar amount of all loan originations since the last evaluation were inside and 33% outside the assessment area. For the number of loans for the same period, 76% were inside and 24% outside the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA: (Continued)

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to individuals of various income levels and businesses of different sizes meets the standards for satisfactory performance. The demographics of the bank's assessment area reflect a presence of all income levels within the population.

By income level:

The bank collects data based on borrower's income for residential real estate loans and reports it on their loan application register. We used 100% of the 1998 and 1999 year-to-date loan originations for the purchase of residential real estate, which totaled 15 loans. Information from 1997 was not available. Our analysis revealed that the bank lends to borrowers of all income levels, as shown in the following table.

| Loan Distribution by Borrower Income Level | | | | |
|---|--------------|-----------------------|----------------------|------------------|
| | LOW < 50% | MODERATE 50 to 80% | MIDDLE 80 to 119% | UPPER >= 120% |
| By Weighted average of MSA/Non-MSA <i>Updated</i> Median Family Income (\$38,200) | < \$19,100 | \$19,100 - 30,559 | \$30,560 - 45,839 | \$45,840+ |
| % of Families within the assessment area by income level (1990 census data) | 15% | 17% | 24% | 44% |
| % of the number of residential originations 1998-1999 year-to- date (sample = 15) | 7% | 27% | 40% | 26% |
| % of the dollar of residential originations 1998-1999 year-to- date (sample = \$939,000) | 3% | 14% | 43% | 40% |

In residential real estate loan originations, the number of loans the bank makes to individuals of low- and moderate-income levels is a combined 34% compared to the demographics of the area, which is a combined 32% as shown in the table above. The dollars of residential real estate loan originations are

not as comparable to the demographics, with only 17% of the dollars to low- and moderate-income borrowers, compared to 32% of low- and moderate-income families in the assessment area. This pattern is not unusual. It reflects the fact that low- and moderate-income borrowers generally qualify for lower dollar amount loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA: (Continued)

Lending to Borrowers of Different Incomes and Businesses of Different Sizes (Continued)

By business revenue size:

The bank does not analyze data based on business size. Therefore, we tested loan originations based on our sample of their origination of 20 commercial and 20 agricultural loans from February 1997 through May 1999. The loan sample was then compared to area business demographics as reported by Dunn & Bradstreet.

The regulation defines small businesses and farms as those with gross revenues less than \$1 million. As the following table shows, the bank's distribution of commercial loans to businesses and farms of different sizes is satisfactory:

- < 75% of the number and 64% of the dollar amount of commercial loans are made to small businesses, compared to area demographics of 73% of small businesses;
- < 95% of the number and 90% of the dollar amount of agricultural loans are made to small farms, compared to area demographics of 90% of small farms.

| Lending to Businesses of Different Sizes | | | | |
|--|-----------------------------------|---------|-----------|--------|
| Loan Type (#/\$ of loans in sample) | Business Gross Revenues (\$ 000s) | | | |
| | < 100 | 100-500 | 500-1,000 | >1,000 |
| Commercial (20) | 50% | 10% | 15% | 25% |
| Commercial (\$3,253) | 10% | 5% | 49% | 36% |
| Agriculture (20) | 70% | 25% | 5% | - |
| Agriculture (\$1,523) | 70% | 20% | 10% | - |
| <u>Area Demographics</u> Commercial: | 73% | | | 27% |

| | | |
|--------------|-----|-----|
| Agriculture: | 90% | 10% |
|--------------|-----|-----|

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the bank's assessment area by income level would not be meaningful because the assessment area consists entirely of middle-income BNAs.

Response to Complaints and Record of Compliance with Antidiscrimination Laws

During the evaluation period, Southwest did not receive any complaints from the public regarding its CRA performance. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations. Our fair lending review did not indicate any evidence of apparent disparate treatment or other illegal credit practices.