

PUBLIC DISCLOSURE

November 29, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Southwind Bank
Certificate Number: 4735

702 North 2nd Street
Natoma, Kansas 67651

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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.

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INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and the assessment area's credit needs.
- A majority of small farm, small business, and home mortgage loans reviewed were located in the assessment area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes, and individuals of different income levels.
- The assessment area does not include any low- or moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.
- The bank did not receive any Community Reinvestment Act (CRA)-related complaints since the prior evaluation; therefore, this factor did not affect the Lending Test rating.

DESCRIPTION OF INSTITUTION

Background

Southwind Bank is a full-service community bank that operates two offices in Natoma and Russell in north central Kansas. The bank continues to be wholly owned by Republic Bancshares, Inc., Russell, Kansas, a one-bank holding company. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated December 5, 2016, based on Interagency Small Institution Examination Procedures.

Operations

Southwind Bank now operates two full-service offices in the largely rural areas of Osbourne and Russell counties in Kansas. The bank has not opened any offices nor had any merger or acquisition activity since the prior evaluation.

The institution offers traditional loan products for agricultural, commercial, home mortgage, and consumer loan purposes. Agricultural lending continues to be the primary business focus. The bank continues to offer in-house, and secondary market conventional home loans. The bank also offers a variety of deposit services including checking, savings, money market accounts, certificates of deposit, and individual retirement accounts. Alternative banking services include internet and mobile banking, electronic bill pay, and one cash dispensing ATM located in Russell, Kansas in a middle-income census tract.

Ability and Capacity

The bank's total assets were \$172.8 million as of September 30, 2022, and included total loans of \$69.6 million and total securities of \$89.2 million. Total deposits on this same date were \$166.3 million. The following table illustrates the loan portfolio.

Loa/n Portfolio Distribution as of 9/30/2022		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	-	-
Secured by Farmland	21,430	30.8
Secured by 1-4 Family Residential Properties	17,581	25.3
Secured by Multi-family (5 or more) Residential Properties	-	-
Secured by Non-farm Non-Residential Properties	12,737	18.3
Total Real Estate Loans	51,748	74.3
Commercial and Industrial Loans	5,732	8.2
Agricultural Production and Other Loans to Farmers	5,435	7.8
Consumer	6,094	8.8
Obligations of State and Political Subdivisions in the U.S.	601	0.9
Other Loans	11	-
Lease Financing Receivables (net of unearned income)	-	-
Less: Unearned Income	-	-
Total Loans	69,621	100.0

Source: Reports of Condition and Income; Due to rounding, totals may not equal 100.0%

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

Southwind Bank continues to designate the all of Osbourne and Russell counties as its sole assessment area. This area is categorized as nonmetropolitan and consists largely of rural countryside and farmland. The following section shows demographic and economic information from the 2015 American Community Survey (ACS) and 2021 D&B data for this assessment area.

Economic and Demographic Data

The assessment area consists of three census tracts, which are all designated as middle-income geographic areas.

According to the 2015 ACS, Osbourne County is one whole middle-income census tract and Russell County has two middle-income census tracts. The following table shows select demographic characteristics for the entire assessment area.

Demographic Information of the Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	3	-	-	100.0	-
Population by Geography	10,770	-	-	100.0	-
Housing Units by Geography	6,090	-	-	100.0	-
Owner-Occupied Units by Geography	3,750	-	-	100.0	-
Occupied Rental Units by Geography	1,253	-	-	100.0	-
Vacant Units by Geography	1,087	-	-	100.0	-
Businesses by Geography	1,061	-	-	100.0	-
Farms by Geography	204	-	-	100.0	-
Family Distribution by Income Level	3,132	20.9	18.3	22.9	37.9
Household Distribution by Income Level	5,003	27.5	18.2	16.5	37.9
Median Family Income Nonmetropolitan KS	\$57,229	Median Housing Value			\$70,564
FFIEC-Estimated Median Family Income for 2021	\$64,800	Median Gross Rent			\$508
		Families Below Poverty Level			8.7%

Source: 2015 ACS Census; 2021 D&B Data; FFIEC Estimated Median Family Income

D&B data for 2021 indicates the primary industries of this assessment area include the services industry, which comprises 29.9 percent of all area businesses (farm and non-farm); followed by retail trade at 11.9 percent, and agricultural operations at 16.1 percent. This data also indicates that a notable number of these operations are relatively small, with 89.3 percent having nine or fewer employees, and 84.4 percent operating from a single location.

The following table presents the FFIEC-estimated median family income levels for nonmetropolitan Kansas for 2021.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2021 (\$64,800)	<\$32,400	\$32,400 to <\$51,840	\$51,840 to <\$77,760	≥\$77,760

Source: FFIEC

Competition

Competition for financial services is notable. According to FDIC Deposit Market Share data as of June 30, 2022, there are 8 banks operating 11 offices in the assessment area. Of these institutions, Southwind Bank ranked first in deposit market share, at 32.4 percent.

There is also competition for small farm and small business loans among banks, credit unions, and non-depository lenders in the assessment area. In 2020, aggregate data indicates 10 lenders reported 76 small farm loans in the assessment area, and 30 lenders reported 150 small business loans. Although the bank does not report small farm or small business data, this information provides insight regarding competition in the assessment area.

In addition, there is competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders in the assessment area. In 2020, aggregate data indicates 44 lenders reported 129 home mortgage loan originations and purchases in the assessment area. Although the bank does not report home mortgage data, this information provides insight regarding competition in the assessment area.

Community Contacts

Examiners contact third parties active in the assessment area to help gain insight into the area's economy, demographic trends, and business environment. This information not only helps in identifying credit and community development needs and opportunities, but also assists in determining whether local financial institutions are responsive to those needs.

The community member contacted during this evaluation indicated the area economy has experienced some changes. The contact stated that land and housing prices have increased, and the area is currently experiencing a severe drought – causing farmers to rely heavily on crop insurance. In addition, there has been an increase in the number of small businesses in the area. The contact indicated that the primary credit need is agricultural, commercial, and home mortgage loans. The contact stated the need for the aforementioned loan categories have increased, due to the combined pressure of increases in the land and housing prices, increases in interest rates, and the severe drought affecting the area.

Credit Needs

Examiners identified the credit needs of the assessment area based on information from a community contact, bank management, and demographic and economic data. Accordingly, examiners determined that small farm, small business, and home mortgage loans are all notable credit needs in the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated December 5, 2016, to the current evaluation dated November 29, 2022. Examiners used the Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance

Activities Reviewed

For the Interagency Small Institution Examination Procedures, examiners generally review small farm, small business, and home mortgage loans if each of these categories are a major product line of the institution. As previously stated, small farm lending continues to be a primary focus, followed by commercial and home mortgage lending. Based on this information, along with the previously detailed loan portfolio composition, examiners reviewed small farm, small business, and home mortgage loans, with small farm loans receiving the greatest weight in determining the overall conclusions.

For the three loan categories reviewed, examiners focused on loans originated or extended in 2021, and management stated the bank's 2021 lending patterns for location and size/income of its

borrowers would generally be representative of its overall lending patterns since the prior evaluation.

The 2021 bank data showed a total of 90 small farm loans totaling \$7.1 million, 57 small business loans totaling \$4.5 million, and 60 home mortgage loans totaling \$5.2 million. Examiners reviewed the universe of loans for the Assessment Area Concentration analysis. For the Borrower Profile analysis, examiners reviewed a random sample of small farm and small business loans, and home mortgage loans made in the assessment area. The sample included 36 small farm loans totaling \$2.5 million, 30 small business loans totaling \$2.7 million, and 30 home mortgage loans totaling \$2.8 million.

The D&B data for 2021 provided a standard of comparison for the small farm and small business loans reviewed, and the 2015 ACS data provided a standard of comparison for the home mortgage loans reviewed. Additionally, although both the number and dollar volume of loans were analyzed, examiners emphasized performance by number of loans, because it is a better indicator of the number of farms, businesses, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Southwind Bank demonstrates satisfactory performance under the Lending Test. This conclusion is supported by reasonable performance in all evaluated rating criteria.

Loan-to-Deposit Ratio

The LTD ratio is reasonable. The bank’s performance was evaluated based on the average net LTD ratio since the prior evaluation (24 quarters). The bank’s average net LTD ratio is comparable to the other similarly-situated banks, which were selected based on asset size, geographic location, and lending focus. See the following table for details.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 9/30/2022 (\$000s)	Average Net LTD Ratio (%)
Southwind Bank, Natoma, Kansas	172,840	49.9
The Gorham State Bank, Gorham, Kansas	44,253	66.2
The State Exchange Bank, Mankato, Kansas	44,510	49.0
<i>Source: Reports of Condition and Income 12/31/2016 - 9/30/2022</i>		

Assessment Area Concentration

A majority of the small farm, small business, and home mortgage loans are within the assessment area. Refer to the following table for details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	74	82.2	16	17.8	90	6,115	86.3	973	13.7	7,088
Small Business	42	73.7	15	26.3	57	3,201	71.7	1,262	28.3	4,463
Home Mortgage	46	76.7	14	23.3	60	4,183	80.5	1,016	19.5	5,199

Source: 2021 Bank Data

Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. Reasonable performance for small farm loans and small businesses loans, and excellent performance for home mortgage lending supports this conclusion.

Small Farm Loans

The borrower distribution of small farm loans reflects reasonable penetration among farms with gross annual revenues of \$1 million or less. The following table indicates the bank's performance is comparable to demographic data.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	100.0	35	97.2	2,382	96.0
> \$1,000,000	-	1	2.8	100	4.0
Total	100.0	36	100.0	2,482	100.0

Source: 2021 D&B Data, 2021 Bank Data

Small Business Loans

The borrower distribution of small business loans reflects reasonable penetration among businesses with gross annual revenues of \$1 million or less. The following table indicates the bank's performance is comparable to demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	74.6	26	86.7	2,445	91.0
> \$1,000,000	5.5	4	13.3	242	9.0
Revenue Not Available	19.9	-	-	-	-
Total	100.0	30	100.0	2,687	100.0

Source: 2021 D&B Data, 2021 Bank Data

Home Mortgage Loans

The distribution of borrowers reflects overall excellent penetration among individuals of different income levels, including low- and moderate-income borrowers. While the level of lending to low-income borrowers trails the demographic data, the level of moderate-income borrowers significantly exceeds the 2015 ACS data. Furthermore, the percentage of families in the assessment area living below the poverty level is 8.7 percent. When considering the average median housing value within the assessment area, the demand and opportunity for lending to families below the poverty level is relatively limited.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	20.9	3	10.0	77	2.7
Moderate	18.3	9	30.0	743	26.4
Middle	22.9	6	20.0	509	18.1
Upper	37.9	12	40.0	1,488	52.8
Total	100.0	30	100.0	2,817	100.0

Source: 2015 ACS Data; 2021 Bank Data

Geographic Distribution

The assessment area does not include any low- or moderate income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.