



PUBLIC DISCLOSURE

APRIL 09, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**SOUTHWEST BANK OF WEATHERFORD
RSSD# 1014059**

**720 EAST MAIN
WEATHERFORD, OKLAHOMA 73096**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

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.

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

Southwest Bank of Weatherford (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA) in a manner consistent with its resources and operating philosophy. The bank's average net loan-to-deposit (NLTD) ratio is reasonable considering the characteristics of the bank, performance of local competitors, and credit needs of the community it serves. A majority of loans reviewed for this evaluation were originated inside the bank's AA. The bank's distribution of loans by income level of geographies reflected an excellent dispersion throughout its AA, considering the AA's demographic characteristics and relevant performance context. Additionally, the distribution of loans to businesses and farms of different revenue sizes is reasonable.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions*. The evaluation was performed in the context of information about the bank and its AA, such as asset size, financial condition, economic and demographic characteristics, and competition. Four out of the five criteria used to evaluate a small bank's lending performance under the CRA were relevant to this review, including the following:

- NLTD Ratio
- AA Concentration
- Distribution by Income Level of Geographies
- Distribution by Revenue Size of Businesses and Farms

The fifth criterion, the bank's responsiveness to CRA-related complaints, was not pertinent to the evaluation as neither the bank nor the Federal Reserve Bank of Kansas City has received any CRA-related complaints since the previous evaluation.

The evaluation included a full-scope review of the bank's lending performance in the Custer County AA. The bank's major products, commercial and agricultural loans, were reviewed. Major product lines were determined through discussions with bank management, a review of the December 31, 2017 Reports of Condition and Income (Call Report), and a review of the number of outstanding loan originations since the previous CRA evaluation conducted on July 18, 2011.

Conclusions were derived from a statistical sample of 57 small farm loans selected from a universe of 79 loans originated between January 1, 2017 and December 31, 2017, as well as a statistical sample of 43 small business loans selected from a universe of 54 loans originated during the same time period. As defined under the CRA, small business loans included those with loan amounts of \$1 million (MM) or less, while small farm loans included those with loan amounts of \$500,000 or less. Greater weight was assigned to the bank's small business lending performance as commercial lending is a primary focus for the bank.

The bank's average NLTD ratio was calculated based on a 27-quarter average since the previous evaluation, and compared to similarly situated financial institutions that operate within and near the bank's AA. The geographic distribution analysis was based on the bank's lending amongst the various census tracts of different income levels in the AA, in which geographies were classified based on the 2017 FFIEC's census tract definitions. The borrower distribution analysis assessed the bank's lending to businesses and farms of different revenues sizes. Both the number and dollar volume of loans were evaluated for each lending test performance criterion. Additionally, only loans made inside the bank's AA were analyzed with respect to the geographic and borrower distribution analyses.

For evaluative purposes, the bank's lending was compared with area demographic data including the 2015 American Community Survey (ACS) five-year estimate data and 2016 Dun & Bradstreet (D&B) data.

To further augment the evaluation, two interviews with members of the communities within the bank's AA were conducted to ascertain the credit needs of the communities, the responsiveness of area banks in meeting those credit needs, and the local economic conditions. One community member was a representative from a local economic development organization. The other community member was a representative from the agricultural industry in Custer County.

DESCRIPTION OF INSTITUTION

The bank, a \$69.5MM institution located in Weatherford, Oklahoma, is majority-owned by First Farm Credit Corporation, also of Weatherford, Oklahoma. Weatherford is a rural community with a population of 11,663, located in eastern Custer County, approximately 70 miles west of Oklahoma City.

The bank operates two full-service locations: one in Weatherford and one in Custer City, Oklahoma. Custer City is approximately 19 miles northwest of the main office in Weatherford. Drive-through services are available at both locations. Additionally, the bank operates a loan production office (LPO) in Yukon, Oklahoma, which is located 55 miles east of Weatherford in Canadian County. The LPO primarily originates commercial loans and provides access to business lending opportunities in the counties of Canadian and Oklahoma. The bank operates a cash-dispensing only automatic teller machine at its main office location in Weatherford and another one at the First Bank of Thomas in Thomas, Oklahoma. This arrangement is due to common ownership between the First Bank of Thomas and the bank.

Based on the December 31, 2017 Call Report, the bank reported total loans of \$38.4MM and total deposits of \$60.5MM. According to the June 30, 2017 Federal Deposit Insurance Corporation (FDIC) Market Share Report, the bank had a market share of 7.9 percent, ranking 5th out of 14 FDIC-insured depository institutions operating within Custer County. The bank offers traditional consumer, agricultural, and commercial loan and deposit products. The bank

is predominately a commercial lender, with additional volume noted in residential real estate and agricultural lending as illustrated in Table 1.

TABLE 1 SOUTHWEST BANK OF WEATHERFORD LOAN PORTFOLIO AS OF DECEMBER 31, 2017		
Loan Type	Amount \$(000)	Percent of Total
Commercial	16,530	43.1
Residential Real Estate	11,710	30.5
Agricultural	7,917	20.6
Consumer	1,876	4.9
Other	360	0.9
Gross Loans	38,393	100.0

There are no known legal, financial, or other factors impeding the bank's ability to meet the credit needs of the communities it serves. The bank was previously supervised by the Office of the Comptroller of the Currency (OCC) and became a state member bank effective May 18, 2017. The bank received a Satisfactory rating at its previous CRA evaluation conducted by the OCC on July 18, 2011.

DESCRIPTION OF ASSESSMENT AREA¹

The bank currently serves one contiguous AA, consisting of Custer County in its entirety. The AA consists of two moderate-, one middle-, and two upper-income census tracts. At the previous evaluation, the bank's delineated AA comprised three of five census tracts in Custer County. The bank's Weatherford Branch is located in an upper-income census tract, and the Custer City Branch is located in a middle-income census tract. However, both branches are in close proximity to the two moderate-income census tracts in the county.

Population Characteristics

According to 2015 ACS data, the AA population of 28,978 increased by 5.5 percent since 2010. The median age of individuals within the AA is 30.7 years, compared to the statewide Oklahoma figure of 36.2 years. Within the AA population, there is a lower concentration of persons aged 65 years and over at 13.1 percent, compared to 14.2 percent statewide and 16.5 percent in other rural areas of Oklahoma. Additionally, Southwestern Oklahoma State University is located in Weatherford and has an approximate annual enrollment of 5,400 students. A community representative indicated that the student population influences the health of local retail businesses.

¹ The following demographic data is based on 2017 U.S. Census, 2011-2015 ACS five-year estimate data, and 2016 D&B data. Additional demographic data was also utilized based on the Bureau of Labor Statistics and the 2012 Census of Agriculture.

Housing Characteristics

The median housing value in the AA is \$119,021, which is above the statewide and rural Oklahoma values at \$117,900 and \$91,975, respectively. The median age of housing stock in the AA is 46 years, which is older than the statewide and rural Oklahoma figures of 38 years and 40 years, respectively. The AA affordability ratio² of 38.7 percent is comparable to the statewide figure of 39.8 percent; however, it is less affordable than other rural areas in Oklahoma at 44.0 percent. A community representative commented that within Weatherford, there has been a rise in new home construction in areas near the outskirts of the town.

Income Characteristics

The \$46,090 median household income (MHI) of the AA is slightly less than the statewide Oklahoma figure at \$46,879 but greater than the MHI figure for rural Oklahoma areas at \$41,317. Low- and moderate-income (LMI) households comprise 21.9 percent and 13.1 percent, respectively, of all households in the AA. These figures are lower than the statewide Oklahoma figures at 24.2 percent and 16.4 percent for LMI households, respectively, and the rural Oklahoma figures at 24.8 percent and 16.0 percent. Although the AA has less LMI households compared to households statewide, it has a greater level of households living below the poverty line at 17.6 percent compared to 15.9 percent of households statewide. However, 18.3 percent of households in other rural areas of Oklahoma are considered beneath the poverty line.

Economic and Employment Characteristics

The bank operates in a community closely dependent on the success of the energy industry, and many residents are subject to price fluctuations in the agriculture sector. The 2012 Agricultural Census indicated that the market value of agricultural products sold in Custer County increased 18.6 percent from 2007 to 2012. On a per-farm basis, producers experienced an average increase of 22.7 percent in the market value of agricultural products sold. The primary agricultural focus within Custer County includes cultivating ground for wheat pasture and cattle; however, there has been a gradual adoption of no-till farming practices. As a result, the crop base is more diversified with acreage dedicated to cotton, sorghum, and grain production. Additionally, a community representative indicated that in the last three years, local wheat and cattle prices have gradually declined in response to global surpluses.

In terms of the broader Custer County economy, conditions are characterized as stable and improving. According to 2017 Bureau of Labor Statistics data, the average monthly unemployment rate in the AA during 2017 was 3.5 percent. Over the same time period, the average monthly unemployment rate at the state level was higher at 4.3 percent. Major employers in the AA include Devon Energy, Weatherford Public Schools, Weatherford Regional Hospital, and Southwestern Oklahoma State University.

² Affordability ratios are calculated using MHI divided by median housing value. Lower rates indicate less affordable housing stock.

Census Tract Characteristics

The dispersion of farms throughout Custer County varies. There are only 19 farms within the two moderate-income census tracts in the county, as compared to 53 farms and 54 farms in middle- and upper-income census tracts, respectively.

Interviews with Members of the Community

Based on an interview with a member of the community, unemployment is low and the workforce for retail services needs to increase. This need has coincided with improvement in the energy sector as drilling and oil-related services have rebounded in the last year and energy-related businesses have increased hiring activities in the AA. Two to three new shopping and retail areas are expected to open within Weatherford in 2018. In addition, energy services infrastructure will be expanding in the AA.

Another community representative indicated that the eastern portion of the county has historically been more productive in terms of crop yields as it receives more rainfall. Additionally, the eastern portion of the county has significant cattle operations and vegetable production. In the current period of depressed prices, there is a need for agricultural operating lines of credit. A variety of banking alternatives, including Farm Credit Services, allow the AA's agricultural credit needs to be adequately met.

Additional demographic data is displayed in Table 2 below.

**TABLE 2
CUSTER COUNTY AA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,347	18.9
Moderate	2	40.0	1,885	26.4	406	21.5	1,183	16.6
Middle	1	20.0	1,009	14.2	143	14.2	1,458	20.4
Upper	2	40.0	4,236	59.4	342	8.1	3,142	44.1
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	5	100.0	7,130	100.0	891	12.5	7,130	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	4,048	1,367	22.1	33.8	1,890	46.7	791	19.5
Middle	1,750	1,057	17.1	60.4	276	15.8	417	23.8
Upper	6,571	3,765	60.8	57.3	2,009	30.6	797	12.1
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	12,369	6,189	100.0	50.0	4,175	33.8	2,005	16.2
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	516	37.9	452	37.2	61	46.2	3	23.1
Middle	138	10.1	119	9.8	15	11.4	4	30.8
Upper	707	51.9	645	53.0	56	42.4	6	46.2
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	1,361	100.0	1,216	100.0	132	100.0	13	100.0
Percentage of Total Businesses:			89.3		9.7		1.0	
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	19	15.1	16	13.0	3	100.0	0	0.0
Middle	53	42.1	53	43.1	0	0.0	0	0.0
Upper	54	42.9	54	43.9	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	126	100.0	123	100.0	3	100.0	0	0.0
Percentage of Total Farms:			97.6		2.4		0.0	

Based on 2017 FFIEC's census tract definitions, 2015 ACS five-year estimate data, and 2016 D&B data.
(NOTE: Total percentages may vary by 0.1 percent due to automated rounding differences.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank's average NLTD ratio to determine the reasonableness of lending in light of performance context such as the bank's capacity to lend, the availability of lending opportunities, and the demographic and economic factors present in the AA. The bank's NLTD ratio was averaged over a 27-quarter period since the previous CRA evaluation and compared to the NLTD ratios of four similarly situated financial institutions operating in the AA based on asset size and loan portfolio composition.

The bank's NLTD ratio is considered reasonable given the bank's size, financial condition, and current local and economic conditions. As of December 31, 2017, the bank's NLTD ratio averaged 57.6 percent. The NLTD ratios for the four comparable banks ranged from 49.8 percent to 83.5 percent. The NLTD ratios for banks operating in the AA are largely based on the seasonality of the agricultural economy and the energy sector. Trends illustrated in the 2012 Census of Agriculture showed significant increases in the market value of agriculture products sold from 2007 to 2012. A community representative indicated that wheat and cattle prices peaked during the 2015 production year and have since gradually declined. As a result, farm operators have increased borrowing activity in the most recent one- to three-year period. Evaluating the bank's NLTD over 2016 and 2017, the eight-quarter average NLTD is 62.0 percent. The slight upward trend is consistent with increased borrower demand for credit.

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. The evaluation analyzes both the number and dollar volume of originations.

As noted in Table 3, the bank originated a majority of its small business loans at 58.1 percent and small farm loans at 52.6 percent, by number, within its delineated AA. However, by dollar volume, 72.6 percent of small business loans and 55.1 percent of small farm loans were originated outside the AA.

Of the small farms loans originated outside the AA, three loans totaled approximately \$1.1MM and were originated in Hydro, Oklahoma. Hydro is eight miles away from Weatherford and is adjacent to Custer County in Caddo and Blaine Counties. Similar context explains the small business lending dollar volume concentration. Seven of the 18 small business loans originated outside the AA accounted for over \$2.5MM, in which, six of the seven loans were originated from the bank's LPO in Yukon, Oklahoma. Based on the context noted, lending indicates a reasonable effort by the bank to serve the credit needs of the communities in which it operates.

TABLE 3
LENDING INSIDE AND OUTSIDE THE BANK'S AA

Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Small Business Loans	25	1,082	58.1	27.4	18	2,865	41.9	72.6
Small Farm Loans	30	1,697	52.6	44.9	27	2,082	47.4	55.1

The remaining performance criteria consider only those loans originated inside the AA.

Distribution by Income Level of Geographies

This performance criterion evaluates the bank's distribution of lending within its AA by income level of census tracts, with an emphasis placed on lending in LMI census tracts. For evaluative purposes, the bank's small business lending was compared to the percent of businesses operating in each census tract income category. Similarly, small farm lending was compared to the percentage of farms operating in each census tract income category.

Overall, the bank's geographic distribution of small business and small farm loans is considered excellent.

TABLE 4
DISTRIBUTION OF 2017 SMALL BUSINESS AND SMALL FARM LOANS
BY INCOME LEVEL OF GEOGRAPHY
CUSTER COUNTY AA

Census Tract Income Level	Small Business Loans				% of Businesses ¹
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	13	635	52.0	58.7	37.9
Middle	3	89	12.0	8.2	10.1
Upper	9	359	36.0	33.1	51.9
Unknown ²	0	0	0.0	0.0	0.0
Census Tract Income Level	Small Farm Loans				% of Farms ¹
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	0.0
Moderate	3	503	10.0	29.6	15.1
Middle	14	641	46.7	37.8	42.1
Upper	13	553	43.3	32.6	42.9
Unknown ²	0	0	0.0	0.0	0.0

¹ The percentage of businesses and farms by census tract is based on 2017 FFIEC's census tract definitions and 2016 D&B data.

² Includes census tracts where the income level is unknown.

(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Business Loans

The geographic distribution of small business lending is excellent. Lending performance in moderate-income census tracts accounted for 52.0 percent of loans by number (58.7 percent by dollar), which was significantly above the percentage of businesses operating in the AA's moderate-income census tracts at 37.9 percent. In the AA's middle-income census tract, at 12.0 percent by number (8.2 percent by dollar), the bank's performance was comparable to the percentage of businesses operating in the tract at 10.1 percent. The bank's performance within upper-income census tracts, at 36.0 percent by number (33.1 percent by dollar), was below the demographic figure.

Small Farm Loans

The geographic distribution of small farm lending is reasonable. The bank's lending performance in moderate-income census tracts at 10.0 percent by number was below the percentage of farms operating in moderate-income census tracts at 15.1 percent. However, approximately one third of the bank's lending by dollar volume (29.6 percent) was originated in these census tracts. In addition, due to the limited number of farms operating in the AA's moderate-income census tracts, opportunities to lend in these census tracts are limited. Approximately 19 farms are located in the AA's moderate-income census tracts, in comparison to 53 farms and 54 farms in middle- and upper-income census tracts, respectively. Opportunities may be further reduced given the variety of agricultural banking options within the AA, including nonbank lenders such as Farm Credit Services.

In the AA's middle-income census tract, the bank originated 46.7 percent by number (37.8 percent by dollar), which exceeded the demographic figure of 42.1 percent. The bank's lending in upper-income census tracts at 43.3 percent by number (32.6 percent by dollar) was comparable to the percentage of farms in these census tracts at 42.9 percent.

Distribution by Revenue Size of Businesses and Farms:

This performance criterion evaluates the bank's lending to businesses and farms of different revenue sizes, with emphasis placed on lending to those with gross annual revenues of \$1MM or less. For evaluative purposes, the bank's small business and small farm lending was compared to the percentage of businesses and farms within the AA by revenue size.

Overall, the distribution of small business and small farm loans is reasonable among businesses and farms of different revenue sizes. Table 5 illustrates the bank's distribution of small business and small farm loans by revenue size.

**TABLE 5
DISTRIBUTION OF 2017 SMALL BUSINESS AND SMALL FARM LOANS
BY REVENUE SIZE
CUSTER COUNTY AA**

Business Revenue By Size	Small Business Loans				% of Businesses ¹
	#	\$(000)	#%	\$%	
\$1MM or less	23	736	92.0	68.1	89.3
Over \$1MM	2	346	8.0	31.9	9.7
Not Known	0	0	0.0	0.0	1.0
Farm Revenue By Size	Small Farm Loans				% of Farms ¹
	#	\$(000)	#%	\$%	
\$1MM or less	29	1,297	96.7	76.4	97.6
Over \$1MM	1	400	3.3	23.6	2.4
Not Known	0	0	0.0	0.0	0.0

¹ The percentage of businesses and farms by revenue size is based on 2016 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Business Loans

The borrower distribution of small business lending is reasonable. As shown in Table 5, the bank originated 92.0 percent of loans by number and 68.1 percent by dollar to businesses with gross annual revenues of \$1MM or less. This was comparable to the number of small businesses within the AA at 89.3 percent. Further, 22 of the loans were originated in amounts of \$100,000 or less, indicating the bank's willingness to meet the credit needs of small businesses. Typically, smaller businesses do not have the need or the capacity to borrow large amounts; as such, smaller loan amounts are used as a proxy to estimate the support of small entities.

At 8.0 percent by number (31.9 percent by dollar), the bank's lending performance was below the percentage of businesses with revenues over \$1MM at 9.7 percent.

Small Farm Loans

The borrower distribution of small farm lending is reasonable. At 96.7 percent by number (76.4 percent by dollar), the bank's small farm lending was comparable to the percentage of small farms with gross annual revenues of \$1MM or less at 97.6 percent.

At 3.3 percent by number (23.6 percent by dollar), the bank's lending performance to farms with revenues over \$1MM was also comparable to the percentage of farms at 2.4 percent. A community representative indicated the banks in the AA are responsive to local agricultural credit needs.