



## **PUBLIC DISCLOSURE**

AUGUST 15, 2016

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

**BANK VI  
RSSD# 804758**

**1900 SOUTH OHIO STREET  
SALINA, KANSAS 67401**

**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 COMMUNITY REINVESTMENT ACT RATING:** *This institution is rated Satisfactory.*

Bank VI (the bank), Salina, Kansas, has a satisfactory record of meeting the credit needs of its assessment area (AA), consistent with its resources and operating philosophy. The bank's average net loan-to-deposit (NLTD) ratio is more than reasonable considering the characteristics of the bank, performance of local competitors, and credit needs of the community it serves. A majority of the loans subject to this review were originated inside of the bank's designated AA. The bank's level of in-house residential real estate and small business lending by income level of geography was reasonable. Furthermore, its lending to borrowers of different income levels and businesses of different revenue sizes was also reasonable.

**SCOPE OF EXAMINATION**

The bank's performance under the Community Reinvestment Act (CRA) was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) Interagency Small Institution Examination Procedures. Four of the five criteria used to evaluate a small bank's performance under the CRA were relevant to this review as follows:

- NLTD Ratio
- Lending Inside the AA
- Distribution of Loans by Income Level of Geographies
- Lending to Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes

The bank's responsiveness to complaints, the fifth core criterion used to assess a small bank's performance, was not evaluated as the bank has not received any CRA-related complaints since the prior evaluation.

The examination included an evaluation of the bank's performance with consideration given to demographic information for the area in which it operates. The bank's designated AA includes Dickinson, Ellsworth, Lincoln, Marion, McPherson, Ottawa, Rice, and Saline Counties, which are located in the central portion of the state of Kansas. Conclusions regarding the four lending test criteria were based on data compiled from the bank's major product lines of residential real estate and commercial loans. The major product lines were determined through discussions with bank management, a review of the bank's March 31, 2016 Reports of Condition and Income (Call Report), and a review of the volume of outstanding loan originations since the bank's prior CRA evaluation. In addition, conclusions regarding the bank's performance were based on a 16-quarter average of its NLTD ratio.

The evaluation included a statistical sample of 31 residential real estate loans from a universe of 75 loans originated between January 1, 2015 and December 31, 2015, and the entire universe of 45 commercial loans originated during the same time period.

For evaluative purposes, the bank's level of residential real estate and commercial lending was compared to local demographic data using the 2015 FFIEC's Census data and 2015 Dun & Bradstreet (D&B) business demographic data. The bank's NLTD ratio was compared to similarly situated financial institutions that operate within the bank's AA or in contiguous counties. The geographic distribution analysis was based on the bank's level of lending to geographies of different income categories. Geographies were classified based on the FFIEC's census tract designations, which are derived from 2010 American Community Survey (ACS) data and 2013 Office of Management and Budget Metropolitan Statistical Area designations. The borrower distribution analysis was based on the bank's level of lending to families of different income categories and to small businesses of different revenue size. Borrower income levels were calculated based on the 2015 FFIEC's estimated median family income (MFI). The evaluation of the bank's performance focused on the number of loans originated for each product and the dollar volume of those originations as well as lending to low- and moderate-income (LMI) families and geographies and lending to businesses with gross annual revenues less than or equal to \$1 million (MM).

To augment the CRA evaluation, information derived from interviews conducted with members of the local community was utilized to ascertain the specific credit needs of the AA, the responsiveness of area banks to those credit needs, and local economic conditions.

## **DESCRIPTION OF INSTITUTION**

The bank is an \$81.5MM institution headquartered in Salina, Kansas, which is located in central Kansas approximately 90 miles north of Wichita, Kansas. The bank is a wholly owned subsidiary of Sixth Bancshares, Inc., a one-bank holding company also headquartered in Salina. The bank operates two cash-only automated teller machines and currently has no branch locations. The bank is a small institution primarily focusing on commercial and residential real estate lending. It also offers other traditional consumer banking products and services across its AA.

Based on the March 31, 2016 Call Report, the bank reported total loans of \$60.7MM and total deposits of \$56.9MM. Table 1 details the distribution of loans within the bank's loan portfolio by product type. According to the June 30, 2015 Federal Deposit Insurance Corporation (FDIC) Market Share Report, the bank has a 1.3 percent market share within its eight-county AA, ranking 19<sup>th</sup> of 38 FDIC-insured depository institutions.

<b>TABLE 1 BANK VI LOAN PORTFOLIO</b>		
<b>Loan Type</b>	<b>Amount \$(000)</b>	<b>Percent of Total</b>
Commercial	34,647	57.1
Residential Real Estate	23,938	39.5
Agricultural	1,484	2.5
Consumer	625	1.0
Other	3	0.0
<b>Gross Loans</b>	<b>60,697</b>	<b>100.0</b>

The bank has the ability to meet the credit needs of its AA based on its asset size, product offerings, and financial condition. No financial or legal impediments exist that would negatively impact the bank's ability to meet the credit needs of its AA. The bank received a Satisfactory rating at its previous CRA evaluation performed by the Federal Reserve Bank of Kansas City on July 23, 2012.

**DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank's AA is contiguous and is comprised of Dickinson, Ellsworth, Lincoln, Marion, McPherson, Ottawa, Rice, and Saline Counties, Kansas, in their entirety. According to the 2015 FFEIC's Census data, the bank's AA is comprised of 2 moderate-, 26 middle-, and 9 upper-income tracts. Additionally, Lincoln County, which consists of a single census tract, is considered both distressed and underserved. There are no low-income census tracts in the bank's AA.

*Population and Income Characteristics and Trends*

The 2015 population estimate for the AA was 141,438, a decrease of 1.2 percent since the 2010 Census. While the AA as a whole experienced a decline, Saline County, where the bank is located, showed an increase of 0.2 percent since the 2010 Census. Saline County is the most populous county in the AA and its 2010 population accounted for 38.9 percent of the entire AA's residents.

According to the 2015 FFIEC's Census data, the MFI of the AA was \$58,156, which exceeded the statewide nonmetropolitan area figure of \$52,419 but was below the state of Kansas figure of \$62,424. The number of AA families below the poverty level was 7.4 percent. In Saline County, where the bank's only office is located, the MFI was \$57,434, and the number of families below the poverty level was 8.5 percent. Saline County contains two moderate-, six middle-, and four upper-income tracts. Within the six middle-income tracts of Saline County, 33.8 percent of the families are classified as LMI and 8.5 percent fall below the poverty level.

*Economic Conditions*

Unemployment rates in the AA have decreased, except for Dickinson and Ellsworth Counties, which both increased slightly from 2014 to 2015. With the exception of Dickinson County, all of the counties had unemployment rates that were lower than the state of Kansas and national levels in 2015. Outside of Salina, Kansas, the AA is primarily rural. The rural communities are heavily impacted by the volatility of the agriculture sector. Salina has historically had a strong presence of manufacturing and health care industries. A community member located in the city of Salina stated the recent trend of job opportunities in service-oriented industries is outpacing employment demand in the manufacturing sector. The major employers in Salina include Salina Regional Healthcare, Salina Public Schools, Exide Technologies, and The Schwan Food Company.

Area	2012	2013	2014	2015
Dickinson County	6.1	5.9	5.1	5.3
Ellsworth County	3.5	3.4	3.0	3.7
Lincoln County	4.8	4.6	4.2	3.5
Marion County	5.1	4.7	4.1	3.9
McPherson County	4.1	3.9	3.3	3.0
Ottawa County	5.4	4.5	4.1	3.9
Rice County	4.5	4.3	3.5	3.8
Saline County	5.8	5.0	4.2	3.8
Kansas	5.7	5.3	4.6	4.2
United States	8.1	7.4	6.2	5.3

*Housing Characteristics*

Based on the 2015 FFIEC’s Census data, the AA has 63,980 total housing units. Of those housing units, 65.2 percent are owner-occupied, 23.3 percent are rental units, and 11.5 percent are vacant. Saline County is comprised of 23,954 total housing units with 62.1 percent owner-occupied, 29.5 percent rental units, and 8.4 percent vacant.

The median housing value of the AA is \$98,398 while Saline County’s median value is \$114,000. These figures are both above the statewide nonmetropolitan area and below the state of Kansas figures, at \$81,447 and \$122,600, respectively. The median age of housing stock is 53 years in the AA and 48 years in Saline County, both of which are above the statewide nonmetropolitan and state of Kansas figures of 46 years and 38 years, respectively. The housing affordability ratio<sup>1</sup> for the AA is 47.5 percent, compared to the statewide nonmetropolitan area ratio of 51.0 percent and the state of Kansas ratio of 40.3 percent. The affordability ratio in Saline County is 39.6 percent indicating that housing is less affordable in Saline County than in the state of Kansas as a whole and in the statewide nonmetropolitan area.

The median gross rent of the AA at \$575 is between the statewide nonmetropolitan area (\$560) and state of Kansas (\$671) figures. Census data indicates that 36.6 percent of renters in the AA had rental costs exceeding 30.0 percent of their income, compared to the statewide nonmetropolitan area level, at 34.7 percent. The figure for Saline County, at 43.4 percent, is

<sup>1</sup> The housing affordability ratio is measured by dividing the median household income by the median housing value. A higher affordability ratio indicates that the housing stock is more affordable.

slightly higher than the state of Kansas at 40.7 percent. A community member associated with a local housing organization indicated the availability of affordable housing for LMI residents is limited. Modest incomes provided by the growing number of service industry jobs are often insufficient to afford monthly rents and median housing values in the area.

Table 3 demonstrates additional income, housing, and census tract characteristics for the AA.

<b>TABLE 3 BANK VI ASSESSMENT AREA DEMOGRAPHICS</b>								
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	5,824	15.1
Moderate	2	5.4	1,630	4.2	345	21.2	6,517	16.9
Middle	26	70.3	24,261	63.1	1,926	7.9	8,588	22.3
Upper	9	24.3	12,570	32.7	566	4.5	17,532	45.6
<b>Total AA</b>	<b>37</b>	<b>100.0</b>	<b>38,461</b>	<b>100.0</b>	<b>2,837</b>	<b>7.4</b>	<b>38,461</b>	<b>100.0</b>
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Moderate	4,069	1,279	3.1	31.4	2,166	53.2	624	15.3
Middle	41,289	27,047	64.8	65.5	8,754	21.2	5,488	13.3
Upper	18,622	13,396	32.1	71.9	3,957	21.2	1,269	6.8
<b>Total AA</b>	<b>63,980</b>	<b>41,722</b>	<b>100.0</b>	<b>65.2</b>	<b>14,877</b>	<b>23.3</b>	<b>7,381</b>	<b>11.5</b>
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Moderate	793	11.8	663	11.0	127	22.7	3	2.3
Middle	4,010	59.5	3,613	59.7	291	52.1	106	82.2
Upper	1,936	28.7	1,775	29.3	141	25.2	20	15.5
<b>Total AA</b>	<b>6,739</b>	<b>100.0</b>	<b>6,051</b>	<b>100.0</b>	<b>559</b>	<b>100.0</b>	<b>129</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>89.8</b>		<b>8.3</b>		<b>1.9</b>

Based on the FFIEC's Census Data and 2015 D&B data.  
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's record of meeting the credit needs of its AA is considered satisfactory. A review of the bank's 16-quarter average NLTD ratio, distribution of lending within its AA, distribution by income level of geographies, and distribution to businesses of different revenue sizes and borrowers of different income levels was conducted. Data utilized for this analysis included lending performance data for the bank, area demographic information, and information obtained from community members. The analysis indicated that the bank's NLTD ratio was more than reasonable when compared to the performance of local competitors. Additionally,

the analysis showed that a majority of the bank's loans were made within its AA, and a reasonable distribution of loans was originated among geographies of different income levels, to businesses of different revenue sizes, and borrowers of different income levels.

**Net Loan-to-Deposit Ratio:**

The bank's NLTD ratio reflects a more than reasonable effort to extend credit based on its size, financial condition, credit needs of the AA, and the NLTD ratios of similarly situated institutions operating in the area. The bank's NLTD ratio averaged 114.8 percent over the 16 quarters since the prior CRA evaluation. The bank's 16-quarter average was compared to five other area banks with similar loan portfolios whose ratios range from 60.6 percent to 87.1 percent over the same time period. According to the June 2015 FDIC Deposit Market Share Report, there were 38 FDIC-insured institutions operating from approximately 101 offices in the AA, indicating a significant level of competition for lending in the area.



**TABLE 4  
SUMMARY OF LENDING PERFORMANCE**

Lending within the AA								
Bank Loans	Inside AA				Outside AA			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Residential Loans	25	3,620	80.6	73.2	6	1,325	19.4	26.8
Business	31	4,428	68.9	63.1	14	2,593	31.1	36.9
<b>Total Loans</b>	<b>56</b>	<b>8,048</b>	<b>73.7</b>	<b>67.3</b>	<b>20</b>	<b>3,918</b>	<b>26.3</b>	<b>32.7</b>
Distribution of Income by Levels of Geography								
Census Tract Income Level	Residential Loans				% of Owner Occupied Units <sup>1</sup>			
	#	\$(000)	#%	\$%				
Moderate	1	95	4.0	2.6	3.1			
Middle	6	1,089	24.0	30.1	64.8			
Upper	18	2,436	72.0	67.3	32.1			
Census Tract Income Level	Small Business Loans				% of Businesses <sup>2</sup>			
	#	\$(000)	#%	\$%				
Moderate	9	892	29.0	20.2	11.8			
Middle	6	969	19.4	21.9	59.5			
Upper	16	2,566	51.6	58.0	28.7			
Distribution by Income Level of Borrower and Revenue Size of Businesses and Farms								
Borrower Income Level	Residential Loans				% of Families <sup>1</sup>			
	#	\$(000)	#%	\$%				
Low	3	313	12.0	8.7	15.1			
Moderate	1	72	4.0	2.0	16.9			
Middle	2	183	8.0	5.1	22.3			
Upper	19	3,052	76.0	84.3	45.6			
Business Revenue	Small Business Loans				% of Businesses by Revenue <sup>2</sup>			
	#	\$(000)	#%	\$%				
\$1MM or Less	26	3,520	83.9	79.5	89.8			
Over \$1MM	5	907	16.1	20.5	8.3			

<sup>1</sup> Based on 2010 ACS five-year estimate data and 2015 FFIEC's census tract designations.  
<sup>2</sup> Based on 2015 D&B data.  
 (Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**Assessment Area Concentration:**

This core performance criterion evaluates the bank's lending inside its AA. The number and dollar volume of originations within the AA were compared to the level of lending outside the AA.

As shown in Table 4, a majority of the sampled loans were originated within the delineated AA, at 73.7 percent by number and 67.3 percent by dollar. The bank's level of lending reflects a reasonable effort to serve the credit needs of its AA. Consistent with the bank's branching footprint and lending strategy, the percentage of loans originated in Saline County alone was 71.1 percent by number and 65.9 percent by dollar.

Only loans originated within the bank's AA are considered for the remaining lending test components discussed within this Performance Evaluation.

**Distribution by Income Level of Geographies:**

This performance criterion compares the bank's lending throughout its AA to the percentages of owner-occupied housing units and small businesses located in each income tract level, emphasizing lending in LMI tracts. The bank's AA does not include any low-income tracts; therefore, only moderate-, middle-, and upper-income tracts were reviewed. The evaluation reviewed both the number of loans originated and the dollar volume. The bank's overall geographic distribution of loans by geography is reasonable.

Residential Real Estate Loans

The bank's geographic distribution of residential real estate loans is reasonable. As shown in Table 4, the bank's lending in moderate-income tracts is limited but consistent with the demographics of the AA. The bank originated one loan in a moderate-income tract, at 4.0 percent (2.6 percent by dollar), which is slightly higher than the percentage of owner-occupied housing units in the AA's two moderate-income tracts, at 3.1 percent. The bank's lending in middle-income tracts, at 24.0 percent by number and 30.1 percent by dollar, is lower than the demographic figure of 64.8 percent. The bank's lending to upper-income tracts, at 72.0 percent by number and 67.3 percent by dollar, exceeds the demographic figure of 32.1 percent. According to a member of the community, the limited availability of affordable housing stock negatively impacts the area's level of residential real estate lending. Additionally, the level of competition in the area limits the ability to cross sell to potential borrowers.

Small Business Loans

As shown in Table 4, the bank originated 29.0 percent by number and 20.2 percent by dollar of small business loans in moderate-income tracts. The bank's performance exceeded the percentage of small businesses located in the two tracts, at 11.8 percent. The bank's lending to middle-income tracts, at 19.4 percent by number and 21.9 percent by dollar, is below the demographic figure of 59.5 percent. The bank's lending to upper-income tracts, at 51.6 percent by number and 58.0 percent by dollar, exceeds the demographic figure of 28.7 percent. Based on the strong performance in the area's two moderate-income tracts, the bank's small business lending distribution by income level of geography is considered excellent.

**Distribution by Borrower Income Level and Revenue Size of Business:**

This criterion evaluates the bank's lending to borrowers of different income levels, particularly LMI individuals. Additionally, the analysis evaluates the bank's level of lending to businesses of different revenue size, including those with gross annual revenues of \$1MM or less. The evaluation reviewed both the number of loan originations and the dollar volume.

### Residential Real Estate Loans

The overall level of residential real estate lending to borrowers of different income levels in the AA is considered reasonable. The bank's residential real estate loan originations to low-income borrowers represent 12.0 percent by number and 8.7 percent by dollar which is slightly below the portion of low-income families located in the AA, at 15.1 percent. The bank's lending to moderate-income borrowers was 4.0 percent by number and 2.0 percent by dollar, which is well-below the demographic figure of 16.9 percent.

The bank's level of residential real estate lending to middle-income borrowers, at 8.0 percent by number and 5.1 percent by dollar, is also well-below the demographic of 22.3 percent. The bank's lending to upper-income borrowers was 76.0 percent by number and 84.3 percent by dollar, which exceeds the demographic figure of 45.6 percent.

A local community member indicated there is a shortage of affordable housing. Home prices often exceed the median housing value typically seen in rural areas, making them less affordable for LMI residents. As discussed in the Description of the Bank's Assessment Area section, the AA median housing value significantly exceeds that of the statewide nonmetropolitan area. In addition, the affordability ratio of the AA is less than that of the statewide nonmetropolitan area, which supports this community member's assessment. Demographic information relating to housing values and affordability, along with the perspective of community members, supports the conclusion that the bank's level of lending to LMI borrowers is reasonable.

### Small Business Loans

Overall, the bank's level of lending to small businesses by revenue size is considered reasonable. The bank originated 83.9 percent by number and 79.5 percent by dollar to businesses with gross annual revenues of \$1MM or less. This performance is slightly below the demographic figure of 89.8 percent but is still considered reasonable based on the high degree of competition in the area.

The bank's lending to businesses over \$1MM is 16.1 percent by number and 20.5 percent by dollar, which exceeds the demographic number of 8.3 percent.

## **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No signs of discrimination were identified. Furthermore, the bank has not engaged in any illegal credit practices inconsistent with helping to meet community credit needs.