



PUBLIC DISCLOSURE

May 04, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Midwest Heritage Bank, F.S.B.
Charter Number 712423

3580 E.P. True Parkway, Suite 100
West Des Moines, IA 50265

Office of the Comptroller of the Currency
Des Moines Field Office
1089 Jordan Creek Parkway
Suite 230
West Des Moines, IA 50266

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.

Midwest Heritage Bank’s (MHB) lending performance reflects a satisfactory response to the needs of its assessment areas (AAs). This conclusion is based on the following:

- MHB’s loan-to-deposit (LTD) ratio is reasonable;
- A majority of MHB’s loans are originated within its AAs;
- MHB’s distribution of loans reflects reasonable penetration among borrowers of different income levels;
- MHB’s geographic distribution of loans reflects reasonable dispersion among the low- and moderate-income census tracts (CTs) in the AAs; and
- There were no complaints regarding the bank’s performance in meeting the credit needs of its AAs.

SCOPE OF EXAMINATION

We evaluated MHB using small bank examination procedures, which includes a lending test. The lending test evaluates the bank’s record of meeting the credit needs of its AAs through its lending activities. The lending test covers the bank’s performance from January 1, 2012, to December 31, 2014. This period is representative of the bank’s lending strategy since the previous Community Reinvestment Act (CRA) examination.

MHB’s primary products are residential real estate loans and consumer loans. The following table shows the percentage of loan originations by loan type from January 1, 2012 to December 31, 2014.

Table 1: Loan Originations		
Loan Type	% by Dollar	% by Number
Residential	49%	22%
Consumer	34%	65%
Agricultural	9%	9%
Commercial	8%	5%

Source: Bank-provided loan origination reports (2012- 2014)

To evaluate MHB’s lending performance, we relied upon the bank’s Home Mortgage Disclosure Act (HMDA) data to evaluate the residential real estate loan portfolio, and selected a loan sample to evaluate the consumer loan portfolio.

DESCRIPTION OF INSTITUTION

MHB is a \$217 million thrift headquartered in West Des Moines, Iowa. MHB is 100 percent owned by Hy-Vee Inc. Hy-Vee is a grocery store chain with locations in eight Midwestern states (South Dakota, Minnesota, Nebraska, Iowa, Illinois, Kansas, Missouri, and Wisconsin). MHB operates seven branch locations, five of which are located in Hy-Vee food stores. The bank has 16 automated teller machines (ATMs), of which 12 contain a deposit-taking feature. Since the prior CRA examination, the bank has closed three branch locations (Indianola, Ames, and West Des Moines) and three ATMs. A significant portion of the bank's business is from Hy-Vee affiliated employees throughout the store's eight state region.

MHB offers a full range of deposit and loan products, and services to its customers. As of March 31, 2015, the bank's loan portfolio totaled \$122 million, or 56 percent of total assets. The March 31, 2015, call report identifies \$49 million in residential real estate loans, \$34 million in consumer loans, \$23 million in agricultural loans, and \$16 million in commercial loans.

There are no legal or financial impediments to MHB's ability to meet the credit needs of its AAs. MHB received a satisfactory rating at its last CRA examination dated April 30, 2009.

DESCRIPTION OF ASSESSMENT AREAS

The bank's AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies. Due to the location of MHB's seven office locations, management has designated three AAs.

Story County AA

The first AA consists of Story County in Iowa. The Story County AA includes 20 contiguous census tracts (CTs); two low-income CTs, two moderate-income CTs, 14 middle-income CTs, one upper-income CT, and one non-designated CT. The AA comprises the Ames-IA MSA and is home of Iowa State University, a college university that is known for their agricultural and engineering programs. Iowa State University reported record high enrollment in August 2014 with 34,732 students, which accounts for 56 percent of Ames's population and almost 40 percent of the AA's population. MHB serves the AA with one branch located in Ames.

The weighted average median family income was \$75,100 in 2014, a slight increase from 2013 when it was \$74,500. According to the 2010 United States Census data, the total population of the AA is 89,542, with 34,227 households. Approximately 9 percent of the households in the AA are low income, 9 percent are moderate income, 70 percent are middle income, and 12 percent are upper income households. Eighteen percent of the households are below the poverty level.

The local economy is stable. Unemployment rates are low and stable at approximately 2 percent. The major employers in the AA include Iowa State University, USDA National Center for Animal Health, Iowa Department of Transportation, 3M, Darfoss, WebFilings, Barilla, Hach, and BASF.

Competition from other financial institutions is strong. The FDIC market share report as of June 30, 2014, reports 19 institutions serve the AA. MHB's deposit share is less than 0.5 percent, totaling \$9.6 million. The major competitors are First National Bank of Ames with 22 percent market share and US Bank with 12 percent market share. Competition includes national, regional, and local financial institutions.

Dallas and Polk Counties AA

The second AA contains Dallas and Polk Counties in Iowa. The Dallas and Polk Counties AA incorporates a combined 113 contiguous CTs; eight low-income CTs, 30 moderate-income CTs, 45 middle-income CTs, 29-upper income CTs, and one non-designated CT. The AA includes the Des Moines-West Des Moines MSA. MHB operates their main office out of West Des Moines, along with four additional branch locations located in West Des Moines, Des Moines, Urbandale, and Windsor Heights.

The weighted average median family income in 2014 increased to \$74,900, an increase from \$72,900 in 2013. According to the 2010 United States Census, the AA had a population of 496,775, with 192,325 households. Approximately 23 percent of households in the AA are low-income, 17 percent are moderate-income, 19 percent are middle-income, and 41 percent are upper-income. Nine percent of households are reported to be living below the poverty level.

The local economy is stable. The unemployment rate in the Dallas and Polk Counties AA is low and stable at 4 percent. Major employers in the AA include Wells Fargo, Principal Financial Group, UnityPoint Health, Mercy Medical Center, Nationwide Insurance, Meredith Corporation, John Deere, and Hy-Vee.

Competition in the marketplace is strong. There are 41 financial institutions that serve the AA, according to the June 30, 2014, FDIC market share report. Our research identified an additional 13 credit unions that serve the AA. MHB's deposit share between the Dallas and Polk Counties AA is low at less than 1 percent. The institutions with the highest market shares were Wells Fargo at 21 percent, Bankers Trust at 16 percent, and Principal Bank at 14 percent.

Lucas County AA

The third AA contains all of Lucas County in Iowa. The Lucas County AA includes four contiguous CTs; three middle-income CTs and one upper-income CT. MHB serves the AA with one branch located in Chariton.

The weighted average median family income was \$60,700 in 2014, a slight increase from 2013 when it was \$59,800. According to the 2010 United States Census data, the total population of the AA is 8,898 with 3,668 households. While there are no low or

moderate-income CTs in the assessment area, approximately 23 percent of the households in the AA are low-income and 13 percent are moderate-income. Eighteen percent of the households are below the poverty level.

The local economy is stable. Unemployment rates are higher than the other AAs and Iowa average at almost 7 percent. The major employers in the Lucas County AA are Hy-Vee, Johnson Machine Works, Chariton Community School District, and Lucas County Health Center.

Competition from other financial institutions is moderate. MHB holds the largest share of the market, with 45 percent of deposits. There are three other financial institutions that serve the market area; Great Western Bank with 29 percent market share, US Bank with 23 percent, and Community Bank with 3 percent. The competition is a mix of national, regional, and local banks.

MHB's CRA public file contains a map of each AA.

We contacted a community representative from each assessment area in relation to the examination. All representatives concluded that the financial institutions serving the areas meet the credit needs of the communities, including low- and moderate-income individuals and families, through appropriate products and services.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

MHB's performance with regards to the lending test is satisfactory. The bank's LTD ratio is reasonable given the bank's size, financial condition, and credit needs of the AAs. In addition, MHB originates a majority of its loans inside the AAs. The borrower distribution of residential and consumer loans reflects reasonable penetration. The geographic distribution of residential and consumer loans reflects reasonable dispersion among low and moderate-income CTs. MHB has not received any complaints regarding its CRA performance since the previous examination.

Loan-to-Deposit Ratio

MHB's lending level is reasonable and meets the criteria for satisfactory performance. Over the past 24 quarters ending March 31, 2015, MHB's quarterly average LTD ratio was 68 percent. This ratio is comparable to the quarterly average LTD ratio of five other thrift institutions in Iowa of 67 percent. MHB's average LTD ratio is also comparable to other similarly sized banks in Iowa with an average LTD ratio of 72 percent.

Lending in Assessment Areas

MHB originates a majority of residential and consumer loans within its AAs, which meets the standard for satisfactory performance. MHB originated 53 percent of its loans by number and 46 percent of its loans by dollar amount within the AAs. The lower level of lending inside the bank's AAs is due to the bank's business strategy of lending to Hy-Vee employees. Hy-Vee operates more than 230 stores in eight Midwestern states, while MHB operates only seven branch locations located in four counties in the state of Iowa.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	158	41	229	59	387	25,061	37	42,891	63	67,952
Home Refinance	255	57	196	43	451	37,189	53	33,467	47	70,656
Home Improvement	124	66	63	34	187	7,562	56	5,870	44	13,432
Consumer Loans	12	60	8	40	20	985	69	445	31	1,430
Total	549	53	496	47	1045	70,797	46	82,673	54	153,470

Source: 2010 U.S. Census data; 2012-2014 HMDA, loan sample

Borrower Distribution of Loans

The distribution of borrowers, given the demographics of the AAs, reflects reasonable penetration among borrowers of different income levels.

The following tables illustrate loan originations, categorized by income level, that were reported by MHB during the review period, and compare this activity to aggregate HMDA lenders for residential real estate loans or demographic data for consumer loans. The Department of Housing and Urban Development (HUD) bases income categories on annual estimated incomes, with low-income defined as an income below 50 percent of the HUD adjusted median family income for the AA. HUD further defines moderate-income as between 50 and 79 percent of the median family income, middle-income as between 80 and 119 percent of the median family income, and upper income as equal to or greater than 120 percent of the median family income.

Story County AA

The distribution of residential real estate loans to borrowers of different income levels in the Story County AA reflects reasonable penetration. Our review of the bank's HMDA data indicated that MHB's lending of residential real estate loans in Story County is minimal, as only 45 loans were originated between 2012-2014; 13 purchase, 12 home improvement, and 20 refinance loans. MHB did not originate any loans to low-income borrowers, compared to 9 percent of aggregate HMDA loans. However, the lack of lending to low-income individuals is most likely attributed to the bank's branch being located in Ames, Iowa, which is heavily comprised of college students attending Iowa

State University. The demographics of the city in which the bank operates makes it difficult for the institution to lend to low-income individuals, as college students are not typically pursuing home purchase, improvement, or refinance loans. MHB originated 13 out of their 45 residential real estate loans in the AA, or 29 percent, to moderate-income borrowers. This compares favorably to 20 percent of aggregate HMDA loans. The 13 loans originated to moderate-income borrowers consist of three purchase loans, six home improvement loans, and four refinance loans.

Table 3 - Borrower Distribution of Residential Real Estate Loans in Story County AA

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of aggregate HMDA Loans	% of Number of Loans	% of aggregate HMDA Loans	% of Number of Loans	% of aggregate HMDA Loans	% of Number of Loans	% of aggregate HMDA Loans	% of Number of Loans
Home Purchase	9	0	20	23	23	23	35	46
Home Improvement	9	0	20	50	23	0	35	50
Home Refinance	9	0	20	20	23	30	35	50

Source: 2010 U.S. Census data; 2012-2014 HMDA data

The distribution of consumer loans to borrowers of different income levels in the Story County AA reflects reasonable penetration. Our sample of 20 consumer loans in the Story County AA identified that 50 percent of consumer loans were made to low-income individuals, which compares strongly to demographic data, as only 26 percent of AA households are designated low-income. MHB originated 20 percent of loans to moderate-income individuals, which compares favorably to demographic data, as only 16 percent of AA households were designated moderate-income.

Table 4 - Borrower Distribution of Consumer Loans in Story County 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
Consumer	26	50	16	20	17	10	42	20

Source: 2010 U.S. Census data; loan sample

Dallas and Polk Counties AA

The distribution of residential real estate loans to borrowers of different income levels in the Dallas and Polk Counties AA reflects reasonable penetration. MHB originated 369 residential real estate loans in the Dallas and Polk Counties AA from 2012-2014; 109 home purchase, 77 home improvement, and 183 refinance loans. MHB originated 23 loans, or 6 percent, to low-income borrowers, which compares reasonably to the percentage of HMDA loans at 8 percent. MHB originated 48 loans, or 13 percent, to moderate-income borrowers, which compares reasonably to the percentage of HMDA loans at 18 percent. The 23 loans originated to low-income borrowers consist of six purchase loans, five home improvement loans, and 12 refinances. The 48 loans

originated to moderate-income borrowers consist of 14 purchase loans, eight home improvement loans, and 26 refinances.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of aggregate HMDA Loans	% of Number of Loans	% of aggregate HMDA Loans	% of Number of Loans	% of aggregate HMDA Loans	% of Number of Loans	% of aggregate HMDA Loans	% of Number of Loans
Home Purchase	8	6	18	13	21	17	36	61
Home Improvement	8	6	18	10	21	22	36	61
Home Refinance	8	7	18	14	21	16	36	61

Source: 2010 U.S. Census data; 2012-2014 HMDA data

The distribution of consumer loans to borrowers of different income levels in the Dallas and Polk Counties AA reflects reasonable penetration. Our sample of 20 consumer loans in the Polk and Dallas Counties AA identified that MHB originated 10 percent of loans to both low- and moderate-income individuals. MHB's percentage of loans to low- and moderate-income individuals both fell below the percentage of households in the AA for the respective income category. However, it was noted that there is strong competition in the AA, as approximately 53 additional financial institutions are serving the AA. In addition, none of the bank's five branch locations that are located in the AA are located in a low or moderate-income CT, making it even more difficult to extend credit in those areas.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Consumer	23	10	17	10	19	20	41	60

Source: 2010 U.S. Census data; loan sample

Lucas County AA

The distribution of residential real estate loans to borrowers of different income levels in the Lucas County AA reflects reasonable penetration. MHB originated 123 residential real estate loans in the Lucas County AA from 2012-2014; 36 home purchase, 35 home improvement, and 52 refinance loans. MHB originated 15 loans, or 12 percent, to both low- and moderate-income individuals. MHB's lending of 12 percent to low-income individuals exceeds the percentage of HMDA loans at 11, and compares reasonably to the percentage of HMDA loans to moderate-income individuals at 16 percent. The 15 loans originated to low-income borrowers consist of six purchase loans, three home improvement loans, and six refinances. While the 15 loans originated to moderate-income borrowers consist of three purchase loans, four home improvement loans, and eight refinances.

Table 7 - Borrower Distribution of Residential Real Estate Loans in Lucas County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of aggregate HMDA Loans	% of Number of Loans	% of aggregate HMDA Loans	% of Number of Loans	% of aggregate HMDA Loans	% of Number of Loans	% of aggregate HMDA Loans	% of Number of Loans
Home Purchase	11	17	16	8	27	22	37	39
Home Improvement	11	9	16	11	27	17	37	49
Home Refinance	11	12	16	15	27	27	37	40

Source: 2010 U.S. Census data; 2012-2014 HMDA data

The distribution of consumer loans to borrowers of different income levels in the Lucas County AA reflects reasonable penetration. Our sample of 20 consumer loans in the Lucas County AA identified that MHB originated 30 percent of loans to low-income borrowers, and 20 percent to moderate-income individuals. MHB’s lending to low- and moderate-income individuals in the Lucas County AA compares reasonably to demographic data, as 30 percent of AA households are designated low-income, and 15 percent of AA households are designated moderate-income.

Table 8 - Borrower Distribution of Consumer Loans in Lucas County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Consumer	30	30	15	20	15	45	40	5

Source: 2010 U.S. Census data; loan sample

Geographic Distribution of Loans

The bank’s overall geographic distribution reflects a reasonable dispersion throughout the CTs of different income levels. The distribution of loans in both the Story County AA and the Dallas and Polk Counties AA reflects reasonable dispersion. The geographic distribution analysis was not performed for the Lucas County AA, as it does not contain any low- or moderate-income CTs.

Story County AA

MHB’s geographic distribution of residential real estate loans in Story County reflects reasonable dispersion. MHB originated two out of 45 residential loans in Story County in low-income CTs, reflecting 4 percent of total loans. MHB’s lending in low-income CTs exceeds the percentage of aggregate HMDA loans in low-income CTs at 2 percent. MHB originated five loans, or 11 percent in moderate-income CTs, compared to 6 percent of aggregate HMDA loans originated in moderate-income CTs.

Table 9 - Geographic Distribution of Residential Real Estate Loans in Story County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Aggregate HMDA Loans	% of Number of Loans	% of Aggregate HMDA Loans	% of Number of Loans	% of Aggregate HMDA Loans	% of Number of Loans	% of Aggregate HMDA Loans	% of Number of Loans
Home Purchase	2	0	6	0	73	69.	19	31
Home Improvement	2	8	6	25	73	67	19	0
Refinancing	2	5	6	10	73	65	19	20

Source: 2010 U.S. Census data; 2012-2014 HMDA data

MHB’s geographic distribution of consumer loans in Story County reflects reasonable dispersion. MHB’s lending in low-income CTs represented 10 percent of loans, which exceeds the percentage of AA households located in low-income CTs at 9 percent. Our sample of 20 consumer loans in Story County did not capture any loans in moderate-income CTs. However, the Story County AA only contains two small moderate-income CTs with a combined size of 8 square miles, which represents less than 1.50 percent of the entire AA size. It is apparent that the bank is not excluding the moderate-income CTs from their lending practices, as their HMDA data indicated loans have been originated in each of the two moderate-income CTs.

Table 10 - Geographic Distribution of Consumer Loans in Story County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Consumer	9	10	8	0	71	85	12	5

Source: 2010 U.S. Census data; loan sample

Dallas and Polk Counties AA

MHB’s geographic distribution of residential real estate loans in Dallas and Polk Counties reflects reasonable dispersion. MHB originated eight out of 369 residential loans in the Dallas and Polk Counties AA in low-income CTs, reflecting 2 percent of total loans. MHB’s lending in low-income CTs is equivalent to the percentage of aggregate HMDA loans in low-income CTs at 2 percent. MHB originated 22 loans, or 6 percent, in moderate-income CTs, compared to 12 percent of aggregate HMDA loans originated in moderate-income CTs.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Aggregate HMDA Loans	% of Number of Loans	% of Aggregate HMDA Loans	% of Number of Loans	% of Aggregate HMDA Loans	% of Number of Loans	% of Aggregate HMDA Loans	% of Number of Loans
Home Purchase	2	1	12	5	40	38	46	57
Home Improvement	2	4	12	6	40	34	46	56
Refinancing	2	2	12	7	40	30	46	61

Source: 2010 U.S. Census data; 2012-2014 HMDA data

MHB’s geographic distribution of consumer loans in Dallas and Polk Counties reflects reasonable dispersion. Our sample of 20 consumer loans in Dallas and Polk Counties did not capture any loans originated in low-income CTs. MHB’s lending in moderate-income CTs represented 10 percent of loans, compared to 24 percent of AA households.

Although MHB’s lending in low- and moderate-income CT’s is below the percentage of AA households, it was noted that there is strong competition in the area, as approximately 53 additional financial institutions are serving the area. In addition, none of the bank’s five branch locations that serve the AA are located in a low- or moderate-income CT, making it even more difficult for the bank to reach these areas.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Consumer	6	0	24	10	40	40	31	50

Source: 2010 U.S. Census data; loan sample

Responses to Complaints

MHB has not received any CRA-related complaints since the last CRA examination.

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 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 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.