



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

September 27, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Midstates Bank, National Association  
Charter Number: 10354

1851 Madison Avenue, Suite 732  
Council Bluffs, IA 51503-3602

Office of the Comptroller of the Currency

Omaha Field Office  
13710 FNB Parkway, Suite 110  
Omaha, NE 68154-5298

**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.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors that support this rating include:

- Midstates Bank's (MSB) loan-to-deposit ratio is more than reasonable.
- A majority of MSB's primary loan products are within the bank's assessment areas.
- MSB's distribution of loans represents a reasonable penetration among individuals of different income levels and farms of different sizes.
- MSB's responsiveness to community development needs and opportunities in its assessment area is adequate in light of its capacity and area opportunities.

## **Scope of Examination**

Midstates Bank (MSB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas through its lending activities. The community development test evaluates the bank's responsiveness to community development needs in its assessment areas through community development lending, qualified investments, and community development services.

The lending test for MSB covers its performance from January 1, 2008 through September 27, 2010, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the community development test is October 29, 2007 through September 27, 2010.

MSB's primary loan products are home and farm loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The HMDA data was tested and found to be reliable. Therefore, HMDA data was used to evaluate the bank's home loan performance. To evaluate the bank's business lending performance, we selected a sample of business loans made from January 1, 2008 through September 27, 2010.

The following table shows the findings of our sample:

<b>Loan Portfolio Summary by Loan Product</b>		
<b>September 27, 2010</b>		
<b>Loan Category</b>	<b>% of Number Volume</b>	<b>% of Dollar Volume</b>
Home Loans	22.5%	27.7%
Farm Loans	33.1%	58.1%
Consumer Loans	35.2%	3.1%
Business Loans	9.2%	11.2%

*Source: Bank Reports – Loan Originations 1/1/2008 to 9/27/2010*

## **Description of Institution**

MSB is a nationally chartered bank headquartered in Council Bluffs, Iowa. As of June 30, 2010, MSB had total assets of \$303 million and tier one capital of \$33 million. MSB is wholly owned by Midstates Bancshares, Inc. In addition to the main office, the bank operates five branches and seven automated teller machines (ATM) throughout two assessment areas. One of the branches is located in a moderate-income census tract. No branches have been opened or closed since the last CRA examination. There have not been any significant changes to MSB's corporate structure, including merger or acquisition activities, since the last CRA examination.

The bank offers a full range of deposit and loan products and services to its customers. MSB's business focus is community banking, specializing in agricultural lending and residential real estate lending. Within the residential mortgage portfolio, the bank originates mortgages for sale on the secondary market.

There are no legal or financial impediments to MSB's ability to meet the credit and community development needs of its assessment areas. The bank was rated Satisfactory at its last CRA examination dated October 29, 2007.

## **Description of Assessment Area(s)**

MSB has two assessment areas in southwest Iowa, which are described below.

### **Pottawattamie/Harrison County Assessment Area**

The Pottawattamie/Harrison assessment area consists of all census tracts in Pottawattamie County and four census tracts in Harrison County (9902, 9903, 9904, 9905). Pottawattamie and Harrison Counties are located in southwest Iowa and are included in the Omaha-Council Bluffs Metropolitan Statistically Area (MSA). The entire assessment area consists of 35 census tracts. Three census tracts are upper-income tracts, nineteen are middle-income tracts, and thirteen are moderate-income tracts. There are no low-income tracts within the assessment area. The assessment area

complied with the requirements of the regulation and did not arbitrarily exclude any low- or moderate-income area. A map of the assessment area can be obtained from the bank's CRA Public File.

According to the U.S. Census Bureau, the total population of Pottawattamie County was estimated at 90,224 in 2009. The largest city within the county is Council Bluffs, with a population of approximately 60,391. The 2009 estimated population of Harrison County was 15,328. The Housing and Urban Development 2010 weighted average median family income for the Omaha-Council Bluffs MSA was \$70,300. Of the 27,255 families in the assessment area, 29 percent were upper-income, 26 percent were middle-income, 24 percent were moderate-income, and 21 percent were low-income. Six percent of families in the assessment area were below the poverty level.

The major employers in Council Bluffs include Tyson Inc., Ameristar Casino Hotel, Horseshoe Casino, Harrah's Casino Hotel, Alegent Health Mercy Hospital, Con Agra, and Google. The unemployment rates in Pottawattamie and Harrison Counties are approximately five percent. These compare favorably with the United States unemployment rate of nearly ten percent.

Competition from other financial institutions was high in Pottawattamie/Harrison County assessment area, especially in Council Bluffs. The assessment area was serviced by 17 other financial institutions. MSB ranked third with more than nine percent of the FDIC-insured deposit market share in Pottawattamie and Harrison Counties.

### **Shelby County Assessment Area**

The Shelby County assessment area is comprised of all of Shelby County, which is located in rural southwest Iowa. It includes census tracts 9601 through 9604. All four census tracts are middle-income tracts. There are no low- or moderate-income tracts in Shelby County. The assessment area meets the requirements of the regulation. A map of the assessment area can be obtained from the bank's CRA Public File.

According to the U.S. Census Bureau, the total population of Shelby County was estimated at 11,957 in 2009. The county seat is Harlan, with a population of approximately 4,895. The Housing and Urban Development 2010 weighted average median family income for non-metropolitan statistical areas in Iowa was \$57,000. Of the 3,741 families in the assessment area, 39 percent were upper-income, 26 percent were middle-income, 20 percent were moderate-income, and 15 percent were low-income. Four percent of families in the assessment area were below the poverty level.

The major employers in Shelby County include Communications Data Services, Panama Transfer, Shelby County Health System, Variety Distributors, and Harlan Community Schools. The unemployment rate in Shelby County is estimated at four percent, which is below the national unemployment rate of nearly ten percent.

Competition from other financial institutions is average in Shelby County. The assessment area was serviced by six other financial institutions. MSB ranked second

with nearly 18 percent of the FDIC-insured deposit market share in Shelby County.

In conducting the assessment of the bank's performance, we contacted two local organizations. Our contacts represented a local community development organization and a local housing organization. They indicated a primary credit need of the assessment areas is home loans, especially for affordable housing in the Council Bluffs area. Also, farm loans were identified as a primary credit need, as a majority of the assessment area is rural. The contacts were complimentary of the local financial institutions' responsiveness to area credit needs and participation with community development initiatives. They were not aware of any unmet credit needs in the assessment areas.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

The bank's performance under the lending test is satisfactory. All criteria of the lending test are discussed below.

#### **Loan-to-Deposit Ratio**

MSB's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and performance context. The bank's loan-to-deposit ratio averaged 97 percent over the last 12 quarters since the last CRA examination. This ratio ranged from a quarterly low of 89 percent to a quarterly high of 108 percent during the time period. The bank's loan-to-deposit ratio compares favorably with other financial institutions of similar size, location, and product offerings. The loan-to-deposit ratios of three similarly situated banks over the same 12 quarters averaged 74 percent and ranged from a quarterly low of 59 percent to a quarterly high of 81 percent. It is also notable that MSB's average loan-to-deposit ratio does not reflect all home mortgage lending activity, as the bank sells mortgages in the secondary market. Since January 1, 2008, the bank has sold more than \$45 million in mortgages in the secondary market.

#### **Lending in Assessment Area**

A majority of MSB's primary loan products were made within the bank's assessment areas. Overall, the bank originated 72 percent by number and 66 percent by dollar amount of its primary products within its assessment areas. The following table details the bank's lending within the assessment areas by number and dollar amount of loans.

<b>Table 1 - Lending in Pottawattamie/Harrison County and Shelby County AAs</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	122	65.6	64	34.4	186	11,490	70.6	4,774	29.4	16,264
Home Refinance	189	75.0	63	25.0	252	19,959	63.7	11,397	36.3	31,356
Home Improvement	23	76.7	7	23.3	30	1,066	67.2	520	32.8	1,586
Farms	19	95.0	1	5.0	20	1,624	72.9	605	27.1	2,229
Totals	353	72.3	135	27.7	488	34,139	66.4	17,296	33.6	51,435

Source: HMDA data & sampled farm loan data 2008-2010

### Lending to Borrowers of Different Incomes and to Farms of Different Sizes

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

#### Performance in the Pottawattamie/Harrison County Assessment Area

The borrower distribution of loans in the Pottawattamie/Harrison County assessment area is reasonable.

#### Home Loans

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels. The bank’s percentage of home purchase loans to low- and moderate-income borrowers was good, as it reasonably reflects the demographic comparator. The percentage of home refinance loans was significantly lower than the percentage of low-income families, but the percentage to moderate-income families exceeded the comparator. Home improvement loans to low-income borrowers were also significantly below the portion of low-income families, but this is mitigated by the fact that six percent of families are below the poverty level. The percentage of home improvement loans to moderate-income borrowers was reasonably similar to the percentage of moderate-income families.

The following table shows the distribution of home loan products among borrowers of different income levels as compared to the percent of families in each income category.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Pottawattamie/Harrison AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.1	10.9	24.2	13.9	25.7	12.9	29.0	27.7
Home Refinance	21.1	7.7	24.2	30.8	25.7	7.7	29.0	46.2
Home Improvement	21.1	5.8	24.2	16.5	25.7	13.2	29.0	28.1

Source: HMDA data for 2008-2010 and U.S. Census Data

*Farm Loans*

MSB’s distribution of loans to farms with different revenues was adequate. The bank’s percentage of reported loans to farms with gross annual revenues of \$1 million or less was significantly below the percentage of farms with gross annual revenues of \$1 million or less. However, this is mitigated by the fact that the loans to farms with more than \$1 million in gross annual revenues in our sample were to one large farm operation. Also, large farms generally borrow larger amounts, thus distorting the percentage lent by dollar volume. In addition, financial information was not available for some borrowers.

The following table shows the distribution of farm loans among different sized farms in the assessment area.

<b>Table 2A - Borrower Distribution of Loans to Farms in Pottawattamie/Harrison County AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	99.1	0.6	0.3	100%
% of Bank Loans in AA by #	57.1	28.6	14.3	100%
% of Bank Loans in AA by \$	25.8	73.8	0.4	100%

*Source: Farm loan data sampled from 2008-2010 and U.S. Census Data*

Performance in the Shelby County Assessment Area

The borrower distribution of loans in the Shelby County assessment area is reasonable.

*Home Loans*

The distribution of MSB’s home loans by borrower income level throughout the assessment area was reasonable. The percentage of home purchase, refinance, and improvement loans to moderate-income borrowers reasonably reflect the demographic comparator. Although the percentage of home loans to low-income borrowers falls significantly below the percentage of low-income families in the assessment area, it can be reasonably explained by the fact that the four percent of families below the poverty level would have difficulty qualifying for these loans due to their limited income.

The following table shows the distribution of home loan products among borrowers of different income levels.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Shelby County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	15.2	4.8	20.5	14.3	25.7	28.6	38.6	42.9
Home Refinance	15.2	0.0	20.5	20.0	25.7	30.0	38.6	50.0
Home Improvement	15.2	10.3	20.5	14.7	25.7	25.0	38.6	45.6

Source: HMDA data for 2008-2010 and U.S. Census Data

### *Farm Loans*

The distribution of loans to farms with different revenues was reasonable. All of the bank’s farm loans originated in the Shelby County assessment area were to farms with gross annual revenues of \$1 million or less. This is consistent with the percent of farms in the assessment area that reported gross annual revenues of \$1 million or less.

The following table shows the distribution of farm loans among different sized farms in the assessment area.

<b>Table 2A - Borrower Distribution of Loans to Farms in Shelby County AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	99.2	0.3	0.5	100%
% of Bank Loans in AA by #	100.0	0.0	0.0	100%
% of Bank Loans in AA by \$	100.0	0.0	0.0	100%

Source: Farm loan data sampled from 2008-2010 and U.S. Census Data

### **Geographic Distribution of Loans**

The distribution of loans reflects a reasonable dispersion throughout the bank’s assessment areas. There were no conspicuous gaps identified within MSB’s assessment areas. The analysis of the geographic distribution of loans in the Shelby County assessment area was not meaningful, as the assessment area does not contain any low- or moderate-income census tracts.

### Performance in the Pottawattamie/Harrison County Assessment Area

The bank’s geographic distribution of loans in this assessment area reflects a reasonable dispersion throughout census tracts of different income levels.

### *Home Loans*

MSB meets the standard for geographic distribution of home loans in the Pottawattamie/Harrison County assessment area. The assessment area consists of



moderate, middle, and upper income census tracts. As indicated below, the bank’s geographical distribution of home loans is reasonably comparable to the demographics of the assessment area, including the moderate-income census tract.

Following is a table that details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Pottawattamie/Harrison County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.0%	0.0%	32.3%	29.7%	58.8%	57.4%	8.9%	12.9%
Home Improvement	0.0%	0.0%	32.3%	15.4%	58.8%	84.6%	8.9%	0.0%
Refinancing	0.0%	0.0%	32.3%	31.4%	58.8%	51.2%	8.9%	17.4%

Source: HMDA data for 2008-2010 and U.S. Census Data

### *Farm Loans*

The bank’s geographic distribution of farm loans reflects reasonable dispersion throughout the census tracts of different income levels. While our sample did not include any farm loans in the one moderate-income census tract in this assessment area, this is considered reasonable because there were few farms located in this census tract. Therefore, opportunities for the bank to make farm loans in this census tract were limited.

Following is a table that details the bank’s performance as compared to the percentage of farms in each census tract income level.

<b>Table 3A - Geographic Distribution of Loans to Farms in Pottawattamie/Harrison County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Farm Loans	0.0%	0.0%	4.4%	0.0%	87.8%	100%	7.7%	0.0%

Source: Farm loan data sampled from 2008-2010 and U.S. Census Data

### Performance in the Shelby County Assessment Area

The analysis of the geographic distribution of loans in the Shelby County assessment area was not meaningful. The assessment area did not have any low- or moderate-income census tracts.

## **Responses to Complaints**

MSB has not received any CRA complaints during this evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The Community Development Test is rated Satisfactory. MSB demonstrated adequate responsiveness to the community development needs of its assessment areas considering the capacity of the bank, and the need and availability of opportunities in the assessment areas. The following narratives and tables support our assessment of the bank's performance.

### **Number and Amount of Community Development Loans**

MSB's community development loan activity is adequate within their designated assessment areas. There is limited opportunity for community development loans within the assessment areas. The majority of the loans were concentrated in promoting small businesses. The bank promoted economic development by funding \$8.5 million to small businesses within its assessment areas.

### **Number and Amount of Qualified Investments**

MSB's community development investment and donation activity is reasonable within the designated assessment areas. There is limited opportunity for investments within the assessment areas. However, the bank did make several qualified donations. These totaled \$3,671 to nine organizations whose primary purposes were to provide affordable housing, community services, or promote economic development within the assessment areas. The bank also made donations to many other local organizations within the assessment areas that did not qualify for consideration under this test.

### **Extent to Which the Bank Provides Community Development Services**

MSB provides satisfactory community development services within the designated assessment areas. Bank services are available to all individuals located within the assessment areas. In addition, one of the bank's branches is located in a moderate-income census tract in the Pottawattamie/Harrison County assessment area, thus improving the availability of financial services to individuals of low- and moderate-income. Also, the bank's staff provides financial expertise to four local organizations that focus on providing affordable housing, community services, or promoting economic development. Bank employees are also involved in several other local organizations which benefit the communities in the assessment areas. Furthermore, MSB acts as a liaison to allow the Southwest Iowa Planning Council to obtain funds through the Federal Home Loan Bank to provide affordable housing to low- and moderate-income families in the assessment areas.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.