



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

October 29, 2007

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Midstates Bank, National Association  
Charter Number: 10354

1851 Madison Avenue, Suite 17  
Council Bluffs, IA 51513

Office of the Comptroller of the Currency

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

**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.**

- A substantial majority of the bank's primary product loans are originated within the Assessment Areas (AAs).
- Midstates Bank, N.A.'s (Midstates) average loan-to-deposit ratio reasonably compares to other similarly situated institutions.
- Midstates record of lending to borrowers of different incomes and farms of different sizes is reasonable.
- The geographical distribution of loans within the bank's AAs is reasonable.

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

- Midstates community development performance demonstrates adequate responsiveness to the community development needs of its AAs through community development loans, qualified investments, and community development services.

## **Scope of Examination**

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

The lending test covers the banks performance from January 1, 2005 through October 27, 2007. The evaluation period for the CD test is January 1, 2005 through October 27, 2007.

We determined Midstates primary loan products are residential real estate (RE) and agricultural 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 residential real estate performance. To evaluate the bank's agricultural lending performance, we selected a sample of agricultural loans originated from January 1, 2005 through October 27, 2007.

The following table shows the findings of our sample:

Loans Originations				
Loan Product	Number Originated	By Number	Dollars Originated	By Dollar
Home Loans	1654	27%	\$169,891,885	36%
Consumer Loans	1824	30%	\$10,340,374	2%
Business Loans	591	9%	\$60,886,418	13%
Agricultural Loans	2111	34%	\$232,587,656	49%
<b>TOTALS</b>	<b>6180</b>	<b>100%</b>	<b>\$473,706,333</b>	<b>100%</b>

Source: Bank Reports – Loan Originations 1/1/2005 to 10/27/2007

## Description of Institution

Midstates is a nationally chartered bank headquartered in Council Bluffs, Iowa. Midstates Bancshares, Inc. owns 100% of the bank. Midstates is a \$325 million financial institution located in southwest Iowa. In addition to the main branch, the bank operates 5 branches and 7 automated teller machines (ATM) throughout two AAs. Management opened a new branch in Council Bluffs, Iowa on February 5, 2007. As of June 30, 2007 the bank’s loan portfolio totaled 68% of total assets.

Midstates business focus is community banking, specializing in agricultural lending and residential real estate lending, primarily through the secondary market. Midstates offers a variety of products and services to all of its customers.

There are no legal, financial or other factors impeding the bank’s ability to help meet the credit needs in its AAs. Midstates received a “satisfactory” rating at its prior CRA examination on April 10, 2002.

## Description of Assessment Area(s)

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

### Pottawattamie/Harrison County AA

The Pottawattamie/Harrison AA consists of all of Pottawattamie County and three census tracts in Harrison County. Pottawattamie and Harrison Counties are included in the Omaha Metropolitan Statistically Area (MSA).

Over the past year, Pottawattamie County and the city of Council Bluffs have increased their population to over 90,000 and 60,000, respectively. The major employers in Council Bluffs are Tyson Inc, Ameristar Casino Hotel, Horseshoe Casino, and Council Bluffs Community Schools. The unemployment rate in Pottawattamie County is 3.4%. This compares favorably with the United States unemployment rate of 4.6%, and the Iowa unemployment rate of 3.9%. Harrison County has maintained a steady population of approximately 16,000 and an unemployment rate of 3%.

Examiners interviewed a community contact located in Pottawattamie County. The organization's primary objectives are the creation of higher paying jobs in the community and an expanded tax base. The community contact described the economic conditions of the area as strong. The community contact also indicated financial institutions in Council Bluffs effectively respond to the needs of the community and are active in using the Small Business Administration programs. The contact stated that area banks do a good job of supporting economic development, supporting community fund drives, and are members of the Chamber of Commerce.

Competition from other financial institutions is strong. Midstates has 13.72% deposit market share of the FDIC insured deposits in Pottawattamie, Harrison, and Shelby Counties. This ranks the bank third out of the 19 banks in the AAs. American National Bank and US Bank, NA are the top two banks in deposit market share at 20.58% and 16.96%, respectively.

### **Shelby County AA**

The Shelby County AA consists of all four census tracts and has a slightly declining population of approximately 12,000. Harlan, which is the largest community in the county, has a population of approximately 5,000. The major employers in Harlan are the Communications Data Services, Shelby County Health System, Variety Distributors, Inc, and Harlan Community Schools. Shelby County has an unemployment rate of 3.5%.

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

**The bank's performance under the lending test is rated satisfactory.** The following narratives and tables support our assessment of the bank's performance.

### **LENDING TEST**

The bank's performance under the lending test is satisfactory. The following sections and tables support our assessment of the bank's performance.

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

Midstates meets the standards for the loan-to-deposit ratio (LTD). The bank's LTD is reasonable given the institution's size, financial condition, and the credit needs of both AAs. Midstate's quarterly average LTD ratio for the 18 quarters ending June 30, 2007 is 86.63%. The bank's average, at 78.88%, is comparable to the 18 quarter average of similarly situated banks, which ranged from 68.26% to 84.49%. The bank ranks 1st out of the four similarly situated banks. The four banks offer traditional banking products similar to those offered at Midstates, and range from \$80 million to \$330 million in asset size.

### Lending in Assessment Area

Midstates meets the standards for lending within their AA. Midstates originates a majority of its loans within both of the AAs. We reviewed a random sample of forty agricultural loans and the bank’s 2005 & 2006 HMDA LAR (Loan Application Register) to determine the bank’s lending performance within the AA. The bank’s primary products were identified as agricultural and residential real estate loans. The majority were made within the AA, 89% by number and 87% by dollar. The following table shows the findings of our sample:

Lending in Midstates Bank NA Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<b>Agricultural</b>	40	100%	0	0%	40	\$5,408,389	100%	\$0	0%	\$5,408,389
<b>Residential</b>	652	88%	87	12%	739	\$54,949,000	86%	\$8,670,000	14%	\$63,619,000
<b>Totals</b>	692	89%	87	11%	779	\$60,357,389	87%	\$8,670,000	13%	\$69,027,389

Source: 2007 Geodemographic Data, HMDA Reports & Bank Reports

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

Midstates meets the standards for lending to borrowers of different income and farms of different sizes. The sample included twenty-three agricultural loans from the Pottawattamie/Harrison County AA, seventeen agricultural loans from the Shelby County AA, and the 2005 and 2006 HMDA LAR.

#### Agricultural Loans

The bank’s lending to farms of different sizes in the Pottawattamie/Harrison County AA is satisfactory. The agricultural loan sample noted 78% by number and 53% by dollar amount of loans granted in the Pottawattamie/Harrison County AA were to farms with revenues of less than one million dollars. Four borrowers in the sample did not report financial information. The following table shows the findings of our sample:

Borrower Distribution of Loans to Farms in Pottawattamie/Harrison County AA			
Agricultural Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	NA
% of AA Farms	99%	1%	0%
% of Bank Loans in AA by #	78%	4%	17%
% of Bank Loans in AA by \$	53%	46%	1%

Source: 2007 Geodemographic Data & Bank Reports

The bank’s lending to farms of different sizes in the Shelby County AA is satisfactory. The agricultural loan sample noted 82% by number and 90% by dollar amount of loans granted in the Shelby County AA were to farms with revenues of less than one million dollars. Three borrowers in the sample did not report financial information. The following table shows the findings of our sample:

<b>Borrower Distribution of Loans to Farms in Shelby County AA</b>			
<b>Agricultural Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>NA</b>
<b>% of AA Farms</b>	99%	1%	0%
<b>% of Bank Loans in AA by #</b>	82%	0%	18%
<b>% of Bank Loans in AA by \$</b>	90%	0%	10%

Source: 2007 Geodemographic Data & Bank Reports

Residential RE Loans

The bank’s lending to borrowers of different incomes in the Pottawattamie/Harrison County AA is satisfactory. The residential real estate loan sample noted the bank numbers vary somewhat from the demographics. The bank’s opportunity for residential real estate lending is limited due to the 30% of total housing needs met by rental units. The median family income for the Pottawattamie/Harrison County AA is \$47,722. The following table shows the findings of our sample:

<b>Borrower Distribution of Residential RE Loans in Pottawattamie/Harrison County AA</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of AA Families</b>	<b>% of # of Loans</b>	<b>% of AA Families</b>	<b>% of # of Loans</b>	<b>% of AA Families</b>	<b>% of # of Loans</b>	<b>% of AA Families</b>	<b>% of # of Loans</b>
<b>Residential RE</b>	21%	7%	24%	17%	26%	23%	28%	53%

Source: 2007 Geodemographic Data, HMDA Reports & Bank Reports

The bank’s lending to borrowers of different incomes in the Shelby County AA is satisfactory. The residential real estate loan sample noted the bank numbers vary somewhat from the demographics. The bank’s opportunity for residential real estate lending is limited due to the 24% of total housing needs met by rental units. The median family income for the Shelby County AA is \$44,584.

The following table shows the findings of our sample:

Borrower Distribution of Residential RE Loans in Shelby County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
<b>Residential RE</b>	15%	8%	20%	16%	26%	29%	39%	47%

Source: 2007 Geodemographic Data, HMDA Reports & Bank Reports

### Geographic Distribution of Loans

The geographical distribution of the bank’s primary products reflects a good penetration throughout the designated AAs.

#### Agricultural Loans

Midstates meets the standard for geographical distribution of agricultural loans in Pottawattamie/Harrison County AA. The AA consists of moderate, middle, and upper census tracts. As indicated below, the bank’s geographical distribution of agricultural loans is very comparable to the demographics of the AA. The following table shows the findings of our sample:

Geographic Distribution of Loans to Agriculturals in Pottawattamie/Harrison County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
<b>Agricultural</b>	0%	0%	4%	5%	90%	95%	6%	0%

Source: 2007 Geodemographic Data, HMDA Reports & Bank Reports

Geographic distribution analysis for agricultural loans is not applicable as the Shelby County AA consists of only four middle-income census tracts.

#### Residential RE Loans

Midstates meets the standard for geographical distribution of residential real estate loans in Pottawattamie/Harrison County AA. The AA consists of moderate, middle, and upper census tracts. As indicated below, the bank’s geographical distribution of residential real estate loans is very comparable to the demographics of the AA.

The following table shows the findings of our sample:

<b>Geographic Distribution of Residential Real Estate Loans Pottawattamie/Harrison County AA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan type</b>	% 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
<b>Residential RE</b>	0%	0%	32%	28%	59%	63%	9%	9%

*Source: 2007 Geodemographic Data, HMDA Reports & Bank Reports*

Geographic distribution analysis for residential real estate is not applicable as the Shelby County AA consists of only four middle-income census tracts.

**Responses to Complaints**

Midstates has not received any CRA related complaints during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

There are limited opportunities for community development loans and investments within the bank’s AAs. For this reason, the bank has focused more on community development services.

**Number and Amount of Community Development Loans**

Midstates community development loan activity is satisfactory within their designated AAs. There is limited opportunity for community development loans within the AAs. The majority of the loans were concentrated in promoting small businesses within moderate census tracts. Midstates originated 13 qualifying community development loans totaling \$995M. The bank also made several loans for rehabilitation of homes within their AAs. However, because these loans were included on the bank’s 2005 and 2006 HMDA LARs, the bank may not also receive community development credit.

**Number and Amount of Qualified Investments**

The bank’s community development investment and donation activity is reasonable within the designated AAs. There is limited opportunity for investments within the AAs. However, the bank did have community development donations which were concentrated in organizations whose primary purposes were to provide affordable housing, community services, or promote economic development. Midstates provided 13 qualifying donations totaling \$4,455 to 6 organizations between January 1, 2005 and October 27, 2007. The bank also makes donations to other community focused organizations within the AAs.



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

Midstates provides reasonable community development services within the designated AAs. Bank services are available to all individuals located within the AAs. The bank's staff and management are actively involved in 13 community development organizations that have a focus of affordable housing, community service, or promoting economic development. Midstates employee involvement in these organizations is focused around providing technical, financial expertise, serving on committees, and assisting with fundraising. Bank employees are also involved in several other organizations which benefit the communities in the AAs.

### **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.