



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 26, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Midland National Bank of Newton
Charter Number 4860

527 Main Street
Newton, KS 67114

Office of the Comptroller of the Currency

2959 N. Rock Road, Suite 510
Wichita, KS 67226

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

- Midland National Bank's (Midland) quarterly loan-to-deposit ratio of 63% reflects reasonable responsiveness to assessment area (AA) credit needs.
- Midland extended a majority of its primary loan products to borrowers located in the AA. We found the bank granted 73% of the number and 64% of the dollar amount of loans within the AA.
- Midland's lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration. The residential loan sample indicated the bank's level of lending to low- and moderate income borrowers exceeded the AA demographics. The business loan sample indicated the bank's performance was near the AA demographics.

SCOPE OF EXAMINATION

Residential real estate loans and small business loans are the bank's primary loan products. The evaluation of lending products included a review of twenty residential real estate loans as reported on the Home Mortgage Disclosure Act Loan/Application Register (LAR) and twenty business loans originated during 2010, 2011, and year-to-date June 30, 2012. We performed a Data Integrity Examination on the bank's LAR data and found it to be reliable.

The bank's business strategy has not changed; therefore the loans granted during these years are representative of all loans granted since the March 9, 2006 Community Reinvestment Act (CRA) examination.

DESCRIPTION OF INSTITUTION

As of June 30, 2012, Midland National Bank is a \$132 million bank located in Newton, Kansas. The bank operates out of five locations in Newton. Two of these locations have drive-up facilities. The bank also has five ATMs. Three ATMs can process deposits. The bank has not opened or closed any branches during the evaluation period. The bank is a wholly-owned subsidiary of Midland Financial Corporation, a one bank holding company located in Newton, Kansas. The holding company had total assets of \$14.8 million as of December 31, 2011.

Midland is a full-service banking institution offering a full range of commercial, real estate, and consumer credit products. On June 30, 2012, net loans and leases represented 43% of the bank's total assets. The \$56 million loan portfolio consisted of 66% business loans, 21% one-to-four family residential real estate loans, 7% agricultural loans, and 6% consumer loans. The volume of residential real estate loans retained in the bank's loan portfolio is not representative of the bank's lending activity for this product. Midland sells a substantial portion of the residential loans it originates.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its assessment area. The Office of the Comptroller of the Currency last evaluated Midland National Bank's CRA performance on March 9, 2006. The bank received an overall rating of "Satisfactory" under the Small Bank Performance Standards.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's assessment area consists of Harvey County, Kansas, which is one of four counties in the Wichita Metropolitan Statistical Area (MSA) #48620. All six of the census tracts in the AA are middle-income tracts. The AA does not contain any low-, moderate-, or upper-income tracts. The AA complies with regulation and does not arbitrarily exclude any low- or moderate-income tracts.

The 2000 U.S. Census population of the AA was 32,869. The Housing and Urban Development (HUD) Updated 2012 MSA Median Family Income is \$65,000. The AA has the following income distribution for families: 16% low-income, 23% moderate-income, 27% middle-income, and 34% upper-income. Of the 12,607 households in the AA, 31% receive social security, 8% have income below the poverty level, and 2% receive public assistance. Nearly 17% of the population is over the age of sixty-five and 33% of the population consists of civilians not in the workforce. The median housing value from the 2000 U.S. Census data is \$75,801 and 68% of the units are owner occupied.

Harvey County's economy is stable and the population is growing. Major employers in the AA include: Ag Co., Excel, Norcraft, the schools districts, the county, and the hospital. The Bureau of Labor Statistics reflects an August 2012 unemployment rate for Harvey County of 5.8%. This is considerably better than the Wichita Metropolitan Statistical Area, of which Harvey County is a part, with an August 2012 unemployment rate of 7.3%. The unemployment rate in Kansas for the same period was 6.2%.

Midland faces strong competition in the AA. Based on the Federal Deposit Insurance Corporation's most recent deposit market share report (June 30, 2012), a total of nine other financial institutions maintain 18 offices within Harvey County. Of these nine institutions, four have the majority of their deposits located outside the AA. Management considers five of the nine institutions as the bank's primary competitors. With the exception of one large bank, the competitors are similar in size to Midland. Midland has the second largest market share, or 20% of the deposits within the AA.

Examiners contacted one community professional. The contact indicated that all banks in the AA are supportive of the community's credit needs to the extent of their capabilities. The contact identified small business loans and residential real estate loans as the area's primary credit needs and stated that local financial institutions are meeting these needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Midland's average quarterly loan-to-deposit ratio of 63% reflects reasonable responsiveness to assessment area credit needs. The average quarterly loan-to-deposit ratio over the same period for the bank's competitors was 73%, with ratios ranging from 52% to 110%. Excluding one large competitor headquartered outside of the AA, the average quarterly loan-to-deposit ratio for competitors was 64%.

Lending in Assessment Area

The bank's lending in the AA is satisfactory. Midland extended a majority of its primary loan products to borrowers located within the AA. We found the bank granted 73% of the number and 64% of the dollar amount of loans within the AA.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Midland's lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration.

The residential loan sample indicated the bank granted 20% of the number of loans to low-income borrowers and 30% of the loans to moderate-income borrowers. This level of lending is above the AA demographics.

| Distribution of Residential Real Estate Loans in Harvey County AA | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % 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 |
| Residential Real Estate | 16.48 | 20.00 | 22.58 | 30.00 | 27.29 | 20.00 | 33.65 | 30.00 |

Source: Loan Sample and 2000 U.S. Census data.

The business loan sample indicated 65% of the number and 25% of the dollar amount of loans are to businesses with revenues of one million dollars or less. The bank's performance is near the AA demographic of 69%.

| Distribution of Loans to Businesses in Harvey County AA | | | | |
|---|--------------|--------------|---------------------|-------|
| Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Business | 69.20% | 2.42% | 28.38% | 100% |
| % of Bank Loans in AA by # | 65.00% | 30.00% | 5.00% | 100% |
| % of Bank Loans in AA by \$ | 24.65% | 74.52% | 0.83% | 100% |

Source: Loan sample; Dun and Bradstreet data

Geographic Distribution of Loans

An analysis of the geographic distribution of loans originated by Midland during the evaluation period would not be meaningful. The bank's AA does not contain any low- or moderate-income areas.

Responses to Complaints

Midland has not received any CRA related complaints since the previous 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 national 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 FSA, or in any assessment area 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.