

FEDERAL RESERVE SYSTEM

Reliable Community Bancshares, Inc.
Perryville, Missouri

MAB Acquisition Corp.
Perryville, Missouri

Order Approving the Acquisition of a Bank Holding Company

Reliable Community Bancshares, Inc. (“Reliable”), a financial holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ and its subsidiary, MAB Acquisition Corp. (“MAB,” and together with Reliable, “Applicants”), both of Perryville, Missouri, have requested the Board’s approval under section 3 of the BHC Act² to acquire Mid America Banking Corporation (“Mid America”), Rolla, and thereby indirectly acquire Mid America Bank & Trust Company (“Mid America Bank”), Dixon, both of Missouri. As part of the proposal, MAB would become a bank holding company. Following the proposed acquisition, Mid America Bank would be merged into Reliable’s subsidiary bank, The Bank of Missouri (“Bank of Missouri”), Perryville, Missouri.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (81 Federal Register 95613 (December 28, 2016)).⁴ The time for submitting comments has expired, and the Board has considered

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ The merger of Mid America Bank into Bank of Missouri, which is not expected to occur for some time following Applicants’ acquisition of Mid America, is subject to the approval of the Federal Deposit Insurance Corporation (“FDIC”) pursuant to section 18(c) of the Federal Deposit Insurance Corporation Act. 12 U.S.C. § 1828(c).

⁴ 12 CFR 262.3(b).

the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Reliable, with consolidated assets of approximately \$1.4 billion, is the 541st largest insured depository organization in the United States.⁵ Reliable controls approximately \$1.0 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁶ Reliable controls Bank of Missouri, which operates only in Missouri. Reliable is the 22nd largest insured depository organization in Missouri, controlling deposits of approximately \$1.0 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.⁷

Mid America, with consolidated assets of approximately \$159.0 million, is the 3407th largest insured depository organization in the United States. Mid America controls approximately \$122.6 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Mid America controls Mid America Bank, which operates only in Missouri.⁸ Mid America is the 153rd largest insured depository organization in Missouri, controlling deposits of approximately \$123.5 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of the proposal, Reliable would become the 495th largest insured depository organization in the United States, with consolidated assets of approximately \$1.5 billion, which represent less than 1 percent of the total assets of

⁵ National asset and deposit data, market share, and ranking are as of June 30, 2017, unless otherwise noted.

⁶ In this context, insured depository institutions include commercial banks, credit unions, savings and loan associations, and savings banks.

⁷ State asset data, market share, and ranking data are as of June 30, 2016, unless otherwise noted.

⁸ The proposal does not raise interstate issues under section 3(d) of the BHC Act because Missouri is the home state of both Reliable and Mid America Bank, and Mid America Bank operates only in Missouri. See 12 U.S.C. § 1842(d).

insured depository organizations in the United States. Reliable would control consolidated deposits of approximately \$1.2 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Missouri, Reliable would remain the 22nd largest depository organization, controlling deposits of approximately \$1.1 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market.⁹ The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.¹⁰

Bank of Missouri and Mid America Bank do not compete directly in any banking market. The Department of Justice has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all of the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in any relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the

⁹ 12 U.S.C. § 1842(c)(1)(A).

¹⁰ 12 U.S.C. § 1842(c)(1)(B).

institutions involved.¹¹ In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information regarding capital adequacy, asset quality, liquidity, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to complete effectively the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

Reliable and Bank of Missouri are both well capitalized and would remain so on consummation of the proposal. The proposed transaction is a merger that is structured as a share exchange, with a subsequent merger of the subsidiary depository institutions.¹² The asset quality, earnings, and liquidity of both Bank of Missouri and Mid America Bank are consistent with approval, and Reliable appears to have adequate resources to absorb the costs of the proposal and to complete the integration of the institutions' operations. In addition, future prospects under the proposal are considered consistent with approval.

¹¹ 12 U.S.C. § 1842(c)(2), (5), and (6).

¹² Applicants would effect the acquisition by merging Mid America with and into MAB, with MAB as the survivor. At the time of the merger, each share of Mid America common stock would be converted into a right to receive Reliable common stock and/or cash, based on an exchange ratio. Reliable would fund the cash portion of the exchange primarily through a third-party loan. Any additional cash needed in connection with the acquisition would be funded by a dividend from Bank of Missouri to Reliable.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Reliable, Mid America, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Reliable, the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations, and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws.

Reliable and its subsidiary depository institution are considered to be well managed. Reliable's directors and senior executive officers have substantial knowledge of and experience in the banking and financial sectors, and Reliable's risk-management program appears consistent with approval of this expansionary proposal.

The Board also has considered Reliable's plans for implementing the proposal. Reliable has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-integration process for this proposal. Reliable would implement a combination of its own and Mid America's risk-management policies, procedures, and controls at the combined organization, and this combination is considered acceptable from a supervisory perspective. In addition, Reliable's management has the experience and resources to operate the combined organization in a safe and sound manner.

Based on all the facts of record, including Reliable's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Reliable and Mid America in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.¹³ In its evaluation of the effects of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of the communities to be served. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act of 1977 (“CRA”).¹⁴ The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with the institutions’ safe and sound operation,¹⁵ and requires the appropriate federal financial supervisory agency to assess a depository institution’s record of helping to meet the credit needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods, in evaluating bank expansionary proposals.¹⁶

In addition, the Board considers the banks’ overall compliance records and their recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, and information provided by the applicant. The Board also may consider the institution’s business model, its marketing and outreach plans, the organization’s plans after consummation, and any other information the Board deems relevant.

¹³ 12 U.S.C. § 1842(c)(2).

¹⁴ 12 U.S.C. § 2901 et seq.

¹⁵ 12 U.S.C. § 2901(b).

¹⁶ 12 U.S.C. § 2903.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of Bank of Missouri and Mid America Bank, the fair lending and compliance records of both banks, the supervisory views of the FDIC, confidential supervisory information, and information provided by Reliable.

Records of Performance under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions, as well as information and views provided by the appropriate federal supervisors.¹⁷ In this case, the Board considered the views of the Federal Reserve Bank of St. Louis ("Reserve Bank") and the FDIC.

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.¹⁸ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test to evaluate the performance of a small insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's data reported under the Home Mortgage

¹⁷ See Interagency Questions and Answers Regarding Community Reinvestment, 81 Fed. Reg. 48506, 48548 (July 25, 2016).

¹⁸ 12 U.S.C. § 2906.

Disclosure Act of 1975 (“HMDA”),¹⁹ automated loan reports, and other reports generated by the institution to assess an institution’s lending activities with respect to borrowers and geographies of different income levels. The institution’s lending performance is based on the institution’s loan-to-deposit ratio, loan originations for sale to the secondary market, lending-related activities in its assessment areas (“AAs”), record of engaging in lending-related activities for borrowers of different income levels and businesses and farms of different sizes, geographic distribution of loans, and record of taking action in response to written complaints about its performance.²⁰ Intermediate small banks are subject to the lending test, as well as a community development test that evaluates the number and amount of their community development loans and qualified investments, the extent to which they provide community development services, and their responsiveness to community development lending, investment, and service needs.²¹

CRA Performance of Bank of Missouri

Bank of Missouri was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the FDIC, as of January 26, 2015 (“Bank of Missouri Evaluation”).²² The bank received “Satisfactory” ratings for each of the Lending Test and the Community Development Test.

¹⁹ 12 U.S.C. § 2801 et seq.

²⁰ See 12 CFR 228.26(b).

²¹ See 12 CFR 228.26(c).

²² The Bank of Missouri Evaluation was conducted using the Intermediate Small Bank CRA Examination Procedures. For the Lending Test, examiners reviewed HMDA loans reported by Bank of Missouri in 2012, 2013, and the first three quarters of 2014, and small business loans originated by the bank between January 1, 2014, and December 18, 2014. For the Community Development Test, examiners reviewed community development lending, investments, and services based on data from July 23, 2012, through January 26, 2015. The Bank of Missouri Evaluation covered the bank’s seven AAs, including full-scope reviews of the Cape Girardeau, Missouri; Columbia, Missouri; Perryville, Missouri; and Springfield, Missouri, AAs and limited-scope reviews of the bank’s Branson, Missouri; Scott City, Missouri; and Poplar Bluff, Missouri, AAs.

Examiners found that Bank of Missouri's average net loan-to deposit ratio, which is a measure of the overall level of lending, was reasonable given the asset size and financial condition of the bank. Examiners also found that a substantial majority of the bank's HMDA and small business loans was originated within the bank's AAs, illustrating a commitment to meeting the credit needs of these areas, and that the geographic distribution of loans reflected a reasonable dispersion within the bank's AAs. Examiners noted that the bank's loan distribution by borrower income characteristics reflected a reasonable penetration among businesses of different revenue sizes and among individuals of different income levels. Further, examiners noted that Bank of Missouri had not received any CRA complaints since the bank's previous CRA evaluation.

Examiners also determined that Bank of Missouri demonstrated an adequate responsiveness to the community development needs of its AAs through qualified community development lending, investment, and service activity, considering the capacity of the bank and the need for and availability of such opportunities.

CRA Performance of Mid America Bank

Mid America Bank was assigned an overall rating of "Needs to Improve" at its most recent CRA performance evaluation by the Reserve Bank, as of April 22, 2013 ("Mid America Bank Evaluation").²³ Examiners noted that this rating was primarily based on the bank's substantive violations of section 5 of the Federal Trade Commission Act ("FTC Act"), which prohibits unfair or deceptive acts or practices, and the bank's lack of adequate controls in place to prevent such practices.²⁴ The Board has entered into a Consent Order with Mid America Bank for these violations of section 5 of the FTC Act, which occurred as a result of practices related to Mid America's balance transfer credit

²³ The Mid America Bank Evaluation was conducted using Small Bank CRA Examination Procedures. Examiners reviewed loans originated by the bank from January 1, 2012, through December 31, 2012. The Mid America Bank Evaluation included a review of the bank's AA, which includes all of Phelps and Pulaski counties, Missouri, and the southern portion of Maries County, Missouri.

²⁴ 5 U.S.C. § 45.

card portfolios offered to consumers through third parties. Pursuant to the Consent Order, Mid America Bank has agreed to pay restitution of approximately \$5 million to affected cardholders and to submit to the Reserve Bank a written plan to strengthen the oversight by Mid America Bank's board of directors of the bank's compliance risk management program. This order is conditioned on Reliable's compliance with a commitment to cause Bank of Missouri, as successor to Mid America Bank, to comply with the obligations of the Consent Order.

Examiners found that Mid America Bank's loan distribution among borrowers of different income levels, including LMI borrowers, and among businesses of different revenue sizes, was reasonable. However, examiners noted that the bank's geographic distribution of loans reflected poor dispersion throughout the bank's AA. Examiners noted that the bank's CRA performance would have been considered satisfactory but for the bank's violations of the FTC Act.

Additional Supervisory Views

In its review of the proposal, the Board consulted with the FDIC regarding Bank of Missouri's CRA, consumer compliance, and fair lending records. The Board has considered the results of the most recent consumer compliance examination of Bank of Missouri conducted by the FDIC, which included a review of the bank's compliance risk-management program and the bank's compliance with consumer protection laws and regulations. The Board also has considered the results of the most recent consumer compliance examination of Mid America Bank conducted by the Reserve Bank, actions Mid America Bank has committed to take to address its past violations of section 5 of the FTC Act, and actions Mid America Bank has already taken to strengthen its current and future compliance with section 5 of the FTC Act.

Additional Convenience and Needs Considerations

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. Reliable represents that it has no plans to discontinue any significant product or service currently offered by Bank of Missouri or Mid America Bank. Reliable also represents that, following the proposed

transaction, customers of Mid America Bank would have access to a broader range of products and services than those currently available to Mid America Bank customers. Additionally, Reliable represents that customers of Mid America Bank would benefit from a more expansive branch network. Reliable asserts that, following the proposed transaction, Bank of Missouri would continue to provide a level of service consistent with or exceeding Bank of Missouri's current CRA performance. Reliable represents that Bank of Missouri would be able to integrate Mid America Bank's business into its operations in a manner that would prevent further violations of law such as those noted in the Mid America Bank Evaluation.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA records of the relevant depository institutions involved, the institutions' records of compliance with fair lending and other consumer protection laws, consultation with the FDIC, confidential supervisory information, information provided by Reliable, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 3 of the BHC Act to require the Board to consider "the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system."²⁵

To assess the likely effect of a proposed transaction on the stability of the United States banking or financial system, the Board considers a variety of metrics that capture the systemic "footprint" of the resulting firm and the incremental effect of the

²⁵ Dodd-Frank Act § 604(d), Pub. L. No. 111-203, 124 Stat. 1376, 1601 (2010), codified at 12 U.S.C. § 1842(c)(7).

transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.²⁶ These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.²⁷

The Board's experience has shown that proposals involving an acquisition of less than \$10 billion in assets, or that result in a firm with less than \$100 billion in total assets, are generally not likely to propose systemic risks. Accordingly, the Board presumes that a proposal does not raise material financial stability concerns if the assets involved fall below either of these size thresholds, absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.²⁸

In this case, the Board has considered information relevant to risks to the stability of the United States banking or financial system. The proposal involves a target that has less than \$10 billion in assets and a pro forma organization of less than

²⁶ Many of the metrics considered by the Board measure an institution's activities relative to the United States financial system.

²⁷ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012).

²⁸ See People's United Financial, Inc., FRB Order No. 2017-08 at 25-26 (March 16, 2017). Notwithstanding this presumption, the Board has the authority to review the financial stability implications of any proposal. For example, an acquisition involving a global systemically important bank could warrant a financial stability review by the Board, regardless of the size of the acquisition.

\$100 billion in assets. Both the acquirer and the target are predominately engaged in a variety of consumer and commercial banking activities.²⁹ The pro forma organization would have minimal cross-border activities and would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. In addition, the organization would not be a critical services provider or so interconnected with other firms or the markets that it would pose a significant risk to the financial system in the event of financial distress.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the United States banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Applicants with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the

²⁹ Reliable primarily offers consumer and business loan and deposit products, with a focus on commercial and home mortgage lending. Mid America primarily offers commercial, residential, and consumer loan and deposit products. In each of the activities in which it engages, Reliable has, and as a result of the proposal would continue to have, a small market share on a nationwide basis, and numerous competitors would remain for these services.

Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth calendar day after the effective date of this order or later than three months thereafter, unless such period is extended for good cause by the Board or the Reserve Bank, acting under delegated authority.

By order of the Board of Governors,³⁰ effective October 26, 2017.

Ann E. Misback (signed)

Ann E. Misback
Secretary of the Board

³⁰ Voting for this action: Chair Yellen, Vice Chairman for Supervision Quarles, and Governors Powell and Brainard.