FRB Order No. 2015-06
February 17, 2015

FEDERAL RESERVE SYSTEM

First Farmers Bank & Trust
Converse, Indiana

Order Approving the Merger of Banks and the Establishment of a Branch

First Farmers Bank & Trust ("FFBT"), Converse, Indiana,[1] a state member bank, has requested the Board's approval under section 18(c) of the Federal Deposit Insurance Act[2] ("Bank Merger Act") to merge with First National Bank of Chrisman ("Chrisman"), Chrisman, Illinois.[3] In addition, FFBT has applied under section 9 of the Federal Reserve Act ("FRA")[4] to establish and operate a branch at the location of Chrisman's sole office.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been given in accordance with the Bank Merger Act and the Board's Rules of Procedure.[5] The time for filing comments has expired. As required by the Bank Merger Act, a report on the competitive effects of the merger was requested from the United States Attorney General. The Board has considered the applications and all comments received in light of the factors set forth in the Bank Merger Act and the FRA.

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[1] FFBT is a subsidiary of First Farmers Financial Corporation, a financial holding company, also of Converse, Indiana.

[2] 12 U.S.C. § 1828(c).

[3] Chrisman is a subsidiary of Chrisman Bancorp, Inc., a bank holding company, Springfield, Illinois.

[4] 12 U.S.C. § 321.

[5] 12 CFR 262.3(b).

FFBT, with total assets of approximately $1.4 billion, operates in Indiana and Illinois.[6] FFBT is the 23rd largest insured depository institution in Indiana, controlling deposits of approximately $1.0 billion, which represent less than 1 percent of the total deposits in insured depository institutions in the state ("state deposits").[7] FFBT is the 173rd largest insured depository institution in Illinois, controlling deposits of approximately $221.0 million, which represent less than 1 percent of total state deposits.

Chrisman, with total assets of approximately $38.5 million, operates only in Illinois. Chrisman is the 478th largest insured depository institution in Illinois, controlling deposits of approximately $34.8 million, which represent less than 1 percent of total state deposits.

On consummation of the proposal, FFBT would become the 150th largest insured depository institution in Illinois, controlling deposits of approximately $255.8 million, representing less than 1 percent of total state deposits.

Interstate Analysis

Section 102 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal Act") authorizes a bank to merge with a bank located in another state under certain conditions unless, before June 1, 1997, the home state of one of the banks involved in the transaction adopted a law expressly prohibiting merger transactions involving out-of-state banks.[8] For purposes of the Riegle-Neal Act, the home state of FFBT is Indiana, and the home state of Chrisman is Illinois.[9] FFBT has

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[6] Asset data are as of September 30, 2014, updated to include the assets acquired by FFBT through the purchase of nine branches from BMO Harris Bank National Association, Chicago, Illinois, on November 14, 2014.

[7] Deposit data and state rankings are as of June 30, 2014, updated to include the anticipated mergers with Community Bank, Hoopeston, Illinois, and United Community Bank, Oakwood, Illinois, both of which were approved by the Federal Reserve on February 3, 2015. In this context, insured depository institutions include insured commercial banks, savings banks, and savings associations.

[8] 12 U.S.C. § 1831u.

[9] See 12 U.S.C. § 1831u(g)(4).

provided a copy of its Bank Merger Act application to the relevant state agency and has complied with state law filing requirements.[10] The proposal also complies with all other requirements of the Riegle-Neal Act.[11] Accordingly, the Riegle-Neal Act does not prohibit this interstate branch acquisition.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking.[12] The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of communities to be served.[13]

FFBT and Chrisman compete directly in the Edgar County, Illinois market.[14] FFBT operates two branches in Paris, Illinois, located in the southern portion of the market. Chrisman's main office and only location is in Chrisman, Illinois, in the

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[10] 12 U.S.C. § 1831u(b)(1). The Indiana Department of Financial Institutions has indicated that this transaction would comply with applicable Indiana law, and the Illinois Department of Financial & Professional Regulation has indicated that this transaction would comply with applicable Illinois law. See IND. CODE § 28-2-17-20 and 205 ILL. COMP. STAT. 5/21.1.

[11] See 12 U.S.C. § 1831u. As required by the Riegle-Neal Act, FFBT and Chrisman are both at least adequately capitalized (as defined in 12 U.S.C. § 1831o(b)(1)(B)), and the resulting bank would be well capitalized and well managed on consummation of the transaction. On consummation of the proposal, FFBT would control less than 10 percent of the total amount of deposits in insured depository institutions in the United States and less than 30 percent of the total amount of deposits in insured depository institutions in Illinois. See 12 U.S.C. § 1831u(b)(2)(A) and (B)(ii). All other requirements of section 102 of the Riegle-Neal Act would also be met on consummation of the proposal.

[12] 12 U.S.C. § 1828(c)(5)(A).

[13] 12 U.S.C. § 1828(c)(5)(B).

[14] The Edgar County banking market is defined as Edgar County, Illinois, minus Kansas Township.

northern portion of the market. The Board has reviewed the competitive effects of the proposal in this banking market in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking market, the relative share of the total deposits in insured depository institutions in the market ("market deposits") that FFBT would control,[15] the concentration levels of market deposits and the increase in these levels as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines"),[16] and other characteristics of the market.

In the Edgar County banking market, the change in concentration levels and the concentration levels on consummation would exceed the threshold levels in the DOJ Bank Merger Guidelines. FFBT is the third largest insured depository institution in the Edgar County banking market, controlling deposits of approximately $78.9 million, which represent approximately 17.4 percent of market deposits. Chrisman is the fifth largest insured depository institution in the market, controlling deposits of approximately $34.8 million, which represent approximately 7.7 percent of market deposits. On consummation of the proposal, FFBT would remain the third largest depository institution in the Edgar County banking market, controlling deposits of approximately $113.6 million. The market concentration level in the Edgar County

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[15] Deposit and market share data are based on data reported by insured depository institutions in the Federal Deposit Insurance Corporation's summary of deposits data as of June 30, 2014.

[16] Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice ("DOJ") has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

banking market as measured by the HHI would increase by 266 points, from 2369 to 2635, and the market share of the combined entity would represent approximately 25.0 percent of market deposits.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the market.[17] Several factors indicate that the increase in concentration in the Edgar County banking market, as measured by the HHI and the market share of the combined organization, overstates the potential competitive effects of the proposal in the market. The Board has considered the competitive influence of one active thrift, First Bank & Trust, S.B. ("First Bank"), Paris, Illinois. First Bank has a ratio of commercial and industrial loans to assets that is comparable to the ratio for some commercial banks in the market; accordingly, the Board has concluded that deposits controlled by First Bank should be weighted at 100 percent in the market-share calculations.[18]

In addition, after consummation of the proposal, three other competitors would remain in the market, each controlling more than 15 percent of market deposits, including two with greater market share than the combined organization. The largest and

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[17] The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in and resulting level of concentration in a banking market. <u>See</u> <u>NationsBank Corp.</u>, 84 Federal Reserve Bulletin 129 (1998).

[18] The Board has previously indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks (<u>see</u>, <u>e.g.</u>, <u>Midwest Financial Group</u>, 75 Federal Reserve Bulletin 386 (1989) and <u>National City Corporation</u>, 70 Federal Reserve Bulletin 743 (1984)) and has given their deposits 50 percent weighting to reflect their limited lending to small businesses relative to banks' lending levels. However, the Board previously has indicated that it may consider the competitiveness of a thrift institution at a level greater than 50 percent of its deposits when appropriate if competition from the institution closely approximates competition from a commercial bank. <u>See</u>, <u>e.g.</u>, <u>Banknorth Group, Inc.</u>, 75 Federal Reserve Bulletin 703 (1989). First Bank has a ratio of commercial and industrial loans to assets that is greater than the ratio for some thrift institutions that the Board has previously found to be full competitors of commercial banks.

second largest competitors in the market would control approximately 32.8 percent and 25.8 percent of market deposits, respectively, and the fourth largest competitor in the market would control approximately 16.4 percent of market deposits. The Board has concluded that this also mitigates, in part, the potential effects of the proposal.

The geographic locations of the applicant and target in the market also suggest that HHI calculations likely overstate the competitive effects of the proposal. FFBT's branches are located in Paris township, which is located in the more populated, southern portion of the county where a significant majority of the market's banking activity is centered. In contrast, Chrisman only operates in Ross township, which is in the less populated, northern part of the county.[19] Although the northern and southern parts of Edgar County are included in the same banking market, only a small number of Edgar County residents regularly commute between the two townships.[20] Therefore, there appear to be very few residents for whom the effective number of banking options would be reduced. The Board has concluded that these factors also mitigate the potential competitive effects of the proposal.

The DOJ conducted a review of the potential competitive effects of the merger and has advised the Board that consummation would not be likely to 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 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 the Edgar County banking market, or in any other relevant

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[19] Chrisman's branch in Ross township is located approximately 14 miles north of FFBT's branches in Paris township.

[20] Although the percentage of residents that regularly commute between Paris township and Ross township is high enough that these townships are considered to be in the same banking market, the actual number of commuters from Ross township is low.

banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under the Bank Merger Act, the Board considers the financial and managerial resources and future prospects of the institutions involved. In its evaluation of financial factors, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, and earnings prospects, and the impact of the proposed funding of the transaction. 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. The Board also considers the ability of the organization to absorb the costs of the proposal and the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important.

FFBT is well capitalized and would remain so on consummation of the proposal. Chrisman would be merged into FFBT.[21] The asset quality, earnings, and liquidity of FFBT are consistent with approval, and FFBT appears to have adequate resources to absorb the costs of the proposal and to complete the integration of FFBT's and Chrisman's operations. Future prospects are considered consistent with approval. Based on its review of the record, the Board concludes that the organization has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved and the proposed combined organization. The Board has reviewed the examination records of FFBT and Chrisman, including assessments of their

[21] Each outstanding share of Chrisman stock would be canceled and converted into a right-to-receive cash consideration. The anticipated aggregate cash consideration to be paid in connection with the merger is approximately $4.3 million, subject to certain adjustments.

management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant bank supervisory agencies with the organizations and their records of compliance with applicable banking and anti-money-laundering laws.

FFBT and Chrisman are considered to be well managed. FFBT's existing risk-management program, and its board of directors and senior management, are considered to be satisfactory. The directors and senior executive officers of FFBT have substantial knowledge of and experience in the banking and financial services sectors.

The Board also has considered FFBT's plans for implementing the proposal. FFBT is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. FFBT would operate the acquired branch of Chrisman under its existing risk-management policies, procedures, and controls, which are considered to be acceptable from a supervisory perspective. In addition, FFBT's and Chrisman's management has the experience and resources that should allow the combined organization to operate in a safe and sound manner, and FFBT is proposing to integrate Chrisman's existing management and personnel in a manner that augments FFBT's management.[22]

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

<u>Convenience and Needs Considerations</u>

In acting on a proposal under the Bank Merger Act, the Board must consider the effects of the proposal on the convenience and needs of the communities to

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[22] FFBT's board of directors and senior management team would remain the same after consummating the merger.

be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").[23] The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank merger proposals.

The Board has considered all the facts of record, including reports of examination of the CRA performance of FFBT and Chrisman, information provided by FFBT, and confidential supervisory information.

A. Records of Performance under the CRA

As provided in the CRA, the Board evaluates an institution's performance based on the CRA evaluation completed by that institution's primary regulator.[24] The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI neighborhoods.[25] An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, onsite evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.

CRA Performance of FFBT

FFBT received an overall rating of "satisfactory" at its most recent CRA performance examination by the Federal Reserve Bank of Chicago ("Reserve Bank"), in

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23 12 U.S.C. § 2901 et seq.

24 See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (2010).

25 12 U.S.C. § 2906.

February 2012 ("FFBT Evaluation"). FFBT received "satisfactory" ratings on the Lending Test and the Community Development Test.[26]

In evaluating the Lending Test, examiners found that a substantial majority of FFBT's HMDA-reportable, small business, and small farm loans were within the bank's assessment areas. Examiners noted that FFBT's loans reflected a reasonable dispersion among geographies of different income levels and that the bank's borrower distribution reflected reasonable penetration among individuals of different income levels. Examiners commented favorably on FFBT's loan-to-deposit ratio, which consistently exceeded that of its peers and closest competitors.

In evaluating the Community Development Test, examiners noted that FFBT's level of community development lending demonstrated adequate responsiveness to the needs of its assessment areas. Examiners noted that FFBT's staff participated in qualified community development services offering a wide variety of financial assistance to all portions of the bank's assessment areas. Examiners noted that FFBT made qualified community development investments that were used for a variety of purposes, including economic development and affordable housing. FFBT made qualified grants and donations to various charitable organizations that served the needs of the LMI populations.

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[26] The FFBT Evaluation was conducted using Intermediate-Small Bank CRA Examination Procedures. The evaluation period for the bank's HMDA-reportable, small business, and small farm loans was from January 1, 2009, through December 31, 2010. The evaluation period for the bank's community development activities was from February 22, 2010, through February 27, 2012. The evaluation included full-scope reviews of FFBT's non-metropolitan assessment area (including all of Cass, Huntington, and Miami counties, and portions of Clinton, Fulton, Grant, Marshall, Pulaski, Starke, Wabash, and White counties, all of Indiana) and the Kokomo, Indiana Metropolitan Statistical Area ("MSA"). Limited-scope reviews were performed in the portion of the bank's assessment areas located within the Anderson MSA, Indianapolis-Carmel MSA, and Lafayette MSA, all in Indiana.

CRA Performance of Chrisman

Chrisman received an overall rating of “satisfactory” at its most recent CRA performance examination by the Office of the Comptroller of the Currency, in December 2010 (“Chrisman Evaluation”).[27] The Chrisman Evaluation focused on Chrisman’s primary loan product, agricultural loans. Examiners found that Chrisman’s loan-to-deposit ratio was reasonable based on the bank’s size, financial condition, and the credit needs of the assessment area. Examiners also noted that the bank’s distribution of loans reflected reasonable penetration among farms of different sizes.

B. Additional Information on Convenience and Needs of Communities to be Served by the Combined Organization

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits.

FFBT represents that the proposed transaction would provide Chrisman’s customers with access to a broader network of branches and ATMs, enhanced products and services, and expanded financial resources and lending capacity. FFBT plans to expand the suite of products and services currently available to Chrisman’s customers to include, among other things, various mobile banking services and securities and insurance brokerage services. FFBT also plans to offer additional credit services, including additional mortgage loans, farm lending, equipment leasing, and various government-sponsored loan programs.

C. Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including reports of examination and the CRA records of the institutions involved, information provided by FFBT, and confidential supervisory information. Based on the Board’s assessment of the

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[27] The Chrisman Evaluation was conducted using Small Bank CRA Examination Procedures. The evaluation period was from August 5, 2005, through December 6, 2010. The evaluation examined three census tracts in Edgar County, Indiana, which included the cities of Paris and Chrisman.

CRA and consumer compliance records of FFBT and Chrisman, its review of examination reports, and its consultations with other agencies, the Board concludes that the convenience and needs factor, including the CRA records of the insured depository institutions involved in this transaction, is consistent with approval of the application.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended the Bank Merger Act to require the Board to consider a merger proposal's "risk to the stability of the United States banking or financial system."[28]

To assess the likely effect of a proposed transaction on the stability of the U.S. 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 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.[29] 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.[30]

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[28] Section 604(f) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 1828(c)(5).

[29] Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

[30] For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation of the proposed transaction, FFBT would have approximately $1.5 billion in consolidated assets and would not be likely to pose systemic risks. The Board generally presumes that a merger that involves an acquisition of less than $2 billion in assets, or results in a firm with less than $25 billion in consolidated assets, will not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction.

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 U.S. banking or financial system. Based on these and all other facts of record, the Board has determined that considerations relating to financial stability are consistent with approval.

Establishment of Branch

FFBT has applied under section 9 of the FRA to establish a branch at the current location of Chrisman,[31] and the Board has considered the factors it is required to consider when reviewing an application under that section.[32] Specifically, the Board has considered FFBT's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investments in bank premises.[33] For the reasons discussed in this order, the Board finds those factors to be consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the applications should be, and hereby are, approved. In reaching its

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[31] Chrisman's main office and only location is 147 West Monroe Avenue, Chrisman, Illinois 61924.

[32] 12 U.S.C. § 322; 12 CFR 208.6.

[33] Upon consummation of the proposed transaction, FFBT's investments in bank premises would remain within legal requirements under 12 CFR 208.21.

conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the Bank Merger Act and the FRA. Approval of the applications is specifically conditioned on compliance by FFBT with all the commitments made in connection with this proposal and the conditions set forth in this order. The commitments and conditions are deemed to be conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

FFBT's acquisition of Chrisman may not be consummated before the 15th calendar day after the effective date of this order or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Reserve Bank acting pursuant to delegated authority.

By order of the Board of Governors,[34] effective February 17, 2015.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

[34] Voting for this action: Chair Yellen and Vice Chairman Fischer, Governors Tarullo, Powell, and Brainard.