FRB Order No. 2018-09
April 2, 2018

FEDERAL RESERVE SYSTEM

Arvest Bank Group, Inc.
Bentonville, Arkansas

Arvest Holdings, Inc.
Bentonville, Arkansas

Arvest Bank
Fayetteville, Arkansas

Order Approving the Acquisition of a Bank Holding Company, the Merger of Banks, and the Establishment of Branches

Arvest Bank, Fayetteville, Arkansas, a state member bank, and its parent companies, Arvest Bank Group, Inc., and Arvest Holdings, Inc. (together, with Arvest Bank, "Arvest"), both of Bentonville, Arkansas, and both bank holding companies within the meaning of the Bank Holding Company Act of 1956 ("BHC Act"),[1] have requested the Board's approval under section 3 of the BHC Act[2] to acquire Bear State Financial, Inc. ("Bear State"), a bank holding company, and thereby indirectly acquire Bear State Bank, a state member bank, both of Little Rock, Arkansas.

In addition, Arvest Bank has requested the Board's approval under section 18(c) of the Federal Deposit Insurance Act ("Bank Merger Act") to merge with Bear State Bank, with Arvest Bank as the surviving entity.[3] Arvest Bank also has applied under section 9 of the Federal Reserve Act ("FRA") to establish and operate branches at the main office and branches of Bear State Bank.[4]

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[1] 12 U.S.C. § 1841 et seq.

[2] 12 U.S.C. § 1842.

[3] 12 U.S.C. § 1828(c).

[4] 12 U.S.C. § 321. These locations are listed in Appendix A.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (82 Federal Register 50426 (October 31, 2017)).[5] The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act, the Bank Merger Act, and the FRA. As required by the Bank Merger Act, a report on the competitive effects of the merger was requested from the United States Attorney General, and a copy of the request has been provided to the Federal Deposit Insurance Corporation.

Arvest, with consolidated assets of approximately $16.8 billion, is the 93rd largest depository organization in the United States. Arvest controls approximately $14.5 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] Arvest controls Arvest Bank, which operates in Arkansas, Kansas, Missouri, and Oklahoma. Arvest is the largest insured depository organization in Arkansas, controlling approximately $8.5 billion in deposits, which represent approximately 13.2 percent of the total deposits of insured depository institutions in the state.[7] Arvest is the 19th largest insured depository organization in Missouri, controlling approximately $1.3 billion in deposits, which represent approximately 0.7 percent of the total deposits of insured depository institutions in the state. Arvest is the 4th largest insured depository organization in Oklahoma, controlling approximately $4.9 billion in deposits, which represent approximately 5.7 percent of the total deposits of insured depository institutions in the state.

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[5] 12 CFR 262.3(b).

[6] National deposit, market share, and ranking data are as of September 30, 2017, and asset data is as of December 31, 2017, unless otherwise noted.

[7] State deposit, market share, and ranking data are as of June 30, 2017, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

Bear State, with consolidated assets of approximately $2.2 billion, is the 368th largest insured depository organization in the United States. Bear State controls approximately $1.6 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Bear State controls Bear State Bank, which operates in Arkansas, Missouri, and Oklahoma. Bear State is the 10th largest insured depository organization in Arkansas, controlling approximately $1.3 billion in deposits, which represent approximately 2.0 percent of the total deposits of insured depository institutions in the state. Bear State is the 66th largest insured depository organization in Missouri, controlling approximately $358.3 million in deposits, which represent approximately 0.2 percent of the total deposits of insured depository institutions in the state. Bear State is the 167th largest insured depository organization in Oklahoma, controlling approximately $55.5 million in deposits, which represent approximately 0.1 percent of the total deposits of insured depository institutions in the state.

On consummation of the proposal, Arvest would become the 89th largest insured depository organization in the United States, with consolidated assets of approximately $18.8 billion, which represent less than 1 percent of the total assets of insured depository organizations in the United States. Arvest would control consolidated deposits of approximately $16.1 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Arkansas, Arvest would remain the largest insured depository organization, controlling deposits of approximately $9.7 billion, which represent approximately 15.2 percent of the total deposits of insured depository institutions in the state. In Missouri, Arvest would become the 15th largest insured depository organization, controlling deposits of approximately $1.7 billion, which represent approximately 0.9 percent of the total deposits of insured depository institutions in the state. In Oklahoma, Arvest would remain the 4th largest insured depository organization, controlling deposits of approximately 5.0 billion, which represent approximately 5.7 percent of total deposits of insured depository institutions in the state.

Interstate and Deposit Cap Analysis

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of the bank holding company without regard to whether the transaction is prohibited under state law.[8] Under this section, the Board may not approve an application that would permit an out-of-state bank holding company to acquire a bank in a host state if the bank has not been in existence for the lesser of the state statutory minimum period of time or five years.[9] In addition, the Board may not approve an interstate application if the bank holding company controls or, upon consummation of the proposed transaction, would control more than 10 percent of the total deposits of insured depository institutions in the United States[10] or, in certain circumstances, if the bank holding company, upon consummation, would control 30 percent or more of the total deposits of insured depository institutions in any state in which the acquirer and target have overlapping banking operations.[11]

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[8] 12 U.S.C. § 1842(d)(1)(A).

[9] 12 U.S.C. § 1842(d)(1)(B).

[10] Similarly, the Bank Merger Act provides that, in general, the Board may not approve a bank merger if the transaction involves insured depository institutions with different home states and the resulting bank would control more than 10 percent of the total amount of deposits of insured depository institutions in the United States. 12 U.S.C. § 1828(c)(13). For purposes of the Bank Merger Act, the home state of both Arvest Bank and Bear State Bank is Arkansas. 12 U.S.C. § 1828(c)(13)(ii)(II). Accordingly, the deposit cap requirement of the Bank Merger Act does not apply to the proposed bank merger.

[11] 12 U.S.C. § 1842(d)(2)(A) and (B). The acquiring and target institutions have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or a branch. For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the state in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. § 1841(o)(4)-(7).

For purposes of the BHC Act, the home state of Arvest is Arkansas, and Bear State Bank is located in Arkansas, Missouri, and Oklahoma.[12] Arvest is well capitalized and well managed under applicable law, and Arvest Bank has a "Satisfactory" rating under the Community Reinvestment Act of 1977 ("CRA").[13] Missouri has a five-year minimum age requirement,[14] and Oklahoma has no minimum age requirement. Bear State Bank has been in existence for more than five years.

On consummation of the proposed transaction, Arvest would control less than 1 percent of the total amount of consolidated deposits of insured depository institutions in the United States. Arkansas imposes a 25 percent limit,[15] Missouri imposes a 13 percent limit,[16] and Oklahoma imposes a 20 percent limit,[17] on the total amount of in-state deposits that a single banking organization may control. In each of these states, the only states in which Arvest and Bear State have overlapping operations, the combined organization would control less than the total amount of in-state deposits that a single banking organization may control. The Board has considered all other requirements under section 3(d) of the BHC Act, including Arvest's record of meeting the convenience and needs of the communities it serves. Accordingly, in light of all of the facts of record, the Board may approve the proposal under section 3(d) of the BHC Act.

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[12] See 12 U.S.C. § 1841(o)(4). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. A state bank's home state is the state in which the bank is chartered.

[13] 12 U.S.C. § 2901 et seq.

[14] See Mo. Rev. Stat. § 362.077(1).

[15] Ark. Code Ann. § 23-48-406.

[16] Mo. Rev. Stat. § 362.915.

[17] 6 Okl. St. Ann. § 501.1.

Competitive Considerations

Section 3 of the BHC Act and the Bank Merger Act prohibit 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.[18] Both statutes also prohibit the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless 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.[19]

Arvest and Bear State have subsidiary depository institutions that compete directly in the Mountain Home, Arkansas, banking market ("Mountain Home market"); the Fayetteville/Rogers, Arkansas, banking market ("Fayetteville/Rogers market"); the Hot Springs, Arkansas, banking market ("Hot Springs market"); the Harrison, Arkansas, banking market ("Harrison market"); the Little Rock, Arkansas, banking market ("Little Rock market"); the Mena, Arkansas, banking market ("Mena market"); the Springfield, Missouri, banking market ("Springfield market"); and the Branson, Missouri, banking market ("Branson market").[20] The Board has considered the competitive effects of the proposal in these banking markets. In particular, the Board has considered the number of competitors that would remain in the market; the relative shares of total deposits of insured depository institutions in the market ("market deposits") that Arvest would control;[21] the concentration level of market deposits and the increase in that level, as

[18] 12 U.S.C. §§ 1842(c)(1) and 1828(c)(5).

[19] 12 U.S.C. §§ 1842(c)(1)(B) and 1828(c)(5)(B).

[20] All of these banking markets are defined in Appendix B, except for the Fayetteville/Rogers, Harrison, and Mena markets, which are defined in the discussion below.

[21] Local deposit and market share data are as of June 30, 2017, and, unless otherwise indicated, are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks.

measured by the Herfindahl-Hirschman Index ("HHI") under the U.S. Department of Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");[22] other characteristics of the markets; and, as discussed below, commitments made by Arvest to divest one branch in the Mena market.

Banking Markets Within Established Guidelines

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Mountain Home, Hot Springs, Little Rock, Springfield, and Branson markets. On consummation of the proposal, the Springfield market would remain unconcentrated, the Branson market would become moderately concentrated, and the Mountain Home, Hot Springs, and Little Rock markets would remain moderately concentrated. In each of these banking markets, numerous competitors would remain.

Banking Markets Warranting Special Scrutiny

The structural effects that consummation of the proposal would have in the Fayetteville/Rogers, Harrison, and Mena markets warrant a detailed review because the concentration levels on consummation would exceed the thresholds in the DOJ Bank

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See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

[22] 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. See Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

Merger Guidelines or would result in the market deposit share of Arvest exceeding 35 percent when using initial competitive screening data.

Fayetteville/Rogers market. Using initial screening data, Arvest is the largest competitor in the Fayetteville/Rogers market, controlling approximately $5.3 billion in deposits, which represent approximately 49.2 percent of market deposits.[23] Bear State is the 20th largest depository organization in the Fayetteville/Rogers market, controlling approximately $109.9 million in deposits, which represent approximately 1.0 percent of market deposits. On consummation of the proposal, Arvest would remain the largest depository organization in the Fayetteville/Rogers market, controlling approximately $5.4 billion in market deposits, which would represent approximately 50.2 percent of market deposits. The HHI in this market would increase by 100 points, from 2571 to 2671.

The Board has considered whether 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 Fayetteville/Rogers market.[24] Factors indicate that the increase in concentration in the Fayetteville/Rogers market, as measured by the above market share, overstates the potential competitive effects of the proposal in the market. In particular, one credit union exerts a competitive influence in the Fayetteville/Rogers market. The institution offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the market.[25] The Board finds that these circumstances warrant including the

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[23] The Fayetteville/Rogers market is defined as Benton, Madison, and Washington counties, all of Arkansas; McDonald County, Missouri; and the town of West Siloam Springs in Delaware County, Oklahoma.

[24] 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. See Nationsbank Corp., 84 Federal Reserve Bulletin 129 (1998).

[25] The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., KeyCorp, FRB Order No. 2016-12 (July 12, 2016); Ohio Valley Banc Corp., FRB Order No. 2016-10 (June 28, 2016);

deposits of this credit union at a 50 percent weight in estimating market influence. This weighting takes into account the limited lending done by this credit union to small businesses relative to commercial banks' lending levels.

After reweighting the deposits of the credit union at 50 percent, Arvest would control approximately 49.0 percent of market deposits, and the HHI would increase by 100 points, from 2556 to 2656. Although the adjusted market share and market concentration levels still exceed the DOJ Bank Merger Guidelines, an additional factor indicates that the competitive effects of the proposal would not likely be significantly adverse. After consummation of the proposal, 40 depository institutions would compete with Arvest in the Fayetteville/Rogers market. The presence of these viable competitors suggests that Arvest would have limited ability unilaterally to offer less attractive terms to consumers, and these competitors would be able to exert competitive pressure on Arvest in the market.

Harrison market. Using initial screening data, Arvest is the 4th largest competitor in the Harrison market, controlling approximately $116.5 million in deposits, which represent approximately 11.8 percent of market deposits.[26] Bear State is the 3rd largest depository organization in the Harrison market, controlling approximately $168.9 million in deposits, which represent approximately 17.1 percent of market deposits. On consummation of the proposal, Arvest would become the largest depository organization in the Harrison market, controlling approximately $285.4 million in market

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Mitsubishi UFJ Financial Group, Inc., FRB Order No. 2012-12 (November 14, 2012); Old National Bancorp, FRB Order No. 2012-9 (August 30, 2012); United Bankshares, Inc. (order dated June 20, 2011), 97 Federal Reserve Bulletin 19 (2nd Quar. 2011); The PNC Financial Services Group, Inc., 94 Federal Reserve Bulletin C38 (2008); The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Regions Financial Corporation, 93 Federal Reserve Bulletin C16 (2007); Passumpsic Bancorp, 92 Federal Reserve Bulletin C175 (2006); and Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

[26] The Harrison market is defined as Boone, Newton, and Searcy Counties, all of Arkansas; and the western half of Marion County, Arkansas (excluding the cities of Yellville and Summit).

deposits, which would represent approximately 28.9 percent of market deposits. The HHI in this market would increase by 404 points, from 1562 to 1966.

Factors indicate that the increase in concentration in the Harrison market, as measured by the above market share and change in HHI, overstates the potential competitive effects of the proposal in the market. In particular, after consummation of the proposal, 10 depository institutions would compete with Arvest in the Harrison market. These include two depository institutions each with more than a 20 percent share of market deposits, one depository institution with a more than 10 percent share of market deposits, and one depository institution with a more than five percent share of market deposits. The presence of these viable competitors suggests that Arvest would have limited ability unilaterally to offer less attractive terms to consumers, and these competitors would be able to exert competitive pressure on Arvest in the Harrison market. Moreover, recent entry and expansionary activity suggests that the market is attractive to potential competitors. Two depository institutions have established de novo branches in the Harrison market since 2016.

Mena market. Using initial screening data, Arvest is the 3rd largest competitor in the Mena market, controlling approximately $27.7 million in deposits, which represent approximately 7.6 percent of market deposits.[27] Bear State is the second largest depository organization in the Mena market, controlling approximately $66.4 million in deposits, which represent approximately 18.2 percent of market deposits. On consummation of the proposal, Arvest would become the second largest depository organization in the Harrison market, controlling approximately $94.1 million in market deposits, which would represent approximately 25.8 percent of market deposits. The HHI in this market would increase by 277 points, from 4149 to 4426.[28]

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[27] The Mena market is defined as Polk County, Arkansas.

[28] The high degree of concentration in the market is attributable to the presence of a large competitor, which controls approximately 60.6 percent of market deposits.

To mitigate the potentially adverse competitive effects of the proposal in the Mena market, Arvest has committed to divest one of Bear State Bank's two branches in the market to a competitively suitable out-of-market purchaser.[29] After accounting for the branch divestiture and following consummation of the proposal, Arvest would control approximately 8.2 percent of market deposits, and the HHI would decrease by 12 points, from 4149 to 4137. Accordingly, consummation of the proposal would be within the thresholds in the DOJ Bank Merger Guidelines.

Conclusion Regarding Competitive Effects

The DOJ also has conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal, with the proposed divestiture of a branch in the Mena market, 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, including Arvest's commitment to divest a branch in the Mena market, 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 of the eight banking markets in which Arvest Bank and Bear State Bank compete directly or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

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[29] As a condition of consummating the proposal, Arvest has committed that it will execute, before consummation of the proposal, an agreement to sell the branch to a purchaser or purchasers determined by the Board to be competitively suitable. Arvest also has committed to complete the divestiture within 180 days after consummation of the proposed merger. In addition, Arvest has committed that, if the proposed divestiture is not completed within the 180-day period, Arvest would transfer the unsold branch to an independent trustee, who would be instructed to sell the branch to an alternate purchaser or purchasers in accordance with the terms of this order and without regard to price. Both the trustee and any alternate purchasers must be deemed acceptable to the Board. See, e.g., BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991).

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act and the Bank Merger Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.[30] 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.

Arvest and Bear State are well capitalized, and the combined organization would remain so on consummation of the proposal. The proposed transaction is a merger of Bear State with Arvest Bank's wholly owned acquisition subsidiary[31] with a subsequent merger of Bear State Bank into Arvest Bank.[32] The asset quality, earnings, and liquidity of both Arvest Bank and Bear State Bank are consistent with approval, and Arvest appears to have adequate resources to absorb the costs of the proposal and to

[30] 12 U.S.C. §§ 1842(c)(2), (5), & (6), and 1828(c)(5) & (11).

[31] As a result, Arvest Bank will become a bank holding company for a moment in time before Bear State is dissolved and Bear State Bank is merged with and into Arvest Bank.

[32] As part of the proposed transaction, each share of Bear State's common stock would be converted into a right to receive cash. Arvest has the financial resources to effect the proposed transaction.

complete the integration of the institutions' operations. In addition, future prospects of the institutions under the proposal are considered consistent with approval.

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 Arvest, Bear State, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Arvest; 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.

Arvest, Bear State, and their subsidiary depository institutions are each considered to be well managed. Arvest has a record of successfully integrating organizations into its operations and risk-management systems after acquisitions. The directors and senior executive officers of Arvest have substantial knowledge of and experience in the banking and financial services sectors, and Arvest's risk-management program appears consistent with approval of this expansionary proposal.

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

Based on all of the facts of record, including Arvest'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 the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Arvest and Bear State 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 and the Bank Merger Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.[33] 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 CRA.[34] 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,[35] 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.[36]

In addition, the Board considers the banks' overall compliance records and 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 the assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, and information provided by the applicants. The Board also may consider the institution's

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[33] 12 U.S.C. §§ 1842(c)(2) and 1828(c)(5).

[34] 12 U.S.C. § 2901 et seq.

[35] 12 U.S.C. § 2901(b).

[36] 12 U.S.C. § 2903.

business model, its marketing and outreach plans, the organization's plans after consummation, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all of the facts of record, including reports of examination of the CRA performance of Arvest Bank and Bear State Bank; the fair lending and compliance records of both banks; the supervisory views of the Federal Reserve Bank of St. Louis ("Reserve Bank") and the Consumer Financial Protection Bureau ("CFPB"); confidential supervisory information; and information provided by Arvest.

Records of Performance under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board considers examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions, as well as information and views provided by those supervisors.[37] In this case, the Board considered the supervisory views of the Reserve Bank and the CFPB.

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.[38] 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 large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's home mortgage, small business, small farm, and community development lending to

[37] See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48506, 48548 (July 25, 2016).

[38] 12 U.S.C. § 2906.

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 Disclosure Act ("HMDA"),[39] in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, 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 a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas ("AAs"); (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distributions of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;[40] (4) the institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies. Large institutions also are subject to an investment test that evaluates the number and amounts of qualified investments that benefit their assessment areas and a service test that evaluates the availability and effectiveness of their systems for delivering retail banking services and the extent and innovativeness of their community development services.[41] Intermediate small banks are subject to the lending test, as well

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[39] 12 U.S.C. § 2801 et seq.

[40] Examiners also consider the number and amounts of small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

[41] 12 CFR 228.21 et seq.

as a community development test that evaluates the number and amounts 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. [42]

CRA Performance of Arvest Bank

Arvest Bank was assigned an overall "Satisfactory" rating by the Reserve Bank at its most recent CRA performance evaluation, as of September 21, 2015 ("Arvest Bank Evaluation").[43] The bank received a "Low Satisfactory" rating for the Lending Test and "High Satisfactory" ratings for the Investment Test and the Service Test.[44]

Examiners found that Arvest Bank originated a majority of its loans inside its AAs and that the bank's overall lending activity reflected good responsiveness to AA credit needs. Examiners also noted that the bank's small loans to businesses reflected adequate geographic penetration through the AAs. In addition, examiners found the bank's distribution of product lines by income level of the borrower and the bank's distribution of loans to businesses with different revenue sizes to be good.

Examiners determined that Arvest Bank's level of qualified community development investments was adequate and responsive to community needs. Examiners

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[42] 12 CFR 228.26(c).

[43] The Arvest Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed HMDA and small business loans originated from January 1, 2013, through December 31, 2014. The evaluation for community development loans, investments, and services was from April 15, 2013, through September 21, 2015.

[44] The Arvest Bank Evaluation included full-scope evaluations of the Fayetteville-Springdale-Rogers, Arkansas-Missouri Metropolitan Statistical Area ("MSA"); Fort Smith, Arkansas-Oklahoma MSA; Kansas City, Missouri-Kansas MSA, Little Rock-North Little Rock-Conway, Arkansas MSA; Joplin, Missouri MSA; Oklahoma City, Oklahoma MSA; Tulsa, Oklahoma MSA; the Arkansas Non-MSA AA; and the Oklahoma Non-MSA AA. Limited-scope evaluations were performed of the Hot Springs, Arkansas MSA; Springfield, Missouri MSA; Lawton, Oklahoma MSA; and the Missouri Non-MSA AA.

found that the bank's service delivery systems were accessible to geographies and individuals of different income levels within the bank's AAs. Examiners also noted that in the states of Arkansas and Missouri, the bank's branches were accessible and that, in the state of Oklahoma, the bank's branches were reasonably accessible.

CRA Performance of Bear State Bank

Bear State Bank was assigned an overall "Satisfactory" rating by the Reserve Bank at its most recent CRA performance evaluation, as of June 12, 2017 ("Bear State Bank Evaluation").[45] The bank received a "Satisfactory" rating for the Lending Test and an "Outstanding" rating for the Community Development Test."[46] Greater weight was given to the bank's performance in Arkansas because of the higher percentage of bank deposits, branches, and loans in the state.

Examiners concluded that Bear State Bank was responding to the credit needs of its AAs. In particular, examiners found that the loan-to-deposit ratio was more than reasonable given the bank's size, financial condition, and AA credit needs. Examiners noted that the geographic distribution of loans reflected reasonable dispersion throughout the AAs and that the distribution of loans reflected reasonable penetration among individuals of different income levels and businesses of different sizes.

Examiners noted that the bank's community development performance, which included loans, investments, and services, demonstrated excellent responsiveness to community development needs throughout the bank's AAs.

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[45] The Bear State Bank Evaluation was conducted using the Intermediate Small Institution Examination Procedures. Examiners reviewed HMDA-reportable loans and commercial loans originated from January 1, 2015, through December 31, 2015. The evaluation period for community development lending, investments, and services was from June 3, 2013, to June 11, 2017.

[46] The Bear State Bank Evaluation included full-scope evaluations of the Fayetteville, Arkansas MSA; Jonesboro, Arkansas MSA; Springfield, Missouri MSA; the Southwest, Arkansas Non-MSA AA; the North Central, Arkansas Non-MSA AA; and the Oklahoma Non-MSA AA. Limited Scope evaluations were performed of the Hot Springs, Arkansas MSA; Little Rock, Arkansas MSA; Texarkana, Arkansas MSA; Barton County, Missouri MSA; and the Mississippi County, Arkansas Non-MSA AA.

Additional Supervisory Views

The Board has considered the results of the most recent consumer compliance examination of Arvest Bank conducted by Reserve Bank examiners, 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 Bear State Bank conducted by Reserve Bank examiners, which included a review of the bank's consumer compliance function. In addition, the Board has taken into consideration the supervisory views of the CFPB regarding Arvest Bank.

The Board has taken this information, as well as the CRA performance records of Arvest Bank and Bear State Bank, into account in evaluating the proposed transaction, including in considering whether Arvest has the experience and resources to ensure that Arvest Bank helps to meet the credit needs of the communities within its AAs.

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. Arvest represents that existing customers of Bear State Bank will benefit from Arvest Bank's expansive branch network with longer hours, broader digital services offerings, and a wider variety of products and customer service. In particular, Arvest represents that existing customers of Bear State will gain access to Arvest Bank's network of more than 250 branch locations and 350 ATMs. Further, existing customers of Bear State Bank will have access to increased offerings in the areas of personal account services, business account services, and advanced digital banking services.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the records of the relevant depository institutions under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, supervisory views of the Reserve Bank and the CFPB, confidential supervisory information, information provided by Arvest, and the 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 and the Bank Merger Act to require the Board to consider a proposal's "risk to the stability of the United States banking or financial system."[47]

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 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.[48] 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.[49]

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[47] Dodd-Frank Act §§ 604(d) and (f), Pub. L. No. 111-203, 124 Stat. 1376, 1601-1602 (2010), codified at 12 U.S.C. §§ 1828(c)(5) and 1842(c)(7).

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

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

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 pose 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.[50]

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 $100 billion in assets. Both the acquirer and the target are predominately engaged in retail and commercial banking activities.[51] 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

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[50] 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.

[51] Arvest Bank offers a variety of banking products and services, including retail and commercial banking; consumer, commercial, and mortgage lending; and consumer finance loans. Bear State Bank also offers a variety of banking products and services, including commercial, mortgage, and consumer loans. In each of the activities in which it engages, Arvest has, and as a result of the proposal would continue to have, a small market share in these products and services on a nationwide basis, and numerous competitors would remain for these products and services.

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.

Establishment of Branches

Arvest Bank has applied under section 9 of the FRA to establish branches at the current locations of Bear State Bank.[52] The Board has assessed the factors it is required to consider when reviewing an application under that section.[53] Specifically, the Board has considered Arvest Bank's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises.[54] 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 determines that the applications should be, and hereby are, 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, the Bank Merger Act, the FRA, and other applicable

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[52] See 12 U.S.C. § 321. Under section 9 of the FRA, state member banks may establish and operate branches on the same terms and conditions as are applicable to the establishment of branches by national banks. A national bank may establish and operate a new branch within a state in which it is situated, if such establishment and operation is authorized under applicable state law. 12 U.S.C. § 36(c). A national bank also may retain any branch following a merger that under state law may be established as a new branch of the resulting bank or retained as an existing branch of the resulting bank. See 12 U.S.C. § 36(b)(2), (c). In addition, under section 44 of the FDI Act, a state member bank resulting from an interstate merger transaction may retain and operate, as a main office or a branch, any office that any bank involved in the merger was operating as a main office or branch immediately before the merger transaction. 12 U.S.C. § 1831u(d). Upon consummation, Arvest Bank's branches would be permissible under applicable state law. See Ark. Code Ann. § 23-48-702; Mo. Rev. Stat. § 362.107; 6 Okl. St. Ann. § 501.1.

[53] 12 U.S.C. § 322; 12 CFR 208.6.

[54] Upon consummation of the proposed transaction, Arvest Bank's investment in bank premises would remain within legal requirements, under 12 CFR 208.21.

statutes. The Board's approval is specifically conditioned on compliance by Arvest with all of 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 applications. The conditions and commitments are deemed to be conditions imposed in writing by the 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 15th 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,[55] effective April 2, 2018.

Ann E. Misback (signed)

Ann E. Misback
Secretary of the Board

[55] Voting for this action: Chairman Powell, Vice Chairman for Supervision Quarles, and Governor Brainard.

Appendix A

Branches to Be Established by Arvest Bank

Arkansas

1. 2009 Browns Lane, Jonesboro, Arkansas 72401
2. 5205 East Johnson Avenue, Jonesboro, Arkansas 72401
3. 3101 Southwest Drive, Jonesboro, Arkansas 72404
4. 110 West Main Street, Ashdown, Arkansas 71822
5. 307 North Walton Boulevard, Bentonville, Arkansas 72712
6. 2885 Prince Street, Conway, Arkansas 72034
7. 504 West Collin Raye Drive, De Queen, Arkansas 71832
8. 103 West Third Street, Dierks, Arkansas 71833
9. 3460 North College Avenue, Fayetteville, Arkansas 72703
10. 214 North First Street, Glenwood, Arkansas 71943
11. 324 South Highway 62 65 Bypass, Harrison, Arkansas 72601
12. 1401 Highway 62 65 N, Harrison, Arkansas 72601
13. 2223 Albert Pike Road, Hot Springs, Arkansas 71913
14. 135 Section Line Road, Hot Springs, Arkansas 71913
15. 3835 North Highway 7, Hot Springs Village, Arkansas 71909
16. 5315 Highland Drive, Little Rock, Arkansas 72223
17. 709 West Fleeman, Manila, Arkansas 72442
18. 600 Highway 71 South, Mena, Arkansas 71953
19. 600 Highway 71 North, Mena, Arkansas 71953
20. 301 East Drew Avenue, Monette, Arkansas 72447
21. 742 Highway 270 East, Mount Ida, Arkansas 71957
22. 221 South George Street, Mount Ida, Arkansas 71957
23. 1337 Highway 62 West, Mountain Home, Arkansas 72653
24. 3027 Highway 62 East, Mountain Home, Arkansas 72653
25. 668 Highway 62 East, Mountain Home, Arkansas 72653
26. 420 South Main Street, Nashville, Arkansas 71852
27. 2000 South Promenade Boulevard, Rogers, Arkansas 72758
28. 3300 West Sunset Avenue, Springdale, Arkansas 72762
29. 181 Highway 71 Bypass, Waldron, Arkansas 72958
30. 301 Highway 62 W, Yellville, Arkansas 72687

Missouri

31. 9863 State Highway 76, Branson West, Missouri 65737
32. 403 Main Street, Golden City, Missouri 64748
33. 150 South Town Boulevard, Hollister, Missouri 65672
34. 12661 State Highway 13, Kimberling City, Missouri 65686
35. 1105 Gulf Street, Lamar, Missouri 64759

36. 1101 Spur Drive, Marshfield, Missouri 65706
37. 716 West Mount Vernon Street, Nixa, Missouri 65714
38. 2835 East Battlefield Street, Springfield, Missouri 65804
39. 3340 East Cherry Street, Springfield, Missouri 65802
40. 600 South Glenstone Avenue, Springfield, Missouri 65802
41. 3550 South National Avenue, Springfield, Missouri 65807

Oklahoma

42. 409 South Park Drive, Broken Bow, Oklahoma 74728
43. 702 Southeast Washington Street, Idabel, Oklahoma 74745

-End-

Appendix B

Arvest/Bear State Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines						
Data and rankings are as of June 30, 2017. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent. The remaining number of competitors noted for each market includes thrifts, where applicable.						
Mountain Home, Arkansas ("Mountain Home") – Baxter County, Arkansas; the western third of Fulton County, Arkansas, including Big Creek, Cleveland, Fulton, Mount Calm and Vidette townships; the eastern half of Marion County, Arkansas, including the cities of Yellville and Summit; and Ozark County, Missouri.						
	Rank	**Amount of Deposits**	**Market Deposit Shares (%)**	**Resulting HHI**	**Change in HHI**	**Remaining Number of Competitors**
Arvest Pre-Consummation	2	$225.7M	16.81	1558	296	9
Bear State	4	$118.4M	8.82			
Arvest Post-Consummation	1	$444.1M	25.6			
Hot Springs, Arkansas ("Hot Springs") – Garland and Hot Springs Counties, AR; and the portion of Hot Springs Village located in Saline County, Arkansas						
	Rank	**Amount of Deposits**	**Market Deposit Shares (%)**	**Resulting HHI**	**Change in HHI**	**Remaining Number of Competitors**
Arvest Pre-Consummation	3	$299.5M	12.16	1205	138	9
Bear State	7	$140M	5.68			
Arvest Post-Consummation	1	$439.5	17.8			

Little Rock, Arkansas ("Little Rock") – Conway, Faulkner, Grant, Perry and Pulaski counties, Arkansas; Saline County, Arkansas (minus the city of Hot Springs Village); Prairie County, Arkansas (minus Belcher, Roc Roe, and Tyler townships); the extreme southern portion of White County, Arkansas, that includes El Paso, Royal, and Union townships; and the southeastern portion of Van Buren County, Arkansas, that includes Barnett, Bradley, Cadron, and Cargile townships, the southwestern part of Davis township, and the cities of Bee Branch and Morganton.

	Rank	**Amount of Deposits**	**Market Deposit Shares (%)**	**Resulting HHI**	**Change in HHI**	**Remaining Number of Competitors**
Arvest Pre-Consummation	6	$1.45B	7.10	1166	16	37
Bear State	13	$227.7M	1.10			
Arvest Post-Consummation	5	$1.68B	8.20			

Springfield, Missouri ("Springfield") – Christian, Dade, Dallas, Greene, Polk, and Webster counties, Missouri; and the northern half of Lawrence County, Missouri, that includes Red Oak, Green, Lincoln, Ozark, Turnback, Mount Vernon, and Vineyard townships and the city of Mount Vernon.

	Rank	**Amount of Deposits**	**Market Deposit Shares (%)**	**Resulting HHI**	**Change in HHI**	**Remaining Number of Competitors**
Arvest Pre-Consummation	18	$152M	1.51	681	6	35
Bear State	15	$208M	2.07			
Arvest Post-Consummation	10	$360M	3.58			

Branson, Missouri (“Branson”) – Stone and Taney counties, Missouri.						
	Rank	**Amount of Deposits**	**Market Deposit Shares (%)**	**Resulting HHI**	**Change in HHI**	**Remaining Number of Competitors**
Arvest Pre-Consummation	3	$131.8M	9.81	1155	161	16
Bear State	4	$110.0M	8.18			
Arvest Post-Consummation	2	$231.8M	18.0			