FRB Order No. 2012-10
(October 17, 2012)

FEDERAL RESERVE SYSTEM

River Valley Bancorp
Madison, Indiana

Order Approving the Formation of a Bank Holding Company

River Valley Bancorp ("RVB"), Madison, has requested the Board's approval under section 3 of the Bank Holding Company Act ("BHC Act")[1] to acquire Dupont State Bank ("Dupont"), Dupont, both of Indiana, and to become a bank holding company.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (77 Federal Register 3774 (2012)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

RVB, with total consolidated assets of approximately $408 million,[2] is currently a savings and loan holding company that owns all of River Valley Financial Bank ("River Valley"), Madison, Indiana, a federal savings association. River Valley is the 53rd largest insured depository institution in Indiana, controlling approximately $293 million in deposits.[3] As part of this proposal, River Valley would be merged into Dupont, the resulting bank would be renamed River Valley Financial Bank, and RVB would become a bank holding company.

Dupont is the 127th largest insured depository institution in Indiana, controlling deposits of approximately $72.9 million. Dupont controls $82.6 million

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[1] 12 U.S.C. §1842.

[2] Asset data are as of June 30, 2012.

[3] State- and market-level deposit and ranking data are as of June 30, 2011, updated to reflect mergers, acquisitions, and branch transactions through May 2, 2012. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

of total assets. Dupont is currently wholly owned by Citizens Union Bancorp of Shelbyville, Inc. ("Citizens Union"), Shelbyville, Kentucky.

Under the proposed transaction, RVB would purchase Dupont from Citizens Union and merge River Valley into Dupont, with the resulting institution renamed River Valley Financial Bank. On consummation of this proposal, the resulting bank would become the 41st largest insured depository organization in Indiana, controlling deposits of approximately $365.9 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the 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 any attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant 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.[4]

River Valley and Dupont compete directly in the Madison, Indiana, banking market ("Madison banking market").[5] River Valley operates four branches in the market: three in or around the town of Madison in the southern part of the market and one in the town of Hanover, Indiana, which is southwest of Madison. Dupont has one office in Dupont in the northern part 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 shares of total deposits in insured depository

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4 12 U.S.C. § 1842(c)(1).

5 The banking market is defined as Jefferson County, Indiana, and the Milton census county division in Trimble County, Kentucky.

institutions in the market ("market deposits") controlled by River Valley and Dupont,[6] the concentration levels of market deposits and the increase in those levels, as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Merger Competitive Review Guidelines ("DOJ Bank Merger Guidelines"),[7] and other characteristics of the market.

River Valley is the largest insured depository institution in the Madison banking market, controlling deposits of approximately $235.2 million, which represent

[6] Deposit and market share data are based on calculations in which the deposits of River Valley, the only thrift institution in the market, are included at 100 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. 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). However, where, as here, the facts and circumstances of a banking market indicate that a particular thrift serves as a significant source of commercial loans and provides a broad range of consumer, mortgage, and other banking products, the Board has concluded that competition from such a thrift closely approximates competition from a commercial bank and that deposits controlled by the institution should be weighted at 100 percent in market-share calculations. See, e.g., Regions Financial Corporation, 93 Federal Reserve Bulletin C16 (2007); Banknorth Group, Inc., 75 Federal Reserve Bulletin 703 (1989). In this case, River Valley's commercial and industrial and agricultural loan portfolios are similar to those of other commercial banks in the market, as measured in terms of the ratios of those types of loans to total loans and assets. Moreover, River Valley proposes to merge into a bank at consummation of this proposal. Thus, a full weighting more accurately reflects the competitive environment in this case.

[7] 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, 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), www.justice.gov/opa/pr/2010/August/10-at-938.html.

approximately 43.6 percent of market deposits. Dupont is the fifth largest insured depository institution in the market, controlling deposits of approximately $14.5 million, which represent approximately 2.7 percent of market deposits. As these data indicate, the acquisition represents a relatively small, incremental change in River Valley's share of market deposits. On consummation of the proposed merger, the resulting institution would remain the largest insured depository institution in the market, controlling deposits of approximately $249.7 million, which would represent approximately 46.3 percent of the market deposits. The HHI would increase by 234 points to 3284.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would have a significantly adverse effect on competition in the Madison banking market.[8] A number of factors indicate that the increase in concentration in this 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. Three community credit unions exert a competitive influence in the Madison banking market.[9] Each institution offers a wide range of consumer products, operates street-level branches, and has memberships open to almost all the residents in the market. Their operations in this banking market mitigate, in part, the potential competitive effects of the proposal. The three community credit unions control approximately $30.1 million in deposits in the market on a 50 percent weighted basis, which represents approximately 5 percent of market deposits. Accounting for the revised weightings of these deposits, River Valley would control

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

[9] The Board previously has considered the competitiveness of certain active credit unions as a mitigating factor. See, e.g., The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Allied Irish Banks, p.l.c. and M&T Bank Corporation, 93 Federal Reserve Bulletin C11 (2007); Regions Financial Corporation, 93 Federal Reserve Bulletin C16 (2007); Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

approximately 43.8 percent of market deposits on consummation of the proposal, and the HHI would increase by 210 points to 2959.

Three other insured commercial bank competitors and a total of six other insured depository institutions (including the credit unions) would remain in this rural market. Some of the other competitors have a significant presence in the market. The second largest competitor after consummation would be a large regional bank that would control approximately 25.5 percent of market deposits, if credit union deposits are weighted at 50 percent. The third largest competitor would control approximately 18 percent of market deposits. The fourth largest competitor is in the process of being acquired by a large regional commercial bank.

In addition, the record indicates that the Madison banking market may be attractive for entry and expansion by bank competitors. In 2005, the large regional institution that is currently the second largest bank competitor entered the market through acquisition of a smaller depository institution that operated only in this market. The third largest bank competitor in the market has begun construction of a new branch in this market, indicating its intention to expand. Finally, as noted, the smallest remaining bank competitor is being acquired by a large regional bank.

The features of the Madison banking market and the location of the applicant and target in the market also suggest that HHI calculations are likely to overstate the competitive effects of the merger. All the banking activity in the market, except for Dupont's activities, is centered around the town of Madison and the populous southern portion of the market. In contrast, Dupont only operates in, and is the only depository institution that operates in, the rural, sparsely populated, northernmost part of the market. Although the Board has concluded that the northern and southern parts of this area should be included in the same banking market due to economic ties between them, those ties are mostly one way. For example, a high percentage, but very small number, of individuals residing in the northern part of the market commute to Madison in the south. Neither a high percentage nor a large number of individuals make the reverse trip. This characteristic of the market suggests that the elimination of Dupont as a competitor in the northern part of the market is unlikely to have substantial effects on competition. To the extent that the combination of River Valley and Dupont has an effect on competition in the northern portion of the market, that effect should be lessened by the other mitigating factors noted above.

The Board has reviewed carefully all the facts of record and has considered those facts in light of Board precedent. The pro forma market share in the Madison banking market is relatively high in this case. The change in concentration in the market, however, only marginally exceeds the DOJ Bank Merger Guidelines, and other factors in this market suggest that this proposal is not likely to have a significantly adverse effect on competition in the Madison banking market.

The DOJ has reviewed the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. The appropriate federal banking agency has been afforded an opportunity to comment and has not objected to the proposal.

For the reasons discussed in this order and based on all the facts of record, the Board has determined that competitive factors are consistent with approval of the proposal.

Other Section 3(c) Considerations

Section 3(c) of the BHC Act requires the Board to take into consideration a number of other factors in acting on bank acquisition applications. Those factors include: the financial and managerial resources (including consideration of the competence, experience, and integrity of the officers, directors, and principal shareholders) and future prospects of the company and banks concerned; effectiveness of the company in combatting money laundering; the convenience and needs of the community to be served; and the extent to which the proposal would result in greater or more concentrated risks to the stability of the United States banking or financial system. The Board has considered all these factors and, as described below, has determined that all considerations are consistent with approval of the application. The review was conducted in light of all the facts of record, including supervisory and examination information from various U.S. banking supervisors of the institutions involved, publicly reported and other financial information, and information provided by RVB.

A. Financial, Managerial, and Other Supervisory Considerations

In evaluating financial factors in expansionary proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. As part of this review, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board assesses the financial condition of the pro forma organization, including its capital position, asset quality, and 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 the proposed integration of the operations of the institutions. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

RVB and River Valley are well capitalized and will remain so on consummation of the proposed acquisition. RVB is a shell holding company, with River Valley accounting for almost all of RVB's consolidated assets. The proposed transaction is a bank merger structured as a cash purchase of shares. RVB will fund the purchase from cash on hand. RVB is in stable financial condition, and the asset quality and earnings of River Valley are consistent with approval. On a pro forma basis, the acquisition of Dupont would not adversely impact RVB's operations. Based on its review of the record, the Board finds that the organization has sufficient financial resources to effect the proposal.

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 RVB, River Valley, and Dupont, including assessments of their 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 the organizations' records of compliance with applicable banking and anti-money-laundering laws. The Board also has considered RVB's plans for implementing the proposal.

RVB and River Valley are considered to be well managed. The boards of directors and senior management of RVB and River Valley are considered experienced and capable. RVB's existing risk-management program and its directorate and senior management are considered to be satisfactory. The directors and senior management of RVB and River Valley, and the risk-management program of RVB, would not change as a result of the proposal.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors.

B. Convenience and Needs Considerations

Under section 3, the Board must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").[10] The CRA requires 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 their safe and sound operation,[11] and requires the appropriate federal financial supervisory agency to take into account a relevant depository institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in evaluating bank expansionary proposals.[12]

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[10] 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

[11] 12 U.S.C. § 2901(b).

[12] 12 U.S.C. § 2903.

The Board has considered all the facts of record, including evaluations of the CRA performance of River Valley and Dupont, other information provided by RVB, and confidential supervisory information.

As provided in the CRA, the Board has considered the convenience and needs factor in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions.[13] 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor. River Valley received a "satisfactory" rating at its most recent CRA performance evaluation by the Office of Thrift Supervision, as of February 2, 2010, and Dupont received a "satisfactory" rating at its most recent CRA performance evaluation by the Federal Deposit Insurance Corporation, as of February 16, 2011. Examiners found no evidence of illegal credit discrimination during these evaluations.

River Valley and Dupont have established records of assisting in meeting the credit needs of their communities. At River Valley's 2010 CRA evaluation, examiners determined that the bank's loan-to-deposit ratio was very good and that its lending levels were consistently above average. Dupont's 2011 CRA performance evaluation noted that the bank's level of lending, as reflected by its loan-to-deposit ratio, was excellent and demonstrated that the bank was using the deposits obtained from its assessment area to fund loans.

RVB has represented that it will continue to meet the credit needs of its communities in the same manner as it has in the past. RVB also has represented that the merged entity would provide convenient and accessible service to the retail market through extended banking hours, as well as access to its ATMs and drive-thru facilities.

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[13] See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642 at 11665 (2010).

The Board has considered all the facts of record, including reports of examination of the CRA records of River Valley and Dupont, information provided by RVB, and confidential supervisory information, including current records of compliance with consumer laws and regulations.

Based on a review of the entire record, and for the reasons discussed above, the Board has concluded that considerations relating to the convenience and needs factor and the CRA performance records of the relevant insured depository institutions are consistent with approval.

C. Financial Stability

The Board has also considered information relevant to risks to the stability of the United States banking or financial system. The proposed investment represents a *de minimis* transaction for financial stability purposes, and the proposed transaction would not materially increase the interconnectedness or complexity of RVB. The Board, therefore, concludes that financial stability considerations in this proposal are consistent with approval.

D. Conclusion on Section 3(c) Factors

Based on all the facts of record, including those described above, the Board has determined that all of the factors it must consider under section 3(c) of the BHC Act are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined 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 RVB with all the conditions imposed in this order and the commitments made to the Board in connection with the application, including receipt of all required regulatory approvals. For purposes of this action, 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 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 Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,[14] effective October 17, 2012.

*(signed)*

Robert deV. Frierson
Secretary of the Board

[14] Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, Raskin, Stein, and Powell.