FRB Order No. 2013-8
October 4, 2013

FEDERAL RESERVE SYSTEM

First Farmers Bank & Trust
Converse, Indiana

Order Approving the Acquisition of Assets, Assumption of Liabilities,
and Establishment of Branches

First Farmers Bank & Trust ("First Farmers"), 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 acquire certain assets and assume certain liabilities of the Bank of Indiana ("Bank of Indiana"), National Association, Dana, Indiana. In addition, First Farmers has applied under section 9 of the Federal Reserve Act ("FRA")[3] to establish and operate branches at the locations of the four acquired branches of Bank of Indiana.[4]

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

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[1] First Farmers is a subsidiary of First Farmers Financial Corporation ("FFFC"), also of Converse, Indiana, a financial holding company.

[2] 12 U.S.C. § 1828(c).

[3] 12 U.S.C. § 321.

[4] Bank of Indiana branches to be acquired are located at (1) 129 Maple Street, Dana, (2) 42 South State Road 135, Bargersville, (3) 100 East Short Street, Hamlet, and (4) 302 Keller Avenue, North Judson, all in Indiana.

[5] 12 CFR 262.3(b).

from the United States Attorney General. The Board has considered the application and all comments received in light of the factors set forth in the Bank Merger Act and the FRA.

First Farmers is the 25th largest insured depository institution in Indiana, controlling deposits of approximately $778.5 million, which represent less than 1 percent of the total amount of deposits in insured depository institutions in Indiana ("state deposits").[6] First Farmers proposes to acquire all of Bank of Indiana's deposits, which represent less than 1 percent of state deposits. On consummation of the proposal, First Farmers would become the 23rd largest insured depository institution in Indiana, controlling deposits of approximately $861.9 million, representing less than 1 percent of state deposits.[7]

Competitive Considerations

The Bank Merger Act prohibits the Board from approving an application if the proposal would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking.[8] 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

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[6] Data are as of June 30, 2012. In this context, insured depository institutions include insured commercial banks, savings banks, and savings associations.

[7] At June 30, 2013, Bank of Indiana controlled approximately $83.4 million in deposits.

[8] 12 U.S.C. § 1828(c)(5)(A).

effects of the transaction in meeting the convenience and needs of communities to be served.[9]

First Farmers and Bank of Indiana compete directly in the Indiana banking markets of Starke County, Terre Haute, and Indianapolis.[10] The Board has reviewed the competitive effects of the proposal in those banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative share of the total deposits in insured depository institutions in the market ("market deposits") that First Farmers would control,[11] 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"),[12] and other characteristics of the markets.

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[9] 12 U.S.C. § 1828(c)(5)(B).

[10] The Starke County banking market is defined as Starke County, Indiana. The Terre Haute banking market is defined as Clay, Vigo, and Sullivan Counties; Clinton and Helt townships in Vermillion County; and Florida, Racoon, and Jackson townships in Parke County, all in Indiana. The Indianapolis banking market is defined as Boone, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, and Shelby Counties, and Green Township in Madison County, all in Indiana.

[11] Deposit and market share data are based on data reported by insured depository institutions in the summary of deposits data as of June 30, 2012, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board has previously 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 53 (1991). No savings associations operate in the Starke County banking market.

[12] 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

In the Terre Haute and Indianapolis banking mrkets, consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines. On consummation of the proposal, the Terre Haute and Indianapolis banking markets would remain unconcentrated, as measured by the HHI, and numerous competitors would remain in the banking market.[13]

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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 have 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), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

[13] In the Terre Haute banking market, First Farmers operates the eighth largest insured depository institution, controlling deposits of approximately $31.4 million, which represent 1.4 percent of market deposits. The branch First Farmers proposes to acquire currently controls $39.2 million in deposits. After consummation, First Farmers would become the seventh largest insured depository institution in the market, controlling deposits of approximately $70.6 million, which represent 3.0 percent of market deposits. The HHI would increase by four points, from 3298 to 3302. On consummation of the proposal, nine competitors would remain in the market.

In the Indianapolis banking market, First Farmers operates the 35th largest insured depository institution, controlling deposits of approximately $31.1 million, which represent less than 1 percent of market deposits. The branch First Farmers proposes to acquire currently controls $38.1 million in deposits. After consummation, First Farmers would become the 30th largest insured depository institution in the market, controlling deposits of approximately $69.1 million, which represent less than 1 percent of market deposits. The HHI would not increase in this market. On consummation of the proposal, 43 competitors would remain in the market.

In the Starke County banking market, First Farmers is the third largest insured depository institution, controlling deposits of approximately $54.3 million, which represent approximately 21.9 percent of market deposits. Bank of Indiana is the fifth largest insured depository institution in the market, controlling deposits of approximately $14.8 million, which represent approximately 6 percent of market deposits. On consummation of the proposal, First Farmers would become the second largest depository institution in the Starke County banking market, controlling deposits of approximately $69.1 million, which would represent 27.9 percent of market deposits. The HHI would increase 262 points, from 2170 to 2432.

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.[14] In this market, there are several such factors. On consummation, four other insured depository institutions, including three institutions that each control more than 10 percent of the market deposits, would continue to operate in the market, including the market's largest competitor, 1st Source Bank, with 28.4 percent of market deposits.

The Board also has considered the financial condition of Bank of Indiana. Bank of Indiana's financial condition has deteriorated in recent years. Bank of Indiana is party to a formal agreement with its primary federal supervisor, the Office of the

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[14] 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).

Comptroller of the Currency ("OCC").[15] As a result, Bank of Indiana may be exerting less competitive pressure than its market share would indicate, and consummation of this transaction would not substantially lessen competition in the Starke County banking market.

The DOJ conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation would not be likely to have a significantly adverse effect on competition in any relevant banking market.

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 Starke County, Terre Haute, or Indianapolis banking markets, or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Factors

In reviewing this proposal under the Bank Merger Act, the Board has considered the financial and managerial resources and future prospects of the institutions involved and the organizations' nonbanking operations. In its evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the

[15] Indiana Bank Corp., the parent bank holding company of Bank of Indiana, has filed for chapter 11 bankruptcy in the United States Bankruptcy Court for the Southern District of Indiana. On May 30, 2013, the court approved the sale of certain assets and liabilities of Bank of Indiana to First Farmers.

proposed funding of the transaction. The Board also considers the ability of the organization to absorb the cost 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.

First Farmers is well capitalized and would remain so on consummation of the proposal. FFFC will incur a small amount of debt that will be injected into the resulting bank as new capital. The Board has concluded that FFFC has the resources to ensure timely repayment of the debt. Future prospects are considered consistent with approval. Based on its review of the record, the Board finds that First Farmers has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of First Farmers and has reviewed the examination records of First Farmers, including assessments of its management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and First Farmers' record of compliance with applicable banking and anti-money-laundering laws. The Board also has considered First Farmers' plans for implementing the proposal. First Farmers is considered to be well managed, and its board of directors and senior management have significant banking experience. First Farmers would operate the acquired branches under its existing policies and procedures, which are considered to be adequate. In addition, the Board has considered the integration of First Farmers' 2012 acquisition of a similarly sized organization with the acquisition of problem assets in Illinois. Examiners noted that management was capable of addressing the increased problem assets in a timely and effective manner.

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

Convenience and Needs Considerations

The Bank Merger Act also requires the Board to consider the convenience and needs of the communities to be served and to take into account the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").[16] The CRA requires the federal financial supervisory agencies to encourage financial institutions to 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 acquisition proposals. Accordingly, the Board has considered the convenience and needs factor and the CRA performance records of First Farmers and Bank of Indiana in light of all the facts of record.

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the

[16] 12 U.S.C. § 2901 et seq.

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.[17]

First Farmers received an overall rating of "satisfactory" at its most recent CRA performance examination by the Federal Reserve Bank of Chicago, as of February 2012. Examiners determined that the bank's loan-to-deposit ratio was reasonable given the bank's size, financial condition, and assessment area credit needs. In addition, the geographic distribution of loans reflected reasonable dispersion throughout the assessment area, and the distribution of loans represents reasonable penetration among borrowers of different income levels and businesses of different sizes. Examiners further determined that the bank demonstrated adequate responsiveness to the community development needs of its assessment area. Bank of Indiana received an overall rating of "satisfactory" at its most recent CRA performance examination by the OCC, as of November 2011. First Farmers has represented that it would implement its policies at the acquired branches. This proposal would result in customers continuing to have access to banking services in their immediate communities.

Based on all the facts of record and for the reasons discussed above, the Board concludes that considerations relating to convenience and needs, including the CRA performance records of the relevant depository institutions, are consistent with approval of the proposal.

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[17] See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11,642 at 11,665 (2010).

Financial Stability

The Board has considered information relevant to risk to the stability of the United States banking or financial system. 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 total 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 case. The Board, therefore, concludes that financial stability considerations in this proposal are consistent with approval.

Establishment of Branches

As noted, First Farmers has applied under section 9 of the FRA to establish branches at the current locations of the Bank of Indiana, and the Board has considered the factors it is required to consider when reviewing an application under that section.[18] Specifically, the Board has considered First Farmers' financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises. 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

[18] 12 U.S.C. § 322; 12 CFR 208.6.

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 First Farmers 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.

Acquisition of the branches may not be consummated before the fifteenth 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 Federal Reserve Bank of Chicago, acting pursuant to delegated authority.

By order of the Board of Governors,[19] effective October 4, 2013.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

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