For immediate release July 14, 1999

The Federal Reserve Board today announced its approval of the application of Civitas Bank, St. Joseph, Michigan, to acquire five branches of First Indiana Bank, a federal savings bank, Indianapolis, Indiana.

Attached is the Board's Order relating to this action.

Attachment

FEDERAL RESERVE SYSTEM

Civitas Bank
St. Joseph, Michigan

Order Approving Acquisition and Establishment of Branches

Civitas Bank ("Civitas"), a state member bank,[1] has applied under section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(c)) (the "Bank Merger Act") to acquire the deposits and certain assets of five Indiana branches of First Indiana Bank, a federal savings bank, Indianapolis, Indiana ("First Indiana").[2] Civitas also has applied under section 9 of the Federal Reserve Act (12 U.S.C. § 321) ("FRA") to establish branches at the locations of the branches to be acquired, as described in the Appendix.

Notice of the applications, 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 (12 C.F.R. § 262.3(b)). As required by the Bank Merger Act, reports on the competitive effects of the acquisitions were requested from the United States Attorney General and the other federal banking agencies. The time for filing comments has expired, and the Board has considered the applications and all facts of record in light of the factors set forth in the Bank Merger Act and section 9 of the FRA.

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[1] Civitas changed its name from Citizens Bank of Mid-America in April 1999.

[2] With the exception of overdraft lines of credit and loans secured by certain deposits, Civitas would not acquire the loans associated with these branches.

Civitas is a subsidiary of CNB Bancshares, Inc., Evansville, Indiana, the third largest commercial banking organization in Indiana, which controls total deposits of $3.5 billion, representing 5.1 percent of total deposits in commercial banking organizations in the state.[3] The five branches of First Indiana to be acquired control deposits of $136.7 million, representing less than 1 percent of deposits in the state. On consummation, Civitas would control approximately $3.6 billion in deposits, representing 5.3 percent of total deposits in commercial banking organizations in Indiana.

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.[4] The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of the community to be served.[5]

Civitas and the branches of First Indiana to be acquired compete with each other in the Evansville, Indiana, banking market. In evaluating the competitive issues raised by this proposal the Board has considered the contention by Civitas that the principal relevant banking market in this case, the Evansville banking

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[3]Deposit data are those reported as of June 30, 1998.

[4]12 U.S.C. § 1828(c)(5)(A).

[5]12 U.S.C. § 1828(c)(5)(B).

market, should be expanded to reflect the position of Evansville as an economic center based on commuting patterns and advertising markets.

The Board believes that the relevant banking market must reflect commercial and banking realities and should consist of the localized area where the banks involved offer their services and where local customers can practicably turn for alternatives; the key question to be considered in making this selection "is not where the parties . . . do business or even where they compete, but where, within the area of competitive overlap, the effect of the merger on competition will be direct and immediate."[6]

Applying these principles to the facts of this case, the Board concludes that the definition of the Evansville banking market should be expanded to include not only the eastern half but all of Posey County, Indiana, one of four counties comprising the Evansville Metropolitan Statistical Area ("MSA").[7] There are high levels of commuting to Evansville and high daily and Sunday subscription rates for the Evansville newspaper among households in Posey County. In particular, there is substantial commuting between the county seat, Mt. Vernon, in the western half of Posey County, and Evansville. The Board also considered the proximity of Mt. Vernon to Evansville, the ease of travel from Mt. Vernon to Evansville, and the extensive exposure of all of Posey County to Evansville advertising media.

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[6]St. Joseph Valley Bank, 68 Federal Reserve Bulletin 673 (1982) (quoting United States v. Philadelphia National Bank, 374 U.S. 321, 357 (1963)).

[7]The Board had previously determined that the Evansville banking market included three counties of the Evansville MSA (Vanderburgh and Warrick Counties in Indiana and Henderson County in Kentucky), the eastern half of Posey County, Indiana, and substantial portions of Spencer and Gibson Counties in Indiana, which are located outside the Evansville MSA.

The Board has carefully reviewed the competitive effects of the proposal in the Evansville banking market in light of all the facts of record, including the characteristics of the market and the projected increase in the concentration of total deposits in depository institutions[8] in this market ("market deposits"), as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines"). The Board has also carefully considered the number of competitors that would remain in the market after consummation of the proposal.

Civitas is the second largest depository institution in the Evansville banking market, controlling $1.4 billion in deposits, representing 35.2 percent of market deposits.[9] The five First Indiana branches to be acquired control total deposits of $136.7 million, representing 1.7 percent of market deposits. On consummation of the proposal, Civitas would control 38 percent of market deposits, and the HHI would increase 152 points to 2871.[10]

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[8]In this context, depository institutions include commercial banks, savings banks, and savings associations.

[9]Market share data are reported as of June 30, 1998 and 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 of commercial banks. See Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Because the deposits of the First Indiana branches would be acquired by a commercial banking organization, those deposits are included at 100 percent in the calculation of *pro forma* market share. See Norwest Corporation, 78 Federal Reserve Bulletin 452 (1992); First Banks, Inc., 76 Federal Reserve Bulletin 669 (1990).

[10]Under the revised DOJ Guidelines, 49 Federal Register 26,823 (June 29,

(continued...)

The Board believes that several characteristics of the Evansville banking market mitigate the potential anticompetitive effects of this proposal. Eighteen bank and thrift institutions, including Civitas, would compete in the market after consummation of the proposal. The Evansville banking market is also attractive for entry. Data for the year ending June 30, 1998, show that the Evansville MSA has had larger increases in total deposits, deposits per banking office, and per capita income than the increases on average in these statistics for other MSAs in Indiana. The market has experienced two de novo entries since 1995. Indiana, moreover, permits unrestricted intrastate branching.[11]

The Department of Justice has advised the Board that consummation of the proposal would not likely have a significant adverse effect on competition in any relevant banking market. The other federal banking agencies also have been afforded an opportunity to comment and have not objected to consummation of the proposal.

After carefully reviewing these and all other facts of record, the Board concludes that consummation of the proposed transaction would not be likely to result in a significantly adverse effect on competition or on the concentration of

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[10](...continued)
1984), a market in which the post-merger HHI exceeds 1800 is considered highly concentrated. The Department of Justice has informed the Board that a bank merger or acquisition generally will 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. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effect of limited-purpose lenders and other nondepository financial entities.

[11]Ind. Code Ann. §§ 28-2-13-19 & 12-2-16-15 (West 1998).

banking resources in the Evansville banking market or any other relevant banking market. Accordingly, the Board has determined that competitive factors are consistent with approval.

In reviewing this proposal under the Bank Merger Act and section 9 of the FRA, the Board has considered the financial and managerial resources and future prospects of the existing and proposed institutions. The Board has reviewed these factors in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial resources of Civitas. The Board notes that Civitas would remain well capitalized on consummation of the proposal. Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the institutions involved are consistent with approval. In addition, the Board has considered the effects of the proposed acquisition on the convenience and needs of the communities to be served in light of all the facts of record and concludes that convenience and needs considerations, including the performance records of the institutions involved under the Community Reinvestment Act, are consistent with approval. The Board also concludes that the proposal is consistent with approval under the considerations in the FRA.

Based on the foregoing and all the facts of record, the Board approves these applications. For purposes of this action, the commitments and conditions relied on in reaching this decision are conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

The 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 by the Board or by the Federal Reserve Bank of Chicago, acting pursuant to delegated authority.

By order of the Board of Governors, [12] effective July 14, 1999.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

[12] Voting for this action: Chairman Greenspan and Governors Kelley, Meyer, Ferguson, and Gramlich. Absent and not voting: Vice Chair Rivlin.

Appendix

Branch of First Indiana to be Established by Civitas Bank
(All in Indiana)

1. 8388 Bell Oaks Drive, Newburgh.

2. 4720 Lincoln Avenue, Evansville.

3. 123 Main Street, Evansville.

4. 405 E. Fourth Street, Mt. Vernon.

5. 3540 First Avenue, Evansville.