

FEDERAL RESERVE SYSTEM

Park National Corporation
Newark, Ohio

Order Approving the Acquisition of a Savings Association and Control of a Bank

Park National Corporation (“Park”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under sections 4(c)(8) and 4(j) of the BHC Act and section 225.24 of the Board’s Regulation Y¹ to merge with First Federal Bancorp, Inc. (“First Federal”) and thereby acquire its wholly owned federal savings bank, First Federal Savings Bank of Eastern Ohio (“FFSB”), both in Zanesville, Ohio. Park also has requested the Board’s approval under section 3 of the BHC Act to control Century National Bank, Zanesville, Ohio, after FFSB converts to a national bank and merges with one of Park’s existing bank subsidiaries.²

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (69 Federal Register 55,632 and 60,152 (2004)). The time for filing comments has expired, and the Board has considered

¹ 12 U.S.C. §§ 1843(c)(8) and (j); 12 C.F.R. 225.24.

² 12 U.S.C. § 1842(c)(3). Park proposes to acquire FFSB through a series of transactions. After Park’s merger with First Federal, FFSB will convert to a national bank (“New National Bank”), and Park’s wholly owned subsidiary, Century National Bank, will merge into New National Bank, with New National Bank as the surviving institution to be known as Century National Bank. Park has filed an application with the Office of the Comptroller of the Currency (“OCC”) for approval of the proposed conversion and merger transactions.

the proposal and all comments received in light of the factors set forth in sections 3 and 4 of the BHC Act.

Park, with total consolidated assets of \$5.1 billion, is the 11th largest depository organization in Ohio, controlling deposits of \$3.5 billion.³ First Federal, with total consolidated assets of \$258.4 million, is the 75th largest depository organization in Ohio, controlling deposits of \$183.6 million. On consummation of the proposal and after accounting for the divestiture discussed in this order, Park would remain the 11th largest depository organization in Ohio, controlling deposits of \$3.7 billion, which represent approximately 1.9 percent of the total deposits in insured depository institutions in the state.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.⁴ The Board requires that savings associations acquired by bank holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act. Park has committed to conform all the activities of FFSB to those permissible under section 4(c)(8) and Regulation Y.

Section 4(j)(2)(A) of the BHC Act requires the Board to determine that Park's acquisition of First Federal "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound

³ Asset and deposit data are as of June 30, 2004, and reflect merger and acquisition activity through October 29, 2004. In this context, depository institutions include commercial banks, savings banks, and savings associations.

⁴ 12 C.F.R. 225.28(b)(4)(ii).

banking practices.”⁵ As part of its evaluation of a proposal under these public interest factors, the Board reviews the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets, and the public benefits of the proposed transaction. In acting on notices to acquire a savings association, the Board also reviews the records of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).⁶

Competitive Considerations

As part of its review under section 3 of the BHC Act and its consideration of the public interest factors under section 4 of the BHC Act, the Board has considered carefully the competitive effects of the proposal in light of all the facts of record.⁷ Park and First Federal compete directly in the Coshocton and Muskingum, Ohio banking markets.⁸ The Board has reviewed carefully the competitive effects of the proposal in these banking markets in light of all the facts of record, including the number of competitors that would remain in the market, the relative share of total deposits in depository institutions in the market (“market deposits”) that Park would control,⁹ the concentration level of market deposits and

⁵ 12 U.S.C. § 1843(j)(2)(A).

⁶ 12 U.S.C. § 2901 et seq.

⁷ See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

⁸ The Muskingum, Ohio banking market recently has been renamed the Zanesville, Ohio banking market.

⁹ Market share data are based on calculations in which the deposits of thrift institutions are included at 50 percent before consummation. 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

the increase in this level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),¹⁰ and other characteristics of the markets.

Although the Coshocton market¹¹ would remain highly concentrated after consummation of the proposal, the increase in the post-merger HHI would be consistent with the DOJ Guidelines and Board precedent.¹² Five competitors would remain in the banking market.

Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis. Because FFSB’s deposits are being acquired by a commercial banking organization, they are included at 100 percent in the calculation of Park’s post-consummation share of market deposits. See Norwest Corporation, 78 Federal Reserve Bulletin 452 (1992); First Banks, Inc., 76 Federal Reserve Bulletin 669 (1990).

¹⁰ Under these guidelines, 49 Federal Register 26,823 (1984), a market is considered highly concentrated if the post-merger HHI is more than 1800. 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 thresholds for an increase in the HHI when screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

¹¹ The Coshocton banking market is defined as Coshocton County, Ohio.

¹² Park operates the fifth largest depository institution in the market, controlling deposits of approximately \$20.8 million, which represent 6 percent of market deposits. First Federal operates the sixth largest depository institution in the market, controlling deposits of \$7.4 million, which represent 2.1 percent of market deposits. On consummation of the proposal, Park would remain the fifth largest depository institution in the market, controlling deposits of \$35.5 million, which represent 10 percent of market deposits. The HHI would decrease by 34 points to 2291.

In the Muskingum banking market, Park is the second largest depository organization, controlling \$259.7 million of deposits, which represents approximately 21.4 percent of market deposits.¹³ First Federal is the sixth largest depository organization in the market, controlling approximately \$79.8 million in deposits, which represents approximately 6.6 percent of market deposits. To mitigate the potentially adverse competitive effects of the proposal in the Muskingum banking market, Park has committed to divest one branch in the market with at least \$12.98 million in deposits to an out-of-market depository organization.¹⁴ On consummation of the proposal and after accounting for the proposed divestiture, Park would remain the second largest depository organization in the market, controlling approximately \$406.3 million of deposits, which represents approximately 31.4 percent of market deposits. The HHI would increase by not more than 237 points and would not exceed 2816.

A number of factors indicate that the proposal is not likely to have a significantly adverse effect on competition in the Muskingum banking market. After

¹³ The Muskingum banking market is defined as Muskingum County and Harrison Township in Perry County, all in Ohio.

¹⁴ Park has committed that, before consummating the proposed merger, it will execute an agreement for the proposed divestiture in the Muskingum market, consistent with this order, with a purchaser determined by the Board to be competitively suitable. Park also has committed to complete the divestiture within 180 days after consummation of the proposed merger. In addition, Park has committed that, if it is unsuccessful in completing the proposed divestiture within such time period, it will transfer the unsold branch to an independent trustee that will be instructed to sell such 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 purchaser must be deemed acceptable to the Board. See BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991).

the proposed divestiture to an out-of-market depository organization, eight depository institutions would remain in the market. Moreover, the largest bank competitor would control more than 40 percent of market deposits and operate a large number of branches. Four additional bank competitors including Park would control more than 5 percent of market deposits. One bank entered the market de novo in 2000, and the Muskingum market has economic characteristics that suggest it is moderately attractive for new entry. Per capita income in 2002 and deposit growth between 2000 and 2003 exceeded the averages for nonmetropolitan counties in the state.

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

Based on these and all other 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 banking resources in the Coshocton and Muskingum banking markets or any other relevant banking market and that competitive considerations are consistent with approval.

Financial and Managerial Resources and Future Prospects

In reviewing the proposal under sections 3 and 4 of the BHC Act, the Board has carefully considered the financial and managerial resources and future prospects of Park and First Federal and their respective subsidiaries. The Board also has reviewed the effect the transaction would have on those resources in light of all the facts of record. The Board's review of these factors has considered, among other things, confidential reports of examination and other supervisory information

received from the primary federal supervisors of the organizations involved, as well as publicly reported and other financial information provided by Park and First Federal. In addition, the Board has consulted with the relevant supervisory agencies, including the Office of Thrift Supervision (“OTS”).

Park and its subsidiary insured depository institutions are well capitalized and would remain so on consummation of the proposal. The merger would be effected by a cash purchase of First Federal’s shares and outstanding stock options. Park has represented that it will fund the merger through the liquidation of a portion of its investment portfolio and would not incur debt to consummate the proposal.

The Board also has considered the managerial resources of Park, First Federal, and FFSB, particularly in light of the supervisory experience of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking laws. The Board has reviewed assessments by the relevant banking supervisory agencies of the organizations’ management and of the risk-management systems of Park and of the operations of First Federal and FFSB. The Board also has considered Park’s plans to integrate FFSB into its organization.

Based on all the facts of record, the Board concludes that the financial and managerial resources of the organizations involved in the proposal are consistent with approval under sections 3 and 4 of the BHC Act.

Convenience and Needs Considerations

In acting on proposals under section 3 of the BHC Act, the Board is also required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant

insured depository institutions under the CRA.¹⁵ In addition, the Board must review the records of performance under the CRA of the relevant insured depository institutions when acting on a notice under section 4 of the BHC Act to acquire an insured savings association. The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in evaluating bank expansionary proposals.

All of Park's depository institutions, including Century National Bank, received either an "outstanding" or a "satisfactory" rating at their most recent CRA performance evaluations.¹⁶ FFSB received a "satisfactory" rating at its most recent CRA performance evaluation by the OTS, as of February 2003. Based on all the facts of record, the Board concludes that the CRA performance records of the institutions involved are consistent with approval of this proposal.

Other Considerations

As part of its evaluation of the public interest factors under section 4 of the BHC Act, the Board also has carefully reviewed the public benefits and possible adverse effects of the proposed transaction. The record indicates that consummation of the proposal would allow Park to broaden and enhance the services provided to FFSB's current customers, including expanded trust management services and a

¹⁵ See, e.g., Citigroup Inc., 88 Federal Reserve Bulletin 485 (2002); Banc One Corporation, 83 Federal Reserve Bulletin 602 (1997).

¹⁶ Century National Bank received a "satisfactory" rating by the OCC, as of April 20, 2002.

larger network of ATM facilities, and would provide longer branch operating hours and more days of service for the customers. Based on all the facts of record, the Board has determined that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects under the standard of review set forth in section 4(j)(2) of the BHC Act.

Conclusion

Based on the foregoing and having reviewed all the facts of record, the Board has determined that the application and notice should be, and hereby are, approved. In reaching this 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 Board's approval is specifically conditioned on compliance by Park with all the representations and commitments made to the Board in connection with this order and the receipt of all other regulatory approvals. The Board's approval also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with and to prevent evasion of the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of this action, the commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

Park may not consummate the banking acquisition in the proposal before the fifteenth calendar day after the effective date of this order, and no part of this proposal shall be consummated 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 Cleveland, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁷ effective December 7, 2004.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁷ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Olson, Bernanke, and Kohn. Absent and not voting: Governor Bies.