

FEDERAL RESERVE SYSTEM

Central Bank of Audrain County
Mexico, Missouri

Order Approving the Acquisition of Assets, Assumption of Liabilities,
and the Establishment of a Branch

Central Bank of Audrain County (“Audrain Bank”), Mexico,

Missouri,¹ a state member bank, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act² (“Bank Merger Act”) to acquire certain assets and assume certain liabilities of First State Community Bank (“First State”), Farmington, Missouri, a state nonmember bank.³ In addition, Audrain Bank has applied under section 9 of the Federal Reserve Act (“FRA”)⁴ to establish and operate a branch at the location of the acquired branch of First State.

¹ Audrain Bank is a wholly owned subsidiary of Central Bancompany, Inc. (“Central BHC”), of Jefferson City, Missouri, a bank holding company with total consolidated assets of approximately \$10.8 billion (as of June 30, 2014) that has operations in Missouri and Oklahoma. On July 16, 2014, the Federal Reserve Bank of St. Louis approved Audrain Bank’s application to convert to a state member bank, and Audrain Bank changed its name from First National Bank of Audrain County.

² 12 U.S.C. § 1828(c).

³ In particular, Audrain Bank seeks to acquire the Vandalia, Missouri, branch of First State located at 1000 West Highway 54, Vandalia, Missouri 63382. First State is a subsidiary of Cooper Investments, Inc., Farmington, Missouri.

⁴ 12 U.S.C. § 321.

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 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.

Audrain Bank's holding company, Central BHC, is the sixth largest depository organization in Missouri, controlling deposits of approximately \$7.0 billion, which represent approximately 4.6 percent of the total amount of deposits in insured depository institutions in Missouri ("state deposits").⁶ Audrain Bank proposes to acquire approximately all of the deposits from the Vandalia branch of First State, which total approximately \$13.7 million. On consummation of the proposal, Central BHC would remain the sixth largest depository organization in Missouri, controlling deposits of approximately \$7.0 billion, which represent approximately 4.6 percent of the total amount of state deposits.

⁵ 12 CFR 262.3(b).

⁶ Data are as of June 30, 2013. In this context, insured depository institutions include insured commercial banks, savings banks, and savings associations.

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.⁷ 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 communities to be served.⁸

Audrain Bank and First State compete directly in the Mexico, Missouri, banking market (the “Mexico banking market”), and the branch that Audrain Bank proposes to acquire is located in that market.⁹ 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 share of the total deposits in insured depository institutions in the market (“market deposits”) that

⁷ 12 U.S.C. § 1828(c)(5)(A).

⁸ 12 U.S.C. § 1828(c)(5)(B).

⁹ The Mexico, Missouri, banking market is defined as Audrain County, Missouri.

Audrain Bank would control,¹⁰ 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”),¹¹ and other characteristics of the market.

In the Mexico banking market, Audrain Bank is the second largest insured depository institution, controlling deposits of approximately \$123.9 million, which represent approximately 32.6 percent of market deposits. The branch that Audrain Bank proposes to acquire currently controls approximately \$13.7 million in market deposits. On consummation of the proposal, Audrain Bank would become the largest insured depository institution in the Mexico banking market, controlling deposits of approximately \$137.6 million. When the initial competitive screening data are used, the combined entity would represent

¹⁰ Deposit and market share data are as of June 30, 2013, and are based on data reported by insured depository institutions in the Federal Deposit Insurance Corporation’s Summary of Deposits data.

¹¹ 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 (see Press Release, Department of Justice (August 19, 2010), www.justice.gov/opa/pr/2010/August/10-at-938.html), the DOJ has confirmed that its DOJ Bank Merger Guidelines, which were issued in 1995, were not modified.

36.2 percent of market deposits and the HHI would increase by 215 points, from 2777 to 2992.

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 Mexico banking market.¹² In particular, the Board considered the competitive influence of two active community credit unions in the Mexico banking market, United Credit Union and Show Me Credit Union. Each 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 Mexico banking market.¹³ These credit unions control approximately \$62.4 million in market deposits, which represent approximately 7.6 percent of market deposits on a 50 percent weighted basis. With

¹² 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).

¹³ The Board previously has considered competition from certain active credit unions with those features as a mitigating factor. See e.g., 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); Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

these deposits weighted at 50 percent, after consummation, Audrain Bank would control approximately 33.5 percent of the market deposits, and the HHI would increase by 183 points, from 2402 to 2585. Furthermore, on consummation, a total of six competitors would continue to operate in the market, including the two credit unions and two banks that each control more than 20 percent of the market's deposits. The Board has concluded that these factors mitigate the potential competitive effects of the proposal.

The DOJ conducted a review of the 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. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board concludes that consummation of the proposal is unlikely to have a significantly adverse effect on competition or on the concentration of resources in the Mexico banking market or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

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 certain other supervisory factors. 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, liquidity, and earnings prospects, and the impact of the proposed funding of the transaction. 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. The Board also considers the ability of the acquiring 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.

Audrain Bank is well capitalized and would remain so on consummation of the proposal. The proposal would be funded by a capital contribution from Central BHC, and neither Audrain Bank nor Central BHC would incur any debt as a result of the transaction. The asset quality, earnings, liquidity, and future prospects of Audrain Bank are consistent with approval. Audrain Bank appears to have adequate resources to absorb the costs of the proposal and to complete the integration of the target branch into Audrain Bank's operations. Based on its review of the record, the Board finds that Audrain Bank has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of Audrain Bank and has reviewed the examination records of Audrain Bank, including assessments of its management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and Audrain Bank's record of compliance with applicable banking and anti-money-laundering laws. The Board also has considered Audrain Bank's plans for implementing the proposal.

Audrain Bank is considered to be well managed, and its board of directors and senior management have significant banking experience. Audrain Bank would operate the acquired branch of First State under Audrain Bank's existing policies and procedures, which are considered to be satisfactory. Audrain Bank's supervisory record, managerial and operational resources, and plans for operating the pro forma institution provide a reasonable basis to conclude that managerial factors are consistent with approval.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of Audrain Bank, as well as Audrain Bank's record of effectiveness in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board must consider 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”).¹⁴ 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 (“LMI”) neighborhoods, in evaluating bank acquisition proposals.

The Board has considered all the facts of record, including reports of examination of the CRA performance of Audrain Bank and First State, information provided by Audrain Bank, and confidential supervisory information.

A. Record of Performance under the CRA

As provided in the CRA, the Board evaluates an institution’s performance based on the CRA evaluation completed by that institution’s primary

¹⁴ 12 U.S.C. § 2901 et seq.

regulator.¹⁵ The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI neighborhoods.¹⁶ 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.

CRA Performance of Audrain Bank

Audrain Bank received an overall rating of "satisfactory" at its most recent CRA performance examination by the Office of the Comptroller of the Currency, as of January 2010.¹⁷ 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, examiners noted that the distribution of loans represented reasonable dispersion among borrowers of different income levels and to farms and businesses of different sizes. Examiners found no evidence of discriminatory or other illegal credit practices. In connection with Audrain

¹⁵ See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11,642, 11,665 (2010).

¹⁶ 12 U.S.C. § 2906.

¹⁷ Audrain Bank's CRA evaluation was conducted using Small Institution CRA Examination Procedures, and examiners reviewed the bank's lending activity from January 1, 2007, through December 31, 2009.

Bank's application to convert to a state member bank, the Federal Reserve Bank of St. Louis in May 2014 conducted a limited, off-site review of its CRA performance and found no evidence of discriminatory or other illegal credit practices.

CRA Performance of First State

First State received an overall rating of "satisfactory" at its most recent CRA performance examination by the Federal Deposit Insurance Corporation ("FDIC"), as of February 2014.¹⁸ First State received an "outstanding" rating for the Service Test and "high satisfactory" ratings for both the Investment Test and the Lending Test.

In evaluating the Service Test, FDIC examiners noted that First State's delivery systems are readily accessible to all portions of the bank's assessment areas and that services do not vary in a way that inconveniences certain portions of the assessment areas. The examiners concluded that First State could be considered a leader in community development services.

In evaluating the Investment Test, examiners found that First State exhibited good responsiveness to credit and community economic development needs and occasionally used complex or innovative investments to support community development initiatives. The examiners noted that given the

¹⁸ First State's CRA evaluation was conducted using the Large Institution CRA Examination Procedures, and examiners reviewed the bank's lending activity from November 1, 2010, through February 24, 2014.

opportunities in First State's assessment areas, the bank has a significant level of qualified community development investments and grants in which it occasionally has a leadership position, and in particular, provides investments and grants that are not routinely provided by private investors.

In evaluating the Lending Test, examiners found that First State's overall lending activity reflected good responsiveness to the credit needs of its assessment areas and that First State originated a substantial majority of its loans, during the period reviewed, in its assessment areas. In addition, examiners noted that the geographic distribution of loans represented good penetration throughout the assessment areas and among retail customers of different income levels and among business and farm customers of different revenue sizes. The examiners concluded that First State exhibited a good record of serving the credit needs of the most economically disadvantaged areas of its assessment areas, low-income individuals, and very small businesses and farms, consistent with safe and sound banking practices.

B. Additional Information on Convenience and Needs of Communities to be Served by the Combined Organization

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits.

Audrain Bank represents that this proposal would result in First State's current customers continuing to have access to banking services in their immediate communities. Moreover, Audrain Bank states that it would expand its services and grow its business in Audrain County. In particular, the acquired branch would be enhanced with a drive-up ATM, additional staff, and new on-site services, all of which would benefit First State's current customers. Audrain Bank plans to consolidate its existing branch in Vandalia into the branch acquired from First State, which is located one block away on the same street.¹⁹

C. Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by Audrain Bank, and confidential supervisory information. Based on the Board's assessment of the CRA performance and consumer compliance programs of Audrain Bank and First State, its review of examination reports, and its consultations with other agencies, the Board concludes that the convenience and needs factor, including the CRA records of the insured depository institutions involved in this transaction, is consistent with approval of the application.

Financial Stability

¹⁹ Audrain Bank represents that the closing of its Vandalia branch will be completed in accordance with the bank's branch closing policy and applicable laws and regulations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) amended the Bank Merger Act to require the Board to consider a merger proposal’s “risk to the stability of the United States banking or financial system.”²⁰

To assess the likely effect of a proposed transaction on the stability of the U.S. 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.²¹ 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

²⁰ Section 604(f) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 1828(c)(5).

²¹ Many of the metrics considered by the Board measure an institution’s activities relative to the U.S. financial system.

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.²²

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation of the proposed transaction, Central BHC would have approximately \$10.8 billion in consolidated assets and would be outside the top 100 largest financial institutions in the United States as measured by assets. The Board generally presumes that a merger resulting in a firm with less than \$25 billion in total consolidated assets would 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 transaction. Audrain Bank would continue to engage in traditional commercial banking activities. The resulting organization would only experience very small increases in the metrics that the Board considers to measure an institution's complexity and interconnectedness, with the resulting firm ranking outside of the top 100 U.S. financial institutions in terms of those metrics. For example, Audrain Bank's intrafinancial assets and liabilities would comprise a negligible share of the systemwide total, both before and after the transaction, and

²² For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

the resulting firm would control less than 0.1 percent of the assets of all U.S. depository institutions. The resulting organization would not engage in complex activities, nor would it provide critical services in such volume that disruption in those services would have a significant impact on the macroeconomic condition of the United States by disrupting trade or resulting in increased resolution difficulties.

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 U.S. banking or financial system. Based on these and all other facts of record, the Board has determined that considerations relating to financial stability are consistent with approval.

Establishment of Branch

Audrain Bank has applied under section 9 of the FRA to establish and operate a branch at the location of the acquired branch of First State, and the Board has considered the factors it is required to consider when reviewing an application under that section.²³ Specifically, the Board has considered Audrain 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

²³ 12 U.S.C. § 322; 12 CFR 208.6.

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 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 Audrain Bank 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.

The transaction 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 St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,²⁴ effective October 17, 2014.

Margaret McCloskey Shanks [signed]

Margaret McCloskey Shanks
Deputy Secretary of the Board

²⁴ Voting for this action: Chair Yellen and Vice Chairman Fischer, Governors Tarullo, Powell, and Brainard.