

FEDERAL RESERVE SYSTEM

Farmers Bank of Northern Missouri  
Unionville, Missouri

Order Approving the Merger of Banks and the Establishment of Branches

Farmers Bank of Northern Missouri (“Farmers Bank”), Unionville, Missouri,<sup>1</sup> a state member bank, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act<sup>2</sup> (“Bank Merger Act”) to merge with Flowers National Bank (“Flowers Bank”), Cainsville, Missouri, a national bank.<sup>3</sup> In addition, Farmers Bank has applied under section 9 of the Federal Reserve Act (“FRA”)<sup>4</sup> to establish and operate branches at the main office and branches of Flowers Bank.<sup>5</sup>

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.<sup>6</sup> The time for filing comments has expired. As required by

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<sup>1</sup> Farmers Bank is a wholly owned subsidiary of Harrison County Bancshares, Inc. (“HCB”), Unionville, Missouri, a bank holding company. HCB is a wholly owned subsidiary of Northern Missouri Bancshares, Inc. (“NMB”), Unionville, Missouri, a financial holding company with total consolidated assets of approximately \$346.4 million (as of June 30, 2015). NMB also owns 54 percent of Exchange Bancorp of Missouri, Inc., parent of Exchange Bank of Missouri, both of Fayette, Missouri, and 80 percent of Concordia Banc-Management, Inc., parent of Concordia Bank, both of Concordia, Missouri.

<sup>2</sup> 12 U.S.C. § 1828(c).

<sup>3</sup> Flowers Bank is wholly owned by J. Christopher Flowers in his individual capacity.

<sup>4</sup> 12 U.S.C. § 321.

<sup>5</sup> Flowers Bank’s branches are located at 1415 Washington Street in Cainsville and 3601 Miller Street in Bethany, both in Missouri.

<sup>6</sup> 12 CFR 262.3(b).

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.

Farmers Bank's top-tier holding company, NMB, with total consolidated assets of \$346.4 million, operates in Missouri and Iowa. NMB is the 58th largest depository organization in Missouri, controlling deposits of approximately \$365.8 million, which represent less than 1 percent of the total amount of deposits in insured depository institutions in Missouri ("state deposits").<sup>7</sup>

Flowers Bank, with total assets of approximately \$42.4 million, operates only in Missouri. Flowers Bank is the 275th largest insured depository institution in Missouri, controlling deposits of approximately \$35.9 million, which represent less than 1 percent of the total amount of state deposits.

On consummation of the proposal, NMB would become the 54th largest depository organization in Missouri, controlling deposits of approximately \$401.7 million, which represent less than 1 percent of the total amount of state deposits.

#### 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.<sup>8</sup> 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.<sup>9</sup>

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<sup>7</sup> Data are as of June 30, 2014. In this context, insured depository institutions include insured commercial banks, savings banks, and savings associations.

<sup>8</sup> 12 U.S.C. § 1828(c)(5)(A).

<sup>9</sup> 12 U.S.C. § 1828(c)(5)(B).

Farmers Bank and Flowers Bank compete directly in the Harrison County, Missouri, banking market (the “Harrison County market”).<sup>10</sup> 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 Farmers Bank would control,<sup>11</sup> the concentration level of market deposits and the increase in that level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”),<sup>12</sup> and other characteristics of the market.

Using the initial competitive screening data, in the Harrison County market, Farmers Bank is the third largest insured depository institution, controlling deposits of approximately \$60.9 million, which represent approximately 14.0 percent of market deposits. Flowers Bank is the fourth largest insured depository institution in the market, controlling deposits of approximately \$35.9 million, which represent approximately 8.3 percent of market deposits. On consummation of the proposal, Farmers Bank would

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<sup>10</sup> The Harrison County market is defined as Harrison and Mercer counties, the eastern half of Gentry County, including Albany, and the northwestern portion of Daviess County, including Coffey and Pattonsburg, all of Missouri.

<sup>11</sup> Deposit and market share data are as of June 30, 2014, and are based on data reported by insured depository institutions in the Federal Deposit Insurance Corporation’s Summary of Deposits data.

<sup>12</sup> 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, the DOJ has confirmed that its DOJ Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), at [www.justice.gov/opa/pr/2010/August/10-at-938.html](http://www.justice.gov/opa/pr/2010/August/10-at-938.html).

become the second largest insured depository institution in the Harrison County market, controlling deposits of approximately \$96.8 million, which would represent approximately 22.3 percent of market deposits. The HHI in the market would increase by 232 points, from 2582 to 2814.<sup>13</sup>

Although consummation of this proposal would eliminate some existing competition, certain factors indicate that the competitive effects of the proposal would not likely be significantly adverse. After consummation of the proposal, seven depository institutions would remain in the Harrison County market, including Bethany Bankshares, a depository institution that would control 43 percent of deposits.<sup>14</sup> One other depository institution would control at least 20 percent of market deposits. The proposed transaction would reduce the dominance of Bethany Bankshares by creating a competitor that, while still sizably smaller than the largest competitor in the market, is better situated to compete in the market and is only marginally larger than the firm that is currently the second largest in the market.

The DOJ has also analyzed the effect of the transaction on competition in the relevant markets 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. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all of 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 Harrison County market or in any other relevant

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<sup>13</sup> Analysis of the Harrison County market using data on small business lending results in an HHI similar to that derived using deposit data. Depending on the assumptions made in the analysis, the structural effect of the transaction on small business lending would either marginally exceed the Board's delegation criteria or meet those delegation criteria by a small margin.

<sup>14</sup> Bethany Bankshares' large market presence is the primary cause of the market's high HHI, contributing over 1850 points to the current HHI of 2582. Bethany Bankshares also dominates the market's small business lending.

banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

#### Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under the Bank Merger Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved. In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of public and supervisory information regarding capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, and earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the acquiring organization to absorb the costs of the proposal and to complete effectively the proposed integration of the operations of the institutions. In assessing financial factors, the Board consistently considers capital adequacy to be especially important. 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.

Farmers Bank is well capitalized and would remain so on consummation of the proposal. The proposal is structured as a merger of two depository institutions with each share of Flowers Bank to be canceled in exchange for cash consideration to be funded entirely by excess undivided profits held in the capital of Farmers Bank. The asset quality, earnings, and liquidity of Farmers Bank and Flowers Bank are consistent with approval, and Farmers Bank appears to have adequate resources to absorb the costs of the proposal and to complete the integration of the target branches into Farmers Bank's operations. In addition, future prospects are considered consistent with approval.

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 Farmers Bank and Flowers Bank, 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, consumer protection, and anti-money-laundering laws. The Board also has considered Farmers Bank's plans for implementing the proposal.

Farmers Bank and Flowers Bank are each considered to be well managed. The directors and senior management of Farmers Bank have significant banking experience and are considered to be satisfactory. In addition, Farmers Bank would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered to be acceptable from a supervisory perspective.

Based on all the facts of record, including Farmers Bank's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Farmers Bank and Flowers Bank 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 considers the effects of the proposal on the convenience and needs of the communities to be served. In its evaluation of the effects of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of the communities to be served. In this evaluation, the Board places particular emphasis on the records of the relevant

depository institutions under the Community Reinvestment Act (“CRA”).<sup>15</sup> 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 assess a depository institution’s record of helping to meet the credit needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods.

In addition, the Board considers the banks’ overall compliance record and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments by other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. The Board also may consider the applicant institution’s business model, its marketing and outreach plans, the organization’s plans following consummation, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of Farmers Bank and Flowers Bank, the fair lending and compliance records of both banks, the supervisory views of the Office of the Comptroller of the Currency (“OCC”), confidential supervisory information, and information provided by Farmers Bank.

*Record of Performance under the CRA*

The Board evaluates an institution’s performance based on the CRA evaluation completed by that institution’s primary regulator.<sup>16</sup> The CRA requires that the

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<sup>15</sup> 12 U.S.C. § 2901 et seq.

<sup>16</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (2010).

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.<sup>17</sup> 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 lending in its communities.

In general, federal financial supervisors apply a lending test to evaluate the performance of a small insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's available data reported under the Home Mortgage Disclosure Act, automated loan reports, and other reports generated by the institution to assess the institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on the institution's loan-to-deposit ratio, loan originations for sale to the secondary market, lending-related activities in its assessment areas, record of engaging in lending-related activities for borrowers of different income levels and businesses and farms of different sizes, geographic distribution of loans, and record of taking action in response to written complaints about its performance. In addition to the lending test, intermediate small institutions are also subject to a community development test that evaluates the number and amount of the institution's community development loans and qualified investments, the extent to which the institution provides community development services, and the institution's responsiveness through such activities to community development lending, investment, and service needs.<sup>18</sup>

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<sup>17</sup> 12 U.S.C. § 2906.

<sup>18</sup> See 12 CFR 228.26.

### *CRA Performance of Farmers Bank*

Farmers Bank received an overall rating of “Satisfactory” at its most recent CRA performance examination by the Federal Reserve Bank of Kansas City, as of October 22, 2012.<sup>19</sup> Farmers Bank received “Satisfactory” ratings for both the lending test and the community development test.

Examiners determined that the bank’s average net loan-to-deposit ratio was reasonable given the bank’s size, financial condition, and assessment area credit needs. In addition, examiners noted that Farmers Bank’s distribution of loans by business and farm income level was reasonable in its assessment areas. For residential real estate loans, examiners noted that the level of lending by income level exceeded expectations in the Iowa assessment area and was reasonable in the Missouri assessment area. Examiners noted that the bank’s lending in moderate income geographies exceeded demographics for small businesses, small farms, and residential real estate loans and was approaching excellent levels.

Examiners noted that the bank’s community development performance demonstrated adequate responsiveness to community development needs throughout its assessment areas, and the bank had an adequate level of community development loans, investments, donations, and services for the review period. Examiners also noted that the bank’s delivery systems to geographies and individuals of different income levels were reasonably accessible. Examiners found no evidence of discriminatory or other illegal credit practices.

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<sup>19</sup> Farmers Bank’s CRA evaluation was conducted using Intermediate Small-Bank CRA Examination Procedures, consisting of the lending and community development tests described above. Examiners performed full-scope reviews of the bank’s activities in Putnam, Daviess, Grundy, Harrison, and Mercer counties, Missouri, and Appanoose, Decatur, and Wayne counties, Iowa, during the six-month period ended on July 31, 2012.

### *CRA Performance of Flowers Bank*

Flowers Bank received an overall rating of “Outstanding” at its most recent CRA performance examination by the OCC, as of October 24, 2011.<sup>20</sup> Examiners determined that the bank’s lending activities reflected excellent penetration among businesses and farms of different sizes. Examiners found that the bank’s distribution of loans to small businesses was excellent and its loans to businesses with revenues of less than \$1 million per year exceeded demographics. Examiners noted that Flowers Bank’s loan-to-deposit ratio reflected reasonable responsiveness to the credit needs of the community. Examiners also noted that a substantial majority of the bank’s lending was within its assessment area and that Flowers Bank’s investment activities enhanced credit availability in its assessment area.

### *Additional CRA Activities of Farmers Bank*

Farmers Bank represents that it provides a wide variety of products and services that are designed to fit the needs of its entire community. Farmers Bank states that it encourages its employees to identify and engage in opportunities to provide financial education to low- and moderate-income families in the community, including schools and senior citizens’ groups. Farmers Bank represents that its employees help provide courses on financial education at a local community college. Farmers Bank notes that it is currently considering investments in CRA-eligible small business investment companies.

### *Additional Convenience and Needs Considerations*

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. Farmers Bank represents that customers of both banks will benefit by gaining access to the full range of products and services currently offered by both banks. For example, customers of Flowers Bank will

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<sup>20</sup> Flowers Bank’s CRA evaluation was conducted using the Small Bank CRA Examination Procedures, consisting of the lending test described above. Examiners performed a full-scope review of the bank’s activities in five census tracts in Harrison and Mercer counties, Missouri, from January 1, 2009, through June 30, 2011.

gain access to new deposit account, mortgage, and variable-rate IRA products, and customers of Farmers Bank will gain access to a new fixed-rate IRA product. In addition, Farmers Bank's status as a preferred lender under the Farm Service Agency's guidelines will benefit customers of Flowers Bank because they will gain access to an abbreviated approval process for low- and moderate-income farmers, including beginning farmers. Moreover, Farmers Bank represents that customers of both banks will benefit from a larger network of branches and ATMs.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the records of the relevant depository institutions involved under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by Farmers Bank, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval.

Financial Stability

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."<sup>21</sup>

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

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<sup>21</sup> 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).

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.<sup>22</sup> 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 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.<sup>23</sup>

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, NMB would have approximately \$388.8 million in consolidated assets and would not be likely to pose systemic risks. 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.

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 determines that considerations relating to financial stability are consistent with approval.

#### Establishment of Branches

Farmers Bank has applied under section 9 of the FRA to establish and operate branches at the current locations of Flowers Bank, and the Board has considered the factors it is required to consider when reviewing an application under that section.<sup>24</sup>

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<sup>22</sup> Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

<sup>23</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

<sup>24</sup> 12 U.S.C. § 322; 12 CFR 208.6.

Specifically, the Board has considered Farmers 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 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 Farmers 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 15th 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 Kansas City acting pursuant to delegated authority.

By order of the Board of Governors,<sup>25</sup> effective November 13, 2015.

*Margaret McCloskey Shanks (signed)*

Margaret McCloskey Shanks  
Deputy Secretary of the Board

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<sup>25</sup> Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell and Brainard.