

# FEDERAL RESERVE press release



For immediate release

June 30, 1997

The Federal Reserve Board today announced its approval of the application of Marshall & Ilsley Corporation ("M&I"), Milwaukee, Wisconsin, to merge with Security Capital Corporation ("SCC"), and thereby acquire SCC's state chartered savings bank, Security Bank SSB ("SSB"), both of Milwaukee, Wisconsin. The Board also approved the application of M&I's lead bank, Marshall & Ilsley Bank, Milwaukee, Wisconsin, to merge with SSB, and approved applications by M&I subsidiary banks to establish branches at current offices of SSB.

Attached is the Board's Order relating to these actions.

Attachment

FEDERAL RESERVE SYSTEM

Marshall & Ilsley Corporation  
Milwaukee, Wisconsin

Marshall & Ilsley Bank  
Milwaukee, Wisconsin

Order Approving Merger of Bank Holding Companies and Banks  
and Establishment of Branches

Marshall & Ilsley Corporation, Milwaukee, Wisconsin ("M&I"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to merge with Security Capital Corporation ("SCC") and thereby acquire SCC's state chartered savings bank, Security Bank SSB ("SSB"), both of Milwaukee, Wisconsin. M&I's lead bank, Marshall & Ilsley Bank, Milwaukee, Wisconsin ("M&I Bank"), also has requested the Board's approval under section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(c)) (the Bank Merger Act) to merge with SSB, and under section 9 of the Federal Reserve Act (12 U.S.C. § 322) (the FRA) to establish branches at certain offices of SSB in Milwaukee.<sup>1/</sup>

Notice of the applications, affording interested persons an opportunity to submit comments, has been published (62 Federal Register 17,622 (1997)). The time for filing comments has expired, and the Board has considered the proposals and all comments received in light of the factors set forth in section 3 of the BHC Act, the Bank Merger Act and the FRA.

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<sup>1/</sup> The branches are described in Appendix A. Other subsidiary banks of M&I also have requested the Board's approval under the Bank Merger Act and the FRA to acquire SSB offices from M&I Bank after consummation of the merger, and to establish branches at those offices. The M&I subsidiary banks and branches to be acquired, are also described in Appendix A.

M&I, with total consolidated assets of \$14.8 billion, operates 28 subsidiary banks and one thrift in Wisconsin, and one subsidiary bank in Arizona.<sup>2/</sup> M&I is the largest depository institution in Wisconsin, controlling approximately \$9.8 billion in deposits, representing 15.6 percent of total deposits in depository institutions in Wisconsin.<sup>3/</sup> SCC is the sixth largest depository institution in Wisconsin, controlling approximately \$2.3 billion in deposits, representing 3.6 percent of total deposits in depository institutions in the state. On consummation of the proposal, M&I would remain the largest depository institution in Wisconsin, controlling approximately \$12.1 billion in deposits, representing 19.2 percent of total deposits in depository institutions in Wisconsin.

M&I and SSB compete directly in 13 banking markets in Wisconsin.<sup>4/</sup> The Board has carefully reviewed the competitive effects of the proposal in these markets in light of all the facts of record, including the number of competitors that would remain in the markets, the projected increase in the concentration of total deposits in depository institutions in the markets ("market deposits"), as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice merger

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<sup>2/</sup> All banking data are as of June 30, 1996.

<sup>3/</sup> In this context, depository institutions include commercial banks, savings banks, and savings associations. Market share data before consummation 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 WM Bancorp, 76 Federal Reserve Bulletin 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market share on a 50-percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

<sup>4/</sup> The banking markets and the effects of the proposal in those markets are discussed in Appendix B.

Guidelines ("DOJ Guidelines"),<sup>5/</sup> and commitments made by M&I to divest branches in certain markets to address potential anticompetitive effects.<sup>6/</sup> In light of the divestiture commitments, consummation of the proposal would not exceed the DOJ Guidelines in any relevant banking market, and numerous competitors would

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<sup>5/</sup> Under the revised DOJ Guidelines, 49 Federal Register 26,823 (June 29, 1984), a market in which the post-merger HHI is between 1000 and 1800 is considered moderately concentrated, and a market in which the post-merger HHI exceeds 1800 is considered highly concentrated. The Justice Department 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 Justice Department 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 non-depository financial institutions.

<sup>6/</sup> The Board has reviewed comments contending that consummation of the proposal would reduce competition for loans and community redevelopment in the City of Milwaukee. The comments present no facts to support lending or community redevelopment as the relevant product market, or the City of Milwaukee as the relevant geographic market. The appropriate product market for evaluating the competitive effects of acquisitions of depository institutions is the cluster of products and services offered by such institutions. See Chemical Banking Corporation, 82 Federal Reserve Bulletin 239 (1997). The Board and the courts also have concluded that the relevant banking market for analyzing the competitive effects of a proposal must reflect commercial and banking realities and should consist of the local area where the banks involved offer their services and where local customers can practicably turn for alternatives. Id. The Board has considered the comments in light of all the facts of record, and concludes that the appropriate geographic market is the Milwaukee banking market which is defined in Appendix B to include the Milwaukee RMA plus portions of four counties. The Board bases this conclusion on an analysis of commuting patterns, population density, and other data that indicate a high degree of economic integration in the area in which competitive dynamics are readily transmitted and in which customers can practicably turn to alternate providers of banking services.

remain in each banking market.<sup>7/</sup> Based on these and all the facts of record, the Board concludes that consummation of the proposal is not likely to have a significantly adverse effect on competition or the concentration of banking resources in any relevant banking market.

### Other Factors

The BHC Act and the Bank Merger Act also require the Board, in acting on an application, to consider the financial and managerial resources of the companies and banks involved, the convenience and needs of the communities to be served, and certain other supervisory factors.

#### A. Financial, Managerial, and other Supervisory Factors

The Board has carefully considered the financial and managerial resources and future prospects of M&I, SCC, and their respective subsidiaries, and other supervisory factors in light of all the facts of record. The facts include supervisory reports of examination assessing the financial and managerial resources of the organizations and confidential financial information provided by M&I. Based on these and all other facts of record, the Board concludes that all the supervisory factors under the BHC Act, including the financial and managerial resources and

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<sup>7/</sup> With respect to each market in which M&I has committed to divest offices to mitigate the anticompetitive effects of the proposal, M&I has committed to execute sales agreements with a competitively suitable purchaser prior to consummation of the acquisition of SCC and to complete the divestitures within 180 days of consummation of the acquisition. M&I also has committed that, in the event it is unsuccessful in completing any divestiture within 180 days of consummation of the proposal, M&I will transfer the unsold branch(es) to an independent trustee acceptable to the Board. The trustee will be instructed to sell the branches promptly to competitively suitable purchasers. BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991).

future prospects of M&I, SCC, and their respective subsidiaries are consistent with approval of the proposal.

B. Convenience and Needs Factor

The Board has carefully considered the effect of the proposal on the convenience and needs of the communities to be served in light of all the facts of record. In reviewing the convenience and needs considerations in the proposal, the Board notes that M&I provides a range of financial services through its banking subsidiaries, including mortgage, consumer, agricultural, and small business loans. M&I indicates that the combined organization could develop new products and services, and implement products and services shown to be feasible, more efficiently. After consummation of the proposal, customers of both organizations would have greater access to products and services through an expanded network of branch offices, ATMs and electronic banking services.

The Board also has long held that consideration of the convenience and needs factor includes a review of the records of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 et seq.) ("CRA"). The CRA performance records of the institutions involved are reviewed below in light of all the facts of record, including comments received on the proposal.

*CRA Performance Examinations.* As provided in the CRA, the Board evaluates the convenience and needs factor in light of examinations of the CRA performance records of the relevant institutions by their primary federal supervisors. 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 an institution's overall record of performance under the CRA by its primary federal supervisor.<sup>8/</sup>

M&I's lead bank, M&I Bank, received an "outstanding" rating from the Federal Reserve Bank of Chicago at its most recent CRA performance examination, as of January 22, 1996 ("1996 Examination"). All of M&I's remaining insured depository institution subsidiaries have been examined for CRA performance and received satisfactory or better ratings from their primary federal supervisor at their most recent examinations for CRA performance.<sup>9/</sup> Overall, insured depository institution subsidiaries of M&I that control approximately 72.8 percent of the organization's consolidated assets currently have "outstanding" CRA performance evaluations. SSB also received an "outstanding" rating at its most recent CRA examination from its primary federal supervisor, the Federal Deposit Insurance Corporation, as of October 1, 1993.

*CRA Performance Record of M&I Bank.* The 1996 Examination concluded that M&I Bank's efforts in ascertaining credit needs and marketing of products and services were strong. Examiners also favorably noted the bank's geographic distribution of applications and originations throughout its service community. The 1996 Examination found no evidence of illegal discrimination or

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<sup>8/</sup> The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act ("Agency CRA Statement") provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that reports of these examinations will be given great weight in the applications process.

See 54 Federal Register 13,742 and 13,745 (1989).

<sup>9/</sup> Sixteen of M&I's remaining insured depository institutions received "outstanding" ratings, and 13 received "satisfactory" ratings, at their most recent examinations for CRA performance.

practices intended to discourage applications for the types of credit described in the bank's CRA Statement.

M&I Bank's business strategy focused on commercial lending and commercial loans represented approximately 46 percent of its loan portfolio. The bank was an active participant in federal and local government-sponsored loan programs, including programs offered by the Small Business Administration ("SBA") and the Milwaukee Economic Development Corporation. During the period covered by the 1996 Examination, M&I Bank originated 30 SBA loans totalling \$3.7 million. The bank also participated as a lender in the Lincoln Fund which was a small business lending program operated by the Lincoln Neighborhood Redevelopment Corporation.

Examiners also noted that M&I Bank engaged in housing-related lending through government-sponsored loan programs directly and through its corporate affiliate, M&I Mortgage Corporation ("M&I Mortgage"). M&I Bank was a significant participant in a loan program sponsored by the Wisconsin Housing and Economic Development Agency ("WHEDA"). Examiners stated that the bank made 226 WHEDA loans during the period covered by the 1996 Examination.<sup>10/</sup> In addition, M&I Mortgage originated 120 loans under a Federal Housing Administration program totalling \$7.9 million in 1995.

*Comments on the Proposal.* The Board has carefully reviewed comments contending that the proposal would result in a decrease in lending in Milwaukee's inner city and to low- and moderate-income ("LMI") residents of

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<sup>10/</sup> As noted in the 1996 Examination, the total dollar amount of the loans was unavailable.

Milwaukee.<sup>11/</sup> The Board notes that M&I has taken steps to assist in meeting the credit needs of LMI residents in Milwaukee. In Milwaukee, for example, M&I Bank and M&I Mortgage made 128 WHEDA housing-related loans in 1995 and 81 WHEDA housing-related loans in 1996.<sup>12/</sup> Thirty-four percent of the loans in 1995, and 32 percent of the loans in 1996, were made in Milwaukee's inner city area. M&I Bank also provided financial support to the area through a program started in 1993 with the Milwaukee Inncity Congregation Allied for Hope (MICAH) called "Partners for Progress." As of year-end 1995, the bank had originated \$55 million in housing-related, small business, and community development loans in Milwaukee's inner city area through the program.

Conclusion Regarding Convenience and Needs Factor

The Board has carefully considered the entire record in its review of the convenience and needs factor under the BHC Act. Based on all the facts of record, including information provided by commenters, the responses of M&I, and the relevant reports of examination, the Board concludes that considerations relating to convenience and needs, including the CRA performance records of the relevant institutions, are consistent with approval.

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<sup>11/</sup> One commenter expressed concern that M&I would not honor the terms of SSB's agreement with the commenter on CRA-related activities. The Board previously has stated that, while communication by depository institutions with community groups provides a valuable method of assessing and determining how best to address the credit needs of the community, neither the CRA nor the Agency CRA Statement requires depository institutions to enter into agreements with particular organizations. Accordingly, in reviewing the proposal, the Board has focused on the programs and policies that M&I has in place to serve the credit needs of its entire community.

<sup>12/</sup> These loans represented 11 percent of the total number of WHEDA loans made in 1995 and 9 percent of the total number of WHEDA loans made in 1996.

### C. FRA Factors

M&I Bank and other subsidiary banks of M&I also have applied under section 9 of the FRA to establish branches at the offices of SSB listed in Appendix A. The Board has considered the factors it is required to consider when reviewing applications for establishing branches pursuant to the FRA and, for the reasons discussed in this order, finds those factors to be consistent with approval.

### Conclusion

Based on the foregoing and all other facts of record, the Board has determined that the proposals should be, and hereby are, approved.<sup>13/</sup> The Board's approval is expressly conditioned on compliance by M&I with all the commitments made in connection with the proposal. For purposes of this action, the commitments

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<sup>13/</sup> One commenter requests that the Board hold a public hearing or meeting on this proposal. Section 3(b) of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation concerning this proposal from any state or federal supervisory authority. In addition, neither the Bank Merger Act nor the FRA require a public meeting on an application.

Under its rules, the Board also may, in its discretion, hold a public hearing or meeting on an application or notice to clarify factual issues related to the proposal and to provide an opportunity for testimony. See 12 C.F.R. 225.25(a)(2), 262.3(e), and 262.25(d). The Board has carefully considered commenter's request for a hearing or meeting in light of all the facts of record. In the Board's view, commenter has had ample opportunity to submit views, and has, in fact, provided a written submission that has been considered by the Board in acting on this proposal. The request fails to demonstrate why this written submission does not adequately present commenter's allegations. After a careful review of all the facts of record, the Board has concluded that the request fails to identify any genuine dispute about facts that are material to the Board's decision or any other basis on which a hearing or meeting would be warranted. Based on all the facts of record, the Board has determined that a public hearing or meeting is not necessary to clarify the factual record in the proposal, and is not otherwise warranted in this case. Accordingly, the request for a public hearing or meeting on the proposal is hereby denied.

relied on by the Board in reaching this decision are deemed to be conditions imposed in writing and, as such, may be enforced in proceedings under applicable law.

This proposal shall not be consummated before the fifteenth calendar day following the effective date of this order, or later than three months following 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,<sup>14/</sup> effective June 30, 1997.

(signed)

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Jennifer J. Johnson  
Deputy Secretary of the Board

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<sup>14/</sup> Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Meyer.

## Appendix A

### A. Branches to be established by M&I Bank, all in Wisconsin:

#### Milwaukee

- 184 West Wisconsin Avenue
- 7100 West Center Street
- 6645 West Oklahoma Avenue
- 7600 West Layton Avenue
- 9049 North 76th Street
- 2701 West National Avenue
- 4534 West North Avenue
- 5555 North Port Washington Road

#### West Allis

- 2555 South 108th Street
- 5812 West Burnham Street

#### Wauwatosa

- 9210 West North Avenue

#### Brookfield

- 2225 North Calhoun Road

#### Cudahy

- 4677 South Packard Avenue

### B. Branches to be established by other subsidiary banks of M&I where bank is located, unless otherwise indicated, all in Wisconsin:

#### M&I Lake Country Bank, Harland

- 326 East Wisconsin Avenue, Oconomowoc

#### M&I Bank Northeast, Green Bay

- 802 George Street, DePere
- 1334 Ellis Street, Kewaunee
- 2506 Roosevelt Road, Marinette

M&I Bank of Racine, Racine

-- 4100 Durand Avenue

M&I Bank Fox Valley, Appleton

-- 2829 North Meade Street

-- 2009 East Calumet Street

C. Branches to be acquired by subsidiary banks of M&I where bank is located, unless otherwise indicated, all in Wisconsin:

M&I Central State Bank, Oshkosh

-- 347 North Sawyer Street

M&I Bank of Eagle River, Eagle River

-- 633 North Railroad Street

-- 624 Anderson Street, Three Lakes

M&I Bank of Racine, Racine

-- 468 College Avenue

-- 3215 Douglas Avenue

-- 5100 Washington Avenue

M&I Bank Northeast, Green Bay

-- 1530 West Mason Street

-- 1684 Main Street

-- 1087 Velp Avenue

-- 234 South Adams Street

-- 2120 South Ridge Road, Ashwaubenon

M&I Bank of Menomonee Falls, Menomonee Falls

-- N85 W16058 Appleton Avenue

M&I Bank of Shawano, Shawano

-- 401 East Green Bay Street

M&I Merchants Bank, Rhinelander

-- 4 South Brown Street

M&I First American Bank, Wausau

- 400 4th Street
- 2001 Stewart Avenue and drive-through
- 1134 Grand Avenue, Rothschild

M&I Bank South Central, Watertown

- 808 East Main Street

## Appendix B

A. Wisconsin banking markets in which consummation of the proposal would not exceed the DOJ Guidelines:

(1) Appleton: The Appleton banking market is approximated by Outagamie County except for Oneida township; Winchester, Clayton, Neenah, and Menasha townships in Winnebago County; and Harrison, Woodville, Britton, and Rantoul townships in Calumet County, all in Wisconsin. After consummation of the proposal, M&I would control 22.8 percent of the market deposits and would remain the largest depository institution in the market. The HHI would increase by 636 points to 1207.

(2) Green Bay Banking Market: The Green Bay banking market is approximated by Brown County; Morgan, Abrams, Pensaukee, Chase and Little Suamico townships in Oconto County; Angelica and Maple Grove townships in Manitowoc County; and Red River, Luxemburg, and Montpelier townships in Kewaunee County, all in Wisconsin. After consummation of the proposal, M&I would remain the second largest depository institution in the market. The HHI would increase by 117 points to 1591.

(3) Kenosha/Racine Banking Market: The Kenosha/Racine Banking Market is approximated by Kenosha County, Wisconsin, as well as the Racine RMA which consists of Caledonia, Month Pleasant, Yorkville, Dover and Rochester townships in Racine County, Wisconsin. After consummation of the proposal, M&I would become the fourth largest depository institution in the market. The HHI would increase by 13 points to 1408.

(4) Marinette-Menomonee Banking Market: The Marinette-Menomonee banking market is approximated by Marinette County, Wisconsin, excluding Niagara, Pembine, Beecher, Dunbar, and Goodman townships, plus Menomonee County, Michigan, excluding Harris, Spaulding, and Meyer townships. After consummation of the proposal, M&I would become the seventh largest depository institution in the market. The HHI would increase by 5 points to 1054.

(5) Milwaukee Banking Market: The Milwaukee banking market is approximately by the Milwaukee RMA, plus portions of Jefferson, Racine, Walworth, and Washington Counties, all in Wisconsin. After consummation of the

proposal, M&I would become the largest depository institution in the market. The HHI would increase by 294 points to 1424.

(6) Oshkosh Banking Market: The Oshkosh banking market is approximated by Winnebago County, Wisconsin, excluding Winchester, Clayton, Menasha, and Neenah townships. After consummation of the proposal, M&I would remain the second largest depository institution in the market. The HHI would increase by 61 points to 1779.

(7) Waupaca Banking Market: The Waupaca banking market is approximated by Waupaca County, Wisconsin, excluding Iola and Scandinavia townships. After consummation of the proposal, M&I would become the second largest depository institution in the market. The HHI would increase by 502 points to 1240.

(8) Wausau Banking Market: The Wausau banking market is approximated by the southern three-fifths of Lincoln County, plus Marathon County, excluding Holton, Hull, Brighton, Spencer, McMillan and Day townships, all in Wisconsin. After consummation of the proposal, M&I would remain the largest depository institution in the market. The HHI would increase by 360 points to 1703.

(9) Watertown Banking Market: The Watertown banking market is approximated by the southern two tiers of townships in Dodge County; plus the northern two tiers of townships in Jefferson County, Wisconsin, excluding Ixonia township. After consummation of the proposal, M&I would remain the largest depository institution in the market. The HHI would increase by 136 points to 1310.

B. Wisconsin banking markets in which consummation of the proposal would not exceed the DOJ Guidelines with divestitures:

(1) Algoma Banking Market: The Algoma banking market is approximated by Kewaunee County, excluding the townships of Red River, Luxemburg, and Montpelier; plus Union, Brussels, Forestville, and Claybanks townships in Door County, all in Wisconsin. After divestiture of one branch and consummation of the proposal, M&I would become the second largest depository institution in the market. The HHI would increase 109 points to 2265.

(2) Langlade Banking Market: The Langlade banking market is approximated by Langlade County, Wisconsin. After divestiture of one branch and consummation

of the proposal, M&I would remain the second largest depository institution in the market. The HHI would not increase.

(3) Rhineland Banking Market: The Rhineland banking market is approximated by Vilas and Oneida Counties; Forest County, excluding the townships of Alvin and Popple River; and the northern two-fifths of Lincoln County, all in Wisconsin. After divestiture of three branches and consummation of the proposal, M&I would remain the largest depository institution in the market. The HHI would increase by 177 points to 1914.

(4) Shawano Banking Market: The Shawano banking market is approximated by Menomonee County; plus Shawano County, excluding the townships of Angelica and Maple Grove, all in Wisconsin. After divestiture of one branch and consummation of the proposal, M&I would remain the largest depository institution in the market. The HHI would increase by 185 points to 2223.