

# FEDERAL RESERVE press release



For immediate release

July 2, 2001

The Federal Reserve Board today announced its approval of the application and notice by Harrodsburg First Financial Bancorp, Inc., Harrodsburg, Kentucky, to acquire 55.7 percent of the voting shares of Citizens Financial Bank, Inc., Glasgow, Kentucky, and to retain and operate its subsidiary savings association, First Financial Bank, also in Harrodsburg.

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

Attachment

## FEDERAL RESERVE SYSTEM

Harrodsburg First Financial Bancorp, Inc.  
Harrodsburg, Kentucky

## Order Approving the Formation of a Bank Holding Company

Harrodsburg First Financial Bancorp, Inc. ("Harrodsburg") has requested the Board's approval under section 3 of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1842) to acquire 55.7 percent of the voting shares of Citizens Financial Bank, Inc., Glasgow, Kentucky ("Citizens"), a de novo state-chartered bank, and thereby become a bank holding company.

Harrodsburg, which is currently a savings and loan holding company, also has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. §§ 1843(c)(8) and (j)) and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) to retain and operate its wholly owned subsidiary savings association, First Financial Bank, also in Harrodsburg ("First Financial"), in accordance with section 225.28(b)(4) of Regulation Y (12 C.F.R. 225.28(b)(4)), after Harrodsburg becomes a bank holding company.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (66 Federal Register 21158 and 22559 (2001)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in the BHC Act.

First Financial, with total consolidated assets of \$113.9 million, is the 98<sup>th</sup> largest depository organization in Kentucky, controlling deposits of

\$87.4 million, representing less than 1 percent of total deposits of insured depository institutions in the state.<sup>1</sup>

### Competitive Considerations

The Board received comments on the competitive aspects of Harrodsburg's proposal to establish a de novo bank in Glasgow from two in-market competitors of Citizens who each claim that Barren County, Kentucky, currently is served by too many banks.<sup>2</sup> The Board has previously noted that the establishment of a de novo bank enhances competition in the relevant banking market and is a positive consideration in an application under section 3 of the BHC Act.<sup>3</sup> There is no evidence in this case that this transaction would lessen competition or create or further a monopoly in any relevant market.<sup>4</sup>

Accordingly, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of

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<sup>1</sup> Asset, deposit, and ranking data for First Financial are as of June 30, 2000.

<sup>2</sup> Commenters claim that the financial performance of the banks currently operating in the Barren County has, in general, declined over the last three years, and they argue that the opening of a new bank in Barren County would only accelerate this trend, to the detriment of the local community. The Supreme Court has held that the antitrust laws are intended for the "protection of competition, not competitors." Brown Shoe Co. v. U.S., 370 U.S. 294, 319 (1962). See also BankAmerica Corporation, 66 Federal Reserve Bulletin 511, 515 (1980).

<sup>3</sup> See Wilson Bank Holding Company, 82 Federal Reserve Bulletin 568 (1996).

<sup>4</sup> Citizens and First Financial would not compete in the same local banking market. Citizens would operate in the Glasgow banking market (defined as Barren and Hart Counties and the western half of Metcalfe County, all in Kentucky), while First Financial competes in the Mercer and Anderson Counties, Kentucky, banking markets (defined as Mercer County and Anderson County, respectively).

banking resources in any relevant banking market, and that competitive considerations are consistent with approval.

#### Financial, Managerial, and Other Considerations

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain supervisory factors. The Board has reviewed information provided by Harrodsburg, confidential supervisory and examination information, and publicly reported financial and other information in assessing the financial and managerial strength of Harrodsburg, First Financial, and Citizens. The Board has reviewed the relevant factors in light of these and all other facts of record and concludes that the financial and managerial resources and future prospects of Harrodsburg, First Financial, and Citizens are consistent with approval, as are the other supervisory factors the Board must consider under the BHC Act.

Section 3 of the BHC Act also requires the Board to consider the effect of the transaction on the convenience and needs of the community to be served.<sup>5</sup> In evaluating this factor, the Board places particular emphasis on the ratings the insured depository institutions involved in a proposal received at their most recent examinations under the Community Reinvestment Act (12 U.S.C. § 2901 et seq.) ("CRA"). First Financial received an overall rating of "satisfactory" from its primary federal supervisor, the Office of Thrift Supervision, at its most recent evaluation for CRA performance, as of January 1999. Citizens, a de novo bank that has not commenced operations, has not been

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<sup>5</sup> 12 U.S.C. § 1842(c)(2).

evaluated for CRA performance by its primary federal supervisor, the Federal Deposit Insurance Corporation.

Citizens has filed a business plan with the State of Kentucky that calls for it to develop and apply flexible underwriting standards for loans that benefit low- or moderate-income areas or individuals, including purchase money and property improvement real estate loans; various consumer loans; and commercial, agricultural, church, and student loans. Citizens also intends to take advantage of active participation by its officers in Barren County civic clubs, associations, and other community organizations to ascertain the banking services needed by the community and to develop and provide these services to all segments of the community.

Based on all the facts of record, including First Financial's record of performance under the CRA, the Board concludes that convenience and needs considerations are consistent with approval of the proposal.

#### Nonbanking Activities

Harrodsburg also has filed a notice under sections 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. §§ 1843(c)(8) and (j)) to retain and operate First Financial and thereby engage in operating a savings association. The Board has determined by regulation that operating a savings association is closely related to banking for purposes of the BHC Act.<sup>6</sup> Harrodsburg has committed to conduct this nonbanking activity in accordance with the limitations set forth in Regulation Y and the Board's orders and interpretations.

In order to approve this notice, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the retention and operation of its savings association by Harrodsburg "can reasonably be expected to produce

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<sup>6</sup> See 12 C.F.R. 225.28(b)(4)(ii).

benefits to the public ... that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."<sup>7</sup>

As part of its evaluation of these factors, the Board has considered the financial and managerial resources of Harrodsburg, First Financial, and Citizens and the effect of the proposed transaction on those resources. For the reasons noted above, and based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board also has considered the competitive effects of Harrodsburg's proposed retention of its nonbanking subsidiary, First Financial, in light of all the facts of record. For the reasons discussed, the Board has concluded that Harrodsburg's proposed retention of First Financial would not likely result in decreased or unfair competition or undue concentration of resources in the Anderson or Mercer Counties banking markets. Harrodsburg has indicated that the proposal would benefit the communities served by First Financial by allowing them continued access to First Financial's primary loan products, which are single-family and multifamily residential mortgages. Harrodsburg also stated that its continued operation of First Financial would preserve a proven competitor for deposit and loan products in the banking markets of Anderson and Mercer Counties.

The Board also concludes that the conduct of the proposed nonbanking activities within the framework of Regulation Y and Board precedent is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking

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<sup>7</sup> 12 U.S.C. § 1843(j)(2)(A).

practices that would not be outweighed by its likely public benefits.

Accordingly, the Board has determined that the balance of public interest factors it must consider under section 4(j)(2)(A) of the BHC Act is favorable and consistent with approval of Harrodsburg's notice to retain and operate First Financial.

### Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the application and notice 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 BHC Act. The Board's approval is specifically conditioned on compliance by Harrodsburg with all commitments made in connection with the application and notice. The Board's determination on the nonbanking activities also is subject to all the terms and 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 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 BHC Act and the Board's regulations and orders thereunder. For purposes of this transaction, the commitments and conditions referred to in this order shall be 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.

The acquisition of Citizens may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months following the effective date of this order, and Citizens shall be open for business within six 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 St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>8</sup> effective July 2, 2001.

(signed)

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Robert deV. Frierson  
Associate Secretary of the Board

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<sup>8</sup> Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.