

FEDERAL RESERVE SYSTEM

First Western Bancorp, Inc.
Huron, South Dakota

Order Approving the Acquisition of a Bank Holding Company

First Western Bancorp, Inc. (“First Western”) has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”) (12 U.S.C. § 1842) to acquire at least 74.8 percent of the voting shares of American Bank Shares, Inc. (“American”), and thereby acquire American’s subsidiary bank, American State Bank (“American Bank”), both in Rapid City, South Dakota.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (66 Federal Register 33,543 (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 section 3 of the BHC Act.

First Western, with total consolidated assets of \$477 million, operates subsidiary banks in South Dakota and Nebraska. First Western operates the 12th largest depository organization in South Dakota, controlling deposits of \$327.9 million, representing approximately 2.5 percent of total deposits in insured depository institutions in the state (“state deposits”).¹ American, with total consolidated assets of \$137 million, operates the 23rd largest depository institution in South Dakota, controlling

¹ Asset, state deposit, and ranking data are as of June 30, 2000.

\$107.5 million in deposits, representing less than 1 percent of total state deposits. After consummation of the proposal, First Western would control the ninth largest depository organization in South Dakota, controlling deposits of \$435.4 million, representing approximately 3.4 percent of state deposits.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant banking market, unless the Board finds that the anticompetitive effects clearly are outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.²

First Western and American compete directly in the Rapid City, South Dakota, banking market (“Rapid City market”).³ The Board has carefully reviewed the competitive effects of the proposal in this market in light of all the facts of record. In particular, the Board has considered the projected increase in the concentration of total deposits in insured depository

² 12 U.S.C. § 1842(c)(1).

³ The Rapid City market is defined as Bennett, Butte, Custer, Fall River, Haakon, Jackson, Lawrence, Pennington, and Shannon Counties, and the southwestern portion of Meade County, all in South Dakota.

institutions in this market (“market deposits”)⁴ as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),⁵ the number of competitors that would remain in the market, and other characteristics of the market.

First Western operates the second largest depository organization in the Rapid City market, controlling \$327.9 million in market deposits, representing approximately 19.2 percent of market deposits. American operates the sixth largest depository institution in the market, controlling \$107.5 million in deposits, representing approximately 6.3 percent of market deposits. On consummation of the proposed acquisition, First Western would continue to operate the second largest depository organization in the Rapid City market, controlling \$435.4 million

⁴ Market share data for the Rapid City market are as of June 30, 2000. These data 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 Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market shares on a 50-percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

⁵ Under the DOJ Guidelines, 49 Federal Register 26,823 (1984), a market in which the post-merger HHI is above 1800 is considered to be highly concentrated. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger or acquisition increases the HHI by at least 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers or acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

in deposits, representing approximately 25.5 percent of market deposits. The HHI would increase by 241 points to 1958, and the market would become highly concentrated.

Several mitigating factors indicate that the increase in market concentration, as measured by the HHI, is not likely to have a significantly adverse effect on competition. A large number of financial institutions, relative to the size of total market deposits, would compete in the Rapid City market. At least 10 banking organizations, other than First Western, and one thrift institution would remain in the market. In addition, four of the other banking organizations would each control more than 10 percent of market deposits.

The Rapid City market also has recently experienced de novo entry. In 2000, a banking organization entered the market by establishing a new branch. The Rapid City market, which includes one of the two Metropolitan Statistical Areas (“MSAs”) in South Dakota, also appears to be attractive for future entry.⁶ From 1990 to 2000, the population growth rate in the Rapid City market and the Rapid City MSA exceeded the statewide rate. In addition, the population growth rate for the Rapid City MSA is projected to increase by more than twice the projected statewide rate from 2000 to 2005.

The Board also has considered the competitive effect of credit unions operating in the Rapid City market. Sixteen credit unions operate in the market and together control more than 20 percent of market deposits, which is more than twice the national average of 8.5 percent for market

⁶ The Rapid City MSA consists of one county in the Rapid City market, Pennington County.

deposits controlled by credit unions. The largest credit union controls more than 12 percent of market deposits and offers a full range of retail banking products. The credit union's membership is open to all persons who live, work, worship, or attend school in three counties, or in a large town in a fourth county, in the banking market. More than 60 percent of the residents in the Rapid City market are potential members of this credit union.

The Board believes that the foregoing considerations, including the number and strength of competitors that would remain in the Rapid City market after consummation of the proposal, the structure and attractiveness of that market, and other factors mitigate the potential anticompetitive effects of the proposal. The Board also has considered the views of the Department of Justice and other banking agencies. The Department of Justice has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. The Federal Deposit Insurance Corporation ("FDIC") and the Office of the Comptroller of the Currency ("OCC") have been afforded an opportunity to comment and have not objected to the consummation of the proposal.

Based on these and all the facts of record, the Board concludes that consummation of the proposal is not likely to result in any significantly adverse effects on competition or on the concentration of banking resources in the Rapid City banking market, or in any other relevant banking market, and that competitive factors are consistent with approval.

Financial, Managerial, and Other Considerations

Section 3 of the BHC Act also requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal, the convenience and needs of the

communities to be served, and certain supervisory factors. The Board has reviewed carefully these factors in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial resources of the organizations and confidential financial information provided by First Western. Based on these and all the facts of record, the Board concludes that the financial and managerial resources and future prospects of First Western, American, and their subsidiary banks are consistent with approval, as are the other supervisory factors that the Board must consider under the BHC Act.

In considering the convenience and needs factor, the Board has reviewed the records of performance of the subsidiary banks of First Western and American under the Community Reinvestment Act (12 U.S.C. § 2901 et seq.).⁷ Based on all the facts of record, the Board concludes that convenience and needs considerations, including the CRA performance records of the relevant institutions, are consistent with approval of the proposal.

⁷ The subsidiary banks of First Western and American received “outstanding” or “satisfactory” ratings at their most recent CRA performance examinations: The First Western Bank Custer, Custer, South Dakota, and The First Western Bank Sturgis, Sturgis, South Dakota, received “outstanding” ratings from the FDIC, as of December 1, 1999; The First Western Bank Wall, Wall, South Dakota, also received an “outstanding” rating from the FDIC, as of February 1, 1999; First Western Bank, N.A., Atkinson, Nebraska, received a “satisfactory” rating from the OCC, as of April 20, 1998; and American Bank received an “outstanding” rating from the Federal Reserve Bank of Minneapolis, as of February 24, 1997.

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. The Board's approval of the proposal is conditioned on compliance by First Western with the commitments made in connection with the application. For purposes of this action, the commitments and conditions relied on in reaching this decision are conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

The transaction shall 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 the Federal Reserve Bank of Minneapolis, acting pursuant to delegated authority.

By order of the Board of Governors,⁸ effective August 9, 2001.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

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