

FEDERAL RESERVE SYSTEM

Illini Corporation
Springfield, Illinois

Order Denying the Acquisition of a Bank Holding Company

Illini Corporation (“Illini”), 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 acquire all the voting shares of Illinois Community Bancorp, Inc., (“Illinois Community”), and thereby acquire Illinois Community Bank (“ICB”), both in Effingham, Illinois.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (67 Federal Register 1,357 (2002)). 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.

Illini is the 123rd largest banking organization in Illinois, controlling deposits of \$253 million, representing less than 1 percent of total deposits in depository institutions in the state (“state deposits”).¹ Illinois Community is the 474th largest banking organization in Illinois, controlling deposits of \$49.2 million, representing less than 1 percent of state deposits. On consummation of the proposal, Illini would become the 100th largest banking organization in Illinois, controlling deposits of \$302.1 million, representing less than 1 percent of state deposits.

¹ State deposit and ranking data are as of June 30, 2002, and reflect acquisitions as of December 6, 2002. In this context, depository institutions include commercial banks, savings associations, and savings banks.

In evaluating an application under section 3 of the BHC Act, the Board is required to take into consideration the financial and managerial resources and future prospects of Illini, Illinois Community, and their subsidiary banks.² A review of the financial factors includes evaluation of the current and pro forma capital positions and levels of indebtedness of the companies and banks involved.³ The Board previously has stated that a bank holding company must serve as a source of financial and managerial strength to its subsidiary banks.⁴ In assessing the financial and managerial resources and future prospects of the two organizations and their subsidiary banks and the effect the transaction may be reasonably expected to have on these resources, the Board has evaluated examination and inspection reports and other supervisory information and has consulted with the relevant banking supervisors, including the Federal Deposit Insurance Corporation (“FDIC”) and the Illinois Office of Banks and Real Estate (“OBRE”). The Board also has considered information submitted by Illini, including its plans to raise additional capital in the future, and public information about the financial resources of the companies involved in this case.

In the past, the Board has indicated its concern over the ability of an applicant to serve as a source of strength to a bank it proposes to acquire when the applicant is experiencing weakness in its existing loan portfolio.⁵ Illini’s consolidated nonperforming assets have increased since 2000. Illini already has a substantial level of debt, which is serviced primarily by earnings from its existing subsidiary banks. Although Illini would incur no additional debt in connection

² 12 U.S.C. § 1842(c)(2).

³ 12 C.F.R. 225.13(b)(1).

⁴ 12 C.F.R. 225.4(a)(1); Cherokee Bancorp, 77 Federal Reserve Bulletin 324 (1991).

⁵ Id.; Center Financial Corporation, 76 Federal Reserve Bulletin 23 (1990).

with the proposed acquisition of Illinois Community, Illini's existing levels of debt place substantial demands on the financial resources of its subsidiary banks and have adversely affected Illini's consolidated earnings.⁶ Moreover, the current level of Illini's capital on a consolidated basis is significantly below the level of similarly situated banking organizations.

Importantly, since March 31, 2001, ICB has been subject to a cease and desist order issued by the FDIC and the OBRE that, among other things, requires the bank to increase its tier one leverage capital ratio to at least 7 percent. Although Illini has informed the Board of its plans to raise additional capital, the timing of the completion of this plan is unclear, and it is uncertain whether the proposed amount of capital would be enough to meet the needs of both Illini and ICB.

The Board has considered these and all the other facts of record, including information about the capital and debt levels of the companies involved, the quality of assets and the level of earnings of these companies, and other financial information. Based on this review, the Board concludes that the proposal as currently structured does not provide adequate assurances that Illini has or would have sufficient financial or managerial resources to effect this transaction in a safe and sound manner or would have the financial resources and flexibility to meet any unforeseen problems that might arise at the subsidiary banks of Illinois Community or Illini. Accordingly, the Board concludes that financial resources and future prospects of Illini and Illinois Community and their subsidiary banks are not consistent with approval of the proposal as currently structured.

⁶ In 2001, Illini issued trust preferred shares and repurchased shares from its largest shareholder group, which it financed by bank debt and unsecured notes payable to the shareholders.

The Board also has considered the other factors it is required to consider under the BHC Act. Illini and Illinois Community do not compete directly in any banking market, and based on all the facts of record, the Board concludes that consummation of the proposal is not likely to result in a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market. The Board also has considered the effects of the proposal on the convenience and needs of the community to be served and has taken into account the records of the relevant depository institutions under the Community Reinvestment Act (“CRA”).⁷ All depository institutions involved in this proposal received satisfactory ratings at their most recent CRA performance evaluations by the FDIC.⁸ Illini proposes to offer new deposit products to ICB’s customers. The Board concludes that the competitive and convenience and needs factors are consistent with approval of this proposal but that these factors, including the additional products Illini would provide, do not outweigh the adverse considerations discussed above.

For these reasons and based on all the facts of record, the Board has determined that the proposal does not meet the statutory requirements for approval under section 3 of the BHC Act. Accordingly, it is the Board’s judgment that

⁷ 12 U.S.C. § 2901 et seq.

⁸ The Interagency Questions and Answers Regarding Community Reinvestment provides that an institution’s most recent CRA performance evaluation is an important consideration in the application 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. 66 Federal Register 36,620 and 36,639 (2001). Illini’s two subsidiary banks are Illini Bank, Springfield and Farmers State Bank of Camp Point, Camp Point, both in Illinois. Illini Bank received a “satisfactory” rating as of January 1999, and Farmers State Bank of Camp Point received a “satisfactory” rating, as of February 1999. ICB received a “satisfactory” rating, as of October 1998.

approval of the application would not be in the public interest and that the application should be, and hereby is, denied.

By order of the Board of Governors,⁹ effective December 23, 2002.

(signed)

Jennifer J. Johnson
Secretary of the Board

⁹ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.