

## FEDERAL RESERVE SYSTEM

Arvest Bank Group, Inc.  
Bentonville, Arkansas

### Order Approving the Acquisition of a Savings Association

Arvest Bank Group, Inc. (“Arvest”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. § 1843(c)(8) and 1843(j)) and section 225.24 of the Board’s Regulation Y (12 C.F.R. 225.24) to acquire Superior Financial Corp., Little Rock (“Superior”), and its wholly owned subsidiary, Superior Federal Bank, FSB, Fort Smith (“Thrift”), both in Arkansas. Arvest would thereby engage in operating a savings association. Arvest also proposes to acquire the nondepository subsidiaries of Superior and engage in a variety of nonbanking activities in accordance with the BHC Act and applicable Board regulations.<sup>1</sup>

Notice of the proposal, affording interested persons an opportunity to comment, has been published in the Federal Register (68 Federal Register 39,952 (2003)). The time for filing comments has expired, and the Board has considered the notice and all comments received in light of the factors set forth in section 4 of the BHC Act.

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<sup>1</sup> Arvest would acquire Superior Finance Company, Superior Financial Services, Inc., and Southwest Protective Life Insurance Company, all in Fort Smith, and Superior Insurance Services, Paris, Arkansas. These subsidiaries engage in the following nonbanking activities: extending credit, providing securities brokerage services, providing credit insurance, and providing insurance agency activities in a town with a population of 5000 or less pursuant to sections 225.28(b)(1), (7)(i), (11)(i), and (11)(iii) of Regulation Y (12 C.F.R. 225.28(b)(1), (7)(i), (11)(i), and (11)(iii)).

Arvest, with total assets of \$4.9 billion, operates depository institutions in Arkansas, Missouri, and Oklahoma.<sup>2</sup> Arvest is the second largest depository organization in Arkansas, controlling deposits of \$2.3 billion, representing 6.5 percent of total deposits of insured depository institutions in the state (“state deposits”).<sup>3</sup> Arvest is the seventh largest depository organization in Oklahoma, controlling deposits of \$ 1.6 billion, representing 4 percent of state deposits.

Superior operates depository institutions in Arkansas and Oklahoma. Superior is the eighth largest depository organization in Arkansas, controlling deposits of \$875.4 million, representing 2.5 percent of state deposits. In Oklahoma, Superior is the twentieth largest depository organization, controlling deposits of \$323.1 million, representing less than 1 percent of state deposits.

On consummation of the proposal, Arvest would remain the second largest depository organization in Arkansas, controlling deposits of \$3.2 billion, representing 9 percent of state deposits, and would become the sixth largest depository organization in Oklahoma, controlling deposits of \$2 billion, representing 4.8 percent of state deposits.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.<sup>4</sup> The Board requires that savings associations acquired by bank holding companies

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<sup>2</sup> Asset data are as of March 31, 2003.

<sup>3</sup> Deposit and market share data are as of June 30, 2002. In this context, depository institutions include commercial banks, savings banks, and savings associations.

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

conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act. Arvest has committed to conform all the activities of Superior to those permissible under section 4(c)(8) of the BHC Act and Regulation Y. In addition, the Board has determined that extending credit, providing securities brokerage services, providing credit insurance, and providing general insurance in a town with a population of 5000 or less are activities that are closely related to banking.<sup>5</sup> Arvest has committed to conduct each of the activities in accordance with the Board's regulations and orders governing them.

In reviewing the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the acquisition of Superior and Thrift by Arvest "can reasonably be expected to produce 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>6</sup> As part of its evaluation of a proposal under these public interest factors, the Board reviews the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets, the record of the relevant insured depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 et seq.)("CRA"), and other public interest factors.

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<sup>5</sup> 12 C.F.R. 225.28(b)(1), (7)(i), (11)(i), and (11)(iii).

<sup>6</sup> 12 U.S.C. § 1843(j)(2)(A).

### Financial and Managerial Considerations

The Board has carefully reviewed the financial and managerial resources of the institutions involved. The Board has considered, among other things, confidential reports of examination and supervisory information from their primary federal supervisors that assess the financial and managerial resources of the organizations, and information from Arvest. The Board notes that Arvest is and will remain well capitalized on consummation of the proposal. Based on all the facts of record, the Board concludes that the financial and managerial resources of the institutions involved are consistent with approval of the proposal.

### Competitive Considerations

As part of the its consideration of the public interest factors under section 4 of the BHC Act, the Board has considered carefully the competitive effects of the proposal in light of all the facts of record.<sup>7</sup> Arvest and Superior compete directly in five banking markets.<sup>8</sup> The Board has reviewed carefully the competitive effects of the proposal in each of these banking markets in light of all the facts of record, including the number of competitors that would remain in the market, the relative share of total deposits in depository institutions in the market (“market deposits”) that Arvest would control,<sup>9</sup> the

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<sup>7</sup> See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

<sup>8</sup> The markets are described in Appendix A.

<sup>9</sup> Market share data are based on calculations in which the deposits of thrift institutions are included at 50 percent before consummation. The Board has previously indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis. Because Superior’s deposits are being acquired by

concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Merger Guidelines”),<sup>10</sup> and other characteristics of the markets.

Consummation of the proposal would be consistent with the DOJ Guidelines in all five banking markets. After consummation of the proposal, four of these markets would remain moderately concentrated as measured by the HHI.<sup>11</sup>

The Fayetteville/Springdale banking market, however, is highly concentrated. Arvest is the largest depository organization in the market, controlling approximately \$1.9 billion in deposits, representing 42.2 percent of market deposits. Superior is the twentieth largest depository organization in the market, controlling deposits of \$16.6 million, representing less than

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a commercial banking organization, they are included at 100 percent in the calculation of Arvest’s post-consummation share of market deposits. See Norwest Corporation, 78 Federal Reserve Bulletin 452 (1992); First Banks, Inc., 76 Federal Reserve Bulletin 669 (1990).

<sup>10</sup> Under these guidelines, 49 Federal Register 26,823 (1984), a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800 and highly concentrated if the post-merger HHI is more than 1800. 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 increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal thresholds for an increase in the HHI when screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

<sup>11</sup> These markets and the competitive effects of the proposal on the concentration of banking resources in the markets are described in Appendix B.

1 percent of market deposits. On consummation of the proposal, Arvest would remain the largest depository organization in the market, controlling deposits of \$1.9 billion, representing 42.8 percent of market deposits.

The HHI would increase 48 points to 2073 in the Fayetteville/Springdale banking market, consistent with the DOJ Guidelines. In addition, 20 other depository institutions would remain in the market, and factors indicate that the Fayetteville/Springdale market is attractive for entry. Since 1997, the Fayetteville-Springdale metropolitan statistical area (“MSA”) has had the highest annual average rates of increase in population and per-capita income of any MSA in Arkansas. Two commercial banks have also entered the market de novo since 2000.

Based on all the facts of record, the Board concludes that consummation of the proposal would not result in any significantly adverse effects on competition or on the concentration of banking resources in the Fayetteville/Springdale banking market or in any other relevant banking market.

The Board also has considered the effects of the proposed transaction on competition for nonbanking activities. To the extent that Arvest and Superior offer different types of nonbanking products or services, the proposal would not result in a significant loss of competition. Arvest and Superior compete directly in providing insurance agency and securities brokerage services. The markets for these nonbanking activities are regional or national in scope and are unconcentrated. The record in this case also indicates that there are numerous providers of these services. Based on all the facts of record, the Board concludes that consummation of the proposal would have a de minimis effect on competition for these nonbanking activities.

CRA Record of Performance

In acting on notices to acquire a savings association, the Board also reviews the records of performance of the relevant insured depository institutions under the CRA.<sup>12</sup> The CRA requires the federal supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in evaluating bank expansionary proposals.

Arvest's only subsidiary insured depository institution, Arvest Bank, Fayetteville, Arkansas, received a "satisfactory" rating at its most recent CRA performance evaluation by the Federal Reserve Bank of St. Louis, as of September 2002. Thrift received a "satisfactory" rating at its most recent CRA performance evaluation by the Office of Thrift Supervision, as of January 2001. Based on all the facts of record, the Board concludes that the CRA performance records of the institutions involved are consistent with approval of the proposal.

#### Other Considerations

As part of its evaluation of the public interest factors, the Board also has reviewed carefully the public benefits and possible adverse effects of the proposal. The record indicates that consummation of the proposal would result in benefits to consumers and businesses currently served by Superior. Superior's consumer and commercial customers would have

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<sup>12</sup> See, e.g., Citigroup Inc., 88 Federal Reserve Bulletin 485 (2002); Banc One Corporation, 83 Federal Reserve Bulletin 602 (1997).

access to Arvest's expanded lines of products and services. The Board notes that there are also public benefits to be derived from allowing capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.<sup>13</sup>

Based on the foregoing and all the facts of record, the Board has determined that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any potential adverse effects under the standard of review set forth in section 4(j)(2) of the BHC Act.

#### Conclusion

Based on the foregoing, the Board has determined that the proposal should be, and hereby is, approved. The Board's approval is specifically conditioned on compliance by Arvest with all the commitments made in connection with the notice. The Board's determination also is subject to all the conditions in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder. The commitments and conditions relied on by the Board in reaching this decision are 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.

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<sup>13</sup> See BB&T Corporation, 87 Federal Reserve Bulletin 545 (2001).

The transaction may not be consummated 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 St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>14</sup> effective August 22, 2003.

(signed)

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Robert deV. Frierson  
Deputy Secretary of the Board

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<sup>14</sup> Voting for this action: Vice Chairman Ferguson and Governors Gramlich, Bies, Olson, Bernanke, and Kohn. Absent and not voting: Chairman Greenspan.

Appendix A

Banking Markets in which Arvest and  
and Superior Compete Directly

Arkansas

Fayetteville-  
Springdale

Benton, Madison, and Washington Counties.

Fort Smith (AR-OK)

Crawford and Sebastian Counties and the city of  
Mansfield in Arkansas, and Sequoyah County and  
the northern half of LeFlore County in Oklahoma.

Harrison

Boone, Marion, Newton, and Searcy Counties.

Little Rock

Pulaski and Saline Counties; the townships of  
Magness, Ward, Caroline, York, Oak Grove, and  
Butler in Lonoke County; and the townships of  
El Paso, Royal, and Union in White County.

Oklahoma

Tulsa

The Tulsa Ranally Metro Area; Mayes County,  
excluding the towns of Disney, Langley, Pensacola,  
and Spavinaw; and the northern half of Okmulgee  
County, including the towns of Okmulgee, Beggs,  
and Morris.

## Appendix B

### Certain Banking Markets in which Arvest and Superior Compete

#### Arkansas

##### Fort Smith (AR-OK)

Arvest is the fourteenth largest depository organization in the market, controlling deposits of approximately \$63.5 million, representing 2.2 percent of market deposits. Superior is the fourth largest depository organization in the market, controlling deposits of \$164.6 million, representing 5.8 percent of market deposits. On consummation of the proposal, Arvest would become the third largest depository organization in the market, controlling deposits of approximately \$392.7 million, representing 13 percent of market deposits. The HHI would not increase.

##### Harrison

Arvest is the third largest depository organization in the market, controlling deposits of approximately \$129 million, representing 16.7 percent of market deposits. Superior is the eleventh largest depository organization in the market, controlling deposits of \$9.8 million, representing 1.3 percent of market deposits. On consummation of the proposal, Arvest would become the largest depository organization in the market, controlling deposits of approximately \$148.7 million, representing 19 percent of market deposits. The HHI would increase by 54 points to 1370.

Little Rock

Arvest is the eleventh largest depository organization in the market, controlling deposits of approximately \$161.3 million, representing 2.5 percent of market deposits. Superior is the thirteenth largest depository organization in the market, controlling deposits of \$156.1 million, representing 2.5 percent of market deposits. On consummation of the proposal, Arvest would become the fifth largest depository organization in the market, controlling deposits of approximately \$473.4 million, representing 7.3 percent of market deposits. The HHI would not increase.

Oklahoma

Tulsa

Arvest is the fifth largest depository organization in the market, controlling deposits of approximately \$535 million, representing 5 percent of market deposits. Superior is the thirty-ninth largest depository organization in the market, controlling deposits of \$29.7 million, representing less than 1 percent of market deposits. On consummation of the proposal, Arvest would remain the fifth largest depository organization in the market, controlling deposits of approximately \$594.5 million, representing 5.6 percent of market deposits. The HHI would not increase.