

FEDERAL RESERVE SYSTEM

Republic Bancorp, Inc.
Munden, Kansas

Order Approving the Formation of a Bank Holding Company

Republic Bancorp, Inc. (“Republic”) has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)¹ to become a bank holding company and acquire 99.7 percent of the voting shares of National Family Bank (“NFB”), Munden, Kansas.²

Notice of the proposal, affording interested persons an opportunity to comment, has been published (70 Federal Register 10,402 (2005)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

Republic is a newly organized corporation formed for the purpose of acquiring control of NFB. NFB, with total assets of approximately \$15.5 million, is the 287th largest insured depository institution in Kansas, controlling deposits of approximately \$14.8 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.³

¹ 12 U.S.C. § 1842.

² Admiral Family Banks, Inc., Alsip, Illinois, currently owns 99.7 percent of the voting shares of NFB, and Republic has applied to acquire all these shares.

³ Asset data are as of December 31, 2004. Deposit data and state rankings are as of June 30, 2004. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or that would be in furtherance of an attempt to monopolize the business of banking. The BHC Act also prohibits the Board from approving a bank acquisition that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.⁴

This proposal represents Republic's initial entry into retail banking in Kansas. Based on all the facts of record, the Board has concluded that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including information provided by Republic, confidential reports of examination, and other confidential supervisory information from the Office of the Comptroller of the Currency ("OCC"), the primary federal supervisor of NFB.

⁴ See 12 U.S.C. § 1842(c)(1).

In evaluating financial factors in proposals involving newly formed small bank holding companies, the Board reviews the financial condition of both the applicant and the target depository institution. The Board also evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

Based on its review of these factors, the Board finds that Republic has sufficient financial resources to effect the proposal. NFB is well capitalized and would remain so on consummation of this proposal. Republic proposes to fund this transaction through a combination of debt and equity. The Board has recognized that the transfer of ownership of small banks often requires the use of acquisition debt.⁵ It appears that Republic would have sufficient financial flexibility to service this debt without unduly straining the resources of Republic or NFB.

The Board also has considered the managerial resources of the applicant, including the proposed management of the organization. The Board has reviewed the examination record of NFB, including assessments of its current management, risk management systems, and operations. In addition, the Board has considered its supervisory experiences and those of the other relevant banking agencies with NFB and the management officials and principal shareholders of Republic. The Board also has considered Republic's plans to implement the proposal, including its proposed expansion of NFB's products and services and the changes in management at NFB after the acquisition.

⁵ Small Bank Holding Company Policy Statement, 12 C.F.R. Part 225, Appendix G.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of Republic and NFB are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on proposals under section 3 of the BHC Act, the Board is also required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).⁶ The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the 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 proposals under section 3 of the BHC Act.

The Board has considered carefully the convenience and needs factor and the CRA performance record of NFB in light of all the facts of record, including public comment received regarding the proposal and the bank’s CRA record. The Board received one comment from an individual suggesting that NFB was not serving the needs of its community, particularly its agricultural lending needs, and that Republic also might not serve the community’s needs.⁷

⁶ 12 U.S.C. § 2901 et seq.

⁷ The commenter also questioned the identity of the proposed purchasers. Republic has disclosed its ownership structure, as required by the BHC Act, and has stated that the commenter has met with some of Republic’s principal shareholders.

NFB received an “Outstanding” rating at its most recent CRA performance evaluation by the OCC, as of November 25, 2002 (“2002 Examination”). Examiners reported that the bank’s record of lending to borrowers of different income levels and farms of different revenue amounts was excellent. They also noted that the bank’s average loan-to-deposit ratio of 70 percent was comparable to the ratio for its peer group. Since the examination, however, NFB’s lending volume and average loan-to-deposit ratio has significantly declined.

Several factors have affected NFB’s overall lending activity in its assessment area, which is Republic County, Kansas, a nonmetropolitan area in north central Kansas. This area has experienced a population decline of 9 percent since 2000. Of the six depository institutions in the assessment area, NFB is the smallest bank in terms of deposits, and its deposits decreased from 2003 to 2004. Moreover, the main business in Republic County is agriculture and drought conditions have had a negative impact on lending during the last two years. These factors have affected NFB’s ability to make loans to its community and resulted in a marked decrease in lending since the 2002 Examination.

Republic’s proposed business plan includes several improvements to services and products that should strengthen the bank’s overall condition and its ability to serve the community’s lending and other banking needs. The Board has consulted with the OCC about Republic’s proposed business plan for NFB. The business plan includes a strategy for growth through enhanced product offerings and by hiring employees and management officials with agricultural lending experience and a familiarity with the community and its banking needs. Republic also proposes to update the bank’s processing systems and introduce internet banking, ATMs, debit and credit cards, as well as other banking

products in the future. In addition, the proposed principals of Republic and its management are residents who are familiar with the community and its needs and who have banking experience.⁸

The Board has considered carefully all the facts of record, including reports of examination of the CRA performance records of the institutions involved, the business plan and other information provided by Republic, public information about the economic conditions of NFB's community, and confidential supervisory information. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor and the CRA performance records of the relevant depository institution are consistent with approval.

Conclusion

Based on the foregoing and all facts of record, the Board has determined that the application should be, and hereby is, 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 Republic with the condition imposed in this order and the commitments made to the Board in connection with the application. For purposes of this transaction, the condition and commitments are 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 proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than

⁸ The proposed president and vice president of NFB recently served as management officials at a bank that received an "outstanding" CRA rating at its last examination.

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 Kansas City, acting pursuant to delegated authority.

By order of the Board of Governors,⁹ effective April 26, 2005.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

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