

FEDERAL RESERVE SYSTEM

Citizens First State Bank of Walnut
Walnut, Illinois

Order Approving Establishment of a Branch

Citizens First State Bank of Walnut (“Citizens”), a state member bank, has requested the Board’s approval under section 9 of the Federal Reserve Act (“Act”)¹ to establish a branch at 9226 2125 North Avenue, Manlius, Illinois.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the Board’s Rules of Procedure.² The time for filing comments has expired, and the Board has considered the notice and all comments received in light of the factors specified in the Act.

Citizens is the 455th largest depository institution in Illinois, controlling approximately \$49.8 million in deposits, which represents less than 1 percent of the total amount of deposits of insured depository institutions in the state.³ Citizens currently operates three branches in Bureau County, Illinois, which includes Manlius.

Under section 9(3) of the Act,⁴ a state member bank must obtain Board approval before establishing any branch. Section 9(4) of the Act

¹ 12 U.S.C. § 321 et seq.

² 12 CFR 262.3(b).

³ Statewide ranking and deposit data are as of June 30, 2005, and reflect mergers as of June 8, 2006.

⁴ 12 U.S.C. § 321 and 12 CFR 208.6(b).

requires that, when acting on a branch application, the Board consider the financial condition of the applying bank, the general character of its management, and whether its corporate powers are consistent with the purposes of the Act.⁵ Under the Board's regulations implementing section 9(4),⁶ the factors that the Board must consider in acting on branch applications include: (1) the financial history and condition of the applying bank and the general character of its management; (2) the adequacy of the bank's capital and its future earnings prospects; (3) the convenience and needs of the community to be served by the branch; and (4) in the case of branches with deposit-taking capability, the bank's performance under the Community Reinvestment Act ("CRA").⁷

The Board has carefully considered the application in light of these factors and public comment received from a bank holding company that competes with Citizens and owns the only existing branch in Manlius. The commenter asserted that the demographic and economic characteristics of the community would not support the profitable operation of another branch in the community, that the proposal might weaken the financial condition of one or both banks, and that the proposal could ultimately diminish the banking options available to the citizens in the community.

In considering the financial history and condition, future earnings prospects, and capital adequacy of Citizens, the Board has reviewed reports of examination, other supervisory information, publicly reported and other

⁵ 12 U.S.C. § 322.

⁶ 12 CFR 208.6(b).

⁷ 12 U.S.C. § 2901 *et seq.*

financial information, and information provided by Citizens and the commenter. Citizens is well capitalized and would remain so on consummation of the proposal. The Board also has reviewed Citizens' business plan and financial projections for the branch, including the projections for deposits, income, and costs. After carefully considering all the facts of record, the Board has concluded that the financial history and condition, capital adequacy, and future earnings prospects of Citizens are consistent with approval of the proposal.

In considering Citizens' managerial resources, the Board has reviewed the bank's examination record, including assessments of its management, risk-management systems, and operations. The Board also has considered its supervisory experiences with Citizens and the bank's record of compliance with applicable banking law, including anti-money-laundering laws, and has reviewed the proposed management of the branch. Citizens is considered to be well managed. Based on this review and all the facts of record, the Board has concluded that the character of Citizens' management is consistent with approval of the proposal.

The Board also has considered the convenience and needs of the community to be served, taking into account the comment received, and the bank's performance under the CRA. Citizens received a "satisfactory" rating by the Federal Reserve Bank of Chicago ("Reserve Bank") at its most recent CRA performance evaluation, as of April 28, 2003.⁸ The Board generally

⁸ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications 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. See Interagency

considers the entry of a new competitor in a community to be a positive factor when assessing the effect of a proposal on the convenience and needs of the community because new entry provides additional alternatives to consumers and businesses. Citizens has represented that the proposed branch would provide residents of the Manlius area with another convenient source of banking services through extended service hours and the presence at the branch of an officer with loan approval authority.⁹ For these reasons and based on a review of the entire record, the Board concludes that the convenience and needs considerations and Citizens' record of performance under the CRA are consistent with approval of the proposal.

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 is specifically conditioned on Citizens' compliance with all commitments made to the Board in connection with the proposal. The commitments and conditions relied on by the Board are deemed to be conditions imposed in writing in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 at 36,640 (2001).

⁹ The commenter has speculated that consummation of this proposal could lead to one or both banks having to close its branch in Manlius, resulting in fewer banking services in the community. In reviewing this proposal, the Board has considered the comments in light of Citizens' plans and projections for the proposed branch, as well as its financial and managerial resources. The Board also has reviewed the deposit and demographic data for the village of Manlius and for Bureau County. The data indicate modest declines in population from 2000-2005, but they also show consistent moderate growth in deposits during the same time period.

Approval of this application is subject to the establishment of the proposed branch within one year of the date of this order, unless such period is extended by the Board or the Reserve Bank, acting under authority delegated by the Board.

By order of the Board of Governors,¹⁰ effective August 9, 2006.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁰ Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Bies, Warsh, and Kroszner.