

FEDERAL RESERVE SYSTEM

The Croghan Colonial Bank
Fremont, Ohio

Order Approving the Acquisition of Branches

The Croghan Colonial Bank (“Bank”), a state member bank and a subsidiary of Croghan Bancshares, Inc., both of Fremont, Ohio, has applied under section 18(c) of the Federal Deposit Insurance Act¹ (“Bank Merger Act”) to acquire four branches from The Home Savings and Loan Company of Youngstown, Ohio (“Home Savings”), Youngstown, in Tiffin, Fremont, and Clyde, all in Ohio.² Bank has also applied under section 9 of the Federal Reserve Act³ (“FRA”) to establish branches at three of those locations.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been given in accordance with the Bank Merger Act and the Board’s Rules of Procedure.⁴ As required by the Bank Merger Act, reports on the competitive effects of the merger were requested from the United States Attorney General and the Federal Deposit Insurance Corporation (“FDIC”). 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 the Bank Merger Act and section 9 of the FRA.

¹ 12 U.S.C. § 1828(c).

² The four branches to be acquired are listed in the appendix.

³ 12 U.S.C. § 321.

⁴ 12 CFR 262.3(b).

Bank is the 44th largest insured depository institution in Ohio, with less than 1 percent of all deposits in Ohio banks and thrift institutions.⁵ Home Savings is the 16th largest insured depository institution in Ohio, with less than 1 percent of deposits in the state.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving an application if the proposal would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking.⁶ The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of the communities to be served.⁷

The proposal would affect competition in the Fremont, Ohio banking market, where Bank and Home Savings directly compete.⁸ The Board has reviewed carefully the competitive effects of the proposal on the banking market in light of all the facts of record, including the number of competitors that would remain in the market, the relative share of the total deposits in insured depository institutions in the market (“market deposits”) that Bank would control,⁹ the concentration level of market deposits

⁵ Data are as of June 30, 2011. In this context, insured depository institutions include insured commercial banks, savings banks, and savings associations.

⁶ 12 U.S.C. § 1828(c)(5)(A).

⁷ 12 U.S.C. § 1828(c)(5)(B).

⁸ The Fremont banking market is defined as Sandusky County, excluding the city of Bellevue, all in Ohio.

⁹ Data are based on calculations in which the pre-acquisition deposits of Home Savings 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, 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 market share calculation on a 50 percent

and the increase in this level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”),¹⁰ and other characteristics of the markets.

Bank has the largest share of market deposits in the Fremont banking market with 37.6 percent, and Home Savings has the ninth largest share of market deposits with 2.7 percent. On consummation of the proposal, Bank’s share of market deposits would increase to 41.9 percent, and the HHI would increase 302 points, from 1971 to 2273.

In addition to banks and thrift institutions, there are two credit unions that operate in the Fremont banking market: Fremont Federal Credit Union and Clyde-Fremont Area Credit Union. Both credit unions have broad membership criteria that include all the residents in the banking market. In addition, both credit unions compete actively with area banks for retail customers and offer services such as street-level offices, drive-up lanes, and ATMs. The Board finds that these circumstances warrant including the deposits of these credit unions on a 50 percent weighted basis.¹¹

weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991). The post-acquisition deposits of Home Savings are weighted at 100 percent because the deposits will be owned by a commercial banking organization. See, e.g., Norwest Corporation, 78 Federal Reserve Bulletin 452 (1992).

¹⁰ Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would 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. Although the DOJ and the Federal Trade Commission recently issued revised Horizontal Merger Guidelines, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

¹¹ The Board previously has considered the competitiveness of certain active credit unions as a mitigating factor. See, e.g., The PNC Financial Services Group, Inc.,

If both credit unions are included on a weighted basis, Bank's pro forma share of market deposits would be 36 percent, and the HHI would increase by 231 points, from 1554 to 1785. The Board has concluded that the activities of these credit unions exert a competitive influence that mitigates, in part, the potential effects of the proposal in the Fremont banking market. In addition, numerous competitors would remain in the banking market. Four banks would each have shares of market deposits ranging from 8 percent and 11 percent.

The DOJ has reviewed the anticipated competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in the relevant banking market. The FDIC has been afforded an opportunity to comment and has not objected to the proposal.

The Board has reviewed carefully all the facts of record and, for the reasons discussed in this order, has concluded that consummation of the proposal is not likely to affect competition or the concentration of resources in a significantly adverse manner in the relevant banking market. Accordingly, based on all the facts of record, the Board has determined that competitive factors are consistent with approval of the proposal.

Financial, Managerial, and Other Supervisory Factors

In reviewing this proposal under the Bank Merger Act and section 9 of the FRA, the Board has considered the financial and managerial resources and future prospects of the institutions involved. The Board has reviewed these factors in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial resources of Bank and information provided by the bank. The Board notes that Bank would remain well capitalized on consummation of the proposal. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of the institutions involved and other supervisory factors are consistent with approval of the proposal.

93 Federal Reserve Bulletin C65 (2007); Regions Financial Corporation, 93 Federal Reserve Bulletin C16 (2007); Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006); and F.N.B. Corporation, 90 Federal Reserve Bulletin 481 (2004).

Convenience and Needs Considerations and Financial Stability

The Bank Merger Act also requires the Board to consider the convenience and needs of the communities to be served and to take into account the records of the relevant depository institutions under the Community Reinvestment Act (“CRA”).¹² The CRA requires the federal financial supervisory agencies to encourage financial institutions to 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 bank acquisition proposals. Accordingly, the Board has carefully considered the convenience and needs factor and the CRA performance records of Bank and Home Savings in light of all the facts of record.

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. 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.¹³

Bank received an overall rating of “satisfactory” at its most recent CRA performance examination by the Federal Reserve Bank of Cleveland, as of June 2011. Home Savings received an overall rating of “satisfactory” from the FDIC at its most recent evaluation for CRA performance, as of July 2008.

Based on all the facts of record and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs, including the CRA performance records of the relevant depository institutions, are consistent with approval of the proposal.

¹² 12 U.S.C. § 2901 et seq.

¹³ See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642 at 11665 (2010).

The Board has also carefully considered information relevant to risks to the stability of the United States banking or financial system. The Board concludes that financial stability considerations in this proposal are consistent with approval.

Establishment of Branches

As noted above, Bank has also applied under section 9 of the FRA to establish branches at three of the acquired offices of Home Savings. Bank has indicated that it intends to close the branch in Clyde, Ohio, that it would acquire from Home Savings and to consolidate its operations into a branch that Bank currently operates that is less than one-tenth of a mile away.¹⁴ The Board has considered the factors it is required to consider when reviewing an application for establishing branches pursuant to section 9 of the FRA¹⁵ and for the reasons discussed in this order, finds those factors are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the applications should be, and hereby are, 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 Bank Merger Act and the FRA. Approval of the applications is specifically conditioned on compliance by Bank with all the commitments made in connection with this proposal and the conditions set forth in this order. The commitments and conditions are deemed to be conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

¹⁴ Both branches are in the Fremont banking market. The proposed branch closure qualifies as a “short distance” consolidation. See Joint Policy Statement Regarding Branch Closings, 64 Federal Register 34844 at 34846. Accordingly, the closure is not subject to the notice requirements of section 42 of the Federal Deposit Insurance Act. 12 U.S.C. § 1831r-1(e); 64 Federal Register 34844 at 34846.

¹⁵ See 12 U.S.C. § 322.

The acquisition may 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 by the Federal Reserve Bank of Cleveland, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁶ effective November 28, 2011.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁶ Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, and Raskin.

Appendix

Branches in Ohio to be Acquired from Home Savings

1. 48 E. Market Street, Tiffin 44883
2. 796 W. Market Street, Tiffin 44883
3. 910 Sean Drive, Fremont 43420
4. 225 N. Main Street, Clyde 43410 (to be closed)