

FEDERAL RESERVE SYSTEM

First Interstate Bank  
Billings, Montana

Order Approving the Merger of Banks and the Establishment of Branches

First Interstate Bank, the state member bank subsidiary of First Interstate BancSystem, Inc. (“First Interstate”), both of Billings, Montana, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”)<sup>1</sup> to merge with Idaho Independent Bank, Coeur d’Alene, Idaho, a state non-member bank, with First Interstate Bank as the surviving entity. In addition, First Interstate Bank has applied under section 9 of the Federal Reserve Act (“FRA”) to establish and operate branches at the main office and branches of Idaho Independent Bank.<sup>2</sup>

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.<sup>3</sup> The time for submitting comments has expired, and no comments were received. The Board has considered the proposal in light of the factors set forth in the Bank Merger Act and the FRA. As required by the Bank Merger Act, a report on the competitive effects of the proposal was requested from the United States Attorney General, and a copy of the request has been provided to the Federal Deposit Insurance Corporation (“FDIC”).

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<sup>1</sup> 12 U.S.C. § 1828(c).

<sup>2</sup> 12 U.S.C. § 321. These locations are listed in Appendix A.

<sup>3</sup> 12 U.S.C. § 1828(c)(3); 12 CFR 262.3(b).

First Interstate, with consolidated assets of approximately \$13.3 billion, is the 117th largest insured depository organization in the United States, controlling deposits of approximately \$10.8 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions<sup>4</sup> in the United States.<sup>5</sup> First Interstate controls First Interstate Bank, which has offices in Montana, Wyoming, South Dakota, Oregon, Washington, and Idaho. First Interstate Bank is the 13th largest insured depository institution in Idaho, with approximately \$575.1 million in deposits, which represent 2.2 percent of the total amount of deposits of insured depository institutions in that state.<sup>6</sup>

Idaho Independent Bank, with total assets of approximately \$747.2 million, is the 1,002nd largest insured depository institution in the United States, controlling deposits of approximately \$626.6 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Idaho Independent Bank has offices only in Idaho. Idaho Independent Bank is the 12th largest insured depository institution in Idaho, with approximately \$609.9 million in deposits, which represent 2.4 percent of the total amount of deposits of insured depository institutions in that state.

On consummation of the proposal, First Interstate would become the 110th largest insured depository organization in the United States, with consolidated assets of approximately \$14.1 billion. First Interstate would control approximately \$11.5 billion in deposits, representing less than 1 percent of the total amount of deposits of insured depository institutions in the United States. First Interstate Bank would become the 7th largest insured depository institution in Idaho, controlling deposits of

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<sup>4</sup> In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

<sup>5</sup> National asset data are as of December 31, 2018. National deposit, ranking, and market-share data are as of September 30, 2018, unless otherwise noted.

<sup>6</sup> State deposit data are as of June 30, 2018, unless otherwise noted.

approximately \$1.2 billion, which represent approximately 4.6 percent of the total deposits of insured depository institutions in that state.

### Interstate Analysis

Section 44 of the Federal Deposit Insurance Act (“FDI Act”) generally provides that, if certain conditions are met, the Board may approve a merger transaction under the Bank Merger Act between insured banks with different home states without regard to whether the transaction is prohibited under state law and provided the resulting bank would be well capitalized and well managed.<sup>7</sup> Under section 44, the Board (1) may not approve an application that would permit an out-of-state bank or out-of-state bank holding company to acquire a bank in a host state if the bank has not been in existence for the lesser of the state statutory minimum period of time or five years;<sup>8</sup> and (2) in general, may not approve an interstate application if the resulting bank, upon consummation of the proposed transaction, would control more than 10 percent of the total deposits of insured depository institutions in the United States<sup>9</sup> or, in certain circumstances, if the resulting bank, upon consummation, would control 30 percent or more of the total deposits of insured depository institutions in any state in which the acquirer and target have overlapping banking operations.<sup>10</sup>

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<sup>7</sup> 12 U.S.C. § 1831u(a)(1). Under section 44 of the FDI Act, a state bank’s home state is the state in which the bank is chartered. See 12 U.S.C. § 1831u(g)(4).

<sup>8</sup> 12 U.S.C. § 1831u(a)(5).

<sup>9</sup> 12 U.S.C. § 1831u(b)(2)(A). The Bank Merger Act also includes a prohibition on approval of interstate merger transactions where the resulting bank, upon consummation of the proposed transaction, would control more than 10 percent of the total amount of deposits of insured depository institutions in the United States. 12 U.S.C. § 1828(c)(13).

<sup>10</sup> 12 U.S.C. § 1831u(b)(2)(B). The state deposit restrictions of section 44 of the FDI Act apply to any state in which both the applicant and target banks have branches. See 12 U.S.C. § 1831u(b)(2)(B)(i).

Under certain circumstances not present here, the Board also must take into account the record of the applicant bank under the Community Reinvestment Act of 1977

For purposes of section 44 of the FDI Act and the Bank Merger Act, the home state of First Interstate Bank is Montana and the home state of Idaho Independent Bank is Idaho.<sup>11</sup> First Interstate Bank is well capitalized and, upon consummation of the transaction, would be well capitalized and well managed under applicable law. There are no statutory minimum age requirements under the laws of Idaho,<sup>12</sup> and Idaho Independent Bank has been in existence for more than five years.

Upon consummation of the proposal, First Interstate Bank would control less than 1 percent of the total amount of consolidated deposits of insured depository institutions in the United States. Idaho, the only state in which First Interstate Bank and Idaho Independent Bank have overlapping operations, does not impose a limit on the total amount of in-state deposits that a single banking organization may control,<sup>13</sup> and First Interstate Bank would control less than 30 percent of the total deposits of banking organizations in Idaho as a result of the transaction. The Board has considered all other requirements of section 44 of the FDI Act. Accordingly, in light of all the facts of record, the Board determines that it is not prohibited by section 44 of the FDI Act or the Bank Merger Act from approving the proposal.

#### Competitive Considerations

The Bank Merger Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market.<sup>14</sup> The Bank Merger Act also prohibits the

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(“CRA”), 12 U.S.C. § 2901 et seq., and the applicant’s record of compliance with applicable state community reinvestment laws. 12 U.S.C. § 1831u(b)(3).

<sup>11</sup> For purposes of section 44 of the FDI Act and the Bank Merger Act, a state bank’s home state is the state in which the bank is chartered. 12 U.S.C. §§ 1831u(g)(4) and 1828(c)(13)(C)(ii).

<sup>12</sup> See Idaho Code Ann. § 26-101 et seq.

<sup>13</sup> See Idaho Code Ann. § 26-1606(1).

<sup>14</sup> 12 U.S.C. § 1828(c)(5)(A).

Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any 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 communities to be served.<sup>15</sup>

First Interstate Bank and Idaho Independent Bank compete directly in the Boise, Idaho, banking market (“Boise market”); the Spokane, Washington-Idaho, banking market (“Spokane market”); and the Mountain Home, Idaho, banking market (“Mountain Home market”).<sup>16</sup> The Board has considered the competitive effects of the proposal in these banking markets in light of all the facts of record.<sup>17</sup> In particular, the Board has considered the relative share of total deposits of insured depository institutions in each market (“market deposits”) that First Interstate Bank would control;<sup>18</sup> the concentration levels of market deposits and the increase in these levels, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger

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<sup>15</sup> 12 U.S.C. § 1828(c)(5)(B).

<sup>16</sup> The Boise and Spokane markets are defined in Appendix B. The Mountain Home market is defined as Elmore County and the Grand View county subdivision of Owyhee County, both of Idaho.

<sup>17</sup> On January 10, 2019, the Federal Reserve Bank of Minneapolis (“Reserve Bank”), acting under authority delegated by the Board, approved an application by First Interstate Bank to merge with Community 1st Bank, Post Falls, Idaho, with First Interstate Bank as the surviving entity. The Board has considered the potential competitive effects of that transaction as part of its review of the proposal by First Interstate Bank to merge with Idaho Independent Bank.

<sup>18</sup> Local deposit and market share data are as of June 30, 2018, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989) and 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 weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

Competitive Review guidelines (“DOJ Bank Merger Guidelines”);<sup>19</sup> and other characteristics of each market.

*Banking Markets Within Established Guidelines*

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Boise and Spokane markets. On consummation of the proposal, the Boise and Spokane markets would remain moderately concentrated, and numerous competitors would remain in each market.<sup>20</sup>

*Banking Market Warranting Special Scrutiny*

The competitive effects of the proposal in the Mountain Home market warrant a detailed review because the concentration levels on consummation would exceed the thresholds in the DOJ Bank Merger Guidelines when using initial competitive screening data. First Interstate Bank is the fourth largest competitor in the Mountain Home market, controlling approximately \$26.6 million in weighted deposits, which represent approximately 13.7 percent of market deposits. Idaho Independent Bank is the fifth largest depository institution in the Mountain Home market, controlling approximately \$15.3 million in weighted deposits, which represent approximately 7.9 percent of market deposits. On consummation of the proposal, First Interstate Bank

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<sup>19</sup> 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 issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), available at [www.justice.gov/opa/pr/2010/August/10-at-938.html](http://www.justice.gov/opa/pr/2010/August/10-at-938.html).

<sup>20</sup> The competitive effects of the proposal in the Boise and Spokane markets are discussed in Appendix B.

would become the third largest depository institution in the Mountain Home market, controlling approximately \$41.9 million in weighted deposits, which would represent approximately 21.6 percent of market deposits. The HHI in the market would increase by 217 points, from 2501 to 2718.

The Board has considered whether factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Mountain Home market.<sup>21</sup> Factors indicate that the increase in concentration in the Mountain Home market, as measured by the above HHI and market share, overstates the potential competitive effects of the proposal in the market. In particular, one credit union exerts a competitive influence in the Mountain Home market. The institution offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the market.<sup>22</sup> The Board finds that these circumstances warrant including the deposits of the credit union at a 50 percent weight in estimating market influence. This weighting takes into account the limited lending done by this credit union to small businesses relative to commercial banks' lending levels.

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<sup>21</sup> The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in, and resulting level of, concentration in a banking market. See NationsBank Corporation, 84 Federal Reserve Bulletin 129 (1998).

<sup>22</sup> The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., Central Bancompany, Inc., FRB Order No. 2017-03 (February 8, 2017); KeyCorp, FRB Order No. 2016-12 (July 12, 2016); Ohio Valley Banc Corp., FRB Order No. 2016-10 (June 28, 2016); Chemical Financial Corporation, FRB Order No. 2015-13 (April 20, 2015); Mitsubishi UFJ Financial Group, Inc., FRB Order No. 2012-12 (November 14, 2012); Old National Bancorp, FRB Order No. 2012-9 (August 30, 2012); United Bankshares, Inc. (order dated June 20, 2011), 97 Federal Reserve Bulletin 19 (2nd Quar. 2011); The PNC Financial Services Group, Inc., 94 Federal Reserve Bulletin C38 (2008); The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Regions Financial Corporation, 93 Federal Reserve Bulletin C16 (2007); Passumpsic Bancorp, 92 Federal Reserve Bulletin C175 (2006); and Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

After reweighting the deposits of the credit union at 50 percent, First Interstate Bank, upon consummation, would control approximately 16 percent of market deposits, and the market concentration level in the Mountain Home market measured by the HHI would increase by 119 points to 2163. Although consummation of this proposal would eliminate one existing competitor, the Mountain Home market would continue to be served by five depository institutions, including the credit union noted above. Excluding First Interstate Bank, these competitors would include three depository institutions each with a more than 20 percent share of market deposits and one depository institution with a more than 10 percent share of market deposits. The presence of these viable competitors suggests that First Interstate Bank would have limited ability to unilaterally offer less attractive terms to consumers, and these competitors would be able to exert competitive pressure on First Interstate Bank in the Mountain Home market.

The DOJ also has conducted a review of the potential 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 any relevant banking market, including the Mountain Home market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the Boise, Spokane, or Mountain Home markets or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

#### Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under the Bank Merger Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.<sup>23</sup> In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved, as well as information

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<sup>23</sup> 12 U.S.C. § 1828(c)(5).

regarding the financial condition of the organizations' significant nonbanking operations, if applicable. In this evaluation, the Board considers a variety of information regarding capital adequacy, asset quality, liquidity, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to complete effectively the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

First Interstate Bank and Idaho Independent Bank are well capitalized and the resulting bank would remain so on consummation of the proposal. The proposed transaction involves a bank merger, and First Interstate Bank appears to have adequate financial resources to effect the proposal.<sup>24</sup> The asset quality, earnings, and liquidity of both First Interstate Bank and Idaho Independent Bank are consistent with approval, and First Interstate Bank appears to have adequate resources to absorb the costs of the proposal and to complete the integration of the institutions' operations. In addition, the future prospects of First Interstate Bank are considered consistent with approval.

The Board also has considered the managerial resources of the organizations involved and of First Interstate Bank after consummation of the proposal. The Board has reviewed the examination records of First Interstate Bank and Idaho Independent Bank, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by First Interstate Bank; the Board's supervisory experiences and those of other relevant

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<sup>24</sup> As consideration for the bank merger, shareholders of Idaho Independent Bank would receive newly issued shares of First Interstate. Neither First Interstate nor First Interstate Bank plans to incur debt to consummate the merger.

bank supervisory agencies with the organizations; and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws.

First Interstate Bank and Idaho Independent Bank are considered to be well managed. The directors and senior executive officers of First Interstate Bank have knowledge of and experience in the banking sector, and the bank's risk-management program appears consistent with approval of this expansionary proposal. First Interstate has conducted comprehensive due diligence and is devoting sufficient financial and other resources to address the post-integration process for this proposal. First Interstate Bank would apply its risk-management policies, procedures, and controls at the combined bank, and these policies, procedures, and controls are considered acceptable from a supervisory perspective. In addition, First Interstate Bank's management has the experience and resources to operate the combined bank in a safe and sound manner.

Based on all of the facts of record, including First Interstate Bank's supervisory record, managerial and operational resources, and plans for operating the bank after consummation, the Board determines that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of First Interstate Bank and Idaho Independent Bank in combatting money-laundering activities, are consistent with approval.

#### Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.<sup>25</sup> In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of these communities, as well as other potential effects of the proposal on the convenience and needs of the communities to be served, and places particular emphasis on the records of the relevant depository institutions under the CRA. The CRA

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<sup>25</sup> 12 U.S.C. § 1828(c)(5).

requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with the institutions' safe and sound operation,<sup>26</sup> and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.<sup>27</sup>

In addition, the Board considers the banks' overall compliance records, including with respect to fair lending. Fair lending laws require all lending institutions to provide loan applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, and information provided by the applicant. The Board also may consider the institution's business model and marketing and outreach plans, the organization's plans after consummation, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all of the facts of record, including reports of examination of the CRA performance of First Interstate Bank and Idaho Independent Bank; the consumer compliance, including fair lending, records of First Interstate Bank and Idaho Independent Bank; confidential supervisory information; and information provided by First Interstate Bank.

*Records of Performance under the CRA*

In evaluating the CRA performance of the institutions involved, the Board generally considers each institution's most recent CRA performance evaluation, as well

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<sup>26</sup> 12 U.S.C. § 2901(b).

<sup>27</sup> 12 U.S.C. § 2903.

as other information and supervisory views, from the relevant federal financial supervisor or supervisors, which in this case are the Reserve Bank and the FDIC.<sup>28</sup>

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.<sup>29</sup> 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 by the institution's primary federal financial supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test ("Lending Test"), investment test ("Investment Test"), and service test ("Service Test") to evaluate the performance of large insured depository institutions, such as First Interstate Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an institution's lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the Lending Test, examiners review and analyze an institution's data reported under the Home Mortgage Disclosure Act,<sup>30</sup> in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's CRA assessment areas ("AAs"); (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and

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<sup>28</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 81 Fed. Reg. 48506, 48548 (July 25, 2016).

<sup>29</sup> 12 U.S.C. § 2906.

<sup>30</sup> 12 U.S.C. § 2801 et seq.

amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;<sup>31</sup> (4) the institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.<sup>32</sup> The Investment Test applicable to large institutions evaluates the number and amounts of qualified investments that benefit their AAs, and the Service Test evaluates the availability and effectiveness of their systems for delivering retail banking services and the extent and innovativeness of their community development services.<sup>33</sup> Intermediate small banks, such as Idaho Independent Bank, are subject to the Lending Test, as well as a community development test ("Community Development Test") that evaluates the number and amounts of their community development loans and qualified investments; the extent to which they provide community development services; and their responsiveness to community development lending, investment, and service needs.<sup>34</sup>

*CRA Performance of First Interstate Bank*

First Interstate Bank was assigned an overall rating of "Outstanding" at its most recent CRA performance evaluation by the Reserve Bank, as of June 6, 2016 ("First

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<sup>31</sup> Examiners also consider the number and amounts of small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

<sup>32</sup> See 12 CFR 228.22(b).

<sup>33</sup> See 12 CFR 228.21 et seq.

<sup>34</sup> See 12 CFR 228.26(c).

Interstate Evaluation”).<sup>35</sup> First Interstate Bank received an “Outstanding” rating for each of the Lending Test, Investment Test, and Service Test.<sup>36</sup>

Examiners found that First Interstate Bank’s lending activity demonstrated excellent responsiveness to credit needs throughout the bank’s AAs. Examiners noted that the bank extended a substantial majority of its loans within its AAs. Examiners found that the distribution of the bank’s lending to LMI borrowers and businesses and farms of different sizes was excellent. In addition, examiners found that, overall, the bank’s distribution of loans was excellent throughout the bank’s AAs, including LMI census tracts and nonmetropolitan middle-income census tracts that were classified as distressed and/or underserved.

Examiners found that First Interstate Bank was a leader in making community development loans and had an overall excellent level of qualified investments in the form of securities and donations. Examiners also found that First Interstate Bank made significant use of innovative and complex investments when opportunities existed. Examiners noted that the bank’s delivery systems were readily accessible throughout the bank’s AAs, including to LMI individuals and geographies. Examiners also found that First Interstate Bank was a leader in providing community development services

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<sup>35</sup> The First Interstate Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed residential mortgage loans, consumer loans, small business loans, and small farm loans from January 1, 2013, through December 31, 2015. Examiners reviewed community development activities from January 1, 2013, through December 31, 2015.

<sup>36</sup> The First Interstate Evaluation included full-scope evaluations of the Billings, Montana Metropolitan Statistical Area (“MSA”) AA; the Bozeman, Montana AA; the Casper, Wyoming MSA AA; the Sheridan, Wyoming AA; and the Rapid City, South Dakota MSA AA. Limited-scope evaluations were performed in the Great Falls, Montana MSA AA; the Missoula, Montana MSA AA; the Hamilton, Montana AA; the Hardin/Miles City, Montana AA; the Helena, Montana AA; the Kalispell, Montana AA; the Absarokee/Columbus, Montana AA; the Cheyenne, Wyoming MSA AA; the Jackson, Wyoming AA; the Laramie, Wyoming AA; the Riverton, Wyoming AA; the Belle Fourche, South Dakota AA; the Edgemont, South Dakota AA; and the Sioux Falls, South Dakota MSA AA.

throughout its AAs. Examiners noted, for example, that the bank’s officers and employees assisted nonprofit organizations that supported LMI individuals, job creation, and small businesses.

*CRA Performance of Idaho Independent Bank*

Idaho Independent Bank was assigned an overall rating of “Outstanding” at its most recent CRA performance evaluation by the FDIC, as of March 28, 2016 (“Idaho Bank Evaluation”).<sup>37</sup> The bank received a “Satisfactory” rating for the Lending Test and an “Outstanding” rating for the Community Development Test.<sup>38</sup>

Examiners found that Idaho Independent Bank’s loan-to-deposit ratio was reasonable, given the bank’s size, financial condition, and AA credit needs. Examiners found that the bank made a substantial majority of home mortgage and small business loans, by number and dollar volume, within its combined AAs. Examiners noted that the bank’s overall geographic distribution of loans reflected reasonable dispersion throughout the bank’s combined AAs. Examiners also noted that the bank’s overall distribution of borrowers reflected reasonable penetration among businesses of different revenue sizes and individuals of different income levels within the bank’s combined AAs.

Examiners noted that Idaho Independent Bank was an active community development lender and made community development investments and donations to nonprofit organizations across its AAs, including organizations that provided affordable housing, trade-based career training, and youth services for children of LMI families. In addition, examiners noted that Idaho Independent Bank employees provided financial

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<sup>37</sup> The Idaho Bank Evaluation was conducted using Intermediate Small Institution CRA Examination Procedures. Examiners reviewed home mortgage loans and small business loans from January 1, 2014, through December 31, 2015. Examiners reviewed community development loans, qualified investments, and community development services from January 22, 2013, through March 28, 2016.

<sup>38</sup> The Idaho Bank Evaluation included a full-scope evaluation of the Boise-Nampa, Idaho MSA AA. Limited-scope evaluations were performed in the Coeur d’Alene MSA AA and Elmore and Blaine counties, all of Idaho.

services to various community development organizations that benefited the bank's combined AAs.

*Additional Supervisory Views*

In its review of the proposal, the Board consulted with the Reserve Bank regarding the CRA and consumer compliance, including fair lending, records of First Interstate Bank and considered the FDIC's most recent CRA and consumer compliance evaluations of Idaho Independent Bank. The Board has taken the consultations with the Reserve Bank and the information discussed above into account in evaluating the proposal, including in considering whether First Interstate Bank has the experience and resources to help meet the credit needs of the communities within its AAs.

*Additional Convenience and Needs Considerations*

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. First Interstate Bank represents that it does not anticipate making significant changes in or discontinuing any existing products or services of either First Interstate Bank or Idaho Independent Bank following consummation of the bank merger. First Interstate Bank also represents that customers of Idaho Independent Bank would gain access to, among other benefits, higher lending limits, wealth management services, a more robust credit card program, and a more robust digital banking platform. First Interstate Bank notes that customers of both banks would benefit from a larger branch and ATM network.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the records of the relevant depository institutions under the CRA, the institutions' records of compliance with consumer protection laws, confidential supervisory information, information provided by First Interstate Bank, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on its review, the Board determines that the convenience and needs factor is consistent with approval.

## Financial Stability

The Bank Merger Act requires the Board to consider the risk of the proposal “to the stability of the United States banking or financial system.”<sup>39</sup>

To assess the likely effect of a proposed transaction on the stability of the United States banking or financial system, the Board considers a variety of metrics that capture the systemic “footprint” of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.<sup>40</sup> These categories are not exhaustive, and additional categories could inform the Board’s decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage on the broader economy.<sup>41</sup>

The Board’s experience has shown that proposals involving an acquisition of less than \$10 billion in total assets, or that result in a firm with less than \$100 billion in total assets, are generally not likely to pose systemic risks. Accordingly, the Board presumes that a proposal does not raise material financial stability concerns if the assets involved fall below either of these size thresholds, absent evidence that the transaction

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<sup>39</sup> 12 U.S.C. § 1828(c)(5).

<sup>40</sup> Many of the metrics considered by the Board measure an institution’s activities relative to the United States financial system.

<sup>41</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (February 14, 2012).

would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.<sup>42</sup>

In this case, the Board has considered information relevant to risks to the stability of the United States banking or financial system. The proposal involves a target that has less than \$10 billion in total assets and a pro forma organization of less than \$100 billion in total assets. The pro forma organization would have minimal cross-border activities and would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress.<sup>43</sup> In addition, the organization would not be a critical services provider or so interconnected with other firms or the markets that it would pose a significant risk to the financial system in the event of financial distress.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the United States banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

#### Establishment of Branches

First Interstate Bank has applied under section 9 of the FRA to establish and operate branches at the locations of the current main office and branches of Idaho

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<sup>42</sup> See People's United Financial, Inc., FRB Order No. 2017-08 at 25-26 (March 16, 2017). Notwithstanding this presumption, the Board has the authority to review the financial stability implications of any proposal. For example, an acquisition involving a global systemically important bank could warrant a financial stability review by the Board, regardless of the size of the acquisition.

<sup>43</sup> First Interstate Bank and Idaho Independent Bank are predominately engaged in retail and commercial banking activities. First Interstate Bank has, and as a result of the proposal would continue to have, a small market share in these products and services on a nationwide basis.

Independent Bank.<sup>44</sup> The Board has assessed the factors it is required to consider when reviewing an application under that section. Specifically, the Board has considered First Interstate Bank's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises.<sup>45</sup> For the reasons discussed in this order, the Board finds those factors to be consistent with approval.

### Conclusion

Based on the foregoing and all the facts of record, the Board determines 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, the FRA, and other applicable statutes. The Board's approval is specifically conditioned on compliance by First Interstate Bank with all of the conditions imposed in this order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the proposal. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth calendar day after the effective date of this order or later than three months thereafter, unless such

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<sup>44</sup> See 12 U.S.C. § 321. Under section 9 of the FRA, state member banks may establish and operate branches on the same terms and conditions as are applicable to the establishment of branches by national banks. Under section 44 of the FDI Act, both national banks and state member banks resulting from an interstate merger may retain and operate, as a main office or a branch, any office that any bank involved in the merger was operating as a main office or branch immediately before the merger transaction. See 12 U.S.C. §§ 36(d) and 1831u(d)(1).

<sup>45</sup> 12 U.S.C. § 322; 12 CFR 208.6. Upon consummation of the proposed transaction, First Interstate Bank's investment in bank premises would remain within the legal requirements of 12 CFR 208.21.

period is extended for good cause by the Board or the Reserve Bank, acting under delegated authority.

By order of the Board of Governors,<sup>46</sup> effective March 22, 2019.

*Ann E. Misback (signed)*

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Ann E. Misback,  
Secretary of the Board

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<sup>46</sup> Voting for this action: Chair Powell, Vice Chair Clarida, Vice Chair for Supervision Quarles, and Governors Brainard and Bowman.

## Appendix A

### Branches to Be Established by First Interstate Bank

1. 401 West Front Street, Boise, Idaho 83702
2. 317 North 9th Street, Boise, Idaho 83702
3. 8351 West Overland Road, Boise, Idaho 83709
4. 113 East Idaho Avenue, Meridian, Idaho 83642
5. 90 South Star Road, Star, Idaho 83669
6. 491 North Main Street, Suite 101, Ketchum, Idaho 83340
7. 620 South Kimball Avenue, Caldwell, Idaho 83605
8. 804 12th Avenue South, Nampa, Idaho 83651
9. 310 American Legion Boulevard, Mountain Home, Idaho 83647
10. 1260 West Riverstone Drive, Coeur d'Alene, Idaho 83814
11. 8882 North Government Way, Hayden Lake, Idaho 83835

Appendix B

| <b>First Interstate Bank/Idaho Independent Bank</b>   |             |                           |                                  |                      |                      |  |
|---|-------------|---------------------------|----------------------------------|----------------------|----------------------|--|
| <b>Banking Markets consistent with Board Precedent and DOJ Bank Merger Guidelines</b>   |             |                           |                                  |                      |                      |  |
| Data and rankings are as of June 30, 2018. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent. The remaining number of competitors noted for each market includes thrifts, where applicable. |             |                           |                                  |                      |                      |  |
| <b>Boise, Idaho (“Boise market”)</b> – Defined as the Boise metropolitan area in Canyon and Ada counties, southern Gem County, and the cities of Marsing and Homedale in Owyhee County, all of Idaho.                                       |             |                           |                                  |                      |                      |  |
|   | <b>Rank</b> | <b>Amount of Deposits</b> | <b>Market Deposit Shares (%)</b> | <b>Resulting HHI</b> | <b>Change in HHI</b> | <b>Remaining Number of Competitors</b> |
| <i>First Interstate Bank Pre-Consummation</i>   | 5           | \$522.5M                  | 4.7                              | 1452                 | 32                   | 21                                     |
| <i>Idaho Independent Bank</i>   | 8           | \$390.8M                  | 3.5                              |                      |                      |  |
| <i>First Interstate Bank Post-Consummation</i>  | 4           | \$913.2M                  | 8.1                              |                      |                      |  |
| <b>Spokane, Washington-Idaho (“Spokane market”)</b> – Defined as the Spokane metropolitan area in Spokane County, Washington, and the central western portion of Kootenai County, Idaho.  |             |                           |                                  |                      |                      |  |
|   | <b>Rank</b> | <b>Amount of Deposits</b> | <b>Market Deposit Shares (%)</b> | <b>Resulting HHI</b> | <b>Change in HHI</b> | <b>Remaining Number of Competitors</b> |
| <i>First Interstate Bank Pre-Consummation</i>   | 9           | \$460.2M                  | 4.0                              |                      |                      |  |
|   |             |                           |                                  |                      |                      |  |

|  |    |          |     |      |    |    |
|--|----|----------|-----|------|----|----|
| <i>Idaho Independent Bank</i>                  | 10 | \$185.3M | 1.6 | 1257 | 13 | 22 |
| <i>First Interstate Bank Post-Consummation</i> | 7  | \$645.5M | 5.6 |      |    |    |

-End-