FRB Order No. 2020-03
August 26, 2020

FEDERAL RESERVE SYSTEM

First Illinois Bancorp, Inc.
East St. Louis, Illinois

Order Approving the Acquisition of a Bank Holding Company

First Illinois Bancorp, Inc. ("First Illinois"), East St. Louis, Illinois, a bank holding company within the meaning of the Bank Holding Company Act of 1956 ("BHC Act"),[1] has requested the Board's approval under section 3 of the BHC Act[2] to acquire Rockwood Bancshares, Inc. ("Rockwood"), and thereby indirectly acquire Rockwood's subsidiary state nonmember bank, Rockwood Bank, both of Eureka, Missouri.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (85 Federal Register 8873 (February 18, 2020)).[3] The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

First Illinois, with consolidated assets of approximately $579.6 million, is the 1373rd largest insured depository organization in the United States.[4] First Illinois controls approximately $404.7 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. First Illinois controls Lindell Bank & Trust Company ("Lindell Bank"), Saint

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1 12 U.S.C. § 1841 et seq.

2 12 U.S.C. § 1842.

3 12 CFR 262.3(b).

4 Consolidated asset data are as of June 30, 2020, and deposit, ranking, and market-share data are as of March 31, 2020, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

Louis, Missouri, a state member bank, which operates in Illinois and Missouri. First Illinois is the 68th largest insured depository organization in Missouri, controlling deposits of approximately $365.8 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.[5]

Rockwood, with consolidated assets of approximately $266.33 million, is the 2674th largest insured depository organization in the United States. Rockwood controls approximately $201.3 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Rockwood controls Rockwood Bank, which operates only in Missouri. Rockwood is the 114th largest insured depository organization in Missouri, controlling deposits of approximately $196.2 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of the proposal, First Illinois would become the 1002nd largest insured depository organization in the United States, with consolidated assets of approximately $774.4 million, which represent less than 1 percent of the total assets of insured depository organizations in the United States. First Illinois would control total consolidated deposits of approximately $606 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Missouri, First Illinois would become the 44th largest insured depository organization, controlling deposits of approximately $562 million, which represent less than 1 percent of the total deposits of insured depository institutions in the state.

Interstate Analysis

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company that is well capitalized and well managed to acquire control of a bank located in a state other than the home state of the bank holding company without regard to whether the transaction would

[5] State deposit data are as of June 30, 2019.

be prohibited under state law.[6] Section 3(d) also provides that the Board (1) may not approve an application that would permit an 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;[7] (2) must take into account the record of the applicant under the Community Reinvestment Act of 1977 ("CRA")[8] and the applicant's record of compliance with applicable state community reinvestment laws;[9] and (3) may not approve an application pursuant to section 3(d) if the bank holding company or 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 or, in certain circumstances, if the bank holding company or 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.[10]

For purposes of the BHC Act, the home state of First Illinois is Illinois, and Rockwood Bank is located only in Missouri. First Illinois is well capitalized and well

[6] 12 U.S.C. § 1842(d)(1)(A). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of each company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. See 12 U.S.C. § 1841(o)(4)(C).

[7] 12 U.S.C. § 1842(d)(1)(B).

[8] 12 U.S.C. § 2901 et seq.

[9] 12 U.S.C. § 1842(d)(3).

[10] 12 U.S.C. § 1842(d)(2)(A) and (B). For purposes of section 3(d) of the BHC Act, the acquiring and target institutions have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or a branch. The Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. § 1841(o)(4)-(7).

managed under applicable law. Rockwood Bank has been in existence for more than five years, and Lindell Bank has a "Satisfactory" rating under the CRA.[11]

On consummation of the proposed transaction, First Illinois would control less than 1 percent of the total amount of consolidated deposits in insured depository institutions in the United States. Missouri, the only state in which First Illinois and Rockwood have overlapping banking operations, imposes a 13 percent limit on the total amount of in-state deposits that a single banking organization may control.[12] The combined organization would control less than 1 percent of the total amount of in-state deposits. The Board has considered all other requirements under section 3(d) of the BHC Act. Accordingly, in light of all the facts of record, the Board is not precluded under section 3(d) of the BHC Act from approving the proposal.

Competitive Considerations

Section 3 of the BHC 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.[13] The BHC Act also prohibits the 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.[14]

First Illinois and Rockwood have subsidiary banks that compete directly in the Saint Louis banking market in Missouri and Illinois ("Saint Louis market").[15] The

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[11] 12 U.S.C. § 2901 et seq. The states in which Lindell Bank operates do not have community reinvestment laws.

[12] Mo. Ann. Stat. § 362.915.

[13] 12 U.S.C. § 1842(c)(1)(A).

[14] 12 U.S.C. § 1842(c)(1)(B).

[15] The Saint Louis market is defined as the city of Saint Louis, Missouri; Franklin, Jefferson, Lincoln, Saint Charles, Saint Louis, Warren, and Washington counties, Missouri; Roark, Boeuf, Canaan, and Brush Creek townships, including the cities of

Board has considered the competitive effects of the proposal in this banking market. In particular, the Board has considered the relative share of total deposits in insured depository institutions in the market ("market deposits") that First Illinois would control;[16] the concentration level of market deposits and the increase in this level, as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice ("DOJ") Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");[17] the number of competitors that would remain in the market; and other characteristics of the market.

Hermann and Owensville, in Gasconade County, Missouri; Boone township in Crawford County, Missouri; Loutre Township in Montgomery County, Missouri; Bond, Calhoun, Clinton, Jersey, Macoupin, Madison, Monroe, and St. Clair counties, Illinois; the western part of Randolph County, Illinois, defined by Route 3 on the east and the Kaskaskia River on the south, including the cities of Red Bud, Ruma, and Evansville, Illinois; Washington County, Illinois (minus Ashley and Du Bois townships); and the city of Centralia, Illinois.

[16] Local deposit and market share data are as of June 30, 2019, 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).

[17] In applying the DOJ Bank Merger Guidelines issued in 1995 (see https://www.justice.gov/atr/bank-merger-competitive-review-introduction-and-overview-1995), the Board looks to the DOJ's Horizontal Merger Guidelines issued in 1992 and amended in 1997, for the characterization of a market's concentration. See https://www.justice.gov/atr/horizontal-merger-guidelines-0. Under these Horizontal Merger Guidelines, which were in effect prior to 2010, 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 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 (see

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Saint Louis market. On consummation of the proposal, the Saint Louis market would remain unconcentrated as measured by the HHI, according to the concentration measures applied by the Board. The change in HHI would be small and numerous competitors would remain in the market.[18]

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. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

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

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https://www.justice.gov/atr/horizontal-merger-guidelines-08192010), 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.

[18] First Illinois operates the 35th largest depository institution in the Saint Louis market, controlling approximately $401.2 million in deposits, which represent less than 1 percent of market deposits. Rockwood operates the 52nd largest depository institution in the market, controlling deposits of approximately $196.2 million, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, First Illinois would become the 22nd largest depository organization in the market, controlling deposits of approximately $597.4 million, which represent less than 1 percent of market deposits. The HHI for the Saint Louis market would increase by less than one point to 773, and 128 competitors would remain in the market.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved, the effectiveness of the institutions in combatting money laundering, and any public comments on the proposal.[19] In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as the impact of the proposed funding of the transaction. 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 Illinois, Rockwood, and their subsidiary depository institutions are well capitalized, and the combined organization would remain so on consummation of the proposal. The proposed transaction is a bank holding company acquisition that is structured primarily as a cash purchase.[20] The capital, asset quality, earnings, and

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[19] 12 U.S.C. § 1842(c)(2), (5), and (6).

[20] First Illinois would effect the holding company acquisition by merging a newly formed subsidiary of First Illinois ("Merger Subsidiary") with and into Rockwood, with Rockwood surviving the merger as a subsidiary of First Illinois. At the time of the merger, each share of Rockwood common stock would be converted into a right to receive cash. Immediately following the holding company acquisition, First Illinois

liquidity of First Illinois and Rockwood are consistent with approval, and First Illinois and Rockwood appear to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, future prospects are considered consistent with approval. In reaching these conclusions, the Board also has considered First Illinois's plans to withstand the potential impact of near-term economic conditions.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of First Illinois, Rockwood, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by First Illinois; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws; and information provided by the commenters.

First Illinois, Rockwood, and their subsidiary depository institutions are considered to be well managed. First Illinois's directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and First Illinois's risk-management program appears consistent with approval of this expansionary proposal.

The Board also has considered First Illinois's plans for implementing the proposal. First Illinois has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. In addition, First Illinois's management has the

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would continue to operate Rockwood Bank through Rockwood. First Illinois has represented that it intends to merge Rockwood Bank with and into Lindell Bank at some time after the holding company transaction. First Illinois has the financial resources to effect the proposed holding company acquisition.

experience and resources to operate the resulting organization in a safe and sound manner.

Based on all of the facts of record, including First Illinois's supervisory record, managerial and operational resources, and plans for operating the combined organization 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 record of effectiveness of First Illinois and Rockwood in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.[21] In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of these communities, and places particular emphasis on the records of the relevant depository institutions under the CRA. The CRA 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,[22] 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.[23]

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant

[21] 12 U.S.C. § 1842(c)(2).

[22] 12 U.S.C. § 2901(b).

[23] 12 U.S.C. § 2903.

supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and public comments on the proposal. 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 the facts of record, including reports of examination of the CRA performance of Lindell Bank and Rockwood Bank, the fair lending and compliance records of both banks, the supervisory views of the Federal Reserve Bank of St. Louis ("Reserve Bank") and the Federal Deposit Insurance Corporation ("FDIC"), confidential supervisory information, information provided by First Illinois, and the public comments received on the proposal.

Public Comments on the Proposal

The Board received comments from three community organizations in St. Louis in support of the proposal. These commenters generally described the benefits that Lindell Bank provides to the communities it serves in the St. Louis area. For example, these commenters described Lindell Bank's participation in projects and partnerships that benefit the community, including contributing to a project that helps raise the appraisal value of homes in historically redlined communities in St. Louis, and extending a line of credit to a community organization that provides small business loans and financial education. Commenters also praised Lindell Bank's relationship with a historically African-American church congregation in the St. Louis, Illinois, area, and one commenter indicated that the relationship with Rockwood Bank would provide Lindell Bank with a mortgage loan department, thereby allowing Lindell Bank to make 30-year fixed rate loans to prospective homeowners in the church congregation and to others in the surrounding community.

One commenter objected to the proposal on the basis that Lindell Bank and Rockwood Bank each allegedly made too few loans to LMI borrowers and to African-American and Hispanic borrowers, based on data reported by each institution under the

Home Mortgage Disclosure Act of 1975 ("HMDA").[24] Further, the commenter expressed concern that Rockwood Bank does not have an adequate number of full-service branches in LMI or majority-minority census tracts, with the result that First Illinois's subsidiary depository institutions would have a disproportionate share of branches in white and upper-income census tracts as a result of the proposal. Finally, the commenter suggested that approval of First Illinois's application should be conditioned on the establishment and implementation of a community benefits agreement to address the needs of the communities to be served.[25]

Businesses of the Involved Institutions and Response to the Public Comments

Through its branches in Missouri and Illinois, Lindell Bank offers consumer and commercial loan and deposit products, trust services, and small business banking products, with a primary focus on commercial and residential real estate loans to businesses. These products and services include a wide range of checking, savings, and money market accounts, as well as credit products, such as home equity, automobile, rental property, construction, and commercial loans. Rockwood Bank, through its branches in Missouri, also offers a variety of commercial and consumer loan products, primarily focusing on commercial and home mortgage lending, and provides a variety of deposit services, including checking, savings, and money market deposit accounts,

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[24] 12 U.S.C. § 2801 et seq.

[25] The Board consistently has found that neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into commitments or agreements with any private party. See, e.g., Fifth Third Bancorp, FRB Order No. 2019-05 at 12 n.29 (March 6, 2019); First Busey Corporation, FRB Order No. 2019-01 at 11 n.30 (January 10, 2019); HarborOne Mutual Bancshares, FRB Order No. 2018-18 at 10 n.26 (September 12, 2018); TriCo Bancshares, FRB Order No. 2018-13 at 9 n.20 (June 6, 2018); Howard Bancorp, Inc., FRB Order No. 2018-05 at 9 n.21 (February 12, 2018); Huntington Bancshares Inc., FRB Order No. 2016-13 at 32 n.50 (July 29, 2016); CIT Group, Inc., FRB Order No. 2015-20 at 24 n.54 (July 19, 2015); Citigroup Inc., 88 Federal Reserve Bulletin 485 (2002); Fifth Third Bancorp, 80 Federal Reserve Bulletin 838, 841 (1994). In its evaluation, the Board reviews the existing CRA performance record of an applicant and the programs that the applicant has in place to serve the credit needs of its CRA assessment areas ("AAs").

individual retirement accounts, and certificates of deposit. Both banks offer internet banking and mobile banking services.

In response to the adverse comments, First Illinois asserts that three of Lindell Bank's 12 branches (25 percent) are in LMI communities and that Lindell Bank received a "Satisfactory" rating on its most recent CRA performance evaluation, with no fair lending violations noted. First Illinois represents that, because Lindell Bank does not offer traditional 15- or 30-year fixed mortgages, offering mostly real estate loans to businesses, much of its lending activity is not represented in HMDA data. Further, First Illinois explains that by acquiring Rockwood Bank, it would be able to offer traditional mortgage services. First Illinois states that Lindell Bank intends to increase lending to LMI and minority borrowers by performing marketing and outreach and notes that the bank recently designated six loan officers to assist with this effort. First Illinois asserts that Lindell Bank offers short-term mortgages to individuals who would not otherwise qualify in the secondary market and that one of the bank's most popular products, home equity loans, is not included on the HMDA report. First Illinois represents that 30 percent of loans made by Lindell Bank, as measured by both dollar amount and total number, are in or serve LMI communities, and that 32 percent of all home equity lines of credit were made to LMI borrowers within the past two years.

Additionally, First Illinois represents that Lindell Bank supports many nonprofits and has helped fund affordable housing in low-income neighborhoods. Further, First Illinois represents that Lindell Bank has developed a CRA action plan, which includes additional lending to LMI borrowers and businesses owned by LMI individuals and offering financial support for nonprofits that help LMI individuals and communities.

Records of Performance under the CRA

In evaluating the CRA performance of the involved institutions, the Board generally considers each institution's most recent CRA evaluation, as well as other information and the supervisory views of relevant federal supervisors, which in this case are the Reserve Bank with respect to Lindell Bank and the FDIC with respect to

Rockwood Bank.[26] In addition, the Board considers information provided by the applicant and by public commenters.

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.[27] 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 supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test ("Lending Test") and a community development test ("Community Development Test") to evaluate the performance of an intermediate small bank, such as Lindell Bank, in helping to meet the credit needs of the communities it serves. The Lending Test specifically evaluates an institution's lending-related activities 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 HMDA, automated loan reports, and other reports generated by the institution in order to assess the institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is evaluated based on the institution's (1) loan-to-deposit ratio and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments; (2) percentage of loans and, as appropriate, other lending-related activities located in the bank's AAs; (3) record of lending to, and, as appropriate, engaging in other lending-related activities for, borrowers of different income levels and businesses and farms of different sizes; (4) geographic distribution of loans; and

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[26] See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48,506, 48,548 (July 25, 2016).

[27] 12 U.S.C. § 2906.

(5) record of taking action, if warranted, in response to written complaints about the institution's performance in helping to meet credit needs in the bank's AAs.[28] The Community Development Test evaluates the number and amounts of the institution's community development loans and qualified investments; the extent to which the institution provides community development services; and the institution's responsiveness through such activities to community development lending, investment, and service needs.[29] Small institutions, such as Rockwood Bank, are subject only to the Lending Test described above.[30]

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial, ethnic, or gender groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution's credit decisions may not be available from public HMDA data.[31] Consequently, the Board requests additional data as may be needed from the institution and evaluates disparities in the context of the additional information obtained regarding the lending record of an institution.

CRA Performance of Lindell Bank

Lindell Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the Reserve Bank, as of July 15, 2019 ("Lindell

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[28] See 12 CFR 228.26(b).

[29] See 12 CFR 228.26(c).

[30] 12 CFR 228.26(a).

[31] Other information relevant to credit decisions could include credit history, debt-to-income ratios, and loan-to-value ratios. Accordingly, when conducting fair lending examinations, examiners analyze such additional information before reaching a determination regarding an institution's compliance with fair lending laws.

Bank Evaluation").[32] The bank received a "Satisfactory" rating on the Lending Test and a "Satisfactory" rating on the Community Development Test.[33]

Examiners found that a substantial majority of Lindell Bank's loans and other lending-related activities were in the bank's AA. Although examiners concluded that the bank's loan-to-deposit ratio was less than reasonable given the bank's size, financial condition, and AA, examiners determined that the bank's borrower profile reflected reasonable penetration among individuals of different income levels, including LMI individuals, and businesses of different sizes. Examiners found that the dispersion analysis of HMDA loans and small business loans revealed lower loan penetration in certain LMI areas when compared to Lindell Bank's distribution of loans in middle- and upper-income areas, in comparison to other lenders in the AA, but that the bank had excellent levels of HMDA and small business loans in LMI areas in general. Examiners determined that the overall geographic distribution of the bank's loans reflected reasonable dispersion throughout the bank's AA.

Examiners found that the bank's overall community development performance demonstrated adequate responsiveness to the needs of the bank's AA considering the bank's capacity and the need and availability of such opportunities in the AA. Examiners noted that the bank had responded to the community development needs of its AA through community development loans, qualified investments, and community development services.

[32] The Lindell Bank Evaluation was conducted using Intermediate Small Institution CRA Examination Procedures, consisting of the Lending and Community Development tests, described above. Examiners reviewed loan data from January 1 through December 31, 2017, and loan-to-deposit ratio data from June 30, 2016, through June 30, 2019. Examiners also reviewed community development activities from June 6, 2016, through July 14, 2019.

[33] The Lindell Bank Evaluation reviewed the bank's activities in the St. Louis, Missouri-Illinois metropolitan statistical area ("MSA"), its sole AA.

Lindell Bank's Efforts since the Lindell Bank Evaluation

First Illinois states that, since the Lindell Bank Evaluation, the bank has originated several community development loans and, in the last two years, the bank has increased its outreach and marketing efforts. First Illinois also represents that Lindell Bank has recently increased the line of credit it provides to a local community development organization. Further, First Illinois notes that Lindell Bank has made a number of loans under the Paycheck Protection Program, including to LMI borrowers and nonprofit organizations.

First Illinois represents that the acquisition of Rockwood Bank reflects an opportunity for First Illinois to continue to improve its lending and outreach efforts to LMI and minority borrowers in its entire AA. First Illinois has outlined several initiatives that it contends are designed to enable Lindell Bank to increase its lending to minority and LMI borrowers.

CRA Performance of Rockwood Bank

Rockwood Bank received an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of April 29, 2019 ("Rockwood Bank Evaluation").[34] The bank received a "Satisfactory" rating for the Lending Test.[35]

Examiners concluded that Rockwood Bank's average net loan-to-deposit ratio was reasonable given the bank's asset size, financial condition, and the credit needs of the bank's AA. Examiners noted that a majority of the small business and home mortgage loans reviewed were extended within the bank's AA. Examiners found that the geographic distribution of the bank's loans reflected an excellent dispersion throughout the bank's AA. Examiners noted that the distribution of borrowers reflected a reasonable

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[34] The Rockwood Bank Evaluation was conducted using Small Institution CRA Examination Procedures, consisting of the Lending Test. Examiners reviewed small business loans originated between January 1 through December 31, 2018, home mortgage loans that were included on the bank's HMDA loan application registers in 2017 and 2018, and data on loan-to-deposit ratios from June 30, 2013, through December 31, 2018.

[35] The Rockwood Bank Evaluation reviewed the bank's activities in the St. Louis, Missouri-Illinois MSA, its sole AA.

penetration among businesses of different revenue sizes and individuals of different income levels.

Additional Supervisory Views

In its review of the proposal, the Board considered the consumer compliance and fair lending records of Lindell Bank and consulted with the FDIC regarding the CRA, consumer compliance, and fair lending records of Rockwood Bank. The Board has also considered the results of the most recent consumer compliance examinations of Lindell Bank and Rockwood Bank, which included reviews of the banks' compliance management programs and compliance with consumer protection laws and regulations.

The Board has taken the foregoing consultations and examinations into account in evaluating the proposal, including in considering whether First Illinois has the experience and resources to ensure that the banks would help meet the credit needs of the communities to be served following consummation of the proposed transaction.

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 Illinois represents that, following consummation of the proposal, First Illinois would cause Rockwood Bank to continue to serve the banking needs and convenience of all segments of the public in Rockwood Bank's community, and First Illinois would encourage Rockwood Bank to make loans and investments in projects for economic development, so long as such products are consistent with safe and sound banking practices. Further, First Illinois represents that Rockwood Bank would continue to offer the full range of banking services the bank currently offers following consummation of the proposal. First Illinois also asserts that consummation of the proposal would result in expanded product offerings to the customers of Rockwood Bank and Lindell Bank. Specifically, First Illinois notes that it would improve its lending to LMI and minority borrowers by making 15- and 30-year-term mortgage loans in the combined organization's AA, as Rockwood Bank offers these products.

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 fair lending and other consumer protection laws, confidential supervisory information, information provided by First Illinois, the public comments on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board determines that the convenience and needs factor is consistent with approval.

Financial Stability

Section 3 of the BHC Act requires the Board to consider "the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system."[36]

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.[37] 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

[36] 12 U.S.C. § 1842(c)(7).

[37] Many of the metrics considered by the Board measure an institution's activities relative to the United States financial system.

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.[38]

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 would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.[39]

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. Both the acquirer and the target are predominantly engaged in retail and commercial banking activities.[40] The pro forma organization would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. 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.

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[38] For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

[39] 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.

[40] First Illinois and Rockwood offer a range of retail and commercial banking products and services. First Illinois 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.

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.

Conclusion

Based on the foregoing and all the facts of record, the Board determines 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 and other applicable statutes. The Board's approval is specifically conditioned on compliance by First Illinois with all the conditions imposed in this order and on any commitments made to the Board in connection with the proposal. The Board's approval also is conditioned on receipt by First Illinois of all required regulatory approvals. 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 15th calendar day after the effective date of this order or later than three months thereafter, unless such period is extended for good cause by the Board or the Reserve Bank, acting under delegated authority.

By order of the Board of Governors,[41] effective August 26, 2020.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

[41] Voting for this action: Chair Powell, Vice Chair Clarida, Vice Chair for Supervision Quarles, and Governors Bowman and Brainard.