

FEDERAL RESERVE SYSTEM

Farmers National Banc Corp.
Canfield, Ohio

Order Approving the Merger of Bank Holding Companies

Farmers National Banc Corp. (“FNC”), Canfield, Ohio, a financial holding company within the meaning of the Bank Holding Company Act (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to merge with Emclair Financial Corp. (“Emclair Financial”), and thereby indirectly acquire The Farmers National Bank of Emlenton (“Emlenton Bank”), both of Emlenton, Pennsylvania. Following the proposed merger, Emlenton Bank would be merged with and into FNC’s subsidiary, The Farmers National Bank of Canfield (“Farmers National Bank”), Canfield, Ohio.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (87 Federal Register 39832 (July 5, 2022)), in accordance with the Board’s Rules of Procedure.⁴ The time for submitting comments has expired, and the Board received one adverse comment on the proposal. The Board has considered the proposal and the comment in light of the factors set forth in section 3 of the BHC Act.

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ The merger of Emlenton Bank with and into Farmers National Bank is subject to approval of the Office of the Comptroller of the Currency (“OCC”) pursuant to section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”). 12 U.S.C. § 1828(c).

⁴ 12 CFR 262.3(b).

FNC, with consolidated assets of approximately \$4.1 billion, is the 285th largest insured depository organization in the United States.⁵ FNC controls approximately \$3.7 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁶ FNC controls Farmers National Bank, which operates only in Ohio. Farmers National Bank is the 13th largest insured depository institution in Ohio, controlling deposits of approximately \$3.7 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state.⁷

Emclaire Financial, with total assets of approximately \$1.0 billion, is the 890th largest insured depository organization in the United States. Emclaire Financial controls approximately \$1.0 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Emclaire Financial controls Emlenton Bank, which operates only in Pennsylvania. Emlenton Bank is the 58th largest insured depository institution in Pennsylvania, controlling deposits of approximately \$937 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state.

On consummation of this proposal, FNC would become the 249th largest insured depository organization in the United States, with consolidated assets of approximately \$5.1 billion, which would represent less than 1 percent of the total assets of insured depository organizations in the United States. FNC would control total consolidated deposits of approximately \$4.6 billion, which would represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. There would be no changes in state deposit ranking and deposit data.

⁵ Consolidated asset and national ranking data are as of June 30, 2022.

⁶ Consolidated national deposit and market share data are as of June 30, 2022. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

⁷ State deposit ranking and deposit data are as of June 30, 2022.

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 be prohibited under state law.⁸ The Board may not approve under this provision an application that would permit an out-of-state bank holding company to acquire a bank in a host state if the target bank has not been in existence for the lesser of the state statutory minimum period of time or five years.⁹ When determining whether to approve an application under this provision, the Board must take into account the record of the applicant's depository institution under the Community Reinvestment Act of 1977 ("CRA")¹⁰ and the applicant's record of compliance with applicable state community reinvestment laws.¹¹ In addition, the Board may not approve an interstate application under this provision if the bank holding company controls or, 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, 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.¹²

⁸ 12 U.S.C. § 1842(d)(1)(A).

⁹ 12 U.S.C. § 1842(d)(1)(B).

¹⁰ 12 U.S.C. § 2901 *et seq.*

¹¹ 12 U.S.C. § 1842(d)(3).

¹² 12 U.S.C. § 1842(d)(2)(A) and (B). Under section 3(d) of the BHC Act, the acquiring and target organizations 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, headquartered, or operates a branch. See 12 U.S.C. § 1841(o)(4)–(7).

For purposes of this provision, the home state of FNC is Ohio.¹³ Emlenton Bank is located in Pennsylvania. FNC is well capitalized and well managed under applicable law. Farmers National Bank has a “Satisfactory” rating under the CRA, and Emlenton Bank has been in existence for more than five years. Pennsylvania does not have a minimum age requirement that applies to FNC’s acquisition of Emlenton Bank. There are no state community reinvestment laws that apply to this proposal.

On consummation of the proposed transaction, FNC would control less than 1 percent of the total amount of consolidated deposits in insured depository institutions in the United States. FNC and Emclair Financial do not have overlapping operations in any state. Accordingly, in light of all the facts of record, the Board is not precluded from approving the proposal under section 3(d) of the BHC Act.

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.¹⁴ 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.¹⁵

Farmers National Bank and Emlenton Bank do not compete directly in any banking market. The Department of Justice conducted a review of the potential competitive effects of the proposal and has advised the Board that it has not concluded

¹³ 12 U.S.C. § 1841(o)(4). A bank holding company’s home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

¹⁴ 12 U.S.C. § 1842(c)(1)(A).

¹⁵ 12 U.S.C. § 1842(c)(1)(B).

that the proposal would have a significantly adverse effect on competition. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all 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 any relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, Future Prospects, 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.¹⁶ 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 any comments on the proposal. 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 effectively complete 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.

¹⁶ 12 U.S.C. § 1842(c)(2), (5), and (6).

FNC, Emclave Financial, and their respective subsidiary depository institutions are well capitalized, and the combined organization would remain so upon consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a share or cash exchange, with a subsequent merger of the subsidiary banks.¹⁷ The capital, asset quality, earnings, and liquidity of FNC, Emclave Financial, and their subsidiary depository institutions are consistent with approval, and FNC appears to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, the institution's future prospects are considered consistent with approval.

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 FNC, Emclave Financial, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by FNC; 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 the public comment on the proposal.

FNC, Emclave Financial, and their subsidiary depository institutions are each considered to be well managed. The combined organization's proposed directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and FNC's risk-management program appears consistent with approval of this expansionary proposal.

The Board also has considered FNC's plans for implementing the proposal. FNC is devoting sufficient financial and other resources to address all aspects of the post-

¹⁷ Under the proposal, each share of Emclave Financial common stock would be converted into a right to receive shares of FNC common stock based on an exchange ratio, or a predetermined amount of cash. FNC has the financial resources to effect the proposed transaction.

acquisition integration process for this proposal. Management of FNC and Emclaire Financial's management have the experience and resources to operate the resulting organization in a safe and sound manner, and FNC plans to integrate Emclaire Financial's existing management and personnel in a manner that augments FNC's management.

Based on all the facts of record, including FNC's and Emclaire Financial's supervisory records, 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 records of effectiveness of FNC and Emclaire Financial 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.¹⁸ 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. In its review, the Board 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.¹⁹ The CRA also requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire

¹⁸ 12 U.S.C. § 1842(c)(2).

¹⁹ 12 U.S.C. § 2901(b).

community, including low- and moderate-income (“LMI”) neighborhoods, in evaluating bank expansionary proposals.²⁰

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 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 Farmers National Bank and Emlenton Bank; the fair lending and compliance records of both banks; the supervisory views of the OCC with respect to both banks; confidential supervisory information; information provided by FNC; and the public comment received on the proposal.

Public Comment on the Proposal

The Board received one adverse comment on the proposal. The commenter stated that Emlenton Bank could improve its home purchase lending, small business lending, community development efforts, and CRA performance in Allegheny County and the Pittsburgh Metropolitan Statistical Area (“MSA”), particularly in relation to its lending in LMI communities and to minority individuals.²¹ In addition, the commenter expressed concerns about Farmers National Bank’s lending efforts to LMI communities

²⁰ 12 U.S.C. § 2903.

²¹ The commenter cited publicly available data from 2018–2020 reported by Emlenton Bank under the Home Mortgage Disclosure Act of 1975 (“HMDA”), 12 U.S.C. § 2801 et seq.

and minority individuals; alleged that the bank's branching patterns were exclusionary and noted that two of the bank's three most recent branch closures were in moderate-income areas; and also noted that Farmers National Bank received a "Low Satisfactory" rating on the Investment Test at its most recent CRA examination.

Businesses of the Involved Institutions and FNC Response to the Public Comment

Through Farmers National Bank, FNC offers consumer and business deposit-related products and services, along with traditional loan products, including home mortgage, commercial, commercial real estate, small business, agricultural, and consumer loans, as well as home equity lines of credit. FNC also offers consumer and commercial private banking, insurance, trust and investment advisory, and retirement planning services. Emclair Financial, through Emlenton Bank, offers a variety of deposit products and some lending products, including home mortgages and small business and commercial loans.

In response to the comment, FNC highlights community reinvestment initiatives of both Farmers National Bank and Emlenton Bank, including participation in community service, financial literacy efforts, and operation of lending programs designed to benefit LMI individuals and neighborhoods. In addition, FNC states that Farmers National Bank is committed to collaborating with community members on the bank's community reinvestment efforts and is engaging with community groups in Emlenton Bank's service areas about ways that Farmers National Bank can meet the banking needs of local families and businesses. FNC represents that Farmers National Bank is committed to increasing access to bank products and services, including lending opportunities, in LMI and minority areas.

Records of Performance under the CRA

In evaluating the CRA performance of the involved institutions, the Board considers each institution's most recent CRA evaluation and the supervisory views of

relevant federal supervisors, which in this case is the OCC with respect to both banks.²² In addition, the Board considers information provided by the applicant and by any 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.²³ 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"), an investment test ("Investment Test"), and a service test ("Service Test") to evaluate the performance of large banks, such as Farmers National Bank, in helping to meet the credit needs of the communities they serve. 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, 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 evaluated 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 amounts of loans in

²² See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48,506, 48,548 (July 25, 2016).

²³ 12 U.S.C. § 2906.

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;²⁴ (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.²⁵ The Investment Test evaluates the number and amounts of qualified investments that benefit the institution's AAs. The Service Test evaluates the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of the institution's community development services.²⁶

Federal financial supervisors apply a Lending Test and a community development test ("Community Development Test") to evaluate the performance of an intermediate small bank, such as Emlenton Bank, in helping to meet the credit needs of the communities it serves. 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.²⁷

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

²⁴ Examiners also consider the number and amounts of small business and small farm loans made 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).

²⁵ See 12 CFR 228.22(b).

²⁶ See 12 CFR 228.21 et seq.

²⁷ See 12 CFR 228.26(c).

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.²⁸ Consequently, the Board requests additional information not available to the public that may be needed from the institution and evaluates disparities in the context of the additional information obtained regarding the lending and compliance record of an institution.

CRA Performance of Farmers National Bank

Farmers National Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the OCC, as of February 1, 2021 ("Farmers National Bank Evaluation").²⁹ The bank received "High Satisfactory" ratings for both the Lending Test and the Service Test, and a "Low Satisfactory" rating for the Investment Test.³⁰ Farmers National Bank's ratings were based on the bank's

²⁸ Importantly, credit scores are not available in the public HMDA data. Accordingly, when conducting fair lending examinations, examiners analyze additional information not available to the public, such as credit scores, before reaching a determination regarding an institution's compliance with fair lending laws.

²⁹ The Farmers National Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed home mortgage and small business loans, community development loans and services, and investments from January 1, 2017, through December 31, 2020.

³⁰ The Farmers National Bank Evaluation included full-scope reviews of the bank's activities in the following AAs: Mahoning AA, which includes portions of Mahoning and Trumbull Counties and is part of the Youngstown-Warren-Boardman MSA; Wayne County and portions of Holmes County; Columbiana County; and Stark County, all in Ohio; and portions of Beaver County, Pennsylvania ("Beaver AA"). The Farmers National Bank Evaluation also included a limited-scope review of portions of Medina County, Ohio. Examiners noted that First National Bank acquired a branch in the Beaver, Pennsylvania AA as part of a merger transaction in 2015, which subsequently was closed in October 2020, and that the bank had exited the AA by the end of the evaluation period. Examiners determined that they could not evaluate many of the bank's lending activities in the Beaver, Pennsylvania AA due to the low volume of home mortgage and small business loans originated by the bank in the AA.

performance on each test in the state of Ohio, where the bank's presence in terms of deposits concentrations, branch distribution, and reportable loans was most significant.

With respect to the Lending Test, examiners found that Farmers National Bank's lending levels reflected excellent responsiveness to the credit needs in the bank's AAs and that the bank's geographic distribution of home mortgage and small loans to businesses was adequate. Examiners noted that the bank exhibited a good distribution of loans among individuals of different income levels and businesses of different sizes, an area of concern for the commenter. Examiners also noted that Farmers National Bank used innovative and flexible lending practices to serve the credit needs of its AAs.

With respect to the Investment Test, examiners found that Farmers National Bank's overall investment performance was adequate. Examiners noted that some of the bank's investments benefited LMI individuals within the bank's AAs. Examiners found that the bank had a significant level of qualified investments and grants and exhibited good responsiveness to credit and community development needs.

With respect to the Service Test, examiners found that Farmers National Bank's performance was good. Examiners noted that the bank's service delivery systems, including branches, were accessible to geographies and individuals of different income levels in the bank's AAs, and the bank's opening and closing of branches did not affect the accessibility of the bank's delivery systems, particularly in LMI geographies or to LMI individuals, two areas of concern to the commenter.

CRA Performance of Emlenton Bank

Emlenton Bank received an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the OCC, as of January 10, 2022 ("Emlenton

Bank Evaluation”).³¹ The bank received a “Satisfactory” rating for the Lending Test and an “Outstanding” rating on the Community Development Test.³²

With respect to the Lending Test, examiners found that Emlenton Bank demonstrated reasonable lending performance. Examiners noted that the bank’s loan-to-deposit ratio was more than reasonable and that a substantial majority of the bank’s home mortgage lending activity was originated within its AAs. In addition, examiners found that the bank’s distribution of home mortgage loans was reasonable among borrowers of different income levels and among census tracts of different income levels.

In the Pittsburgh MSA AA, an area of concern for the commenter, examiners found that the distribution of Emlenton Bank’s home mortgage loans in LMI geographies was reasonable. Examiners noted that the distribution of Emlenton Bank’s loans reflected reasonable distribution among individuals of different income levels. In addition, examiners found that Emlenton Bank provided appropriate responses to CRA-related complaints it received during the evaluation period.

With respect to the Community Development Test, examiners found that Emlenton Bank exhibited excellent responsiveness to community development needs in its AAs. Examiners also noted that Emlenton Bank provided an adequate level of community development services in the Pennsylvania Non-MSA and Pittsburgh MSA AAs.

³¹ The Emlenton Bank Evaluation was conducted using Intermediate Small Institution CRA Examination Procedures. Examiners reviewed loan data, investments, and community development services from January 1, 2018, to December 31, 2020. Examiners noted that the bank’s primary loan product over the evaluation period was home mortgage loans.

³² The Emlenton Bank Evaluation included a full-scope review of the Pittsburgh MSA AA and Pennsylvania Non-MSA AA, which is comprised of the counties of Clarion, Elk, Jefferson, and Venango, and contiguous portions of Clearfield and Crawford counties, all of Pennsylvania. The Emlenton Bank Evaluation also involved a limited-scope exam of the Youngstown-Boardman-Warren OH-PA Multi-MSA AA, in which Emlenton Bank has a presence in a portion of Mercer County, Pennsylvania.

Additional Supervisory Views

In its review of the proposal, the Board consulted with and considered the views of the OCC as the primary federal supervisor of both Farmers National Bank and Emlenton Bank. The Board also considered the results of the most recent consumer compliance examinations of Farmers National Bank and Emlenton Bank, which included reviews of the banks' compliance management programs and their compliance with consumer protection laws and regulations.

The Board has taken this information, as well as the CRA performance records of Farmers National Bank and Emlenton Bank, into account in evaluating the proposal, including considering whether FNC has the experience and resources to ensure that the combined bank 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. FNC represents that, following consummation of the proposal, Emlenton Bank customers would have access to new mortgage lending programs, including those designed for LMI borrowers, and private banking, insurance, trust and investment advisory, and retirement planning services. FNC also represents that it would increase lending opportunities to LMI and minority applicants by developing LMI-focused marketing and by partnering with mortgage loan originators that understand and have a presence in these communities. In addition, FNC represents that Farmers National Bank anticipates that it would be able to expand its product and service offerings as a result of the increased size of the combined institution.

Branch Closures

The Board considers the impact of expected branch closures, consolidations, and relocations that occur in connection with a proposal on the convenience and needs of the communities to be served by the resulting institution. Particular attention is paid to the effect of any closures, consolidations, or relocations on

LMI communities. Federal banking law also provides a specific mechanism for addressing branch closings, including requiring that a bank provide notice to the public and the appropriate federal supervisory agency before a branch is closed.³³ In addition, the federal banking supervisory agencies evaluate a bank's record of opening and closing branches, particularly branches located in LMI geographies or primarily serving LMI individuals, as part of the CRA examination process.³⁴

A commenter alleged that Farmers National Bank has few branches in moderate-income areas and none in low-income areas, resulting in an exclusionary branch distribution.³⁵ FNC represents that no branches of Emlenton Bank are anticipated to be closed, consolidated, or relocated in connection with the proposed transaction. The Board also notes that OCC examiners found that Farmers National Bank's record of opening and closing of branches had not adversely affected accessibility of its services in LMI geographies or to LMI individuals. In addition, the Board consulted the OCC regarding Farmers National Bank's record of compliance with fair lending laws and regulations and related policies and procedures.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the records of Farmers National Bank and Emlenton Bank under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, supervisory information provided by the OCC, information provided by FNC, the public comment on the proposal, and other potential effects of the proposal on the convenience and needs of

³³ See 12 U.S.C. § 1831r-1. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

³⁴ See, e.g., 12 CFR 228.24(d)(2). In addition, the Board notes that the OCC, as the primary federal supervisor of First National Bank, will review branch closures in evaluating the CRA performance of the combined organization.

³⁵ The commenter indicated that Farmers National Bank had closed two moderate-income branches in the past year. FNC disputes the timing of branch closures, claiming that it last closed one branch in a moderate-income tract in 2020.

the communities to be served. Based on that review, the Board determines that the convenience and needs factor is consistent with approval.

Financial Stability Considerations

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 U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic “footprint” of the combined organization and the incremental effect of the transaction on the systemic footprint of the acquiring bank holding company. These metrics include measures of the size of the combined organization, the availability of substitute providers for any critical products and services offered by the combined organization, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the combined organization 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 opacity and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of resolving the combined organization. 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

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 U.S. financial system.

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

total assets, generally are 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 with 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.

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.

³⁹ See People's United Financial, Inc., FRB Order No. 2017-08 at 25–26 (Mar. 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 FNC and Emclaire Financial offer a range of retail and commercial banking products and services. FNC 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.

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 FNC 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 FNC 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 Federal Reserve Bank of Cleveland, acting under delegated authority.

By order of the Board of Governors,⁴¹ effective December 2, 2022.

Ann E. Misback (signed)

Ann E. Misback
Secretary of the Board

⁴¹ Voting for this action: Chair Powell, Vice Chair Brainard, Vice Chair for Supervision Barr, Governors Bowman, Waller, Cook and Jefferson.