



**CRA Decision #175
September 2016**

August 17, 2016

Mr. Robert J. Maierhofer, President
First National Bank of Dwight
122 W. Main Street, P.O. Box 10
Dwight, Illinois 60420

Re: Application by The First National Bank of Dwight, Dwight, Illinois to purchase and assume the assets and liabilities of a branch office located in Seneca, Illinois of MB Financial Bank, N.A., Chicago, Illinois
OCC Control No.: 2016-CE-Combination-147209 Charter No.: 8044

Dear Mr. Maierhofer:

The Office of the Comptroller of the Currency (OCC) hereby approves the application by The First National Bank of Dwight, Dwight, Illinois (FNB Dwight) to purchase certain assets and assume certain liabilities of a branch office (Seneca branch) of MB Financial Bank, N.A. (MB), located at 395 South Main Street, Seneca, Illinois (Application). This approval is granted after a thorough review of the application, other materials each of the banks and its representatives supplied, and additional information available to the OCC, including commitments and representations made in the application, and by the bank's representatives during the application process.

I. The Transaction

On April 7, 2016, FNB Dwight filed an application with the Office of the Comptroller of the Currency ("OCC") to purchase and assume certain assets and liabilities of the Seneca Branch pursuant to 12 USC 24(Seventh), 1828(c), and 12 CFR 5.33(c). FNB Dwight is a national bank with its main office in Dwight, Illinois and no branch offices. MB is a national bank with its main office in Chicago, Illinois and has 89 branches, including 87 in Illinois, one in Indiana, and one in Pennsylvania.

II. Legal Authority

A national bank is legally authorized to acquire all or part of a depository institution through a purchase and assumption transaction pursuant to its general banking powers under 12 USC 24 (Seventh). Where the transaction involves one insured depository institution's assumption of the deposit liabilities of another insured depository institution, the assuming bank must comply with

the substantive and procedural requirements of 12 USC 1828(c) (the Bank Merger Act), and its implementing regulation, 12 CFR 5.33, as well as the Community Reinvestment Act, 12 USC 2901 et seq. (“CRA”). Accordingly, FNB Dwight must obtain prior approval from the OCC to consummate the Transaction.

A. The National Bank Act

Section 24(Seventh) of the National Bank Act provides that national banks have the power to exercise “all such incidental powers as shall be necessary to carry on the business of banking....” Banking includes establishing and operating branches as permitted in 12 USC 36.

B. The Bank Merger Act

Section 1828(c)(2)(A) of the Bank Merger Act provides that a national bank shall not directly or indirectly acquire the assets of or assume liability to pay any deposits made in any other insured depository institution except with the prior written approval of the OCC. Section 1828(c)(3) provides that a notice of a proposed purchase and assumption transaction for which approval is required by 1828(c)(2) shall be referred to as a ‘merger transaction’ and published in a newspaper as specified by the OCC and the Bank Merger Act. The Transaction proposed by FNB Dwight must be considered in light of the factors set forth in the Bank Merger Act. See CFR 5.33(e)(ii).

III. Community Reinvestment Act

The Community Reinvestment Act (CRA) requires the OCC to take into account the records of the institutions' performance in helping to meet the credit needs of their communities, including low- and moderate-income (LMI) neighborhoods, when evaluating applications under the Bank Merger Act. The OCC considered the CRA performance evaluation (CRA PE) of each bank involved in this transaction. Based on its review of these records, information provided by FNB Dwight in response to public comments relating to the pending application, information provided in response to additional information requests from the OCC, and other information available to the OCC as a result of its supervisory responsibilities, the OCC has concluded that the banks' records of helping to meet the needs of the communities support approval of this application.

A. The First National Bank of Dwight

FNB Dwight’s most recent CRA PE, dated October 6, 2014, assigned an overall “Satisfactory” rating.¹ FNB Dwight is an intrastate bank with one full service banking office, located centrally within the Village of Dwight in Livingston County. Four major factors supported FNB Dwight’s rating, namely (i) the average quarterly loan-to-deposit ratio since the previous CRA

¹ The 2014 CRA PE evaluated FNB Dwight as a “small savings association” for the period of February 18, 2009 through October 6, 2014. The OCC identified three AAs for evaluation, Livingston/LaSalle County, Grundy County, and Kankakee County, which were combined into one AA for purposes of the CRA evaluation. A copy of the CRA PE is available at: <http://www.occ.gov/static/cra/craeval/mar15/8044.pdf>. The reference to “small savings association” in the CRA PE was an error and should have read “small bank”.

evaluation was reasonable given the bank's size, financial condition, local economic conditions, and assessment area (AA) credit needs; (ii) the bank originates the majority of its primary loan products inside its AA; (iii) the distribution of loans for individuals of different income levels was reasonable and reflects a reasonable penetration among businesses and farms of different sizes, given the bank's product offerings and local economic conditions; and (iv) no adverse complaints regarding the bank's CRA performance.

B. MB Financial Bank, National Association

MB Financial operates the Seneca branch as a full service banking office in LaSalle County. MB's most recent CRA PE, dated August 12, 2013, reviewed MB's lending activity in the LaSalle County AA (LaSalle AA) during 2010 through 2012. MB's performance under the lending test in the LaSalle AA was rated "Needs to Improve" (NTI).² OCC examiners concluded that lending activity within the LaSalle AA was poor. The evaluation of data was completed using two separate analysis periods due to changes in the census data. During the 2010 and 2011 evaluation period, the Seneca branch originated or purchased two home refinance loans, and in 2012 four home refinance loans and two small business loans.³ Distribution of loans by income level of the geography and income level of the borrower were not meaningful because of the limited volume of home mortgage loans and small loans to businesses.

IV. Public Comments

The OCC received two public comment letters from the same commenter expressing concerns regarding MB's NTI rating for lending in the LaSalle AA.⁴ The commenter stated it does not oppose FNB Dwight's purchase of the Seneca branch; however, the commenter requested that the OCC condition approval of the application upon FNB Dwight bringing the branch into CRA compliance on loans, investments, and services.⁵ The commenter made two recommendations: (i) that the OCC ensure FNB Dwight take specific steps to dramatically increase the amount of CRA-eligible loans, services, and investments in the AA to at least a Satisfactory level, and (ii) that the OCC

² MB, with assets of \$15.5 billion as of June 30, 2016, is an interstate bank that is assessed under the large bank CRA performance standards. As of the 2013 CRA PE, the Seneca branch represented less than one quarter of one percent of MB's deposits and ranked second out of two financial institutions in Seneca, with a market share of 24.7 percent.

³ In MB's CRA PE, loans originated or purchased during 2010 through 2011 were based on 2000 census data, and loans originated or purchased during 2012 were based on 2010 census data. There were no home purchase loans or home improvement loans reported during 2010 through 2012 evaluation period.

⁴ The commenter also stated that MB was rated NTI under the service test due to limited accessibility in the LaSalle AA, and was rated Substantial Noncompliance for its lack of investments in that AA. MB is examined for CRA under the large bank performance standards which include the three tests for (1) lending, (2) investments, and (3) service.

⁵ As a small bank, FNB Dwight is not subject to review under the service or investment test. For purposes of the CRA, following consummation of the proposed transaction, FNB Dwight will continue to be evaluated under the small bank performance standards, 12 CFR 25.26.

condition the approval upon FNB Dwight bringing the branch into CRA compliance. In a follow-up comment, the commenter stated that FNB Dwight does not include, either in the original filing or in the response to the comment letter, any specific actions it will take or a specific timeframe in which to raise standards to at least a Satisfactory level.

The OCC has carefully considered the commenter's concerns, as well as the banks' records as they relate to these comments and the statutory and regulatory factors taken into account by the OCC when reviewing an application under the Bank Merger Act. The OCC's consideration of the banks' records as they relate to the Application and response to the commenter's concerns are summarized below.

A. Convenience and Needs

In deciding whether to approve the proposed transaction, the OCC considered the banks' CRA performance and the probable effects of the proposed transaction on the convenience and needs of the community to be served. See 12 USC 1828(c)(5). Although these factors are interrelated, as explained in the Public Notice and Comments booklet of the *Comptroller's Licensing Manual* (Mar. 2007), consideration of a bank's CRA performance primarily looks to how the bank has performed in the past. As noted above, FNB Dwight was rated Satisfactory at its most recent CRA PE. In contrast to the CRA, the convenience and needs assessment considers how the merged entity will help meet the needs of its community on a prospective basis. As part of the convenience and needs assessment, the OCC considers the bank's ability and plans to provide expanded or less costly services to the community. 12 CFR 5.33(e)(1)(ii)(C).

The commenter expressed concern that the community served by the Seneca branch is rural and has limited accessibility to banking services and products. The commenter stated that MB made only four home refinance loans, originated or purchased only two home refinance loans, made no community development loans, and does not offer agricultural loans.⁶ The commenter also stated that FNB Dwight's retail products have some limitations that could discourage use by low-income consumers. Specifically, the commenter expressed concern that FNB Dwight's least expensive basic checking account requires a minimum \$50.00 to open an account.

In response to the commenter's concerns,⁷ FNB Dwight noted that both Dwight, IL and Seneca, IL are considered rural and are a distance of approximately 25 miles apart. The three communities between the two towns have no financial institution to serve their financial needs.⁸ FNB Dwight stated that the acquisition will provide the convenience of full

⁶ In comparison, FNB Dwight's 2014 CRA PE states the bank made a total of 20 small business loans, 20 consumer loans, and 20 small farm loans totaling \$5.9 million. FNB Dwight sells the home mortgage loans it originates and retains the servicing rights. As of March 31, 2016, FNB sold 133 loans for a total volume of \$12.2 million. FNB will purchase \$133 thousand in loans as part of the Seneca branch acquisition.

⁷ FNB Dwight provided three response letters dated June 29, 2016, July 28, 2016, and August 10, 2016.

⁸ The communities include Verona, Kinsman and Ransom with a total population of approximately 700.

service facilities in both communities. FNB Dwight stated that it plans to reach out to LMI individuals and/or minority individuals within the LMI and/or majority-minority census tracts. FNB Dwight represented that it believes the acquisition of the Seneca branch will be beneficial to the customers in the Seneca, IL area.

FNB Dwight stated that its business strategy is to provide its customers with a full range of deposit and lending products and services consistent with community needs. In describing how FNB Dwight plans to help meet the credit needs of the LaSalle AA, including the Seneca branch, FNB Dwight represented that it will continue to provide residential loans under several governmental programs⁹ to qualified borrowers. In addition, FNB Dwight represented that it will continue to offer Small Business Administration loans to qualified businesses.

As stated in MB's CRA PE, one of the leading industries in the LaSalle AA is agriculture. FNB Dwight represented that its primary loan products are small farm loans, small business loans, and consumer loans, none of which are now offered by MB at the Seneca branch.¹⁰ FNB Dwight stated that these loan products will be offered from the first day of its operation of the branch. FNB Dwight further represented that it also intends to place a loan officer on staff at the Seneca location. This is in contrast to the present situation, in which FNB Dwight represented that Seneca branch employees can only assist customers with the deposit products and accept loan applications, but are not authorized to make credit decisions. Therefore, FNB Dwight represented, that as a result of the proposed transaction, it can improve the services available to the Seneca community and surrounding community.

In responding to the commenter's concerns, FNB Dwight cited its 2014 CRA PE, highlighting the fact that OCC examiners found that its "distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes given the Bank's product offerings and local economic conditions." In addition, FNB Dwight represented that the majority of loans to small businesses and farms had original loan amounts of less than \$100,000. FNB Dwight represented that it believes that because of its long history of serving small businesses and consumers, it has a significant understanding of the local market and has the ability to serve LMI individuals.

With regards to deposit products, FNB Dwight represented that its accounts are straightforward and suited to the needs of Seneca, IL residents.¹¹ The bank asserts its deposit products have

⁹ In its response, FNB Dwight listed programs offered by the Veterans Administration (VA), Federal Housing Administration (FHA), US Department of Agriculture (USDA), and Freddie Mac. The programs allow lower down payments and flexible underwriting terms to qualified borrowers.

¹⁰ FNB Dwight represented that it will offer the following loan products to customers at the Seneca branch: (i) consumer loans, installment and single pay; (ii) single family residential loans, including Freddie Mac, USDA, FHA, and VA loans; (iii) home equity lines of credit; (iv) residential rental property loans; (v) agricultural loans, operating lines of credit and equipment loans; (vi) farm real estate loans; (vii) commercial loans, operating lines of credit and equipment loans; (viii) commercial real estate loans; and (ix) municipal loans.

¹¹ FNB Dwight represented that it will offer the following deposit products to customers at the Seneca branch: (i) personal checking accounts, \$50.00 opening deposit; (ii) business checking accounts; (iii) NOW checking accounts, \$100.00 opening deposit; (iv) SUPER NOW checking accounts, \$5,000 opening deposit; (v) passbook savings and

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relatively low fees and minimum balances, and pay relatively high interest rates compared to the products currently available at the Seneca branch. With regard to the commenter's concern related to the \$50.00 opening deposit for FNB Dwight's checking account, FNB Dwight represented that although customers must deposit \$50.00 to open the account, once open, the account does not have a minimum deposit requirement and customers may withdraw the initial deposit.

Summary

Accordingly, based upon the OCC's review of the respective records of the banks involved in the proposed merger, the application, the public comments and FNB Dwight's responses to those comments, FNB Dwight's response to the OCC's additional information requests, supervisory materials, and other information available to the OCC as a result of its regulatory responsibilities, the application is approved.

V. Consummation Requirements

The Central District Office must be advised in writing 10 days in advance of the desired effective date for the merger, so it may issue the necessary certification letter. If the merger is not consummated within twelve months from the approval date, the approval shall automatically terminate, unless the OCC grants an extension of the time period.

This approval and the activities and communications by OCC employees in connection with the filing do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States, any agency or entity of the United States, or any officer or employee of the United States, and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. Our approval is based on the Bank's representations, submissions, and information available to the OCC as of this date. The OCC may modify, suspend or rescind this approval if a material change in the information on which the OCC relied occurs prior to the date of the transaction to which this decision pertains. The foregoing may not be waived or modified by any employee or agent of the OCC or the United States.

savings accounts; (vi) money market accounts; and (vii) Christmas Club accounts, \$1.00 to open, cash for Christmas available in October.

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A separate letter is enclosed requesting the Bank's feedback on how we handled the referenced application. If you have any questions, please contact Director for District Licensing Nancy M. Sundstrom at (312) 360-8866 or by email at Nancy.sundstrom@occ.treas.gov or Licensing Analyst Paula Dejemek Woods by telephone at (312) 660-8710 or by e-mail at Paula.dejemek@occ.treas.gov. Please include the OCC Control Number on any correspondence related to this filing.

Sincerely,

signed

Stephen A. Lybarger
Deputy Comptroller of Licensing

Enclosure: Survey Letter