FEDERAL RESERVE press release

For immediate release

December 5, 1994

The Federal Reserve Board today announced its approval of the application of Mercantile Bancorporation Inc., St. Louis, Missouri, to acquire UNSL Financial Corp., Lebanon, Missouri, and thereby indirectly acquire United Savings Bank, Lebanon, Missouri.

Attached is the Board's Order relating to this action.

Attachment

FEDERAL RESERVE SYSTEM

Mercantile Bancorporation Inc.
St. Louis, Missouri

Order Approving Application to Acquire
a Savings Association

Mercantile Bancorporation Inc., St. Louis, Missouri ("Mercantile"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has applied for the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.23 of the Board's Regulation Y (12 C.F.R. 225.23) to acquire UNSL Financial Corporation, Lebanon, Missouri ("UNSL"), and thereby indirectly acquire UNSL's savings association subsidiary, United Savings Bank, Lebanon, Missouri ("Savings Bank").[1/]

Notice of this proposal, affording interested persons an opportunity to submit comments, has been published (59 Federal Register 47,143 (1994)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 4(c)(8) of the BHC Act.

The Board has determined that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.[2/] In making this determination, the Board required that savings associations acquired by bank holding companies

[1/] Mercantile will acquire Savings Bank by merger of UNSL with Mercantile's wholly owned subsidiary, Ameribanc, Inc., St. Louis, Missouri, and operate Savings Bank as a separate subsidiary.

[2/] 12 C.F.R. 225.25(b)(9).

conform their direct and indirect activities to those permissible for bank holding companies under section 4(c)(8) of the BHC Act. Mercantile has committed to conform all activities of Savings Bank to these requirements.[3]

Mercantile, with consolidated assets of $12.4 billion, controls subsidiary banks in Illinois, Kansas, and Missouri.[4] Mercantile is the second largest depository institution in Missouri, controlling deposits of $7.6 billion in Missouri, representing approximately 11.6 percent of total deposits in depository institutions in the state.[5] Savings Bank is the 18th largest depository institution in Missouri, controlling deposits of $368.3 million, representing less than 1 percent of total deposits in the state. Upon consummation of this proposal, Mercantile would remain the second largest depository institution in Missouri, controlling deposits of $8 billion that represent approximately 12.1 percent of the total deposits in depository institutions in the state.

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[3] Savings Bank engages in certain insurance and real estate activities that are impermissible for bank holding companies under the BHC Act. Mercantile has committed that all impermissible insurance activities will be divested or terminated within two years of consummation of the proposal and during this two-year period, insurance activities will be limited to renewals of existing policies and those insurance activities permitted under section 4(c)(8) of the BHC Act. Mercantile also has committed that all impermissible real estate activities will be divested or terminated within two years of consummation of the proposal, that no new impermissible projects or investments will be undertaken during the period, and that capital adequacy guidelines will be met excluding specified real estate investments. Mercantile also has committed that any impermissible securities activities conducted by Savings Bank will cease on or before consummation of the proposal.

[4] Asset data are as of September 30, 1994.

[5] State data are as of June 30, 1993, and are adjusted to reflect bank holding company acquisitions approved and consummated through August 12, 1994. In this context, depository institutions includes commercial banks, savings banks, and savings associations.

Competitive Considerations

Mercantile and UNSL compete directly in the Phelps County, Aurora/Monett, Boone County, Camden/Miller Counties, Lafayette County, Morgan County, and Springfield banking markets, all in Missouri. In all but the Phelps County banking market, consummation of the proposal would not exceed the Department of Justice guidelines, and a number of competitors would remain in each of these markets.[6]

In the Phelps County banking market,[7] Mercantile is the third largest of eight depository institutions, controlling deposits of $56.6 million, representing approximately 17.4 percent of the total deposits in depository institutions in the market ("market deposits").[8] Savings Bank is the sixth largest depository institution in the market, controlling $17.8 million in deposits, representing approximately 5.5 percent of market deposits. Upon

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[6] After consummation of this proposal, the post-merger Herfindahl-Hirschman Index ("HHI") would rise by 62 to 1441 in the Aurora/Monett banking market; increase by 81 to 1903 in the Camden/Miller Counties banking market; increase by 13 to 1423 in the Lafayette County banking market; increase by 7 to 4245 in the Morgan County banking market; and increase by 14 to 1317 in the Springfield banking market. In the Boone County banking market, the HHI would not increase.

[7] The Phelps County banking market is approximated by Phelps County, Missouri.

[8] Market share data before consummation 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 of commercial banks. See WM Bancorp, 76 Federal Reserve Bulletin 788 (1990); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Because the deposits of Savings Bank would be transferred to a commercial bank under this proposal, those deposits are included at 100 percent in the calculation of pro forma market share. See Norwest Corporation, 78 Federal Reserve Bulletin 452 (1992); First Banks, Inc., 76 Federal Reserve Bulletin 669 (1990).

consummation of this proposal, Mercantile would become the largest depository institution in the Phelps County banking market, controlling $92.1 million in deposits, representing 26.9 percent of total market deposits. The HHI would increase by 227 points to 2179.[9]

A number of factors indicate that the increase in the concentration level in the Phelps County banking market, as measured by the HHI, tends to overstate the competitive effects of this proposal. For example, six competitors would remain in the Phelps County banking market, including the largest banking organization and the largest thrift institution in Missouri.[10] In addition, the market is attractive for entry to new competitors. For example, population and income data indicate that the market's per capita income and population per banking office are higher than average for rural counties in

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[9] Under the revised Department of Justice Merger Guidelines, 49 Federal Register 26,823 (June 29, 1984), a market in which the post-merger HHI is above 1800 is considered to be highly concentrated. In such markets, the Justice Department is likely to challenge a merger that increases the HHI by more than 50 points. The Justice Department has informed the Board that a bank merger or acquisition generally will 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. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effect of limited-purpose lenders and other non-depository financial entities.

[10] Boatmen's Bancshares Inc., St. Louis, Missouri, the largest banking organization in the state, with $11.7 billion in total deposits, and Roosevelt Bank, a Federal Savings Bank, St. Louis, Missouri, the largest thrift organization in the state, with total deposits of $5.3 billion, both operate in the market.

Missouri.[11] Moreover, entry by out-of-state bank holding companies into a Missouri banking market is permitted under Missouri law.[12]

As in other cases, the Board sought comments from the United States Attorney General, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision on the competitive effects of this proposal. Neither the Attorney General nor any federal bank regulator has objected to this proposal.

For the reasons discussed above, and based on all the facts of record, the Board concludes that consummation of this proposal would not have significantly adverse effects on competition or on the concentration of resources in any relevant banking market in which Mercantile and Savings Bank compete.

Other Considerations

The financial and managerial resources of UNSL, Mercantile, and their respective subsidiaries are consistent with approval. In addition, the record does not indicate that the consummation of this proposal is likely to result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices that are not likely to be outweighed by the public benefits of this proposal. Accordingly, the Board has determined that the balance of public

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11/ 1990 population and 1989 income data indicate Phelps County has per capita income of $10,531 compared to an average of $9,560 for all rural areas of the state, and it has 2,900 people per banking office, compared to an average of 2,600 for all rural counties in Missouri. Population data are from U.S. Census Bureau estimates and income data are from the U.S. Department of Commerce, "City and County Book 1994" (13th edition).

12/ Missouri's interstate banking statute permits out-of-state bank holding companies in eight adjacent states to acquire banking organizations in Missouri on a reciprocal basis. Mo. Ann. Stat. § 362.925 (Vernon Supp. 1994).

interest factors it must consider under section 4(c)(8) of the BHC Act is favorable and consistent with approval.

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. The Board's approval of this proposal is specifically conditioned on compliance by Mercantile with the commitments made in connection with this application, including all the terms of its divestiture commitments. The Board's determination also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.23(b)(3) of Regulation Y (12 C.F.R. 225.7 and 225.23(b)), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, and to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder. For the purpose of this action, the commitments and conditions relied on by the Board in reaching this decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

This transaction shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,[13] effective December 5, 1994.

Jennifer J. Johnson
Deputy Secretary of the Board

[13] Voting for this action: Chairman Greenspan, Vice Chairman Blinder, and Governors Kelley, LaWare, Lindsey, Phillips, and Yellen.