FRB Order No. 2018-22
October 16, 2018

FEDERAL RESERVE SYSTEM

Old National Bancorp
Evansville, Indiana

Order Approving the Merger of Bank Holding Companies

Old National Bancorp, Evansville, Indiana ("Old National"), 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 and merge with Klein Financial, Inc. ("Klein"), and thereby indirectly acquire KleinBank, both of Chaska, Minnesota. Following the proposed acquisition, KleinBank would be merged into Old National's subsidiary bank, Old National Bank, Evansville, Indiana.[3]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (83 Federal Register 36935 (July 31, 2018)).[4] 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.

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[1] 12 U.S.C. § 1841 et seq.

[2] 12 U.S.C. § 1842.

[3] The merger of KleinBank into Old National Bank is subject to approval by 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). The OCC approved the bank merger on October 12, 2018.

[4] 12 CFR 262.3(b).

Old National, with consolidated assets of approximately $17.5 billion, is the 96th largest insured depository organization in the United States.[5] Old National controls approximately $12.6 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Old National controls Old National Bank, which operates branches in Indiana, Minnesota, Illinois, Kentucky, Michigan, and Wisconsin. Old National is the 6th largest insured depository organization in Minnesota, controlling deposits of approximately $1.7 billion, which represent 0.7 percent of the total deposits of insured depository institutions in that state.[6]

Klein, with consolidated assets of approximately $2.0 billion, is the 414th largest insured depository organization in the United States. Klein controls approximately $1.7 billion in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Klein controls KleinBank, which operates only in Minnesota. Klein is the 7th largest insured depository organization in Minnesota, controlling deposits of approximately $1.6 billion, which represent 0.7 percent of the total deposits of insured depository institutions in that state.

On consummation of the proposal, Old National would become the 91st largest insured depository organization in the United States, with consolidated assets of approximately $19.5 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. Old National would control consolidated deposits of approximately $14.3 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.[7] Old National would control deposits of approximately $3.4 billion in Minnesota, which

[5] National asset data are as of June 30, 2018. National deposit, ranking, and market-share data are as of June 30, 2018, unless otherwise noted.

[6] State deposit data are as of June 30, 2017.

[7] In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

would represent 1.4 percent of the total deposits of insured depository institutions in that state.

Interstate and Deposit Cap 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 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 is prohibited under state law.[8] The Board 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.[9] In addition, the Board may not approve an interstate application 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.[10]

For purposes of the BHC Act, the home state of Old National is Indiana, and KleinBank is located only in Minnesota.[11] Old National and Old National Bank are

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[8] 12 U.S.C. § 1842(d)(1)(A).

[9] 12 U.S.C. § 1842(d)(1)(B).

[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, headquartered, or operates a branch. See 12 U.S.C. § 1841(o)(4)–(7).

[11] See 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.

well capitalized and well managed under applicable law, and Old National Bank has a "Satisfactory" rating under the Community Reinvestment Act of 1977 ("CRA").[12] Minnesota has no statutory minimum age requirement,[13] and KleinBank has been in continuous existence for more than five years.

On consummation of the proposed transaction, Old National would control less than 1 percent of the total amount of consolidated deposits of insured depository institutions in the United States. Minnesota does not impose a limit on the total amount of in-state deposits that a single banking organization may control. The Board has considered all other requirements under section 3(d) of the BHC Act, including Old National Bank's record of meeting the convenience and needs of the communities it serves. Accordingly, in light of all the facts of record, the Board may approve 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]

Old National Bank and KleinBank compete directly in the Minneapolis/Saint Paul, Minnesota, banking market ("Minneapolis/Saint Paul market").[16]

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[12] 12 U.S.C. § 2901 et seq.

[13] Minn. Stat. 49.411 (2017)

[14] 12 U.S.C. § 1842(c)(1).

[15] 12 U.S.C. § 1842(c)(1)(B).

[16] The Minneapolis/Saint Paul market is defined as Anoka, Hennepin, Ramsey, Washington, Carver, Scott, and Dakota counties, Minnesota; Lent, Chisago Lake, Shafer,

The Board has considered the competitive effects of the proposal in this banking market. In particular, the Board has considered the number of competitors that would remain in the market; the relative share of total deposits in insured depository institutions in the market ("market deposits") that Old National would control;[17] the concentration levels of market deposits and the increase in this level, as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");[18] and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Minneapolis/Saint Paul market. On consummation of the proposal, the Minneapolis/Saint Paul market

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Wyoming, and Franconia townships in Chisago County, Minnesota; Blue Hill, Baldwin, Orrock, Livonia, and Big Lake townships and the city of Elk River in Sherburne County, Minnesota; Monticello, Buffalo, Rockford and Franklin townships and the cities of Otsego, Albertville, Hanover and Saint Michael in Wright County, Minnesota; Derrynane, Lanesburgh, and Montgomery townships and Montgomery city in Le Sueur County, Minnesota; and Hudson township in Saint Croix County, Wisconsin.

[17] State deposit and market share data are as of June 30, 2017, 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); 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).

[18] Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice ("DOJ") has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

would remain highly concentrated as measured by the HHI, according to the DOJ Bank Merger Guidelines; however, the change in HHI would be small, and numerous competitors would remain in the market.[19]

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 concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the Minneapolis/Saint Paul market or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.[20] 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

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[19] Old National operates the 6th largest depository institution in the Minneapolis/Saint Paul market, controlling approximately $1.67 billion in deposits, which represent approximately 0.90 percent of market deposits. Klein operates the 8th largest depository institution in the same market, controlling deposits of approximately $1.44 billion, which represent approximately 0.77 percent of market deposits. On consummation of the proposed transaction, Old National would become the 5th largest depository organization in the market, controlling deposits of approximately $3.12 billion, which represent approximately 1.68 percent of market deposits. The HHI for the Minneapolis/Saint Paul market would increase by 1 point to 3141, and 124 competitors would remain in the market.

[20] 12 U.S.C. § 1842(c)(2), (5), and (6).

nonbanking operations. In this evaluation, the Board considers a variety of information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as public 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 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.

Old National and Old National Bank are well capitalized, and the combined organization would remain so on consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a share exchange, with a subsequent merger of the subsidiary depository institutions.[21] The asset quality, earnings, and liquidity of both Old National Bank and KleinBank are consistent with approval, and Old National 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 future prospects of the institutions under the proposal 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 Old National, Klein, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Old National;

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[21] At the effective time of the merger of Klein with and into Old National, each share of Klein common stock that is issued and outstanding would be converted into a right to receive 7.92 shares of Old National common stock. Old National has the financial resources to effect the proposed transaction.

the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws.

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

The Board also has considered Old National's plans for implementing the proposal. Old National 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. Old National would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, Old National's management has the experience and resources to operate the combined organization in a safe and sound manner.

Based on all the facts of record, including Old National's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes 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 Old National and Klein 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.[22] In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of these communities, as well as other potential effects of

[22] 12 U.S.C. § 1842(c)(2).

the proposal on the convenience and needs of the communities to be served, and places particular emphasis on the records of the relevant depository institutions under the CRA. The CRA requires the federal bank 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 operations,[23] and requires the appropriate federal bank 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.[24]

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 the 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 acquiring 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 Old National Bank and KleinBank; the fair lending and compliance records of both banks; the supervisory views of the OCC and the Consumer Financial Protection Bureau ("CFPB") with respect to Old National Bank, and the Federal Deposit Insurance Corporation ("FDIC") with respect to KleinBank; confidential supervisory

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[23] 12 U.S.C. § 2901(b).

[24] 12 U.S.C. § 2903.

information; information provided by Old National; and the public comments on the proposal.[25]

Public Comments on the Proposal

In this case, a commenter objected to the proposal on the basis of alleged disparities in the number of home mortgage loans made by Old National Bank to, and in the rate of denials for home mortgage applications from, African Americans as compared to whites in the Evansville and Indianapolis Metropolitan Statistical Areas ("MSAs"), based on data reported under the Home Mortgage Disclosure Act of 1975 ("HMDA").[26] This commenter also criticized the branch closure practices of Old National Bank. Another commenter requested that Old National's proposed acquisition include a forward-looking community benefits plan.[27] Both commenters also cited obligations imposed on KleinBank under a May 2018 settlement agreement with the Department of Justice, related to alleged redlining and other discriminatory behavior of KleinBank (the "DOJ Settlement"). One commenter requested additional information about the steps KleinBank has taken to meet the conditions of the DOJ Settlement and about how Old National would comply with the terms of the DOJ Settlement once it integrates Klein.

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[25] See Interagency Questions and Answers Regarding Community Reinvestment, 81 Fed. Reg. 48506, 48548 (July 25, 2016).

[26] 12 U.S.C. § 2801 et seq.

[27] 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., HarborOne Mutual Bankshares, 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); Sandy Spring Bancorp, Inc., FRB Order No. 2017-32 at 12 n.31 (November 22, 2017); First Midwest Bancorp, Inc., FRB Order No. 2016-18 at 11 n.28 (November 10, 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.

Businesses of the Involved Institutions and Response to the Public Comments

Old National Bank is a full-service bank that offers a comprehensive array of banking, trust, investment, leasing, mortgage, and cash management products and services to individual customers and commercial enterprises of all sizes, through its network of branches. KleinBank is a commercial bank that offers a wide range of loan products for commercial, residential real estate, agricultural, and consumer purposes, in addition to various types of retail deposit products.

In response to the commenters' allegations, Old National asserts that approval of the proposed transaction is warranted based on Old National Bank's CRA performance evaluation. Old National notes that HMDA data do not take into consideration other critical inputs, such as borrower creditworthiness, collateral value, credit scores, and other factors relevant to credit decisions. Old National also asserts that HMDA data do not reflect the range of Old National Bank's lending activities and efforts within the communities it serves. Old National represents that it is committed to providing reasonable access to its delivery systems throughout its assessment areas and does not anticipate any branch closures as a result of this transaction.

The terms of the DOJ Settlement require KleinBank to expand its banking services in predominantly minority neighborhoods in the Minneapolis area, including by investing in a loan subsidy fund to increase the amount of extended credit and by engaging in advertising, outreach, financial education, and credit repair. Old National represents that KleinBank has made progress in fulfilling its obligations in this regard. Old National acknowledges that the DOJ Settlement terms are binding on KleinBank's successors and transferees, and Old National represents that it is committed to fulfilling the terms of the settlement agreement and ensuring that the needs of the communities currently served by KleinBank are met. Old National notes that Old National Bank's fair lending policies, programs, and reviews would apply at the combined entity following consummation of the transaction.

Records of Performance under the CRA

The CRA requires that the appropriate federal bank 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.[28] 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 bank supervisors apply a lending test to evaluate the performance of large insured depository institutions, such as Old National Bank and KleinBank, in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's data reported under the 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 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 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 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;[29] (4) the institution's

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[28] 12 U.S.C. § 2906.

[29] Examiners also consider the number and amounts of small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less, small

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.[30] Large institutions also are subject to an investment test, which evaluates the number and amounts of qualified investments that benefit their AAs, and a service test, which evaluates the availability and effectiveness of their systems for delivering retail banking services and the extent and innovativeness of their community development services.[31]

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic 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 is not available from HMDA data.[32] Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of an institution.

CRA Performance of Old National Bank

Old National Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the OCC, as of February 13, 2017 ("Old National Bank Evaluation").[33] The bank received a "High Satisfactory" rating for the Lending

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business and small farm loans by loan amounts at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

[30] See 12 CFR 228.22(b).

[31] See 12 CFR 228.21 et seq.

[32] 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.

[33] The Old National Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed home purchase, home improvement, and

Test, an “Outstanding” rating for the Investment Test, and a “High Satisfactory” rating for the Service Test.[34] Old National’s performance in the state of Indiana was weighted most heavily by examiners due to the bank’s volume of lending and deposit activity in this area.

Examiners found that Old National Bank’s geographic distribution of loans was good, the geographic distribution of home mortgage loans was adequate, and the geographic distribution of small loans to businesses was excellent. Examiners noted that, overall, the distribution of loans by income level of the borrower and of home mortgage loans by income level of the borrower was good. Examiners found the bank’s distribution of loans to businesses of different revenue sizes to be adequate.

Examiners found that Old National Bank originated an overall excellent level of qualified community development investments that were generally responsive to community needs. Examiners found that this had a significantly positive impact on lending performance for most of the bank’s AAs.

Overall, examiners concluded that bank branches were accessible to individuals and geographies of different income levels. Examiners also found that in most AAs, branch distribution was good or excellent.

In the Evansville-Henderson IN-KY MMSA,[35] which includes an area of concern to one of the commenters, examiners found Old National Bank’s performance to be outstanding. Examiners noted that the geographic distribution of loans reflected good penetration throughout the Evansville-Henderson IN-KY MMSA, including overall good penetration for home mortgage loans and excellent penetration for small business loans.

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home refinance mortgage loans reported pursuant to the HMDA and small loans to businesses and farms reported under the CRA from January 1, 2013, through December 31, 2015. The evaluation period for community development loans, investments, and services was January 1, 2013, through December 31, 2015.

[34] The Old National Bank Evaluation included, in each state and multistate metropolitan area (“MMA”) where the bank has an office, a full-scope review of a sample of AAs within that area.

[35] Multistate Metropolitan Statistical Area

Examiners found that community development lending was responsive to identified needs and that the geographic distribution of branch offices and the level of community development services were excellent. Examiners noted that Old National Bank exhibited excellent responsiveness to the community development investment needs in the AA. Examiners also found Old National Bank's branches to be accessible to all portions of the AA and that access to banking services in LMI geographies was excellent.

In the Indianapolis-Carmel-Anderson MSA, which includes another area of concern to one of the commenters, examiners found the bank's overall lending activity to be good, including for home mortgages and small business loans. Examiners concluded that the bank's record of opening and closing branches had adversely affected the accessibility of its delivery systems, particularly in LMI geographies or to LMI individuals. Examiners nevertheless found that the services offered and hours of operation were comparable among locations regardless of income level of the geography and that Old National Bank had made adequate use of alternative delivery systems through telephone and on-line banking, electronic bill pay, and mobile banking options.

Old National's Efforts Since the Old National Bank Evaluation

Old National states that, since the Old National Bank Evaluation, Old National Bank has engaged in significant activities to continue to improve its CRA performance. Specifically, the bank has funded grants and scholarships for several community organizations and made commercial loans to develop affordable housing, economic development, and community revitalization initiatives in LMI neighborhoods. Old National Bank also has made several CRA-eligible community development investments. Old National Bank's employees have provided technical support to nonprofit organizations that focus on developing affordable housing as well as to small businesses, and they have taught financial literacy.

CRA Performance of KleinBank

KleinBank received an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of November 19, 2015 ("KleinBank

Evaluation").[36] The bank received a "High satisfactory" rating for the Lending Test, a "Needs to Improve" rating for the Investment Test, and "Low satisfactory" rating for the Service Test.[37]

Examiners concluded that KleinBank's lending levels reflected good responsiveness to the AAs' credit needs, and a high percentage of loans was made in the AAs. Examiners considered that, collectively, the geographic distribution of small business, home mortgage, and small farm lending reflected adequate penetration throughout the AAs given demographic information, and the distribution of loans to borrowers reflected good penetration among businesses and farms of different sizes and individuals of different income levels, given the bank's product lines.

Examiners concluded that KleinBank had a poor level of qualified community development investments and grants, particularly those that are not routinely provided by private investors. The bank demonstrated poor responsiveness to credit and community economic development needs and rarely used innovative or complex investments to support community development initiatives. Examiners found that the bank provided an adequate level of community development services with delivery systems that were reasonably accessible to all portions of its AAs. Examiners considered that the institution's opening and closing of branches generally had not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and to LMI

[36] The KleinBank Evaluation was conducted using the Large Institution CRA Examination Procedures. Examiners reviewed mortgage loans reported pursuant to HMDA and small business loans reported under the CRA from January 1, 2013, through November 18, 2015. The evaluation period for community development lending, investments, and services was April 8, 2013, through November 18, 2015.

[37] The KleinBank Evaluation included a review of the bank's Metro and Western AAs, which, collectively, consist of portions of Hennepin County and all of Anoka, Carver, Dakota, McLeod, Scott, Sherburne, Sibley, and Wright counties. All of these counties, with the exception of McLeod and Sibley counties, are part of the Minneapolis-Saint Paul-Bloomington, Minnesota-Wisconsin MSA. The KleinBank Evaluation also included a review of Chippewa, Lac qui Parle, and Yellow Medicine counties in south-central Minnesota.

individuals. Examiners concluded that services (including business hours) did not vary in a way that inconvenienced portions of the AAs, particularly LMI geographies and individuals.

Klein's Efforts Since the KleinBank Evaluation

Old National represents that, since the KleinBank Evaluation, KleinBank has sought to improve its CRA performance and address the terms of the DOJ settlement. Specifically, the bank has developed several key partnerships with communities in majority-minority census tracts and is in the process of formalizing a financial assistance program to increase the amount of credit extended to minority communities. In addition, the bank has submitted a proposal for advertising, outreach, financial education, and credit repair initiatives to the DOJ, hired a community development officer to oversee the bank's lending in predominantly minority communities, and conducted employee training with respect to fair lending.

Views of the OCC, FDIC, and CFPB

In its review of the proposal, the Board consulted with the OCC and FDIC, respectively, regarding the CRA, consumer compliance, and fair lending records of Old National Bank and KleinBank. In addition, the Board consulted with the CFPB regarding Old National Bank's consumer compliance and fair lending records. The Board has considered the results of the most recent consumer compliance examinations of Old National Bank and KleinBank conducted by OCC and FDIC, respectively, which included reviews of the banks' compliance management programs and the banks' compliance with consumer protection laws and regulations. The OCC reviewed and approved the Bank Merger Act application related to the proposal and, in doing so, considered the same comments as were submitted to the Board on the BHC Act application.

The Board has taken this information, as well as the CRA performance records of Old National Bank and KleinBank, into account in evaluating the proposal, including in considering whether Old National has the experience and resources to ensure that Old National Bank would help meet the credit needs of the communities within its AAs following 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. Old National represents that, following consummation of the proposal, existing customers of KleinBank would benefit from access to an expanded array of products and services, including wealth management, investment, and student-focused options, and from an expanded branch network. In addition, Old National represents that commercial customers of Old National Bank and KleinBank would benefit from access to a wider array of treasury management services and Old National Bank's greater lending capacity.

Old National represents that it has programs, products, and activities that would meet the anticipated needs of Old National Bank's communities under the CRA, including the needs of LMI areas and individuals. Old National further represents that it is committed to working closely with community leaders, government entities, and residents of the communities it serves to develop a sound and sensible structure for channeling resources and expertise to targeted economic development initiatives serving lower income households and small businesses and to meet community infrastructure requirements.

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; supervisory views of the OCC, FDIC, and CFPB; confidential supervisory information; information provided by Old National; the public comments on the proposal; the terms of the DOJ Settlement; and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes 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."[38]

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.[39] These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage on the broader economy.[40]

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

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[38] Dodd-Frank Wall Street Reform and Consumer Protection Act § 604(d), Pub. L. No. 111-203, 124 Stat. 1376, 1601 (2010), codified at 12 U.S.C. § 1842(c)(7).

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

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

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.[41]

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 predominately engaged in retail and commercial banking activities.[42] The pro forma organization would have minimal cross-border activities and would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. 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.

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[41] 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.

[42] Old National and Klein both offer a range of retail and commercial banking products and services. Old National 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.[43] 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 Old National with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on any commitments made to the Board in connection with the proposal. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the 15th calendar day after the effective date of this order or later than three months thereafter, unless such period is

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[43] The Board construes the comments received on the proposal to include requests that the Board hold public hearings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on any proposal unless the appropriate supervisory authorities for the acquiring bank or the bank to be acquired make a timely written recommendation of disapproval of the proposal. 12 U.S.C. § 1842(b); 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities in connection with this application. Under its rules, the Board also, in its discretion, may hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present their views. The Board has considered the commenters' requests in light of all of the facts of record. In the Board's view, the commenters have had ample opportunity to submit comments on the proposal and, in fact, submitted written comments that the Board has considered in acting on the proposal. The commenters' requests do not identify disputed issues of fact that are material to the Board's decision and that would be clarified by a public hearing. In addition, the requests do not demonstrate why the written comments do not present the commenters' views adequately or why a hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing is not required or warranted in this case. Accordingly, the requests for a public hearing on the proposal are denied.

extended for good cause by the Board or the Federal Reserve Bank of St. Louis, acting under delegated authority.

By order of the Board of Governors,[44] effective October 16, 2018.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

[44] Voting for this action: Chairman Powell, Vice Chairman Clarida, Vice Chairman for Supervision Quarles, and Governor Brainard.