

FEDERAL RESERVE SYSTEM

1<sup>st</sup> Source Corporation  
South Bend, Indiana

Order Approving the Acquisition of a Bank Holding Company

1<sup>st</sup> Source Corporation (“1<sup>st</sup> Source”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 3 of the BHC Act<sup>1</sup> to acquire FINA Bancorp, Inc. (“FINA”) and its subsidiary bank, First National Bank, Valparaiso (“First National”), both of Valparaiso, Indiana.<sup>2</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (72 Federal Register 13,108 (2007)). 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 3 of the BHC Act.

1<sup>st</sup> Source, with total consolidated assets of approximately \$3.8 billion, operates one insured depository institution subsidiary, 1<sup>st</sup> Source Bank, with branches in Indiana and Michigan. 1<sup>st</sup> Source is the fifth largest depository organization in Indiana, controlling deposits of \$ 2.7 billion, which

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<sup>1</sup> 12 U.S.C. section 1842.

<sup>2</sup> 1<sup>st</sup> Source proposes to merge FINA with and into Hickory Acquisition, Inc. (“Hickory”), a wholly owned subsidiary of 1<sup>st</sup> Source organized solely to effect the proposed acquisition. Immediately following the merger of FINA with and into Hickory, Hickory would merge with and into 1<sup>st</sup> Source.

represent 3 percent of total deposits of insured depository institutions in Indiana (“state deposits”).<sup>3</sup>

FINA, with total consolidated assets of approximately \$611 million, operates one insured depository institution, First National, with branches only in Indiana. First National is the 34<sup>th</sup> largest depository organization in Indiana, controlling deposits of approximately \$526.7 million.

On consummation of this proposal, and after accounting for the proposed divestiture, 1<sup>st</sup> Source would remain the fifth largest depository organization in Indiana, controlling deposits of approximately \$3.2 billion, which represent 3.6 percent of state deposits.

#### 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 any attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant 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 community to be served.<sup>4</sup>

1<sup>st</sup> Source and FINA compete directly in three banking markets: Gary-Hammond, Indiana; La Porte, Indiana-Michigan; and Starke, Indiana.

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<sup>3</sup> Asset data are as of March 31, 2007, and statewide deposit and ranking data are as of June 30, 2006, and reflect merger activity through May 9, 2007. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

<sup>4</sup> 12 U.S.C. section 1842(c)(1).

The Board has reviewed carefully the competitive effects of the proposal in each of the three banking markets where 1<sup>st</sup> Source and FINA compete directly, in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative shares of total deposits in depository institutions in the markets (“market deposits”) controlled by 1<sup>st</sup> Source and FINA,<sup>5</sup> the concentration level of market deposits and the increase in that level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),<sup>6</sup> other characteristics of the markets, and commitments made by 1<sup>st</sup> Source to divest one or more branches in the Starke banking market.

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<sup>5</sup> Deposit and market share data are as of June 30, 2006, adjusted to reflect subsequent mergers and acquisitions through February 23, 2007, 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 of 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).

<sup>6</sup> Under the DOJ 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 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 DOJ has stated that the higher-than-normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

A. Banking Market with Divestiture

1<sup>st</sup> Source and FINA compete directly in one banking market, the Starke market, that warrants a detailed review of competitive effects.<sup>7</sup> In this market, the concentration level on consummation of the proposal, after accounting for the proposed divestiture, would exceed the threshold levels in the DOJ Guidelines.

1<sup>st</sup> Source Bank is the largest depository institution in the Starke banking market, controlling deposits of approximately \$70 million, which represent approximately 31 percent of market deposits. First National is the fifth largest depository institution in the market, controlling deposits of approximately \$13 million, which represent approximately 6 percent of market deposits. On consummation and without the proposed divestiture, the HHI in this market would increase 369 points, from 2236 to 2605, and the pro forma market share of the combined entity would be 37 percent.

To reduce the potential adverse effects on competition in the Starke banking market, 1<sup>st</sup> Source has committed to divest at least one branch with no less than \$6.4 million in deposits to an out-of-market insured depository organization.<sup>8</sup> On consummation of the proposed merger, and after accounting

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<sup>7</sup> The Starke banking market is defined as Starke County, Indiana.

<sup>8</sup> 1<sup>st</sup> Source has committed that, before consummation of the proposed merger, it will execute an agreement for the proposed divestiture in the Starke banking market with a purchaser that the Board determines to be competitively suitable. 1<sup>st</sup> Source also has committed to complete the divestiture within 180 days after consummation of the proposed merger. In addition, 1<sup>st</sup> Source has committed that, if it is unsuccessful in completing the proposed divestiture within such time period, it will transfer the unsold branch to an independent trustee who will be instructed to sell the branch to an alternate purchaser or purchasers in accordance with the terms of this order and without regard to price. The trust agreement, trustee, and any alternate purchaser must be deemed acceptable by

for the divestiture, 1<sup>st</sup> Source would remain the largest depository institution in the market, controlling deposits of approximately \$77 million, which represent 34.7 percent of market deposits. The HHI would increase no more than 237 points to 2473.

The Board carefully has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would have a significantly adverse effect on competition in the market.<sup>9</sup> In this market, the record indicates that the proposal would not have a significantly adverse impact on competition, despite the post-consummation increase in the HHI and market share. On consummation of the proposal and the proposed divestiture to a competitively suitable insured depository institution, at least five other insured depository institutions would continue to operate in the market. In addition, the concentration of deposits in the market has decreased since 2000.

#### B. Banking Markets without Divestiture

Consummation of the proposal without divestitures would be consistent with Board precedent and within the thresholds in the DOJ Guidelines in the Gary-Hammond and La Porte banking markets.<sup>10</sup> On consummation of the proposal, the Gary-Hammond banking market would remain moderately concentrated and the La Porte banking market would remain highly concentrated, as measured by the HHI. The change in the HHI measure of concentration in

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the Board. See BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991).

<sup>9</sup> The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in and resulting level of concentration in a banking market.

<sup>10</sup> These banking markets and the effects of the proposal on the concentration of banking resources in them are described in the appendix.

each of these markets would be small, however, and numerous competitors would remain in each banking market.

C. Views of Other Agencies and Conclusion on Competitive Considerations

The DOJ also has conducted a detailed 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 competitive effects of 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 the three banking markets where 1<sup>st</sup> Source and FINA compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential reports of examination, other supervisory information from the primary federal and state supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by 1<sup>st</sup> Source.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved both on a parent-only and on a consolidated basis, as well as the financial

condition of the subsidiary depository institutions and significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has considered carefully the financial factors of the proposal. 1<sup>st</sup> Source and its subsidiary depository institution, and First National, currently are well capitalized and would remain so on consummation of the proposal. Based on its review of the record, the Board also finds that 1<sup>st</sup> Source has sufficient financial resources to effect the proposal. The proposed transaction is structured as a share exchange and cash payment. The cash portion would be funded from the proceeds of an issuance of trust preferred securities and a dividend from 1<sup>st</sup> Source Bank.

The Board also has considered the managerial resources of 1<sup>st</sup> Source, FINA, and their subsidiary banks. The Board has reviewed the examination records of these institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking laws and with anti-money laundering laws. 1<sup>st</sup> Source, FINA, and their subsidiary depository institutions are considered well managed. The Board also has considered 1<sup>st</sup> Source's plans for implementing the proposal, including the proposed management after consummation, and has consulted the other relevant supervisory agencies concerning these plans.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

#### Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).<sup>11</sup> 1<sup>st</sup> Source Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the Federal Reserve Bank of Chicago, as of May 23, 2005. First National received a “satisfactory” rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of December 5, 2003. After consummation of the proposal, 1<sup>st</sup> Source plans to implement its CRA policies at First National. 1<sup>st</sup> Source has represented that the proposal would provide greater convenience to customers through a larger network of branches and ATMs and a broader range of financial products and services over an expanded geographic area. Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs of the communities to be served and the CRA performance records of the relevant depository institutions are consistent with approval.

#### Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its decision, the Board has considered all the facts of record in light of the factors that

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<sup>11</sup> 12 U.S.C. section 2901 et seq.; 12 U.S.C. section 1842(c)(2).



it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by 1<sup>st</sup> Source with the conditions imposed in this order and the commitments made to the Board in connection with the application, including the divestiture commitment discussed above. 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 proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Chicago, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>12</sup> effective May 15, 2007.

*(signed)*

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Robert deV. Frierson  
Deputy Secretary of the Board

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<sup>12</sup> Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

**Appendix**

<b>Banking Markets Consistent with Board Precedent and DOJ Guidelines Without Divestitures</b>						
All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent.						
<b>Indiana and Indiana-Michigan Banking Markets</b>						
<b>Gary/Hammond</b> – Lake County; Porter County, excluding Pine township; and New Durham, Clinton, Cass, Dewey, and Prairie townships in La Porte County, Indiana.						
	<b>Rank</b>	<b>Amount of Deposits (\$)</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>1<sup>st</sup> Source Pre-Consummation</i>	17	54.8 mil.	0.7	1108	8	27
<i>FINA</i>	7	499.2 mil.	6.1			
<i>1<sup>st</sup> Source Post-Consummation</i>	6	554 mil.	6.8			
<b>La Porte</b> – La Porte County, excluding New Durham, Clinton, Cass, Dewey, and Prairie townships; Olive and Warren townships in St. Joseph County; and Pine township in Porter County, all in Indiana; and New Buffalo, Three Oaks, Galien, and Weesaw townships in Berrien County, Michigan.						
	<b>Rank</b>	<b>Amount of Deposits (\$)</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>1<sup>st</sup> Source Pre-Consummation</i>	3	142.8 mil.	10.0	2063	20	13
<i>FINA</i>	12	14.1 mil.	1.0			
<i>1<sup>st</sup> Source Post-Consummation</i>	3	156.9 mil.	11.0			