

FEDERAL RESERVE SYSTEM

Goering Management Company, LLC
Moundridge, Kansas

Goering Financial Holding Company Partnership, L.P.
Moundridge, Kansas

Bon, Inc.
Moundridge, Kansas

Order Approving the Acquisition of a Bank Holding Company

Goering Management Company, LLC (“Goering Management”) and its subsidiaries, Goering Financial Holding Company Partnership, L.P. (“Goering Financial”) and Bon, Inc. (collectively, “Bon”), all of Moundridge,¹ have requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)² to acquire Home State Bancshares, Inc. (“Home State”) and its subsidiary bank, Home State Bank & Trust Company (“Home State Bank”), both of McPherson, all of Kansas.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (76 Federal Register 56760 (2011)). 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.

Bon, with total consolidated assets of approximately \$265 million, is the 2612th largest insured depository organization in the United States.³ Bon’s subsidiary bank, The Citizens State Bank, operates only in Kansas. Bon is the 57th largest insured

¹ Goering Management, Goering Financial, and Bon are bank holding companies under the BHC Act that have made effective elections to be financial holding companies. Goering Management and Goering Financial are bank holding companies because they control Bon, Inc., a bank holding company that directly controls one bank, The Citizens State Bank, also of Moundridge.

² 12 U.S.C. § 1842.

³ Asset data are as of September 30, 2011. Deposit data are as of June 30, 2011. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

depository organization in Kansas, controlling deposits of approximately \$218.3 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.

Home State, with total consolidated assets of \$133 million, controls Home State Bank, which also operates only in Kansas. Home State Bank is the 110th largest insured depository institution in Kansas, controlling deposits of \$105.4 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.

On consummation of the proposal, Bon would become the 1754th largest insured depository organization in the United States, with total consolidated assets of approximately \$398 million. Bon would control deposits of approximately \$323.7 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Kansas, Bon would become the 38th largest depository organization and control less than 1 percent of deposits of insured depository institutions in the state.

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 proposed bank acquisition 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.⁴

The Citizens State Bank and Home State Bank compete directly in the McPherson, Kansas banking market.⁵ The Board has reviewed carefully the competitive

⁴ 12 U.S.C. § 1842(c)(1).

⁵ The McPherson market is defined as McPherson County and the towns of Crawford, Little River, and Mitchell in Rice County, all in Kansas.

effects of the proposal in this banking market in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking market, the relative shares of total deposits in depository institutions in the market (“market deposits”) controlled by Bon and Home State,⁶ the concentration levels of market deposits and the increase in those levels as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Guidelines”),⁷ and other characteristics of the market.

The structural effects that consummation of the proposal would have on the McPherson banking market warrant a detailed review because the concentration level on consummation would exceed the threshold levels in the DOJ Guidelines. The Citizens State Bank is the second largest insured depository institution in the McPherson banking market, controlling deposits of approximately \$113.2 million, which represent approximately 16.2 percent of the market deposits. Home State Bank is the third largest insured depository institution in the McPherson banking market, controlling deposits of approximately \$105.4 million, which represent approximately 15.1 percent of the market deposits. On consummation, the HHI in this market would increase by 489 points, from 1577 to 2066, and The Citizens State Bank would become the largest banking firm in the market with a pro forma share of market deposits of approximately 31.3 percent.

The Board has considered carefully whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would have a

⁶ Deposit and market share data are as of June 30, 2011.

⁷ 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 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 recently issued revised Horizontal Merger Guidelines, the DOJ has confirmed that its guidelines for bank mergers or acquisitions, which were issued in 1995, were not changed. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

significantly adverse effect on competition in the McPherson banking market.⁸ Several factors indicate that the increase in concentration in the McPherson banking market, as measured by the HHI and share of market deposits, overstates the potential competitive effects of the proposal in the market. After consummation of the proposal, 12 other commercial bank competitors would remain, some with a significant presence in the market. The second largest bank competitor in the market would closely approximate the size of Bon on consummation, controlling about 29.5 percent of market deposits. Another bank competitor would control more than 10 percent of market deposits. In addition, the market deposits of six other bank competitors in the market have recently increased at a rate well above the growth rate of market deposits for Bon or Home State.⁹

The DOJ also has conducted a detailed review of the potential competitive effects of the proposal and has advised the Board that consummation would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agency has been afforded an opportunity to comment and has not objected to the proposal.

Based on these and other facts of record, the Board has concluded that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in any relevant banking market. Accordingly, based on all the facts of record, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Other 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 banks involved in the

⁸ 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. See NationsBank Corp., 84 Federal Reserve Bulletin 129 (1998).

⁹ From 2005 to 2010, the market deposits of six banks with market shares smaller than Bon and Home State increased at rates ranging from 28 percent to 113 percent. During the same time period, the market deposits of Bon and Home State increased by 15 percent and 19 percent, respectively.

proposal and certain other supervisory factors.¹⁰ The Board has carefully considered these factors in light of all the facts of record, including supervisory and examination information received from the relevant federal and state supervisors of the organizations involved in the proposal, and other available financial information, including information provided by Bon.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and the organizations' 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 the proposal carefully under the financial factors. Bon, Home State, and their subsidiary depository institutions are well capitalized and would remain so on consummation of the proposal. The proposed transaction is structured as a cash purchase of shares. Bon will use existing cash resources and the proceeds of a new debt issuance to fund the purchase. Based on its review of the record, the Board finds that Bon has sufficient financial resources to effect the proposal.

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 Bon, Home State, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those

¹⁰ 12 U.S.C. § 1842(c)(2) and (3).

of the other relevant bank supervisory agencies with the organizations and their records of compliance with applicable banking law, including anti-money-laundering laws. Bon and its subsidiary depository institution are considered to be well managed. The Board also has considered Bon's plans for implementing the proposal, including the proposed management after consummation of the proposal. In addition, the Board has considered the future prospects of the organizations involved in the proposal in light of the financial and managerial resources and the proposed business plan.

Based on all the facts of record, the Board concludes 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 and Financial Stability

In acting on a proposal under section 3 of the BHC Act, the Board 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 depository institutions under the Community Reinvestment Act ("CRA").¹¹ The CRA requires the federal financial supervisory agencies to encourage financial institutions to meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in evaluating bank acquisition proposals.

Accordingly, the Board has carefully considered the convenience and needs factor and the CRA performance records of The Citizens State Bank and Home State Bank in light of all the facts of record.

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the

¹¹ 12 U.S.C. § 2901 et seq.; 12 U.S.C. § 1842(c)(2).

CRA performance records of the relevant insured depository institutions. 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹² The Citizens State Bank and Home State Bank received "satisfactory" ratings at their most recent examinations for CRA performance by the Federal Deposit Insurance Corporation as of November 3, 2008, and January 11, 2010, respectively.

Based on all the facts of record and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs, including the CRA performance records of the relevant depository institutions, are consistent with approval of the proposal.

The Board has also carefully considered information relevant to risks to the stability of the United States banking or financial system. The Board concludes that financial stability considerations in this proposal are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application under section 3 of the BHC Act should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by Bon with all the conditions imposed in this order and all the commitments made to the Board in connection with the application and on receipt of all other required regulatory approvals for the proposal. These conditions and commitments 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.

¹² See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642 at 11665 (2010).

The proposal 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 Kansas City, acting pursuant to delegated authority.

By order of the Board of Governors,¹³ effective November 28, 2011.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹³ Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, and Raskin.