

FEDERAL RESERVE SYSTEM

MidWestOne Financial Group, Inc.
Iowa City, Iowa

Order Approving the Merger of Bank Holding Companies

MidWestOne Financial Group, Inc. (“MWOFF”), Iowa City, Iowa, 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 Act² to merge with Iowa First Bancshares Corp., Muscatine, Iowa (“IFBC”), and thereby indirectly acquire its subsidiary national banks, First National Bank of Muscatine, Muscatine, Iowa (“FNB Muscatine”), and First National Bank in Fairfield, Fairfield, Iowa (“FNB Fairfield”).³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (87 Federal Register 7177 (February 8, 2022)) in accordance with the Board’s Rules of Procedure.⁴ The time for submitting comments has expired, and no comments on the proposal were received. The Board has considered the proposal in light of the factors set forth in section 3 of the BHC Act.

MWOFF, with consolidated assets of approximately \$6.0 billion, is the 236th largest insured depository organization in the United States, controlling approximately \$5.1 billion in consolidated deposits, which represent less than 1 percent

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ The merger of FNB Muscatine and FNB Fairfield into MidWestOne Bank is subject to approval of the Federal Deposit Insurance Corporation (“FDIC”) pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c).

⁴ 12 CFR 262.3(b).

of the total amount of deposits of insured depository institutions in the United States.⁵ MWOFF controls MidWestOne Bank, Iowa City, Iowa, which operates branches in Colorado, Florida, Iowa, Minnesota, and Wisconsin. MidWestOne Bank is the 8th largest insured depository institution in Iowa, controlling deposits of approximately \$3.0 billion, which represent approximately 2.7 percent of the total amount of deposits of insured depository institutions in that state.

IFBC, with consolidated assets of approximately \$522.3 million, is the 1,764th largest insured depository organization in the United States, controlling approximately \$460.0 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. IFBC controls FNB Muscatine and FNB Fairfield, which operate solely in Iowa. FNB Muscatine is the 75th largest insured depository institution in Iowa, controlling deposits of approximately \$323.5 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state. FNB Fairfield is the 122nd largest insured depository institution in Iowa, controlling deposits of approximately \$144.9 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, MWOFF would become the 224th largest insured depository organization in the United States, with consolidated assets of approximately \$6.5 billion, which would represent less than 1 percent of the total assets of insured depository institutions in the United States. MWOFF would control total consolidated deposits of approximately \$5.6 billion, which would represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. MidWestOne Bank would become the 6th largest insured depository organization in Iowa, controlling deposits of approximately \$3.5 billion, which represent

⁵ Consolidated asset and national deposit, ranking, and market-share data are as of December 31, 2021, and state deposit, ranking, and market-share data are as of June 30, 2021, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

approximately 3 percent of the total amount of deposits of insured depository institutions in that 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 an attempt to monopolize the business of banking in any relevant market.⁶ 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.⁷

MWOF and IFBC have subsidiary banks that compete directly in the Muscatine County, Iowa, banking market (“Muscatine market”), and the Fairfield, Iowa, banking market (“Fairfield market”).⁸ The Board has considered the competitive effects of the proposal in these banking markets. In particular, the Board has considered the relative share of total deposits in insured depository institutions in the market (“market deposits”) that MWOF would control;⁹ the concentration level of market deposits and the

⁶ 12 U.S.C. § 1842(c)(1)(A); 12 U.S.C. § 1828(c)(5)(A).

⁷ 12 U.S.C. § 1842(c)(1)(B); 12 U.S.C. § 1828(c)(5)(B).

⁸ The Muscatine market is defined as Muscatine and Louisa counties, Iowa. The Fairfield market is defined as Jefferson and Van Buren counties, Iowa, and Richland township in Keokuk County, Iowa.

⁹ Local deposit and market share data are as of June 30, 2021, 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); and 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). In some markets noted in this order, the market concentration and market share are based on calculations in which the deposits of certain thrift institutions are weighted at 100 percent. The Board previously has indicated that it may consider the competitiveness of a thrift institution at a level

increase in this level, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice (“DOJ”) Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);¹⁰ the number of competitors that would remain in the market; and other characteristics of the market.

Muscatine Banking Market

In the Muscatine banking market, the concentration levels on consummation would exceed the thresholds in the DOJ Bank Merger Guidelines when using initial competitive screening data. IFBC operates the 2nd largest depository institution in the Muscatine market, controlling deposits of approximately \$323.5 million, which represent 23.8 percent of market deposits. MWOFF operates the 4th largest

greater than 50 percent of its deposits when appropriate if competition from the institution closely approximates competition from a commercial bank. See, e.g., Banknorth Group, Inc., 75 Federal Reserve Bulletin 703 (1989). In evaluating when it is appropriate to increase the weighting of a thrift’s deposits in a banking market, the Board considers whether the thrift serves as a significant source of commercial loans in the market and provides a broad range of consumer, mortgage, and other banking products. See, e.g., The PNC Financial Services Group, Inc., 95 Federal Reserve Bulletin B1 (2009); The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); and First Union Corporation, 84 Federal Reserve Bulletin 489 (1998).

¹⁰ In applying the DOJ Bank Merger Guidelines issued in 1995 ([see https://www.justice.gov/atr/bank-merger-competitive-review-introduction-and-overview-1995](https://www.justice.gov/atr/bank-merger-competitive-review-introduction-and-overview-1995)), the Board looks to the DOJ’s Horizontal Merger Guidelines, issued in 1992 and amended in 1997, for the characterization of a market’s concentration. See <https://www.justice.gov/atr/horizontal-merger-guidelines-0>. Under these Horizontal Merger Guidelines, which were in effect prior to 2010, 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 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 ([see https://www.justice.gov/atr/horizontal-merger-guidelines-08192010](https://www.justice.gov/atr/horizontal-merger-guidelines-08192010)), 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.

depository institution in the Muscatine market, controlling deposits of approximately \$91.2 million, which represent approximately 6.7 percent of market deposits. On consummation of the proposed transaction, MWOFF would be the largest depository organization in the market, controlling deposits of approximately \$414.8 million, which represent approximately 30.5 percent of market deposits. The HHI in the market would increase 319 points, from 1677 to 1996.

The Board has considered whether there are any factors that would either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Muscatine banking market.¹¹ Specifically, the Board has considered whether four credit unions in the market would merit inclusion at higher weights. Each of these credit unions is open to at least 75 percent of residents in the market, maintains street-level branches, and offers a broad range of banking products.¹² The Board finds that the deposits of each credit union with these characteristics should be included at a 50 percent weight in estimating the credit union's market influence (each a "qualifying credit union"). This weighting takes into account the limited lending done by credit unions to small businesses relative to commercial banks' lending levels.

This adjustment suggests that the level of concentration in the Muscatine banking market following the proposed transaction would be less significant than would appear from the initial competitive screening data. After consummation and adjusting to reflect competition from the qualifying credit unions in the market, the level of

¹¹ The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in, and the resulting level of, concentration in a banking market. See NationsBank Corporation, 84 Federal Reserve Bulletin 129 (1998).

¹² The Board has previously considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., Huntington Bancshares Incorporated, FRB Order No. 2021-07 (May 25, 2021); Huntington Bancshares Incorporated, FRB Order No. 2016-13 (July 29, 2016); BB&T Corporation, FRB Order No. 2015-18 (July 7, 2015); and Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

concentration in the Muscatine banking market as measured by the HHI would increase by 278 points, from 1474 to 1752, and the market share of MWOFF would increase to 28.4 percent. Fifteen other depository institutions, including the qualifying credit unions, would remain in the market, including one depository institution with a market share of approximately 23 percent and another with a market share of approximately 17 percent.

Fairfield Banking Market

In the Fairfield banking market, the concentration levels on consummation would exceed the thresholds in the DOJ Bank Merger Guidelines when using initial competitive screening data. IFBC is the 3rd largest insured depository organization in the Fairfield market, controlling approximately \$136.6 million in deposits, which represent 16.9 percent of market deposits. MWOFF is the 4th largest insured depository organization in the market, controlling approximately \$94.8 million in deposits, which represent 11.7 percent of market deposits. On consummation, IFBC would be the largest insured depository organization in the market, controlling approximately \$231.5 million in deposits, which represent 28.7 percent of market deposits. The HHI in the market would increase 397 points, from 1679 to 2076.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Fairfield banking market. Several factors indicate that the increase in concentration in the Fairfield market, as measured by the above HHI and market share indicators, overstates the potential competitive effects of the proposal in the market.

The Board has considered the competitive influence of one credit union in the Fairfield market that offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the relevant banking market. The Board finds that these circumstances warrant including the deposits of this credit union at a 50 percent weight in its calculations to estimate market influence. This weighting takes into account the limited lending done by this credit union to small businesses relative to commercial banks'

lending levels. After including this credit union, MWOFF would control approximately 27.9 percent of market deposits, and the HHI would increase by 377 points to 1975.

The Board also has examined other aspects of the structure of the Fairfield banking market that could mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Fairfield banking market. The Fairfield market is a relatively small, rural banking market and would continue to be served by ten depository institutions after consummation of the proposal. These include, apart from MWOFF, one depository institution with a market share of approximately 27 percent, another with a market share of approximately 18 percent, and a third with a market share of approximately 11 percent. The presence of numerous competitors, including several with significant market shares, suggests that MWOFF would have limited ability unilaterally to offer less attractive terms to consumers and that competitors would be able to exert competitive pressure on MWOFF in the Fairfield market.

Conclusion Regarding Competitive Effects

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 the Muscatine or Fairfield banking markets or in any other 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 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 Muscatine or Fairfield banking markets, 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, and the effectiveness of the institutions in combatting money laundering.¹³ 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 nonbanking operations. In this evaluation, the Board considers a variety of public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as the impact of the proposed funding of the transaction. 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 effectively complete 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.

MWOF, IFBC, and their subsidiary depository institutions are well capitalized, and the combined organization would remain so on consummation of the proposal. The proposed transaction is a bank holding company acquisition that is structured as a stock purchase, with a subsequent merger of the subsidiary banks.¹⁴ The capital, asset quality, earnings, and liquidity of MWOF are consistent with approval, and MWOF appears to have adequate resources to absorb the related costs of the proposal and

¹³ 12 U.S.C. § 1842(c)(2), (5), and (6); 12 U.S.C. § 1828(c)(5) and (11).

¹⁴ MWOF would effect the holding company acquisition by merging a newly formed subsidiary of MWOF with and into IFBC, with IFBC as the surviving entity. IFBC would then merge with and into MWOF, with MWOF as the surviving entity. Thereafter, FNB Muscatine and FNB Fairfield would merge with and into MidWestOne Bank, with MidWestOne Bank as the surviving entity. MWOF has the financial resources to effect the proposed transaction.

to complete the integration of the institutions' operations. In addition, the future prospects of the institutions 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 MWOFF, IFBC, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by MWOFF; 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.

MWOFF and its subsidiary depository institution are considered to be well managed. The operations of FNB Muscatine and FNB Fairfield will be integrated into MWOFF's existing operations and oversight structure. MWOFF's directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and the proposed risk-management program appears consistent with approval of this expansionary proposal.

The Board also has considered MWOFF's plans for implementing the proposal. MWOFF 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. In addition, MWOFF's management has the experience and resources to ensure that the combined organization would operate in a safe and sound manner.

Based on all the facts of record, including MWOFF's supervisory record, managerial and operational resources, and plans for operating the combined organization after consummation, the Board determines 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 MWOFF and IFBC 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.¹⁵ In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of these communities. The Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act of 1977 (“CRA”).¹⁶ The CRA requires the federal financial 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 operation.¹⁷ The CRA also requires the appropriate federal financial 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.¹⁸

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, gender, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and any 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.

¹⁵ 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 1828(c)(5).

¹⁶ 12 U.S.C. § 2901 et seq.

¹⁷ 12 U.S.C. § 2901(b).

¹⁸ 12 U.S.C. § 2903.

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 MidWestOne Bank, FNB Muscatine, and FNB Fairfield; the fair lending and compliance records of the three banks; the supervisory views of the FDIC with respect to MidWestOne Bank and, the OCC with respect to FNB Muscatine and FNB Fairfield; confidential supervisory information; and information provided by MWOFF.

Records of Performance under the CRA

In evaluating the convenience and needs factor and the CRA performance of an institution, the Board generally considers the institution's most recent CRA evaluation, as well as information and supervisory views provided by the appropriate federal financial supervisors.¹⁹ The Board also considers information provided by the applicant and, where applicable and as appropriate, by any public commenters.

The CRA requires that the appropriate federal financial 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.²⁰ 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 financial supervisors apply a lending test ("Lending Test"), an investment test ("Investment Test"), and a service test ("Service Test") to evaluate the performance of large banks, such as MidWestOne Bank, in helping to meet the credit needs of the communities the bank serves. The Lending Test specifically evaluates an institution's lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As

¹⁹ See Interagency Questions and Answers Regarding Community Reinvestment, 81 Fed. Reg. 48506, 48548 (July 25, 2016).

²⁰ 12 U.S.C. § 2906.

part of the Lending Test, examiners review and analyze an institution’s data reported under the Home Mortgage Disclosure Act of 1975 (“HMDA”),²¹ 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 evaluated 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 CRA 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;²² (4) the institution’s 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.²³ The Investment Test evaluates the number and amounts of qualified investments that benefit the institution’s AAs, and the Service Test evaluates the availability and effectiveness of the institution’s systems for delivering retail banking services and the extent and innovativeness of the institution’s community development

²¹ 12 U.S.C. § 2801 et seq.

²² Examiners also consider the number and amounts of small business and small farm loans made to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

²³ See 12 CFR 228.22(b).

services.²⁴ Small institutions, such as FNB Muscatine and FNB Fairfield, are subject only to the Lending Test.²⁵

CRA Performance of MidWestOne Bank

MidWestOne Bank was assigned an overall “Satisfactory” rating at its most recent CRA performance evaluation by the FDIC, as of October 29, 2018 (“MidWestOne Bank Evaluation”).²⁶ MidWestOne Bank received a “High Satisfactory” rating for the Lending Test, an “Outstanding” rating for the Investment Test, and a “High Satisfactory” rating for the Service Test.

Examiners found that lending levels reflected excellent responsiveness to the credit needs of MidWestOne Bank’s AAs. Examiners determined that a substantial majority of loans were made in the bank’s AAs and that the geographic distribution of lending reflected good penetration throughout the AAs. Examiners found that MidWestOne Bank’s distribution of loans to borrowers reflected excellent penetration among businesses and farms of different sizes and to individuals of different income levels, given the product lines offered. Examiners determined that MidWestOne Bank used innovative and/or flexible lending practices in order to serve credit needs within its AAs.

With respect to the Investment Test, examiners found that MidWestOne Bank had an excellent level of qualified community development investments, donations,

²⁴ See 12 CFR 228.21 et seq.

²⁵ See 12 CFR 228.26(a).

²⁶ The MidWestOne Bank Evaluation was conducted using the Interagency Large Institution CRA Examination Procedures. FDIC examiners reviewed all small business and small farm loan originations reported on the 2016, 2017, and first two quarters of 2018 CRA Loan Registers, and all home mortgage loans originated or purchased in 2016 and 2017 reported on the Loan Application Register. Examiners reviewed community development loans, investments, and services from October 29, 2015, through September 20, 2018. The MidWestOne Bank Evaluation consisted of full-scope reviews of MidWestOne Bank’s activities in seven AAs in the states of Iowa, Minnesota, Colorado, Florida, and Wisconsin, and a limited-scope review of activities in the Waterloo-Cedar Falls, Iowa, MSA AA.

and grants, often in a leadership position, particularly those that were not routinely provided by private investors. Examiners determined that MidWestOne Bank's investments exhibited excellent responsiveness to credit and community economic development needs.

With respect to the Service Test, examiners found that the bank's delivery systems were reasonably accessible to essentially all portions of the bank's AAs and that services did not vary in a way that inconvenienced certain portions of the AAs, particularly low- and moderate-income geographies and low- and moderate-income individuals. Examiners also determined that MidWestOne Bank provided a relatively high level of community development services in its AAs.

CRA Performance of FNB Muscatine

FNB Muscatine was assigned an overall "Outstanding" rating at its most recent CRA performance evaluation by the OCC, as of February 19, 2019 ("FNB Muscatine Evaluation").²⁷ FNB Muscatine received an "Outstanding" rating for the Lending Test.

Examiners found that FNB Muscatine's loan-to-deposit ratio was more than reasonable and that a substantial majority of FNB Muscatine's loans were originated to or purchased for borrowers located inside the bank's AA. Examiners found that the distribution of borrowers reflected a reasonable penetration among businesses of different sizes and individuals of different income levels and that the geographic distribution of loans reflected excellent dispersion throughout the bank's AA. Examiners noted that the bank had not received any CRA-related complaints since its previous evaluation.

²⁷ The FNB Muscatine Evaluation was conducted using the Interagency Small Institution CRA Examination Procedures. Examiners reviewed lending data from July 26, 2016, to December 31, 2018. Examiners reviewed the activities of FNB Muscatine in its sole AA, consisting of Muscatine County, Iowa.

CRA Performance of FNB Fairfield

FNB Fairfield was assigned an overall “Satisfactory” rating at its most recent CRA performance evaluation by the OCC, as of January 29, 2018 (“FNB Fairfield Evaluation”).²⁸ FNB Fairfield received a “Satisfactory” rating for the Lending Test.

Examiners found that FNB Fairfield’s loan-to-deposit ratio was more than reasonable given the bank’s size and financial condition as well as the credit needs of the bank’s AA. Examiners noted that a majority of FNB Fairfield’s loans were originated in the bank’s AA. Examiners found that the distribution of borrowers reflected a reasonable penetration among farms and businesses of different sizes. Examiners noted that the bank had not received any CRA-related complaints since its previous evaluation.

Additional Supervisory Views

In its review of the proposal, the Board consulted with the FDIC, as the primary federal supervisor of MidWestOne Bank, and the OCC, as the primary federal supervisor of FNB Muscatine and FNB Fairfield. The Board also considered the results of the most recent consumer compliance examinations of MidWestOne Bank, FNB Muscatine, and FNB Fairfield, which included reviews of the banks’ compliance management programs and their compliance with consumer protection laws and regulations.

The Board has taken the foregoing consultations and examinations into account in evaluating the proposal, including considering whether MWOFF has the experience and resources to ensure that the combined organization would help meet the credit needs of the communities to be served following consummation of the proposed transaction.

²⁸ The FNB Fairfield Evaluation was conducted using the Interagency Small Institution CRA Examination Procedures. Examiners reviewed lending data from December 17, 2012, to January 29, 2018. Examiners reviewed the activities of FNB Fairfield in its sole AA, consisting of all four census tracts in Jefferson County, Iowa.

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. MWOFF represents that MidWestOne Bank does not anticipate discontinuing any material products, programs, or services currently offered by MidWestOne Bank, FNB Muscatine, or FNB Fairfield. MWOFF represents that, as a result of the transaction, the combined organization would be able to provide customers with banking services in a more efficient and cost-effective manner and would be able to dedicate additional resources to meeting the banking needs of customers of FNB Muscatine and FNB Fairfield.

MWOFF represents that the main office of FNB Fairfield would be consolidated with one of MidWestOne Bank's Fairfield, Iowa, branches, located immediately across the street. In addition, a second MidWestOne Bank branch in Fairfield, Iowa, located 1.5 miles away, would be closed.²⁹ Neither of the branches to be closed or consolidated is located in LMI or majority-minority census tracts.

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, confidential supervisory information, information provided by MWOFF, and the potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board determines that the convenience and needs considerations are consistent with approval.

²⁹ Section 42 of the Federal Deposit Insurance Act (12 U.S.C. §1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 Federal Register 34844 (June 29, 1999)), requires that a bank provide the public with at least 30 days' notice, and the appropriate federal supervisory agency with at least 90 days' notice, before the date of a proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

Financial Stability Considerations

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.”³⁰

To assess the likely effect of a proposed transaction on the stability of the U.S. 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.³¹ 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.³²

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 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

³⁰ 12 U.S.C. § 1842(c)(7).

³¹ Many of the metrics considered by the Board measure an institution’s activities relative to the U.S. financial system.

³² For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (February 14, 2012).

would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.³³

In this case, the Board has considered information relevant to risks to the stability of the U.S. banking or financial system. The proposal involves a target with less than \$10 billion in total assets and a pro forma organization with less than \$100 billion in total assets. Both the acquirer and the target are predominantly engaged in retail and commercial banking activities.³⁴ The pro forma organization would not have cross-border activities or 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 U.S. 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.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the proposal 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 and other applicable statutes. The Board's approval is specifically conditioned on compliance by MWOFF with all the conditions imposed in this

³³ 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.

³⁴ MWOFF and IFBC both offer a range of retail and commercial banking products and services. MWOFF 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.

order, including receipt of all required regulatory approvals, and on any commitments made to the Board in connection with the application. 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 extended for good cause by the Board or the Federal Reserve Bank of Chicago, acting under delegated authority.

By order of the Board of Governors,³⁵ effective May 23, 2022.

Michele Taylor Fennell (signed)

Michele Taylor Fennell
Deputy Associate Secretary of the Board

³⁵ Voting for this action: Chair Powell and Governors Bowman, Brainard, and Waller.