

FEDERAL RESERVE SYSTEM

Friedman, Billings, Ramsey Group, Inc.
Arlington, Virginia

FBR Bancorp, Inc.
Arlington, Virginia

Money Management Associates, Inc.
Arlington, Virginia

Money Management Associates (LP), Inc.
Arlington, Virginia

Money Management Associates, L.P.
Bethesda, Maryland

Order Approving Formation of Bank Holding Companies and Determination on
Financial Holding Company Elections

Friedman, Billings, Ramsey Group, Inc. (“FBR Group”) and its wholly owned subsidiaries, FBR Bancorp, Inc., Money Management Associates, Inc., and Money Management Associates (LP), Inc. (collectively, “FBR”) have requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”) (12 U.S.C. § 1842) to become bank holding companies by acquiring all the shares of Money Management Associates, L.P. (“MMA”), and thereby indirectly acquiring FBR National Bank, both of Bethesda, Maryland (“Bank”).¹

¹ MMA currently owns Rushmore Trust and Savings, FSB, Bethesda, Maryland (“RTS”), a savings association that is not a bank for purposes of the BHC Act. RTS has applied to the Office of the Comptroller of the Currency (“OCC”) to convert to a national bank and change its name to FBR National Bank. The conversion will occur immediately before RTS’s acquisition by FBR, and RTS will not operate as a national bank before its acquisition by FBR. The Board’s approval of the present applications is conditioned upon the OCC’s approval of RTS’s conversion application. After consummation of the proposal, MMA would

As part of its proposal to become a bank holding company, FBR also has filed with the Board an election to become a financial holding company pursuant to sections 4(k) and (l) of the BHC Act (12 U.S.C. §§ 1843(k) and (l)) and section 225.82 of the Board's Regulation Y (12 C.F.R. 225.82).

Notice of the proposal under section 3 of the BHC Act, affording interested persons an opportunity to submit comments, has been published (65 Federal Register 45,602 (2000)). The time for filing 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.

FBR Group, with total consolidated assets of \$252 million, is a securities and financial services firm engaged primarily in securities underwriting and dealing, securities brokerage, investment advisory, and merchant banking activities.² FBR Group engages in these and other financial activities in the United States and overseas. In the United States, FBR Group conducts its securities and advisory activities through a number of subsidiaries that are subject to regulation by the Securities and Exchange Commission ("SEC"), including Friedman, Billings, Ramsey & Co., Inc., Arlington, Virginia, a broker-dealer registered with the SEC under section 15 of the Securities Exchange Act of 1934 (15 U.S.C. § 78o).

be a wholly owned subsidiary of FBR Group. Accordingly, FBR Group also has sought the Board's approval under section 3 of the BHC Act for MMA to become a bank holding company and references to "FBR" include MMA.

² Asset data for FBR Group are as of December 31, 2000.

Bank, with total consolidated assets of \$26.4 million, is the 113th largest depository institution in Maryland, controlling deposits of approximately \$27.4 million, representing less than 1 percent of deposits in the state.³

Factors Governing Board Review of Bank Transaction

The BHC Act sets forth the factors that the Board must consider when reviewing the formation of a bank holding company or the acquisition of a bank. These factors are the competitive effects of the proposal in the relevant geographic banking markets; the financial and managerial resources and future prospects of the companies and banks involved in the proposal; the convenience and needs of the communities to be served, including the records of performance under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) (“CRA”) of the insured depository institutions involved in the transaction; and the availability of information needed to determine and enforce compliance with the BHC Act and other applicable federal banking laws.⁴

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly. 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.⁵

³ Asset data for Bank are as of September 30, 2000, and deposit and ranking data are as of June 30, 2000.

⁴ In cases involving interstate bank acquisitions by bank holding companies, the Board also must consider the concentration of deposits nationwide and in the relevant individual states, as well as compliance with the other provisions of section 3(d) of the BHC Act.

⁵ 12 U.S.C. § 1842(c)(1).

The proposal involves the acquisition of a commercial bank by FBR, which does not currently control any commercial bank. Based on all the facts of record, the Board concludes that consummation of the proposal would not result in any significantly adverse effects on competition or on the concentration of banking resources in any relevant banking market. Accordingly, the Board has determined that competitive factors under section 3 of the BHC Act are consistent with approval of the proposal.

Financial and Managerial Considerations

The Board has carefully considered the financial and managerial resources and future prospects of the companies and bank involved in the proposal, the effect the proposed transaction would have on such resources, and other supervisory factors in light of all the facts of record. In evaluating the financial and managerial factors, the Board has reviewed confidential examination and other supervisory information evaluating the financial and managerial resources of FBR Group and its subsidiaries, including its regulated subsidiaries, and of Bank.

The Board consistently has considered capital adequacy to be an especially important aspect in analyzing financial factors.⁶ Bank currently is well capitalized under applicable federal guidelines and all of the subsidiaries of FBR Group that are subject to regulatory capital requirements currently exceed the relevant regulatory minimum capital requirements. In addition, after consummation of the proposal, FBR Group would have capital levels that significantly exceed the well capitalized thresholds for bank holding companies, and the transaction would not have a significant effect on FBR Group's financial resources. Other financial factors also are consistent with approval.

⁶ See Chemical Banking Corporation, 82 Federal Reserve Bulletin 230 (1996).

The Board also has carefully considered the managerial resources of FBR Group and Bank in light of all the facts of record, including confidential examination and other supervisory information provided by the primary federal supervisors for RTS and Bank. In addition, the Board has considered confidential examination and other supervisory information provided by the SEC concerning FBR Group's SEC-regulated subsidiaries. The Board also has considered confidential information submitted by FBR Group concerning its risk management policies, procedures, and systems and the enhancements that FBR Group has made to these policies, procedures, and systems in anticipation of the proposed transaction. 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 are consistent with approval, as are the other supervisory factors that the Board must consider under section 3 of the BHC Act.

The Board notes further that a substantial portion of FBR Group's activities are conducted through subsidiaries that are subject to functional regulation by the SEC. Accordingly, the Board has in this case consulted with the SEC and will, consistent with the provisions of section 5 of the BHC Act as amended by the Gramm-Leach-Bliley Act, rely heavily on the SEC for examination and other supervisory information in fulfilling the Board's responsibilities as holding company supervisor.

Convenience and Needs Considerations

The Board also has carefully considered the effect of the proposal on the convenience and needs of the communities to be served in light of all the facts of record. As part of this review, the Board has considered the record of the relevant insured depository institution under the CRA. FBR Group currently does not control any insured depository institution subject to evaluation under the CRA.

RTS, the predecessor to Bank, received an overall rating of “satisfactory” from the Office of Thrift Supervision, its primary federal supervisor, at its most recent evaluation for CRA performance, as of June 1999. Based on all the facts of record, the Board concludes that considerations related to the convenience and needs of the communities to be served are consistent with approval.

Conclusion Regarding Section 3 Application

Based on the foregoing, and in light of 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. The Board’s approval is specifically conditioned on compliance by FBR with all the commitments made in connection with the application. For the purpose of this action, the commitments and conditions relied on by the Board in reaching its decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Bank shall 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 Richmond, acting pursuant to delegated authority.

Financial Holding Company Declaration

FBR also has filed with the Board an election to become a financial holding company pursuant to sections 4(k) and (l) of the BHC Act and section 225.82(f) of Regulation Y. FBR has stated that RTS is well capitalized and well managed, has certified that Bank will be well capitalized and well managed on the date FBR consummates the proposal, and has provided all the information required under Regulation Y.

The Board has reviewed the examination ratings received by Bank under the CRA and other relevant examinations and information. Based on all the facts of record, the Board has determined that this election to become a financial holding company will become effective on consummation of the acquisition of Bank by FBR, provided that Bank continues to be well capitalized, well managed, and have at least a satisfactory CRA rating on that date.

Request to Exceed Merchant Banking Investment Thresholds

Bank holding companies that have made an effective election to become financial holding companies may own or control merchant banking investments in accordance with the requirements and limitations of section 4(k)(4)(H) of the BHC Act and Subpart J of Regulation Y.⁷ Section 225.174 of Subpart J provides that a financial holding company may, with the Board's approval, make merchant banking investments under section 4(k)(4)(H) of the BHC Act that, in the aggregate, have a carrying value that exceeds certain thresholds.⁸ These investment thresholds will automatically sunset once a final capital rule addressing the appropriate capital treatment of merchant banking investments is adopted by the Board and becomes effective.⁹

⁷ See 12 U.S.C. 1843(k)(4)(H); 12 C.F.R. 225.170 through 225.175; 66 Federal Register 8,465 (2001).

⁸ These thresholds are (i) 30 percent of the company's Tier 1 capital, or (ii) 20 percent of the company's Tier 1 capital after excluding investments in private equity funds (as defined in Subpart J). See 12 C.F.R. 225.174.

⁹ See 12 C.F.R. 225.174(c). The Board, the OCC, and the Federal Deposit Insurance Corporation have requested comment on proposed rules that would establish new minimum regulatory capital requirements for merchant banking investments made by financial holding companies and similar equity investments made by banks and bank holding companies. See 66 Federal Register 10,212 (2001).

FBR engages in a significant amount of merchant banking investment activities, both directly and through private equity funds, and has requested the Board's approval for its merchant banking investments to exceed the aggregate thresholds currently applicable under Subpart J. In light of this request, the Board has reviewed confidential information received from FBR concerning the risk management policies, procedures and systems that FBR has in place to monitor and control the financial and operational risks associated with its investment activities and its experience in managing those risks. The Board also has carefully reviewed FBR's capital adequacy in light of the current and projected scope and nature of its merchant banking investment activities. The Board notes that FBR's pro forma capital levels would significantly exceed the well capitalized levels for bank holding companies under both the Board's existing capital guidelines and the proposed amendments to the Board's capital guidelines relating to merchant banking and other equity investments.

Based on these and all other facts of record, the Board has approved FBR's request for its merchant banking investments to exceed the aggregate thresholds set forth in section 225.174 of Regulation Y. The Board expects FBR to continue to operate with capital levels commensurate with the nature and extent of its merchant banking activities.

By order of the Board of Governors,¹⁰ effective March 13, 2001.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

¹⁰ Voting for this action: Chairman Greenspan and Governors Kelley, Meyer, and Gramlich. Absent and not voting: Vice Chairman Ferguson.