

FEDERAL RESERVE SYSTEM

C-B-G, Inc.
West Liberty, Iowa

Order Approving the Acquisition of Shares of a Bank Holding Company

C-B-G, Inc. (“C-B-G”), 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 Act¹ to acquire additional shares, up to 35 percent of the voting shares of Washington Bancorp (“Washington”) and thereby acquire an additional interest in Washington’s subsidiary bank, Federation Bank, both of Washington, Iowa. At the time it filed this application, C-B-G owned 24 percent of Washington’s voting shares.²

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (72 Federal Register 8,161 (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.

C-B-G, with banking assets of approximately \$193.1 million, is the 69th largest depository organization in Iowa, controlling deposits of \$164.9 million, which represent less than 1 percent of total deposits of insured depository institutions in Iowa (“state deposits”).³ Washington, with total

¹ 12 U.S.C. § 1842.

² In April 2005, the Board approved an application by C-B-G to acquire up to 24.35 percent of Washington’s voting shares as a noncontrolling investment. C-B-G, Inc., 91 Federal Reserve Bulletin 421 (2005) (“2005 Order”).

³ Asset data are as of March 31, 2007. Statewide deposit and ranking data are as of June 30, 2006, and reflect merger and acquisition activity as of April 27, 2007. Deposit data reflect the total deposits reported by each

banking assets of approximately \$105.5 million, is the 174th largest depository organization in Iowa, controlling \$70.2 million in deposits. On consummation of the proposal, C-B-G would become the 48th largest depository organization in Iowa, controlling approximately \$235.1 million in deposits, which represents less than 1 percent of state deposits.

The Board received comments objecting to the proposal from the management of Washington and from some of its directors and shareholders. The Board previously has stated that, in evaluating acquisition proposals, it must apply the criteria in the BHC Act in the same manner to all proposals, regardless of whether they are supported or opposed by the management of the institutions to be acquired.⁴ Section 3(c) of the BHC Act requires the Board to review each application in light of certain factors specified in the BHC Act. These factors require consideration of the effects of the proposal on competition, the financial and managerial resources and future prospects of the companies and depository institutions concerned, and the convenience and needs of the communities to be served.⁵

organization's insured depository institution in their Consolidated Reports of Condition and Income or Thrift Financial Reports. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

⁴ See, e.g., Juniata Valley Financial Corp., 92 Federal Reserve Bulletin C171 (2006) ("Juniata"); Central Pacific Financial Corp., 90 Federal Reserve Bulletin 93, 94 (2004) ("Central Pacific"); North Fork Bancorporation, Inc., 86 Federal Reserve Bulletin 767, 768 (2000) ("North Fork"); The Bank of New York Company, Inc., 74 Federal Reserve Bulletin 257, 259 (1988) ("BONY").

⁵ In addition, the Board is required by section 3(c) of the BHC Act to disapprove a proposal if the Board does not receive adequate assurances that it can obtain information on the activities or operations of the company and its affiliates. See 12 U.S.C. § 1842(c). One commenter asserted that the proposed transaction would have a negative impact on the local ownership and control of Washington.

In considering these factors, the Board is mindful of the potential adverse effects that contested acquisitions might have on the financial and managerial resources of the company to be acquired and the acquiring organization. The Board has long held that, if the statutory criteria are met, withholding approval based on other factors, such as whether the proposal is acceptable to the management of the organization to be acquired, would be outside the limits of the Board's discretion under the BHC Act.⁶ As explained below, the Board has carefully considered the statutory criteria in light of all the comments received and information submitted by C-B-G. The Board also has carefully considered all other available information, including information accumulated in the application process, supervisory information of the Board and other agencies, and relevant examination reports. In considering the statutory factors, particularly the effect of the proposal on the financial and managerial resources of C-B-G, the Board has reviewed financial information, including the terms and cost of the proposal and the resources that C-B-G proposes to devote to the transaction.

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 and other supervisory information from the

Such concerns are outside the statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973).

⁶ See Juniata; Central Pacific; FleetBoston Financial Corporation, 86 Federal Reserve Bulletin 751, 752 (2000); North Fork; BONY.

primary federal and state supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by C-B-G.

Several commenters expressed concerns about the amount of leverage that C-B-G has reported on its balance sheet, and the size of C-B-G's proposed investment in Washington in relation to C-B-G's total assets. Commenters also contended that the proposal could imperil C-B-G's future financial condition.⁷

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 of their 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. Both C-B-G's and Washington's subsidiary depository institutions currently are well capitalized and would remain so on consummation. Based

⁷ The commenters asserted that C-B-G would have only limited influence over Washington's operations due to a provision in Washington's articles of incorporation that restricts the voting rights of shareholders who own more than 10 percent of Washington's voting shares. The Board has analyzed the effect of the proposal on C-B-G's general financial condition more broadly.

on its review of the record, the Board also finds that C-B-G has sufficient financial resources to effect the proposal. The proposed transaction is structured as a cash purchase of shares, and C-B-G would use existing resources to fund the purchase.

The Board also has considered the managerial resources of C-B-G, Washington, and their subsidiary depository institutions. 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 agencies with the organizations and their records of compliance with applicable banking laws, including anti-money laundering laws.

Some commenters contended that the voting-rights restrictions on shareholders who own more than 10 percent of Washington's shares could prevent C-B-G from serving as a source of financial and managerial strength to Federation Bank, as required under the Board's Regulation Y.⁸ C-B-G has acknowledged that, if it does acquire control of 25 percent or more of Washington's shares, it will be required, if necessary, to serve as a source of financial and managerial strength to Federation Bank. The Board has carefully considered the capacity of C-B-G to serve as a source of financial and managerial strength to its subsidiary banks, including Federation Bank, on approval and consummation of the proposal.

Based on all the facts of record, including public comments, 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.⁹

⁸ See 12 CFR 225.4(a)(1).

⁹ Several commenters expressed concern that the proposal could subject Federation Bank to liability under the cross-guarantee provision of the Federal Deposit Insurance Act, 12 U.S.C. § 1815(e) ("FDI Act"), in the

Competitive and Convenience and Needs 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. Section 3 also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal clearly are outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.¹⁰ C-B-G and Washington do not compete directly in any relevant banking market. Based on all the facts of record, the Board has concluded that consummation of the proposal would have no significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive factors are consistent with approval.

In addition, considerations relating to the convenience and needs of the communities to be served, including the records of performance of the institutions involved under the Community Reinvestment Act (“CRA”),¹¹ are consistent with approval of the application. Community Bank, C-B-G’s sole subsidiary bank, received a “satisfactory” rating and Federation Bank received an “outstanding” rating at their most recent evaluations for CRA performance

event that a subsidiary bank of C-B-G were to fail or require assistance from the Federal Deposit Insurance Corporation (“FDIC”). The Board notes that the application of this provision of the FDI Act is a matter that would be decided by the FDIC.

¹⁰ 12 U.S.C. § 1842(c)(1).

¹¹ 12 U.S.C. § 2901 et seq.

by the FDIC.¹² C-B-G has represented that the proposal will not result in any changes in the services or products offered by Federation Bank.¹³

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved.¹⁴ 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 C-B-G with the conditions imposed in this order and the 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

¹² The most recent CRA performance evaluations of Community Bank and Federation Bank were as of May 2004 and December 2004, respectively. Wilton Savings Bank, a subsidiary bank of C-B-G which was merged into Community Bank in January 2006, received a "satisfactory" rating at its last CRA evaluation, as of November 2003.

¹³ One commenter contended that the proposal would have a deleterious effect on the services Federation Bank provides to its local community.

¹⁴ In connection with the application that the Board approved in 2005, C-B-G made commitments to ensure that it would not control Washington or Federation Bank for purposes of the BHC Act. These commitments are listed in the appendix to the 2005 Order and were modified by the Board's letter dated October 25, 2006. One commenter urged that the Board continue to require C-B-G to abide by those commitments if the Board approves C-B-G's current proposal. C-B-G proposes to own up to 35 percent of the voting shares of Washington and, thus, would be deemed to control Washington for purposes of the BHC Act without regard to the previous commitments considered. See 12 U.S.C. § 1841(a)(2)(A). Accordingly, the Board has determined in this case not to impose the restrictions contained in the commitments, and not to require compliance with the commitments on consummation of the proposal. For the reasons discussed in this order, the Board has concluded that C-B-G meets the statutory factors required to own more than 25 percent of Washington and to exercise the rights attendant to that level of ownership.

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,¹⁵ effective May 24, 2007.

(signed)

Jennifer J. Johnson
Secretary of the Board

¹⁵ Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.