

FEDERAL RESERVE SYSTEM

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

Order Approving the Acquisition of
Additional 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 voting shares sufficient to increase its holdings to more than 50 percent of the voting shares of Washington Bancorp (“Washington”) and thereby increase its indirect ownership interest in Washington’s subsidiary bank, Federation Bank, both of Washington, Iowa. C-B-G and related persons currently own 28 percent of Washington’s voting shares,² and C-B-G proposes that it and related persons will acquire additional voting shares through purchases on the open market.³

¹ 12 U.S.C. § 1842.

² In May 2007, the Board approved C-B-G’s application to acquire control of Washington and up to 35 percent of Washington’s voting shares. C-B-G, Inc., 93 Federal Reserve Bulletin C88 (2007) (“2007 Order”). Previously, the Board approved in April 2005 C-B-G’s application 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).

³ In this context, “related persons” include C-B-G’s subsidiaries and the directors, executive officers, and principal shareholders of C-B-G and its subsidiaries (excluding Washington and its subsidiaries). The Board attributes acquisitions of Washington shares by related persons to C-B-G for purposes of the BHC Act. C-B-G has represented that under the current proposal, its total direct purchase of additional Washington shares will not exceed \$500,000. C-B-G also has represented that related persons will fund any acquisitions of Washington shares

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (73 Federal Register 31,668 (2008)). 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.

As a stand-alone organization, C-B-G has banking assets of approximately \$206 million, and it is the 72nd largest depository organization in Iowa, controlling deposits of approximately \$174.2 million.⁴ Washington, with total banking assets of approximately \$111.7 million, is the 158th largest depository organization in Iowa, controlling deposits of approximately \$78.4 million. As a combined organization, C-B-G and Washington would be the 45th largest depository organization in Iowa, controlling deposits of approximately \$252.6 million, which represent less than 1 percent of total deposits of insured depository institutions in Iowa.⁵

The Board received comments objecting to the proposal from Washington's management.⁶ The Board previously has stated that, in evaluating acquisition proposals, it must apply the criteria in the BHC Act

from their own resources and that C-B-G's subsidiary banks will not lend to related persons to fund their acquisitions of Washington shares.

⁴ Asset data are as of June 30, 2008. Statewide deposit and ranking data are as of June 30, 2007, and reflect merger and acquisition activity as of July 21, 2008.

⁵ In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

⁶ Washington's management made many of the same comments in connection with the proposal by C-B-G to acquire control and up to 35 percent of the voting shares of Washington. The Board reaffirms and adopts by reference the findings it made in approving that proposal. See 2007 Order.

in the same manner to all proposals, regardless of whether they are supported or opposed by the management of the institutions to be acquired.⁷ 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.⁸

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.⁹ 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

⁷ 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”); and The Bank of New York Company, Inc., 74 Federal Reserve Bulletin 257, 259 (1988) (“BONY”).

⁸ 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).

⁹ See Juniata; Central Pacific; North Fork; FleetBoston Financial Corporation, 86 Federal Reserve Bulletin 751, 752 (2000); and BONY.

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 primary supervisors of the organizations involved in the proposal, publicly reported and other financial information, information provided by C-B-G, and public comment received on the proposal.¹⁰

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

¹⁰ Washington's management reiterated its assertion that, because the voting rights of Washington shareholders owning more than 10 percent of voting shares are restricted under the articles of incorporation, C-B-G would have only limited influence over the organization. See 2007 Order at C89, fn. 7. The Board has considered the effect of the proposal on C-B-G's financial condition more generally and not just from the perspective suggested by the comment.

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 proposal under the financial factors. C-B-G, Washington, and their subsidiary banks currently are well capitalized and would remain so on consummation. Based on its review of the record, the Board also finds that C-B-G has sufficient financial resources to effect the proposal. C-B-G plans to make its direct acquisitions of additional Washington shares as cash purchases without any debt financing.

The Board also has considered the managerial resources of C-B-G, Washington, and their subsidiary depository institutions.¹¹ 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

¹¹ In connection with its review of the managerial resources and future prospects of the organizations, the Board has considered carefully the assertion by Washington's management that the current application has made it difficult for Federation Bank to hire the additional personnel needed to implement a management succession program. The Board has also consulted with the Federal Deposit Insurance Corporation ("FDIC") and the Iowa Division of Banking, Federation Bank's primary supervisors, about the bank's managerial resources, the managerial challenges faced by the bank, and the bank's overall condition.

applicable banking laws, including anti-money laundering laws. C-B-G, Washington, and their subsidiary banks are considered to be well managed.

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.

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.¹²

In connection with its review in 2007 of C-B-G's application to acquire control and up to 35 percent of Washington's shares, the Board considered the competitive effects of C-B-G's acquisition of control of Washington.¹³ The Board reaffirms, as noted in the 2007 Order, that C-B-G and Washington do not compete directly in any relevant banking market. In this light, and based on all the facts of record, the Board has concluded that consummation of the current proposal would have no significantly adverse effect on competition or on the concentration

¹² 12 U.S.C. § 1842(c)(1).

¹³ 2007 Order at C89.

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”),¹⁴ are consistent with approval of the application. Community Bank, Muscatine, Iowa, C-B-G’s largest subsidiary bank as measured by assets and deposits, received a “satisfactory” rating and Federation Bank received an “outstanding” rating at their most recent evaluations for CRA performance by the FDIC.¹⁵ C-B-G has represented that the proposal will not result in any changes in the services or products offered by Federation Bank.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved.¹⁶ 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

¹⁴ 12 U.S.C. § 2901 et seq.

¹⁵ 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 that was merged into Community Bank in January 2006, received a “satisfactory” rating at its last CRA evaluation, as of November 2003.

¹⁶ As noted, C-B-G has proposed that related persons acquire additional shares of Washington. Because the identity of related persons and the number of shares to be acquired by them are unknown, the Board’s approval of the current application does not exempt related persons from any filing requirements that might be triggered under the BHC Act or the Change in Bank Control Act (12 U.S.C. § 1817(j)) by their purchases of Washington shares.

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 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,¹⁷ effective August 14, 2008.

(SIGNED)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁷ Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, Mishkin, and Duke.