

FEDERAL RESERVE SYSTEM

SKBHC Holdings LLC
Corona del Mar, California

Order Approving the Formation of a Bank Holding Company

SKBHC Holdings LLC (“SKBHC”) has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)¹ to become a bank holding company and to acquire all the voting shares of Starbuck Bancshares, Inc. (“Bancshares”) and indirectly acquire Bancshares’ wholly owned subsidiary bank, The First National Bank of Starbuck (“Bank”), both of Starbuck, Minnesota.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (75 Federal Register 16,808 (April 2, 2010)). 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.

SKBHC is a newly organized corporation formed by an individual who will become the chief executive officer and chairman of the board of SKBHC. SKBHC will be capitalized by a group of investors to enable it to acquire Bancshares and Bank and to make future acquisitions of other institutions either through Federal Deposit Insurance Corporation resolutions or on an open-bank basis. SKBHC plans to acquire institutions primarily in the Pacific Northwest, West Coast, and the Southwest regions of the United States.²

Bank, with total assets of approximately \$17 million, is the 439th largest insured depository institution in Minnesota, controlling deposits of approximately

¹ 12 U.S.C. § 1842.

² Any future expansion proposal would be subject to review and approval by the Board or other relevant federal banking agency on its own merits under the standards of the BHC Act or Bank Merger Act.

\$15.5 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.³

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or that would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal 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

SKBHC does not currently control a depository institution. Based on all the 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 banking resources in any relevant banking market and that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations and Future Prospects

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.⁵ The Board has considered those factors in light of all the facts of record, including supervisory and examination information received from the relevant federal supervisor of Bank and publicly reported and other available financial information, including information provided by SKBHC. In addition, the Board has consulted with the primary federal supervisor of Bank.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved

³ Asset and deposit data are as of June 30, 2010. Ranking data are also as of June 30, 2010, and reflect merger activity through that date. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

⁴ 12 U.S.C. § 1842(c)(1).

⁵ 12 U.S.C. § 1842(c)(2) and (3).

on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. The Board also evaluates the financial condition of the combined organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

The Board has considered carefully the financial factors of this proposal. Bancshares and Bank currently are well capitalized and would remain so on consummation of the proposal. SKBHC also would be well capitalized and in compliance with relevant capital standards on consummation. The transaction is structured as a cash purchase funded from the proceeds of an issuance of new holding company stock in SKBHC, in exchange for a drawdown of capital from its investors.⁶ Based on its review of those factors, the Board finds that SKBHC has sufficient financial resources to effect the proposal and to comply with the Board's Small Bank Holding Company Policy Statement.⁷

The Board also has considered the managerial resources of the applicant, including the proposed management of the organization. The Board has reviewed the examination records of Bank, including assessments of its current management, risk-management systems, and operations. In addition, the Board has considered the supervisory experience of the other relevant banking agencies with Bank, including its record of compliance with applicable banking laws and anti-money laundering laws, and the proposed management officials and principal shareholders of SKBHC. The Board also has considered SKBHC's plan for the proposed acquisition, including the proposed management of SKBHC and proposed changes in management at Bancshares and Bank after the acquisition. In addition, the Board has considered carefully the future

⁶ The remaining capital commitments of SKBHC's investors are available for an 18-month period to fund ongoing operations and expenses, satisfy any applicable regulatory requirements, and fund potential additional acquisitions.

⁷ SKBHC will be a small bank holding company after acquiring Bancshares and will be subject to the Small Bank Holding Company Policy Statement, as long as it has less than \$500 million in total consolidated assets.

prospects of SKBHC, Bancshares, and Bank in light of the financial and managerial resources and 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 involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on proposals under section 3 of the BHC Act, the Board also 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 insured depository institutions under the Community Reinvestment Act (“CRA”).⁸ The Board has carefully considered all the facts of record, including evaluations of the CRA performance record of Bank, information provided by SKBHC, and public comment received on the proposal. The Board has also considered confidential supervisory information provided by the Office of the Comptroller of the Currency (“OCC”), Bank’s primary federal regulator. Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the OCC, as of January 3, 2005. The OCC has scheduled a CRA performance examination of Bank for July 2010.

Several commenters expressed concerns that information in the application about SKBHC’s plans to provide products and services to its communities was insufficient. As noted above, Bank received a “satisfactory” rating at its most recent CRA performance. Examiners found that the majority of Bank’s loans were made within the assessment area and that Bank’s record of lending to borrowers of different incomes and businesses of different sizes exceeded the standard for achieving a “satisfactory” rating.

SKBHC represents that the proposal would provide convenience to, and meet the needs of, Bank’s customers by continuing products and services currently offered by Bank at the same levels as Bank now provides. SKBHC also represents that

⁸ 12 U.S.C. § 2901 et seq.

its management would not diminish Bank's commitment to meeting the credit needs of the community in which it operates, including the needs of low- and moderate-income geographies and individuals. In addition, SKBHC plans to form a CRA Committee responsible for ensuring Bank's continued commitment to its CRA performance.

Based on a review of the entire record, the Board has concluded that convenience and needs considerations and the CRA performance record of Bank are consistent with approval of the proposal.

Conclusion

Based on the foregoing, and in light of all facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered the application 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 SKBHC with all 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 San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors,⁹ effective October 26, 2010.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

⁹ Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Warsh, Duke, Tarullo, and Raskin.