

FEDERAL RESERVE SYSTEM

County Bank
Merced, California

Order Approving the Acquisition
and Establishment of Branches

County Bank,¹ a state member bank, has requested the Board's approval under section 18(c) of the Federal Deposit Insurance Act ("Bank Merger Act")² to purchase all the assets and assume all the liabilities of eleven California branches of National Bank of Arizona ("NBA"), Tucson, Arizona. County Bank also has applied under section 9 of the Federal Reserve Act ("FRA") to establish and operate branches at the locations of those branches.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in local publications in accordance with the Bank Merger Act and the Board's Rules of Procedure.⁴ As required by the Bank Merger Act, a report on the competitive effects of the merger was requested from the United States Attorney General and a copy of the request was provided to the Federal Deposit Insurance Corporation. 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 the Bank Merger Act and the FRA.

¹ County Bank is a subsidiary of Capital Corp of the West, Merced, a bank holding company.

² 12 U.S.C. § 1828(c).

³ 12 U.S.C. § 321. These branches are listed in the appendix.

⁴ 12 CFR 262.3(b).

County Bank, with total assets of approximately \$1.8 billion, operates only in California.⁵ County Bank is the 45th largest insured depository institution in California, controlling deposits of approximately \$1.5 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state (“state deposits”).

NBA operates in Arizona and California. In California, NBA is the 156th largest insured depository institution in the state, controlling deposits of approximately \$198.8 million. On consummation of the proposal, County Bank would become the 40th largest insured depository institution in California, controlling deposits of approximately \$1.7 billion, which represent less than 1 percent of state deposits.

Competitive Considerations

The Bank Merger 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. The Bank Merger 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 its probable effect in meeting the convenience and needs of the community to be served.⁶

County Bank and NBA compete directly in three relevant banking markets in California: Fresno, Los Banos, and Merced. The Board has reviewed

⁵ Asset data are as of March 31, 2007. Deposit data and state rankings are as of June 30, 2006. In this context, the term “insured depository institutions” includes insured commercial banks, savings banks, and savings associations.

⁶ 12 U.S.C. § 1828(c)(5).

carefully the competitive effects of the proposal in each banking market in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative shares of total deposits in depository institutions in the markets (“market deposits”) controlled by County Bank and NBA,⁷ the concentration levels of market deposits and the increase in those levels as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),⁸ and other characteristics of the markets.

Consummation of the proposal in the Fresno banking market⁹ would be consistent with Board precedent and within the thresholds in the

⁷ Deposit and market share data are as of June 30, 2006, adjusted to reflect subsequent mergers and acquisitions through August 24, 2007, 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 of commercial banks. *See, e.g., Midwest Financial Group*, 75 Federal Reserve Bulletin 386 (1989); *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).

⁸ Under the DOJ Guidelines, 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 Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally will 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. The DOJ has stated that the higher-than-normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

⁹ The Fresno banking market is defined as the Fresno metropolitan area, including the Fresno Ranally Metro Area and the towns of Chowchilla, Kingsburg, Parlier, Reedley, Orange Cove, Dinuba, Coarsegold, Oakhurst, Prather, and Shaver Lake.

DOJ Guidelines.¹⁰ On consummation of the proposal, it would remain moderately concentrated, and numerous competitors would remain in the market.

County Bank and NBA also compete directly in two banking markets, Los Banos and Merced,¹¹ that require a detailed review of the competitive effects of the proposal. In each market, County Bank is the largest depository institution and already controls approximately half the market deposits. The Board previously has recognized that merger proposals involving a depository institution with a large market share relative to the shares of other market competitors warrant close review.¹²

After careful analysis of the record, the Board has concluded that no significant reduction in competition is likely to result from County Bank's proposed acquisition of NBA's branches in the Los Banos and Merced banking markets. As noted below, County Bank's existing market shares in the two banking markets would increase only slightly on consummation of the proposal. Moreover, the increase in concentration levels in each of these highly concentrated

¹⁰ On consummation of the proposal, the HHI would remain unchanged at 1208 for the Fresno market. County Bank operates the 14th largest depository institution in the market, controlling deposits of approximately \$183.2 million, which represent less than 2 percent of market deposits. NBA controls \$12.2 million in deposits, which represents less than 1 percent of market deposits. After consummation, County Bank would become the 13th largest depository institution in the market, controlling deposits of approximately \$195.3 million, which represent approximately 2 percent of market deposits. Twenty-six depository institutions would remain in the banking market.

¹¹ The Los Banos banking market is defined as southwestern Merced County, excluding the Merced Ranally Metro Area, Livingston, and Mariposa; and including the towns of Dos Palos and Los Banos.

¹² See Firststar Corporation, 87 Federal Reserve Bulletin 236, 238 (2001); The Citizens Bank, 91 Federal Reserve Bulletin 438 (2005); and First Busey Corporation, 93 Federal Reserve Bulletin C90 (2007).

markets on consummation of the proposal would not exceed the threshold levels in the DOJ Guidelines. The Board has also considered other factors indicating that the proposal would not have a significantly adverse effect on competition in either banking market.¹³

Los Banos Banking Market. County Bank is the largest insured depository institution in the Los Banos banking market, controlling deposits of approximately \$217.3 million, which represent approximately 49.8 percent of market deposits. NBA is the fifth largest depository institution in the market, controlling deposits of approximately \$6.4 million. On consummation, County Bank would remain the largest depository institution in the market, controlling deposits of approximately \$223.7 million.

The NBA deposits that County Bank proposes to acquire in the Los Banos market represent less than 1.5 percent of the total market deposits, and the HHI would increase by 146 points to 3477, which is consistent with the DOJ Guidelines. Accordingly, the proposal would not significantly increase the market concentration.

Other factors indicate that the increase in concentration in the Los Banos banking market, as measured by the market share of the combined organization, overstates the potential competitive effects of the proposal in the market. After consummation, two of County Bank's three competitors in the market would control 21 percent and 18 percent of market deposits, respectively. In addition, the market appears to be moderately attractive for

¹³ The Board has evaluated whether other factors mitigate the competitive effects of the proposal or indicate that the proposal would have a significantly adverse effect on competition in the market. The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in and resulting level of concentration in a banking market. See NationsBank Corp., 84 Federal Reserve Bulletin 129 (1998).

entry. For example, the population growth rate of the Los Banos market between 2002 and 2005 increased significantly faster than the average growth rate in other rural markets in California or in rural markets nationwide during the same time period. The Los Banos market also experienced higher deposit growth rates than the average deposit growth rates in California nonmetropolitan counties and in nonmetropolitan counties nationwide during the last three years.

Merced Banking Market. County Bank also is the largest insured depository institution in the Merced banking market,¹⁴ controlling deposits of approximately \$668.6 million, which represent approximately 50.4 percent of market deposits. NBA is the tenth largest depository institution in the market, controlling deposits of approximately \$1.6 million. On consummation, County Bank would control deposits of approximately \$670.2 million, which would represent 50.5 percent of market deposits.

County Bank proposes to acquire only a small amount of deposits in this market, and the proposal would not significantly increase the market concentration. On consummation, County Bank's market share would increase by only 0.1 percent. The HHI would increase by 12 points to 3035, which is consistent with the DOJ Guidelines.

Other factors also indicate that this small increase in concentration in the Merced banking market would not have significant anticompetitive effects. After consummation, eight insured depository institutions would continue to compete with County Bank in the market. The market also appears to be moderately attractive for entry. Since 2000, the population in the banking

¹⁴ The Merced banking market is defined as the Merced metropolitan area, including the Merced Ranally Metro Area and the towns of Livingston and Mariposa.

market has grown more rapidly than the average population growth in urban markets in California and nationwide.

Agency Views/Conclusion on Competitive Considerations. The DOJ also has conducted a detailed 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 any relevant banking market. 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 three banking markets where County Bank and NBA compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial and Managerial Resources and Future Prospects

The Bank Merger 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, other supervisory information from the primary federal and state supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by County Bank.

In evaluating financial factors in expansion proposals by banking organizations, the Board considers a variety of measures in this evaluation, 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.

County Bank and NBA are well capitalized, and County Bank would remain so on consummation of the proposal. Capital Corp of the West also would remain well capitalized on consummation of the proposal. Based on its review of the record in this case, the Board finds that County Bank has sufficient financial resources to effect the proposal. The proposed transaction is structured as a cash purchase that will be funded through the issuance of trust preferred securities by Capital Corp of the West.

The Board also has considered the managerial resources of the organizations involved and the proposed combined organization. The Board has reviewed the examination records of County Bank and NBA, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences with the relevant organizations and the organizations' records of compliance with applicable banking law, including anti-money laundering laws. County Bank and NBA are considered to be well managed. The Board also has considered County Bank's plans for implementing the proposal, including the proposed management after consummation.

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 in the proposal are consistent with approval under the Bank Merger Act.

Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board also must consider its effects 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”).¹⁵ County Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the Federal Reserve Bank of San Francisco, as of March 26, 2007. NBA received a “satisfactory” rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of October 20, 2003. After consummation of the proposal, County Bank plans to implement its CRA policies at the NBA branches. County Bank has represented that consummation of the proposal would allow it to provide a broader range of financial products and services over a larger area. Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs of the communities to be served and the CRA performance records of the relevant depository institutions are consistent with approval.

Other Considerations

County Bank also has applied under section 9 of the FRA to establish and operate branches at NBA’s locations listed in the appendix. The Board has assessed the factors it is required to consider when reviewing an application under section 9 of the FRA and finds those factors to be consistent with approval.¹⁶

Conclusion

Based on the foregoing and all facts of record, the Board has determined that the applications should be, and hereby are, 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 Bank Merger Act and the FRA. The Board’s approval is specifically conditioned on compliance by County Bank with the conditions imposed in this order, the commitments made to the Board in

¹⁵ 12 U.S.C. § 2901 et seq.

¹⁶ 12 U.S.C. § 322; 12 CFR 208.6(b).

connection with the applications, and receipt of all other regulatory approvals. 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 transactions 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,¹⁷ effective September 25, 2007.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

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

Appendix

Branches in California to be Established by County Bank

Caruthers

2200 West Tahoe Avenue

Coalinga

410 North Fifth Street

Dos Palos

2142 Blossom Street

Farmersville

400 West Visalia Road

Hanford

890 West Lacey Boulevard

Lemoore

142 West D Street

Mendota

567 Oller Street

Merced

2936 G Street

Needles

1019 West Broadway Street

Tulare

140 East Tulare Avenue

Visalia

800 West Main Street