FEDERAL RESERVE SYSTEM

Frandsen Financial Corporation
Arden Hills, Minnesota

Order Approving the Acquisition of a Bank

Frandsen Financial Corporation ("Frandsen"), 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 Act[1] to acquire First National Bank of Montgomery ("Bank"), Montgomery, Minnesota.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (73 Federal Register 492 (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.

Frandsen, with total consolidated assets of $1.2 billion, operates seven subsidiary insured depository institutions in Minnesota, Wisconsin, and North Dakota. In Minnesota, Frandsen is the 12th largest depository organization, controlling deposits of $758.6 million, which represent less than 1 percent of total deposits of insured depository institutions in the state ("state deposits").[2]

Bank is the 221st largest insured depository institution in Minnesota, controlling deposits of approximately $55 million. On consummation of this proposal, Frandsen would become the 11th largest depository organization in Minnesota, controlling deposits of approximately $813.6 million, which represent less than 1 percent of state deposits.

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[1] 12 U.S.C. § 1842.

[2] Asset data are as of December 31, 2007, and statewide deposit and ranking data are as of June 30, 2007. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

Competitive 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 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.[3] In evaluating the competitive factors in this case, the Board has considered the assertion by several commenters that the proposal would create a monopoly or substantially lessen competition for banking services by eliminating Frandsen's only competitor in Montgomery.

Frandsen and Bank compete directly in the Minneapolis-St. Paul banking market, as delineated by the Federal Reserve Bank of Minneapolis ("Reserve Bank").[4] Frandsen Bank and Trust ("Frandsen Bank"), Lonsdale, Minnesota, a subsidiary bank of Frandsen, operates a branch in Montgomery. Frandsen Bank and Bank are the only two insured depository institutions operating in Montgomery.

In defining the relevant geographic market, the Board and the courts have consistently found that the relevant geographic market for analyzing the competitive effects of a proposal must reflect commercial and banking realities and should consist of the local area where customers can practicably turn for alternatives.[5] In reviewing

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[3] 12 U.S.C. § 1842(c)(1).

[4] The Minneapolis-St. Paul banking market is defined as Anoka, Hennepin, Ramsey, Washington, Carver, Scott, and Dakota Counties; the townships of Lent, Chisago Lake, Shafer, Wyoming, and Franconia in Chisago County; the townships of Blue Hill, Baldwin, Orrock, Livonia, and Big Lake and the city of Elk River in Sherburne County; the townships of Monticello, Buffalo, Rockford, and Franklin and the cities of Otsego, Albertville, and St. Michael in Wright County; and the townships of Lanesburgh, Derrynane, and Montgomery and the city of Montgomery in Le Sueur County, all in Minnesota; and the township of Hudson in St. Croix County, Wisconsin.

[5] See United States v. Phillipsburg National Bank, 399 U.S. 350 (1970); United States v. Philadelphia National Bank, 374 U.S. 321, 357 (1963). See also First York Ban Corp,

this proposal and the comments received, the Board has considered the geographic proximity of the Minneapolis-St. Paul banking market's population centers and the worker commuting data from the 2000 census. The data indicate that more than 40 percent of the labor force residing in Montgomery (and Montgomery Township) commute to work in the Minneapolis-St. Paul banking market. Montgomery is approximately 55 miles from the city center of Minneapolis.[6] Residents of the area also have highway access to the Minneapolis-St. Paul banking market for shopping and other purposes. These and other factors indicate that the Minneapolis-St. Paul banking market, which includes Montgomery, is the appropriate local geographic banking market for purposes of analyzing the competitive effects on this proposal.[7]

The Board has reviewed carefully the competitive effects of the proposal in the Minneapolis-St. Paul banking market where Frandsen and Bank compete directly in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking market, the relative shares of total deposits in depository institutions in the market ("market deposits") controlled by Frandsen and Bank,[8] the concentration level of market deposits and the increase in that level as

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88 Federal Reserve Bulletin 251, 251 (2002); First Union Corporation, 84 Federal Reserve Bulletin 489, 491-92 (1998); First Union Corporation, 83 Federal Reserve Bulletin 1012, 1013-14 (1997); Chemical Banking Corporation, 82 Federal Reserve Bulletin 239, 241 (1996); and Wyoming Bancorporation, 68 Federal Reserve Bulletin 313, 314 (1982).

[6] Montgomery Township is the unincorporated area that surrounds Montgomery.

[7] The Board also considered the significantly lower percentage of residents in Montgomery and Montgomery Township commuting to other population centers in the surrounding counties outside the Minneapolis-St. Paul banking market and the availability and variety of shopping alternatives in the surrounding area.

[8] Deposit and market share data are based on data reported by insured depository institutions in the summary of deposits data as of June 30, 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

measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines"),[9] and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Guidelines as applied in the Minneapolis-St. Paul banking market. On consummation, the HHI of the Minneapolis-St. Paul banking market would remain highly concentrated, and the HHI would increase by less than 1 point as a result of this transaction.[10] In addition, numerous competitors would remain in the market.

The DOJ 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

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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).

[9] 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.

[10] Frandsen operates the 77th largest depository institution in the Minneapolis-St. Paul banking market, controlling deposits of approximately $72 million, which represent less than 1 percent of market deposits. Bank is the 87th largest depository institution in the market, controlling deposits of approximately $55 million. After the proposed acquisition, Frandsen would operate the 50th largest depository institution in the market, controlling deposits of approximately $127 million, which represent less than 1 percent of market deposits. One hundred and forty-seven insured depository institutions would remain in the banking market. The HHI is 1858 and would increase by less than 1 point as a result of this proposal.

banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

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 Minneapolis-St. Paul banking market, where Frandsen and Bank compete directly, or in any other relevant banking market.[11] Accordingly, the Board has determined that competitive considerations are consistent with approval.[12]

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, other supervisory information from the primary supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by the applicant.

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[11] Until recently, the Reserve Bank included Montgomery and Montgomery Township in the definition of the Mankato banking market. After a review of the facts and for the reasons discussed above, the Board reaffirms the Reserve Bank's inclusion of Montgomery and Montgomery Township in its revised definition of the Minneapolis-St. Paul banking market. If Montgomery and Montgomery Township were included in the Mankato banking market, the competitive effects of the proposal also would be consistent with approval. Frandsen's market share in the Mankato banking market would increase to 8.3 percent, and the HHI would increase by 29 points to 650.

[12] A commenter contended that the elimination of banking options in Montgomery would adversely affect a customer's ability to ensure the confidentiality of personal and business banking information. As noted above, Montgomery is in the Minneapolis-St. Paul banking market and numerous banking options would remain for customers in the market. Moreover, Frandsen has an established privacy policy and customer information security policy and has represented that it will implement these policies at Bank.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and 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 expects banking organizations contemplating expansion to maintain strong capital levels substantially in excess of the minimum levels specified by the Board's Capital Adequacy Guidelines. 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. Frandsen, its subsidiary depository institutions, and Bank are well capitalized and would remain so on consummation. Based on its review of the record, the Board also finds that Frandsen has sufficient financial resources to effect the proposal. The proposed transaction is structured as a cash purchase that will be funded through dividends from its subsidiary insured depository institutions.

The Board also has considered the managerial resources of Frandsen, its subsidiary depository institutions, and Bank. 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 supervisory agencies with the organizations and their records of compliance with applicable banking law, including anti-money laundering laws. Frandsen and its subsidiary depository institutions are considered to be well managed. The Board also has considered Frandsen's plans for implementing the proposal, including the proposed management at Bank after consummation.

Based on all the facts of record, 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.

Convenience and Needs Considerations

In acting on a proposal 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 CRA. All of Frandsen's insured depository institutions received "outstanding" or "satisfactory" ratings at their most recent CRA performance evaluations by the institutions' primary federal supervisors. Frandsen's lead bank, Frandsen Bank, received an "outstanding" rating at its most recent CRA performance evaluation by the Federal Deposit Insurance Corporation ("FDIC"), as of September 15, 2003.[13] The examiners noted that Frandsen Bank had an excellent distribution of residential lending to borrowers of different incomes and commended the bank's involvement in special home loan programs to meet the needs of low- and moderate-income families. They also reported that the bank had a good distribution of lending to businesses of different sizes. Bank received an "outstanding" rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of March 4, 2003. Frandsen represented that the proposal would

[13] Frandsen Bank is the result of a merger involving affiliate banks in 2004. The FDIC conducted the last CRA performance evaluation of Frandsen Bank while the bank was doing business as Valley Bank and Trust. The most recent CRA performance evaluation ratings of Frandsen's other subsidiary insured depository institutions are listed in the appendix.

expand the availability of credit and the products and services available to Bank's customers.[14] Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs factor and the CRA performance records of the relevant depository institutions are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved.[15] 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

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[14] Some commenters expressed concern that the proposed acquisition would result in a loss of jobs and businesses in Montgomery. A proposed transaction's effect on those matters for a community is not among the factors that the Board is authorized to consider under the BHC Act, and the federal banking agencies, courts, and the Congress consistently have interpreted the convenience and needs factor to relate to the effect of a proposal on the availability and quality of banking services in the community. See, e.g., Wells Fargo & Company, 82 Federal Reserve Bulletin 445, 447 (1996).

[15] The commenters requested that the Board hold a public meeting or hearing on the proposal. Section 3 of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 CFR 225.16(e), 262.25(d). The Board has considered carefully the commenters' requests in light of all the facts of record. In the Board's view, the commenters had ample opportunity to submit their views and, in fact, submitted written comments that the Board has considered carefully in acting on the proposal. The commenters' requests fail to demonstrate why written comments do not present their views adequately or why a meeting or hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the requests for a public meeting or hearing on the proposal are denied.

conditioned on compliance by Frandsen 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 Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors,[16] effective February 25, 2008.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

[16] Voting for this action: Chairman Bernanke and Governors Warsh, Kroszner, and Mishkin. Absent and not voting: Vice Chairman Kohn.

Appendix

Subsidiary Bank	CRA Rating	Date	Supervisor
Queen City Federal Savings Bank, Virginia, Minnesota	Outstanding	03/29/2004	Office of Thrift Supervision
Rural American Bank, Braham, Minnesota	Satisfactory	03/12/2003	FDIC
Valley Bank, Waterville, Minnesota	Satisfactory	10/31/2007	FDIC
Community Bank of the Red River Valley, East Grand Forks, Minnesota	Satisfactory	12/15/2003	FDIC
Rural American Bank – Luck, Luck, Wisconsin	Satisfactory	09/23/2002	FDIC
Valley Bank Minnesota, Jordan, Minnesota	Satisfactory	01/21/2003	FDIC