

FEDERAL RESERVE SYSTEM

River Holding Company
Stoddard, Wisconsin

Order Approving the Merger of Bank Holding Companies

River Holding Company (“RHC”), Stoddard, Wisconsin, a bank holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to merge with Sparta Union Bancshares, Inc. (“Sparta”), and thereby acquire its subsidiary bank, Union National Bank & Trust Company (“Union Bank”), both of Sparta, Wisconsin.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (81 Federal Register 54,085 (2016)).³ The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

RHC, with consolidated assets of approximately \$556.1 million, is the 1,281st largest depository organization in the United States, controlling deposits of approximately \$469.3 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁴ RHC controls River Bank and Wisconsin River Bank, both of which operate only in Wisconsin. RHC is the 40th largest insured depository organization in Wisconsin, controlling deposits of

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ 12 CFR 262.3(b).

⁴ Nationwide deposit, asset, and ranking data are as of June 30, 2016. In this context, insured depository institutions include commercial banks, savings banks, savings associations, and nondeposit trust companies.

approximately \$460.5 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.⁵

Sparta, with consolidated assets of approximately \$119.1 million, is the 4,089th largest depository organization in the United States. Sparta controls Union Bank, a national bank that operates only in Wisconsin. Sparta is the 172nd largest insured depository organization in Wisconsin, controlling approximately \$96.9 million in deposits, which represent less than 1 percent of the total deposits held by insured depository institutions in Wisconsin.

On consummation of this proposal, RHC would become the 1,078th largest depository organization in the United States, with consolidated assets of approximately \$675.2 million, which represent less than 1 percent of the total assets of insured depository institutions in the United States. RHC would control deposits of approximately \$568.8 million, which represent less than 1 percent of the total amount of deposits in insured depository institutions in the United States. In Wisconsin, RHC would become the 34th largest depository institution, controlling deposits of approximately \$557.4 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

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 any attempt to monopolize the business of banking in any relevant market.⁶ 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.⁷

⁵ State deposit, market share, and ranking data are as of June 30, 2015.

⁶ 12 U.S.C. § 1842(c)(1)(A).

⁷ 12 U.S.C. §§ 1842(c)(1)(B).

RHC and Sparta have subsidiary depository institutions that compete directly in the Black River Falls, Wisconsin, banking market (the “Black River Falls market”).⁸ The Board has considered the competitive effects of the proposal in this 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 market; the relative share of the total deposits in insured depository institutions in the market (“market deposits”) that RHC would control;⁹ the concentration level of market deposits and the increase in that level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);¹⁰ and other characteristics of the market.

Using the initial competitive screening data, in the Black River Falls market, RHC is the fourth largest depository organization, controlling deposits of approximately \$54.3 million, which represent approximately 10.5 percent of market deposits. Sparta is the second largest depository organization in the market, controlling deposits of approximately \$96.9 million, which represent approximately 18.7 percent of market deposits. On consummation of the proposal, the combined entity would be the

⁸ The Black River Falls market is defined as Western Monroe County, Wisconsin, and City Point, Bear Bluff, Knapp, Komensky, Millston, Brockaway, Manchester, Adams, Hixton, Albion, and Irving townships in Jackson County, Wisconsin.

⁹ Deposit and market share data are as of June 30, 2015, and are based on data reported by insured depository institutions in the Federal Deposit Insurance Corporation’s Summary of Deposits data.

¹⁰ Under the DOJ Bank Merger 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 would 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. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that the DOJ Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010) www.justice.gov/opa/pr/2010/August/10-at-938.html.

second largest depository organization in the Black River Falls market, controlling deposits of approximately \$151.2 million, which would represent approximately 29.1 percent of market deposits. The HHI in the market would increase by 390 points, from 1801 to 2191.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Black River Falls market.¹¹ Factors indicate that the increase in concentration in the Black River Falls market, as measured by the above HHI and market share, overstates the potential competitive effects of the proposal in the market. In particular, two community credit unions exert a competitive influence in the Black River Falls market. The institutions offer a wide range of consumer banking products, operate street-level branches, and have broad membership criteria that include almost all of the residents in the relevant banking market.¹² The Board finds that these circumstances warrant including the deposits of these credit unions at a 50 percent weight in estimating market influence. This weighting takes into account the limited lending done by these credit unions to small businesses relative to commercial banks' lending levels.

This adjustment suggests that the resulting market concentration of the proposed transaction in the Black River Falls market is less significant than would appear

¹¹ 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).

¹² The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., Chemical Financial Corporation, FRB Order No. 2015-13 (April 20, 2015); Mitsubishi UFJ Financial Group, Inc., FRB Order No. 2012-12 (November 14, 2012); Old National Bancorp, FRB Order No. 2012-9 (August 30, 2012); United Bankshares, Inc. (order dated June 20, 2011), 97 Federal Reserve Bulletin 19 (2nd Quar. 2011); The PNC Financial Services Group, Inc., 94 Federal Reserve Bulletin C38 (2008); The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Passumpsic Bancorp, 92 Federal Reserve Bulletin C175 (2006); and Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

from the initial competitive screening data, which focused on commercial bank competitors. After consummation, adjusting to reflect competition by the credit unions, the market concentration level in the Black River Falls market as measured by the HHI would increase by 309, from a level of 1492 to 1801, and the market share of RHC resulting from the transaction would be 25.9 percent. After consummation of the proposal, eleven depository institutions would remain in the Black River Falls market, including one depository institution with a higher market share than RHC's market share. This depository institution would control 28.1 percent of market deposits. The presence of these viable competitors suggests that RHC would have limited ability to unilaterally offer less attractive terms to consumers and that these competitors are able to exert competitive pressure on RHC in the Black River Falls market.

The DOJ also has conducted a 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, including the Black River Falls market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all of 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 Black River Falls market or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.¹³ In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved, as well as information regarding the

¹³ 12 U.S.C. §§ 1842(c)(2), (5), and (6).

financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to complete the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

River Bank, Wisconsin River Bank, and Union Bank are all well capitalized and would remain so on consummation of the proposed transaction. The proposed transaction is a bank holding company merger that is structured as an exchange of cash for shares.¹⁴ The asset quality, earnings, and liquidity of RHC and Sparta are consistent with approval, and RHC appears to have adequate resources to absorb the costs of the proposal and to complete the integration of the institutions' operations. In addition, future prospects are considered consistent with approval.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of RHC, Sparta, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by RHC; the Board's supervisory experiences and those of other relevant bank supervisory agencies

¹⁴ To effect the holding company merger, all outstanding shares of Sparta will be converted into the right to receive cash from RHC. RHC expects to fund the exchange by a dividend from River Bank to RHC and through financing from RHC's president and chairman and from a third-party lender. RHC has the financial resources to support this obligation.

with the organizations; and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws.

RHC and its subsidiary depository institutions are considered to be well managed. RHC's directors and senior executive officers have substantial knowledge of and experience in the banking and financial services sectors, and RHC's risk-management program appears consistent with approval of this expansionary proposal.

The Board also has considered RHC's plans for implementing the proposal. RHC has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-integration process for this proposal. RHC would operate Union Bank as a standalone depository institution following consummation of the proposal. RHC has represented that Union Bank has adequate risk-management systems that will remain in place following consummation of the proposal, pending ongoing review and analysis of where improvements and efficiencies can be gained. These risk-management systems are considered to be acceptable from a supervisory perspective. In addition, RHC's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and RHC plans to integrate Union Bank's existing management and personnel in a manner that augments RHC's management.¹⁵

Based on all the facts of record, including RHC's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of RHC and Sparta in combatting money-

¹⁵ On consummation, the existing senior management of Union Bank is expected to remain unchanged. In addition, three existing members of Union Bank's board of directors will continue to serve on the board of Union Bank following the transaction. The president and chairman of RHC and the vice president of RHC will also serve on the board of Union Bank.

laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.¹⁶ In its evaluation of the effects of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of the communities to be served. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act (“CRA”). The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,¹⁷ and requires the appropriate federal financial supervisory agency to assess a depository institution’s record of helping to meet the credit needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods, in evaluating bank expansionary proposals.¹⁸

In addition, the Board considers the banks’ overall compliance records and the results of recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. The Board also may consider the institution’s business model, its marketing and outreach plans, the organization’s plans following consummation, and any other information the Board deems relevant.

¹⁶ 12 U.S.C. § 1842(c)(2).

¹⁷ 12 U.S.C. § 2901(b).

¹⁸ 12 U.S.C. § 2903.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of River Bank, Wisconsin River Bank, and Union Bank; the fair lending and compliance records of each of the involved banks; the supervisory views of the Federal Deposit Insurance Corporation (“FDIC”) and the Office of the Comptroller of the Currency (“OCC”); confidential supervisory information; and information provided by RHC.

Records of Performance under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board evaluates an institution’s performance in light of examinations and other supervisory information, as well as information and views provided by the appropriate federal supervisors.¹⁹

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution’s record of helping to meet the credit needs of its entire community, including LMI neighborhoods.²⁰ An institution’s most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution’s primary federal supervisor of the institution’s overall record of lending in its communities.

In general, federal financial supervisors apply a lending test to evaluate the performance of a small insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution’s lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution’s available Home Mortgage Disclosure Act

¹⁹ See Interagency Questions and Answers Regarding Community Reinvestment, 81 Fed. Reg. 48,506, 48,548 (July 25, 2016).

²⁰ 12 U.S.C. § 2906.

(“HMDA”) data, automated loan reports, and other reports generated by the institution in order to assess the institution’s lending activities with respect to borrowers and geographies of different income levels. The institution’s lending performance is based on its (1) loan-to-deposit ratio, (2) loan originations for sale to the secondary market, (3) lending-related activities in its assessment areas, (4) record of engaging in lending-related activities for borrowers of different income levels and businesses and farms of different sizes, (5) geographic distribution of loans, and (6) record of taking action in response to written complaints about its performance. In addition to the lending test, intermediate small institutions such as River Bank are subject to a community development test that evaluates the number and amount of the institution’s community development loans and qualified investments, the extent to which the institution provides community development services, and the institution’s responsiveness through such activities to community development lending, investment, and service needs.²¹

CRA Performance of River Bank and Wisconsin River Bank

River Bank received an overall rating of “Satisfactory” at its most recent CRA performance examination by the FDIC, as of June 8, 2015 (“River Bank Evaluation”).²² River Bank received “Satisfactory” ratings for both the lending test and the community development test.²³

Examiners determined that the bank’s loan-to-deposit ratio was reasonable given the bank’s size, financial condition, and assessment area credit needs. Examiners

²¹ See 12 CFR 228.26.

²² The River Bank Evaluation was conducted using Intermediate Small-Bank CRA Examination Procedures, consisting of the lending and community development tests described above. The River Bank Evaluation reviewed a sample of small business loans originated during the period from July 1, 2014 through December 31, 2014, and all home mortgage loans reported on the bank’s 2013 and 2014 HMDA Loan Application Registers. Examiners reviewed community development loans, qualified investments, and community development services since February 25, 2013.

²³ The River Bank Evaluation reviewed the bank’s activities in La Crosse County, Wisconsin and portions of Crawford, Monroe, Trempealeau, and Vernon Counties, Wisconsin.

also noted that a majority of River Bank's loans and other lending-related activities were in its assessment areas. Although examiners found that the geographic distribution of River Bank's residential real estate loans reflected excellent dispersion throughout La Crosse County, the bank's geographic distribution of loans was otherwise found to be poor. Examiners noted that River Bank's distribution of borrowers reflected reasonable penetration among individuals of different income levels (including LMI individuals) and businesses of different sizes.

Examiners found that River Bank's community development performance demonstrated an adequate level of responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the availability of opportunities for community development within the bank's assessment area.

River Bank's Efforts Since the River Bank Evaluation

RHC represents that, since the River Bank Evaluation, River Bank has made a number of community development loans to support its assessment areas. RHC represents that these have included loans to local small businesses and to organizations devoted to assisting low-income families. RHC also represents that River Bank's employees have continued to engage in community development services to support the communities in which the bank operates. RHC represents that River Bank has maintained its existing community development investments since the River Bank Evaluation and continues to seek additional community development investment opportunities.

CRA Performance of Wisconsin River Bank

Wisconsin River Bank received an overall rating of "Satisfactory" at its most recent CRA performance examination by the FDIC, as of September 3, 2013

(“Wisconsin River Bank Evaluation”).²⁴ Examiners found that the bank’s average loan-to-deposit ratio was reasonable given its size, financial condition, and assessment area credit needs. Examiners noted that a majority of the bank’s residential, small business, and small farm loans were in its assessment areas, both by number and dollar volume. Examiners also noted that the bank’s distribution of borrowers reflected reasonable penetration among businesses and farms of different sizes and among individuals of different income levels (including LMI individuals). Examiners also found that the geographic distribution of the bank’s loans reflected reasonable dispersion throughout its assessment areas.

Wisconsin River Bank’s Efforts Since the Wisconsin River Bank Evaluation

RHC represents that Wisconsin River Bank continues to help meet the credit needs of its local communities by offering loan products from the Wisconsin Housing and Economic Development Authority and the United States Department of Agriculture’s Rural Development Program to borrowers who may not qualify for traditional bank financing. RHC also represents that Wisconsin River Bank has engaged in lending to support local business projects.

CRA Performance of Union Bank

Union Bank received an overall rating of “Satisfactory” at its most recent CRA performance examination by the OCC, as of May 19, 2014 (“Union Bank Evaluation”).²⁵ Examiners found that the bank’s loan-to-deposit ratio was reasonable and

²⁴ The Wisconsin River Bank Evaluation was conducted using the Small Bank CRA Examination Procedures, consisting of the lending test described above. The Wisconsin River Bank Evaluation reviewed (1) a sample of small business and small farm lending during 2012 and 2013 and (2) the bank’s HMDA-reportable residential mortgage loans from January 1, 2011, through June 30, 2013. The Wisconsin River Bank Evaluation included reviews of the bank’s activities in nine census tracts in Dane and Columbia Counties, Wisconsin, and eight non-Metropolitan Statistical Area census tracts in Sauk County, Wisconsin.

²⁵ The Union Bank Evaluation was conducted using the Small Bank CRA Examination Procedures, consisting of the lending test described above. The Union Bank Evaluation reviewed the bank’s commercial and residential real estate loans from January 20, 2009,

comparable to similarly situated banks. Examiners noted that a substantial majority of the bank's loans were originated in its assessment area and that its distribution of borrowers reflected reasonable penetration among individuals of different income levels (including LMI individuals) and businesses of different sizes.

Additional Convenience and Needs Considerations

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. RHC represents that it would improve Union Bank customers' access to loans in excess of the bank's legal lending limit by providing existing and future customers of Union Bank with the additional lending resources of River Bank and Wisconsin River Bank. RHC also represents that customers of Union Bank may gain access to nondeposit investment products through RHC and its affiliates. RHC represents that it does not plan to reduce or eliminate any services currently offered by Union Bank.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the records of the relevant depository institutions involved under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by RHC, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 3 of the BHC Act to require the Board to consider "the extent to which a proposed acquisition, merger, or consolidation would result in

through May 19, 2014. The Union Bank Evaluation included reviews of the bank's activities in five contiguous census tracts in Monroe County, Wisconsin.

greater or more concentrated risks to the stability of the United States banking or financial system.”²⁶

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic “footprint” of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.²⁷ These categories are not exhaustive, and additional categories could inform the Board’s decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.²⁸

In this case, the Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation, RHC would have approximately \$675.2 million in consolidated assets and, by any of a number of alternative measures of firm size, would not be likely to pose systemic risks. The Board generally presumes that a proposal that involves an acquisition of less than \$2 billion in assets, or results in a firm with less than \$25 billion in total consolidated assets, will not pose significant risks to the financial stability of the United States absent evidence that

²⁶ Dodd-Frank Act §§ 604(d) and (f), Pub. L. No. 111-203, 124 Stat. 1376, 1601 (2010), codified at 12 U.S.C. § 1842(c)(7).

²⁷ Many of the metrics considered by the Board measure an institution’s activities relative to the U.S. financial system.

²⁸ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the U.S. banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, 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 BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by RHC with all the conditions set forth in this order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the proposal. 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 proposal may not be consummated before the 15th calendar day after the effective date of this Order or later than three months thereafter, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Chicago acting pursuant to delegated authority.

By order of the Board of Governors,²⁹ effective October 24, 2016.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

²⁹ Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.