

FEDERAL RESERVE SYSTEM

GBH Inc.
Breslau, Canada

VersaBank
London, Canada

VersaHoldings US Corp.
Wilmington, Delaware

Order Approving the Acquisition of a Bank

GBH Inc. (“GBH”), Breslau, Canada; VersaBank, London, Canada, a foreign bank; and its subsidiary, VersaHoldings US Corp. (“VersaHoldings,” and together with GBH and VersaBank, “Applicants”), Wilmington, Delaware, have requested the Board’s approval to acquire Stearns Bank Holdingford National Association (“Stearns Bank”), Holdingford, Minnesota, and thereby become bank holding companies within the meaning of the Bank Holding Company Act (“BHC Act”),¹ pursuant to section 3 of the BHC Act.² Following the proposed transaction, Stearns Bank would become a wholly owned subsidiary of VersaHoldings and would be renamed VersaBank USA, N.A. (“VersaBank USA”). Applicants also filed a notice under sections 4(c)(8) and 4(j) of the BHC Act³ and section 225.23 of the Board’s Regulation Y⁴ to engage de novo in extending credit and servicing loans, through VersaFinance US Corp. (“VersaFinance”), Wilmington, Delaware, a wholly owned subsidiary of VersaHoldings.

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ 12 U.S.C. § 1843(c)(8) and (j).

⁴ 12 CFR 225.24.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (88 Federal Register 9882, 9882 (February 15, 2023)), in accordance with the Board's Rules of Procedure.⁵ The time for submitting comments has expired, and the Board did not receive any comments. The Board has considered the proposal in light of the factors set forth in sections 3 and 4 of the BHC Act.

VersaBank, with consolidated assets of approximately \$3.3 billion, is the 21st largest insured depository organization in Canada.⁶ VersaBank engages in commercial banking throughout Canada, with a focus on deposit products, commercial lending, and point-of-sale financing.⁷ Through VersaHoldings, a wholly owned subsidiary of VersaBank, VersaBank controls VersaFinance, which facilitates VersaBank's offering of receivables financing products in the United States.⁸

VersaBank's nonbank parent company, GBH, owns approximately 33 percent of the voting common shares of VersaBank.⁹ GBH is a nonoperating company owned by eight individuals,¹⁰ and its sole corporate purpose is to hold shares in

⁵ 12 CFR 262.3(b).

⁶ Consolidated asset and national ranking data are as of February 29, 2024.

⁷ VersaBank controls certain assets that are not permissible for a bank holding company under section 4 of the BHC Act and the Board's Regulation Y. Applicants have committed that they will divest all such assets no later than two years from the date that the proposed transaction is consummated, consistent with section 4(c)(2) of the BHC Act. 12 U.S.C. § 1843(c)(2).

⁸ Upon consummation, VersaFinance will wind down its existing point-of-sale financing portfolios, and future financing offerings in the United States will be operated through VersaBank USA.

⁹ The remaining 67 percent of VersaBank's voting common shares are publicly traded. With the exception of GBH and Patrick George, no shareholders own 5 percent or more of VersaBank's voting common shares.

¹⁰ Patrick George, William George, Michael George, Christopher George, Edward George, Daniel George, Thomas George, and Joseph George each control 12.5 percent of GBH's voting common shares.

VersaBank. Following consummation of the proposed transaction, VersaBank and GBH would meet the requirements for qualifying foreign banking organizations under the Board's Regulation K.¹¹

Stearns Bank, with consolidated assets of approximately \$78 million, is the 4,069th largest insured depository institution in the United States, controlling deposits of approximately \$54 million, which represent less than one percent of the total amount of deposits of insured depository institutions¹² in the United States.¹³ Stearns Bank operates one deposit-taking office, which is located in Minnesota. Stearns Bank is the 251st largest insured depository institution in Minnesota, with approximately \$54 million in deposits, which represent less than one percent of the total amount of deposits of insured depository institutions in that state.¹⁴ On consummation of this proposal, Applicants' U.S. operations would have assets that represent less than one percent of the total assets of insured depository institutions in the United States.

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 market.¹⁵ The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any 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

¹¹ 12 CFR 211.23(a).

¹² In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

¹³ National asset and deposit data are as of December 31, 2023, unless otherwise noted.

¹⁴ State deposit data are as of June 30, 2023.

¹⁵ 12 U.S.C. § 1842(c)(1)(A).

communities to be served.¹⁶ In addition, under section 4 of the BHC Act, the Board must consider the competitive effects of a proposal to retain the shares of a company engaged in nonbanking activities under section 4(j) of the BHC Act.¹⁷

Applicants do not currently control a commercial bank in the United States, and Applicants and Stearns Bank do not compete directly in any retail banking market. The U.S. Department of Justice has conducted a review of the potential competitive effects of the proposal and has advised the Board that it did not conclude that the proposal would have a significant adverse effect on competition. 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 any 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 sections 3 and 4 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved, the effectiveness of the institutions in combatting money laundering, and any public comments on the proposal.¹⁸ In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board

¹⁶ 12 U.S.C. § 1842(c)(1)(B).

¹⁷ 12 U.S.C. § 1843(j)(2)(A).

¹⁸ 12 U.S.C. § 1842(c)(2), (5), and (6). The Board has analyzed the effectiveness of Applicants' anti-money-laundering efforts in connection with the Board's assessment of whether Applicants are subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in their home country.

considers a variety of public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as any public comments on the proposal. 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 effectively. 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.

The capital levels of Applicants exceed the minimum levels that would be required under the Basel Capital Accord and are considered to be equivalent to the capital levels that would be required of a U.S. banking organization.¹⁹ Applicants appear to have adequate resources to absorb the costs of the proposal and complete the integration of the institutions' operations. In addition, future prospects are consistent with approval.²⁰

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 Stearns Bank, including assessments of its management, risk-management systems, and operations. In addition, the Board has considered information provided by Applicants; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws. The Board also has consulted with the Office of the

¹⁹ The Board considered the total risk-based capital ratio, tier 1 risk-based capital ratio, common equity tier 1 risk-based capital ratio, and the ratio of tier 1 capital to total assets of VersaHoldings, VersaBank, and GBH.

²⁰ To effect the transaction, VersaHoldings will acquire 100 percent of the voting common shares of Stearns Bank from its parent, Stearns Financial Services, Inc., in exchange for cash, based on a formula. Applicants have the financial resources to effect the proposed transaction.

Superintendent of Financial Institutions (“OSFI”), the agency with primary responsibility for the supervision of Canadian banks and other financial institutions, including VersaBank.

The Board also has considered Applicants’ plans for implementing the proposal. Applicants have conducted comprehensive due diligence and are devoting sufficient financial and other resources to address all aspects of the post-acquisition integration process for this proposal. In addition, Applicants’ management has the experience and resources to operate the resulting organization in a safe and sound manner.

The Board also has considered whether GBH and VersaBank have provided the Board with adequate assurances that each will make available to the Board such information on their operations and activities, and those of their affiliates, that the Board deems appropriate to determine and enforce compliance with the BHC Act and other applicable federal laws. GBH and VersaBank have each committed to make such information available to the Board to the extent not prohibited by applicable law.²¹

Based on all the facts of record, including Applicants’ and Stearns Bank’s supervisory records, managerial and operational resources, and plans for operating the combined organization after consummation, the Board determines that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Applicants and Stearns Bank in combatting money-laundering activities, are consistent with approval.

²¹ 12 U.S.C. 1842(c)(3)(A). GBH and VersaBank also have committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable each entity and their affiliates to make such information available to the Board. The Board has reviewed the restrictions on disclosure in the relevant jurisdictions in which GBH and VersaBank operate and has communicated with relevant government authorities concerning access to information. Based on all the facts of record, the Board determines that considerations related to access to information by the Board are consistent with approval.

Supervision or Regulation on a Consolidated Basis

As required by section 3 of the BHC Act, the Board considers whether VersaBank and GBH are subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in their home country.²² The Board has long held that “the legal systems for supervision and regulation vary from country to country, and comprehensive supervision or regulation on a consolidated basis can be achieved in different ways.”²³ In addition, the Board makes case-by-case, institution-specific determinations under the comprehensive supervision standard.²⁴

VersaBank

²² 12 U.S.C. § 1842(c)(3)(B). As provided in Regulation Y, the Board determines whether a foreign banking organization is subject to consolidated home country supervision under the standards set forth in Regulation K. See 12 CFR 225.13(a)(4). Regulation K provides that a foreign bank is subject to consolidated home country supervision if the foreign bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the foreign bank (including the relationships of the bank to any affiliate) to assess the foreign bank’s overall financial condition and compliance with law and regulation. 12 CFR 211.24(c)(1)(ii).

In assessing this standard under section 211.24 of Regulation K, the Board considers, among other indicia of comprehensive, consolidated supervision, the extent to which the home country supervisors (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular reports of examination, audit reports, or otherwise; (iii) obtain information on the dealings and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the bank’s financial condition on a worldwide, consolidated basis; and (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board’s determination.

²³ See e.g., Banco Bradesco S.A., FRB Order No. 2020-06 (October 7, 2020) (“Bradesco Order”); Banco de Credito e Inversiones S.A., FRB Order No. 2015-25 (September 21, 2015) (“BCI-EJY Order”); Industrial and Commercial Bank of China Limited, FRB Order No. 2012-4 (May 9, 2012) (“ICBC-CIC Order”); and China Investment Corporation, 96 Federal Reserve Bulletin B31 (2010).

²⁴ See Bradesco Order; BCI-EJY Order; and ICBC-CIC Order.

As noted, OSFI is the primary supervisor of Canadian banks, including VersaBank. The Board previously has determined that several other Canadian banks were subject to comprehensive consolidated supervision by OSFI.²⁵ The Board finds that VersaBank is supervised by OSFI in substantially the same manner as such other Canadian banks. Based on this finding and all the facts of the record, the Board concludes that VersaBank is subject to comprehensive supervision on a consolidated basis by its home country supervisor.

GBH

In evaluating this proposal, the Board also considered whether VersaBank's nonbank parent company, GBH, is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country. In considering prior applications involving nonbank parent companies of foreign banks, the Board has stated that the system of comprehensive supervision or regulation may vary, depending on the nature of the acquiring company and the proposed investment.²⁶

GBH is a closely held, nonoperating company, the sole purpose of which is to hold VersaBank voting common shares on behalf of the eight related individuals. Applicants represent that neither GBH nor any of its principals are, or will be, involved in the management or operation of VersaBank.

Under the Canadian Bank Act, GBH is required to seek the approval of the Canadian Minister of Finance prior to acquiring a "significant interest" in a class of shares of VersaBank.²⁷ The Minister of Finance can revoke, suspend, or amend such approval, if certain conditions are met.

²⁵ See, e.g., Bank of Montreal, FRB Order No. 2023-1 (January 17, 2023); Canadian Imperial Bank of Commerce, 85 Federal Reserve Bulletin 733 (1999); Royal Bank of Canada, 83 Federal Reserve Bulletin 442 (1997); Bank of Montreal, 80 Federal Reserve Bulletin 925 (1994).

²⁶ See Bradesco Order; BCI-EJY Order; and ICBC-CIC Order.

²⁷ See sections 373(1) and 377.1, Bank Act (Canada) (S.C. 1991, c. 46). The Minister of Finance, in consultation with OSFI, can impose conditions when approving significant

Although GBH is not directly supervised by OSFI, OSFI has a variety of tools to address risks that GBH may pose to the safety and soundness of VersaBank, including the ability to impose additional capital requirements or other restrictions on VersaBank. Under Canadian law, transactions between banks and related parties or affiliates are subject to regulation and supervision by OSFI, and permitted transactions between a bank and its affiliates, including with significant shareholders, generally must be on arm's-length terms. Additionally, OSFI may require GBH to sign a nonbinding "support principle letter," by which GBH would commit to OSFI that GBH will, among other things, make commercially reasonable efforts to offer ongoing financial, managerial, and operational support to VersaBank. OSFI has authority to ensure that support principle letter commitments are upheld, as long as VersaBank operates in Canada. Further, OSFI has the authority to obtain additional information about GBH, as appropriate.

The Board has taken into account that GBH's proposed investment in Stearns Bank would be indirect and through a foreign bank that is subject to consolidated supervision by OSFI. In addition, the Board has taken into account the structure and limited operations of GBH, including that its equity holdings consist solely of VersaBank shares. Based on all the facts of record, the Board determines that GBH is subject to comprehensive supervision on a consolidated basis by its home country supervisor.

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.²⁸ In evaluating whether the proposal satisfies the convenience and needs statutory factor, the Board considers the impact that the proposal will or is likely to have on the communities served by the combined organization. The Board reviews a variety

shareholder applications. OSFI has several supervisory tools available to enforce compliance with any potential commitments, including the ability to impose increased capital, leverage, and liquidity requirements on VersaBank.

²⁸ 12 U.S.C. § 1842(c)(2).

of information to determine whether the relevant institutions' records demonstrate a history of helping to meet the needs of their customers and communities. The Board also reviews the combined institution's post-consummation plans and the expected impact of those plans on the communities served by the combined institution, including on low- and moderate-income ("LMI") individuals and communities. The Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve and are providing access to banking products and services that meet the needs of customers and communities, including the potential impact of branch closures, consolidations, and relocations on that access. In addition, the Board reviews the records of the relevant depository institutions under the Community Reinvestment Act of 1977 ("CRA").²⁹ The Board strongly encourages insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with the institutions' safe and sound operation and their obligations under the CRA.³⁰

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, gender, 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 Applicants, and public comments on the proposal. The Board also may consider the acquiring institution's business model and intended marketing and outreach, the combined organization's plans after consummation, and any other information the Board deems relevant.

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 Stearns Bank; the fair lending and compliance records of Stearns Bank;

²⁹ 12 U.S.C. § 2901 et seq.

³⁰ See 12 U.S.C. § 2901(b).

the supervisory views of the Office of the Comptroller of the Currency (“OCC”); confidential supervisory information; and information provided by Applicants.

Records of Performance under the CRA

In evaluating the CRA performance of the involved institutions, the Board generally considers each institution’s most recent CRA evaluation and the supervisory views of relevant federal supervisors, which in this case is the OCC with respect to Stearns Bank.³¹ In addition, the Board considers information provided by the Applicants.

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.³² 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 (“Lending Test”) to evaluate the performance of a small bank, such as Stearns Bank, in helping to meet the credit needs of the communities they serve.³³ The Lending Test specifically evaluates an 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 data reported under the Home Mortgage Disclosure Act of 1975 (“HMDA”), in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution’s lending activities with respect to borrowers and geographies of different income levels. The institution’s lending performance is

³¹ See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48,506, 48,548 (July 25, 2016).

³² 12 U.S.C. § 2906.

³³ 12 CFR 228.26(a)-(b)(2023).

evaluated based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution’s CRA assessment areas (“AAs”); (2) the geographic distribution of the institution’s lending, including the proportion and dispersion of the institution’s lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;³⁴ (4) the institution’s community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution’s use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.³⁵

CRA Performance of Stearns Bank

Stearns Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the OCC, as of October 4, 2021 (“Stearns Bank Evaluation”).³⁶ The bank received a rating of “Satisfactory” for the Lending Test.³⁷

³⁴ Examiners also consider the number and amounts of small business and small farm loans made to businesses and farms with gross annual revenues of \$1 million or less; small business and small farm loans by loan amount at origination; and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3)(2023).

³⁵ See 12 CFR 228.22(b)(2023).

³⁶ The Stearns Bank Evaluation was conducted using Small Institution CRA Examination Procedures. Examiners reviewed small business and HMDA-reportable loan data from January 1, 2018, through December 31, 2020.

³⁷ The Stearns Bank Evaluation involved a full-scope review of the bank’s activities in the bank’s sole AA, consisting of Holdingford, Minnesota.

Examiners found that Stearns Bank demonstrated satisfactory lending performance. Examiners noted that Stearns Bank's distribution of consumer loans to individuals of different income levels was excellent.

Additional Supervisory Views

In its review of the proposal, the Board consulted with and considered the views of the OCC as the primary regulator of Stearns Bank. The Board also considered the results of the most recent consumer compliance examinations of Stearns Bank, which included reviews of the bank's compliance management programs and its compliance with consumer protection laws and regulations, including fair lending.

The Board has taken this information, as well as the CRA performance record of Stearns Bank, into account in evaluating the proposal, including considering whether Applicants have the experience and resources to ensure that the pro forma organization would help meet the credit needs of the communities to be served by the combined organization following consummation of the proposed transaction.

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. This includes, for example, the combined organization's business model and intended marketing and outreach and existing and anticipated product and service offerings in the communities to be served by the organization; any additional plans the combined organization has for meeting the needs of its community following consummation; and any other information the Board deems relevant. Applicants note that Stearns Bank has successfully served the convenience and needs of the Minnesota communities in which it operates. Further, Applicants have represented that VersaBank USA will continue to provide the deposit and retail loan products currently offered by Stearns Bank after the acquisition. In addition, Applicants have represented that VersaBank USA will offer additional products and services not currently offered by Stearns Bank, including point-of-sale financing and warehouse financing facilities. For the 12-month period following consummation of the proposal, Applicants represent that Stearns Bank's CRA assessment area and program

administration will not change. Applicants have represented that VersaBank USA will, in coordination with the OCC and community leaders, develop a CRA “strategic plan” and submit it to the OCC for approval.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the record of Stearns Bank under the CRA, the institution’s record of compliance with fair lending and other consumer protection laws, supervisory information provided by the OCC, information provided by Applicants, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board determines that the convenience and needs factor is consistent with approval.

Financial Stability Considerations

Section 3 of the BHC Act requires the Board to consider “the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system.”³⁸ In addition, section 4 of the BHC Act requires the Board to balance the expected public benefits of the proposal with the “risk to the stability of the United States banking or financial system.”³⁹

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

³⁸ 12 U.S.C. § 1842(c)(7).

³⁹ 12 U.S.C. § 1843(j)(2)(A).

resulting firm.⁴⁰ 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 opacity 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 on the broader economy.⁴¹

The Board’s experience has shown that proposals involving an acquisition of less than \$10 billion in total assets, or that result in a firm with less than \$100 billion in total assets, generally are not likely to pose systemic risks. Accordingly, the Board presumes that a proposal does not raise material financial stability concerns if the assets involved fall below either of these size thresholds, absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.⁴²

In this case, the Board has considered information relevant to risks to the stability of the U.S. banking or financial system. The proposal involves a target with less than \$10 billion in total assets and a pro forma organization with less than \$100 billion in total assets. VersaBank, through VersaFinance, currently offers certain point-of-sale financing products to customers in the United States. Upon consummation of the proposal, Applicants would have a small market share on a nationwide basis with respect to their products and services, and numerous competitors would remain. The pro forma

⁴⁰ Many of the metrics considered by the Board measure an institution’s activities relative to the U.S. financial system.

⁴¹ For further discussion of the financial stability standard, see Bank of Montreal, FRB Order No. 2023-01 (January 17, 2023); see also Capital One Financial Corporation, FRB Order No. 2012-2 (February 14, 2012).

⁴² See People’s United Financial, Inc., FRB Order No. 2017-08, 25–26 (March 16, 2017). Notwithstanding this presumption, the Board has the authority to review the financial stability implications of any proposal. For example, an acquisition involving a global systemically important bank could warrant a financial stability review by the Board, regardless of the size of the acquisition.

organization would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. In addition, the organization would not be a critical services provider or so interconnected with other firms or the markets that it would pose a significant risk to the financial system in the event of financial distress.

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.

Acquisition of Nonbanking Companies

Applicants also have filed a notice under sections 4(c)(8) and 4(j) of the BHC Act to engage de novo in extending credit and servicing loans, through retention of the shares of VersaFinance. The Board previously has determined by regulation that the proposed activities are closely related to banking for purposes of section 4(c)(8) of the BHC Act.⁴³ Applicants have stated that they would conduct these activities in accordance with the Board's regulations governing these activities for bank holding companies.

Section 4(j)(2)(A) of the BHC Act requires the Board to "consider whether performance of the activity by a bank holding company or a subsidiary of such company can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system."⁴⁴

Under the proposal, Applicants would retain a controlling interest in VersaFinance and thereby engage in extending credit and servicing loans. There are

⁴³ See 12 CFR 225.28(b)(1).

⁴⁴ 12 U.S.C. § 1843(j)(2)(A).

public benefits to be derived from permitting bank holding companies to make potentially profitable investments in financial companies and to allocate their resources in the manner they consider to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.⁴⁵

The Board concludes that the performance of the proposed nonbanking activities, as assessed under Regulation Y, Board precedent, and this order, is not likely to result in significant adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices, or risk to the stability of the U.S. banking or financial system. Based on the entire record, and for the reasons discussed above, the Board concludes that the balance of benefits and potential adverse effects related to competition, financial and managerial resources, convenience to the public, financial stability, and other factors weigh in favor of approval of the proposal. Accordingly, the Board determines that the balance of the public benefits under the standard of section 4(j)(2) of the BHC Act is consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the proposal 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 Applicants with all the conditions imposed in this order and on any commitments made to the Board in connection with the proposal. The Board's approval is also conditioned on receipt by Applicants of all required 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.

⁴⁵ See, e.g., The Toronto-Dominion Bank, FRB Order No. 2020-04 (September 30, 2020); Morgan Stanley, 94 Federal Reserve Bulletin C103 (2008); Arvest Bank Group, 89 Federal Reserve Bulletin 439 (2003); The Charles Schwab Corporation, 86 Federal Reserve Bulletin 494 (2008).

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 the Federal Reserve Bank of Minneapolis, acting under delegated authority.

By order of the Board of Governors,⁴⁶ effective June 6, 2024.

(Signed) Benjamin W. McDonough

Benjamin W. McDonough
Deputy Secretary of the Board

⁴⁶ Voting for this action: Chair Powell, Vice Chair Jefferson, Vice Chair for Supervision Barr, Governors Bowman, Waller, Cook, and Kugler.