IN THE COURT OF APPEALS OF IOWA

No. 8-162 / 07-1258
Filed June 25, 2008

COMMUNITY STATE BANK, NATIONAL ASSOCIATION,
Plaintiff/Counterclaim Defendant-Appellee,

vs.

COMMUNITY STATE BANK,
Defendant/Counterclaim Plaintiff-Appellant,

Appeal from the Iowa District Court for Polk County, Scott D. Rosenberg, Judge.

Defendant appeals from the district court's rulings denying defendant's motion for summary judgment, its finding that plaintiff had a common law trademark in "Community State Bank," and enjoining defendant from using the name in Polk County. **AFFIRMED IN PART, REVERSED IN PART.**

Phil Watson, Des Moines, and James L. Sayre, Clive, for appellant.

Jeffrey D. Harty and Christine Lebrón-Dykeman, of Mckee, Voorhees & Sease, P.L.C., Des Moines, for appellee.

Thomas J. Miller, Attorney General, Shauna Russell Shields, Assistant Attorney General, for intervenor.

Heard by Huitink, P.J., and Mahan, J., and Schechtman, S.J.*

*Senior judge assigned by order pursuant to Iowa Code section 602.9206 (2007).

SCHECHTMAN, S.J.

This is an appeal from a final order granting permanent injunctive relief to the plaintiff, Community State Bank, National Association (hereinafter often referred to as CSB,NA), enjoining the defendant, Community State Bank (hereinafter referred to as Csb), and all of its four locations, from using its legally state-chartered name, Community State Bank or its logo "CSB," within Polk County, Iowa. The district court concluded CSB,NA had a protective proprietary right in the trade name, "Community State Bank" and its mark "CSB" in Polk County, and the defendant bank infringed upon the use of those common law trademarks therein.

Prior to bench trial, in dual motions for summary judgment, the motion court struck the affirmative defenses of Csb that (1) the use of "State" in its name by a nationally-chartered bank is in violation of Iowa Code section 524.310(1) (2005), and (2) CSB,NA failed to exhaust its administrative remedy when the Iowa Division of Banking approved an inter-company merger of Fort Des Moines Community Bank into Csb.

Csb filed a counterclaim asserting similar proprietary rights in its legally state-chartered name. It appeals the enforcement of the permanent injunction, the finding of a common-law trademark in CSB,NA and its infringement, the striking of its two affirmative defenses, and the denial of its counterclaim alleging its common law trademark.

The Iowa Superintendant of Banking intervened contending the use of "Community State Bank" by CSB,NA, a national bank, is prohibited by an

amendment to Iowa Code section 524.310(1), enacted July 1, 2004, which was alleged remedial and to be applied retrospectively to CSB,NA.

BACKGROUND.

This litigation involves two banks, both doing business in the Des Moines metro area, as "Community State Bank," as well as using as a logo, the combination of its initials, "CSB."[1] Both agree that neither has a registered trademark in "Community State Bank," or a registered mark of its initials. Both further agree that the banks offer similar products and services.

The plaintiff began business in 1902 as the Bank of Ankeny. Its main corporate office remains in Ankeny, in Polk County. In the depression year of 1933, it reincorporated as Ankeny State Bank. Sixty years later, in May 1993, it merged with Altoona State Bank, also in Polk County, and changed its state-chartered name, and its operating name, to "Community State Bank." It maintained banking facilities in each city. Three years later, in July 1996, it purchased East Des Moines National Bank with its four locations in east Des Moines, southeast Des Moines, and Pleasant Hill.[2] On April 1, 2003, the plaintiff converted from a state-chartered bank to a nationally-chartered bank, Community State Bank, National Association, with the approval of the Office of

[1] There are three other state-chartered banks in Iowa with the same name, located at Paton, Spencer, and West Branch.

[2] The Des Moines branches are situated on Northeast Fourteenth Street, Southeast Fourteenth Street, and East Thirty-Third and Euclid Avenue.

the Comptroller of Currency. It continued to use the name, "Community State Bank" together with its "CSB" logo.[3]

The defendant's bank holding company, Community Bancshares, Inc., acquired a small bank in Lucas, Lucas County, Iowa, in March 1993, moving its charter to Indianola in Warren County, about seventeen miles south of downtown Des Moines, but less distance south of the Polk County boundary line. Its name was changed to "Community State Bank," while retaining its branch office in Lucas. Its main office was in Indianola where it remains. In 1999 Community Bancshares, Inc. opened a new bank on Army Post Road in south Des Moines, state-chartered as the "Fort Des Moines Community Bank." In 2000 Csb added a branch in Indianola and another branch in 2003 in Norwalk, a city in Warren County but immediately south of the line separating Polk and Warren counties. In late 2004, the Fort Des Moines branch and the other four locations filed articles of merger, effective December 31, 2004, to merge into a single entity named "Community State Bank." The Fort Des Moines Community Bank officially became identified as Community State Bank on January 7, 2005. This suit ensued two months later.[4]

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[3] CSB,NA had nine locations, all in Polk County, when it initiated this suit in March 2005, for a temporary/permanent injunction and declaratory judgment: Altoona, Ankeny (3), Des Moines (3), Johnston, and Pleasant Hill. Thereafter, it acquired a tenth site in Waukee, west of Des Moines in Dallas County. It is controlled by Van Diest Investment Company, a bank holding company, whose other acquisition is First State Bank in Webster City.

[4] However, this branch sits on a historic site, Fort Des Moines, a training center for the U.S. Army in World War II for women, which requires Csb to use "Fort Des Moines" somewhere in its trade name. Its proposed signage was "Community State Bank, Fort Des Moines Branch." The telephone directory has a similar listing. The district court, in its temporary and permanent injunction order, did allow the defendant to use "Fort Des

On April 11, 2003, a few days after CSB,NA converted to a national charter, Thomas B. Gronstal, the Iowa Superintendent of Banking, remitted a letter to CSB,NA's president, in Ankeny, demanding that it "cease and desist." The correspondence recited facts that prior to its national charter his office had been contacted and CSB,NA was told that use of the word "state" in its name after the conversion would be "deceptive to the public." The superintendent concluded,

> Use of the word 'state' in your name is a deceptive practice, since the public who deposits funds in your institution would continue to believe that your bank is regulated and examined by the Iowa Division of Banking when in fact it is examined and regulated by the Office of the Comptroller of the Currency. Therefore, this letter is to inform you to cease and desist from the use of the word 'state' in your name immediately.

About ten days later, representatives of CSB,NA met with the Division of Banking personnel. CSB,NA responded that it was no longer a state charter and subject to Iowa regulations or banking authority, and did not need to comply with the terms of the cease and desist directive.

The Iowa Division of Banking, after pondering its alternatives, decided to not proceed expending resources in challenging the plaintiff's stance. Rather, it opted to address the issue by sponsoring corrective legislation as a part of the Division's legislative package for the 2004 general assembly's session. It advocated an amendment to Iowa Code section 524.310(1) that would prohibit

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Moines Community Bank," "Fort Des Moines Bank," "Fort Des Moines Community Bank, Indianola, Iowa," "Fort Des Moines State Bank of Indianola," or "Fort Des Moines Bank, a Division of Community State Bank of Indianola, Iowa," for this branch, apparently to abide by this historic directive.

use of the word "state" in a national bank's "legally chartered name." That change was enacted with session laws effective July 1, 2004.[5]

CSB,NA is substantially larger than Csb, having approximately $406 million in deposits in mid-2006 compared to about $80 million for Csb. There were 148 bank offices in Polk County at that time, owned by thirty-eight separate banking institutions. CSB,NA had a 4.6% market share in Polk County, while Csb had only the Fort Des Moines branch which yielded only 0.22% of the deposits in banks situated within the confines of Polk County.

CSB,NA's advertising budget for TV, billboard, radio, and print, including the Des Moines Register, totaled more than one-quarter million dollars each year from 2004 to 2006. Most of this sum was expended for Polk County media. The majority of the advertising contained a logo "CSB Community State Bank" with a script phrase, "Redefining Simple." Csb expended far less for advertising, concentrating in Warren County, but with moderate coverage in abutting Polk County. Some advertising texts for CSB,NA proclaimed "9 Neighborhood Locations in Greater Des Moines" or "9 Des Moines Area Locations." Mark Degner, CSB,NA's president, admits that not one bit of its advertising contains its nationally legally chartered name or its national nature, source, or status.

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[5] That section provides, as amended:

> The name of a state bank originally incorporated or organized after the effective date of this chapter shall include the word "bank" and may include the word "state" or "trust" in its name. A state bank using the word "trust" in its name must be authorized under this chapter to act in a fiduciary capacity. A national bank or federal savings association shall not use the word "state" in its legally chartered name.

Iowa Code § 524.310(1) (The last sentence is the 2004 amendment).

CSB,NA did not complain about the bank located on Army Post Road until that branch merged with Csb. For its first years it was called "Fort Des Moines Community Bank" without using the word, "state." Its logo was "FDM," and, oft-times, "A Division of Community State Bank Indianola IA" in smaller font appeared under its name on stationery, business cards, and some advertising. CSB,NA's branch at 4811 Southeast Fourteenth Street was its only location relatively near Csb's Fort Des Moines branch at 612 Army Post Road, being two miles distant. Army Post Road runs east-west and lies one mile north of the Warren County line.

Limited confusion emanated from the two operations, such as misdirected night deposits, calls to the Fort Des Moines location by customers who did not understand the yellow-book listings, believing they were contacting the plaintiff's bank,[6] attempting to cash checks at the wrong bank, receipt of correspondence intended for the other, and mailing a deposit to CSB,NA's branch in southeast Des Moines when it was intended for the Fort Des Moines branch. There was no evidence of economic loss or damage to any customer of either bank.

SCOPE OF REVIEW.

Both parties are seeking equitable relief and agree that our standard of review is de novo. We review cases in equity de novo. Iowa R. App. P. 6.4; *Commercial Sav. Bank v. Hawkeye Fed. Sav. Bank*, 592 N.W.2d 321, 326 (Iowa 1999).

[6] This confusion appears to have resulted from CSB,NA's one listing, without listing its nine addresses, under one master number for "Local Customer Care," whereas Csb had each of its five locations identified by name, address, and separate telephone number.

ANALYTICAL PLATFORM: Existence of a common law trademark.[7]

Trademarks are signs or symbols used to identify goods or services. *Pundzak v. Cook*, 500 N.W.2d 424, 430 (Iowa 1993). It arises from the use of a word, phrase, logo, or other device to identify goods or services. *First Bank v. First Bank Sys., Inc.*, 84 F.3d 1040, 1044 (8th Cir. 1996). Iowa has recognized common law rights in trademarks for well over a century. *See Shaver v. Shaver*, 54 Iowa 208, 209, 6 N.W. 188, 188 (1880). The ownership of the mark is in "the legal entity who is in fact using the mark as a symbol of origin." 1 J. McCarthy, *Trademarks and Unfair Competition* § 16:13, at 747 (2nd ed. 1984). The party requesting protection has the burden to prove there has been such use of a name or designation that is sufficiently distinctive such that customers, actual and potential, identify the mark with the goods or services provided by it. *Commercial Sav. Bank*, 592 N.W. 2d at 327.

Our analysis must open by classifying it into one of four categories: (1) generic, (2) descriptive, (3) suggestive, or (4) fanciful or arbitrary. *Id.* A generic designation is like "camera" for goods; "computer programming" for services, and, "bank" for a type of business. *Id.* at 328 n.2. A generic term is not entitled to protection. *First Bank*, 84 F.3d at 1045. A suggestive description denotes the nature or characteristic of the product or service without being descriptive, such as HERCULES for girders. *Commercial Sav. Bank*, 592 N.W.2d at 328 n.3.

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[7] A trade name is descriptive of a person's business or enterprise; a trademark is descriptive of goods or services. The same principles govern their protection and we make minimal distinction between the two as the subject mark has some qualities of each and is seen as a hybrid. *See* Restatement (Third) of Unfair Competition § 12, at 97 (1995).

Suggestive marks need not acquire a secondary meaning to be protectable. *See Gulf Coast Bank v. Gulf Coast Bank & Trust Co.*, 652 So.2d 1306, 1309 (La. 1995). A fanciful mark has no meaning other than identifying the source, such as EXXON. Restatement (Third) of Unfair Competition § 13 cmt. c, at 106 (1995) (hereinafter Restatement). An arbitrary designation is an existing word whose dictionary meaning is unrelated to the particular product, service, or business, like SHELL for oil products. *Id.* at 107. Fanciful and arbitrary marks are inherently distinctive without proof of a secondary meaning. *Id*. at 106.

"Community State Bank," in its three-word combination,[8] is descriptive, as is the initial logo as a derivative of it. A descriptive designation is one that is "merely descriptive of the nature, qualities, or other characteristics of the goods, services, or business with which it is used." *Commercial Sav. Bank*, 592 N.W.2d at 328 (quoting Restatement § 14, at 120). Words that are descriptive of the business to which they are applied cannot be exclusively appropriated as a trademark. *Iowa Auto Mkt. v. Auto Mkt. & Exch.*, 197 Iowa 420, 422, 197 N.W. 321, 323 (1924). They are not inherently distinctive and do not merit protection as a trademark or trade name unless it has acquired distinctiveness or secondary meaning. *Commercial Sav. Bank*, 592 N.W.2d at 328.

Secondary meaning can be established through direct evidence, such as consumer surveys and customer testimony, or through circumstantial evidence, such as exclusivity of use, length and manner of the designation's use, amount

[8] "State Bank" arguably is generic as merely descriptive (or misdescriptive) of a state-chartered business. But the use of "Community" preceding it appears to elevate it to a descriptive designation.

and manner of advertising, amount of sales, market share, and number of customers. *Id.* at 329.

> To have this protection, the party complaining must show that, by continued use, the secondary meaning has become established in the public mind, and his goods have become known and recognized by the public under the name, device, or symbol, with its secondary meaning. Before the courts will afford protection in its use, it must be shown, that, as to the party complaining, it has a secondary meaning in the public mind; that it designates and is understood to represent the goods of the party complaining, so that one appropriating it and using it, after such meaning has attached, would be in a position to practice a fraud upon the complainant and upon the public.

Id. (citing *Motor Accessories Mfg. Co. v Marshalltown Motor Material Mfg. Co.*, 167 Iowa 202, 208-09, 149 N.W. 184, 187 (1914)).

If a common law trademark is proven to be distinctive, either inherently (which it is not) or through secondary meaning, the user, asking for protection, must prove that the defendant's use of a similar mark will cause a "likelihood of confusion" among consumers. *See Commercial Sav. Bank*, 592 N.W.2d at 330; Restatement § 20 cmt. d, at 211-13. Courts have set out six factors for consideration in determining whether CSB,NA has proved a "likelihood of confusion" and are our guiding standards: (1) strength of the trademark, (2) similarity between the marks, (3) competitive proximity where the trademarks are used, (4) intent of the alleged infringer to pass off its goods (or services) as those of the holder of the trademark, (5) incidents of actual confusion, and (6) degree of care likely to be exercised by potential customers of the tradename holder. *Commercial Sav. Bank*, 592 N.W.2d at 330; *see also* Restatement § 21, at 225-26.

ANALYSIS.

Upon our de novo review, we disagree with the district court's findings that CSB,NA had acquired distinctiveness with respect to the name "Community Savings Bank," through secondary meaning. In *Commercial Savings Bank v. Hawkeye Federal Savings Bank*, 592 N.W.2d 321, 329 (Iowa 1999), a bank in Carroll (with small offices in Dedham and Lanesboro, all in Carroll County) was given secondary meaning to "Commercial" for an eight-county area. But it had exclusive use to that name in that eight-county area from 1917 to 1991, seventy-four years. *Commercial Sav. Bank*, 592 N.W.2d at 329. Again, in *First Federal Savings & Loan Association of Council Bluffs v. First Federal Savings & Loan Association of Lincoln*, 929 F.2d 382, 384 (8th Cir. 1991), secondary meaning was tendered to "First Federal" to the plaintiff in Dallas, Polk, and Warren Counties, as it had exclusive use of that name for thirty-five years. CSB,NA used the trade name in Polk County about twelve years before suit, and only eight years in Des Moines proper. Though length of time is not determinative in itself, it's justly important on the distinctiveness issue. Suffice it to say that its length of use is relatively short in the banking trade.

The trial court placed huge emphasis on the results of a hired telephonic survey engineered by a professor of information systems. The expert's methodology was to investigate whether "Community State Bank" is perceived as a "brand" or "type" in Polk County.[9] These results were of little probative value as

[9] The following explanation was read to the respondent over the telephone:

the answers were obvious when compared to the other options, nor were they purported to reference Csb or CSB,NA. If it was offered to establish that Community State Bank was inherently distinctive, it failed in that effort also. The respondents were bank customers in Polk County. They were neither potential new customers nor customers who may be interested in changing or expanding their banking habits. An appropriate universe is a fair sampling of consumers most likely to partake of the alleged infringer's goods, services, or business. *See Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252, 264 (5th Cir. 1980), *cert. denied* 449 U.S. 899, 101 S. Ct. 268, 66 L. Ed. 2d 129 (1980).

CSB,NA is a generous advertiser, using its logo and Community State Bank throughout its market area. It is the likely effect rather than the effort invested in advertising and promotion that is determinative; the expenditure of substantial sums does not itself create protected rights through secondary meaning. *See* Restatement § 13 cmt. e, at 110. That advertising is

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> Most products and services in the marketplace have two names. One tells what type of product or service it is, such as coffee or restaurant or convenience store. The other is its brand name, such as Maxwell House or Applebee's or Casey's General Store. In this survey, I'm going to read you some names and ask whether you think each is a name that tells what type of product or service it is or a name that tells what brand it is. For any name I ask you about, if you have no opinion, just tell me so.

The values for the names were eight, read in the following order: Automobile, Nike, Laundry Detergent, Life Insurance, Community State Bank, HyVee, Medical Clinic, Budweiser. Predictably, of the 390 respondents, over ninety percent responded that Nike (ninety-eight percent), Community State Bank (ninety percent), Hy Vee (ninety-five percent), and Budweiser (ninety-seven percent) were brands, whereas about ninety-eight percent found Automobile, Laundry Detergent, Life Insurance, and Medical Clinic to be types.

predominantly directed to its image in areas of Polk County distant from southern Des Moines, like Ankeny, Altoona, Johnston, and Waukee.

Nor was CSB,NA's use of the trade name exclusive, including its use in Polk County. Csb adopted it as its legally chartered name (not only as its trade name) two months prior to CSB,NA's changing its name for the banking offices in Altoona and Ankeny. There is no iron curtain between Warren and Polk County. Indianola is within commuting distance of Des Moines. Depending on who you visit with, Indianola, and without a doubt, Norwalk, is within the Des Moines metro area. Army Post Road is one mile from the Warren County line. Southeast Fourteenth is the main highway (Highway 65) that runs south to Indianola. Des Moines is not unlike other cities of its size, as when you travel in any direction, you cannot tell where the municipality ends and a suburb begins. Municipal and county lines are political boundaries, but not trade barriers. Evidence indicated that about six to seven percent of Csb's deposits originated from a Polk County zip code at pertinent times and grew to over twenty percent with the advent of the Fort Des Moines office. Concurrent use by competitors tends to negate the existence of secondary meaning. Restatement § 13 cmt. e, at 110.

If X, a prior user, locates in Farm City prior to Y locating in Urban twenty miles away, with eventual locations by Y ten miles away from X, a common name should not prevent X from expanding towards Y's facilities. This is an example of the "doctrine of natural expansion" ordinarily treated as emanating from *Hanover Star Milling v. Metcalf*, 240 U.S. 403, 420, 36 S. Ct. 357, 363, 60 L. Ed. 713, 721

(1916), in which the Court defined it as "territory that would be possibly reached by a prior user in the natural expansion of his trade." In some cases, trademarks will not be protected in areas into which normal expansion of the business will reach. *beef and brew, inc. v. Beef & Brew, Inc.*, 389 F. Supp. 179, 185 (D.C. Oregon 1974); *see also Sweet Sixteen, Co. v. Sweet "16,"* 15 F.2d 920, 924 (8th Cir. 1926). Army Post Road appears to lie within Csb's path of natural expansion from its Indianola sites. Although Iowa has not adopted or rejected the doctrine, it is an appropriate consideration when reviewing these circumstances and the secondary meaning issue.

"Community" is comparable to words like "Federated," "Farmers," "Merchants," "First," "Metropolitan," "People's," "Citizen's," and "United," all a part of numerous banks' "first names." Commonly, banks carry the name of their city, state, county, or region (Midwest, West, Northern). Then they are tossed in with a variety of names, such as "Savings," "Exchange," "State," "Interstate," "Federal," "Trust," and "National." When these repetitive words are juggled and formed into a couple (or three) words followed by the word, "Bank," the banks should expect limited confusion and similarity. Though this arguably addresses the issue of likelihood of confusion, and the strength and similarity of marks, it interrelates when assessing secondary meaning.

Community State Bank is a highly descriptive name with "community" referencing the public, area, or town, "state," being its source of charter, and "bank," connoting its function. Each word in the name has some impact on its

continued use and understanding. These types of names require more evidence to establish their distinctiveness. *See* Restatement § 13 cmt. e, at 109.

No consumers testified about secondary meaning. It's obvious that CSB,NA is aggressive in community support, advertising, and expansions. But it does not dominate the banking landscape in the area where it alleges infringement, that is, south or southeast Des Moines. Arguably, it may have a better case for secondary meaning in Ankeny, but it falls progressively shorter the closer one travels towards Warren County. It has been reported that bank customers exercise a relatively high degree of care when selecting a bank to manage their resources. *See First Nat'l Bank, Sioux Falls v. First Nat'l Bank, South Dakota*, 153 F.3d 885, 889 (8th Cir. 1998).[10] We have no reason to conclude that finding was territorial to our neighbors to the northwest alone.

Lastly, the computer age and interstate banking have significantly altered the manner in which banks carry on their cause. Changes in the names and sites of banking establishments are the recent norm in the banking industry. Location and direct access are no longer the prime targets for emphasis and growth. The customer does not personally visit the bank to the degree that he or she did a short ten years ago. This results from the use of accessible ATMs, credit/debit cards, online banking, automatic deposits, and automated payments to installment providers of goods or services. Foot traffic to banking facilities has significantly decreased, and will continue to decline (although offset somewhat by

[10] Again, this may be better addressed on the likelihood of confusion issue, but with this result, we will not get to that issue.

those seeking insurance, real estate, and investment services which are becoming a large part of a bank's portfolio). These observations exacerbate the inability of banks to prove secondary meaning in its trademark context.

We find that Community Savings Bank, National Association, the plaintiff, has failed to prove that its trademark(s) are inherently distinctive, and further failed to prove that the marks have come to be understood in a *secondary sense* as identifying its business and trade. Its failure to prove a secondary meaning denies it the protection it sought. Although that failure is reason enough for a reversal of the trial court, there is another equitable consideration.

DOCTRINE OF CLEAN HANDS.

Although we find no protection because "Community State Bank" is not inherently descriptive, and it did not prove an acquisition of a secondary meaning, we would be remiss by not also discussing the use of a deceptive mark, since we are sitting in equity. The unequivocal rule on deceptive marks was set forth in *Clinton E. Worden & Co. v. California Fig Syrup Co.*, 187 U.S. 516, 528, 23 S. Ct. 161, 164, 47 L. Ed. 282, 288 (1903),

> that where any symbol or label claimed as a trade-mark is so constructed or worded as to make or contain a distinct assertion which is false, no property can be claimed on it, or, in other words, the right to the exclusive use of it cannot be maintained.

See also R. Neumann & Co., v. Overhead Shipments, Inc., 326 F.2d 786, 789 (C.C.P.A. 1964) (reciting this rule while holding "DURA-HYDE," when applied to a plastic material of leather-like appearance, was deceptive as connoting "durable leather"). Deceptive marks can be denied protection against

infringement under the doctrine of unclean hands.[11] Restatement § 14 cmt. c., at 125.

> The equity maxim of clean hands expresses the principle that where a party comes into equity for relief he or she must show that his or her conduct has been fair, equitable, and honest as to the particular controversy in issue. A complainant will not be permitted to take advantage of its own wrong or claim the benefit of his or her own fraud or that of his or her privies.

Opperman v. M. & I Dehy, Inc., 644 N.W.2d 1, 6 (Iowa 2002) (quoting 27A Am. Jur. 2d *Equity* § 126, at 605 (1996)).

> The maxim means that whenever a party who seeks to set the judicial machinery in motion and obtain some equitable remedy has violated conscience or good faith or another equitable principle in prior conduct with reference to the subject in issue, the doors of equity will be shut, notwithstanding the defendant's conduct has been such that in the absence of circumstances supporting the application of the maxim, equity might have awarded relief.

Id. "What underlies the maxim is the principle that 'equity will not aid an applicant in *securing* or *protecting* gains from wrongdoing or in escaping its consequences.'" *Id.* (quoting 27A Am. Jur. 2d *Equity* § 126, at 605-06). The maxim "is ordinarily invoked to protect the integrity of the court where granting affirmative equitable relief would run contrary to public policy . . . ." *Myers v. Smith*, 208 N.W.2d 919, 921 (Iowa 1973).

The plaintiff's misconduct need not be tortious or criminal to constitute unclean hands. Restatement § 32 cmt. a, at 330; *see Precision Instruments Mfg. Co. v. Automotive Maint. Mach. Co.*, 324 U.S. 806, 815, 65 S. Ct. 993, 997-98,

[11] The maxim is also called "clean hands."

89 L. Ed. 1381, 1386 (1945). The guiding principle of the maxim is "he who comes into equity, must come with clean hands." *Myers*, 208 N.W.2d at 921.

The maxim gives wide range to the equity court's use of discretion in refusing to aid the unclean litigant. It is not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion. *Keystone Driller Co. v. General Excavating Co.*, 290 U.S. 240, 245-46, 54 S. Ct. 147, 148, 78 L. Ed. 293, 297 (1933).

There is ample evidence of deception. The Superintendent of Banking[12] labeled the use of "Community State Bank" by a national bank to be a "deceptive practice." CSB,NA did not take the posture in its response, that it was not deceptive. Rather it reminded the state officials that "it was not subject to the state's jurisdiction," as it was now a national charter. Nor did CSB,NA offer any legitimate reason for continuing to employ the word "State" in its legally chartered name or this trade name. CSB,NA did offer evidence of its reputation, its advertising and promotion, and interest in the communities, which subtly suggests that it had a lot invested in the name, "Community State Bank," which it did not wish to forsake. It was its choice to seek a national charter and to assume whatever results from that decision, good or bad. CSB,NA could not point to any use of "National Association" or any use or reference to its national source in any advertising, promotion, or signage. What it did appear to expect was to continue to use the word, "State" in its name, challenging anyone to do

[12] The superintendent "shall be charged with the administration and execution of the laws of this state relating to banks and banking . . . ." Iowa Code § 524.213.

anything about it, having been advised it was deceptive in banking venues as well as to the banking public. The name connotes that it is a local (community) state (Iowa chartered) bank. "Community" sets the stage for its locale, which is Ankeny, Des Moines, Altoona, or Johnston, which all are in the state of Iowa. "State" does not refer to the sovereign state of Iowa, as that would be duplicative. It, along with the word "state" in all bank names, references the origin of its charter, and it becomes increasing deceptive with the last two words, "State Bank." There is continuing evidence of actual confusion by complaining customers contacting the Division of Banking about CSB,NA believing that it is a "State bank" as its name proclaims.[13] The division advises the surprised caller that CSB,NA is not a state regulated bank and offers the caller the telephone number of the Office of the Comptroller of Currency. These occurrences should not be taken lightly and suggest that the consuming public is being deceived and moderately inconvenienced by the deceptive use. This is evidence that the misrepresentation, "State," by a national charter, is material and sufficiently persuasive to consumers and the public. *See* Restatement § 14 cmt. c., at 125.

There may be those pundits who will view this remedy of clean hands, if applied, as too harsh, absent a crime or tort, in our highly honed competitive world. But in its favor, unfair competition in the work place should not be condoned and passed over as a mere competitive effort. Diligence is required and courts of equity are the gatekeepers, when its discretion is invoked. Many

[13] The person who takes incoming calls for the division estimates about one call per month questioning or complaining about CSB, NA which suggests similar confusion by others who do not bother to call.

banks have the word "trust" in their names. Though this may officially refer to a legal combination, it's passively employed to convey public confidence in its integrity, ability, character, and truthfulness. Using the word "state" in its trade name, when it is a national bank, does not promote the public's "trust," puzzles those interested, and creates the confusion that it now complains about. This is further aggravated by the fact there is another bank using the identical trade name in its backyard (or front yard, as one may view it), who adopted it in the first instance. If you come in and ask for equity, your house should be clean.

The clean hands maxim need not be pleaded; the district court may apply the maxim on its own motion. *Opperman*, 644 N.W.2d at 6; *Myers*, 208 N.W.2d at 921. Since this is a de novo review in equity, this appellate court can do likewise. Courts apply it, not to favor a defendant, but because of the interest of the public. *Sisson v. Janssen*, 56 N.W.2d 30, 34 (Iowa 1952).

Having discussed the doctrine of clean hands, alongside the record, the doctrine was not raised in the trial court by the defendant or intervenor; nor did the trial court entertain it sua sponte. Nor was it addressed in any brief or argument, oral or written, in this appeal. Since its application requires proof of misconduct, with its intent as an important factor, we decline to invoke it, in its pure form, without CSB,NA having had an opportunity to refute its application as a remedy.[14] *See* Restatement § 32 cmt. a, at 330, cmt. b, at 331. But these observations do serve to intensify our findings of lack of distinctiveness or

[14] Under different circumstances, a remand to the trial court for the receipt of evidence on that question may be appropriate. However, that is unnecessary due to our finding that the trademark lacks distinctiveness or secondary meaning.

secondary meaning, as the evidence supporting a deceptive trademark should be coated with that essence.

We recognize that this decision will leave two banking associations in the Des Moines-Indianola area that use the same name. Fortunately, there has been no economic injury to the banking public to date, and any confusion will continue to lessen with time. Our force over national banks is limited. One should not color the source of its charter and its governmental regulator. Common sense still has a spot at the table. Using "Community State Bank" rather than "Community National Bank" or "Community Bank of Des Moines Metro," or similar mix, appears to substitute stubborn purpose for common sense and "community," in its real sense.

APPLICATION OF STATUTE.

The intervenor, as well as the defendant, contend that Iowa Code section 524.310(1) prohibits Community State Bank, National Association from using Community State Bank as a trademark. We need to address this issue as it remains an issue notwithstanding our ruling on the protection issue.

The 2004 legislation was enacted to prohibit national banks from using the word "state" in its "legally chartered name." CSB,NA challenges its application as the designated trademark is not its "legally chartered name," and it operates prospectively only.

Iowa Code section 4.5 provides "A statute is presumed to be prospective in its operation unless expressly made retrospective." This premise is confirmed by our case law. *See Board of Trustees v. City of West Des Moines*, 587 N.W.2d

227, 230 (Iowa 1998). There is an exception. Though it operates prospectively if it involves substantive rights, if it relates to remedy or procedure, "it ordinarily applies both prospectively and retroactively." *State ex rel. Turner v. Limbrecht*, 246 N.W. 330, 332 (Iowa 1976).

The legislature did not expressly state whether it applied either way. That failure is not determinative. *Emmett County State Bank v. Reutter*, 439 N.W.2d 651, 654 (Iowa 1989). In that event, there is a three-part test: (1) we look to the language of the new legislation; (2) we consider the evil to be remedied; and (3) we consider whether there was a previously existing statute governing or limiting the evil the new legislation was intended to remedy. *Id.*

The legislature is keenly aware that it can state in the body of a statute that it applies retrospectively or only prospectively.[15] Though proposed by the Division of Banking, after its cease and desist order, the proposal did not contain any direction about retrospective application (CSB,NA was the only national bank in Iowa using "state" in its name).[16] The "evil to be remedied" was a trade name (though distilled from its chartered name), yet the statute only makes reference to its "legally chartered name." The legislature adopted the language composed, then proposed, by the Superintendent of Banking.

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[15] The subject statute, when enacted, expressly excludes existing state banks on January 1, 1970, from the then written statute's application. Iowa Code section 534.310(2).

[16] There is in evidence correspondence from the Division of Banking, in response to a written query from CSB,NA, that "It was not our intent to have the prohibition be retroactive . . . ." Though it is the legislature's intention that is the crux of this issue, not the Division of Banking, the legislation was department sponsored and composed.

We conclude that the statute is prospective in operation only, under these circumstances. We do not address the matter of federal preemption as it is not an issue due to these results.[17]

DEFENDANT'S COUNTERCLAIM.

Csb practically mirrored the plaintiff's petition for injunctive relief and declaratory judgment in its counterclaim. Its evidence was mostly defensive and fell significantly short of proving any protective right in its name. Though it was the senior user in the general area, and it was its legally state-chartered name, its proof did not substantiate its right to a protected status and injunctive relief. Its request for attorney fees is denied as it was not only defending but asserting independent relief. The trial court's summary finding that CSB,NA did not fail to exhaust its administrative remedies was correct.

CONCLUSION.

We reverse the trial court's finding that Community State Bank, National Association had a protective proprietary right in the trademark (or trade name), Community State Bank, and its initials logo, and dissolve the permanent

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[17] Federal preemption was raised as to a state's ability to bar a bank from using a certain name under state law and addressed by our Eighth Circuit in *State v. Merchant's National Bank & Trust*, 634 F.2d 368 (8th Cir. 1980). Though the court held state law was preempted by federal banking laws addressing bank names, it limited its holding stating,

> preemption, extends only to the new name chosen by a national bank, and not to all of the contexts in which that name may be used. If the bank incorporates its new name in a deceptive, confusing, or misleading logo, letterhead, advertisement, or the like, the bank may be subject to liability under state unfair competition law.

Merchant's Nat'l Bank & Trust, 634 F.2d at 382-83.

injunction entered therein. We affirm the trial court's dismissal of the defendant's counterclaim, its affirmative defenses, and the petition of intervention. Court costs are equally assessed, one-half to each the plaintiff and defendant.

AFFIRMED IN PART AND REVERSED IN PART.