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Table of Contents

435 *FEDERAL RESERVE BANKS AS FISCAL AGENTS AND DEPOSITORIES OF THE UNITED STATES IN A CHANGING FINANCIAL ENVIRONMENT*

Pursuant to the Federal Reserve Act, the Federal Reserve Banks perform a number of services for the United States and for other entities as fiscal agents and depositories. These roles have evolved since the relevant provisions of the Federal Reserve Act were implemented in 1915. An article in the April 2000 *Federal Reserve Bulletin* described these activities as being mainly the issuance and redemption of securities and the processing of payments to and from the federal government. Although the basic fiscal agent services have not changed since the article was published in 2000, considerable changes have occurred in the way those services are provided. For example, the Treasury and the Reserve Banks have implemented new web-based technology to improve the federal government's provision of services, much the same as financial services firms have used web-based technology to improve the ways that they do business and communicate with their customers. This article reviews the evolution of the Reserve Banks' fiscal agent role since early in the twentieth century, and describes fiscal agent and depository services today.

447 *FEDERAL RESERVE PERSONAL FINANCIAL EDUCATION INITIATIVES*

Recognizing the importance of successful personal financial management to individuals and the broader economy, the Federal Reserve System has in the past two years intensified its efforts to provide and promote personal financial education. Initiatives have ranged from a public outreach effort highlighting the importance of financial education, to local and regional Reserve Bank programs targeted to specific audiences, to new educational seminars for employees. Staff members have studied the effectiveness of different types of education programs for different groups, and the System has worked to encourage the dissemination of

research findings. The challenge for the future is to support financial education in a way that makes effective use of the System's resources and national visibility and complements the resources already available.

458 *REPORT ON THE CONDITION OF THE U.S. BANKING INDUSTRY: SECOND QUARTER, 2004*

Assets of reporting bank holding companies rose \$365 billion (3.9 percent) in the second quarter because of an increase in consumer loans and the addition of a large insurance-oriented financial holding company. Holdings of securities and money market assets rose slightly overall, although the fifty large bank holding companies sold a portion of their holdings to adjust interest rate sensitivity. Deposits once again exhibited strong growth, although regulatory capital ratios edged down slightly. Net income fell \$5 billion (18.0 percent), related to widely publicized one-time litigation charges at two of the largest bank holding companies. Asset quality continued to improve with nonperforming assets falling below 1.00 percent of loans and related assets for the first time in four years.

463 *ANNOUNCEMENTS*

Federal Open Market Committee Statements

Proposed amendments to Regulation E

Amendments to Regulation CC, Appendix A

Revisions to policy statement on payments system risk

Amendments to Regulation J

Study of investigation adequacy

Annual adjustment of fee-based trigger amount for additional disclosure requirements

Release of annual adjustments for reserve calculations and deposit reporting

Comment requested on proposal to discontinue FRB services for definitive municipal securities

Appointment of chairmen and deputy chairmen of the Federal Reserve Banks

Federal Reserve Banks announce changes to increase efficiency in check services

Banking agencies issue host state loan-to-deposit ratios

Implementation of web-based central data repository

Agencies publish brochure about internet phishing

Results of the Shared National Credit review of syndicated bank loans

Banks distribute redesigned \$50 note

Comment letter issued on the SEC's proposed broker rules for banks

Agencies provide consumer information on avoiding overdraft and bounced-check fees

Comment requested on proposed guidance for retail credit risk

Consumer guides published regarding Check 21 and check-processing technology

Release of minutes to discount rate meetings

Meeting of the Consumer Advisory Council

Enforcement actions

Changes in Board staff

479 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders

552 *BOARD OF GOVERNORS AND OFFICIAL STAFF*

544 *FEDERAL OPEN MARKET COMMITTEE AND STAFF; ADVISORY COUNCILS*

556 *FEDERAL RESERVE BOARD PUBLICATIONS*

558 *ANTICIPATED SCHEDULE OF RELEASE DATES FOR PERIODIC RELEASES*

560 *MAPS OF THE FEDERAL RESERVE SYSTEM*

562 *FEDERAL RESERVE BANKS, BRANCHES, AND OFFICES*

564 *INDEX TO VOLUME 90*

Federal Reserve Banks as Fiscal Agents and Depositories of the United States in a Changing Financial Environment

Donna A. DeCorleto and Theresa A. Trimble, of the Board's Division of Reserve Bank Operations and Payment Systems, prepared this article.

The Federal Reserve Act assigns to the Federal Reserve Banks the task of serving as fiscal agents and depositories of the United States when required to do so by the Secretary of the U.S. Department of the Treasury. Generally, the appointment as *fiscal agent* has been taken to confer authority to act for, or in place of, the federal government in matters relating to public revenues, public debt, and other financial business. The term *depository* has retained its usual meaning as a place where something is deposited, especially for safekeeping. Within these broad definitions, the role of the Reserve Banks as fiscal agents and depositories has evolved substantially since the relevant provisions of the Federal Reserve Act were implemented in 1915.¹

An article in the April 2000 *Federal Reserve Bulletin* described the Reserve Banks' fiscal agent services at that time as being mainly the issuance and redemption of securities on behalf of the Treasury, federal agencies, and specific other entities, along with the processing of payments to and from the federal government.² That article also described the way that most of those services, which from the beginning of the Federal Reserve System had been paper- and labor-intensive, had evolved to highly automated operations. This shift paralleled changes that had occurred throughout the financial services industry over the past few decades as paper processing yielded to automated processing.

Although the basic fiscal agent services have not changed since the article was published in 2000, considerable changes have occurred in the way those services are provided—changes that, again, have par-

alleled important developments within the financial services industry. The increasing use of the Internet and related electronic technologies are prime examples. The Treasury and the Reserve Banks have implemented new web-based technology to improve the federal government's provision of services in the areas of securities, payments, and collections as well as government-wide financial reporting, much the same as financial services firms have used web-based technology to improve the ways that they do business and communicate with their customers. The challenge, as with the financial services industry generally, is to manage complex and rapidly evolving information technologies, while maintaining high standards of security, efficiency, and reliability.

After reviewing the evolution of the Reserve Banks' fiscal agent role since the early days of the twentieth century, this article highlights the fiscal agent and depository services that the Reserve Banks provide today and their recent changes.

HISTORICAL PERSPECTIVE

The provision of fiscal agent and depository services officially commenced in 1915 when the Treasury designated three Reserve Banks (Banks) as depositories for Treasury funds.³ In this capacity, the Banks maintained the Treasury's bank account and served as intermediaries through which the Treasury collected and disbursed funds for the federal government. In January 1916 the nine remaining Banks became depositories and all twelve assumed the role of fiscal agents. Over time, the Banks' roles as fiscal agents and depositories have become closely intertwined. For the purposes of this article, therefore, the term *fiscal agent* is used to refer to both services. The Board of Governors oversees these Bank activities but is neither a fiscal agent nor a depository.

In their initial role, the Banks, as fiscal agents of the United States, accepted taxes and customs duties,

NOTE. Paula V. Hillery, Stephen E. Thompson, and Kimberly A. Snell provided assistance in preparing this article.

1. Unless otherwise indicated, any reference to a specific year in this article refers to the calendar year.

2. See Paula V. Hillery and Stephen E. Thompson, "The Federal Reserve Banks as Fiscal Agents and Depositories of the United States," *Federal Reserve Bulletin*, vol. 86 (April 2000), pp. 251–59.

3. The Reserve Banks are not the exclusive depositories of the Treasury (see 31 U.S.C. 3303).

held deposits for the Treasury, cleared Treasury checks and warrants, and redeemed Treasury coupons. In 1917, when the United States became involved in World War I, the Treasury directed the Banks to place issues of short-term Treasury certificates and redeem them at maturity, thereby adding securities activities to the fiscal agent role. Subsequently, the Banks handled issues of the government's Liberty Loan bonds and Victory notes, receiving subscriptions and payments for the securities from, and delivering them to, investors within their Districts.

These bonds and notes were sold throughout the country, and the Treasury needed an efficient way to transfer the proceeds of the securities sales from the location of the sale to the government contractors that produced war materiel. To accommodate this need, the Banks exchanged messages by telegraph to transfer large amounts of money across the country. Because some proceeds from securities sales were held at depository institutions, the Banks also began to safekeep collateral that was pledged to the Treasury to protect those funds. The Banks' success in handling these tasks influenced the Treasury in 1921 to end its network of subtreasuries—field offices that functioned as the government's bank in various regions of the country—and to transfer to the Banks many of the operational functions related to financing the public debt.

The advent of World War II, and with it the need for a massive amount of financing to wage that war, resulted in further expansion of the Banks' fiscal agent role. The new duties included issuing, servicing, and redeeming War Savings Bonds, which the Treasury introduced in 1941. The handling of these bonds became one of the largest single operations that the Banks performed. By the second half of 1942, approximately 4,000 Bank employees, or 20 percent of the workforce, were involved in savings bond operations.⁴ Between 1940 and 1944, the annual volume of securities transactions soared from 3.8 million to 357.8 million items, primarily because of War Savings Bond sales. After the war ended, the Treasury retained the bond program, dropping the word "war" from the title. Savings bond issuance declined after the 1940s, but savings bonds remained popular with the public.

In the 1960s and 1970s, the Banks' role as fiscal agents expanded again, this time to provide services—primarily securities-related services—to other federal government agencies, government-

sponsored enterprises, and international organizations, either at the Treasury's request or through a separate congressional mandate.⁵ However, the primary recipient of Bank fiscal agent services continued to be the Treasury, particularly as the volume of Treasury securities transactions grew dramatically, both within local markets and between counterparties in different geographic regions. The Federal Reserve and the Treasury explored ways to reduce the amount of time and paperwork associated with these transactions, and in January 1968 the Banks introduced book-entry securities safekeeping and transfer.⁶ These services reduced the time required to process and deliver government securities and facilitated the nationwide expansion of the secondary market for government securities.

In addition to securities transactions, payments made by paper check grew rapidly in the post-World War II era, which helped prompt the development of the automated clearinghouse (ACH) network in the 1970s. This nationwide network enabled depository institutions to automate the exchange of payments using magnetic tapes, punch cards, and printed advices instead of paper checks and thereby expedited the processing of both government and commercial payments. The federal government was an early user of ACH services through the Banks, first in late 1973 for the U.S. Air Force payroll and the following year to make some Social Security payments. The government's use of the ACH became permanent in 1975, and the ACH now plays a central role in the government's payments and collections (see box "Use of the Automated Clearinghouse System" for further discussion of the ACH process as it exists today).

From the 1970s until the late 1990s, the nature of fiscal agent services did not change dramatically: the Banks continued to issue and redeem securities, process both paper-based and electronic payments, monitor collateral for Treasury funds, and maintain the government's bank account. The most significant development during the period was the steady transition from paper-based, labor-intensive operations performed at a large number of Bank offices to highly automated operations performed at a few offices.⁷ For example, in the 1990s, savings bond processing was

4. See the appendix for information about government agencies, government-sponsored enterprises, and international organizations authorized through specific legislation to receive Bank services.

5. A book-entry security is a security represented by an accounting entry, or an electronic record, and not by a paper certificate.

6. The number of Bank offices exceeds the number of Banks because most Banks operate additional offices that are either Branches or specialized processing sites.

4. See the *Annual Report of the Board of Governors of the Federal Reserve System*, 1942, pp. 31–32.

Use of the Automated Clearinghouse System (ACH)

The automated clearinghouse (ACH) system is an electronic payment system developed jointly by the private sector and the Federal Reserve in the early 1970s as an electronic alternative to paper checks. Since then, the ACH has evolved into a nationwide mechanism that processes credit and debit transfers electronically. ACH credit transfers are used to make direct deposits of payroll payments as well as corporate payments to contractors. ACH debit transfers are used by consumers to authorize the payment of mortgages, loans, and other bills from their accounts. More recently, the ACH has been used to make one-time electronic payments over the telephone and the Internet. The ACH is also used by businesses to concentrate funds at a primary bank and to make payments to other businesses.

The Federal Reserve Banks operate FedACH, the Banks' central clearing facility for transmitting and receiving ACH payments. The federal government uses FedACH extensively. For example, the Treasury uses FedACH to make approximately 81 percent of all Social Security benefit payments and 98 percent of all Treasury-disbursed federal salary payments.¹ Social Security benefits can serve as an example of how such payments are processed. For the millions of Social Security recipients who receive their payments electronically, the Social Security Administration (SSA) creates an electronic ACH file instead of printing and mailing checks. The file specifies payment amounts and depository institution routing information for payments due on a certain date. On behalf of the SSA, the Treasury sends the file electronically to the Banks three or four days before the payment date. The Banks check certain data for accuracy, sort the information by receiving depository institution, send a payment file to each receiving depository institution, and initiate accounting entries to debit the Treasury's account and credit each receiving depository institution's account at the Banks. The receiving depository institution credits each customer's account on the scheduled payment date.

1. This percentage does not include certain salary payments that the Treasury does not disburse, such as military payrolls.

process of combining savings bond and retail marketable securities operations into a single function operated in just two locations. In addition, fiscal agent activities have evolved beyond simply automating paper-based operations. They now include using new technology to support specific Treasury Department needs, such as using the Internet to initiate payments to and from the government, providing stored-value cards to the military, and enhancing governmentwide financial reporting—services discussed later in this article (see the sections "Electronic Government Payment Services" and "Information Services").⁸ These new types of services support the Treasury's efforts to provide better, more convenient services to government agencies and the general public.

As new services have been provided, the Banks have had to develop and operate new software applications and computer systems and to manage specialized information technology vendors on the Treasury's behalf. The Banks have also applied new technology and skills to improve existing fiscal agent services. As other innovative uses of technology develop and the Treasury continues to enhance its operations and services, the Banks' fiscal agent activities undoubtedly will evolve further. Regardless of the specific activities or the technology employed, a fundamental part of the fiscal agent role continues to be maintaining the security and integrity of the Banks' and the Treasury's information and systems.

The Banks' current fiscal agent activities—their roles in issuing and redeeming securities, processing payments to and from the federal government, and keeping account of all of these activities—are discussed in the remainder of this article. Highlighted are the ways in which fiscal agent services have evolved with technology, either to make an existing business process more efficient or to use technology to develop innovative business processes and practices.

SECURITIES-RELATED SERVICES

The federal government issues debt to cover the shortfall between its expected receipts and expenditures and to refinance its maturing debt. Most of this debt is composed of securities issued by the Treasury; securities issued by other federal agencies account for any remaining debt. The Banks play an integral role in the Treasury's financing operations.

8. A stored-value card is a (plastic) payment card that has prepaid value assigned to it.

consolidated from twenty-seven locations to five. Similarly, as the Treasury moved many government payment and collection transactions from paper checks to electronic payments, the number of Bank offices that processed Treasury checks declined, from more than forty offices to fewer than ten.

Since the end of the 1990s, the Banks have continued to improve existing fiscal agent services. For example, they have reduced to three the number of offices that process Treasury checks and are in the

Treasury Marketable Securities

The Treasury sells new marketable securities to investors through periodic auctions.⁹ Typically, the securities are auctioned in a regular pattern; however, the pattern may be changed to accommodate the government's borrowing needs. The terms and conditions of sale for securities being auctioned are announced by the Treasury on or before the auction day, and investors are invited to submit bids. The Banks developed and operate a computer application that compares all bids submitted in an auction, assists the Treasury in determining the lowest acceptable price offered, and then calculates the amount to be awarded to each bidder.¹⁰

Because of the increased automation that the Banks have applied to the auction process, the Treasury can now announce its auction results to the public electronically, usually within two minutes of the auction closing. By shortening the time between the close of the auction and the release of results, the Treasury and the Banks have decreased the risk to bidders of changes in market conditions that can occur between the close of bidding and the announcement of results.

On the security's issue date, the Banks issue book-entry securities for the Treasury via the Fedwire Securities Service (see box "The Fedwire Securities Service" for a discussion of its operations). The securities are delivered electronically to each successful bidder's designated Fedwire Securities Service account and the purchase price is simultaneously withdrawn from the bidder's funds account.¹¹ Proceeds from the sales are deposited into the Treasury's account at the Banks. In 2003 the Banks supported 202 auctions, processing bids totaling almost \$8.2 trillion.¹² When periodic interest payments are due and when securities mature or are called by the Treasury, the Fedwire Securities Service initiates those payments.

The Banks also use the Fedwire Securities Service to transfer securities ownership from one party to

The Fedwire Securities Service

The Fedwire Securities Service is a system for safekeeping and transferring certain book-entry securities. It consists of an electronic vault that stores records of book-entry securities holdings, by account holder, and a transfer—and settlement—mechanism used by depository institutions to transfer custody of book-entry securities from one depository institution to another. The securities stored on the Fedwire Securities Service include U.S. Treasury bills, notes, bonds, and inflation-protected securities; U.S. agency securities; mortgage-backed securities issued by Freddie Mac, Fannie Mae, and Ginnie Mae; and securities of certain international organizations such as the World Bank.

As part of the Fedwire Securities Service, the Banks maintain multiple book-entry accounts for each depository institution; reconcile activity in each account; issue transaction advices and account statements; credit interest and principal to the accounts; and move securities between accounts at the request of the account holder. By allowing participants convenient yet secure access to their book-entry securities holdings, the Fedwire Securities Service contributes to the efficiency and liquidity of the secondary market in these securities.

The Fedwire Securities Service held in safekeeping \$28.5 trillion in Treasury, government agency, government-sponsored enterprise, and international organization securities as of September 30, 2004. (For information on the rules governing Treasury book-entry securities, see 31 CFR Parts 356 and 357.)

another when parties trade securities in the secondary market. The Fedwire Securities Service enables the seller to deliver the securities to the purchaser's Fedwire Securities Service book-entry account and to simultaneously receive the agreed-upon payment in a funds account. In 2003 the Fedwire Securities Service handled 9.4 million transfers of Treasury securities, a total value of \$202.6 trillion.

As fiscal agents, the Banks also operate another automated book-entry securities system known as *TreasuryDirect*. TreasuryDirect is designed for retail customers—nonfinancial organizations and individuals who generally keep their Treasury securities from initial issue to maturity and who prefer to hold their securities directly with the Treasury instead of with a depository institution or securities broker. The Banks issue confirmation notices and account statements to the TreasuryDirect account holders and credit interest and principal payments to their accounts with their depository institutions. TreasuryDirect investors can purchase Treasury securities, check their account balances, request statements, and perform other routine account functions using the Internet or a touch-tone

9. The term *Treasury marketable securities* refers to Treasury bills, notes, bonds, and inflation-protected securities. These securities are readily bought and sold in the highly liquid secondary market.

10. Currently, the Treasury conducts single-price auctions in which all bidders that did not specify a price and all bidders that specified a price greater than or equal to the lowest acceptable price receive the securities at the lowest acceptable price. For details on Treasury auctions, see the Code of Federal Regulations, chapter 31, part 356.

11. Bidders that do not have a Fedwire Securities Service account must designate a depository institution that has an account to receive the securities and make payment on their behalf.

12. The Banks also help the Treasury redeem, or buy back, Treasury securities when that action fits within the Treasury's debt management strategy. In buyback operations, the Treasury purchases Treasury securities from the current owners through a competitive bidding process and then retires the debt.

telephone. As of September 2004, TreasuryDirect maintained almost 705,000 accounts, holding a total of \$61.8 billion of Treasury securities.

When TreasuryDirect account holders wish to sell securities, they can direct the Banks to transfer the securities to a broker for sale or can request that the Banks sell the securities for them on the secondary market. The Treasury charges sellers a fee for this service. In 2003 the Banks sold \$671.6 million of securities for TreasuryDirect account holders.

Another securities service provided to the Treasury and government agencies by the Banks is monitoring securities pledged to the government by depository institutions as collateral for government deposits, or by businesses or individuals as security in lieu of a surety bond. The Banks monitor the collateral's value and prevent it from being released unless other acceptable collateral has been substituted or the government determines that the collateral is no longer required.

Savings Bonds

Individual investors help fund government programs when they purchase savings bonds, which are government securities that can be purchased with an initial investment of as little as \$25. In contrast to other Treasury securities, there is no secondary market for savings bonds, and they cannot be transferred easily between investors, though they can be redeemed before maturity. Current offerings comprise series EE and series I bonds, both of which accrue interest until final maturity.¹³ As of September 2004, \$204 billion of savings bonds, representing approximately 4.7 percent of the federal public debt, was outstanding.

The Banks issue, service, and redeem savings bonds for the Treasury. Over the past several years, they have issued between 40 million and 41 million savings bonds and serviced or redeemed between 4 million and 5 million each year. Investors can purchase savings bonds in person from many depository institutions, by mail from a Bank or the Treasury, or on the TreasuryDirect website, www.TreasuryDirect.gov. In October 2002 the Treasury introduced the "paperless" version of series I savings bonds, making it possible for investors to purchase and hold these bonds in book-entry form directly with the Treasury. In May 2003 the Treasury introduced book-entry EE bonds to the public and announced a goal to transform the savings bond

program from one based on paper certificates to one based on book-entry accounts that can be accessed safely and conveniently on the Internet at www.TreasuryDirect.gov.¹⁴ Because of these innovations and recent automation enhancements at the Banks, by year-end 2005 the number of Banks processing savings bond transactions will decline from five to two.

PAYMENT SERVICES

The evolution of the Banks' payments-related fiscal agent services has paralleled their involvement in the broader U.S. payments system. The Banks process electronic payments for depository institutions through the ACH or the Fedwire Funds Service. They also continue to clear large volumes of checks. Providing these services gives the Banks a strong foundation for delivering similar high-quality services to the Treasury and for assisting the Treasury with improvements and innovations in its services.

In their role as fiscal agents, the Banks process several types of payments for the federal government, including salary and benefit payments, interest and principal payments, and vendor payments. Although some of these payments are still made by check, the Treasury has been committed for several years to shifting government payments from paper checks to electronic payments. In fiscal year 2003, 74 percent of Treasury-disbursed payments, by value (\$1.4 trillion), were made electronically using the ACH or the Fedwire Funds Service, compared with 68 percent in fiscal year 1999.¹⁵ Several factors have contributed to this increase, including the public's greater acceptance of electronic payments. In addition, the Debt Collection Improvement Act of 1996 mandated that federal agencies, starting in 1999, make their payments electronically unless the agencies or their payment recipients receive a waiver from the Secretary of the Treasury. The Banks have supported the Treasury's efforts to explore the reasons some individuals prefer receiving paper checks rather than electronic payments and then to help address those issues or concerns. The Banks continue to work closely with the Treasury to automate the remaining paper-based government payments by using new technologies or using existing technologies in innovative ways.

14. See Bureau of the Public Debt press release, "Electronic EE Savings Bonds Added to TreasuryDirect," dated May 5, 2003.

15. The federal government's fiscal year begins on October 1 and ends on September 30 of the following calendar year.

13. Effective September 1, 2004, the Treasury discontinued the issuance of series HH bonds, which pay interest semiannually.

Electronic Government Payment Services

The Banks operate two payment services used by the federal government to make electronic payments, FedACH and the Fedwire Funds Service. They also participate in the automation of other payment services.

FedACH

FedACH is the Banks' electronic service used for payments that do not need to be originated and settled on the same day. Today, ACH payments are made by transferring payment files electronically instead of using magnetic tape or punch cards, as in the past. The Treasury uses FedACH to make recurring payments, such as payroll and Social Security benefits, and for some one-time payments, such as federal tax refunds. The number of government ACH payments first exceeded the number of government check payments in 1991, and since then ACH payments have continued to increase relative to check payments. In 2003 the Banks processed 914 million ACH payments for the government, compared with 267 million check payments.

Fedwire Funds Service

The Fedwire Funds Service is an electronic funds transfer system that provides immediate settlement of payments. It is generally used for large-dollar payments and for payments that must be settled on the same day that they are originated. In 2003 the Banks processed 667,000 outgoing Fedwire funds transfers for the Treasury.

Other Electronic Payment-Related Initiatives

In addition to processing payments for the Treasury, the Banks have participated in several initiatives to develop specialized applications that help federal agencies use electronic methods to improve their overall payments processes.

Grant payments. One payment-related initiative is the Treasury's Internet-based Automated Standard Application for Payments (ASAP.gov). The Banks developed and operate this computer application, which enables individuals and organizations that receive federal grant payments to submit payment requests electronically using the Internet and to

receive payment electronically. For example, state treasurers and their contractors use ASAP.gov to request reimbursement for Medicare and Medicaid expenses and to specify payment by FedACH or the Fedwire Funds Service. The ASAP.gov application sends each request for payment to a related computer application (called ASAP), which is operated by a Bank, that reviews the request, compares it with the parameters established by the granting agency, and—if the transaction is in order—initiates the payment. In 2003 ASAP initiated \$384.2 billion in payments.

Food stamp payments. The Banks also developed and operate a related computer application that enables the U.S. Department of Agriculture's Food and Nutrition Service to electronically distribute funds for its food stamp program. This application is used to verify and reconcile depository institutions' deposits of food stamps, and then ASAP is used to initiate the payments to the depository institutions.

Intra-governmental payments. Government agencies regularly pay each other for goods and services. In the past, many of these payments were made by check. At the Treasury's request, the Banks developed a computer application that electronically transfers information and funds between government agencies, thereby reducing or eliminating the need for paper invoices and agency-to-agency checks. About 300 government agencies currently use this service.

Vendor payments. Government agencies regularly use the services of commercial vendors. After identifying several aspects of this activity that might benefit from Internet-based technology—exchanging purchase orders and invoices, making payments, and researching discrepancies—the Treasury initiated a pilot program, the Internet Payment Platform, to gain further information and in 2003 directed the Banks to manage the program. Three federal agencies and their vendors used a central website to exchange electronic purchase orders and invoices and to initiate ACH payments. Approximately \$20 million in payments were processed before the pilot was concluded in June 2004. After evaluating the pilot, the Treasury has decided to proceed with a permanent program and has asked the Banks for further support in this area.

Military personnel payments. Another payments-related area for which the Treasury has sought the Banks' assistance has been the provision of stored-

value cards for the Defense Department. The department faces several challenges in making payments to military personnel. One is the ongoing need to provide cash or its equivalent to personnel on military bases and on ships at sea. Another is making payments at basic training camps, where recruits need cash immediately to purchase necessities but in many cases do not have bank accounts. To address these challenges, the Treasury initiated several prepaid payment card programs for the Defense Department. One program provides military personnel at certain locations with reloadable cards that can be used to make purchases from merchants located on the military bases and in some cases to transfer funds between service personnel. Two other programs use non-reloadable cards to provide pay advances to recruits in basic training. Approximately 108,000 cards were outstanding under these programs at midyear 2004. The Banks' roles in these programs are to maintain detailed transaction and accounting records for the Treasury, to maintain card balances, to pay participating merchants via the ACH, and to develop and maintain related computer applications.¹⁶

International benefit payments. Making payments, such as Social Security and pension payments, to recipients living abroad is another payments-related operation for which the Treasury has sought Bank assistance. Receiving U.S. government checks can have drawbacks for those living abroad, including long mail-delivery times and fees for depositing or cashing checks denominated in U.S. dollars outside the United States. Some non-U.S. banks were willing to accept electronic payments, such as Social Security payments, from the Treasury, but only if the payments were made in their local currencies. The Treasury and the Banks developed a process to convert benefit payments into the currency of the country in which the beneficiary does his or her banking and then to send the payment electronically as a direct deposit. In 2003, \$893 million was sent to individuals in thirty-nine countries using this process.

In 2004 the Banks began sending government ACH payments to one country using FedACH International. This is the same mechanism the Banks have been developing to send and receive commercial ACH payments across borders.¹⁷

16. A U.S. depository institution operates a separate payment card program for service personnel on ships at sea. Those cards can also be used as debit cards when the individuals are on shore.

17. FedACH International is the Banks' service that accelerates the clearing time and reduces the costs associated with making cross-border payments using the ACH system.

Paper-Based Government Payment Services

Paper Checks

While the use of electronic payments continues to expand throughout the federal government, some payments remain paper-based, and the Banks play an important role in processing these payments. When a depository institution presents a Treasury check to a Bank for payment, the Bank credits the depository institution, makes an image of the check, and forwards the paper check to a federal records center for storage.¹⁸ In 2003 the Banks processed 266.9 million Treasury checks, a 7.4 percent decline from the volume in 1999, consistent with the government's strategy of moving away from paper and to electronic payments.

As the environment in which paper-check payments are made continues to change, so too do the services that the Banks provide to the Treasury as fiscal agents. For instance, the Check Clearing for the 21st Century Act, which took effect on October 28, 2004, will affect the way paper checks are processed.¹⁹ The Banks are working closely with the Treasury to implement processes to take full advantage of the Check 21 Act's provisions.

Postal Money Orders

In addition to Treasury checks, the Banks also process postal money orders for the U.S. Postal Service. Postal money orders are prepaid drafts drawn against the Postal Service's account with the Treasury. Individuals purchase these money orders with cash and use them as they do checks. When money orders are deposited for collection, the Banks pay, sort, and make images of these items and debit the Postal Service's account. Similar to the decline in the volume of Treasury checks, postal money order volume has also been declining: The Banks processed 198.3 million postal money orders in 2003, compared with 225.8 million in 1999.

18. Check imaging is a process by which a high-quality, digital picture or image is taken of both sides of a check.

19. The Check 21 Act, as it is commonly known, authorizes a new negotiable instrument called a *substitute check*—a paper reproduction of an original check—and provides that a substitute check, properly prepared, is the legal equivalent of an original check. The act facilitates electronic check exchange by enabling depository institutions to sort and deliver checks electronically and, when necessary, to create legally equivalent substitute checks for presentment to depository institutions that have not agreed to accept checks electronically. This process enables depository institutions to reduce their handling and physical transportation of paper checks, which can be costly.

Fiscal Agent Checks

Another specialized service that the Banks provide to the government is issuing and processing fiscal agent checks—checks issued by and drawn on the Bank in its capacity as fiscal agent of the United States in payment for a Treasury obligation, such as a redeemed savings bond. To the extent possible, the Banks make these payments electronically, but if the Treasury does not have information about a recipient's bank account, the Bank issues a fiscal agent check. Because the Banks initiate the payments, it is more efficient for them rather than the Treasury to issue the checks. The funds, however, ultimately are paid from the Treasury's account. Relatively few fiscal agent checks are issued, and the volume has been declining. In 2003 only 311,000 were issued, compared with 609,000 in 1999.

Food Coupons

The Banks perform one other paper-based fiscal agent service—processing paper food coupons issued under the food stamp program, which is operated by the U.S. Department of Agriculture's Food and Nutrition Service. Although all benefits under the program have, since June 2004, been issued electronically rather than by paper, some coupons are still outstanding. Any merchant that redeems the coupons must deposit them with its depository institution, which forwards them to the Banks. The Banks verify the deposits, pass credit to the depositing institution, and destroy the paper coupons. They processed 286.6 million paper food coupons in 2003, compared with 1.2 billion in 1999. The Banks will continue to process the coupons until all have been redeemed or until the Banks are directed otherwise by the Food and Nutrition Service.

COLLECTION SERVICES

The federal government collects money through several programs, the largest of which is the program for collecting federal business taxes. Government agencies also collect funds for providing goods (such as government publications) and services (such as national park admission fees). The following sections describe the ways in which the Banks support various government funds collection programs.

Federal Tax Collections

Annually, the Treasury receives approximately \$1.7 trillion in income tax payments and payroll withholdings through three different mechanisms. The Banks are involved in all three operations.

EFTPS

About \$1.6 trillion of tax collections are received through the Electronic Federal Tax Payment System (EFTPS), a system for submitting tax payments via the ACH operated by depository institutions designated by the Treasury.²⁰ The designated institutions send taxpayer information to the Internal Revenue Service (IRS) and forward ACH payment instructions to the Banks for processing. On the tax due date, the Banks debit the taxpayers' depository institutions' accounts and credit the Treasury's account.²¹

FR-ETA

To use the ACH feature of EFTPS, taxpayers must know their tax liability at least one day before the tax is due. However, some taxpayers, such as companies with variable payrolls and companies that are payroll processors, cannot calculate their payroll tax liability until the actual due date. For these taxpayers, the Banks, in the 1990s, developed the Federal Reserve-Electronic Tax Application (FR-ETA) as an adjunct to EFTPS. The application enables taxpayers to pay their taxes on the due date by using the Fedwire Funds Service to transfer their payments to the Treasury's account at the Banks. In 2003 taxpayers used FR-ETA to submit approximately \$276 billion in tax payments, which is included in the \$1.6 trillion figure for EFTPS above.

Paper Check

Business taxpayers that still pay their taxes by check may submit a check payment with a tax coupon to

20. Business taxpayers that submit annual tax payments of \$200,000 or more are required to use EFTPS beginning the second calendar year following the year in which their tax payment first exceeds \$200,000, and in all succeeding years. Individuals making tax payments with forms 1040, 706 (estate taxes), or 709 (gift taxes) or making installment payments may also use EFTPS.

21. Tax payments submitted directly to the IRS using an online tax calculation and payment software package are also processed through the ACH mechanism.

their depository institution or mail it directly to an IRS lockbox operated by a depository institution. Individuals who pay by check generally mail their payments and forms to an IRS lockbox. In either case, the depository institution forwards the tax coupon or form to the IRS and forwards the proceeds from the check to a Bank for deposit to the Treasury's account. Approximately 5 percent of total business and individual tax dollars in 2003 (or about \$76 billion) were paid by check.

Investment of Collected Taxes

In addition to assisting with the collection of taxes, the Banks, through the Treasury Tax and Loan (TT&L) program, have been instrumental in helping the Treasury earn interest on tax proceeds (and other funds) that are not immediately needed. Throughout the day, the Banks deposit excess Treasury funds with prequalified depository institutions, ensure that the funds remain properly collateralized, and withdraw funds at the Treasury's request. While the funds remain on deposit, the Treasury earns interest at a rate of 25 basis points below the effective federal funds rate. Through this program, the Banks not only provide the Treasury with a safe and efficient way to manage its funds, but also help to implement monetary policy by keeping the balance in the Treasury's account with the Banks at a fairly stable level (see box "Relationship between the Treasury's Balance with the Reserve Banks and the Implementation of Monetary Policy"). In 2003 the Banks invested \$1.8 trillion of government funds through the TT&L program.

The TT&L program has changed over time as the Treasury and the Banks have added features and flexibility. A recent innovation has been the Term Investment Option, or TIO. Unlike regular TT&L investments, which can be called at any time and earn a fixed interest rate, investments through the TIO offer government funds for a specified term, at an interest rate set at auction. These auctions, which are conducted by the Banks periodically, as instructed by the Treasury, have generally earned the Treasury a higher rate of return than regular TT&L investments because the certainty of the term makes the funds more attractive to depository institutions. The Banks began the TIO as a pilot program in 2002, and in 2003 the Treasury made the program permanent. From October 2003 to October 2004, 42 TIO auctions were conducted through which almost \$300 billion of government funds were invested.

Relationship between the Treasury's Balance with the Reserve Banks and the Implementation of Monetary Policy

The Treasury maintains its primary account for making and receiving payments, the Treasury general account (TGA), at the Reserve Banks. An increase in the balance of that account means that funds have moved from depository institutions' accounts at the Banks into the TGA. This movement of funds reduces the amount of reserves in the banking system.¹ Conversely, a decrease in the TGA means that funds have moved from that account to depository institutions, thereby increasing the amount of reserves in the banking system.

This relationship between the Treasury's balance with the Banks and the amount of reserves in the banking system is important from a monetary policy perspective. This is because the amount of reserves in the banking system affects the federal funds rate—the rate at which depository institutions lend reserves to other depository institutions and the operating objective of the Federal Open Market Committee (FOMC) in its conduct of monetary policy. Through open market operations—the purchase and sale of U.S. Treasury and federal agency securities on the open market—the FOMC adjusts the amount of reserves in the banking system so as to achieve the targeted federal funds rate. By fluctuating, the Treasury's balance at the Banks affects the level of reserves and, therefore, the conduct of monetary policy.

The Banks and the Federal Reserve Board work closely with the Treasury every day to ensure that the Treasury's balance with the Banks remains stable, between \$5 billion and \$7 billion. The Banks use the Treasury Tax and Loan program to shift amounts in excess of the targeted Treasury balance into depository institutions' accounts and, as a result therefore, back into the banking system.

1. Reserves are the funds that depository institutions hold as vault cash plus balances on deposit with Banks. Required reserves are the funds that depository institutions are required to hold either as vault cash or on deposit with a Bank. Depository institutions with reserves often lend such reserves, to institutions in need of reserves, through the federal funds market. Federal funds transactions are short-term loans between depository and certain other institutions.

Other Collection Programs

The Banks are involved to varying degrees in several other federal government collection programs.

Pay.gov

As fiscal agents, the Banks support the Treasury's efforts to improve other government collection pro-

cesses. One such effort is Pay.gov—an Internet portal that federal agencies may make available to members of the public to do such things as submit information via forms and to authorize electronic payments to agencies. The Banks operate the computer application for this initiative and manage the vendors that perform technical support. They also enter Pay.gov payment instructions into FedACH and make related accounting entries for the Treasury. Pay.gov collected \$3.7 billion in 2003 on behalf of twenty-three agencies. Although agencies are not required to use Pay.gov, current agency users have found it to be an efficient means of collecting funds. The Treasury expects that more agencies will begin to use the portal as the Treasury adds features to Pay.gov and agencies become more familiar with it.

Electronic Check-Processing Application

In instances in which the Treasury has been unable to move government collections from paper checks to electronic methods, the Treasury and the Banks have worked together to improve the processes by which these checks are collected. An example of these efforts is Electronic Check Processing, an application operated by the Banks that permits a federal agency receiving a check in payment for goods or services to convert the check into an ACH payment, thereby expediting the availability of the funds to the agency. In addition to operating the computer application and entering the payment instructions, the Banks maintain a database containing digital images of the converted checks that agencies can view at a secure Internet site. In 2003 the Electronic Check-Processing application converted more than 713,000 checks, totaling \$377.9 million.

Treasury Offset Program

Under the Debt Collection Improvement Act of 1996, the Treasury is responsible for collecting delinquent debts owed to the government. At the Treasury's direction, the Banks developed an application that compares the names associated with certain outgoing federal government payments with those on a list of delinquent debts owed to the government (federal or state), such as delinquent student loan or child support payments. The Treasury, which operates the application, intercepts the outgoing payments so that some or all of the funds can be applied to the amounts owed. For example, an individual who is due a tax refund but is delinquent on student loan payments

will be identified and the delinquent amount will be deducted from the tax refund. In the case of delinquent child support payments, the funds recovered are sent to the custodial parent, or, if the custodial parent is receiving state assistance, to the state. In 2003 this application identified and offset \$2.9 billion in delinquent debt and child support payments.

INFORMATION SERVICES

The Banks are working with the Treasury to develop computer applications that will help improve governmentwide accounting, including the ability to access information concerning government financial transactions sooner and more efficiently. One such application will enable federal agencies to create electronic deposit tickets for use when depositing funds at any depository institution that accepts government deposits; agencies will then be able to track their deposits over the Internet as they are processed. A second application will categorize financial information for the Treasury and agencies at a more detailed level for use in their accounting applications. A third application will serve as a standardized data repository for detailed information about transactions from all government financial collection systems and depository institutions, giving the Treasury and federal agencies a more complete and readily accessible view of their cash positions and a better tool for meeting their financial management and reporting responsibilities.

REIMBURSEMENT FOR THE RESERVE BANKS

In 1917 the Secretary of the Treasury initiated the practice of reimbursing the Banks for their processing costs for fiscal agency services on behalf of the government. Until relatively recently, however, the Treasury was unable to obtain congressional funding sufficient to reimburse the Banks fully for services rendered. In November 1990, the Congress enacted legislation to provide money for this purpose beginning in fiscal year 1992, which covered public-debt-related operating expenses incurred on behalf of the Treasury.²² A similar law was enacted in 1997 to permit the Treasury's Financial Management Service and other federal agencies to reimburse the Banks for expenses incurred on their behalf beginning with fiscal year 1998.²³

22. Pursuant to Pub. L. 101-509, 104 Stat. 1394.

23. See 12 U.S.C. 391a. Other domestic and international organizations with direct legislative authority to use the Banks as fiscal agents also reimburse the Banks.

U.S. Laws Enabling Federal Reserve Banks to Provide Services Directly to Other Organizations

The legal authorization for the Federal Reserve Banks to provide depository, custodial, and fiscal agent services for certain government agencies, government-sponsored enterprises, and international organizations directly can be found in certain statutory provisions codified in titles 12, 15, 20, 22, 41, and 42 of the United States Code, as follows:

Title 12 of the U.S. Code (Banks and Banking)

- Section 393—Farm Credit System institutions
- Section 395—Commodity Credit Corporation
- Section 1435—Federal Home Loan Banks
- Section 1441(h)(2)—Financing Corporation
- Section 1441b(h)(2)—Resolution Funding Corporation
- Section 1452(d)—Federal Home Loan Mortgage Corporation (Freddie Mac)
- Section 1795g—Central Liquidity Facility
- Section 1723a(g)—Federal National Mortgage Association (Fannie Mae) and Government National Mortgage Association (Ginnie Mae)
- Section 2279aa-3(d)—Federal Agricultural Mortgage Corporation (Farmer Mac)

Title 15 of the U.S. Code (Commerce and Trade)

- Section 635(a)—Small Business Administration
- Section 687(b)—Small Business Investment Companies
- Section 1849—Emergency Loan Guaranty Board

Title 20 of the U.S. Code (Education)

- Section 1087-2(l)—Student Loan Marketing Association (Sallie Mae)

Title 22 of the U.S. Code (Foreign Relations and Intercourse)

- Section 282d—International Finance Corporation
- Section 283d—Inter-American Development Bank
- Section 283ee—Inter-American Investment Corporation
- Section 284d—International Development Association
- Section 285d—Asian Development Bank
- Section 286d—International Monetary Fund/International Bank for Reconstruction and Development (World Bank)
- Section 290g-5—African Development Fund
- Section 290i-5—African Development Bank
- Section 290k-7—Multilateral Investment Guarantee Agency
- Section 290m(f)—North American Development Bank
- Section 290o-3—Bank for Economic Cooperation and Development in the Middle East and North Africa
- Section 2901-3—European Bank for Reconstruction and Development

Title 41 of the U.S. Code (Public Contracts)

- Section 110(2)—Termination of War Contracts

Title 42 of the U.S. Code (Public Health and Welfare)

- Section 1437h(c)—Housing and Urban Development □

Federal Reserve Personal Financial Education Initiatives

This article was prepared by Lynn Fox, of the Board's Office of Staff Director for Management, and Joy Hoffmann, of the Federal Reserve Bank of San Francisco, with assistance from Carolyn Welch, of the Board's Division of Consumer and Community Affairs.

Personal financial education, once primarily the concern of individual households and the organizations committed to assisting and educating them, now plays a prominent role in the work of many financial institutions, community and faith-based groups, non-profit organizations, and local and federal government agencies. Growing concern about the level of knowledge needed to manage personal finances has resulted from the confluence of many factors, including an expansion of credit availability and changes in pension funding mechanisms that have made consumers more responsible for their long-term financial security. Also contributing to the rise of interest has been a marked increase in the number of providers and the complexity of the consumer products offered by the financial services industry.¹

These trends underscore both the promises and the pitfalls of financial services and draw attention to the importance of deliberate financial planning and savings to achieving such life goals as buying a home, funding higher education, starting a business, and securing a comfortable retirement. In addition to affecting the quality of life of individual households, the attainment of these goals, when taken in the aggregate, has important macroeconomic implications, as a more financially educated population contributes to market efficiency and thereby helps promote the general economic welfare.

The Federal Reserve has for many years worked with educators and community groups to promote economic and financial education and consumer

awareness. More recently, Federal Reserve Board Chairman Alan Greenspan, other Board members, and Federal Reserve Bank presidents have stepped up their advocacy of financial education, noting that technological advances and a changing financial marketplace require informed financial decisionmaking.

In recognition of the growing importance of successful personal financial management to individuals and the broader economy, the Federal Reserve System—from the Board of Governors at its central office in Washington, D.C., to the twelve regional Federal Reserve Banks and their Branches—has intensified its efforts, focusing on three strategic areas:

- increasing awareness of the importance of personal financial education
- participating in and facilitating collaborations to improve efficiency in the delivery of financial education
- studying the effectiveness of financial education programs

RAISING AWARENESS

National Awareness Campaign

In May 2003, the Federal Reserve System launched "There's a Lot to Learn about Money," a multifaceted, nationwide financial education campaign with two purposes: to highlight the importance of sound financial decisionmaking among American families and to raise awareness of the financial education resources available through the Federal Reserve and other providers. The campaign reached out to individuals, community groups, and consumer advocates through a variety of media. A website rich in information on borrowing, homebuying, wealth building, and other topics of interest to consumers was developed. A brochure full of tips for consumers on ways to take charge of their financial future was prepared. Public service announcements (PSAs) featuring Chairman Greenspan were recorded for radio and television, in English and Spanish. The System

NOTE. Also contributing to this article were Marianne Hilgert, Jeanne Hogarth, Rose Pianalto, Jeff Smith, and Karen Vassallo, of the Board of Governors.

1. For a discussion of the changes prompting increased attention to financial literacy, see Sandra Braunstein and Carolyn Welch, "Financial Literacy: An Overview of Practice, Research, and Policy," *Federal Reserve Bulletin*, vol. 88 (November 2002), pp. 445–57.

hosted a toll-free telephone number, advertised in the PSAs, through which callers could request copies of the brochure. And both the Board and the Reserve Banks hosted national, regional, and local events and education activities for the public throughout the months following launch of the initiative.²

The campaign's reach was broad. The 30-second PSAs were broadcast in many media markets across the country; the radio version was aired more than 37,000 times, and the television version 12,500 times, during the first twelve months of the campaign. The website averaged more than 9,700 visits a month over the period. And more than 141,000 brochures in English and 6,700 in Spanish were distributed.

Members of the Board were actively involved in the effort, beginning with a press conference in May 2003 at which Governor Edward M. Gramlich announced the campaign. In June, Chairman Greenspan, together with then-Richmond Reserve Bank President J. Alfred Broaddus, Jr., and Operation Hope CEO John Bryant, spoke to eighth grade students at a Washington, D.C., middle school about the importance of learning good money management skills. In September, Chairman Greenspan also appeared before the annual legislative conference of the Congressional Black Caucus to discuss the importance of financial education.³

Three days after launching the nationwide campaign, the Board, together with the U.S. Department of the Treasury, co-sponsored a roundtable on credit management for representatives of financial services organizations and community and consumer groups.⁴ The participants identified the practices most important to effective management of personal credit: building savings to avoid high-cost debt and improve payment options; paying bills on time; paying more than the minimum payment; comparison shopping for credit and obtaining only the credit you need; and understanding your credit history and how it affects

you. Those top practices were publicized in a press release issued jointly by the Board and the Treasury the following August.⁵

Federal Reserve Bank Activities

Activities undertaken by the Federal Reserve Banks were an important part of the awareness campaign and are an ongoing element of the Federal Reserve's efforts to promote financial education. The Reserve Banks have used creative programming, teacher training, sponsorship of public events, and development of new print and web resources to reach people of all ages in the twelve Federal Reserve Districts. For example,

- The Chicago Reserve Bank's 2003 edition of its annual "Money Smart Week" featured nearly ninety free educational events tailored for a wide range of groups—educators and students; children, parents, and seniors; public housing residents and first-time homeowners; small-business owners; and the general public—all promoting effective management of personal finances in one way or another. The events, many sponsored by local community organizations and financial institutions, were held in schools, community centers, libraries, and banks throughout the city. In 2004, Chicago's Money Smart Week grew to more than 100 events, and a similar week of activities was held in Detroit by the Chicago Reserve Bank's Detroit Branch.

- The New York Reserve Bank collaborated with local financial institutions, community organizations, the FDIC, and the local Operation Hope affiliate to launch the "Banking on Youth" program for inner-city 16- to 18-year-olds who participated in the city's summer youth employment program. The program had both classroom and practical elements: A five-week course focused on management of personal credit, with an emphasis on savings; local banks opened savings accounts for the participants; and orientation sessions for the participants were used as opportunities to reach out to participants' families with information about banking and banking opportunities. Some of the young people saved as much as \$2,500 over the summer. The Banking on Youth program is now being replicated in Buffalo, N.Y.

- The Cleveland Reserve Bank takes its "Great Minds Think!" education road show to cities throughout the District. At these free, day-long work-

2. The "There's a Lot to Learn about Money" website is available at www.federalreserveeducation.org/fined/index.cfm; the brochure is available in English at www.federalreserveeducation.org/fined/psa.pdf and in Spanish at www.dallasfed.org/educate/pubs/emoney.pdf.

3. The complete text of Chairman Greenspan's remarks is available at www.federalreserve.gov/boarddocs/speeches/2003/20030926/default.htm.

4. Participants in the roundtable, which was chaired by Treasury Assistant Secretary Wayne A. Abernathy and Board Governor Gramlich, included representatives of the National Foundation for Credit Counseling, the Association for Financial Counseling and Planning Education, the In-Charge Institute, the American Bankers Association, America's Community Bankers, the Credit Union National Association, the Fannie Mae Foundation, Freddie Mac, American Express, MasterCard, Visa, the Community Financial Services Association of America, the Consumer Federation of America, the National Council of La Raza, AARP, and College Parents of America.

5. The release is available at www.federalreserve.gov/boarddocs/press/other/2003/20030813/default.htm.

shops, students and teachers learn about using economics and personal finance basics to make educated decisions. Workshop attendees discover economic principles portrayed in the world around them—in great literature, art, and contemporary movies. Teachers learn about economic policymaking and get tips on teaching economics and personal finance. Students take part in interactive activities, including an “inflation auction” that allows them to experience rapid deterioration in play money’s purchasing power and “A Million or One?” which illustrates the power of compound interest and exponential growth.

- The Philadelphia Reserve Bank has established a faith-based initiative to make personal financial education available to low- and moderate-income individuals. Educational programs are presented by designated volunteers at participating places of worship; the Bank conducts train-the-trainer workshops for the volunteers.

- The Atlanta Reserve Bank brought together policymakers, researchers, business people, and educators in a policy-oriented examination of the current state of economic and financial education in Georgia. Sessions at this “Georgia Summit on Economic and Financial Education” considered curriculum, teacher training, and assessment, with a goal of identifying and understanding the practical linkages between economic education and financial education in the classroom and beyond. Governor Gramlich was a speaker at the conference.

- The San Francisco Reserve Bank’s Community Affairs department has facilitated numerous meetings on Indian reservations to promote access to credit and financial education. At each meeting, a representative of the Consumer Credit Counseling Service, a non-profit community service organization, describes ways the organization can help tribal members repair their credit and reach their financial goals. Several tribes have engaged the organization to develop training programs on their reservations.

- The Minneapolis Reserve Bank’s Community Affairs department has taken a leadership role on the Youth Committee of the Native Financial Education Coalition, an organization that works to facilitate the exchange of information, forge partnerships, develop strategies for outreach and training, and identify gaps in information about the financial education needs of Native Americans. The Bank has assisted the coalition in developing pilot programs to bring Native youth together with financial education tools tailored to their needs.

- The Dallas Reserve Bank has translated its workbook on personal finances into Spanish and has added it to the Spanish-language portion of its website. The

Bank has also added a Spanish-language option to its phone line for requests for publications and has distributed twenty thousand copies of the workbook this year.⁶

These and other Federal Reserve programs targeted to a variety of audiences are summarized in the table at the end of this article.

Recognition for Contributions

The Federal Reserve’s efforts have been recognized by organizations that promote economic and financial literacy. The National Council on Economic Education (NCEE) presented its 2003 William A. Forbes Public Awareness Award to the System for its work to advance economic and financial literacy. And the Georgia Council on Economic Education (an affiliate of the NCEE) in May 2004 presented its first-ever Champion of Economic Education award to the Atlanta Federal Reserve Bank for its education efforts and its cooperation with other organizations in the state that promote economic education. The award was recognized in a special supplement to the *Atlanta Business Chronicle*.

FOCUSING ON EMPLOYEE EDUCATION

The Federal Reserve’s outreach has also extended to its own employees. The Board and nearly all the Reserve Banks planned extensive programs of financial education for their employees following a 2002 meeting hosted by the Board at which private- and public-sector employers discussed ways to make workplace financial education successful. Attendees agreed that critical components of a successful program include basing education and communications on life events (marriage and retirement, for example), providing a dynamic and changing curriculum (one that is kept fresh and interesting), and delivering the information in both high-touch (in person) and high-tech (Internet and intranet) formats.

At the Board, an interdisciplinary staff group began meeting in early 2003 to plan an initiative to provide personal financial education for Board employees. The resulting program was announced in a letter from Governor Mark W. Olson to the Board’s roughly 1,800 employees at their homes in mid-April 2003. The letter noted the reasons for the initiative:

6. The Dallas Reserve Bank’s Spanish-language website is at www.dallasfed.org/entrada/index.html, and the workbook is available at www.dallasfed.org/ca/ewealth/pdfs/riqueza.pdf.

Educated consumers know how to save for their goals, use credit wisely, and avoid getting in over their heads. They know how to plan for unforeseen events that might otherwise result in financial crisis. And they know how to prepare for a financially secure retirement. These benefits would be reason enough to encourage financial education, but the Federal Reserve has a special interest in the topic. Educated consumers are one key to keeping our economy functioning well.

The goal of the Board's initiative first and foremost is to improve outcomes. The aim is not to create financial experts or to educate for education's sake. Rather, it is to improve the financial circumstances of Board employees' lives: to improve employees' ability to deal with emergency situations; to reduce their reliance on financial services that entail needless expense and may not help them best achieve their objectives; and to help them enjoy comfortable, financially secure retirements. The Board sees education as an important component of the overall effort to achieve these goals, but by no means the only one.

On the educational front, the Board's specific objectives are to increase employees' understanding of how Board-sponsored benefit programs can contribute to their financial well-being, to improve employees' knowledge of basic financial concepts and decisionmaking capability in the area of personal finance, and to encourage employees to adopt financial management behaviors that will help increase their short- and long-term savings and better manage or eliminate debt.

During 2004, the Board conducted twelve "lunch and learn" seminars for employees, each focusing on a different topic, such as financial planning, college funding, estate planning, investing, and retirement planning. Two additional, specially designed sessions were held for younger employees—specifically, summer interns and research assistants—to help them understand basic financial concepts and to stress the importance of saving at an early age. In addition, targeted communications highlighting key Board benefits and ways to use them effectively were developed, and communication about maximization of benefits was increased during the 2004 open season enrollment period.

A special section of the Board's employee website devoted to personal finances, called "Managing Your Finances," was developed. Information on the site is grouped under five topics (Basics of Money Management; Credit; Homeownership; Investing and Retirement; and Savings) and can be sorted by employee age (20s; 30s and 40s; and 50s and above) and life event (change in family status; caring for dependents; savings; retirement; and disability). Articles on per-

sonal finance topics are regularly featured on the site to remind employees of the importance of information and planning when handling personal finances. More than 2,000 visits to the "Managing Your Finances" page were recorded in the first five months.

The Board recognizes the benefits of employee education to employers as well as employees. In May 2004, Governor Gramlich described the Board's workplace financial education initiative at a meeting of the congressionally chartered Financial Literacy and Education Commission (described later), noting that

Workplace education benefits both the employer and employee. For the employee, more knowledge, one hopes, will result in better financial decisions and overall financial well-being. . . . For the employer, research studies have shown that employees who are financially healthy are more productive.⁷

COLLABORATING IN THE DELIVERY OF FINANCIAL EDUCATION

The Federal Reserve System has partnered with several national organizations in recent years to promote and support their work in financial education. The Board of Governors holds an ex officio position on the board of the Jump\$tart Coalition. Board officials and staff members participate in activities designed by the organization to promote awareness of the need for students to learn about basic personal financial management during the K–12 educational experience.⁸

Board staff members also participate in the American Savings Education Council, a nonprofit coalition of private and public institutions that seeks to raise public awareness of personal finance matters.⁹ And they work closely with the U.S. Treasury Department's Office of Financial Education and the Agriculture Department's Cooperative Extension Service.

Several Reserve Banks have partnered with Operation Hope's Banking on Our Future (BOOF) program. Participants in BOOF's national banker volunteer corps teach young people in low-income communities the basics of checking and savings accounts and the importance of credit and invest-

7. The complete remarks can be read at www.federalreserve.gov/boarddocs/speeches/2004/20040520/default.htm.

8. For information on Jump\$tart, see www.jumpstart.org.

9. The American Savings Education Council (ASEC) website is at www.asec.org; the website for the "Choose to Save" program created by ASEC and the nonprofit Employee Benefits Research Institute is at www.choosetosave.org.

ment. The goal of the program is to help America's youth understand how to make financial decisions that lead to long-term financial well-being.¹⁰

The Federal Reserve also participates in "America Saves," a nationwide campaign that encourages individuals and families to save and build wealth and assists them in their efforts, whether their goal is paying down debt, building an emergency fund, or saving for a home, an education, or retirement. The campaign is supported by a coalition of nonprofit, corporate, and government groups; overall management is provided by the nonprofit Consumer Federation of America. Board staff members advise the campaign and promote its goals among low- and moderate-income families. Locally, assistance may include such free services as wealth-building workshops, "coaching" on setting and planning for goals, and advice from certified financial planners on achieving goals.¹¹

In addition to these national programs, the Federal Reserve System works daily with many local and regional organizations and institutions to increase awareness of the need for financial education.

EVALUATING THE EFFECTIVENESS OF FINANCIAL EDUCATION

At the same time it promotes personal financial education, on its own initiative or in cooperation with others, the Federal Reserve also actively engages in and encourages others to engage in research on the effectiveness of personal financial education programs. Research findings revealing the relationships among specific programs, change in level of knowledge, and change in behavior can guide program providers as they tailor program content, timing, and mode of delivery to particular populations.

Conducting Formal Studies

One research project conducted by Board staff members used data from the Surveys of Consumers on four financial-management activities—cash-flow management, credit management, saving, and investment—to look at connections between what consumers know and what they do. Overall, financial knowledge was statistically linked to financial practices: Consumers who knew more were more likely to engage in recommended financial practices.

Although causality could flow in either direction, the study indicates that increases in knowledge may lead to improvements in financial management practices.¹²

Another study by Board staff members, also using data from the Surveys of Consumers, looked at the characteristics and learning preferences of households exhibiting various patterns of financial behavior. Level of knowledge about financial matters and type of financial learning experience were the only variables consistently associated with cash flow management, saving, and investing behaviors: Those who knew more and those who had learned about financial matters from family, friends, and personal experiences had higher scores, that is, a larger proportion reported such behaviors as paying bills on time, having an emergency fund, and having funds spread over different types of investments. The results suggest that increases in knowledge and experience can lead to improvements in financial behavior. However, a "one size fits all" or "one delivery technique fits all" approach to financial education will be less effective than an approach that targets specific learning groups and tailors the program to the group.¹³

The Board has entered into an agreement with the U.S. Department of Defense to conduct longitudinal research on the effectiveness of the military's financial education programs. The goal is to identify and quantify changes in attitudes and financial behavior associated with the programs and the persistence of any changes over time. A treatment group that attended a formal two-day financial education course and a control group not exposed to the course will be tracked over a period of years.

The Federal Reserve Banks are also pursuing studies of the effectiveness of financial education. The Minneapolis Reserve Bank is collaborating with a nonprofit organization to evaluate the benefits of financial education and homeownership counseling programs. The Chicago Reserve Bank has begun a study to determine the effect of mandated high school financial education courses on the financial behavior of students in adulthood. And the Philadelphia Reserve Bank is piloting a longitudinal study of the behavioral effects of consumer education and homebuyer counseling programs.

12. See Marianne A. Hilgert, Jeanne M. Hogarth, and Sondra G. Beverly, "Household Financial Management: The Connection between Knowledge and Behavior," *Federal Reserve Bulletin*, vol. 89 (July 2003), pp. 309–22 (www.federalreserve.gov/pubs/bulletin/2003/0703lead.pdf).

13. A paper reporting on this study, "Patterns of Financial Behaviors: Implications for Community Educators and Policy-makers," by Jeanne M. Hogarth, Sondra G. Beverly, and Marianne A. Hilgert, is available at www.chicagofed.org/cedric/files/2003_conf_paper_session1_hogarth.pdf.

10. Operation Hope's website is at www.operationhope.org.

11. See www.americasaves.org.

Assessing the Board's Internal Program for Employees

Program assessment is a critical component of effective financial education. At the Board, the first data have been collected to track the effect of its internal financial education initiative. While the effect on employee behavior could be more precisely determined through a more rigorous longitudinal study, staff agreed that trends in wage garnishments and benefits participation could serve as basic indicators of program effectiveness. Data for the period July 31, 2003–July 31, 2004, in the areas of wage garnishment and participation in the Board's Thrift Plan (the equivalent of a 401(k) plan), group legal plan, and Flexible Spending Account (FSA) plan were chosen to provide a baseline for comparison. Data as of July 2004 indicate improvement in all areas but Thrift Plan participation.

The proportion of employees whose wages had been garnished decreased considerably over the period, from 4.4 percent to 2.2 percent. Participation in the FSA plan increased from 37 percent of employees to nearly 40 percent, in part because of special efforts during new-employee orientation and the open season enrollment period to highlight the plan's dependent care feature and the benefits of putting aside money on a pre-tax basis. And participation in the group legal plan rose from 11 percent to 14 percent, in part because of efforts during open season to highlight the plan's financial planning component; according to the plan vendor, the proportion of employees enrolled is higher at the Board than at any of the vendor's other client companies.

In contrast to these positive effects, participation in the Thrift Plan declined. The overall participation rate dropped from 94 percent to 90 percent (only about half of new employees hired to date in 2004 have enrolled in the Thrift Plan despite additional efforts to explain the benefit). The participation rate remains impressive,¹⁴ but further analysis and targeted educational programs will likely be undertaken.

Encouraging Research and Disseminating Findings

To facilitate the dissemination of findings as well as information about existing education programs, the

Chicago Reserve Bank has added to its website a repository of studies related to financial education and a list of major financial education programs throughout the country.¹⁵ Among the materials available on the website are papers on financial education presented at the System's 2003 biennial research conference on community development. These conferences seek to encourage and promote new research exploring issues and policies that affect access to financial services by traditionally underserved communities and consumers. Research on financial education will again be considered at the upcoming April 2005 conference, and those papers will be posted on the website after the conference.

NEXT STEPS

The Federal Reserve System's "There's a Lot to Learn about Money" campaign raised awareness of the importance of personal financial education, inspired numerous programs in local Reserve Bank communities, and broadened educational outreach to System employees. As an initial follow-on to its own effort, the System is advising the Council for the New American City of the U.S. Conference of Mayors on its nationwide campaign to promote financial education. The council's project, called "Dollar Wise," is a multiyear effort to encourage mayors to organize, implement, and publicize local financial literacy initiatives.¹⁶ The goals are to educate consumers and increase their capacity to invest in their communities. The Federal Reserve is working with interested mayors to encourage local coalitions to devise community-based educational strategies reflecting the needs of participating cities in light of their demographics, resources, and capacity. This new partnership will engage mayors, local Reserve Banks, and community leaders in delivering community-based financial education in a myriad of ways.

In addition, the Board is working with other members of the Financial Literacy and Education Commission to carry out its charge to serve as a central point of information about government resources in the area of financial education.¹⁷ This body, which was established by the federal Fair and Accurate Credit Transactions Act of 2003, has developed a financial education web portal with links to informa-

14. According to the Profit Sharing/401(k) Council, the average companywide rate of participation in a 401(k) plan in calendar year 2003 was 70 percent. See John Blossom, "Falling 401(k) Participation Rates—Reversing a Negative Trend." Retrieved November 2004 from www.401khelpcenter.com/401k/blossom_retirement_participation.html.

15. This resource, the "Financial Education Research Center," is at www.chicagofed.org/cedric/financial_education_research_center.cfm.

16. See www.dollarwiseonline.org.

17. Chairman Greenspan is a member of the commission, and Governor Gramlich is the Board's designee.

tion on such topics as budgeting and taxes, fraud and scams, and retirement planning and has set up a toll-free number for consumer financial information.¹⁸ The commission is developing a national strategy for financial empowerment to promote basic financial literacy and education among all Americans. The objective is to provide consumers with the resources and skills that enable them to understand, evaluate, and compare financial products, services,

and opportunities—and, equally important, to avoid abusive, predatory, or deceptive credit offers and products.

The Federal Reserve System is committed to continuing its efforts to promote personal financial education. The challenge will be to support financial education in a way that makes effective use of the System's resources and national visibility and complements the resources already available. Future efforts will be guided by the answers to two questions: What can the Federal Reserve do that no one else can? And what results do we hope to achieve? □

18. The website is at www.MyMoney.gov, and the toll-free number is 1-888-MyMoney.

Federal Reserve System Financial Education Activities, by District

District	Activity	Contact
BOARD OF GOVERNORS	<i>Teaching Teens about Money</i> —Workshop for middle and high school teachers. Co-hosted with the Federal Reserve Bank of Richmond	Rose Pianalto, (202) 452-2707
	<i>Lunch and Learn</i> —Ongoing series of financial education seminars for employees offering information on various financial planning and consumer protection issues	Terri Johnsen, (202) 452-3378
	<i>Advisory support for national groups</i> —Staff support for policy development by national organizations, including JumpStart, National Council for Economic Education, America Saves campaign, and working groups of the Financial Literacy and Education Commission	Terri Johnsen, (202) 452-3378
	<i>Contributions to research and literature</i> —Publication of academic papers on various aspects of financial education, including "Household Financial Management: The Connection between Knowledge and Behavior" and "Financial Literacy: An Overview of Practice, Research, and Policy"	Terri Johnsen, (202) 452-3378
	<i>Consumer education brochures</i> —Preparation and distribution of brochures advising consumers of their rights and protections in connection with credit and deposit accounts and providing information on products that have generated numerous consumer complaints	Terri Johnsen, (202) 452-3378
BOSTON	<i>School-based model</i> —Personal finance program for middle school students in Boston public schools and in a Providence, R.I., urban school. Partners: Operation Hope; and Johnson & Wales University	Marilyn Weekes, (617) 973-3907
	<i>Adult-based model</i> —Series of four personal finance workshops and a train-the-trainer session targeting caseworkers serving homeless families, welfare recipients, unemployed, and ethnically diverse populations in Springfield and Holyoke, Mass. Partners: Organization for a New Equality; and Partners for Community	Marilyn Weekes, (617) 973-3907
	<i>The New England and Caribbean Economic Connection</i> —Discussions on financial literacy projects. Collaborators include the Essex National Heritage Commission; the National Park Service; and Salem State College	George (Scott) Guild, (617) 973-3639
	<i>The New England Economic Adventure</i> —Educational initiative to teach middle school and high school students about improvements in living standards	George (Scott) Guild, (617) 973-3639
	<i>Identity Theft</i> —Booklet in English and Spanish explaining what identity theft is, how it happens, how to protect yourself, and what steps to take if your identity is stolen; video also available	Matt Quigley, (617) 973-3959

Federal Reserve System Financial Education Activities, by District—continued

District	Activity	Contact
NEW YORK	<i>First meeting of an intergovernmental, public-private coalition to fight identity theft</i> —Resulted in new interagency work groups, improved reporting, stronger links to a central base, new legislation, and changes in police procedures. Co-hosted with the Federal Trade Commission	Steve Malin, (212) 720-6141
	<i>New York State Financial Literacy Coalition</i> —Introduction of Blue Star Certification program in New York area high schools; certification goes to schools at which three-fourths of seniors pass a rigorous financial literacy examination; individual students also receive recognition	Steve Malin, (212) 720-6141
	<i>Foundations of Finance</i> —Workshop on personal financial management for college advisors at high schools and freshman orientation officers at colleges; also, workshops for college students, parents of college and high school students, and staff at universities and government agencies	Steve Malin, (212) 720-6141
	<i>Banking on Youth</i> —Program, including active-learning activities, to teach financial concepts to low-income young people in New York City and Buffalo	Arlene Abbass, (212) 720-5215 Connie Poniatowski, (716) 849-5023
PHILADELPHIA	<i>Faith-based financial education initiative</i> —Personal financial education programs for low- and moderate-income individuals presented through their places of worship	Marty Smith, (215) 574-6393
	<i>Longitudinal study</i> of the effectiveness of homeownership counseling and financial management skills	Marty Smith, (215) 574-6393
	<i>Sponsorship of meeting</i> —Convening of financial education providers in the greater Philadelphia area	Christy Hevener, (215) 574-6461
	<i>Participation on task force</i> —Participation by Bank's president on the Pennsylvania Governor's Task Force for Working Families to develop ideas for improving financial literacy, building wealth, and preventing lending abuses	
	<i>Promotion of financial education curriculum</i> for teachers of K-12	Andrew Hill, (215) 574-4392
	<i>Production of training video</i> to help people steer clear of predatory lenders	Marty Smith, (215) 574-6393
CLEVELAND	<i>Great Minds Think!</i> —Education road show offering presentations on financial education and economic theory to students and teachers	Kelly Adams-Banks, (216) 579-2131
	<i>Financial Education: What Is It and Why Is It So Important?</i> —Release of survey results	Ruth Clevenger, (216) 579-2392
	<i>Financial education roundtables</i> —Meetings at which results of the Fourth District financial education survey were shared	Ruth Clevenger, (216) 579-2392
	<i>Creation of financial task force</i> —Creation of task force to develop local partnerships on financial education	Ruth Clevenger, (216) 579-2392
	<i>Financial Education Consortium</i> —Broad-based coalition of financial education providers, financial institutions, and community-based organizations to promote financial education in western Pennsylvania	Ruth Clevenger, (216) 579-2392
RICHMOND	<i>Minds in Motion</i> —Savings-related program involving students, teachers, and parents that teaches children about the concepts of interest and compound interest	Lisa Turner, (804) 697-8135
	<i>Teaching Teens about Money</i> —Workshop for middle and high school teachers. Co-hosted with the Board of Governors	Amanda Gibson, (804) 697-8107

Federal Reserve System Financial Education Activities, by District—continued

District	Activity	Contact
ATLANTA	<i>Georgia Summit on Economic and Financial Education</i> —Statewide policy-oriented conference on personal finance	Tim Smith, (404) 498-8061
	<i>Louisiana School Initiative</i> —Presentation of economic and financial education at almost 60 schools	Tim Smith, (404) 498-8061
	<i>Fed Financial Education Day</i> —Recurring program of economic and financial education for middle school students	Tim Smith, (404) 498-8061
	<i>Georgia Bankers Roundtable</i> —New Bank-sponsored program with a focus on financial education	Juan Sanchez, (404) 498-7226
	<i>Winners for the Future</i> —Program on financial literacy and economic education for high school students covering such topics as the real world, dressing for success, and interviewing skills	Tim Smith, (404) 498-8061
	<i>Florida Housing Coalition Predatory Lending Workshop</i> —Workshop on the role of financial education in combating predatory lending	Juan Sanchez, (404) 498-7226
	<i>Calhoun County Saves</i> —Initiative emphasizing the value of financial education and the importance of savings	Juan Sanchez, (404) 498-7226
	<i>Immigrant Farmworkers Focus Group</i> —Focus group to determine how to tailor financial education initiatives to the immigrant farmworker population of Immokalee, Fla. Co-sponsored with HUD	Juan Sanchez, (404) 498-7226
CHICAGO	<i>Chicago Money Smart Week</i> —More than 100 financial education events for people of all ages	Liz Handlin, (312) 322-2392
	<i>Power of Money</i> —Partnership with a distribution firm enabling the Bank to bring economic education to more than 720,000 middle and high school students	Liz Handlin, (312) 322-2392
	<i>Expansion of CEDRIC (Consumer and Economic Development Research and Information Center) website</i>	Alicia Williams, (312) 322-5910
	<i>Detroit Money Smart Week</i> —150 financial education events for people of all ages	Sheila McKean, (313) 964-6112
	<i>Marshall High School Partnership</i> —Tutoring and mentoring program for inner-city schools	Liz Handlin, (312) 322-2392
	<i>Mexican Consulate of Chicago's New Alliances Task Force for Financial Education</i> —Participation on task force to promote financial education and develop new programs, products, and services for Spanish-speaking and non-Spanish-speaking immigrants	Harry Pestine, (312) 322-5877
	<i>Asset Building Innovations: Interactive Conference</i> —Sponsorship of conference focused on helping low-income individuals, families, and communities understand, participate in, and benefit from mainstream banking services and products and resulting in recommendations for change in government regulations and policies	Harry Pestine, (312) 322-5877
ST. LOUIS	<i>Planting Your Financial Future: Seeds for Success</i> —One-day "Money Matters" workshop for women covering such topics as identity theft, investing and saving, and retirement	Glenda Wilson, (314) 444-8317
	<i>Banking on Our Future</i> —Class on savings and personal finance for 11-year-olds attending summer camp	Glenda Wilson, (314) 444-8317
	<i>Women's Financial Education Series</i> —Personal financial education programs for women ages 30–65	Glenda Wilson, (314) 444-8317
	<i>Gateway to Financial Fitness</i> —Teaching for and serving on the board of a program that helps people achieve better financial health and improve their housing options	Glenda Wilson, (314) 444-8317

Federal Reserve System Financial Education Activities, by District—continued

District	Activity	Contact
MINNEAPOLIS	<i>Native Financial Education Coalition (Youth Committee)</i> —Assistance in development of pilot programs to help Native youth get access to financial education tools	Jacqueline Nicholas, (612) 204-5470
	<i>St. Paul Foundation Credit Card Project</i> —Help in development of plans to have major credit card issuers study the effect of early educational and counseling intervention on cardholders' subsequent financial performance	Jacqueline Nicholas, (612) 204-5470
	<i>The Academy of Finance</i> —Involvement in design of program for high school juniors and seniors to benefit young adults, the financial services industry, and the community	David Fetting, (612) 204-5274
	<i>Montana Financial Education Coalition</i> —Discussion of statewide financial education coalition	Jacqueline Nicholas, (612) 204-5470
KANSAS CITY	<i>Federal Reserve System Personal Financial Education website</i> —Launch of website for System	
	<i>Banking on Kids</i> —Development of student-operated bank at the Boys and Girls Club of Greater Kansas City (first of several sites planned for the metropolitan area). In partnership with a local commercial bank	Annette LePique, (816) 881-2867
	<i>Denver Financial Literacy Network</i> —Involvement in broad civic partnership to develop network of financial education resources	Ariel Cisneros, (303) 572-2601
	<i>Academy of Finance</i> —Sponsorship of programs in inner city schools in Kansas City and Omaha	Sharon Oamek, (402) 221-5606
	<i>Financial Education in Oklahoma: Building Our Future Together</i> —Development and hosting of statewide symposium on financial education challenges and opportunities in Oklahoma	Steve Shepelwich, (405) 270-8675
DALLAS	<i>Personal finance workbook</i> —Translation of workbook on building wealth into Spanish; also, addition of Spanish-language option to publications request phone line	Elizabeth Sobel, (214) 922-5252
	<i>Presentations on building wealth</i> —Presentations throughout the District, including sponsorship of workshops in both Spanish and English presented by the Hispanic Bankers Association	Elizabeth Sobel, (214) 922-5252
	<i>Personal financial education curriculum</i> —Provision of curriculum for personal financial education for kindergartners through senior citizens. Partnership with Texas Southern University School of Business Financial Education Center; and the Texas Council on Economic Education	Elizabeth Sobel, (214) 922-5252
	<i>The Cost of Credit</i> —Conference for high school faculty interested in incorporating personal financial education into their instruction. Co-sponsored with the Texas Council on Economic Education	Elizabeth Sobel, (214) 922-5252
	<i>Personal Finance 2003: Financial Literacy and Economics for K-12 Math and Social Studies Faculty</i> —Two-day workshop in Houston, El Paso, Bandera, and Dallas	Elizabeth Sobel, (214) 922-5252

Federal Reserve System Financial Education Activities, by District—continued

District	Activity	Contact
<i>SAN FRANCISCO</i>	<i>Building Native Communities</i> —Workshops in Portland, Sacramento, Seattle, and Phoenix to train tribal members and representatives of Native American community organizations to teach financial education curriculum in their communities	Lena Robinson, (415) 974-2717
	<i>California Central Valley Spanish Language Financial Education</i> —Activities in cooperation with a federal-partners consortium	Lena Robinson, (415) 974-2717
	<i>Native American Financial Education Coalition Policy Forum</i> —Effort to establish a national strategy for promoting financial education to Native Americans	Craig Nolte, (206) 343-3761
	<i>Hope Center (Operation Hope)</i> —Help in establishing centers to promote homeownership and small-business assistance through education, counseling, and credit	Lena Robinson, (415) 974-2717
	<i>Fair Lending Consortium</i> —Help in setting up a clearinghouse in nine SF Bay-area counties to address predatory lending issues and provide education, counseling, and credit	Lena Robinson, (415) 974-2717
	<i>IDA initiatives</i> —Creation of individual development account initiatives that include financial education components for use in Idaho, Utah, Nevada, Alaska, and Arizona	Craig Nolte, (206) 343-3761

Report on the Condition of the U.S. Banking Industry: Second Quarter, 2004

Assets of reporting bank holding companies rose \$365 billion (3.9 percent) in the second quarter, to \$9.65 trillion. Loans accounted for the majority of this overall growth (up \$194 billion, or 4.3 percent). Loan growth was primarily in consumer categories, while commercial lending activity remained weak. Reflecting this weakness in business loans, unused commitments to lend grew only \$70 billion, or one-third of the growth seen in each of the two previous quarters. The increase in total assets was significantly influenced by the addition of a new insurance-oriented financial holding company (John Hancock) with consolidated assets of \$115 billion, mostly in other assets.

Even with the addition of the new insurance-oriented financial holding company, securities and money market assets rose only \$41 billion, or 1.1 percent. The overall growth masked significant differences across the population of reporting bank holding companies. Holdings of these assets declined \$16 billion, or 0.6 percent, at the fifty large bank holding companies as these institutions sought to position their balance sheets for possible future interest rate increases. In contrast, such assets rose slightly at the generally smaller "all other reporting companies" and more significantly at the few large bank holding companies excluded from the "fifty large" panel, because commercial banking operations account for only a small portion of their assets and earnings.

Deposits grew strongly (up \$165 billion, or 3.4 percent), attributable in part to continued healthy increases in core deposits. Borrowings rose at a slower pace (\$55 billion, or 1.9 percent). The remarkable growth in other assets and other liabilities—10.7 percent and 12.0 percent, respectively—was influenced significantly by insurance-related items

associated with the addition of the new insurance-oriented financial holding company.

Strong asset growth was also reflected in slightly lower aggregate capital ratios during the quarter. Although these ratios remained well above minimum requirements, each of the three aggregate regulatory measures—the Tier 1 risk-based, total risk-based, and leverage capital ratios—fell about 20 basis points.

Net income fell \$5 billion (18.0 percent), to \$25 billion, related to widely publicized one-time litigation charges at two of the largest bank holding companies. Including these one-time charges, aggregate non-interest expenses rose \$17 billion (20.0 percent) despite a slight decline in total employment at reporting bank holding companies (down 13,000, or 0.6 percent) that in turn was attributable to a falloff in mortgage origination activity. Net interest income and non-interest income each rose \$4 billion, or about 6.0 percent. Net interest income was supported by an increase in interest-earning assets and a slight widening of the net interest margin (up 3 basis points, to 3.48 percent), while non-interest income benefited from stronger market-sensitive revenues. Realized securities gains fell 50.0 percent, or \$1 billion, as rising long-term interest rates negatively affected the market value of investment securities.

Asset quality continued to improve with nonperforming assets falling below 1.00 percent of loans and related assets for the first time in four years, reaching 0.97 percent. Net charge-offs declined to 0.64 percent of average loans, about on par with the loss rate experienced in 2000. With these indications of improvement, the aggregate allowance for loan losses remained unchanged at \$75 billion despite the significant growth in loans noted earlier.

1. Financial characteristics of all reporting bank holding companies in the United States

Millions of dollars except as noted, not seasonally adjusted

Account or ratio ^{1,2}	1999	2000	2001	2002	2003	2002		2003				2004	
						Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<i>Balance sheet</i>													
Total assets	6,223,157	6,716,171	7,447,463	7,940,580	8,819,567	7,940,580	8,176,401	8,671,732	8,693,481	8,819,567	9,283,681	9,649,142	
Loans	3,386,343	3,706,547	3,804,665	4,044,387	4,393,702	4,044,387	4,112,535	4,265,235	4,336,327	4,393,702	4,563,721	4,758,106	
Securities and money market	2,082,428	2,191,024	2,558,749	2,853,808	3,285,962	2,853,808	3,007,215	3,214,738	3,172,499	3,285,962	3,573,028	3,613,913	
Allowance for loan losses	-54,875	-59,284	-67,343	-72,451	-72,220	-72,451	-72,145	-72,476	-71,871	-72,220	-75,228	-75,230	
Other	809,261	877,884	1,151,392	1,114,836	1,212,123	1,114,836	1,128,795	1,264,236	1,256,527	1,212,123	1,222,160	1,352,353	
Total liabilities	5,756,993	6,201,163	6,866,122	7,305,495	8,123,757	7,305,495	7,526,957	7,998,206	8,012,947	8,123,757	8,547,359	8,882,600	
Deposits	3,500,012	3,756,389	4,005,863	4,332,313	4,674,255	4,332,313	4,426,402	4,571,789	4,576,475	4,674,255	4,813,814	4,978,928	
Borrowings	1,776,587	1,981,783	2,061,127	2,228,020	2,610,400	2,228,020	2,315,467	2,508,601	2,553,019	2,610,400	2,846,872	2,901,852	
Other ³	480,394	462,991	799,132	745,162	839,103	745,162	785,089	917,815	883,454	839,103	886,673	1,001,820	
Total equity	466,164	515,008	581,341	635,085	695,810	635,085	649,444	673,526	680,534	695,810	736,322	766,542	
<i>Off-balance-sheet</i>													
Unused commitments to lend ⁴	3,093,729	3,297,511	3,481,744	3,650,669	4,097,531	3,650,669	3,714,160	3,756,486	3,887,356	4,097,531	4,350,950	4,420,713	
Securitized assets outstanding ⁵	n.a.	n.a.	276,717	295,001	298,348	295,001	284,429	285,286	290,328	298,348	308,543	314,259	
Derivatives (notional value, billions) ⁶ ..	37,924	43,599	48,261	57,864	72,877	57,864	64,116	68,330	69,416	72,877	79,233	83,071	
<i>Income statement</i>													
Net income⁷	76,966	72,580	65,488	84,678	106,656	18,732	24,777	26,348	27,265	28,373	30,325	24,968	
Net interest income	187,211	195,780	221,626	242,923	254,518	61,700	62,278	63,168	63,898	65,359	67,971	71,910	
Provisions for loan losses	20,032	26,874	39,522	42,928	31,532	11,545	8,574	8,428	7,110	7,421	6,934	6,554	
Non-interest income	174,795	197,707	214,093	215,879	244,814	56,758	57,426	61,698	61,380	64,342	66,488	70,386	
Non-interest expense	225,364	254,800	297,196	292,050	311,095	79,033	74,222	77,554	78,017	81,368	82,944	99,684	
Security gains or losses	3,117	-614	4,297	4,503	5,764	1,644	1,854	2,675	583	664	1,980	1,025	
<i>Ratios (percent)</i>													
Return on average equity	17.44	15.15	11.76	14.05	16.24	12.13	15.65	16.13	16.42	16.74	17.03	13.14	
Return on average assets	1.30	1.12	.90	1.10	1.26	.94	1.22	1.25	1.26	1.30	1.33	1.03	
Net interest margin ⁸	3.71	3.56	3.58	3.72	3.50	3.63	3.58	3.50	3.43	3.48	3.45	3.48	
Efficiency ratio ⁹	61.32	62.57	66.04	62.72	61.72	65.76	62.03	62.59	62.06	62.42	61.88	62.30	
Nonperforming assets to loans and related assets .....	.85	1.09	1.45	1.46	1.16	1.46	1.43	1.34	1.24	1.16	1.10	.97
Net charge-offs to average loans .....	.54	.65	.89	1.02	.81	1.02	.84	.80	.75	.83	.70	.64
Loans to deposits	96.75	98.67	94.98	93.35	94.00	93.35	92.91	93.29	94.75	94.00	94.80	95.56	
<i>Regulatory capital ratios</i>													
Tier 1 risk-based	8.80	8.83	8.91	9.21	9.55	9.21	9.33	9.29	9.51	9.55	9.49	9.33	
Total risk-based	11.73	11.80	11.91	12.29	12.58	12.29	12.42	12.29	12.52	12.58	12.44	12.23	
Leverage	7.00	6.80	6.66	6.70	6.84	6.70	6.72	6.75	6.74	6.84	6.84	6.62	
Number of reporting bank holding companies	1,647	1,727	1,842	1,979	2,134	1,979	2,036	2,064	2,120	2,134	2,192	2,210	

Footnotes appear on p. 462.

2. Financial characteristics of fifty large bank holding companies in the United States

Millions of dollars except as noted, not seasonally adjusted

Account or ratio ^{2,9}	1999	2000	2001	2002	2003	2002	2003				2004	
						Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Balance sheet</i>												
Total assets	5,054,896	5,430,376	5,788,065	6,130,535	6,771,655	6,130,535	6,300,884	6,687,514	6,699,934	6,771,655	7,201,957	7,385,384
Loans	2,646,916	2,881,205	2,891,509	3,061,630	3,298,862	3,061,630	3,108,860	3,213,795	3,268,050	3,298,862	3,450,031	3,579,264
Securities and money market	1,746,808	1,830,949	2,028,947	2,254,041	2,594,012	2,254,041	2,367,484	2,533,061	2,498,320	2,594,012	2,866,218	2,850,165
Allowance for loan losses	-44,578	-47,654	-54,547	-58,193	-57,022	-58,193	-57,472	-57,409	-56,593	-57,022	-59,658	-59,312
Other	705,750	765,877	922,156	873,057	935,804	873,057	882,012	998,066	989,958	935,804	945,365	1,015,267
Total liabilities	4,687,865	5,026,161	5,348,303	5,654,767	6,254,732	5,654,767	5,816,536	6,187,285	6,192,507	6,254,732	6,649,235	6,810,685
Deposits	2,634,891	2,798,809	2,968,425	3,196,624	3,437,937	3,196,624	3,255,374	3,370,704	3,364,213	3,437,937	3,552,847	3,678,320
Borrowings	1,599,841	1,792,392	1,849,911	2,006,800	2,319,535	2,006,800	2,081,047	2,230,869	2,276,595	2,319,535	2,567,757	2,591,833
Other ³	453,132	434,960	529,968	451,342	497,260	451,342	480,115	585,712	551,700	497,260	528,632	540,533
Total equity	367,031	404,215	439,762	475,768	516,923	475,768	484,348	500,229	507,427	516,923	552,723	574,699
<i>Off-balance-sheet</i>												
Unused commitments to lend ⁴	2,867,877	3,063,974	3,225,542	3,371,618	3,786,413	3,371,618	3,423,887	3,455,716	3,579,420	3,786,413	4,033,475	4,085,732
Securitizations outstanding ⁵	n.a.	n.a.	271,825	289,320	292,312	289,320	278,633	279,083	284,134	292,312	304,545	307,878
Derivatives (notional value, billions) ⁶ ..	37,882	43,532	48,140	57,740	72,680	57,740	63,969	68,153	69,234	72,680	78,995	82,793
<i>Income statement</i>												
Net income ⁷	64,044	59,234	50,884	66,519	85,499	14,273	19,714	20,876	21,996	23,020	24,573	18,248
Net interest income	144,975	149,966	162,048	178,692	186,969	45,911	45,804	46,322	47,244	47,784	50,512	51,903
Provisions for loan losses	17,120	23,148	34,447	37,012	26,826	9,841	7,447	7,193	5,886	6,302	6,113	5,716
Non-interest income	156,233	177,773	168,777	166,158	189,071	42,623	44,364	47,504	47,408	49,827	52,331	52,937
Non-interest expense	186,578	212,297	218,197	209,482	222,462	56,743	53,053	55,434	56,192	57,849	60,260	72,435
Security gains or losses	2,224	-611	4,229	4,866	5,129	1,754	1,729	2,308	474	629	1,592	707
<i>Ratios (percent)</i>												
Return on average equity	18.61	15.80	12.06	14.63	17.47	12.32	16.67	17.22	17.76	18.21	18.34	12.79
Return on average assets	1.33	1.13	.90	1.12	1.30	.93	1.25	1.29	1.31	1.37	1.38	.98
Net interest margin ⁸	3.58	3.42	3.34	3.52	3.33	3.48	3.40	3.32	3.28	3.30	3.29	3.25
Efficiency ratio ⁷	60.97	62.49	63.46	59.96	58.66	63.05	59.15	59.52	59.12	58.92	58.97	58.47
Nonperforming assets to loans and related assets .....	.90	1.19	1.59	1.59	1.24	1.59	1.53	1.43	1.31	1.24	1.16	1.02
Net charge-offs to average loans .....	.61	.74	1.02	1.19	.94	1.17	1.01	.94	.86	.95	.85	.76
Loans to deposits	100.46	102.94	97.41	95.78	95.95	95.78	95.50	95.34	97.14	95.95	97.11	97.31
<i>Regulatory capital ratios</i>												
Tier 1 risk-based	8.09	8.18	8.19	8.48	8.75	8.48	8.57	8.50	8.76	8.75	8.69	8.54
Total risk-based	11.32	11.45	11.56	11.94	12.14	11.94	12.05	11.88	12.14	12.14	11.99	11.80
Leverage	6.61	6.41	6.20	6.20	6.30	6.20	6.22	6.23	6.23	6.30	6.30	6.06

Footnotes appear on p. 462.

3. Financial characteristics of all other reporting bank holding companies in the United States

Millions of dollars except as noted, not seasonally adjusted

Account ^{1, 10}	1999	2000	2001	2002	2003	2002	2003				2004	
						Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Balance sheet</i>												
Total assets	1,139,481	1,252,272	1,357,591	1,492,331	1,637,803	1,492,331	1,542,977	1,592,260	1,601,862	1,637,803	1,661,742	1,727,090
Loans	728,145	812,354	864,958	935,559	1,024,315	935,559	955,062	983,697	998,611	1,024,315	1,043,110	1,093,656
Securities and money market	319,683	341,392	378,714	431,331	476,099	431,331	461,219	475,557	469,580	476,099	485,059	488,118
Allowance for loan losses	-10,120	-11,420	-12,456	-13,846	-14,807	-13,846	-14,257	-14,561	-14,819	-14,807	-15,186	-15,576
Other	101,772	109,946	126,374	139,287	152,197	139,287	140,953	147,567	148,490	152,197	148,759	160,892
Total liabilities	1,042,264	1,143,488	1,236,362	1,355,581	1,488,723	1,355,581	1,401,217	1,446,066	1,456,009	1,488,723	1,509,303	1,573,834
Deposits	865,120	957,497	1,031,189	1,126,759	1,224,061	1,126,759	1,161,786	1,190,063	1,200,684	1,224,061	1,246,986	1,284,808
Borrowings	155,172	159,704	177,746	195,779	228,247	195,779	203,750	218,533	219,588	228,247	220,065	248,848
Other ³	21,971	26,288	27,427	33,043	36,416	33,043	35,681	37,471	35,737	36,416	42,253	40,178
Total equity	97,217	108,784	121,229	136,750	149,080	136,750	141,760	146,194	145,853	149,080	152,439	153,256
<i>Off-balance-sheet</i>												
Unused commitments to lend ⁴	214,524	225,188	246,518	267,702	298,678	267,702	279,012	289,060	295,792	298,678	304,093	319,963
Securitized assets outstanding ⁵	n.a.	n.a.	4,567	4,942	4,893	4,942	4,994	5,205	5,116	4,893	2,875	3,001
Derivatives (notional value, billions) ⁶	29	54	92	92	100	92	104	110	105	100	128	123
<i>Income statement</i>												
Net income ⁷	12,773	13,326	14,547	17,491	18,885	4,270	4,688	4,915	4,798	4,484	5,059	5,165
Net interest income	42,152	45,820	48,263	53,397	55,851	13,450	13,691	13,881	13,799	14,480	14,443	14,839
Provisions for loan losses	2,818	3,584	4,641	5,286	4,489	1,501	1,060	1,146	1,104	1,179	856	846
Non-interest income	16,761	18,000	23,148	25,431	28,556	6,829	6,891	7,579	7,260	6,826	6,989	7,026
Non-interest expense	37,270	40,763	45,883	48,640	53,300	12,813	12,788	13,427	13,180	13,906	13,579	13,767
Security gains or losses	825	-9	777	720	1,068	187	300	431	135	202	328	114
<i>Ratios (percent)</i>												
Return on average equity	13.23	13.05	12.42	13.62	13.21	12.73	13.47	13.74	13.43	12.22	13.61	13.48
Return on average assets	1.16	1.12	1.12	1.24	1.21	1.17	1.24	1.26	1.21	1.11	1.24	1.22
Net interest margin ⁸	4.28	4.26	4.14	4.23	3.98	4.10	4.04	3.98	3.89	3.99	3.96	3.90
Efficiency ratio ⁹	62.45	62.20	63.31	60.68	62.37	62.89	61.48	63.23	62.32	65.20	62.67	62.36
Nonperforming assets to loans and related assets	.68	.76	.96	1.01	.97	1.01	1.12	1.08	1.02	.97	.96	.86
Net charge-offs to average loans	.30	.32	.43	.46	.39	.53	.32	.37	.35	.50	.24	.26
Loans to deposits	84.17	84.84	83.88	83.03	83.68	83.03	82.21	82.66	83.17	83.68	83.65	85.12
<i>Regulatory capital ratios</i>												
Tier 1 risk-based	12.31	11.95	12.22	12.43	12.55	12.43	12.58	12.53	12.55	12.55	12.52	12.36
Total risk-based	13.76	13.43	13.84	14.09	14.29	14.09	14.28	14.24	14.28	14.29	14.25	14.07
Leverage	8.64	8.58	8.76	8.87	9.00	8.87	8.96	8.92	8.94	9.00	9.06	9.03
Number of other reporting bank holding companies	1,569	1,662	1,787	1,924	2,079	1,924	1,981	2,009	2,065	2,079	2,137	2,155

Footnotes appear on p. 462.

4. Nonfinancial characteristics of all reporting bank holding companies in the United States

Millions of dollars except as noted, not seasonally adjusted

Account	1999	2000	2001	2002	2003	2002		2003				2004	
						Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<i>Bank holding companies that qualify as financial holding companies</i> ^{11,12}													
Domestic													
Number	n.a.	299	388	434	451	434	437	440	448	451	463	469	
Total assets	n.a.	4,494,270	5,436,785	5,916,859	6,605,639	5,916,859	6,061,696	6,433,736	6,447,130	6,605,639	6,839,971	7,063,919	
Foreign-owned ¹³													
Number	n.a.	9	10	11	12	11	11	11	11	12	13	14	
Total assets	n.a.	502,506	621,442	616,254	710,441	616,254	648,017	732,695	729,244	710,441	995,454	1,117,729	
Total U.S. commercial bank assets ¹⁴	5,673,702	6,129,534	6,415,909	6,897,447	7,397,810	6,897,447	7,031,274	7,325,350	7,293,920	7,397,810	7,614,351	7,850,548	
<i>By ownership</i>													
Reporting bank holding companies	5,226,027	5,657,210	5,942,575	6,429,738	6,940,984	6,429,738	6,577,712	6,863,154	6,842,727	6,940,984	7,165,497	7,408,873	
Other bank holding companies	226,916	229,274	230,464	227,017	219,222	227,017	222,670	222,998	217,035	219,222	213,194	211,958	
Independent banks	220,759	243,050	242,870	240,692	237,604	240,692	230,893	239,198	234,157	237,604	235,660	229,717	
<i>Assets associated with nonbanking activities</i> ^{12,15}													
Insurance	n.a.	n.a.	426,462	350,633	411,926	350,633	359,968	383,999	398,378	411,926	428,132	543,492	
Securities broker-dealers	n.a.	n.a.	n.a.	630,851	656,775	630,851	709,839	659,701	686,049	656,775	713,794	710,485	
Thrift institutions	117,699	102,218	91,170	107,422	133,056	107,422	126,375	124,640	143,578	133,056	139,713	156,033	
Foreign nonbank institutions	78,712	132,629	138,977	145,344	170,600	145,344	154,812	160,515	162,789	170,600	195,472	226,055	
Other nonbank institutions	879,793	1,234,714	1,674,267	561,712	686,353	561,712	524,709	737,434	736,515	686,353	837,470	861,311	
<i>Number of bank holding companies engaged in nonbanking activities</i> ^{12,15}													
Insurance	n.a.	n.a.	143	86	101	86	90	91	100	101	99	101	
Securities broker-dealers	n.a.	n.a.	n.a.	47	50	47	48	50	46	50	49	48	
Thrift institutions	57	50	38	32	27	32	31	31	29	27	29	27	
Foreign nonbank institutions	25	25	32	37	41	37	38	40	39	41	41	40	
Other nonbank institutions	559	633	743	880	1,041	880	913	945	992	1,041	1,022	1,039	
<i>Foreign-owned bank holding companies</i> ¹³													
Number	18	21	23	26	28	26	26	27	28	28	28	29	
Total assets	535,024	636,669	764,411	762,901	934,781	762,901	799,540	946,847	947,932	934,781	1,146,963	1,272,561	
Employees of reporting bank holding companies (full-time equivalent)	1,775,418	1,859,930	1,985,981	1,992,559	2,034,358	1,992,559	2,000,168	2,019,953	2,031,029	2,034,358	2,099,073	2,085,671	
<i>Assets of fifty large bank holding companies</i> ^{9,17}													
Fixed panel (from table 2)	5,054,896	5,430,376	5,788,065	6,130,535	6,771,655	6,130,535	6,300,884	6,687,514	6,699,934	6,771,655	7,201,957	7,385,384	
Fifty large as of reporting date	4,809,785	5,319,129	5,732,621	6,032,000	6,666,488	6,032,000	6,203,000	6,587,000	6,602,255	6,666,488	7,045,844	7,385,384	
Percent of all reporting bank holding companies	77.30	79.20	77.00	76.00	75.60	76.00	75.90	76.00	75.90	75.60	75.90	76.50	

NOTE. All data are as of the most recent period shown. The historical figures may not match those in earlier versions of this table because of mergers, significant acquisitions or divestitures, or revisions or restatements to bank holding company financial reports. Data for the most recent period may not include all late-filing institutions.

1. Covers top-tier bank holding companies except (1) those with consolidated assets of less than \$150 million and with only one subsidiary bank and (2) multibank holding companies with consolidated assets of less than \$150 million, with no debt outstanding to the general public and not engaged in certain nonbanking activities.

2. Data for all reporting bank holding companies and the fifty large bank holding companies reflect merger adjustments to the fifty large bank holding companies. Merger adjustments account for mergers, acquisitions, other business combinations and large divestitures that occurred during the time period covered in the tables so that the historical information on each of the fifty underlying institutions depicts, to the greatest extent possible, the institutions as they exist in the most recent period. In general, adjustments for mergers among bank holding companies reflect the combination of historical data from predecessor bank holding companies.

The data for the fifty large bank holding companies have also been adjusted as necessary to match the historical figures in each company's most recently available financial statement.

In general, the data are not adjusted for changes in generally accepted accounting principles.

3. Includes minority interests in consolidated subsidiaries.

4. Includes credit card lines of credit as well as commercial lines of credit.

5. Includes loans sold to securitization vehicles in which bank holding companies retain some interest, whether through recourse or seller-provided credit enhancements or by servicing the underlying assets. Securitization data were first collected on the FR Y-9C report for June 2001.

6. The notional value of a derivative is the reference amount of an asset on which an interest rate or price differential is calculated. The total notional value of a bank holding company's derivatives holdings is the sum of the notional values of each derivative contract regardless of whether the bank holding company is a payor or recipient of payments under the contract. The actual cash flows and fair market values associated with these derivative contracts are generally only a small fraction of the contract's notional value.

7. Income statement subtotals for all reporting bank holding companies and the fifty large bank holding companies exclude extraordinary items, the cumulative effects of changes in accounting principles, and discontinued operations at the fifty large institutions and therefore will not sum to Net income. The efficiency ratio is calculated excluding nonrecurring income and expenses.

8. Calculated on a fully-taxable-equivalent basis.

9. In general, the fifty large bank holding companies are the fifty largest bank holding companies as measured by total consolidated assets for the latest period shown. Excludes a few large bank holding companies whose commercial banking operations account for only a small portion of assets and earnings.

10. Excludes predecessor bank holding companies that were subsequently merged into other bank holding companies in the panel of fifty large bank holding companies. Also excludes those bank holding companies excluded from the panel of fifty large bank holding companies because commercial banking operations represent only a small part of their consolidated operations.

11. Exclude qualifying institutions that are not reporting bank holding companies.

12. No data related to financial holding companies and only some data on nonbanking activities were collected on the FR Y-9C report before implementation of the Gramm-Leach-Bliley Act in 2000.

13. A bank holding company is considered "foreign-owned" if it is majority-owned by a foreign entity. Data for foreign-owned companies do not include data for branches and agencies of foreign banks operating in the United States.

14. Total assets of insured commercial banks in the United States as reported in the commercial bank Call Report (FFIEC 031 or 041, Reports of Condition and Income). Excludes data for a small number of commercial banks owned by other commercial banks that file separate call reports yet are also covered by the reports filed by their parent banks. Also excludes data for mutual savings banks.

15. Data for thrift, foreign nonbank, and other nonbank institutions are total assets of each type of subsidiary as reported in the FR Y-9LP report. Data cover those subsidiaries in which the top-tier bank holding company directly or indirectly owns or controls more than 50 percent of the outstanding voting stock and that has been consolidated using generally accepted accounting principles. Data for securities broker-dealers are net assets (that is, total assets, excluding intercompany transactions) of broker-dealer subsidiaries engaged in activities pursuant to the Gramm-Leach-Bliley Act, as reported on schedule HC-M of the FR Y-9C report. Data for insurance activities are all insurance-related assets held by the bank holding company as reported on schedule HC-I of the FR Y-9C report.

Beginning in 2002:Q1, insurance totals exclude intercompany transactions and subsidiaries engaged in credit-related insurance or those engaged principally in insurance agency activities. Beginning in 2002:Q2, insurance totals include only newly authorized insurance activities under the Gramm-Leach-Bliley Act.

16. Aggregate assets of thrift subsidiaries were affected significantly by the conversion of Charter One's thrift subsidiary (with assets of \$37 billion) to a commercial bank in the second quarter of 2002 and the acquisition by Citigroup of Golden State Bancorp (a thrift institution with assets of \$55 billion) in the fourth quarter of 2002.

17. Changes over time in the total assets of the time-varying panel of fifty large bank holding companies are attributable to (1) changes in the companies that make up the panel and (2) to a small extent, restatements of financial reports between periods.

n.a. Not available

SOURCE. Federal Reserve Reports FRY-9C and FR Y-9LP, Federal Reserve National Information Center, and published financial reports.

Announcements

FEDERAL OPEN MARKET COMMITTEE STATEMENTS

The Federal Open Market Committee decided on August 10, 2004, to raise its target for the federal funds rate 25 basis points, to 1½ percent.

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. In recent months, output growth has moderated and the pace of improvement in labor market conditions has slowed. This softness likely owes importantly to the substantial rise in energy prices. The economy nevertheless appears poised to resume a stronger pace of expansion going forward. Inflation has been somewhat elevated this year, though a portion of the rise in prices seems to reflect transitory factors.

The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters are roughly equal. With underlying inflation still expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Timothy F. Geithner, Vice Chairman; Ben S. Bernanke; Susan S. Bies; Roger W. Ferguson, Jr.; Edward M. Gramlich; Thomas M. Hoenig; Donald L. Kohn; Cathy E. Minehan; Mark W. Olson; Sandra Pianalto; and William Poole.

In a related action, the Board of Governors unanimously approved a 25 basis point increase in the discount rate, to 2½ percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

The Federal Open Market Committee decided on September 21, 2004, to raise its target for the federal funds rate 25 basis points, to 1¾ percent.

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. After moderating earlier this year, partly in response to the substantial rise in energy prices, output growth appears to have regained some traction, and labor market conditions have improved modestly. Despite the rise in energy prices, inflation and inflation expectations have eased in recent months.

The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters to be roughly equal. With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Timothy F. Geithner, Vice Chairman; Ben S. Bernanke; Susan S. Bies; Roger W. Ferguson, Jr.; Edward M. Gramlich; Thomas M. Hoenig; Donald L. Kohn; Cathy E. Minehan; Mark W. Olson; Sandra Pianalto; and William Poole.

In a related action, the Board of Governors unanimously approved a 25 basis point increase in the discount rate, to 2¾ percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

PROPOSED AMENDMENTS TO REGULATION E

The Federal Reserve Board on September 13, 2004, requested public comment on proposed amendments to Regulation E (Electronic Fund Transfers), which implements the Electronic Fund Transfer Act, and the regulation's official staff commentary. The proposed revisions to the regulation would provide guidance regarding the rights, liabilities, and responsibili-

ties of parties engaged in electronic check conversion transactions and would provide that payroll card accounts are accounts covered by Regulation E.

Among the proposed changes, persons, such as merchants and other payees, that use information from a check to initiate an electronic fund transfer from a consumer's account, would be required to provide notice to the consumer for each electronic fund transfer and obtain the consumer's authorization for the transaction. Currently, merchants and other payees that engage in electronic check-conversion transactions are not covered by Regulation E.

In addition, the regulation would be revised to provide that payroll card accounts that are established either directly or indirectly by an employer on behalf of a consumer for the purpose of providing salary, wages, or other employee compensation on a recurring basis are covered by Regulation E. A payroll card account would be subject to the regulation whether the account is operated or managed by the employer, a third-party payroll processor, or a depository institution.

Proposed commentary revisions would provide guidance on preauthorized electronic transfers from a consumer's account, additional electronic check conversion issues, error resolution, and other matters. Comments were due November 19, 2004.

AMENDMENTS TO REGULATION CC, APPENDIX A

The Federal Reserve Board on September 22, 2004, provided information about future amendments to appendix A of Regulation CC (Availability of Funds and Collection of Checks) that the Board will make in 2005 through early 2006 to reflect the restructuring of the Federal Reserve's check-processing operations.

Appendix A provides a routing number guide that helps depository institutions determine the maximum permissible hold periods for most deposited checks. Collectively, the amendments will reduce the number of check-processing regions listed in the appendix from thirty-two to twenty-three, resulting in some nonlocal checks in the affected regions becoming local checks that are subject to faster availability schedules. The Board intends to publish each amendment in the *Federal Register* at least sixty days before the effective date to allow ample time for depository institutions to make necessary changes.

The Board on September 22, 2004, also approved a final rule that deletes the reference in appendix A to the Indianapolis check-processing office of the Fed-

eral Reserve Bank of Chicago and reassigns the Federal Reserve routing symbols currently listed under that office to the Cincinnati office of the Federal Reserve Bank of Cleveland. As of October 30, 2004, the Chicago Reserve Bank's Indianapolis office no longer processes checks, and banks that were served by that office have been reassigned to the Cleveland Reserve Bank's Cincinnati office. To coincide with the effective date of the underlying check-processing changes, the final rule became effective October 30, 2004. As a result of these changes, some checks deposited in the affected regions that were nonlocal checks have become local checks that are subject to shorter permissible hold periods.

The final rule deleting the reference in appendix A to the Indianapolis office is the last in a series of amendments to the appendix associated with the restructuring of check-processing operations that the Reserve Banks announced in February 2003. That phase of restructuring resulted in the number of check-processing regions listed in the appendix being reduced from forty-four to thirty-two.

REVISIONS TO POLICY STATEMENT ON PAYMENTS SYSTEM RISK

The Federal Reserve Board on September 23, 2004, announced that it has revised its Policy Statement on Payments System Risk concerning interest and redemption payments on securities issued by government-sponsored enterprises (GSEs) and certain international organizations.

The Reserve Banks are currently processing and posting these payments to depository institutions' Federal Reserve accounts by 9:15 a.m. eastern standard time, the same posting time as for U.S. Treasury securities' interest and redemption payments, even if the issuer has not fully funded its payments.

The revised policy requires that, beginning July 20, 2006, Reserve Banks will release these interest and redemption payments as directed by the issuer provided the issuer's Federal Reserve account contains sufficient funds to cover them. Although the issuer will determine the timing of these payments during the day, each issuer will be required to fund its interest and redemption payments by 4:00 p.m. eastern standard time for the payments to be processed that day.

To promote a smooth transition to the new policy, the Federal Reserve will coordinate an industry working group through the Federal Reserve Banks' Wholesale Product Office in New York. Organizations that commented on the planned policy changes,

members of those organizations, and fiscal principals to whom the policy applies will be invited to participate.

Also beginning July 20, 2006, the revised policy will align the treatment of the general corporate account activity of GSEs and certain international organizations with the treatment of activity of other account holders that do not have regular access to the discount window and thus are not eligible for intraday credit. Such treatment will include applying a penalty fee to daylight overdrafts resulting from these entities' general corporate payment activity.

The revised policy contains other modifications to reflect the recent changes to the operating hours of the online Fedwire Funds Service, and to clarify, update, or remove items that have become outdated. These revisions were effective immediately.

By law, Reserve Banks act as fiscal agents for the following GSEs and international organizations: Fannie Mae; the Federal Home Loan Mortgage Corporation; entities of the Federal Home Loan Bank System; the Farm Credit System; the Federal Agricultural Mortgage Corporation; the Student Loan Marketing Association; the Financing Corporation; the Resolution Funding Corporation; the World Bank; the Inter-American Development Bank; the Asian Development Bank; and the African Development Bank.

AMENDMENTS TO REGULATION J

The Federal Reserve Board on October 22, 2004, announced final amendments to Regulation J (Collection of Checks and Other Items by Federal Reserve Banks), which governs Reserve Banks' collection of checks and other cash items. The final amendments ensure that Regulation J covers the entire range of check-processing services that the Reserve Banks now offer since the Check Clearing for the 21st Century Act became effective on October 28, 2004.

The Check 21 Act permits banks to use substitute checks in place of original checks in the check-collection or return process. The act does not require any bank to accept checks electronically, although it facilitates the use of electronic transmission between banks that choose to do so. In light of the Check 21 Act, the Reserve Banks plan to offer a wider range of electronic check-processing services, including accepting items in electronic form for collection and return. The final amendments therefore bring electronic items within the coverage of Regulation J. The final amendments also establish new warranties and indemnities that apply to electronic items handled by

a Reserve Bank and that are not subject to warranties and indemnities under other law. The final amendments became effective on October 28, 2004, coinciding with the effective date of the Check 21 Act.

STUDY OF INVESTIGATION ADEQUACY

The Federal Reserve Board on August 5, 2004, announced that it is conducting a study on the adequacy of investigations of disputed consumer information reported to consumer reporting agencies. In connection with the study, the Board is soliciting public comment on issues that will assist in the preparation of the study.

The Fair and Accurate Credit Transactions Act of 2003 (FACT Act), which generally amends the Fair Credit Reporting Act (FCRA), requires the Board and the Federal Trade Commission to conduct a joint study of the extent to which consumer reporting agencies and furnishers of information to consumer reporting agencies comply with certain FCRA requirements. The study will focus on (1) the prompt investigation of disputed information, (2) the completeness of information reported to consumer reporting agencies, and (3) the prompt correction or deletion of any information that cannot be verified.

The FACT Act also requires that the study, which must be submitted to the Congress by December 4, 2004, include recommendations for appropriate legislative and regulatory action. Comments were due by September 17, 2004.

ANNUAL ADJUSTMENT OF FEE-BASED TRIGGER AMOUNT FOR ADDITIONAL DISCLOSURE REQUIREMENTS

The Federal Reserve Board on August 12, 2004, published its annual adjustment of the dollar amount that triggers additional disclosure requirements under the Truth in Lending Act for home mortgage loans that bear rates or fees above a certain amount.

The dollar amount of the fee-based trigger has been adjusted to \$510 for 2005 based on the annual percentage change reflected in the consumer price index that was in effect on June 1, 2004. The adjustment is effective January 1, 2005.

The Home Ownership and Equity Protection Act of 1994 restricts credit terms such as balloon payments and requires additional disclosures when total points and fees payable by the consumer exceed the fee-based trigger (initially set at \$400 and adjusted annually) or 8 percent of the total loan amount, whichever is larger.

RELEASE OF ANNUAL ADJUSTMENTS FOR RESERVE CALCULATIONS AND DEPOSIT REPORTING

The Federal Reserve Board on October 6, 2004, announced the annual indexing of the low reserve tranche and of the reserve requirement exemption amount for 2005. These amounts are used in the calculation of reserve requirements of depository institutions. The Board also announced the annual indexing of the non-exempt deposit cutoff level and the reduced reporting limit that will be used to determine deposit reporting panels, effective September 2005.

All depository institutions must hold a percentage of certain types of deposits as reserves in the form of vault cash, as a deposit in a Federal Reserve Bank, or as a deposit in a pass-through account at a correspondent institution. Reserve requirements currently are assessed on the depository institution's net transaction accounts (mostly checking accounts). Depository institutions must also regularly submit deposit reports of their deposits and other reservable liabilities.

For net transaction accounts in 2005, the first \$7.0 million, up from \$6.6 million in 2004, will be exempt from reserve requirements. A 3 percent reserve ratio will be assessed on net transaction accounts more than \$7.0 million—up to and including \$47.6 million, which is up from \$45.4 million in 2004. A 10 percent reserve ratio will be assessed on net transaction accounts in excess of \$47.6 million.

These annual adjustments, known as the low reserve tranche adjustment and the reserve requirement exemption amount adjustment, are based on growth in net transaction accounts and total reservable liabilities, respectively, at all depository institutions between June 30, 2003, and June 30, 2004.

For depository institutions that report weekly, the low reserve tranche adjustment and the reserve requirement exemption amount adjustment will apply to the fourteen-day reserve computation period that began Tuesday, November 23, 2004, and the corresponding fourteen-day reserve maintenance period that begins Thursday, December 23, 2004.

For depository institutions that report quarterly, the low reserve tranche adjustment and the reserve requirement exemption amount adjustment will apply to the seven-day reserve computation period that begins Tuesday, December 21, 2004, and the corresponding seven-day reserve maintenance period that begins Thursday, January 20, 2005.

The Board also announced increases in two other amounts, the non-exempt deposit cutoff level and the reduced reporting limit, that are used to determine the

frequency with which depository institutions must submit deposit reports.

COMMENT REQUESTED ON PROPOSAL TO DISCONTINUE FRB SERVICES FOR DEFINITIVE MUNICIPAL SECURITIES

The Federal Reserve Board on October 14, 2004, requested comment on a proposal for the Federal Reserve Banks to stop providing services to depository institutions for the collection of definitive municipal securities at the end of 2005. The proposal to exit this service is prompted by the declining volume of definitive municipal securities, the Reserve Banks' expected underrecovery of costs for providing the service in future years, and the availability of reasonable private-sector alternatives.

The Reserve Banks' noncash collection service involves the collection and processing of definitive municipal bonds and coupons issued by state and local governments. Definitive municipal securities are registered or bearer bonds that have been issued with interest coupons in certificated or physical form. The volume of these securities has declined over the years as a result of legal and market changes. Over the past five years, volume has decreased an average of 20 percent annually and is expected to decline one-third in 2005. The declining volume has reduced service revenue for the Reserve Banks. However, service costs remain largely fixed because of the strict custody control requirements for handling physical securities. Although the Reserve Banks have recovered the costs of their noncash collection service over the long run, they project a significant underrecovery of costs beginning in 2005 even if the fees they charge depository institutions are increased.

If the Reserve Banks withdraw from the service, depository institution customers would have several reasonable, private-sector options available for processing definitive municipal securities such as through the Depository Trust Company, correspondent banks, or direct presentment to the paying agents. Collectively these alternatives would be expected to provide an adequate level of service nationwide. Comment is requested by December 20, 2004.

APPOINTMENT OF CHAIRMEN AND DEPUTY CHAIRMEN OF THE FEDERAL RESERVE BANKS

The Federal Reserve Board on October 27, 2004, announced the appointment of the chairmen and

deputy chairmen of the twelve Federal Reserve Banks for 2005.

Each Reserve Bank has a nine-member board of directors. The Board of Governors in Washington appoints three of these directors and each year designates one of its appointees as chairman and a second as deputy chairman.

Following are the names of the chairmen and deputy chairmen appointed by the Board for 2005:

Boston

Samuel O. Thier, M.D., professor of medicine and professor of health care policy, Harvard Medical School, Massachusetts General Hospital, Boston, Massachusetts, renamed chairman.

Blenda J. Wilson, president and chief executive officer, Nellie Mae Education Foundation, Quincy, Massachusetts, renamed deputy chairman.

New York

John E. Sexton, president, New York University, New York, New York, renamed chairman.

Jerry I. Speyer, president and chief executive officer, Tishman Speyer Properties, New York, New York, renamed deputy chairman.

Philadelphia

Ronald J. Naples, chairman and chief executive officer, Quaker Chemical Corporation, Conshohocken, Pennsylvania, renamed chairman.

Doris M. Damm, president and chief executive officer, ACCU Staffing Services, Cherry Hill, New Jersey, renamed deputy chairman.

Cleveland

Robert W. Mahoney, retired chairman and chief executive officer, Diebold, Incorporated, Canton, Ohio, renamed chairman.

Charles E. Bunch, president and chief operating officer, PPG Industries, Inc., Pittsburgh, Pennsylvania, renamed deputy chairman.

Richmond

Thomas J. Mackell, Jr., president and chief operating officer, The Kamber Group, Washington, D.C., named chairman.

Theresa M. Stone, chief financial officer, Jefferson-Pilot Corporation, and president, Jefferson-Pilot Communications Company, Greensboro, North Carolina, named deputy chairman.

Atlanta

David M. Ratcliffe, chairman, president, and chief executive officer, Southern Company, Atlanta, Georgia, renamed chairman.

V. Larkin Martin, managing partner, Martin Farm, Courtland, Alabama, renamed deputy chairman.

Chicago

W. James Farrell, chairman and chief executive officer, Illinois Tool Works, Inc., Glenview, Illinois, renamed chairman.

Miles D. White, chairman and chief executive officer, Abbott Laboratories, Abbott Park, Illinois, renamed deputy chairman.

St. Louis

Walter L. Metcalfe, Jr., chairman, Bryan Cave LLP, St. Louis, Missouri, renamed chairman.

Gayle P.W. Jackson, managing director, FondElec Clean Energy Group, Inc., St. Louis, Missouri, renamed deputy chairman.

Minneapolis

Linda Hall Whitman, chief executive officer, MinuteClinic, Minneapolis, Minnesota, renamed chairman.

Frank L. Sims, corporate vice president, Transportation, Cargill, Inc., Wayzata, Minnesota, renamed deputy chairman.

Kansas City

Robert A. Funk, chairman of the board and chief executive officer, Express Personnel Services International, Oklahoma City, Oklahoma, named chairman.

Richard H. Bard, chairman and chief executive officer, International Surface Preparation Corporation, Golden, Colorado, named deputy chairman.

Dallas

Ray L. Hunt, chairman, president, and chief executive officer, Hunt Consolidated, Inc., Dallas, Texas, renamed chairman.

Patricia M. Patterson, president, Patterson Investments, Inc., Dallas, Texas, renamed deputy chairman.

San Francisco

George M. Scalise, president, Semiconductor Industry Association, San Jose, California, renamed chairman.

David K.Y. Tang, partner, Preston, Gates and Ellis LLP, Seattle, Washington, named deputy chairman.

FEDERAL RESERVE BANKS ANNOUNCE CHANGES TO INCREASE EFFICIENCY IN CHECK SERVICES

The Federal Reserve Banks on August 2, 2004, announced further changes to increase the efficiency of their check-processing operations while maintaining high-quality services to depository institutions throughout the country. Check-processing operations at nine sites will be discontinued and the volumes at these sites shifted to other Federal Reserve locations. These changes will take place through 2005 and early 2006, and they respond to the nation's increasing substitution of electronic payments for paper checks. This announcement follows the Reserve Banks' June 16, 2004, announcement of a strategy to meet the evolving demands of the payments system.

The Reserve Banks will continue providing check services to customers nationwide. However, by decreasing the number of check-processing locations

and increasing capacity at other sites, the Reserve Banks will reduce their check service operating costs in line with the ongoing shift in consumer and business preferences for electronic payments.

“These changes are intended to improve the efficiency of our check operations while maintaining high-quality check services to depository institutions nationwide,” said Gary Stern, chairman of the Reserve Banks’ Financial Services Policy Committee and president of the Federal Reserve Bank of Minneapolis. “But streamlining our check infrastructure is only part of the Reserve Banks’ strategy to improve efficiency; for example, we are also launching new products and services to support the implementation of the Check 21 Act in October 2004.”

As previously announced in early 2003, the Reserve Banks are also undergoing a restructuring of their check operations from forty-five to thirty-two sites by the end of 2004. This new restructuring will reduce that number to twenty-three by early 2006. The implementation schedule for this new round of restructuring changes will be determined within the next several months. Also, as previously announced, the Reserve Banks will continue to review their check-processing operations each year and undertake further restructurings as necessary.

The new round of restructurings will mean the transfer of check operations as shown in the following table:

Offices where check operations will close	Offices where check operations will move
Boston, Massachusetts	Windsor Locks, Connecticut
Columbus, Ohio	Cleveland, Ohio
Birmingham, Alabama	Atlanta, Georgia
Nashville, Tennessee	Atlanta, Georgia
Detroit, Michigan	Cleveland, Ohio
Oklahoma City, Oklahoma	Dallas, Texas
Houston, Texas	Dallas, Texas
Portland, Oregon	Seattle, Washington
Salt Lake City, Utah	Denver, Colorado

“As we’ve been saying for some time and as the financial services industry realizes, not only are fewer checks being written, but paper checks are increasingly giving way to electronic alternatives,” said Stern. “While this makes for an increasingly efficient payments system, it also means that we must shift work among offices and, unfortunately, some dedicated staff will lose their jobs.”

As a result of these changes, the Reserve Banks will reduce their overall check staff on net about 270, representing about 6 percent of their current check employees. In the offices where check processing

will be eliminated, about 640 positions will be affected. Some staff reductions may occur through attrition and there may be some opportunities for reassignment. In addition, the Reserve Banks estimate that they will add about 370 positions at the offices that will continue to process checks.

As with their current restructuring effort, the Reserve Banks will offer a variety of programs to affected staff, including separation packages, extended medical coverage, and career transition assistance.

In 2003 Reserve Banks’ check volume declined at about a 5 percent rate. During 2004 check volumes have declined at an accelerated pace, and such declines are expected to continue in coming years. A 2001 Federal Reserve study revealed that about 42 billion checks were written in the United States in 2000, down from about 50 billion in 1995. The Reserve Banks will continue to assist the nation’s financial services industry by conducting research related to the nation’s payments system. The results of the most recent payments study will be available later in 2004.

The Federal Reserve Banks’ long-term check-processing strategy will allow them to better meet the expectations of the 1980 Monetary Control Act. That act requires the Federal Reserve to set prices to recover, over the long run, its total operating costs of providing payment services to depository institutions, as well as the imputed costs it would have incurred and the imputed profits it would have expected to earn had the services been provided by a private business firm.

BANKING AGENCIES ISSUE HOST STATE LOAN-TO-DEPOSIT RATIOS

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency on August 26, 2004, issued the host state loan-to-deposit ratios that the banking agencies will use to determine compliance with section 109 of the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994. These ratios update data released on May 22, 2003.

In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 109 also prohibits branches of banks controlled by out-of-state bank holding companies from operating primarily for the purpose of deposit production.

Section 109 provides a process to test compliance with the statutory requirements. The first step in the process involves a loan-to-deposit ratio screen that compares a bank's statewide loan-to-deposit ratio to the host state loan-to-deposit ratio for banks in a particular state.

A second step is conducted if a bank's statewide loan-to-deposit ratio is less than one-half of the published ratio for that state or if data are not available at the bank to conduct the first step. The second step requires the appropriate banking agency to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank's interstate branches.

A bank that fails both steps is in violation of section 109 and is subject to sanctions by the appropriate banking agency.

IMPLEMENTATION OF WEB-BASED CENTRAL DATA REPOSITORY

The federal banking agencies announced on August 31, 2004, that they will target implementation of the Central Data Repository (CDR) for one of the first two Call Report periods of 2005. A specific date will be announced by the end of 2004.

Originally scheduled for implementation in October 2004, the system's start date was postponed last month to address industry feedback and to allow more time for testing and enrollment. The decision to delay implementation beyond 2004 was made to ensure that rollout of the new system would not increase burden for those bankers with additional reporting requirements at the end of 2004.

The agencies and industry focus groups are currently evaluating the schedule and will post detailed information and a new timeline on the Federal Financial Institutions Examination Council's (FFIEC) website, www.FFIEC.gov/FIND, later in 2004. In the meantime, banks will continue to file their Call Report data in the same manner that they have been and the agencies will continue to process Call Report data using their existing processing systems.

The agencies have been considering Call Report changes that may be introduced in 2005. Information on any proposed revisions to the Call Report will be released separately from the announcement of the updated schedule for the CDR.

The CDR is an Internet-based system created to modernize and streamline the way that agencies collect, validate, and distribute financial data or *Call Reports*, submitted by banks. This initiative—the Call Report Modernization Project—is an inter-

agency effort under the auspices of the FFIEC. Additional project details and other important information are posted on the FFIEC's website at www.FFIEC.gov/FIND.

AGENCIES PUBLISH BROCHURE ABOUT INTERNET PHISHING

The federal bank, thrift institution, and credit union agencies on September 8, 2004, announced the publication of a brochure with information to help consumers identify and combat a new type of Internet scam known as *phishing*.

The term is a play on the word *fishing*, and that is exactly what Internet thieves are doing—fishing for confidential financial information, such as account numbers and passwords. With enough information, a con artist can run up bills on another person's credit card or, in the worst case, even steal that person's identity.

In a common type of phishing scam, individuals receive e-mail messages that appear to come from their financial institution. The e-mail message may look authentic, right down to the use of the institution's logo and marketing slogans. They often describe a situation that requires immediate attention and then warn that the account will be terminated unless the recipient verifies their account information immediately by electronically selecting a provided link.

The link will take the e-mail recipient to a screen that asks for account information. While it may appear to be a page sponsored by a legitimate financial institution, the information will actually go to the con artist who sent the e-mail message.

The federal financial regulatory agencies want consumers to know that they should never respond to such requests. No legitimate financial institution will ever ask its customers to verify their account information online.

The brochure also suggests the following to consumers:

- Never electronically select a link provided in an e-mail message if there is reason to believe it is fraudulent. The link may contain a virus.
- Do not be intimidated by e-mail messages that warn of dire consequences if their instructions are not followed.
- If there is a question about whether the e-mail message is legitimate, go to the company's website by typing in a site address that you know is legitimate.

- If you fall victim to a phishing scam, act immediately to protect yourself by alerting your financial institution, placing fraud alerts on your credit files, and monitoring your account statements closely.

- Report suspicious e-mail messages or calls to the Federal Trade Commission through the Internet at www.consumer.gov/idtheft, or by calling 1-877-IDTHEFT.

The interagency brochure is available on each agency's website and financial institutions are encouraged to download the camera-ready file for use in their own customer-education programs.

RESULTS OF THE SHARED NATIONAL CREDIT REVIEW OF SYNDICATED BANK LOANS

The quality of large syndicated bank loans showed marked improvement this year, according to the Shared National Credit (SNC) review released on September 15, 2004, by federal bank and thrift institution regulators.¹ Adversely rated loans continue to subside, although certain industries continue to have a high concentration of them.

The results—reported by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision—are based on analyses prepared in the second quarter of 2004 and reflect business and economic conditions at that time.

Total loan commitments classified as either substandard, doubtful, or loss fell \$78.2 billion, or 51 percent, from the previous year, compared with a net decrease of \$4.9 billion, or 3 percent, the year before.² Commitments rated special mention decreased \$22.4 billion, or 41 percent, in contrast to 2003, when they fell \$23.8 billion, or 30 percent. None of these figures includes the effects of hedging or other techniques that organizations often employ to mitigate risk.

NOTE. The charts, tables, and appendixes to this announcement are available at www.federalreserve.gov/boarddocs/press/bcreg/2004/20040915.

1. The Shared National Credit (SNC) Program was established in 1977 by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. In 2001 the Office of Thrift Supervision became an assisting agency. With a few exceptions, the annual program, which seeks to provide an efficient and consistent review and classification of large syndicated loans, generally covers loans or loan commitments of at least \$20 million that are shared by three or more financial institutions.

2. Loan commitments included both drawn and undrawn portions of a loan or loan facility.

The ratio of classified loan commitments to total commitments fell to 4.8 percent, the lowest level since 2000, as industry charge-off trends and demand in the secondary market for lower quality assets removed many of the weakest loans from the banking system. Total adversely rated credits (classified and special mention combined) also fell considerably, to 6.9 percent of total commitments.

Adversely rated credits (also known as criticized credits) are the total of loans classified substandard, doubtful, and loss—and loans rated special mention. Classified credits are only those rated substandard, doubtful, and loss. Under the agencies' Uniform Loan Classification Standards, classified loans have well-defined weaknesses, including default in some cases.³ Special mention loans exhibit potential weaknesses, which may result in further deterioration if left uncorrected.

Overview

In aggregate, the 2004 SNC Program covered 7,490 credits totaling \$1.5 trillion in loan commitments to 4,746 borrowers. Total commitments were down 6 percent from the previous year and down 25 percent from the 2001 peak of \$2.0 trillion. This is consistent with market data pointing to lower customer demand, tighter underwriting standards, and attractive capital market financing alternatives. Total outstandings, or drawn amounts, were down 17 percent from the previous year, to \$500 billion.

3. Excerpt from Federal Reserve's SR Letter 79-556 defining regulatory classifications: Classification ratings are defined as *Substandard*, *Doubtful*, and *Loss*. A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. An asset classified as doubtful has all the weakness inherent in one classified substandard with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

Excerpt from June 10, 1993, Interagency Statement on the Supervisory Definition of Special Mention:

Assets

A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

For the 2004 review, total loan commitments classified as substandard fell \$57 billion, or 51 percent from the previous year, while doubtful credits dropped \$16.8 billion, or 57 percent. Commitments classified as loss fell \$4.3 billion, down 40 percent from the previous year. Doubtful and loss amounts reflect the continued downward migration of credits with previously identified weakness. While total classified commitments fell sharply, the portion of outstanding classified loans not accruing interest fell at a slower rate (41 percent), to \$30.1 billion.⁴

Industry Trends

The quality of the SNC portfolio improved markedly in all industries.⁵ The strongest improvement occurred in the manufacturing sector, with a \$23 billion, or 54 percent, decline in classified commitments. Classified credits in the oil, gas, pipelines, and utilities segment fell \$13.9 billion but remained at significantly elevated levels, with 13.8 percent of commitments classified. The telecommunications and cable segment also exhibited improvement, although exposure to previously identified weaknesses still linger. Well-documented problems facing airlines continue to drive classifications in the lodging and transportation segment. Other segments, such as financial services and insurance and construction and real estate, showed modest classification rates that were below those for the entire SNC program. Credits identified for special mention fell \$22.4 billion with strong declines experienced in every industry except telecommunications and cable. These declines were driven by a migration of a portion of the previous year's special mention credits to classified categories, as well as a decline in newly identified credits with potential weaknesses. Of total losses in 2004, \$3.6 billion, or 56 percent, were directly attributable to the weakened energy sector, most of which is

related to outcomes of bankruptcy filings. The remaining losses were spread widely across a variety of industries.

Trends by Entity Type

During 2004 the share of SNC commitments held by U.S. banks and nonbank entities each edged up 1 percentage point, to 46 percent and 12 percent respectively.⁶ The share held by foreign banking organizations (FBOs) continued to decline, totaling 42 percent in 2004. All types of lenders experienced a decline in classified assets during 2004, with U.S. banks showing the largest improvement, down 57 percent from the previous year. The quality of holdings also varied among entity types, with classifieds amounting to 3 percent of total commitments at U.S. banks, compared with 5 percent at FBOs and 13 percent at nonbanks. Total outstandings not accruing interest improved for all entity types. Most notably, U.S. banks experienced a 57 percent decline.

Risk Management by Banks

Banking organizations remain vigilant in identifying problem credits and have generally reflected the appropriate risk rating in their internal ratings of credits in the SNC program. Although credit quality has improved, banking organizations must continue to carefully monitor the condition of their borrowers to ensure that they promptly identify and address any emerging weaknesses and adjust loan loss allowance levels appropriately.⁷

BANKS DISTRIBUTE REDESIGNED \$50 NOTE

Newly redesigned \$50 notes arrived at banks beginning September 28, 2004, ready to make their way into circulation and consumer wallets. On that day, the Federal Reserve System distributed the new note to banks and thus into the public's hands.

To mark the occasion, officials from the U.S. Department of the Treasury, the Federal Reserve Board, and the U.S. Secret Service were on hand for the first transaction using the newly redesigned

6. Nonbanks include independent investment brokerages, investment vehicles, and other institutional investors.

7. For further guidance, institutions should refer to the July 12, 1999, Joint Interagency Letter to Financial Institutions on the allowance for loan losses, as well as the July 2, 2001, Interagency Policy Statement on Allowance for Loan and Lease Losses (ALLL) Methodologies and Documentation for Banks and Savings Institutions.

4. Loans not accruing interest are defined for regulatory reporting purposes as "loans and lease financing receivables that are required to be reported on a non-accrual basis because (a) they are maintained on a cash basis due to a deterioration in the financial position of the borrower, (b) payment in full of interest or principal is not expected, or (c) principal or interest has been in default for ninety days or longer, unless the obligation is both well-secured and in the process of collection." Non-accrual classifieds are those funded or outstanding portions of loans classified as substandard and doubtful that are not accruing interest. For 2004 this consisted of \$19.2 billion in loans rated substandard and \$11.7 billion rated doubtful.

5. Note that the current industry totals categorizes borrowers according to 2002 NAICS codes, in contrast to previous releases of SNC data, which categorized borrowers according to 1997 NAICS codes.

\$50 note. Paying homage to the symbol of freedom featured in the note's new design, the U.S. flag, the officials used one of the first new \$50 notes to buy an American flag from the Alamo Flag shop in Washington, D.C.'s Union Station.

The \$50 note includes enhanced security features, subtle background colors of blue and red, images of a waving American flag, and a small metallic silver-blue star. The new design is part of the U.S. government's ongoing efforts to stay ahead of counterfeiting and protect the integrity of U.S. currency.

"The stability and integrity of U.S. paper currency is something the U.S. government takes very seriously," said Brian Roseboro, Under Secretary for Domestic Finance at the Department of the Treasury. "We believe that redesigning the currency regularly and enhancing security features is the way to keep U.S. currency safe and secure from would-be counterfeiters."

"A combination of factors keep currency counterfeiting at low levels," said Paul Johnson, assistant special agent in charge of the U.S. Secret Service's Criminal Investigations Division. "Improved worldwide cooperation in law enforcement, improvements in currency design, like those in the new \$50 notes that will begin circulating today, and a better-informed public all contribute to our success in the fight against counterfeiting."

The government is supporting the new currency's issue with a public education program designed to inform people in the United States and in other countries about updated security features and ensure a smooth introduction of each newly designed note into circulation.

"As we introduce these beautiful new notes, we want to emphasize that the older design \$50 notes will remain in circulation for some time to come and will remain legal tender," said Louise Roseman, the Federal Reserve Board's director of Federal Reserve Bank Operations and Payment Systems.

The new \$50 note is the second denomination in the Series 2004 currency, the most secure series of notes in U.S. history. The first denomination in the series to be redesigned was the \$20 note, which began circulating in October 2003.

"The next denomination in the series will be a new \$10 note," said Roger W. Ferguson, Jr., Vice Chairman of the Board of Governors. "We are currently working on the design and expect to unveil it in the spring of 2005." The \$100 note is also slated to be redesigned, but a timetable for its introduction is not yet set. No decision has been reached on any potential design changes to the \$5 note, but the \$1 and \$2 notes will not be redesigned.

Public Education

Because the improved security features are more effective if the public knows about them, the U.S. government is undertaking a broad, worldwide public education program. This program will ensure that people all over the world know the new currency is coming, and help them recognize and use the security features. The outreach includes cash handlers, merchants, business and industry associations, and the media. Nearly \$700 billion is in circulation worldwide, and as much as two-thirds of U.S. currency is held outside the United States.

A variety of training materials—such as posters, training videos, and brochures—is available in twenty-four languages. The materials can be downloaded or ordered through www.moneyfactory.com/newmoney. Since the Treasury's Bureau of Engraving and Printing began taking orders in May 2003, more than 52 million pieces of training materials have been ordered by businesses and other organizations to help them train their cash-handling employees about the notes' enhanced security features.

The New Color of Money

Although consumers should not use color to check the authenticity of their currency (relying instead on user-friendly security features), color does add complexity to the note, making counterfeiting more difficult. Different colors are being used for different denominations, which will help everyone—particularly those who are visually impaired—to tell denominations apart.

Security Features

The new \$50 design retains three important security features that were first introduced in the 1990s and are easy for consumers and merchants alike to check:

- *watermark*—a faint image, similar to the portrait, which is part of the paper itself and is visible from both sides when held up to the light.
- *security thread*—also visible from both sides when held up to the light, this vertical strip of plastic is embedded in the paper and spells out the denomination in tiny print.
- *color-shifting ink*—the numeral in the lower right corner on the face of the note, indicating its denomination, changes color from copper to green when the note is tilted.

Counterfeiting: Increasingly Digital

Counterfeiting has been kept at low levels through a combination of improvements in security features, aggressive law enforcement, and education efforts to inform the public about how to check their currency. About 1 in 25,000 \$50 notes is a counterfeit, according to the Federal Reserve.

However, since 1995, digitally produced counterfeit notes have increased from 1 percent of all counterfeits detected in the United States to 40 percent. To stay ahead of counterfeiters as advances in technology make digital counterfeiting of currency easier and cheaper, the government expects to redesign the currency about every seven to ten years.

COMMENT LETTER ISSUED ON THE SEC'S PROPOSED BROKER RULES FOR BANKS

The Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency filed a formal comment letter on October 8, 2004, with the Securities and Exchange Commission (SEC) regarding the SEC's proposed Regulation B.

Proposed Regulation B would implement the exceptions for bank broker activities that the Congress adopted in the Gramm-Leach-Bliley Act. These exceptions were designed to allow banks to continue to execute securities transactions in connection with their normal trust, fiduciary, custodial, and other specified banking activities.

AGENCIES PROVIDE CONSUMER INFORMATION ON AVOIDING OVERDRAFT AND BOUNCED-CHECK FEES

The federal bank, thrift institution, and credit union regulatory agencies on October 14, 2004, announced the publication of a new consumer resource, *Protecting Yourself from Overdraft and Bounced-Check Fees*.

The brochure's key message to consumers is that the best way to avoid overdraft and bounced-check fees is to manage accounts wisely. That means keeping an up-to-date check register, recording all electronic transactions and automatic bill payments, and monitoring account balances carefully.

Many banks, savings and loans, and credit unions offer *courtesy overdraft protection* or *bounce-coverage* plans so checks do not bounce and ATM, debit card, and other electronic or automatic trans-

actions go through. But most financial institutions charge a flat fee (often \$20 to \$30) for each item they cover. Even if a financial institution has a bounce-coverage plan, there is no guarantee an overdraft will be covered.

The federal financial regulatory agencies want consumers to know that careful account management is the lowest-cost way to avoid overdraft and returned-check fees and protect your hard-earned money. If overdraft protection is needed every now and then, consumers should talk with their financial institution or a financial adviser about the choices and services that are right for them. Financial institutions may provide other ways of covering overdrafts that may be less expensive. For example, consumers may be able to link a savings or other account to automatically transfer funds into their checking account. Consumers also may be able to establish an overdraft line of credit or link a checking account to a credit card.

The interagency information is available on each agency's website. A PDF (portable document format) version is provided on the website so that consumer groups, financial institutions, agencies, and other organizations can download and print copies for distribution to their clients and customers. It includes a space on the back panel for organizations to provide their own contact information.

Single copies of the brochure are available free of charge from Publications Fulfillment, MS-127, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551; telephone (202) 452-3244; or send facsimile to (202) 728-5886.

COMMENTS REQUESTED ON PROPOSED GUIDANCE FOR RETAIL CREDIT RISK

The federal bank and thrift institution regulatory agencies announced on October 27, 2004, the publication of a joint *Federal Register* notice and request for comment on proposed guidance for Internal Ratings-Based Systems for Retail Credit Risk for Regulatory Capital. The proposed guidance provides banking organizations with a description of the agencies' current views regarding the components and characteristics of a qualifying internal ratings-based (IRB) system for measuring credit risk of retail exposures. Retail exposures include various types of consumer credit such as residential mortgages, consumer credit cards, and automobile and personal loans as well as some small business loans.

The proposed retail guidance, like the August 4, 2003, proposed corporate IRB guidance and the

Advanced Measurement Approaches for operational risk guidance, includes a number of supervisory standards that ultimately may become part of the qualification criteria for IRB systems in a future inter-agency notice of proposed rulemaking regarding the Basel II framework in the United States. Comments on the proposed guidance are requested by January 25, 2005.

CONSUMER GUIDES PUBLISHED REGARDING CHECK 21 AND CHECK-PROCESSING TECHNOLOGY

The Federal Reserve Board on October 28, 2004, announced the publication of two new consumer guides that provide practical information on the changes resulting from technological advances in check processing.

Technological innovation is allowing for checks to be collected and processed more efficiently, reducing the time and resources dedicated to handling, sorting, and transporting checks. A federal law known as the Check Clearing for the 21st Century Act (Check 21), which became effective on October 28, makes it easier for banks to electronically transfer check images instead of physically transferring paper checks. Check 21 does not require banks to accept checks electronically, but it facilitates electronic transmission between banks by providing a way for banks that clear checks electronically to exchange information with those that do not.

Under Check 21, banks would be able to stop the flow of paper checks, process them electronically, and create machine-readable *substitute checks*—paper copies of the front and back of original checks—when a paper check is needed. Check 21 requires banks and consumers to accept substitute checks in place of original checks in the check-collection or return process. It does not require that bank customers stop receiving paid checks in their account statements, although these checks may be either the originals or in the form of substitute checks.

The *Consumer Guide to Check 21 and Substitute Checks* describes ways that consumers may be affected by the new law and provides information on ways to resolve problems associated with the receipt of substitute checks.

A second consumer guide, *What You Should Know about Your Checks*, discusses more broadly the ways that check payments have changed, including the increased use of electronic check conversion, a process separate from Check 21. In the check-conversion process, a consumer authorizes the use of information

from their paper check to make an electronic payment at the point of sale or when paying a bill by mail.

Both brochures stress that because payments might be processed faster, when a check is written, the money may be deducted from a consumer's checking account sooner. As a result, consumers should be sure they have enough money in their account to cover the amount of their check.

The *Consumer Guide to Check 21 and Substitute Checks* is available on the Board's website at www.federalreserve.gov/pubs/check21/consumer_guide.htm. *What You Should Know about Your Checks* is available at: www.federalreserve.gov/pubs/check21/shouldknow.htm. These publications are also available from Publications Fulfillment, MS-127, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551; telephone (202) 452-3244; or send facsimile to (202) 728-5886.

RELEASE OF MINUTES TO DISCOUNT RATE MEETINGS

The Federal Reserve Board on August 19, 2004, released the minutes of its discount rate meetings from May 17, 2004, through June 30, 2004.

On September 30, 2004, the Board released the minutes of its discount rate meetings from July 19, 2004, through August 10, 2004.

MEETING OF THE CONSUMER ADVISORY COUNCIL

The Federal Reserve Board announced on September 30, 2004, that the Consumer Advisory Council would hold its next meeting on Thursday, October 28, 2004. The meeting occurred in Dining Room E, Terrace level, in the Board's Martin Building. The session began at 9:00 a.m. and was open to the public.

The council's function is to advise the Board on the exercise of its responsibilities under various consumer financial services laws and on other matters on which the Board seeks its advice.

ENFORCEMENT ACTIONS

Written Agreements

The Federal Reserve Board on August 2, 2004, announced the execution of a written agreement by and among the Traders Bank, A Banking Corpora-

tion, Spencer, West Virginia; the West Virginia Division of Banking, Charleston, West Virginia; and the Federal Reserve Bank of Richmond.

The Federal Reserve Board and the New York State Banking Department on October 8, 2004, announced the execution of a written agreement by and among Standard Chartered, plc, London, United Kingdom; its subsidiary bank, Standard Chartered Bank, London, United Kingdom; the bank's New York branch; the Federal Reserve Bank of New York; and the New York State Banking Department.

The written agreement addresses Bank Secrecy Act and anti-money-laundering compliance at Standard Chartered Bank's New York branch, including policies and practices relating to the provision of correspondent banking services.

The Federal Reserve Board on October 19, 2004, announced the execution of a written agreement by and between the Union Bank of California International, New York, New York, and the Federal Reserve Bank of New York.

The written agreement addresses Bank Secrecy Act and anti-money-laundering compliance at the Union Bank of California International, including policies and practices relating to the provision of correspondent banking services.

The Federal Reserve Board on October 21, 2004, announced the execution of a written agreement by and among The Community State Bank, Poteau, Oklahoma; the Oklahoma State Banking Department, Oklahoma City, Oklahoma; and the Federal Reserve Bank of Kansas City.

The Federal Reserve Board on October 29, 2004, announced the execution of a written agreement by and between the County Bank, Merced, California, and the Federal Reserve Bank of San Francisco.

Other Actions

The Federal Reserve Board on August 24, 2004, announced the issuance of a consent notice of prohibition against Charles Kushner, an institution-affiliated party of The NorCrown Trust, an unregistered bank holding company that owns or controls the shares of the NorCrown Bank, Livingston, New Jersey, a state nonmember bank.

A notice of prohibition is issued under a provision of the Federal Deposit Insurance Act that authorizes the Federal Reserve and other bank regulators to limit

the activities of bank officials who have been charged with criminal offenses pending the resolution of the charges.

The Board's action against Mr. Kushner has been coordinated with the U.S. Attorney's Office for the District of New Jersey.

The Federal Reserve Board on August 24, 2004, announced the issuance of a consent notice of prohibition against Kenneth M. Matzdorff, the majority shareholder and a former officer and director of Garden City Bancshares, Inc., Garden City, Missouri, a registered bank holding company that owns or controls the Garden City Bank, Garden City, Missouri, a state nonmember bank.

A notice of prohibition is issued under a provision of the Federal Deposit Insurance Act that authorizes the Federal Reserve and other bank regulators to limit the activities of bank officials who have been charged with criminal offenses pending the resolution of the charges.

The Board's action against Mr. Matzdorff has been coordinated with the U.S. Attorney's Office for the Eastern District of New York.

The Financial Crimes Enforcement Network (FinCEN) and the Board of Governors of the Federal Reserve System announced on October 12, 2004, that they have jointly assessed a \$10 million civil money penalty against AmSouth Bank of Birmingham, Alabama, for its violations of the Bank Secrecy Act.

In addition, the Federal Reserve Board and the Alabama Superintendent of Banks concurrently issued a cease and desist order requiring AmSouth Bank and its parent bank holding company, AmSouth Bancorporation, to take certain corrective actions. AmSouth, without admitting or denying any allegations, consented to the payment of the civil money penalty and issuance of the orders by FinCEN, the Board, and the state.

FinCEN and the Federal Reserve Board based their assessment on the failure of the banking organization to establish an adequate anti-money-laundering program and the failure to file accurate, complete, and timely Suspicious Activity Reports (SARs). The agencies found systemic defects in AmSouth's program with respect to internal controls, employee training, and independent review that resulted in failures to identify, analyze, and report suspicious activity occurring at the bank.

William D. Langford, Jr., associate director of FinCEN's Regulatory Policy and Programs Division, stated, "Comprehensive Bank Secrecy Act compliance programs that enable financial institutions to

identify and report suspicious activities are the foundation of our efforts to combat money laundering and protect our financial system. As this case reflects, if a financial institution fails to establish and implement effectively such programs, we will take appropriate action to ensure compliance.”

The orders are part of coordinated actions with the Office of the U.S. Attorney for the Southern District of Mississippi and the Internal Revenue Service, Criminal Investigation, who also announced on October 12, 2004, the execution of a deferred prosecution agreement with AmSouth in connection with charges that the bank violated the Bank Secrecy Act relating to the filing of inaccurate, incomplete, or late SARs. The Federal Reserve Board and FinCEN provided assistance to, and cooperation with, law enforcement authorities during the course of their investigation.

“These actions demonstrate how coordination among the agencies responsible for enforcement of the Bank Secrecy Act can address the effectiveness of banks’ anti-money-laundering programs and internal compliance reviews,” said Herbert A. Biern, senior associate director of the Board’s Division of Banking Supervision and Regulation.

The cease and desist order issued by the Federal Reserve Board requires improvements in the banking organization’s Bank Secrecy Act compliance and suspicious activity monitoring and reporting programs, a review of previous transactions to ensure that all SARs have been filed, as required, and enhancements to internal controls and management oversight.

CHANGES IN BOARD STAFF

The Board of Governors on July 27, 2004, approved the following officer promotions and appointments in the Division of International Finance, effective October 3, 2004.

- Thomas Connors promoted to senior associate director
- Richard Freeman promoted to associate director
- Steven Kamin promoted to associate director

The Board also announced the reassignment of responsibilities for Joseph Gagnon, Michael Leahy, and Nathan Sheets.

Thomas Connors will continue to oversee the Advanced Foreign Economies and Emerging Market Economies sections, as well as the Administrative Office. Mr. Connors joined the Board’s staff in 1977 and was named section chief in 1987. He was appointed to the official staff in 1994. From 1982–83,

he was on leave as an adviser to the U.S. executive director at the International Monetary Fund. Mr. Connors received his PhD from the University of Michigan.

Richard Freeman will continue to oversee the Financial Markets and International Banking and Finance sections. Mr. Freeman joined the Board in 1977 and was named section chief in 1988. He was appointed to the official staff in 1999. In 1984 Mr. Freeman was on leave as senior staff economist at the Council of Economic Advisers. Before joining the Board’s staff, he was on the faculty of Cornell University. Mr. Freeman received his PhD from Stanford University.

Steven Kamin will continue to oversee the Trade and Quantitative Studies and International Financial Transactions sections. He joined the Board in 1987 and was named section chief in 1997. He was appointed to the official staff in 1999. Mr. Kamin was a senior staff economist at the Council for Economic Advisers in 1992. He also visited at the Bank for International Settlements in 1996. Mr. Kamin received his PhD from the Massachusetts Institute of Technology.

Joseph Gagnon, assistant director, will assume oversight responsibilities of the Financial Markets and International Banking and Finance sections. He joined the Board in 1987. Mr. Gagnon joined the U.S. Department of the Treasury in 1997 as an office director. He returned to the Board in 1999 as section chief. He was appointed to the official staff in 2001. In 1990 Mr. Gagnon taught at the University of California, Berkeley. He received his PhD from Stanford University.

Michael Leahy, assistant director, will assume oversight responsibilities of the Advanced Foreign Economies and Emerging Market Economies sections. He joined the Board in 1986 and was named section chief in 1997. He was appointed to the official staff in 2001, after returning from a two-year visit to the Organization for Economic Cooperation and Development. Mr. Leahy received his PhD from the University of Wisconsin.

Nathan Sheets, assistant director, will assume oversight responsibilities of the International Financial Transactions and Trade and Quantitative Studies sections. He joined the Board in 1993 and was named section chief in 1999. Mr. Sheets was appointed to the official staff in 2001. In 1996 he taught at Brigham Young University. Mr. Sheets received his PhD from the Massachusetts Institute of Technology.

The Board of Governors on September 27, 2004, approved the appointment of Deborah J. Danker as

special assistant to the Board in the Division of Monetary Affairs and the FOMC Secretariat.

Ms. Danker is returning to the Board after eleven years at the World Bank. During her time at the World Bank, she was engaged in its capital market funding activities and in financial policy formulation and risk management. Recently, she served as senior adviser to the managing director and chief financial officer.

Ms. Danker began her career in 1979 at the Federal Reserve Bank of New York, where she worked in both the International Research and Foreign Exchange departments. In 1984 she joined the Board's staff, working in what became the Division of Monetary Affairs and rising to the level of assistant director. During her years with the Board, she was also detailed to the Council of Economic Advisers as a senior staff economist from 1987–88 and to the U.S. Treasury as deputy assistant secretary for Federal Finance from 1992–93. Ms. Danker received an AB from Princeton University and a PhD in economics from Yale University.

Ms. Danker will have general oversight responsibility for the work of the FOMC Secretariat, which includes the preparation of the agenda, minutes, and transcripts for each meeting, and contribute to the policy advice prepared in the Division of Monetary Affairs.

The Management Division has announced a new structure to help meet its responsibilities, which have expanded since September 11, 2001. The changes are intended to fully integrate the diverse functions of the division to improve service to the Board. The division will also emphasize the strategic deployment of information technology to automate, simplify, and improve business processes. The changes will strengthen risk management and address succession-planning issues facing the division as well.

The Board of Governors approved on September 30, 2004, the following officer promotions and appointments in the Management Division.

- Darrell Pauley, associate director, promoted to deputy director, Human Resources and Facilities
- Steve Clark, associate director, promoted to senior associate director, Financial Services
- Christine Fields, assistant director, promoted to associate director and personnel security officer, Employee Services
- Donald Spicer, assistant director, promoted to associate director, Facilities Services
- Billy Sauls, assistant director, promoted to associate director and chief, Security Services

- Marsha Reidhill, transfer from the Division of Reserve Bank Operations, promoted to associate director, Corporate Services

- James Riesz, appointed assistant director, Technology and Compliance

- Charles O'Malley, appointed assistant director, Security Services

Darrell Pauley joined the Board in 1975 as an accountant in the Office of the Controller and was promoted to head the Finance and Accounting section in 1981. Mr. Pauley was appointed to the official staff in 1987 as assistant controller for Finance. From July 1993 to March 1994, he was assigned to the Division of Human Resources Management as part of an officer rotation program. During this time he served in the capacity of assistant director in charge of Human Resources operations.

Steve Clark will be responsible for the Planning and Budgeting and Accounting sections in Financial Services and will continue to serve in his role as the Board's emergency evacuation coordinator. Mr. Clark joined the Board in 1979 as a program and budget analyst in the Office of the Controller and in 1983 was promoted to head the Program Analysis and Budgets section. He was appointed to the official staff in 1987 as assistant controller for budgeting.

Christine Fields will be responsible for Employee Services and will serve as the personnel security officer for the Federal Reserve System. Ms. Fields joined the Board in 1987 and was promoted to manager in 1990 and to assistant director in 2001.

Donald Spicer will have oversight responsibility for Space Planning, Engineering and Facilities, and General Services, which includes the mail, postal, supply, motor transport, and cafeteria operations. Mr. Spicer came to the Board in 1987 as a program analyst in Support Services and was promoted to program manager in 1996, chief in 2001, and assistant director in 2002.

Billy Sauls will have oversight responsibility for the overall security program. Mr. Sauls came to the Management Division in January 2002 as chief of Security. Before coming to the Board, he spent four years as assistant inspector general for the U.S. Postal Service and twenty-two years with the U.S. Secret Service.

Marsha Reidhill will oversee the Corporate Services unit, including Procurement, Fine Arts, Travel, and special projects. Ms. Reidhill recently completed a twelve-month rotational assignment in the Management Division working primarily with the staff director and division director on several special projects. She has been at the Board since November 1992, first

in the Division of Banking Supervision and Regulation as manager of the Surveillance section and since November 1996, in the Division of Reserve Bank Operations and Payment Systems as assistant to the director and then as the assistant director for Cash and Fiscal Agency functions.

James Riesz will oversee the Information Systems, Compliance and Records, and the Administrative Systems Automation Project (ASAP) functions.

Mr. Riesz joined the Board in 1992. He was manager of ASAP and spent the last twelve months on a rotational assignment in Human Resources.

Charles O'Malley will be responsible for the operational and administrative management of the Security unit. Before joining the Board in 2001, Mr. O'Malley spent more than twenty-seven years with the U.S. Secret Service. □

Legal Developments

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT

Orders Issued Under Section 3 of the Bank Holding Company Act

Capital One Financial Corporation McLean, Virginia

Order Approving the Formation of a Bank Holding Company

Capital One Financial Corporation ("Capital One") has requested the Board's approval under section 3 of the Bank Holding Company Act ("BHC Act")¹ to become a bank holding company after amending the charter of its subsidiary, Capital One Bank, Glen Allen, Virginia ("Capital One Bank"), from a limited-purpose, credit-card bank charter to a full-service bank charter. Capital One Bank is not a "bank" for purposes of the BHC Act,² but it proposes to become a full-service bank under the amended charter. Capital One Bank, a state member bank, also has requested the Board's permission under section 9 of the Federal Reserve Act and section 208.3 of the Board's Regulation H to change the general character of its business.³

In addition, Capital One has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act and sections 225.28(b)(1), (2), (4), (6), and (12) of the Board's Regulation Y to retain certain nonbanking subsidiaries of Capital One and thereby engage in permissible activities related to extending credit, providing investment advice, engaging in community development, and retaining Capital One's wholly owned savings association, Capital One, F.S.B., McLean, Virginia ("Capital One FSB").⁴ Capital One also has filed notices under section 4(c)(13) of the BHC Act and the Board's Regulation K to retain certain foreign operations of Capital One.⁵

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (69 *Federal Register* 11,017 (2004)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors

set forth in sections 3 and 4 of the BHC Act and the Federal Reserve Act.

Capital One, with total consolidated assets of \$39.8 billion, is and would remain the second largest depository organization in Virginia, controlling deposits of approximately \$18.6 billion, which represents 14.4 percent of the total deposits in insured depository institutions in the state.⁶

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly. It also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effects of the proposal in meeting the convenience and needs of the community to be served.⁷ As stated above, the proposal involves a charter amendment that would result in Capital One Bank becoming a "bank" for purposes of the BHC Act and does not involve the acquisition of an additional depository institution. 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 banking resources in any relevant banking market and that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors.⁸ The Board has reviewed these factors in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial resources of Capital One Bank and Capital One FSB, information provided by Capital One, publicly reported and other financial information, and public comment on the proposal.⁹

1. 12 U.S.C. § 1842.

2. See 12 U.S.C. § 1841(c)(2)(F).

3. 12 U.S.C. § 321; 12 CFR 208.3.

4. 12 U.S.C. §§ 1843(c)(8) and 1843(j); 12 CFR 225.28(b)(1), (2), (4), (6), and (12).

5. 12 U.S.C. § 1843(c)(13); 12 CFR 211.9.

6. Asset data are as of March 31, 2003. Deposit and ranking data are as of June 30, 2003.

7. 12 U.S.C. § 1842(c).

8. 12 U.S.C. § 1842(c)(2).

9. A commenter expressed concern about Capital One's lobbying efforts in the Virginia legislature. Such matters are outside the limited

Capital One is well capitalized and will remain so on consummation of the proposal. In addition, the Board has considered the financial and managerial resources and examination records of Capital One's subsidiary depository institutions, Capital One Bank and Capital One FSB. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of the institutions involved are consistent with approval of the proposal, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on the proposal, the Board must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").¹⁰ 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹¹

The Board has carefully considered the effects of the proposal on the convenience and needs of the communities to be served in light of all the facts of record, including the CRA performance records of Capital One Bank and Capital One FSB, information provided by Capital One, and public comment on the proposal. Capital One Bank received an overall rating of "outstanding" at its most recent CRA performance evaluation by the Federal Reserve Bank of Richmond, as of April 28, 2003.¹² Capital One Bank is engaged exclusively in credit card operations and has been designated as a limited purpose bank for purposes of evaluating its CRA performance.¹³

At the most recent performance evaluation, examiners characterized Capital One Bank's community development performance as excellent and highly responsive to community needs. Examiners noted that Capital One Bank had made a number of investments, grants, and contributions to

a variety of community organizations that serve the needs of LMI individuals and promote economic development in LMI areas. Examiners commended Capital One Bank for some of its innovative investments.

Based on these and all the facts of record, the Board has concluded that considerations relating to the convenience and needs of the communities to be served, including the CRA performance records of the institutions involved, are consistent with approval.

Nonbanking Activities

Capital One also has filed a notice under sections 4(c)(8) and 4(j) of the BHC Act to retain its nonbanking subsidiaries. The subsidiaries engage in activities related to extending credit, providing investment advice, engaging in community development, and operating a savings association. The Board has determined by regulation that these activities are permissible for a bank holding company under Regulation Y,¹⁴ and Capital One has committed to conduct these activities in accordance with the Board's regulations and orders for bank holding companies engaged in these activities.

To approve the notice, the Board must determine that the acquisition of the nonbanking subsidiaries and the performance of the proposed activities by Capital One "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."¹⁵ As part of its evaluation of these factors, the Board has considered the financial and managerial resources of Capital One and its subsidiaries, the companies to be retained, and the effect of the proposed transaction on those resources. In evaluating the proposal to retain Capital One FSB, the Board also has reviewed the CRA performance record of the institutions involved.¹⁶ For the reasons noted above, and based on all the facts of record, the Board has concluded that financial, managerial, and CRA considerations are consistent with approval of the notice.

The Board also has considered the competitive effects of Capital One's retention of its nonbanking subsidiaries. As noted above, this proposal involves a charter amendment and would not result in the expansion of Capital One's operations. Accordingly, the Board concludes that it is unlikely that significantly adverse competitive effects would result from the retention of Capital One's nonbanking subsidiaries. Capital One has indicated that the proposal would provide its customers a wider variety of banking services over time.

Based on all the facts of record, the Board has determined that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects under the standard of section 4(j)(2)(A) of the BHC Act.

14. See 12 CFR 225.28(b)(1), (2), (4), (6), and (12).

15. See 12 U.S.C. § 1843(j)(2)(A).

16. See, e.g., *Banc One Corporation, Inc.*, 83 *Federal Reserve Bulletin* 602 (1997).

statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See *Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973).

10. 12 U.S.C. § 2901 *et seq.*

11. *Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36, 639 (2001).

12. Capital One FSB received an overall rating of "satisfactory" at its most recent CRA performance evaluation by its primary federal supervisor, the Office of Thrift Supervision ("OTS"), as of April 28, 2003.

13. See 12 CFR 228.25(a). A commenter expressed concern that Capital One planned to expand the activities of Capital One Bank to those of a full-service bank without submitting a CRA plan as part of its proposal. Capital One has stated that it has no immediate plans to engage in a broader range of activities that would change its designation as a limited purpose bank for purposes of the CRA. If Capital One Bank engages in activities that cause the bank to lose this designation, its CRA performance will be evaluated under the appropriate tests and standards. See 12 CFR 228.25(b). Capital One has experience with CRA evaluations of full-service institutions by virtue of operating Capital One FSB, which, as noted above, received a "satisfactory" rating from the OTS.

Capital One also engages in a limited number of activities that are impermissible, or that are only permissible for financial holding companies, such as certain insurance agency and venture capital investment activities. Section 4(a)(2) of the BHC Act requires each company that becomes a bank holding company to conform its nonbanking activities and investments to the requirements of the BHC Act within two years of the date it becomes a bank holding company.¹⁷ The Board's action on this proposal is subject to the condition that Capital One take all actions necessary to conform its activities and investments to the requirements of the BHC Act and the Board's regulations thereunder in a manner acceptable to the Board, including by divestiture if necessary, within two years of the date of consummation of the proposal or such extended time period that the Board, in its discretion, may grant.¹⁸

Membership Considerations

Under section 208.3(d)(2) of the Board's Regulation H,¹⁹ a member bank may not cause or permit any change in the general character of its business or in the scope of the corporate powers it exercises at the time of admission to membership without the permission of the Board. In light of the proposed charter amendment, and the evolving nature of its business plan, Capital One Bank, a state member bank, has requested permission under Regulation H for a change in the general character of the bank's business to operate as a full-service bank.

The Board has carefully reviewed the proposed business plan of Capital One Bank and the powers it proposes to exercise under state law as a full-service commercial bank. In light of all the facts of record, the Board has determined that this change in the general character of Capital One Bank's business is consistent with the terms of Federal Reserve System membership and that Capital One Bank may retain its System membership after amending its charter.

Foreign Activities

Capital One also has requested the Board's consent under section 4(c)(13) of the BHC Act and section 211.9 of Regulation K to retain its foreign operations.²⁰ Based on all the facts of record, the Board concludes that all the factors required to be considered under the BHC Act and Regulation K are consistent with approval of this request.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined 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 Capital One with the conditions imposed in this order and the commitments made to the Board in connection with the proposal. The Board's approval of the nonbanking aspects of the proposal also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c),²¹ and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. The commitments made to the Board are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions and, as such, may be enforced in proceedings under applicable law.

The transaction to become a bank holding company may not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Richmond, acting pursuant to delegated authority.

By order of the Board of Governors, effective July 6, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

F.N.B. Corporation
Hermitage, Pennsylvania

Order Approving the Acquisition of a Bank Holding Company

F.N.B. Corporation ("F.N.B."), a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act to acquire Slippery Rock Financial Corporation ("SRFC") and its subsidiary bank, The First National Bank of Slippery Rock ("Slippery Rock Bank"), both in Slippery Rock, Pennsylvania.¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (69 *Federal Register* 43,848 (2004)). The time for filing comments has expired, and the Board has considered the proposal in light of the factors set forth in section 3 of the BHC Act.

F.N.B., with total consolidated assets of \$4.8 billion, is the 13th largest depository organization in Pennsylvania,

17. 12 U.S.C. § 1843(a)(2).

18. Section 4(a)(2) authorizes the Board, on request, to grant up to three one-year extensions of this conformance period, if the Board finds that the extensions "would not be detrimental to the public interest."

19. 12 CFR 208.3(d)(2); see also SR Letter 02-9, March 20, 2002.

20. See 12 U.S.C. § 1843(c)(13); 12 CFR 211.9.

21. 12 CFR 225.7 and 225.25(c).

1. 12 U.S.C. § 1842.

controlling approximately \$3.1 billion in deposits.² F.N.B. operates principally through its wholly owned subsidiary, First National Bank of Pennsylvania, Greenville, Pennsylvania (“F.N.B. Bank”).³ F.N.B. Bank also has branches in Ohio.

SRFC, with total consolidated assets of approximately \$330 million, is the 94th largest depository organization in Pennsylvania, controlling \$274.1 million in deposits. SRFC has one subsidiary insured depository institution, Slippery Rock Bank, which has branches only in Pennsylvania.

On consummation of this proposal, F.N.B. would have total consolidated assets of approximately \$5.1 billion. F.N.B. would remain the 13th largest depository organization in Pennsylvania, controlling approximately \$3.3 billion in deposits, which represents 1.6 percent of the total amount of deposits of insured depository institutions in the state.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or that would further any attempt to monopolize the business of banking in any relevant banking market. It 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 clearly are outweighed in the public interest by its effect in meeting the convenience and needs of the community to be served.⁴

F.N.B. and SRFC compete directly in the New Castle and Pittsburgh banking markets in Pennsylvania and the Sharon banking market in Pennsylvania and Ohio (“Sharon Market”).⁵ The Board has reviewed carefully the competitive effects of the proposal in each of these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the markets, the relative shares of total deposits in depository institutions in the markets (“market deposits”) controlled by F.N.B. and SRFC,⁶ the concentration level of market deposits and the increase in this level as measured by the Herfindahl–Hirschman Index (“HHI”) under the Department of Justice Merger Guide-

lines (“DOJ Guidelines”),⁷ and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in the Pittsburgh and New Castle banking markets.⁸ After consummation, the Pittsburgh banking market would remain moderately concentrated, and the New Castle banking market would remain highly concentrated. In both banking markets the change in market shares would be small and numerous competitors would remain.

In the Sharon Market the change in the HHI would slightly exceed DOJ Guidelines on consummation. F.N.B. is the largest insured depository organization in the market, controlling deposits of approximately \$518 million, which represent 30.3 percent of market deposits. SRFC is the sixth largest depository organization with deposits of approximately \$58.9 million, which represent 3.4 percent of market deposits. On consummation of the merger, F.N.B. would control deposits of \$576.8 million, which represent approximately 33.7 percent of market deposits. The HHI would increase by 209 points to 2,233.

Several factors indicate that the proposal is not likely to have a significantly adverse effect on competition in the market. The presence and competitive strength of other depository institutions are important factors in this market. Nine bank and thrift competitors would remain in the market after consummation. In addition, two large commercial banking organizations besides F.N.B. would each control a significant share of market deposits, with approximately 25 percent and 17 percent of market deposits, respectively. Both of these competitors also have a substantial branch network in the Sharon Market that is similar in size to F.N.B.’s network. Moreover, one new competitor entered the market *de novo* during the last four years.

The Board also has considered that the market has an active credit union that offers a wide range of consumer banking products. The Mercer County Community Federal Credit Union, Sharon, Pennsylvania (“Mercer Credit Union”), controls \$29.2 million in deposits in the Sharon Market. At least 90 percent of the residents in the market are eligible to become members of Mercer Credit Union. In addition, the credit union operates street-level branches with drive-up service lanes in the market.

The Department of Justice has reviewed the proposal and advised the Board that consummation of the proposal is not likely to have a significantly adverse competitive

2. Total asset data are as of June 30, 2004, and statewide deposit and ranking data are as of June 30, 2003. Data reflect subsequent merger activity through September 8, 2004.

3. F.N.B. also owns a minority interest in Sun Bancorp, Inc., which wholly owns Sun Bank, both in Lewisburg, Pennsylvania.

4. 12 U.S.C. § 1842(c)(1).

5. These banking markets are described in Appendix A.

6. Market share data are as of June 30, 2003, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Board* 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

7. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered moderately concentrated if the post-merger HHI is between 1,000 and 1,800 and highly concentrated if the post-merger HHI is more than 1,800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1,800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

8. The effects of the proposal on the concentration of banking resources in these banking markets are described in Appendix B.

effect in the Sharon Market or in any other relevant banking market. Moreover, the other federal banking agencies have been afforded an opportunity to comment on the proposal and have not objected to the proposal.⁹

Based on these considerations and all the facts of record, the Board concludes that consummation of the proposal would not result in any significantly adverse effect on competition or on the concentration of banking resources in the Sharon Market or in any other relevant banking market and that competitive factors are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has carefully considered these factors in light of all the facts of record, including reports of examination, other confidential supervisory information from the primary federal supervisors for the subsidiary banks of F.N.B. and SRFC, publicly reported and other financial information, and information provided by F.N.B. In addition, the Board has consulted with the OCC, the primary federal supervisor of F.N.B. Bank and Slippery Rock Bank on the proposal.

In evaluating financial factors in expansion proposals by banking organizations, the Board consistently has considered capital adequacy to be especially important. F.N.B. is well capitalized and would remain so on consummation of the proposal. Moreover, F.N.B. has indicated that the cash portion of the transaction would be funded with available liquid resources.

The Board also has considered the managerial resources of F.N.B. and SRFC and the bank to be acquired, and the effect of the proposal on these resources. The Board has reviewed assessments of their management and risk-management systems by the relevant bank supervisory agencies and the organizations' records of compliance with applicable banking laws. In addition, the Board has considered F.N.B.'s plans to integrate SRFC and its subsidiary on consummation of the proposal and the proposed management of the resulting organization.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of F.N.B., SRFC, and their subsidiary banks are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board also is required to consider the effects of the proposal on the convenience and needs of the communities to

be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").¹⁰ An institution's most recent CRA performance evaluation is a particularly important consideration in the application process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹¹

The Board has carefully considered the effects of the proposal on the convenience and needs of the communities to be served in light of all the facts of record, including the CRA performance records of the subsidiary banks of F.N.B. and SRFC and other information from the banks. At their most recent CRA performance evaluations by the OCC, F.N.B. Bank and Slippery Rock Bank each received a "satisfactory" rating.¹² The Board notes that the proposal would allow F.N.B. to provide a broader range of products and services to SRFC's customers.

Based on these and all the facts of record, the Board has concluded that considerations relating to the convenience and needs of the communities to be served, including the CRA performance records of the institutions involved, are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. 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 F.N.B. with the conditions imposed in this order and the commitments made to the Board in connection with the application, including compliance with state law. 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 decisions and, as such, may be enforced in proceedings under applicable law.

The acquisition of Slippery Rock Bank shall not be consummated before the fifteenth calendar day after the effective date of this order or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Cleveland, acting pursuant to delegated authority.

By order of the Board of Governors, effective September 23, 2004.

10. 12 U.S.C. § 2901 *et seq.*

11. See *Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

12. The rating of F.N.B. Bank is as of August 13, 2001, and the rating of Slippery Rock Bank is as of May 10, 1999. In addition, Sun Bank received a "satisfactory" performance evaluation rating from the Federal Deposit Insurance Corporation, as of April 1, 2004.

9. On September 8, 2004, the Office of the Comptroller of the Currency ("OCC") approved the application to merge Slippery Rock Bank with and into F.N.B. Bank.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

Appendix A

Banking Markets Where F.N.B. and SRFC Compete Directly

New Castle, Pennsylvania

Lawrence County, excluding the townships of Little Beaver, New Beaver, Perry, and Wayne; and Wilmington township in Mercer County.

Pittsburgh, Pennsylvania

Allegheny, Beaver, and Washington Counties; the townships of South Buffalo, Gilpin, Parks, and Kiskiminetas in Armstrong County; the townships of Muddy Creek, Lancaster, Jackson, Forward, Penn, Jefferson, Winfield, Cranberry, Adams, Middlesex, Clinton, and Buffalo in Butler County; the townships of Washington, Jefferson, Perry, Lower Tyrone, Upper Tyrone, Bullsken, and Salt Lick in Fayette County; the townships of Conernaugh, Burrell, and West Wheatfield in Indiana County; the townships of Little Beaver, New Beaver, Perry, and Wayne in Lawrence County; and Westmoreland County, excluding St. Clair township.

Sharon, Pennsylvania and Ohio

Mercer County, excluding Wilmington township, and Mercer township in Butler County, all in Pennsylvania; and the townships of Brookfield and Hartford in Trumbull County, Ohio.

Appendix B

Market Data

New Castle, Pennsylvania

F.N.B. operates the fourth largest depository institution in the New Castle banking market, controlling \$146.1 million in deposits, which represents 8.5 percent of market deposits. SRFC operates the sixth largest depository institution in the market, controlling \$41.4 million in deposits, which represents 2.4 percent of market deposits. On consummation of the proposal, F.N.B. would operate the third largest depository institution in the market, controlling deposits of \$187.5 million, which represent approximately 10.9 percent of market deposits. Seven bank and thrift competitors would remain in the market. The HHI would increase 118 points to 3,337.

Pittsburgh, Pennsylvania

F.N.B. operates the eighth largest depository institution in the Pittsburgh banking market, controlling \$689.3 million in deposits, which represents 1.4 percent of market deposits. SRFC operates the 39th largest depository institution in the market, controlling \$26.9 million in deposits, which represents less than 1 percent of market deposits. On consummation of the proposal, F.N.B. would remain the eighth largest depository institution in the market, controlling \$716.2 million in deposits, which represent 1.5 percent of market deposits. Fifty-three bank and thrift competitors would remain in the market. The HHI would remain at 1,584.

Haines Financial Corp Woodward, Oklahoma

Order Approving the Formation of a Bank Holding Company and the Acquisition of a Bank

Haines Financial Corp ("Haines Financial") has requested the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1842(a)(1)) to become a bank holding company and to acquire all the voting shares of The First National Bank of Medford, Medford, Oklahoma ("Medford Bank").

Notice of the proposal, affording interested persons an opportunity to comment, has been published (69 *Federal Register* 18,908 (2004)). The time for filing comments has expired, and the Board has considered all the comments on the application in light of the factors enumerated in section 3 of the BHC Act.

Haines Financial is a newly organized corporation that does not control a depository institution, and it has been formed to acquire Medford Bank. Medford Bank is one of the smaller depository institutions in Oklahoma,¹ controlling approximately \$22.6 million in deposits, which represents less than 1 percent of total deposits in the state.² The Board has reviewed carefully all the facts of record and has concluded that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market. Accordingly, the Board has determined that the competitive factors under section 3 of the BHC Act are consistent with approval of the proposal.

Section 3 of the BHC Act also requires the Board to consider the effect of the transaction on the convenience and needs of the community to be served.³ In evaluating this factor, the Board places particular emphasis on the ratings that the relevant depository institutions received at their most recent examinations under the Community Rein-

1. In this context, the term "depository institution" includes commercial banks, savings banks, and savings associations.

2. Deposit and ranking data are as of March 31, 2004.

3. 12 U.S.C. § 1842(c)(2).

vestment Act (12 U.S.C. §2901 *et seq.*) ("CRA"). Medford Bank received a "satisfactory" CRA rating from its primary federal supervisor, the Office of the Comptroller of the Currency ("OCC"), as of December 31, 2001.

Haines Financial has stated that it intends to retain the bank's current retail banking activities in the Medford community. After reviewing all the information submitted by Haines Financial and Medford Bank related to the convenience and needs factor, and based on all the facts of record, the Board concludes that considerations relating to convenience and needs, including the CRA performance of the institution to be acquired, are consistent with approval.

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal as well as the principal shareholders.⁴ As part of this analysis, the Board has reviewed confidential examination information about Medford Bank and publicly reported financial and other information about the bank, Haines Financial, and the proposal. The Board has also consulted with the OCC, the primary federal supervisor for Medford Bank, and considered confidential supervisory and other information from the banking agency. In addition, the Board has reviewed Haines Financial's operating plan for Medford Bank and the proposed management of Haines Financial and the bank.

The Board notes that Haines Financial intends to retain Medford Bank's management and that the bank would have a five-member board of directors that would include two of the bank's current senior officers. Three of the five members of the proposed board of directors, which would include one of the principal shareholders of Haines Financial, are experienced bankers. Experienced individuals would also be responsible for managing the bank on a daily basis after consummation. In addition, the Board has taken into account the financial resources of Haines Financial, including its capital levels and ability to serve as a source of strength to the bank, as well as the proposed business plan for Medford Bank.

After considering all the facts of record, including all commitments made to the Board in connection with this proposal, the Board concludes that the financial and managerial resources and future prospects of Haines Financial and Medford Bank are consistent with approval, as are the other supervisory factors the Board is required to consider under the BHC Act.

Based on the foregoing and after considering all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered the record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by Haines Financial and all affiliated entities with the commitments and representations made to the Board in connection with the application. These commitments and conditions are deemed to be conditions imposed

in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Medford Bank may not be consummated before the fifteenth calendar day after the effective date of this order or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Kansas City, acting pursuant to delegated authority.

By order of the Board of Governors, effective July 1, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DE V. FRIERSON
Deputy Secretary of the Board

LBT Bancshares, Inc.
Litchfield, Illinois

Order Approving the Acquisition of Shares of a Bank Holding Company

LBT Bancshares ("LBT"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. §1842) to acquire approximately 54 percent of the voting shares of Security Bancshares, Inc. ("Security") and thereby acquire control of Security's subsidiary bank, Security National Bank ("Security Bank"), both in Witt, Illinois.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (69 *Federal Register* 5,957 (2004)). The time for filing comments has expired, and the Board has considered the proposal and the comments received in light of the factors set forth in section 3 of the BHC Act.

LBT and Security are under the common control of the Fleming family.¹ LBT controls Bank & Trust Company, Litchfield, Illinois ("LBT Bank"). LBT, with total consolidated assets of approximately \$194.2 million, is the 198th largest depository organization in Illinois, controlling deposits of \$168.5 million, which represents less than 1 percent of total deposits in insured depository institutions in the state ("state deposits").² Security, with total consolidated assets of approximately \$49.7 million, is the 504th largest depository institution organization in Illinois, controlling deposits of \$41.9 million, which represents less

1. Mr. David W. Fleming and his two sons, Daniel and William, control more than 47 percent of the voting shares of LBT and more than 28 percent of the voting shares of Security. Under the proposal, LBT would acquire all the shares of Security held by the Fleming family and shares of Security held by certain shareholders.

2. Asset data are as of December 31, 2003. Statewide deposit and ranking data are as of June 30, 2003, and are derived from the Summary of Deposits data collected annually by the Federal Deposit Insurance Corporation.

4. *Id.*

than 1 percent of state deposits. On consummation of the proposal, LBT would become the 155th largest depository organization in Illinois, with total consolidated assets of approximately \$243.6 million and total deposits of \$210.4 million, representing less than 1 percent of state deposits.

LBT's proposal to acquire Security and Security Bank is opposed by the management of Security, which submitted comments to the Board urging denial on several grounds. The Board previously has stated that, in evaluating acquisition proposals, it must apply the criteria in the BHC Act in the same manner to all proposals, whether they are supported or opposed by the management of the institutions to be acquired.³ Section 3(c) of the BHC Act requires the Board to review each application in light of certain factors specified in the act. These factors require consideration of the effects of the proposal on competition, the financial and managerial resources and future prospects of the companies and depository institutions concerned, and the convenience and needs of the communities to be served.⁴ The Board has long held that, if the statutory criteria are met, withholding approval based on other factors, such as whether the proposal is acceptable to the management of the organization to be acquired, would be outside the limits of the Board's discretion under the BHC Act.⁵

The Board also has carefully considered all other information available, including information accumulated in the applications process, supervisory information of the Board and other agencies, relevant examination reports, and information provided by the Office of the Comptroller of the Currency ("OCC"), the Federal Deposit Insurance Corporation ("FDIC"), and the Illinois Office of Banks and Real Estate ("Illinois OBRE").

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 banking market. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal clearly are outweighed in the public interest by the probable effect of the

proposal in meeting the convenience and needs of the community to be served.⁶

LBT and Security compete in the Hillsboro, Illinois, banking market ("Hillsboro banking market"), which is defined as Montgomery County, Illinois.⁷ The proposed transaction involves the combination of two bank holding companies that are affiliated with each other. These two organizations are also affiliated with a third banking organization in the Hillsboro banking market through common share ownership by Fleming family members.⁸

LBT proposes to acquire all the shares of Security currently held by the Fleming family, along with shares of Security held by other shareholders, in a reorganization that does not change the longstanding affiliation of these banking organizations.⁹ Members of the Fleming family have owned a controlling interest in LBT and Security Bank since 1993 and have controlled Country since at least 1987.¹⁰ The combination of LBT, Security Bank, and Country into a single banking organization in 1993 would

6. 12 U.S.C. § 1842(c)(1).

7. Management of Security contended, without providing material information, that the relevant geographic market for reviewing this transaction is the eastern portion of Montgomery County in which Security Bank maintains its banking offices and portions of the adjacent Christian County. In reviewing this contention, the Board has considered the geographic proximity of Montgomery County's population centers, the county's road network and average daily traffic volumes on those roads, and the location of its cities. The Board also has considered worker commuting data from the 2000 census, which indicate that 69 percent of commuters living in Montgomery County work at another location in the county, while only 4 percent of Montgomery County commuters work in Christian County and only 2 percent of Christian County commuters work in Montgomery County. In addition, the Board has considered evidence gathered from interviews with bankers indicating that banks in Montgomery County advertise regularly in local newspapers that circulate throughout Montgomery County, but not in newspapers in other counties. Based on these facts and other information, the Board concludes that the facts of record do not support modifying the Hillsboro banking market and that the appropriate geographic market for considering the competitive effects of the proposal is Montgomery County.

8. David Fleming controls more than 53 percent of the voting shares of Country Bancorp, Inc. ("Country"), which controls National Bank, both in Hillsboro.

9. In reviewing past proposals involving common share ownership of banking organizations, the Board has considered the competitive effects of a proposal at the time that the banking organizations came under such ownership. See *F.S.B., Inc.*, 78 *Federal Reserve Bulletin* 550 (1992); *Mid-Nebraska Bancshares, Inc.*, 64 *Federal Reserve Bulletin* 589 (1978), *aff'd* *Mid-Nebraska Bancshares, Inc. v. Board of Governors of the Federal Reserve System*, 627 F.2d 266 (D.C. Cir. 1980); *Mahaska Investment Co.*, 63 *Federal Reserve Bulletin* 579 (1977). The Board has approved proposals involving commonly controlled banking organizations in the same banking market when no competitive issues were presented in that market at the time the banking organizations came under common control. See *Texas East Bancorp*, 69 *Federal Reserve Bulletin* 636 (1983); *First Monco Bancshares, Inc.*, 69 *Federal Reserve Bulletin* 293 (1983).

10. In 1993, David, Daniel, and William Fleming owned, respectively, 11.5 percent, 10.8 percent, and 10.8 percent of LBT and 9.8 percent, 9.0 percent, and 7.1 percent of Security Bank. They collectively have owned more than 25 percent of the shares of LBT and Security Bank since 1993 and, therefore, have controlled both institutions. When Country applied in 1987 to acquire Montgomery

3. See *Central Pacific Financial Corp.*, 90 *Federal Reserve Bulletin* 93, 93 (2004) ("Central Pacific"); *North Fork Bancorporation, Inc.*, 86 *Federal Reserve Bulletin* 767, 768 (2000) ("North Fork"); *The Bank of New York Company*, 74 *Federal Reserve Bulletin* 257, 259 (1988) ("BONY").

4. In addition, the Board is required by section 3(c) of the BHC Act to disapprove a proposal if the Board does not have adequate assurances that it can obtain information on the activities or operations of the company and its affiliates or in the case of a foreign bank, if such bank is not subject to comprehensive supervision on a consolidated basis. See 12 U.S.C. § 1842(c).

5. See *Central Pacific*; *FleetBoston Financial Corporation*, 86 *Federal Reserve Bulletin* 751, 752 (2000); *North Fork*; *BONY*.

have resulted in an increase of 509 points to 1761 in the Herfindahl-Hirschman Index ("HHI") for the Hillsboro banking market. The Hillsboro banking market would have been moderately concentrated, and the affiliation at that time was consistent with Board precedent and Department of Justice Merger Guidelines ("DOJ Guidelines").¹¹ LBT's current proposal does not materially change this existing affiliation.

The Department of Justice also has conducted a detailed review of the probable competitive effects of the proposal and has advised the Board that consummation of the proposal would not be likely to have a significantly adverse effect on competition in any relevant banking market. The OCC and the Illinois OBRE have been afforded an opportunity to comment and have not objected to consummation of the proposal.

After carefully reviewing all the facts of record and for the reasons discussed in this order, the Board concludes that consummation of the proposal would not be likely to result in a significantly adverse effect on competition or on the concentration of banking resources in the Hillsboro market or in any other relevant banking market. Accordingly, the Board has determined that competitive factors are consistent with approval.

Financial, Managerial, and Supervisory Factors

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors.¹² LBT, LBT Bank, and Security Bank each are currently well capitalized and will remain well capitalized on consummation of the proposal.

The Board has carefully reviewed confidential and other information about the management and the principal own-

County National Bank, also in Hillsboro, and thereby enter the Hillsboro banking market, David Fleming owned 33.3 percent of Country and, therefore, controlled Country.

11. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

12. Management of Security asserted that the sellers of the Security shares to LBT would not receive appropriate levels of consideration for the shares and, therefore, that information provided by LBT about the impact of the transaction on the financial resources of the institutions involved may be inaccurate. The fairness of the sales price received by shareholders is not, by itself, within the statutory factors the Board may consider. See *Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973). The Board has reviewed confidential supervisory information and other information about the cost of the proposal, in addition to information provided by LBT, in considering the impact of the proposal on the financial resources and future prospects of LBT and the banks involved.

ers of LBT.¹³ The Board has also reviewed, among other things, the following information: confidential reports of examination, including assessments of the managerial resources of Security and the relevant depository institutions; other confidential supervisory information received from the primary federal supervisors of each institution; and public comments.¹⁴ In addition, the Board has considered LBT's representation that it does not currently anticipate any changes in the management of Security after consummation of the proposal. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of LBT and the institutions involved in the proposal are consistent with approval, as are the other supervisory considerations under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider its effects on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").¹⁵ The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.¹⁶

The Board has considered carefully the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of LBT and Security

13. Security's management contended that members of the Fleming family did not comply with the Change in Bank Control Act, 12 U.S.C. § 1817(j) ("CIBC Act"), in acquiring control of Security. The review and approval of Security's application under section 3 of the BHC Act to become a bank holding company included consideration of the Fleming family members as the principal shareholders of Security. *Security Bancshares, Inc.*, 87 *Federal Reserve Bulletin* 279 (2001). No separate CIBC Act filing is required for a transaction that is subject to approval under section 3 of the BHC Act. See 12 U.S.C. § 1817(j)(17)(A).

14. Management also asserted that certain directors of Security have breached their fiduciary duties and have violated a resolution adopted by the board of directors that requires any Security director who becomes aware of the availability of the company's shares for purchase to notify Security. The resolution also gives Security a right of first refusal before a director may purchase its shares. LBT has filed suit to have this resolution declared null and void. The Board notes that these contentions are matters of general corporate law under applicable state law, which are currently under review in the appropriate legal forum, and that such matters are not within the Board's jurisdiction to adjudicate. Board action under the BHC Act would not interfere with the ability of the courts to resolve any litigation pertaining to these matters and does not authorize consummation of a proposal that a court determines to be a violation of applicable law. The Board has considered these allegations in the context of the other information about management, as noted above.

15. 12 U.S.C. §§ 1842(c)(2) and 2903(a)(2).

16. 12 U.S.C. § 2901 *et seq.*

in light of all the facts of record, including public comments on the proposal. In particular, several commenters expressed general concern that the resulting banking organization would not meet the credit needs of communities in Montgomery County. Among other things, these commenters asserted, without offering supporting evidence, that the resulting banking reorganization would lead to disadvantageous changes in loan terms, increased fees, and fewer services. LBT stated that it does not expect to discontinue any of Security Bank's products or services and that it expects to expand the bank's products and services after consummation of the proposal.

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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹⁷ The subsidiary banks of LBT and Security each received "satisfactory" ratings at their most recent CRA performance evaluations. LBT's subsidiary bank, Bank and Trust Company ("Trust Company"), received a "satisfactory" rating by the FDIC, as of July 16, 2003 (the "2003 Evaluation"), and Security Bank received a "satisfactory" rating by the OCC, as of February 2, 1998. Examiners did not identify any substantive violations of fair lending laws during these evaluations.

In the 2003 Evaluation, examiners reported that Trust Company had demonstrated a satisfactory level of helping to meet the credit needs of its assessment areas¹⁸ under the performance criteria for a small bank.¹⁹ Examiners found that the bank had maintained a good record of lending since the previous CRA evaluation and had an average loan-to-deposit ratio of approximately 72 percent during the preceding 18 quarters. Examiners characterized as excellent the level of Trust Company's lending in its assessment areas, noting that 94 percent of its loans by number and 92 percent of its loans by dollar volume were made in the assessment areas.

Examiners concluded that Trust Company had a reasonable record of lending to borrowers of different income levels and to businesses of different sizes. In its Non-MSA Assessment Area, examiners considered Trust Company's level of LMI mortgage lending to be reasonable. Examiners characterized as excellent Trust Company's record of lending to small businesses in the Non-MSA Assessment

Area.²⁰ During the evaluation period in this area, 92 percent of Trust Company's business loans by number and 51 percent of its business loans by dollar volume were in amounts of less than \$100,000.

Examiners also found that the overall geographic distribution of Trust Company's loans throughout its assessment areas was reasonable. They noted that, during the first six months of 2003, Trust Company increased the percentage of all its mortgage loans in moderate-income census tracts in the Non-MSA Assessment Area to a level that exceeded the percentage of owner-occupied housing units in such census tracts. In addition, the percentage of Trust Company's loans to businesses in moderate-income census tracts in the Non-MSA Assessment Area exceeded the percentage of total businesses in such census tracts.

The Board has carefully considered all the facts of record, including reports of examination of CRA performance of the institutions involved, information provided by LBT, all comments received and responses to those comments, and confidential supervisory information. Based on a review of the entire record and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant depository institutions, are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the proposed transaction should be, and hereby is, approved.²¹ 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 LBT with the conditions imposed in this order and the commitments

20. In this context, "lending to small business" means loans made to businesses with gross annual revenues of \$1 million or less.

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

17. See *Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

18. Trust Company's assessment areas for the 2003 Evaluation included Sangamon County in the Springfield Metropolitan Statistical Area ("MSA") and a non-MSA assessment area that included Greene, Macoupin, and Montgomery Counties ("Non-MSA Assessment Area"), all in Illinois.

19. Under the FDIC's CRA regulations, the performance of a bank with less than \$250 million in total assets is evaluated based on the following criteria: the bank's loan-to-deposit ratio; the bank's percentage of loans in its assessment areas; its lending to borrowers of different incomes, and to businesses and farms of different sizes; the geographic distribution of its loans by census tract or block numbering area; and the bank's response to any written complaints about its CRA performance. 12 CFR 345.26.

made to the Board in connection with the application. For purposes of this action, these conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Security Bank shall not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors, effective July 19, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

*The Royal Bank of Scotland Group plc
Edinburgh, Scotland*

*The Royal Bank of Scotland plc
Edinburgh, Scotland*

*RBSG International Holdings Ltd.
Edinburgh, Scotland*

*Citizens Financial Group, Inc.
Providence, Rhode Island*

Order Approving the Acquisition of a Bank Holding Company

The Royal Bank of Scotland Group plc ("RBS Group"), The Royal Bank of Scotland plc ("RBS"), RBSG International Holdings Ltd. ("RBSG"), and Citizens Financial Group, Inc. ("Citizens Financial") (collectively, "Applicants") have requested the Board's approval under section 3 of the Bank Holding Company Act (12 U.S.C. § 1842) ("BHC Act") to merge with Charter One Financial, Inc. ("Charter One") and to acquire its subsidiary bank, Charter One Bank, National Association ("Charter One Bank"), both in Cleveland, Ohio.¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (69 *Federal Register* 29,538 (2004)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

RBS Group, with total consolidated assets of approximately \$812.3 billion, is the fifth largest banking organiza-

tion in the world.² Citizens Financial, with total consolidated assets of approximately \$80 billion, is the 20th largest depository organization in the United States, controlling approximately \$61.5 billion in deposits, which represents less than 1 percent of the total amount of deposits of insured depository institutions in the United States.³ Citizens Financial operates subsidiary depository institutions in Connecticut, Delaware, Massachusetts, New Hampshire, New York, Pennsylvania, Rhode Island, and Vermont and engages in nonbanking activities that are permissible under the BHC Act.

Charter One, with total consolidated assets of approximately \$41 billion, is the 30th largest depository organization in the United States. Charter One's subsidiary depository institution controls deposits of \$27 billion, representing less than 1 percent of the total amount of deposits of insured depository institutions in the United States, and engages in a broad range of permissible nonbanking activities nationwide.

On consummation of the proposal, Citizens Financial would become the 13th largest depository organization in the United States, with total consolidated assets of approximately \$121 billion and total deposits of \$88.5 billion, which represent approximately 1.4 percent of the total amount of deposits of insured depository institutions in the United States.

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company if certain conditions are met.⁴ For purposes of the BHC Act, the home state of Citizens Financial is Rhode Island, and Charter One's subsidiary bank is located in Connecticut, Illinois, Indiana, Massachusetts, Michigan, New Hampshire, New York, Ohio, Pennsylvania, and Vermont.⁵

All the conditions for an interstate acquisition enumerated in section 3(d) of the BHC Act are met in this case. Citizens Financial currently is adequately capitalized and adequately managed, as defined by applicable law,⁶ and would remain so on consummation of the proposal. Charter One Bank has existed and operated for at least the mini-

2. Worldwide and national asset data are as of March 31, 2004, and ranking data are as of December 31, 2003.

3. Deposit data are as of June 30, 2003, and reflect the unadjusted total of the deposits reported by each organization's insured depository institutions in their Consolidated Reports of Condition and Income for June 30, 2003. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

4. A bank holding company's home state is the state in which the total deposits of all subsidiary banks of the company were the largest on the later of July 1, 1966, or the date on which the company became a bank holding company. 12 U.S.C. § 1841(o)(4)(C).

5. For purposes of section 3(d), the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. § 1841(o)(4)-(7) and § 1842(d)(1)(A) and (d)(2)(B).

6. See 12 U.S.C. § 1842(d)(1)(A).

1. Citizens Financial, a financial holding company, proposes to acquire Charter One's nonbanking subsidiaries pursuant to section 4(k) of the BHC Act and the post-transaction notice procedures of section 225.87 of Regulation Y. 12 U.S.C. § 1843(k); 12 CFR 225.87.

mum age requirements established by applicable state law.⁷ On consummation of the proposal, Citizens Financial and its affiliates would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States and less than 30 percent, or the appropriate percentage established by applicable state law, of the total amount of deposits of insured depository institutions in each state in which both institutions currently are located.⁸ All other requirements of section 3(d) would be met in this case. Accordingly, based on all the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or that would further any attempt to monopolize the business of banking in any relevant banking market. It 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.⁹

Citizens Financial and Charter One compete directly in nine local banking markets in Connecticut, Massachusetts, New Hampshire, New York, Pennsylvania, and Vermont, including six markets where Charter One opened a branch on or after June 30, 2003.¹⁰ The Board has reviewed the competitive effects of the proposal in each of these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the markets, the relative share of total deposits in depository institutions controlled by Citizens Financial and Charter One in the markets ("market deposits"), the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines"), and other characteristics of the markets.

Consummation of the proposed acquisition of Charter One would be consistent with Board precedent and the DOJ Guidelines in all nine banking markets.¹¹ As noted,

7. See 12 U.S.C. § 1842(d)(1)(B).

8. See 12 U.S.C. § 1842(d)(2)(A) and (B).

9. 12 U.S.C. § 1842(c)(1).

10. These banking markets are described in Appendix A. Deposit and market share data are based on Summary of Deposits reports filed as of June 30, 2003, and on calculations in which the deposits of thrift institutions are included at 50 percent. The Board has indicated previously that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

11. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between

Charter One has opened branches in the following banking markets after June 30, 2003, and controls less than ½ of 1 percent of market deposits in each market: Boston, Pittsfield, and Worcester, all in Massachusetts; Metropolitan New York Area; Erie, Pennsylvania; and Hartford, Connecticut. Accordingly, the impact on competition in these markets would be *de minimis*. Consummation of the proposal also would be consistent with Board precedent and the DOJ Guidelines in the remaining banking markets where both institutions compete: Springfield, Massachusetts; Hanover-Lebanon, New Hampshire; and Brattleboro, Vermont. Moreover, numerous competitors would remain in all the banking markets.

The Department of Justice has reviewed the proposal and advised the Board that consummation would not likely have a significantly adverse effect on competition in any relevant market. The appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on these and all other 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 banking resources in the nine banking markets discussed above or in any other relevant banking market. Accordingly, based on all the facts of record, the Board has determined that the competitive effects are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has carefully considered these factors in light of all the facts of record, including reports of examination, other confidential supervisory information received from the primary federal banking agency that supervises each institution, information provided by Citizens Financial, publicly reported and other financial information, and comments received on the proposal.¹² In addition, the Board has

1000 and 1800, and highly concentrated if the post-merger HHI is more than 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions. Market data for each banking market are provided in Appendix B.

12. Various commenters expressed concerns about the following matters: (1) press reports stating that RBS Group is a defendant in litigation involving the former government's apartheid policies in South Africa, and (2) allegations that individuals at Charter One and RBS Group engaged in illegal options trading close to the proposal's announcement. The first matter is not within the Board's jurisdiction to adjudicate and is not related to the limited statutory factors the Board may consider when reviewing an application under the BHC Act. See, e.g., *Deutsche Bank AG*, 85 *Federal Reserve Bulletin* 509 (1999); see also *Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973) ("*Western Bancshares*"). The Securities and

consulted with the Federal Deposit Insurance Corporation ("FDIC") and the Office of the Comptroller of the Currency ("OCC"), the primary federal supervisors of Citizens Financial's subsidiary banks and Charter One Bank, respectively, and relevant supervisory authorities in the United Kingdom.¹³

In evaluating financial factors in expansion proposals by banking organizations, the Board consistently has considered capital adequacy to be especially important. Citizens Financial, Charter One, and their subsidiary depository institutions are well capitalized and will remain so on consummation of the proposal. In addition, the capital ratios of RBS would continue to exceed the minimum levels that would be required under the Basel Capital Accord, and RBS Group's capital levels are considered equivalent to those that would be required of a U.S. banking organization. The Board finds that the organization has sufficient financial resources to effect the proposal.

The Board has considered the managerial resources of RBS and Charter One, particularly the supervisory experience and assessments of management by the various bank supervisory agencies and the organizations' records of compliance with applicable banking laws.¹⁴ The Board also has carefully reviewed the examination records of Citizens Financial, Charter One, and their subsidiary depository institutions, including assessments of their risk-management systems.¹⁵ In addition, the Board has consid-

ered Citizens Financial's plans for integrating the proposed acquisition, including its available managerial resources and proposed management after consummation, and the company's record of successfully integrating recently acquired institutions into its existing operations. Based on these and all the facts of record, the Board concludes that the financial and managerial resources of the organizations involved in the proposal are consistent with approval under the BHC Act.¹⁶

Section 3 of the BHC Act also provides that the Board may not approve an application involving a foreign bank unless the bank is subject to comprehensive consolidated supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country.¹⁷ The home country supervisor of RBS Group is the Financial Services Authority ("FSA"), which is responsible for the supervision and regulation of United Kingdom financial institutions.

In approving applications under the BHC Act and the International Banking Act ("IBA"),¹⁸ the Board previously has determined that various banks in the United Kingdom, including RBS, were subject to home country supervision on a consolidated basis by the FSA. In this case, the Board finds that the FSA continues to supervise RBS in substantially the same manner as it supervised United Kingdom banks at the time of those determinations.¹⁹ Based on this finding and all the facts of record, the Board concludes that RBS continues to be subject to comprehensive supervision on a consolidated basis by its home country supervisor.

In addition, section 3 of the BHC Act requires the Board to determine that a foreign bank has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act.²⁰ The Board has reviewed the restrictions on disclosure in relevant

Exchange Commission ("SEC"), rather than the Board, has jurisdiction to investigate the second allegation and to adjudicate if any violations of federal securities laws have occurred. The Board has consulted with the SEC regarding this allegation.

13. One commenter, citing a press report, alleged that RBS Group violated U.S. trade sanctions through its activities in Iraq and elsewhere. The Board has considered these allegations in light of confidential supervisory information and consultations with the FDIC and other appropriate supervisory authorities, including confidential compliance examinations of the Citizens Financial subsidiary banks that included a review of each institution's compliance with the applicable regulations of the Office of Foreign Assets Control.

14. A commenter opposing the proposal cited a press report of RBSG's connection to investigations, lawsuits, and settlements relating to a foreign subsidiary of RBSG and Enron Corporation and asserted that these issues reflected unfavorably on the managerial resources of RBSG. The Board has considered this comment in light of the measures that RBSG has taken and is continuing to take to address these matters and to strengthen the company's risk-management practices; the information available to RBSG's management at the time; the experience, policies, and procedures of its management; and confidential supervisory information.

15. One commenter expressed concern about RBS Group's financing of various activities and projects worldwide that allegedly damage the environment or cause other social harm. This concern was previously addressed by the Board in connection with its approvals of Applicants' other recent proposals. The Board noted in those approvals, and affirms in this case, that the comment contains no allegations of illegality or of actions that would affect the safety and soundness of the institutions involved and is outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See *The Royal Bank of Scotland Group plc*, 90 *Federal Reserve Bulletin* 87, 88 n.16 (2004) ("Thistle Order"); *The Royal Bank of Scotland Group plc*, 89 *Federal Reserve Bulletin* 386, 389 n.26 (2003) ("Port Financial Order"); *The Royal Bank of Scotland Group plc*, 88 *Federal Reserve Bulletin* 51, 57 n.32 (2002) ("Mellon Order"). See also *Western Bancshares*.

16. A commenter also criticized RBS's subsidiary, Greenwich Capital Markets, Greenwich, Connecticut ("Greenwich Capital"), for lobbying against state and local efforts to enact and enforce antipredatory-lending laws and ordinances. The Board notes that the commenter failed to allege or provide any evidence that RBS or Greenwich Capital engaged in any illegal predatory lending activities; engaged in any illegal activity or other action that has affected, or might reasonably be expected to affect, the safety and soundness of the institutions involved in this proposal; or engaged in any illegal activity or other action related to the other factors that the Board is authorized to consider under the BHC Act.

17. 12 U.S.C. § 1842(c)(3)(B). Under Regulation Y, the Board uses the standards enumerated in Regulation K to determine whether a foreign bank that has applied under section 3 of the BHC Act is subject to consolidated home country supervision. See 12 CFR 225.13(a)(4). Regulation K provides that a foreign bank will be considered subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including its relationship to any affiliates, to assess the bank's overall financial condition and its compliance with law and regulation. See 12 CFR 211.24(c)(1).

18. 12 U.S.C. § 3101 et seq.

19. See *HBOS Treasury Services plc*, 90 *Federal Reserve Bulletin* 103 (2004); see also *Port Financial Order*.

20. See 12 U.S.C. § 1842(c)(3)(A).

jurisdictions in which RBS Group operates and has communicated with relevant government authorities concerning access to information. In addition, RBS Group and its affiliates previously have committed to make available to the Board such information on the operations of RBS Group and its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the IBA, and other applicable federal law. RBS Group and RBS also previously have committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable RBS Group and its affiliates to make such information available to the Board. In light of these commitments, the Board concludes that RBS Group and RBS have provided adequate assurances of access to any appropriate information that the Board may request. Based on these and all the facts of record, the Board concludes that the supervisory factors it is required to consider are consistent with approval.²¹

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institution under the Community Reinvestment Act ("CRA").²² The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.²³

The Board has considered carefully the convenience and needs factor and the CRA performance records of the subsidiary banks of Citizens Financial and Charter One

in light of all the facts of record, including comments received on the proposal.²⁴ Ten commenters opposed the proposal and collectively asserted that Citizens Financial and Charter One needed to provide more prime-rate home mortgage loans to LMI and minority individuals, more small business loans to businesses owned by minority individuals or women, and more community development investments in LMI and minority communities.²⁵ Commenters also asserted that the data reported under the Home Mortgage Disclosure Act ("HMDA")²⁶ indicated that Citizens Financial and Charter One engaged in disparate treatment of African-American, Hispanic, and LMI individuals in their home mortgage lending operations. In addition, several commenters expressed concern about possible branch closings.²⁷

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.²⁸ The Board recently reviewed the CRA performance records of the insured depository institutions con-

24. Several commenters urged the Board to encourage or require Citizens Financial to make CRA-related commitments to certain community development organizations and to establish an advisory board to promote community development. The Board has consistently found that neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into commitments or agreements with any organization. *See, e.g., J. P. Morgan Chase and Co.*, 90 *Federal Reserve Bulletin* 352 (2004); *Citigroup Inc.*, 88 *Federal Reserve Bulletin* 485 (2002). Several commenters also suggested that Citizens Financial should make more charitable contributions or commit a specific percentage of profits to philanthropic contributions. The Board notes that neither the CRA nor the agencies' implementing rules require that financial institutions engage in any type of philanthropy.

25. Commenters also expressed concern about press reports of alleged discrimination by RBSG's management against minority employees and Citizens Financial's record of hiring minorities and awarding supplier contracts to minority- and women-owned businesses. The Board previously has stated that its limited jurisdiction to review applications under the BHC Act does not authorize the Board to adjudicate disputes involving an applicant that arise under statutes administered and enforced by another agency in areas such as employment discrimination. *See, e.g., Norwest Corporation*, 82 *Federal Reserve Bulletin* 580 (1996); *see also Western Bancshares*.

26. 12 U.S.C. § 2801 *et seq.*

27. Two commenters noted consumer complaints involving transactions at some of Citizens Financial's subsidiary banks or involving transactions outside the United States at RBSG's foreign subsidiary bank. These comments concern individual accounts and particular transactions, and the comments involving the Citizens Banks have been forwarded to the FDIC, the primary federal supervisor of the banks.

28. *See Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

21. Two commenters cited press reports alleging that RBS Group does not maintain adequate antimoney-laundering controls or that foreign regulators have fined RBS Group for noncompliance with money-laundering regulations. The commenter also cited press reports that RBS Group allegedly has furnished financial services to terrorist organizations. These allegations were previously considered by the Board and, as explained in the Port Financial Order, the Board concluded that the financial, managerial, and other supervisory factors were consistent with approval. *See Port Financial Order, supra* at 390 n.27. The commenters provided no new material information that was not already part of the record considered by the Board in that order.

22. 12 U.S.C. § 2901 *et seq.*

23. A commenter expressed concern that the proposal may result in loss of jobs. The effect of a proposed transaction on employment in a community is not among the factors that the Board is authorized to consider under the BHC Act, and the federal banking agencies, courts, and the Congress consistently have interpreted the convenience and needs factor to relate to the effect of a proposal on the availability and quality of banking services in the community. *See, e.g., Wells Fargo & Company*, 82 *Federal Reserve Bulletin* 445, 457 (1996).

trolled by Citizens Financial (the "Citizens Banks") and found those records to be consistent with approval of a bank expansion proposal. Citizens CT, Citizens MA, Citizens NH, and Citizens RI (collectively "Citizens New England Banks") were all rated "outstanding" at their most recent CRA performance evaluations by the FDIC, as of December 2, 2002. In addition, Citizens Bank of Delaware ("Citizens DE") and Citizens Bank of Pennsylvania ("Citizens PA") received "outstanding" ratings in their most recent CRA performance evaluations by the FDIC, as of November 12, 2003.²⁹ Charter One Bank received a "satisfactory" rating at its most recent CRA performance evaluation by the Office of Thrift Supervision ("OTS"), as of May 14, 2001.³⁰

Citizens Financial has stated that on consummation of the proposal, it would implement the Citizens Banks' CRA-related programs, policies, and procedures at Charter One Bank. In addition, Citizens Financial would augment Charter One Bank's existing products and services, including those products and services designed to serve the needs of LMI individuals and LMI communities. In addition, Citizens Financial anticipates integrating Charter One's community development lending and investment activities with those of the Citizens Financial Community Development Corporation.

B. CRA Performance of the Citizens Banks

Citizens New England Banks. As noted, the Citizens New England Banks each received an overall "outstanding" rating in its most recent CRA performance evaluations.³¹ Under the lending test, each bank was rated "outstanding," except Citizens CT, which received a "high satisfactory" rating. Examiners commended the Citizens New England Banks for good dispersion of loans among customers of different income levels and businesses of different sizes based on annual revenues.

In addition, examiners commended the Citizens New England Banks for offering a variety of innovative and flexible lending programs to help make their prod-

ucts available to LMI residents in their assessment areas.³² Since their last CRA evaluations, the Citizens New England Banks have continued their substantial levels of lending to LMI and minority individuals. In 2003, the banks made more than 1,360 affordable mortgage loans totaling approximately \$127 million.

Examiners also commended the Citizens New England Banks for their small business lending activities. Citizens MA was praised for its excellent responsiveness to the credit needs of small businesses in all portions of its assessment area, especially those in LMI census tracts. Examiners particularly commended Citizens MA for increasing the number of lending personnel to expand the bank's small business loan portfolio, which enabled the bank to become the leading lender for loans approved by the Small Business Administration ("SBA") in Massachusetts in 2001 and 2002. Examiners noted that Citizens CT was the second largest SBA lender in Connecticut during the evaluation period, even though the bank did not operate in Hartford or Bridgeport, which are two of the larger cities in Connecticut. Examiners also praised Citizens RI for making a greater proportion of its small business loans in LMI areas than other lenders made in its assessment area. In addition, examiners commended Citizens NH for its streamlined application process, which helped increase the bank's small business loan originations in its assessment area. Citizens NH has authorized its small business loan officers to make lending decisions for loans of up to \$250,000 at the branch level and to notify potential borrowers within 24 hours.

Citizens Financial reported that the Citizens New England Banks have continued their significant small business lending since 2002, including in LMI census tracts. In 2003, the Citizens New England Banks made approximately 2,460 loans to small businesses³³ in LMI census tracts that totaled more than \$213 million.

Examiners also commended the community development lending activity of the Citizens New England Banks. Examiners characterized Citizens MA's level of community development lending as very significant. Among the more than \$81 million in qualified community development loans the bank extended during the assessment period, examiners specifically noted Citizens MA's \$6 million loan to a nonprofit agency that constructed 22 duplexes to provide affordable housing for seniors in Sudbury, Massachusetts. Examiners also favorably noted Citizens CT's high level of community development lending and highlighted the bank's \$1.25 million loan to a

29. The CRA performance ratings of the Citizens Banks are provided in Appendix C. Boston Trust & Management Investment Company, a subsidiary of Citizens Financial, is a limited-purpose trust company and, therefore, not subject to the CRA.

30. Charter One Bank converted to a national charter in 2002. The OCC has been monitoring the bank's CRA performance in the course of its ongoing supervisory process since its conversion. The Board has consulted with the OCC on its most recent evaluations of Charter One Bank. The OCC plans to conduct its first CRA examination of the bank in mid-2005.

31. The evaluation period for the Citizens New England Banks was October 12, 1999, through December 2, 2002, although the evaluation considered the HMDA-reportable loans of the Citizens New England Banks and Citizens Mortgage Corporation ("CMC"), a subsidiary of Citizens RI, and the small business loans of the Citizens New England Banks, from January 2000 through September 2002. "HMDA-reportable loans" include home purchase, home refinance, home improvement, and multifamily loan categories.

32. One commenter called on Citizens to offer LMI individuals "Individual Development Accounts," which provide a means to educate accountholders in financial matters while matching their investments with grants. Neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to provide any specific types of banking products.

33. In this context, "loans to small businesses" includes loans with originated amounts of \$1 million or less that are either secured by nonfarm, nonresidential properties or are classified as commercial and industrial loans.

nonprofit corporation to provide housing services to LMI individuals.

Citizens Financial reported that the Citizens New England Banks have continued their substantial level of community development lending since 2002. In 2003, the banks made community development loans totaling almost \$152 million to various organizations that support affordable housing development, economic development, and job creation.

The Citizens New England Banks each received an “outstanding” rating on the investment test in its most recent CRA performance evaluations. Examiners found that each bank demonstrated an excellent level of qualified community development investments, which reflected outstanding responsiveness to the credit and community development needs of its assessment area. Citizens MA made more than \$85 million in qualified community development investments, which included a \$1.7 million investment in 36 affordable housing units in Sandwich, Massachusetts. Examiners commended Citizens CT for its grant program offering down-payment and closing-cost assistance to LMI individuals. Examiners particularly noted that Citizens RI invested \$1.5 million in the Rhode Island Housing Equity Pool, which funds nonprofit organizations that provide LMI housing, and a \$4 million investment by Citizens NH in affordable housing projects created through low-income-housing tax credits.

The Citizens New England Banks have continued a high level of community development investments since their last CRA performance evaluations. In 2003, the Citizens New England Banks made approximately 116 community development investments totaling more than \$19 million. These investments were provided to numerous organizations in each bank’s assessment area that supported objectives such as neighborhood revitalization, financial education, and technical assistance and training to small businesses.

In addition, the Citizens New England Banks each received “outstanding” ratings under the service test at its most recent CRA performance evaluations. Examiners reported that Citizens MA provided a high level of retail and community development services, made its services available to geographies and individuals of all income levels, and tailored its services to the convenience and needs of its assessment area. Examiners similarly commended Citizens CT, noting that the bank’s website provided customers with access to the loan application process and discussions with financial advisors, banking experts, and community representatives. Citizens RI received very favorable comments from examiners for having the most extensive branch network in Rhode Island, bilingual branch personnel, and extended hours to improve customer access to its services. Examiners also reported that Citizens NH provided an excellent level of community development services during the evaluation period and highlighted the bank’s use of focus groups to obtain community feedback on its planned products and programs.

Citizens DE. As noted above, Citizens DE received an overall “outstanding” rating for CRA performance at its

most recent CRA performance evaluation. The bank also received an “outstanding” rating under each of the lending, investment, and service tests.

Examiners found that Citizens DE exhibited an excellent level of responsiveness to the credit and community development needs of its assessment areas.³⁴ During the evaluation period, Citizens DE originated or purchased more than 3,100 HMDA-reportable home mortgage loans totaling approximately \$437 million in its assessment areas. Examiners reported that the geographic distribution of HMDA-reportable home mortgage and small business loans reflected good penetration throughout the bank’s assessment areas, including LMI census tracts. Examiners also noted that the bank exhibited excellent distribution of HMDA-reportable home mortgage and small business loans to borrowers of different income levels and businesses of different sizes by annual revenue.

In addition, examiners commended Citizens DE for developing a mortgage loan program with flexible underwriting standards, including several products for first-time homebuyers that assisted in meeting the credit needs of its assessment areas. For example, the examiners cited the Citizens Neighborhood Plus program that offers a 30-year fixed rate for LMI borrowers or properties in LMI census tracts. The program is tailored to meet the needs of LMI applicants and offers an interest rate discount of 1 percent for low-income borrowers and properties in low-income census tracts, with grants of up to \$2,000 for qualified borrowers.

During the evaluation period, Citizens DE originated more than 600 small business loans that totaled approximately \$88 million. Examiners commended the bank’s small business lending activity and reported that the bank’s distribution of loans among businesses of different sizes by annual revenue in its assessment areas was good. In addition, examiners noted that Citizens DE was an active participant in the SBA’s loan programs.

Examiners reported that Citizens DE achieved an outstanding level of community development lending and exercised leadership in addressing community development credit needs in its assessment areas. During the evaluation period, Citizens DE originated or purchased six community development loans that totaled \$8.9 million. These loans included a \$2.5 million loan to a statewide, nonprofit multibank community development corporation that finances and invests in housing and related activities to assist LMI persons and areas throughout Delaware.

During the evaluation period, the bank made investments and grants totaling \$6.8 million that funded affordable housing, social services, and small business initiatives

34. The assessment areas of Citizens DE encompassed Wilmington, Dover, and the nonmetropolitan portion of Delaware. Examiners noted, however, that no LMI geographies were in the Dover Metropolitan Statistical Area (“MSA”) or the non-MSA portion of Delaware. The evaluation period was December 1, 2001, through November 12, 2003, although the evaluation considered the HMDA-reportable loans of Citizens DE and CMC and the small business loans of Citizens DE from January 2002 through September 2003.

in its assessment areas. Examiners reported that Citizens DE's amount of investments and the range of initiatives supported through its charitable contributions demonstrated the bank's outstanding level of commitment to community development activities.

Citizens DE received an "outstanding" rating under the service test. Examiners reported that the bank's retail delivery systems were reasonably accessible to all parts of its assessment areas, including LMI households. In addition, examiners characterized Citizens DE as a leader in providing community development services in its assessment areas. Examiners favorably noted that Citizens DE employed a full-time CRA Officer to manage the bank's community development efforts.

Citizens PA. As previously noted, Citizens PA received an overall "outstanding" rating for performance under the CRA. The bank also received an "outstanding" rating under each of the lending, investment, and service tests.

Examiners found that Citizens PA exhibited an excellent level of responsiveness to the credit and community development needs of its assessment areas. They noted that the bank's distribution of HMDA-reportable mortgage and small business loans among geographies of different income levels was well dispersed and that the bank also provided excellent loan distribution to LMI borrowers and small businesses. During the evaluation period, Citizens PA originated or purchased more than 33,000 HMDA-reportable home mortgage loans totaling almost \$4.3 billion in its assessment areas.³⁵

In addition, examiners commended Citizens PA for its extensive use of innovative and flexible lending practices that addressed the credit needs of LMI individuals and geographies, as well as those of small businesses. In addition to the Citizens Neighborhood Plus lending products, Citizens PA offered several programs sponsored by the Federal Housing Administration and the Federal National Mortgage Association for the purchase of owner-occupied primary residences. Examiners noted that these programs served LMI individuals by offering loans requiring little or no down payment and featuring flexible underwriting terms and a temporary reduction in principal and interest payments.

During the evaluation period, Citizens PA originated more than 9,000 small business loans that totaled almost \$1 billion in its assessment areas. Examiners noted that the distribution of small business loans among businesses of different sizes by annual revenue was strong in all the bank's assessment areas. They also noted that Citizens PA was the leading SBA lender in Pennsylvania and that its small business lending volume exceeded that of other lenders in the Philadelphia PMSA.

35. The assessment areas selected for a full-scope review of Citizens PA included the Philadelphia Primary Metropolitan Statistical Area ("PMSA") and the Pittsburgh MSA. These areas accounted for a majority of the assessment areas' population, LMI census tracts, and LMI households, as well as a majority of the bank's branches, loans, and deposits. The evaluation period was December 1, 2001, through November 12, 2003, although the review considered the HMDA-reportable loans of Citizens PA and CMC, and the small business loans of Citizens PA, from January 2002 through September 2003.

Examiners reported that Citizens PA was a leader in community development lending and extended a significant level of community development loans in its assessment areas. During the evaluation period, Citizens PA originated 48 community development loans totaling \$62 million. These loans included a \$7.7 million loan used to refinance mortgages for 262 units of affordable rental housing in several buildings in the University City area of West Philadelphia.

Examiners noted that the bank had an excellent level of qualified investments in community development that were responsive to the needs of its assessment areas, including significant investments in affordable housing, community development initiatives, and financial education initiatives. During the evaluation period, the bank made investments that totaled \$90.4 million in its assessment areas.

Examiners commended Citizens PA's performance for providing an excellent level of retail and community development services throughout its assessment areas. They reported that the bank's retail delivery systems were readily accessible to all portions of its assessment areas, including LMI households, and particularly noted the bank's bilingual ATM network. Examiners also characterized Citizens PA as a leader in providing community development services and commended the bank's CRA staff for being actively involved and the high levels of employee representation for the extent to which they served on the boards of local community development organizations.

C. CRA Performance of Charter One Bank

As noted above, Charter One Bank received an overall "satisfactory" rating for performance under the CRA from the OTS, as of May 2001.³⁶ The institution received an overall "low satisfactory" rating under the lending test. During the evaluation period, Charter One Bank purchased or originated more than 33,000 HMDA-reportable loans that totaled more than \$11 billion.³⁷ Examiners characterized Charter One Bank's overall lending to borrowers of all income levels as adequate. Although examiners noted Charter One Bank's "poor" geographic distribution of loans, they found that it had an overall good level of small business lending and an overall high level of community development lending.

During the evaluation period, Charter One Bank purchased or originated more than 1,900 small business loans that totaled approximately \$311 million. These small business loans totaled approximately \$126 million in New

36. The evaluation period was April 1, 1998, through March 31, 2001, for the bank's assessment areas in Ohio, Michigan, and New York (Rochester and Buffalo). For the remaining assessment areas, the evaluation period was January 1, 1999, to March 31, 2001. Examiners noted that the institution's overall rating was derived from Charter One Bank's performance in its Ohio, Michigan, and New York assessment areas, which constituted the substantial majority of its resources and operations during this period.

37. Charter One elected not to include loans by its subsidiaries, Charter One Mortgage Corporation or Charter One Credit Corporation, in these HMDA-reportable loans.

York and approximately \$72 million in Ohio.³⁸ Examiners particularly commended Charter One Bank's support for small business lending in Albany, citing its lines of credit totaling \$16 million to a financial intermediary that provides financing to small businesses and is a major source of loans to businesses owned by women and minorities.

Examiners also commended Charter One Bank for its overall high level of community development lending and its particularly strong performance in Ohio and New York. They noted that Charter One Bank's community development lending focused on assisting the development of affordable housing and the promotion of economic development to revitalize LMI areas in its assessment areas. During the evaluation period, Charter One Bank originated more than 90 community development loans that totaled more than \$170 million, including loans totaling \$93 million in Ohio and more than \$63 million in New York. Examiners noted favorably that Charter One Bank provided \$10.8 million in loans to finance housing projects benefiting low-income and disabled individuals in Rochester and loans totaling \$4.4 million to finance the revitalization of a low-income area of Buffalo.³⁹ In Detroit, the institution made a \$2.9 million loan to finance the construction of 50 single-family-housing rental units, which were made available to families whose incomes were at or below 60 percent of the area median family income in Detroit.

Charter One represented that since converting to a national bank charter in 2002, it has taken steps to improve its lending to LMI and minority borrowers and in LMI and predominantly minority communities. Among other changes, Charter One Bank stated that it substantially increased the number of community loan officers working in its major lending markets. In addition, the bank introduced special financial incentives to branch personnel who refer home purchase or refinance mortgage loans in LMI areas to its mortgage operations and to community loan officers for loans they originate with low-income borrowers or in low-income census tracts. Charter One Bank also enhanced its efforts to lend more to minorities through increased print and radio advertising that focuses on minority communities.

Charter One stated that since the bank's most recent examination, the bank has increased lending to LMI borrowers and in LMI and minority census tracts⁴⁰ in its major assessment areas. In 2002, Charter One Bank originated more than 15,000 HMDA-reportable loans totaling approximately \$1.5 billion to LMI borrowers and borrowers in LMI and minority census tracts in its major assessment areas. In 2003, those loans increased to more than

26,400 HMDA-reportable loans that totaled approximately \$2.4 billion.

Charter One Bank received a "high satisfactory" rating under the investment test. During the evaluation period, Charter One Bank made more than 50 community development investments that totaled more than \$11.2 million in its assessment areas. In Ohio, examiners also reported that the institution made more than 25 community development investments totaling \$1.7 million, which were primarily investments that qualified for low-income-housing tax credits. In New York, Charter One Bank made at least seven community development investments that totaled more than \$5 million.

Charter One stated that the bank has made numerous investments in a variety of organizations and programs in the bank's assessment areas since its most recent examination. In 2002, Charter One Bank provided more than \$55 million in investments to organizations involved in creating jobs, affordable housing, and economic development projects. In 2003, the bank provided approximately \$7.3 million in investments, grants, and donations in its assessment areas.

Charter One Bank received an overall "high satisfactory" rating under the service test, which included a review of its branch distribution and product offerings.⁴¹ Examiners reported that Charter One Bank's branches and delivery systems provided access to financial products and services for consumers of different income levels. They noted that the institution offered specific products designed for LMI individuals and communities, including its Totally Free Checking Account that featured a \$50 minimum balance and no check-writing charges. In addition, they reported that Charter One Bank employed bilingual staff at selected locations in Cleveland, New York, and Michigan and operated a customer call center that could translate calls into more than 140 languages. Examiners also favorably noted that Charter One Bank participated in the "Cleveland Saves" program, which enables participants to open money market savings accounts with an opening balance of only \$10. In several of its Ohio assessment areas, examiners reported that the institution also provided a free check-cashing service for noncustomers at some branches in LMI areas.

In several MSAs, Charter One also provided community development services through its participation in the Federal Home Loan Bank ("FHLB") Affordable Housing Programs. Examiners commended Charter One Bank for taking a leadership role in providing community development services, noting specifically the involvement of its employees with organizations that promoted or provided affordable housing for LMI individuals and the technical assistance it provided to community development organizations applying to the FHLB Affordable Housing Programs.

38. Two commenters criticized Charter One for failing to provide adequate support to micro-credit organizations and small businesses.

39. Some commenters asserted that Charter One neglected the community reinvestment and credit needs of New York after its recent acquisitions and mergers. The Board has reviewed Charter One Bank's lending data since its most recent acquisitions in light of these comments.

40. In this context, "minority census tracts" means census tracts with a minority population of 50 percent or more.

41. One commenter asserted that Charter One does not adequately serve LMI individuals due to an insufficient number of branches and inadequate marketing and product offerings.

D. HMDA, Subprime, and Fair Lending Records

The Board has carefully considered the lending records of Citizens Financial and Charter One in light of comments received on the HMDA data for 2001 and 2002 reported by the banks and their subsidiaries.⁴² Several commenters alleged that the denial disparity ratios⁴³ for some Citizen Banks and Charter One Bank in certain MSAs indicated that they disproportionately denied or excluded African-American and Hispanic applicants for home mortgage loans.⁴⁴ The Board considered substantially similar comments about the HMDA-reportable lending of the Citizens Banks to African Americans and Hispanics in Delaware, Pennsylvania, Massachusetts, and Rhode Island in the Port Financial and Thistle Orders, and those analyses are incorporated herein by reference.⁴⁵

As noted in these Orders, the Citizens Banks' denial disparity ratios for African-American and Hispanic applicants in 2002 were generally lower than or comparable with those ratios for the aggregate of lenders ("aggregate lenders") in each of the markets reviewed.⁴⁶ In their Rhode Island, Massachusetts, and Connecticut statewide assessment areas, the Citizens New England Banks' denial disparity ratios for African-American and Hispanic applicants in 2002 were lower than those ratios for the aggregate lenders in these assessment areas. In their Delaware and Pennsylvania statewide assessment areas, Citizens DE's and Citizens PA's denial disparity ratios for African-American and Hispanic applicants in 2002 were lower than or comparable with those ratios for the aggregate lenders in these assessment areas.

In 2003, the Citizens Banks' HMDA data show that their overall volume of applications and originations increased substantially, including their total HMDA-reportable loans originated to African-American and Hispanic applicants. In addition, the denial disparity ratios of the Citizens Banks generally approximated the ratios for the aggregate lenders in their statewide assessment areas in 2003.

42. The Board analyzed HMDA data for 2001, 2002, and 2003 from the Citizens Banks and Charter One Bank. This review included HMDA data for loan originations in a number of individual MSAs, as well as in the metropolitan portions of Citizens Banks' and Charter One Bank's assessment areas statewide.

43. The denial disparity ratio equals the denial rate for a particular racial category (for example, African Americans) divided by the denial rate for whites.

44. Commenters used 2002 HMDA data to allege that Citizens Banks denied home mortgage loan applications from African Americans and Hispanics more frequently than applications from nonminorities in MSAs in Delaware, Pennsylvania, Massachusetts, and Rhode Island. Some commenters alleged that Charter One Bank denied home mortgage loan applications from African Americans and Hispanics more frequently than applications from nonminorities in certain other markets. In addition, several commenters expressed concern that Charter One Bank was originating fewer loans to LMI individuals and in LMI and minority census tracts than the aggregate of lenders throughout its assessment areas.

45. See Port Financial Order, *supra* at 388; Thistle Order, *supra* at 90.

46. The lending data of the aggregate lenders represent the cumulative lending for all financial institutions that have reported HMDA data in a given market.

Charter One Bank's 2002 HMDA data indicate that its denial disparity ratios for African-American and Hispanic applicants were generally higher than those ratios for the aggregate lenders in each of the markets reviewed, but the bank's denial disparity ratios generally improved somewhat in 2003. In 2002, the percentage of Charter One Bank's total HMDA-reportable loans originated to Hispanics was comparable with the percentage for the aggregate lenders in the MSAs reviewed. However, the percentage of Charter One Bank's total HMDA-reportable loans originated to African Americans was lower than the percentage for the aggregate lenders in 2002 in a majority of the MSAs reviewed. Although the bank's percentage of total HMDA-reportable loan originations to borrowers in LMI census tracts generally lagged the percentage for the aggregate lenders in the areas reviewed, its percentage of total HMDA-reportable loan originations to LMI individuals generally was comparable with or exceeded the percentages for the aggregate lenders.

The 2003 HMDA data indicate that Charter One Bank improved its lending to minority and LMI individuals and to borrowers in LMI and minority census tracts.⁴⁷ The percentage of the bank's total HMDA-reportable loans originated to African Americans more closely approximated the percentage for the aggregate lenders in most of the MSAs reviewed and exceeded their percentages in Albany and Rochester. Charter One Bank's percentage of total HMDA-reportable loan originations for borrowers in LMI census tracts similarly improved in 2003. Charter One Bank supplemented its loan originations by purchasing a number of HMDA-reportable loans to LMI and minority individuals and to borrowers in LMI and minority census tracts. The Board also has consulted with the OCC, which is monitoring Charter One Bank's lending to minorities and in LMI and minority census tracts.

Although the HMDA data may reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial groups and persons at different income levels in certain local areas, the HMDA data generally do not indicate that Charter One Bank or the Citizens Banks are excluding any race or income segment of the population or geographic areas on a prohibited basis. The Board is concerned when the record of an institution indicates disparities in lending and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of race or income level. The Board recognizes, however, that HMDA data alone provide an

47. One commenter criticized Charter One Bank for relying on loan purchases instead of directly originating loans in LMI and minority areas. The federal regulatory agencies' regulations that implement the CRA do not differentiate between loan originations and purchases for purposes of evaluating an institution's CRA lending performance. See, e.g., 12 CFR 228.22. The commenter also urged Charter One to increase its outreach efforts to underserved communities and to use more flexible underwriting standards to increase its loan originations to LMI and minority borrowers. Citizens Financial represented that it plans to increase Charter One Bank's home mortgage loan originations.

incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending and provide only limited information about covered loans.⁴⁸ Moreover, HMDA data indicating that one affiliate is lending to minorities or LMI individuals more than another affiliate do not, without more information, indicate that either affiliate has engaged in illegal discriminatory lending activities.

Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information, including examination reports that provide on-site evaluations of compliance with fair lending laws by the Citizens Banks, Charter One Bank, and their lending subsidiaries. Examiners found no evidence of prohibited discrimination or other illegal credit practices at any of these institutions at their most recent CRA performance evaluations.

The record also indicates that Charter One and Citizens Financial have taken several affirmative steps to ensure compliance with fair lending laws. Charter One has instituted corporate-wide policies and procedures to help ensure compliance with all fair lending and other consumer protection laws and regulations. Charter One's compliance program includes compliance file reviews, an antipredatory-lending policy, a fair-lending policy, product guides, and credit counseling.⁴⁹

Citizens Financial also has a centralized compliance function and has implemented corporate-wide compliance policies and procedures to help ensure that all Citizens Financial's business lines, including those offered by the Citizens Banks and CMC, comply with fair lending and other consumer protection laws and regulations. It employs compliance officers and staff responsible for compliance training and monitoring, and conducts file reviews for

compliance with federal and state consumer protection laws and regulations for all product lines and sources of loan originations. Citizens Financial also regularly performs self-assessments of its fair-lending-law compliance and fair-lending-policy training for its employees. Citizens Financial stated that its compliance program would be implemented at Charter One after consummation of the proposal.

The Board also has considered the HMDA data in light of other information, including the CRA performance records of the Citizens Banks and Charter One Bank. These records demonstrate that Citizens Financial and Charter One are active in helping to meet the credit needs of their entire communities.

E. Branch Closings

The Board has considered the commenters' concerns about possible branch closings in light of all the facts of record. One commenter expressed concern about Citizens Financial's closure of branches after other acquisitions. In addition, several commenters requested RBS to commit to maintaining its branches in LMI and minority census tracts. Citizens Financial stated that it does not currently anticipate closing, relocating, or consolidating any branch of Charter One Bank or the Citizens Banks in connection with this proposal. Moreover, Citizens Financial indicated that it intends to continue Charter One Bank's plans to expand in LMI markets by opening new branches inside retail outlets in LMI census tracts. The Board has considered Citizens Financial's branch closing policy and its record of opening and closing branches. Examiners reviewed the Citizens Banks' branch closing policy as part of the most recent CRA evaluations of each bank and found that it complied with federal law.

The Board also has considered the fact that federal banking law provides a specific mechanism for addressing branch closings.⁵⁰ Federal law requires an insured depository institution to provide notice to the public and to the appropriate federal supervisor before closing a branch. Citizens Financial represented that if it decides to close, relocate, or consolidate any branch of the Citizens Banks or Charter One Bank in connection with this proposal, it will comply with all applicable requirements of federal and state law. The Board notes that the FDIC and the OCC, as the appropriate federal supervisors of the Citizens Banks and Charter One Bank, respectively, will continue to review each bank's branch closing record in the course of conducting CRA performance evaluations.

48. The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

49. Commenters asserted that CMC has referral relationships with at least three high-cost subprime lenders and that CMC has failed to implement adequate safeguards to ensure that it does not have relationships with lenders that violate consumer protection laws and regulations or otherwise engage in illegal predatory lending. Citizens Financial stated that CMC does not originate high-cost loans and that CMC uses conventional underwriting standards to determine whether a borrower qualifies for a conforming loan, coupled with a second-review procedure to ensure that all applicants who qualify for a conforming loan are offered one. If CMC is unable to offer a conforming loan to an applicant, it delivers the application to an unaffiliated investor or lender who uses its own underwriting criteria to decide whether to offer a loan to the applicant. Citizens Financial also represented that CMC has no involvement in the underwriting processes or credit decisions of the unaffiliated investors or lenders. The unaffiliated investor or lender, however, is selected under objective criteria for determining that the investor or lender can meet the credit needs of the borrower. In addition, Citizens Financial represented that CMC attempts to help customers to resolve issues with those investors or lenders if requested.

50. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 *Federal Register* 34,844 (1999)), requires that a bank provide the public with at least 30 days' notice and the appropriate federal supervisory agency and customers of the branch with at least 90 days' notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

F. Conclusion on Convenience and Needs Factor

The Board has carefully considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by Charter One and Citizens Financial, comments received on the proposal, confidential supervisory information, and Citizens Financial's plans to implement its CRA-related policies, procedures, and programs at Charter One Bank.⁵¹ The Board notes that the proposal would provide Charter One's customers with access to a broader array of products and services in an expanded service area, including access to an expanded branch and ATM network and internet banking services. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant depository institutions, are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved.⁵² 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 the conditions imposed in this order and the commitments made to the Board in connection with the application. For purposes of this action, these commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Charter One Bank shall not be consummated before the fifteenth calendar day after the effective date of this order or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Boston, acting pursuant to delegated authority.

By order of the Board of Governors, effective August 16, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Bernanke, and Kohn. Absent and not voting: Governor Olson.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

51. Commenters alleged that RBS Group has indirectly supported "predatory lending" by a number of unaffiliated consumer lenders through the securitization activities and warehouse lending services of its subsidiaries, Greenwich Capital and Financial Assets Securities Corp., also in Greenwich ("FASC"). Applicants stated that Greenwich Capital underwrites securities backed by mortgage loans, including subprime mortgage loans originated by unaffiliated third parties. In addition, Greenwich Capital and its affiliate, Greenwich Capital Financial Products, Inc., Greenwich ("GCFP"), provide warehouse financing and repurchase facilities to unaffiliated mortgage originators, including some engaged in subprime lending. Greenwich Capital also has invested in securities backed by subprime loan pools that are issued by unaffiliated parties. Applicants stated that Greenwich Capital, GCFP, FASC, and Citizens Financial do not play any formal or informal role in the unaffiliated lenders' loan origination processes, lending practices, or credit-approval processes. Applicants also stated that Greenwich Capital conducts due diligence reviews in connection with its securitization activities that typically include evaluations to determine if the lenders are complying with federal and state laws. The Board previously considered these allegations in the Thistle, Port Financial, and Mellon Orders, and hereby affirms and adopts its findings in those orders. See Thistle Order, *supra* at 91 n.30; Port Financial Order, *supra* at 389 n.22; Mellon Order, *supra* at 57 n.30. The commenters have not provided any new material information that would warrant a different conclusion in this proposal. Moreover, the Board notes that the Federal Trade Commission, Department of Housing and Urban Development, and Department of Justice have responsibility for enforcing compliance with fair lending laws by nondepository institutions and to date have not found any violations of fair lending laws by these companies.

52. Several commenters requested that the Board hold a public meeting or hearing on the proposal. Section 3(b) of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authorities. Under its regulations, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an

Appendix A

Banking Markets in which Citizens Financial and Charter One Compete Directly

Springfield, Massachusetts

The towns of Agawam, Amherst, Belchertown, Blanford, Chester, Chesterfield, Chicopee City, Cummington, Deerfield, Easthampton, East Longmeadow, Granby, Feeding Hills, Goshen, Granville, Hadley, Hampden, Hatfield, Holyoke City, Huntington, Leverett, Longmeadow, Ludlow, Monson, Montgomery, Northampton City, Palmer, Pelham, Plainfield, Russell, Springfield City, South Hadley, Shutesbury, Southampton, Southwick, Sunderland, Three Rivers, Tolland, Ware, Warren, Westfield City, Westhampton, West Springfield, Whately, Wilbraham, Williamsburg, and Worthington.

opportunity for testimony. 12 CFR 225.16(e). The Board has considered carefully the commenters' requests in light of all the facts of record. In the Board's view, the commenters had ample opportunity to submit their views and have submitted written comments that have been considered carefully by the Board in acting on the proposal. The commenters' requests fail to demonstrate why written comments do not present their evidence adequately and fail to identify disputed issues of fact that are material to the Board's decision that would be clarified by a public meeting or hearing. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the requests for a public meeting or hearing on the proposal are denied.

Hanover–Lebanon, New Hampshire

New Hampshire portion: the towns of Canaan, Enfield, Grafton, Hanover, Lebanon, Lyme, Orange, Orford, and Piermont in Grafton County; the towns of Grantham and Plainfield in Sullivan County.

Vermont portion: the towns of Bradford, Corinth, Fairlee, Strafford, Thetford, Vershire, and West Fairlee in Orange County; and the towns of Hartford, Hartland, Norwich, Sharon, West Windsor, and Windsor in Windsor County.

Brattleboro, Vermont

Vermont portion: the towns of Brattleboro, Brookline, Dummerston, Guilford, Halifax, Marlboro, Newfane, Putney, Townsend, and Vernon in Windham County.

New Hampshire portion: the town of Hinsdale in Cheshire County.

Worcester, Massachusetts

Massachusetts portion: the towns of Auburn, Barre, Boylston, Brimfield, Brookfield, Charlton, Clinton, Douglas, Dudley, East Brookfield, Grafton, Holden, Holland, Hubbardston, Leicester, Millbury, New Braintree, Northboro, North Brookfield, Northbridge, Oakham, Oxford, Paxton, Princeton, Rochdale, Rutland, Shrewsbury, Southbridge, Spencer, Sterling, Sturbridge, Sutton, Uxbridge, Wales, Webster, Westboro, West Brookfield, West Boylston, Whitinsville, and Worcester City.

Connecticut portion: the town of Thompson.

Pittsfield, Massachusetts

Massachusetts portion: the towns of Adams, Becket, Cheshire, Clarksburg, Dalton, Florida, Hancock, Hinsdale, Lanesboro, Lee, Lenox, Middlefield, Monroe, New Ashford, North Adams, Peru, Pittsfield City, Richmond, Savoy, Stockbridge, Tyringham, Washington, West Stockbridge, Williamstown, and Windsor.

Vermont portion: the towns of Readsboro and Stamford.

Boston, Massachusetts

Massachusetts portion: the towns of Abington, Acton, Allston, Amesbury, Andover, Arlington, Ashburnham, Ashby, Ashland, Auburndale, Avon, Ayer, Bedford, Bellingham, Belmont, Berkley, Berlin, Beverly City, Billerica, Blackstone, Bolton, Boston City, Boxboro, Boxford, Braintree, Bridgewater, Brighton, Brockton City, Brookline, Burlington, Cambridge, Canton, Carlisle, Carver, Charlestown, Chelmsford, Chelsea, Chester, Chestnut Hill, Cochituate, Cohasset, Concord, Danvers, Dedham, Dighton, Dorchester, Dover, Dracut, Dunstable, Duxbury, East Bridgewater, East Maynard, Easton, East Weymouth, Essex, Everett, Fitchburg City, Foxboro, Framingham, Franklin, Fremont, Gardner City, Georgetown, Gloucester City, Groton, Grove Hall, Groveland, Halifax, Hamilton, Hanover, Hanson, Harvard, Haverhill City, Hingham, Holbrook, Holliston, Hopedale, Hopkinton, Hudson, Hull, Hyde Park,

Ipswich, Jamaica Plain, Kingston, Lakeville, Lancaster, Lawrence City, Leominster City, Lexington, Lincoln, Littleton, Lowell City, Lunenburg, Lynn, Lynnfield, Malden, Manchester, Manomet, Mansfield, Marblehead, Marlborough City, Marshfield, Mattapan, Maynard, Medfield, Medford, Medway, Melrose, Mendon, Merrimac, Methuen, Middleboro, Middleton, Milford, Millis, Millville, Milton, Nahant, Natick, Needham, Newbury, Newburyport City, Newton City, Newtonville, Norfolk, North Abington, North Andover, North Beverly, North Chelmsford, North Easton, North Plymouth, North Norton, North Waltham, Norwell, Norwood, Peabody City, Pembroke, Pepperell, Plainville, Plymouth, Plympton, Quincy, Randolph, Raymond, Raynham, Reading, Readville, Revere, Rockland, Rockport, Rowley, Roxbury, Salem City, Salisbury, Saugus, Scituate, Sharon, Sherborn, Shirely, Somerville, Southborough, Stoneham, Stoughton, Stow, Sudbury, Swampscott, Taunton City, Templeton, Tewksbury, Topsfield, Townsend, Tyngsboro, Upton, Waban, Wakefield, Walpole, Waltham City, Wareham, Watertown, Wayland, Wellesley, Wentham, West Bridge-water, West Newbury, Westford, Westminster, Weston, Westwood, Weymouth, Whitman, Wilmington, Winchendon, Winchester, Winthrop, Woburn, Wollaston, and Wrentham.

New Hampshire portion: the towns of Amherst, Atkinson, Brookline, Chester, Danville, Derry, East Hamstead, Fremont, Greenville, Hampstead, Hollis, Hudson, Kingston, Litchfield, Lyndeboro, Mason, Merrimac, Milford, Mount Vernon, Nashua City, New Ipswich, Newton, Pelham, Plaistow, Raymond, Salem, Sandown, Seabrook, South Hampton, Wilton, and Windham.

Hartford, Connecticut

The towns of Andover, Ashford, Avon, Barkhamsted, Berlin, Bloomfield, Bolton, Bristol City, Broad Brook, Burlington, Canton, Chaplin, Colchester, Collinsville, Columbia, Coventry, Cromwell, Durham, East Granby, East Haddam, East Hampton, East Hartford, East Windsor, Ellington, Enfield, Farmington, Forestville, Glastonbury, Granby, Haddam, Hampton, Hartford City, Hartland, Harwinton, Hebron, Higganum, Kensington, Lebanon, Manchester, Mansfield, Marlborough, Middlefield, Middletown City, Moodus, New Britain City, New Hartford, Newington, North Windham, Plainville, Plantsville, Plymouth, Poquonock, Portland, Rockville City, Rocky Hill, Scotland, Simsbury, Somers, South Glastonbury, South Windsor, Southington, Southingtonboro, Stafford, Stafford Springs, Storrs, Storrs Mansfield, Suffield, Terryville, Thompsonville, Tolland, Union, Vernon, Vernon-Rockville, Warehouse Point, West Hartford, West Suffield, West Willington, Wethersfield, Willimantic City, Willington, Winchester, Windham, Windsor, Windsor Locks, and Winsted City.

Metropolitan New York Area

New York portion: the counties of Bronx, Dutchess, Kings, Nassau, New York, Orange, Putnam, Queens,

Richmond, Rockland, Suffolk, Sullivan, Ulster, and Westchester.

New Jersey portion: the counties of Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren and the townships of Mercer County: East Windsor, Hightstown, Hopewell, Pennington, Princeton, Princeton Borough, Washington (excluding the city of Robbinsville), and West Windsor. **Pennsylvania portion:** Pike County. **Connecticut portion:** Fairfield County; the townships of Bridgewater, Canaan, Kent, New Milford, Roxbury, Salisbury, and Sharon in Litchfield County; the cities of Cornwall Bridge, Falls Village, Lakeville, Marble Dale, New Preston, and Washington Depot in Litchfield County; and the townships of Ansonia, Beacon Falls, Derby, Milford, Oxford, and Seymour in New Haven County.

Erie, Pennsylvania

Erie County; the townships of Bloomfield and Sparta in Crawford County; and the townships of Columbus and Spring Creek in Warren County.

Appendix B

Market Data

Unconcentrated Banking Markets

Metropolitan New York Area

Citizens Financial operates the 155th largest depository institution in the market, controlling deposits of \$147 million, which represent less than 1 percent of market deposits. Charter One has approval to operate four *de novo* branches and has opened two of the branches in the banking market since March 31, 2004, and Citizens Financial has three branches. FDIC deposit data reflecting the deposits of Charter One's branches are not yet available. After the proposed merger, 267 depository institutions would remain in the banking market. The Board has considered Citizens Financial's deposits in the market, the number of competing institutions and the deposits controlled by those institutions, and the recent entry of Charter One's branches. As noted, the Board concludes that consummation of the proposal would have a *de minimis* effect in the Metropolitan New York Area banking market. The HHI would remain unchanged at 971.

Moderately Concentrated Banking Markets

Springfield, Massachusetts

Citizens Financial operates the 16th largest depository institution in the market, controlling deposits of \$82.5 million, which represent approximately 1 percent of market deposits. Charter One operates the third largest depository institution in the market, controlling deposits of \$416.7 million, which represent approximately 7 percent of market deposits. After the proposed merger, Citizens

Financial would operate the third largest depository institution in the market, controlling deposits of approximately \$499.4 million, which represent approximately 7.8 percent of market deposits. Twenty-three depository institutions would remain in the banking market. The HHI would increase by 17 points to 1155.

Hanover-Lebanon, New Hampshire

Citizens Financial operates the third largest depository institution in the market, controlling deposits of \$121.6 million, which represent approximately 13 percent of market deposits. Charter One operates the fifth largest depository institution in the market, controlling deposits of \$81.2 million, which represent approximately 8 percent of market deposits. After the proposed merger, Citizens Financial would operate the third largest depository institution in the market, controlling deposits of \$202.8 million, which represent approximately 21.2 percent of market deposits. Eleven depository institutions would remain in the banking market. The HHI would increase by 215 points to 1653.

Worcester, Massachusetts

Citizens Financial operates the 15th largest depository institution in the market, controlling deposits of \$69 million, which represent approximately 1.2 percent of market deposits. Charter One opened a *de novo* branch in the market on July 1, 2003, and Citizens Financial has six branches. FDIC deposit data reflecting the deposits of Charter One's branch are not yet available. After the proposed merger, 28 depository institutions would remain in the banking market. The Board has considered Citizens Financial's deposits in the market, the number of competing institutions and the deposits controlled by those institutions, and the recent entry of Charter One's branch. As noted, the Board concludes that consummation of the proposal would have a *de minimis* effect in the Worcester banking market. The HHI would remain unchanged at 1,163.

Pittsfield, Massachusetts

Citizens Financial operates the 10th largest depository institution in the market, controlling deposits of \$19.5 million, which represent approximately 1.2 percent of market deposits. Charter One opened a *de novo* branch in the market on August 28, 2003, and Citizens Financial has four branches. FDIC deposit data reflecting the deposits of Charter One's branch are not yet available. After the proposed merger, ten depository institutions would remain in the banking market. The Board has considered Citizens Financial's deposits in the market, the number of competing institutions and the deposits controlled by those institutions, and the recent entry of Charter One's branch. As noted, the Board concludes that consummation of the proposal would have a *de minimis* effect in the Pittsfield banking market. The HHI would remain unchanged at 1,569.

Boston, Massachusetts

Citizens Financial operates the second largest depository institution in the market, controlling deposits of \$18.3 billion, which represent approximately 14.2 percent of market deposits. Charter One opened a *de novo* branch in the market on July 18, 2003, and Citizens Financial has 192 branches. FDIC deposit data reflecting the deposits of Charter One's branch are not yet available. After the proposed merger, 172 depository institutions would remain in the banking market. The Board has considered Citizens Financial's deposits in the market, the number of competing institutions and the deposits controlled by those institutions, and the recent entry of Charter One's branch. As noted, the Board concludes that consummation of the proposal would have a *de minimis* effect in the Boston banking market. The HHI would remain unchanged at 1,307.

Erie, Pennsylvania

Citizens Financial operates the fourth largest depository institution in the market, controlling deposits of \$310 million, which represent approximately 12.4 percent of market deposits. Charter One opened two *de novo* branches in the market on September 19, 2003, and Citizens Financial has 11 branches. FDIC deposit data reflecting the deposits of Charter One's branches are not yet available. After the proposed merger, nine depository institutions would remain in the banking market. The Board has considered Citizens Financial's deposits in the market, the number of competing institutions and the deposits controlled by those institutions, and the recent entry of Charter One's branches. As noted, the Board concludes that consummation of the proposal would have a *de minimis* effect in the Erie banking market. The HHI would remain unchanged at 1,739.

*Highly Concentrated Banking Markets**Brattleboro, Vermont*

Citizens Financial operates the sixth largest depository institution in the market, controlling deposits of \$11.7 million, which represent approximately 2.6 percent of market deposits. Charter One operates the third largest depository institution in the market, controlling deposits of \$46.8 million, which represent approximately 10.5 percent of market deposits. After the proposed merger, Citizens Financial would operate the third largest depository institution in the market, controlling deposits of \$58.5 million, which represent approximately 13.1 percent of market deposits. Six depository institutions would remain in the banking market. The HHI would increase by 55 points to 2,625.

Hartford, Connecticut

Citizens Financial operates the seventh largest depository institution in the market, controlling deposits of \$653 million, which represent approximately 3.3 percent of market deposits. Charter One has opened five *de novo* branches in the market since January 20, 2004, and Citizens Financial has 11 branches. FDIC deposit data reflecting the deposits of Charter One's branches are not yet available. After the proposed merger, 34 depository institutions would remain in the banking market. The Board has considered Citizens Financial's deposits in the market, the number of competing institutions and the deposits controlled by those institutions, and the recent entry of Charter One's branches. As noted, the Board concludes that consummation of the proposal would have a *de minimis* effect in the Hartford banking market. The HHI would remain unchanged at 2,490.

Appendix C

CRA Performance Evaluations of Citizens Financial

Subsidiary Bank	CRA Rating	Date	Supervisor
1. Citizens Bank of Massachusetts, Boston, Massachusetts	Outstanding	February 2000	FDIC
2. Citizens Bank of Rhode Island, Providence, Rhode Island	Outstanding	February 2000	FDIC
3. Citizens Bank of New Hampshire, Manchester, New Hampshire	Outstanding	February 2000	FDIC
4. Citizens Bank of Pennsylvania, Philadelphia, Pennsylvania	Outstanding	February 2000	FDIC
5. Citizens Bank of Connecticut, Hartford, Connecticut	Outstanding	February 2000	FDIC
6. Citizens Bank of Delaware, Wilmington, Delaware	Outstanding	February 2000	FDIC
7. Boston Trust & Management Investment Company, Boston, Massachusetts	Outstanding	February 2000	State of Massachusetts

Orders Issued Under Section 4 of the Bank Holding Company Act

Associated Banc-Corp Green Bay, Wisconsin

Order Approving the Acquisition of a Savings Association

Associated Banc-Corp ("Associated"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act and section 225.24 of the Board's Regulation Y to acquire First Federal Capital Corporation ("First Federal Capital") and its wholly owned subsidiary, First Federal Capital Bank ("FFCB"), a federally chartered savings association, both in La Crosse, Wisconsin.¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the *Federal Register* (69 *Federal Register* 39,935 (2004)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 4 of the BHC Act.

Associated, with total consolidated assets of \$15.6 billion, is the 64th largest depository organization in the United States, controlling deposits of \$9.7 billion.² Associated operates depository institutions in Illinois, Wisconsin, and Minnesota. Associated is the third largest depository organization in Wisconsin, controlling deposits of \$6.1 billion.

First Federal Capital, with total consolidated assets of approximately \$3.8 billion, is the eighth largest depository organization in Wisconsin and operates one depository institution in the state, FFCB, that controls deposits of \$2.7 billion. FFCB also has branches in Illinois and Minnesota.

On consummation of the proposal, Associated would have consolidated assets of approximately \$19.4 billion and would control deposits of \$12.4 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Associated would remain the third largest depository organization in Wisconsin, controlling deposits of approximately \$8.1 billion, which represent 8.4 percent of the total amount of deposits of insured depository institutions in Wisconsin.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.³ The Board requires that savings associations acquired by bank holding companies

conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act. Associated has committed to conform all the activities of FFCB to those permissible under section 4(c)(8) of the BHC Act and Regulation Y.⁴

In reviewing the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the proposed acquisition of First Federal Capital and FFCB "can reasonably be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."⁵ As part of its evaluation of the public interest factors, the Board reviews the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets, and the public benefits of the proposal.⁶ In acting on notices to acquire a savings association, the Board also reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").⁷

Competitive Considerations

As part of the Board's consideration of the public interest factors under section 4 of the BHC Act, the Board has considered carefully the competitive effects of the proposal in light of all the facts of record. Associated's subsidiary banks and FFCB compete directly in 18 banking markets.⁸ The Board has reviewed carefully the competitive effects of the proposal in these banking markets in light of all the facts of record, including the number of competitors that would remain in the market, the relative share of total deposits in depository institutions controlled by Associated's subsidiary banks and FFCB in the market ("market deposits"),⁹ the concentration level of market deposits and

4. FFCB also engages through its subsidiaries in credit insurance activities and investing and trading activities that are permissible nonbanking activities under sections 225.28(b)(11)(i) and 225.28(b)(8)(ii) of Regulation Y. 12 CFR 225.28(b)(11)(i) and 225.28(b)(8)(ii).

5. 12 U.S.C. § 1843(j)(2)(A).

6. See 12 CFR 225.26; see, e.g., *BancOne Corporation*, 83 *Federal Reserve Bulletin* 602 (1997).

7. 12 U.S.C. § 2901 *et seq.*

8. These banking markets are defined in Appendix A.

9. Deposit and market share data are based on annual branch reports filed as of June 30, 2003, and on calculations in which the deposits of thrift institutions are included at 50 percent. The Board has previously indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991). Because the Board has analyzed the competitive factors in this case as if Associated WI and FFCB were a combined entity, the deposits of FFCB are included at 100 percent in the calculation of *pro forma* market share. *First Banks, Inc.*, 76 *Federal Reserve Bulletin* 669 (1990).

1. 12 U.S.C. §§ 1843(c)(8) and (j); 12 CFR 225.24.

2. Asset data are as of March 31, 2004, and nationwide ranking data are as of May 31, 2004. Statewide deposit and ranking data are as of June 30, 2003. In this context, the term "insured depository institution" includes insured commercial banks, savings associations, and savings banks.

3. 12 CFR 225.28(b)(4)(ii).

the increase in this level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),¹⁰ and other characteristics of the markets.

On consummation of the proposal, Associated’s market share in the Green Bay, Wisconsin, banking market (“Green Bay Market”) would increase by a small percentage to slightly more than 35 percent of market deposits. Associated’s largest subsidiary bank, Associated Bank, National Association, also in Green Bay (“Associated WI”), is the largest depository organization in the market, controlling approximately \$1.5 billion in deposits, which represents 33.7 percent of market deposits. FFCB is the 16th largest depository organization in the market, controlling deposits of approximately \$42.8 million, which represent approximately 1 percent of market deposits. On consummation of the proposal, Associated WI would remain the largest depository organization in the market, controlling deposits of \$1.5 billion, representing approximately 35.4 percent of market deposits.

The Green Bay Market, however, would remain moderately concentrated. The HHI would increase 103 points to 1652, which is consistent with the DOJ Guidelines. In addition, 21 other depository institutions would remain in the market, including one large banking organization with a market share of more than 10 percent and a larger branch network than Associated WI’s network. The Green Bay Market also has been attractive for entry. Five commercial banks have entered the market *de novo* since 2000. Factors also indicate that the Green Bay Market would remain attractive for entry. For example, since 2000, total market deposits in the Green Bay Metropolitan Statistical Area (“MSA”) have increased by an annual average rate of more than 25 percent, which exceeds the average rates for all Wisconsin MSAs by 9.5 percentage points.

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in each of the other 17 banking markets.¹¹ Moreover, in each of the banking markets, the change in market concentration would be relatively small and numerous competitors would remain.

The Department of Justice has reviewed the proposal and advised the Board that consummation is not likely to have a significantly adverse effect on competition in the Green Bay Market or in any other relevant banking market. The other federal banking agencies also have been afforded

an opportunity to comment on the proposal and have not objected.

Based on all the facts of record, the Board concludes that consummation of the proposal would not result in any significantly adverse effect on competition or on the concentration of banking resources in the Green Bay Market or in any other relevant banking market.

Financial and Managerial Resources

In reviewing the proposal under section 4 of the BHC Act, the Board has carefully considered the financial and managerial resources of Associated and First Federal Capital and their subsidiaries. The Board also has reviewed the effect the transaction would have on those resources in light of all the facts of record. The Board’s review of these factors has considered reports of examination, other confidential supervisory information received from the primary supervisors for each subsidiary depository institution, and information provided by Associated.

Associated and its subsidiary depository institutions are well capitalized and would remain so on consummation of the proposal. The acquisition would be effected by an exchange of shares and a cash purchase. Associated has represented that it would not incur debt to fund the acquisition.

The Board also has considered the managerial resources of Associated, First Federal Capital, and their subsidiary depository institutions, particularly the supervisory experience and assessments of management by the organizations’ primary federal supervisors and the organizations’ records of compliance with applicable banking laws. In addition, the Board has reviewed the examination records of Associated and its subsidiary depository institutions, including assessments of their risk management. The Board also has considered Associated’s plans to implement the proposed acquisition, including its available managerial resources.

Based on these and all the facts of record, the Board concludes that the financial and managerial resources of the organizations involved in the proposal are consistent with approval under section 4 of the BHC Act.

CRA Performance Records

As previously noted, the Board considers the records of performance under the CRA of the relevant insured depository institutions when acting on a notice to acquire a savings association. The CRA requires the Board to assess each institution’s record of meeting the credit needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods, consistent with the institution’s safe and sound operation, and to take this record into account in evaluating bank expansionary proposals.¹²

The Board has considered carefully the CRA performance records of the subsidiary insured depository institutions of Associated and First Federal Capital in light of all the facts of record, including comments received on the

10. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), 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 is more than 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

11. The effects of the proposal on the concentration of banking resources in these banking markets are described in Appendix B.

12. 12 U.S.C. § 2903.

proposal. A commenter alleged that Associated WI had a low level of home mortgage lending to LMI borrowers in La Crosse and an insufficient amount of community development investments in LMI census tracts throughout Wisconsin.¹³ The commenter also expressed concern about possible branch closings that would result from the proposal.

Associated has indicated that on consummation of the proposal, it would evaluate the best practices for CRA-related lending programs of Associated WI and FFCB, with the goal of using the institutions' combined resources to meet the credit and banking needs of LMI individuals and neighborhoods.

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the proposal in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹⁴ At its most recent CRA evaluation by the Office of the Comptroller of the Currency ("OCC"), Associated WI, which is Associated's largest subsidiary bank in terms of assets and deposits, received a "satisfactory" rating, as of November 10, 2003. Associated's other two subsidiary banks that are evaluated under the CRA also received "satisfactory" ratings at their most recent CRA performance evaluations.¹⁵ FFCB received an "outstanding" rating at its most recent CRA performance evaluation by the Office of Thrift Supervision ("OTS"), as of November 12, 2002.¹⁶

13. The commenter also expressed concern that Associated WI did not extend any loans in the La Crosse MSA that were sponsored or guaranteed by the federal government, such as the Department of Veterans Affairs, and made few loans in the La Crosse MSA that were administered by the Wisconsin Housing and Economic Development Authority ("WHEDA"). Associated represented that it does participate in government loan programs throughout Wisconsin, including programs administered by WHEDA. In 2003, Associated represented that it funded 147 WHEDA loans, totaling more than \$13 million. Although the Board recognizes that banks help serve the credit needs of communities by participating in government lending programs, the CRA does not require an institution to participate in any specific loan program or to provide any specific types of products and services in its assessment areas.

14. See *Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

15. Associated Bank of Chicago, Chicago, Illinois, received a "satisfactory" rating from the Federal Deposit Insurance Corporation ("FDIC"), as of December 1, 2003; Associated Bank Minnesota, National Association, Minneapolis, Minnesota (formerly Signal Bank, National Association, Eagan, Minnesota), received a "satisfactory" rating from the OCC, as of October 2, 2000. Associated Trust Company, National Association, Milwaukee, Wisconsin, is a limited-purpose trust company that is not examined under the CRA. See 12 CFR 25.11(c)(3).

16. The commenter expressed concern that the proposed acquisition would negatively affect FFCB's CRA performance.

B. CRA Performance of Associated WI

As noted above, Associated WI received an overall "satisfactory" rating for performance under the CRA from the OCC. Associated WI received "high satisfactory" ratings under the lending and investment tests and a "low satisfactory" rating under the service test.¹⁷ Examiners reported that the total volume of Associated WI's housing-related and small business loans demonstrated excellent responsiveness to the credit needs across the bank's assessment areas.¹⁸ For example, examiners noted favorably that the bank's market share percentage for all home mortgage loan products (home purchase, home improvement, and home refinancing loans) was greater than the bank's deposit market share percentages in the Milwaukee and Green Bay MSAs and the non-MSA assessment areas of Wisconsin.

Examiners also stated that the bank demonstrated good loan distribution among borrowers of different geographies and income levels. For example, examiners noted that in the non-MSA assessment areas of Wisconsin, the percentage of the bank's home purchase loan originations in LMI areas was greater than both the percentage of owner-occupied units and the bank's overall market share for home purchase loans in these areas.¹⁹ In addition, examiners noted favorably that the bank's market share of home purchase loans to low-income areas was greater than its overall market share in the Milwaukee MSA.

17. Examiners evaluated Associated WI's CRA performance in its 12 assessment areas in Wisconsin and took into consideration the home mortgage lending of the bank's subsidiary, Associated Mortgage, Inc., De Pere, Wisconsin. The majority of the bank's deposits, loans, and branches were in the Milwaukee and Green Bay MSAs and in the non-MSA areas of Wisconsin. These areas were selected for full-scope reviews. The evaluation period for home mortgage loans and loans to small businesses and farms was January 1, 1999, through December 31, 2002. The evaluation period for community development loans and the investment and service tests was March 8, 1999, to November 10, 2003.

18. The commenter expressed concern that Associated lagged its competitors in lending to LMI individuals and to borrowers in LMI census tracts in the La Crosse MSA. Loan data reported by Associated under the Home Mortgage Disclosure Act ("HMDA") (12 U.S.C. § 2801 *et seq.*) for Associated WI and Associated Mortgage, Inc. on a combined basis indicate that Associated's overall volume of HMDA-reportable loans originated to borrowers in LMI census tracts in the Wisconsin portion of the La Crosse MSA increased from 2002 to 2003, and its percentage of total HMDA-reportable loans originated to borrowers in LMI census tracts was comparable to or exceeded the percentage for the aggregate of lenders ("aggregate lenders") in those years. In this context, the lending data of the aggregate lenders represent the cumulative lending for all financial institutions that have reported HMDA data in a given area. Associated's overall HMDA lending to LMI individuals decreased slightly in 2003, and its percentage of total HMDA-reportable loans originated to LMI individuals modestly lagged the percentage for the aggregate lenders in 2002 and 2003. However, examiners performed a limited-scope review of Associated WI's performance under the lending test in the La Crosse MSA and found that the bank's performance was consistent with its overall high satisfactory performance under the lending test.

19. The commenter also asserted that a significant portion of Associated's HMDA loans in LMI census tracts has been to non-occupant borrowers. Associated represented that it receives few applications for owner-occupied home purchases in the La Crosse MSA, due in part to a large student population in need of temporary housing.

Examiners characterized Associated WI's distribution of small loans to businesses as excellent in the Green Bay MSA and in the non-MSA assessment areas of Wisconsin and as adequate in the Milwaukee MSA.²⁰ In the Green Bay MSA and the non-MSA assessment areas of Wisconsin, examiners noted favorably that the percentage of Associated WI's small loans to businesses was greater than the bank's overall market share of business loans.

Examiners reported that the bank's level of qualified investments and grants was good, considering the needs and opportunities available to the bank and its size and financial capability. During the evaluation period, the bank's qualified investments in Wisconsin totaled more than \$14 million. Examiners stated that Associated WI's responsiveness to credit and community development needs in the Milwaukee MSA was excellent and that the bank was responsive to those identified needs of the community.

With respect to retail services, examiners reported that Associated WI had an adequate level of community development services. Examiners also determined that the bank's delivery systems were reasonably accessible to geographies and individuals of different income levels.

C. CRA Performance Record of FFCB

As previously noted, FFCB received an overall "outstanding" rating for performance under the CRA.²¹ Examiners also rated the thrift's performance under the lending test as "outstanding" based on its level of HMDA-reportable loans in LMI geographies. They characterized the thrift's record of lending to borrowers of different income levels and its geographic distribution of loans as excellent.

Examiners reported that FFCB originated more than 22,500 HMDA-reportable loans totaling \$2.2 billion in its assessment areas during the evaluation period, noting that the thrift was among the top three lenders by loan volume in six of its assessment areas. Examiners also praised FFCB for its loan distribution, noting that its lending to LMI borrowers and the geographic distribution of loans in LMI areas were excellent. In addition, examiners commended the thrift for its participation in grant programs administered by the Wisconsin Public Housing Department and the Department of Housing and Urban Development, which provided down-payment and closing-cost assistance to LMI residents in FFCB's assessment areas.²²

20. Small loans to businesses are loans that are originated in amounts of \$1 million or less that are either secured by nonfarm, nonresidential properties or are classified as commercial and industrial loans. A small business is a business with gross annual revenues of \$1 million or less.

21. The review period was from January 1, 2001, through June 30, 2002. FFCB's assessment areas included the Minneapolis MSA and the following areas in Wisconsin: Madison MSA, La Crosse MSA, Janesville MSA, Eau Claire MSA, and the non-MSA areas of Wisconsin.

22. The commenter urged Associated to discontinue selling single-premium credit insurance on unsecured loans. Associated has represented that it ceased offering single-premium credit insurance in

Although FFCB's investment test performance was rated "low satisfactory," examiners characterized the thrift's performance under this test as adequate. The institution's qualified community development investments included financing for affordable housing for LMI individuals and grants to 48 organizations that provided community development services in its assessment areas.

Examiners rated FFCB's performance under the service test as "outstanding." Examiners commended the institution for expanding its branch network during the review period and offering extended weekday and Sunday hours in its new in-store supermarket branches. Examiners noted that the thrift tailored its services to the customer base of the institution's combined assessment areas by providing consumers the ability to apply for consumer loans and to receive loan decisions by phone within 24 hours. In addition, examiners stated that the thrift's personnel provided numerous community development services in the assessment area, including homebuyer seminars, workshops on financial management, savings account ownership, and credit management.

D. Branch Closings

The Board has considered the commenter's concerns about potential branch closings in light of all the facts of record. The Board has considered Associated's branch closing policy for its subsidiary banks and the banks' record of opening and closing branches. This policy includes procedures to address concerns of LMI communities. For example, the policy provides that before closing any branch in a LMI or minority area, the bank will meet with neighborhood representatives to discuss ways to keep the branch open or to mitigate the impact of the branch's closure. In addition, examiners did not note any adverse information concerning Associated WI's record of opening or closing branches in its the most recent CRA evaluation.

The Board also has considered the fact that federal banking law provides a specific mechanism for addressing branch closings.²³ Federal law requires an insured depository institution to provide notice to the public and to the appropriate federal supervisor before closing a branch. Associated has represented that if it decides to close, relocate, or consolidate any branch of its subsidiary banks or FFCB in connection with this proposal, it will comply with all applicable federal and state law requirements. The Board also notes that the OCC, FDIC, and OTS, the appropriate federal supervisors of the depository institutions involved in this proposal, will continue to review

September 2003 and that FFCB would discontinue offering single-premium credit insurance on consummation of the proposal.

23. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 *Federal Register* 34,844 (1999)), requires that an insured depository institution provide the public with at least 30 days' notice and the appropriate federal supervisory agency and customers of the branch with at least 90 days' notice before the date of the proposed branch closing. The institution also is required to provide reasons and other supporting data for the closure, consistent with its written policy for branch closings.

each institution's branch closing record in the course of conducting CRA performance evaluations.

E. Conclusion on CRA Performance Records

The Board has carefully considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by Associated, comments received on the proposal, and confidential supervisory information. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that the CRA performance records of the relevant depository institutions are consistent with approval.²⁴

Public Benefits

As part of its evaluation of the public interest factors under section 4 of the BHC Act, the Board also has reviewed carefully the other public benefits and possible adverse effects of the proposal.²⁵ The record indicates that consummation of the proposal would result in benefits to consumers and businesses currently served by FFCB by expanding the number of available branches and providing customers with greater access to the trust management, commercial, and retail banking services of Associated WI, in addition to drawing on Associated WI's focus on commercial lending and FFCB's focus on mortgage lending. Based on these and other matters discussed in this order, as well as all the facts of record, the Board has determined that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh possible adverse effects under the standard of review set forth in section 4(j)(2) of the BHC Act.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the notice 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. The Board's approval is specifically conditioned on compliance by Associated with the conditions imposed in this order and the commitments made to the Board in connection with

the notice. The Board's approval also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 CFR 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with and to prevent evasion of the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of this action, these conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions and, as such, may be enforced in proceedings under applicable law.

The acquisition shall not be consummated later than three months after the effective date of this order, 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, effective August 16, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Bernanke, and Kohn. Absent and not voting: Governor Olson.

ROBERT DE V. FRIERSON
Deputy Secretary of the Board

Appendix A

Banking Markets in which Associated's Subsidiary Banks and First Federal Capital Bank Compete Directly

Appleton, Wisconsin

Outagamie County, excluding Oneida township; the townships of Winchester, Clayton, Neenah, and Menasha in Winnebago County; and the townships of Harrison, Woodville, Brillion, and Rantoul in Calumet County.

Beloit-Janesville, Wisconsin

Rock County.

Eau Claire, Wisconsin

Chippewa, Dunn, and Eau Claire Counties; Pepin County, excluding the townships of Stockholm and Pepin; the townships of Mondovi, Naples, Gilmanton, Dover, and Montana in Buffalo County; the townships of Albion, Unity, Sumner, Chimney Rock, Hale, Burnside, and Pigeon in Trempealeau County; and the townships of Garfield, Cleveland, Northfield, Garden Valley, and Alma in Jackson County.

Fond du Lac, Wisconsin

Fond du Lac County, excluding the townships of Ashford, Auburn, and Calumet.

24. The commenter requested that the Board condition its approval on a commitment by Associated to take affirmative steps to increase Associated WI's lending and qualified investments. The Board focuses on the CRA performance record of an applicant and the programs that an applicant has in place to serve the credit needs of its assessment areas at the time the Board reviews a proposal under the CRA. See, e.g., *J.P. Morgan Chase & Co.*, 90 *Federal Reserve Bulletin* 352 (2004). For the reasons discussed above, the CRA performance records of the subsidiary depository institutions of Associated and First Federal Capital and their current programs for serving the credit needs of their communities are consistent with approval, without the imposition of any conditions related to future CRA performance.

25. The commenter also expressed concern that the proposal would result in job losses. The effect of a proposed transaction on employment in a community is outside the limited factors that the Board is authorized to consider under the BHC Act. See, e.g., *J.P. Morgan & Co. Inc.*, 87 *Federal Reserve Bulletin* 77, 88 (2001).

Green Bay, Wisconsin

Brown and Kewaunee Counties; the townships of Morgan, Abrams, Pensaukee, Chase, and Little Suamico in Oconto County; the townships of Angelica and Maple Grove in Shawano County; Oneida township in Outagamie County; and Cooperstown township in Manitowoc County.

Jefferson, Wisconsin

The townships of Oakland, Jefferson, Sullivan, Sumner, Koshkonong, Hebron, Cold Springs, and Palmyra in Jefferson County; the townships of York, Medina, Deerfield, Christiana, and Albion in Dane County.

Kenosha–Racine, Wisconsin

Kenosha County, excluding the townships of Wheatland and Randall; the townships of Caledonia, Mount Pleasant, Yorkville, Dover, and Rochester in Racine County.

La Crosse, Wisconsin

Wisconsin portion: La Crosse County; Glencoe township in Buffalo County; Arcadia, Preston, Ettrick, and Gale in Trempealeau County; the townships of Curran, Springfield, Franklin, North Bend, and Melrose in Jackson County.

Minnesota portion: the townships of Houston County; Honier, Richmond, Pleasant Hill, New Hartford, and Dresbach in Winona County.

Madison, Wisconsin

Dane County, excluding the townships of York, Medina, Deerfield, Christiana, and Albion; the townships of Dekorra, Lowville, Otsego, Fountain Prairie, Columbus, Hampden, Leeds, Arlington, Lodi, and West Point in Columbia County.

Manitowoc–Two Rivers, Wisconsin

Manitowoc County, excluding the townships of Schleswig, Eaton, and Cooperstown.

Minneapolis–St. Paul, Minnesota

Minnesota portion: Anoka, Hennepin, Ramsey, Washington, Carver, Scott, and Dakota Counties; the townships of Lent, Chisago Lake, Shafer, Wyoming, and Franconia in Chisago County; the townships of Blue Hill, Baldwin, Orrock, Livonia, and Big Lake and the city of Elk River in Sherburne County; the townships of Monticello, Otsego, Buffalo, Frankfort, Rockford, and Franklin in Wright County; and Lanesburgh township in Le Sueur County.

Wisconsin portion: Hudson township in St. Croix County.

Oshkosh, Wisconsin

Winnebago County, excluding the townships of Winchester, Clayton, Menasha, and Neenah.

Rochester, Minnesota

Olmsted and Fillmore Counties; the townships of Wana- mingo, Minneola, Zumbrota, Cherry Grove, Roscoe, and Pine Island in Goodhue County; Wabasha County, excluding the townships of Mount Pleasant, Lake, Pepin, Glasgow, Greenfield, Watopa, and Minneiska and the city of Wabasha; Dodge County, excluding the townships of Ellington, Claremont, Ripley, and Westfield.

Rockford, Illinois

Winnebago and Boone Counties; the townships Byron, Marion, Scott, and Monroe in Ogle County.

Sheboygan, Wisconsin

Sheboygan County, excluding the townships of Russell and Rhine.

Walworth, Wisconsin

Walworth County, excluding East Troy township; Burlington township in Racine County; and the townships of Wheatland and Randall in Kenosha County.

Wausau, Wisconsin

The townships of Corning, Harding, Rock Falls, Birch, Russell, Merrill, Schley, Scott, and Pine River in Lincoln County; Marathon County, excluding the townships of Holton, Hull, Brighton, Spencer, McMillan, and Day; the townships of Aniwa, Birnamwood, Wittenberg, and Germania in Shawano County.

Wood, Wisconsin

Wood County; the townships of Spencer, McMillan, and Day in Marathon County.

Appendix B

Market Data¹*Unconcentrated Banking Markets**Appleton, Wisconsin*

Associated operates the second largest depository institution in the market, controlling deposits of \$357 million, which represent approximately 13.8 percent of market deposits. First Federal Capital operates the 16th largest depository institution in the market, controlling deposits of \$44 million, which represent approximately 2 percent of market deposits. After the proposed acquisition, Associated would continue to operate the second largest depository institution in the market, controlling deposits of

1. The pre-consummation deposits of FFCB are weighted at 50 percent, and the post-consummation deposits are weighted at 100 percent.

\$445 million, which represent approximately 16 percent of market deposits. Twenty-seven depository institutions would remain in the banking market. The HHI would increase by 62 points to 925.

Eau Claire, Wisconsin

Associated operates the 17th largest depository institution in the market, controlling deposits of \$49 million, which represent approximately 2 percent of market deposits. First Federal Capital operates the 18th largest depository institution in the market, controlling deposits of approximately \$43 million, which represent approximately 2 percent of market deposits. After the proposed acquisition, Associated would operate the seventh largest depository institution in the market, controlling deposits of approximately \$136 million, which represent approximately 6 percent of market deposits. Thirty-one depository institutions would remain in the banking market. The HHI would increase by 5 points to 552.

Walworth, Wisconsin

Associated operates the seventh largest depository institution in the market, controlling deposits of \$118 million, which represent approximately 8 percent of market deposits. First Federal Capital operates the 18th largest depository institution in the market, controlling deposits of approximately \$13 million, which represent less than 1 percent of market deposits. After the proposed acquisition, Associated would operate the third largest depository institution in the market, controlling deposits of approximately \$144 million, which represent approximately 9 percent of market deposits. Eighteen depository institutions would remain in the banking market. The HHI would increase by 12 points to 975.

Wood, Wisconsin

Associated operates the second largest depository institution in the market, controlling deposits of \$168 million, which represent approximately 14 percent of market deposits. First Federal Capital operates the 17th largest depository institution in the market, controlling deposits of \$10 million, which represent less than 1 percent of market deposits. After the proposed acquisition, Associated would operate the largest depository institution in the market, controlling deposits of approximately \$188 million, which represent approximately 16 percent of market deposits. Sixteen depository institutions would remain in the banking market. The HHI would increase by 33 points to 969.

La Crosse, Wisconsin

Associated operates the 11th largest depository institution in the market, controlling deposits of \$66 million, which represent approximately 4 percent of market deposits. First Federal Capital operates the second largest depository institution in the market, controlling deposits of \$197 million,

which represent approximately 11 percent of market deposits. After the proposed acquisition, Associated would operate the largest depository institution in the market, controlling deposits of approximately \$461 million, which represent approximately 23 percent of market deposits. Twenty-seven depository institutions would remain in the banking market. The HHI would increase by 287 points to 988.

Madison, Wisconsin

Associated operates the seventh largest depository institution in the market, controlling deposits of \$303 million, which represent approximately 4 percent of market deposits. First Federal Capital operates the eighth largest depository institution in the market, controlling deposits of approximately \$298 million, which represent approximately 4 percent of market deposits. After the proposed acquisition, Associated would operate the third largest depository institution in the market, controlling deposits of approximately \$898 million, which represent approximately 12 percent of market deposits. Thirty-six depository institutions would remain in the banking market. The HHI would increase by 54 points to 796.

Rochester, Minnesota

Associated operates the 16th largest depository institution in the market, controlling deposits of \$44 million, which represent approximately 2 percent of market deposits. First Federal Capital operates the 15th largest depository institution in the market, controlling deposits of \$45 million, which represent approximately 2 percent of market deposits. After the proposed acquisition, Associated would operate the fourth largest depository institution in the market, controlling deposits of \$135 million, which represent approximately 6 percent of market deposits. Thirty-one depository institutions would remain in the banking market. The resulting HHI for this market, which would not increase after consummation of the proposal, would be 871.

Moderately Concentrated Banking Markets

Rockford, Illinois

Associated operates the fourth largest depository institution in the market, controlling deposits of \$503 million, which represent approximately 10 percent of market deposits. First Federal Capital operates the 14th largest depository institution in the market, controlling deposits of \$64 million, which represent approximately 1 percent of market deposits. After the proposed acquisition, Associated would operate the third largest depository institution in the market, controlling deposits of approximately \$631 million, which represent approximately 12 percent of market deposits. Twenty-two depository institutions would remain in the banking market. The HHI would increase by 12 points to 1621.

Wausau, Wisconsin

Associated operates the fourth largest depository institution in the market, controlling deposits of \$193 million, which represent approximately 10 percent of market deposits. First Federal Capital operates the 14th largest depository institution in the market, controlling deposits of \$38 million, which represent approximately 2 percent of market deposits. After the proposed acquisition, Associated would operate the third largest depository institution in the market, controlling deposits of approximately \$269 million, which represent approximately 14 percent of market deposits. Twenty depository institutions would remain in the banking market. The HHI would increase by 47 points to 1145.

Sheboygan, Wisconsin

Associated operates the fifth largest depository institution in the market, controlling deposits of \$110 million, which represent approximately 7 percent of market deposits. First Federal Capital operates the 15th largest depository institution in the market, controlling deposits of \$13 million, which represent less than 1 percent of market deposits. After the proposed acquisition, Associated would operate the fourth largest depository institution in the market, controlling deposits of approximately \$135 million, which represent approximately 8 percent of market deposits. Sixteen depository institutions would remain in the banking market. The HHI would increase by 8 points to 1080.

Oshkosh, Wisconsin

Associated operates the fourth largest depository institution in the market, controlling deposits of \$114 million, which represent approximately 13 percent of market deposits. First Federal Capital operates the eighth largest depository institution in the market, controlling deposits of \$23 million, which represent approximately 3 percent of market deposits. After the proposed acquisition, Associated would operate the second largest depository institution in the market, controlling deposits of approximately \$159 million, which represent approximately 18 percent of market deposits. Eleven depository institutions would remain in the banking market. The HHI would increase by 89 points to 1411.

Kenosha–Racine, Wisconsin

Associated operates the 15th largest depository institution in the market, controlling deposits of \$22 million, which represent less than 1 percent of market deposits. First Federal Capital operates the 13th largest depository institution in the market, controlling deposits of \$31 million, which represent less than 1 percent of market deposits. After the proposed acquisition, Associated would operate the 11th largest depository institution in the market, controlling deposits of approximately \$85 million, which represent approximately 3 percent of market deposits. Fifteen depository institutions would remain in the banking mar-

ket. The resulting HHI for this market, which would not increase after consummation of the proposal, would be 1412.

Jefferson, Wisconsin

Associated operates the tenth largest depository institution in the market, controlling deposits of \$12 million, which represent approximately 2 percent of market deposits. First Federal Capital operates the ninth largest depository institution in the market, controlling deposits of \$15 million, which represent approximately 3 percent of market deposits. After the proposed acquisition, Associated would operate the seventh largest depository institution in the market, controlling deposits of approximately \$43 million, which represent approximately 8 percent of market deposits. Ten depository institutions would remain in the banking market. The resulting HHI for this market, which would not increase after consummation of the proposal, would be 1485.

Fond du Lac, Wisconsin

Associated operates the ninth largest depository institution in the market, controlling deposits of \$38 million, which represent approximately 3 percent of market deposits. First Federal Capital operates the 13th largest depository institution in the market, controlling deposits of \$15 million, which represent approximately 1 percent of market deposits. After the proposed acquisition, Associated would operate the seventh largest depository institution in the market, controlling deposits of approximately \$67 million, which represent approximately 6 percent of market deposits. Thirteen depository institutions would remain in the banking market. The resulting HHI for this market, which would not increase after consummation of the proposal, would be 1744.

Beloit–Janesville, Wisconsin

Associated operates the 12th largest depository institution in the market, controlling deposits of \$25 million, which represent approximately 2 percent of market deposits. First Federal Capital operates the sixth largest depository institution in the market, controlling deposits of \$63 million, which represent approximately 4 percent of market deposits. After the proposed acquisition, Associated would operate the fourth largest depository institution in the market, controlling deposits of approximately \$152 million, which represent approximately 10 percent of market deposits. Eighteen depository institutions would remain in the banking market. The resulting HHI for this market, which would not increase after consummation of the proposal, would be 1270.

*Highly Concentrated Banking Markets**Minneapolis–St. Paul, Minnesota*

Associated operates the fifth largest depository institution in the market, controlling deposits of \$1 billion, which

represent approximately 2 percent of market deposits. First Federal Capital operates the 21st largest depository institution in the market, controlling deposits of \$218 million, which represent less than 1 percent of market deposits. After the proposed acquisition, Associated would operate the fourth largest depository institution in the market, controlling deposits of approximately \$1.4 billion, which represent approximately 3 percent of market deposits. One hundred and twenty-six depository institutions would remain in the banking market. The resulting HHI for this market, which would not increase after consummation of the proposal, would be 1980.

Manitowoc—Two Rivers, Wisconsin

Associated operates the second largest depository institution in the market, controlling deposits of \$205 million, which represent approximately 21 percent of market deposits. First Federal Capital operates the ninth largest depository institution in the market, controlling deposits of \$14 million, which represent approximately 1 percent of market deposits. After the proposed acquisition, Associated would continue to operate the second largest depository institution in the market, controlling deposits of approximately \$234 million, which represent approximately 24 percent of market deposits. Eleven depository institutions would remain in the banking market. The HHI would increase by 76 points to 1896.

Barclays Bank PLC London, England

Order Approving Notice to Engage in Activities Complementary to a Financial Activity

Barclays Bank PLC (“Barclays”), a foreign bank that is treated as a financial holding company (“FHC”) for purposes of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 4 of the BHC Act (12 U.S.C. § 1843) and the Board’s Regulation Y (12 CFR Part 225) to engage in physical commodity trading in the United States. Barclays currently conducts physical commodity trading outside the United States.

Regulation Y authorizes bank holding companies (“BHCs”) to engage as principal in derivative contracts based on financial and nonfinancial assets (“Commodity Derivatives”). Under Regulation Y, a BHC may conduct Commodity Derivatives activities subject to certain restrictions that are designed to limit the BHC’s activity to trading and investing in financial instruments rather than dealing directly in physical nonfinancial commodities.¹ Under these restrictions, a BHC generally is not allowed to take or make delivery of nonfinancial commodities underlying Commodity Derivatives. In addition, BHCs generally are not permitted to purchase or sell nonfinancial commodities in the spot market.

1. Commodity Derivatives permissible for BHCs under Regulation Y are hereinafter referred to as “BHC-permissible Commodity Derivatives.”

The BHC Act, as amended by the Gramm–Leach–Bliley Act (“GLB Act”), permits a BHC to engage in activities that the Board had determined were closely related to banking, by regulation or order, prior to November 12, 1999.² The BHC Act permits an FHC to engage in a broad range of activities that are defined in the statute to be financial in nature.³ Moreover, the BHC Act allows FHCs to engage in any activity that the Board determines, in consultation with the Secretary of the Treasury, to be financial in nature or incidental to a financial activity.⁴

In addition, the BHC Act permits FHCs to engage in any activity that the Board (in its sole discretion) determines is complementary to a financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally.⁵ This authority is intended to allow the Board to permit FHCs to engage on a limited basis in an activity that appears to be commercial rather than financial in nature, but that is meaningfully connected to a financial activity such that it complements the financial activity.⁶ The BHC Act provides that any FHC seeking to engage in a complementary activity must obtain the Board’s prior approval under section 4(j) of the BHC Act.⁷

Barclays regularly engages as principal in BHC-permissible Commodity Derivatives based on a variety of commodities, including natural gas and electricity. Barclays has requested that the Board permit it to purchase and sell these and other physical commodities in the spot market and take and make delivery of physical commodities to settle Commodity Derivatives (“Commodity Trading Activities”). The Board previously has determined that Commodity Trading Activities involving a particular commodity complement the financial activity of engaging regularly as principal in BHC-permissible Commodity Derivatives based on that commodity.⁸ In light of the foregoing and all other facts of record, the Board believes that Commodity Trading Activities are complementary to the Commodity Derivatives activities of Barclays.

To authorize Barclays to engage in Commodity Trading Activities as a complementary activity under the GLB Act, the Board also must determine that the activities do not pose a substantial risk to the safety or soundness of depository

2. 12 U.S.C. § 1843(c)(8).

3. The Board determined by regulation before November 12, 1999, that engaging as principal in Commodity Derivatives, subject to certain restrictions, was closely related to banking. Accordingly, engaging as principal in BHC-permissible Commodity Derivatives is a financial activity for purposes of the BHC Act. See 12 U.S.C. § 1843(k)(4)(F).

4. 12 U.S.C. § 1843(k)(1)(A).

5. 12 U.S.C. § 1843(k)(1)(B).

6. See 145 Cong. Rec. H11529 (daily ed. Nov. 4, 1999) (Statement of Chairman Leach) (“It is expected that complementary activities would not be significant relative to the overall financial activities of the organization.”).

7. 12 U.S.C. § 1843(j).

8. See *Citigroup Inc.*, 89 *Federal Reserve Bulletin* 508 (2003); *UBS AG*, 90 *Federal Reserve Bulletin* 215 (2004). For example, Commodity Trading Activities involving all types of crude oil would be complementary to engaging regularly as principal in BHC-permissible Commodity Derivatives based on Brent crude oil.

tory institutions or the U.S. financial system generally.⁹ In addition, the Board must determine that the performance of Commodity Trading Activities by Barclays “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, or unsound banking practices.”¹⁰

Approval of the proposal likely would benefit Barclays’ customers by enhancing the ability of the bank to provide efficiently a full range of commodity-related services. Approving Commodity Trading Activities for Barclays also would enable the company to improve its understanding of physical commodity and commodity derivatives markets and its ability to serve as an effective competitor in physical commodity and commodity derivatives markets.

Barclays has established and maintains policies for monitoring, measuring, and controlling the credit, market, settlement, reputational, legal, and operational risks involved in its Commodity Trading Activities. These policies address key areas, such as counterparty credit risk, value-at-risk methodology and internal limits with respect to commodity trading, new business and new product approvals, and identification of transactions that require higher levels of internal approval. The policies also describe critical internal control elements, such as reporting lines, and the frequency and scope of internal audit of Commodity Trading Activities. Barclays has integrated the risk management of Commodity Trading Activities into the bank’s overall risk management framework. Based on the above and all the facts of record, the Board believes that Barclays has the managerial expertise and internal control framework to manage adequately the risks of taking and making delivery of physical commodities as proposed.

To limit the potential safety and soundness risks of Commodity Trading Activities, as a condition of this order, the market value of commodities held by Barclays as a result of Commodity Trading Activities must not exceed 5 percent of Barclays’ consolidated tier 1 capital (as calculated under its home country standard).¹¹ Barclays also must notify the Federal Reserve Bank of New York if the market value of commodities held by Barclays as a result of its Commodity Trading Activities exceeds 4 percent of its tier 1 capital.

In addition, Barclays may take and make delivery only of physical commodities for which derivative contracts have been authorized for trading on a U.S. futures exchange by the Commodity Futures Trading Commission (“CFTC”) (unless specifically excluded by the Board) or that have been specifically approved by the Board.¹² This

requirement is designed to prevent Barclays from becoming involved in dealing in finished goods and other items, such as real estate, that lack the fungibility and liquidity of exchange-traded commodities.

To minimize the exposure of Barclays to additional risks, including storage risk, transportation risk, and legal and environmental risks, Barclays would not be authorized to (i) own, operate, or invest in facilities for the extraction, transportation, storage, or distribution of commodities; or (ii) process, refine, or otherwise alter commodities. In conducting its Commodity Trading Activities, Barclays will be expected to use appropriate storage and transportation facilities owned and operated by third parties.¹³

Barclays and its Commodity Trading Activities also remain subject to the general securities, commodities, and energy laws and the rules and regulations (including the anti-fraud and anti-manipulation rules and regulations) of the Securities and Exchange Commission, the CFTC, and the Federal Energy Regulatory Commission.

Permitting Barclays to engage in the limited amount and types of Commodity Trading Activities described above, on the terms described in this order, would not appear to pose a substantial risk to Barclays, depository institutions, or the U.S. financial system generally. Through its existing authority to engage in Commodity Derivatives, Barclays already may incur the price risk associated with commodities. Permitting Barclays to buy and sell commodities in the spot market or physically settle Commodity Derivatives would not appear to increase significantly the organization’s potential exposure to commodity price risk.

For these reasons, and based on Barclays’ policies and procedures for monitoring and controlling the risks of Commodity Trading Activities, the Board concludes that consummation of the proposal does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally and can reasonably be expected to produce benefits to the public that outweigh any potential adverse effects.

Based on all the facts of record, including the representations and commitments made to the Board by Barclays in connection with the notice, and subject to the terms and conditions set forth in this order, the Board has determined that the notice should be, and hereby is, approved. The Board’s determination is subject to all the conditions set

absence of specific Board approval) futures or options on futures on the commodity underlying the derivative contract must have been authorized for exchange trading by the CFTC.

The CFTC publishes annually a list of the CFTC-authorized commodity contracts. See *Commodity Futures Trading Commission, FY 2003 Annual Report to Congress* 109. With respect to granularity, the Board intends this requirement to permit Commodity Trading Activities involving all types of a listed commodity. For example, Commodity Trading Activities involving any type of coal or coal derivative contract would be permitted, even though the CFTC has authorized only Central Appalachian coal.

13. Approving Commodity Trading Activities as a complementary activity, subject to limits and conditions, would not in any way restrict the existing authority of Barclays to deal in foreign exchange, precious metals, or any other bank-eligible commodity.

9. 12 U.S.C. § 1843(k)(1)(B).

10. 12 U.S.C. § 1843(j)(2)(A).

11. Barclays would be required to include in this 5 percent limit the market value of any commodities held by Barclays as a result of a failure of its reasonable efforts to avoid taking delivery under section 225.28(b)(8)(ii)(B) of Regulation Y.

12. The particular commodity derivative contract that Barclays takes to physical settlement need not be exchange-traded, but (in the

forth in Regulation Y, including those in section 225.7 (12 CFR 225.7), and to the Board's authority to require modification or termination of the activities of a BHC or any of its subsidiaries as the Board finds necessary to ensure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder. The Board's decision is specifically conditioned on compliance with all the commitments made to the Board in connection with the notice, including the commitments and conditions discussed in this order. The commitments and conditions relied on in reaching this decision shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

By order of the Board of Governors, effective July 22, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Bies, Olson, Bernanke, and Kohn. Absent and not voting: Governor Gramlich.

ROBERT DE V. FRIERSON
Deputy Secretary of the Board

Popular, Inc.
San Juan, Puerto Rico

Popular International Bank, Inc.
San Juan, Puerto Rico

Popular North America, Inc.
Mt. Laurel, New Jersey

Banco Popular North America
New York, New York

Order Approving the Acquisition of a Savings Association, the Merger of Depository Institutions, and the Establishment of Branches

Popular, Inc. and its wholly owned subsidiaries, Popular International Bank, Inc. and Popular North America, Inc., each a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act") (collectively, "Popular"), have requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act¹ to acquire Quaker City Bancorp, Inc. ("Quaker City"), and its wholly owned subsidiary, Quaker City Bank ("Quaker City Bank"), a federally chartered savings association, both in Whittier, California.

In addition, Popular's subsidiary bank, Banco Popular North America ("Banco Popular"), a state member bank, has requested the Board's approval to merge with Quaker City Bank pursuant to section 18(c) of the Federal Deposit Insurance Act ("FDI Act") ("Bank Merger Act") and section 5(d)(3) of the FDI Act, with Banco Popular as the

surviving entity.² Banco Popular also has applied under section 9 of the Federal Reserve Act ("FRA")³ to retain and operate branches at the locations of Quaker City Bank's main office and branches.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the *Federal Register* (69 *Federal Register* 24,602 (2004)) and in accordance with the Bank Merger Act and the Board's Rules of Procedure.⁴ As required by the Bank Merger Act, reports on the competitive effects of the merger were requested from the United States Attorney General and the appropriate banking agencies. The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 4 of the BHC Act, the Bank Merger Act, and other applicable statutes.

Popular, with total consolidated assets of \$38.1 billion, is the 35th largest depository organization in the United States, controlling deposits of \$18.6 billion.⁵ Popular operates depository institutions in California, Florida, Illinois, New York, New Jersey, Texas, Puerto Rico, and the U.S. Virgin Islands. Popular is the 102nd largest depository organization in California, controlling deposits of \$398 million. Quaker City, with total consolidated assets of approximately \$1.8 billion, is the 47th largest depository organization in California and operates one depository institution in the state that controls deposits of \$1.1 billion.

On consummation of the proposal, Popular would have consolidated assets of approximately \$40 billion and would control deposits of \$19.7 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Popular would become the 36th largest depository organization in California, controlling deposits of approximately \$1.5 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.⁶ The Board requires that savings associations acquired by bank holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act. Popular has committed to conform all the activities of Quaker City to those permissible under section 4(c)(8) of the BHC Act and Regulation Y.

In reviewing the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the acquisition of Quaker City by Popular "can reasonably be

2. 12 U.S.C. § 1828(c); 12 U.S.C. § 1815(d)(3).

3. 12 U.S.C. § 321 ("FRA"). These branches are listed in the Appendix.

4. See 12 CFR 262.3(b).

5. Asset data are as of March 31, 2004, and nationwide ranking data are as of May 31, 2004. Statewide deposit and ranking data are as of June 30, 2003. In this context, the term "insured depository institution" includes insured commercial banks, savings associations, and savings banks.

6. 12 CFR 225.28(b)(4)(ii).

1. 12 U.S.C. §§ 1843(c)(8) and (j).

expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."⁷ As part of its evaluation of the public interest factors, the Board reviews the financial and managerial resources of the companies involved, as well as the effect of the proposal on competition in the relevant markets.⁸ In acting on notices to acquire a savings association, the Board also reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").⁹

Competitive Considerations

As part of the review under the Bank Merger Act and consideration of the public interest factors under section 4 of the BHC Act, the Board has considered the competitive effects of the proposal in light of all the facts of record.¹⁰ Banco Popular and Quaker City Bank compete directly in the Los Angeles banking market.¹¹ The Board has reviewed carefully the competitive effects of the proposal in this banking market in light of all the facts of record, including the number of competitors that would remain in the market, the relative share of total deposits in depository institutions controlled by Banco Popular and Quaker City Bank in the market ("market deposits"),¹² the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines"),¹³ and other characteristics of the markets.

7. 12 U.S.C. § 1843(j)(2)(A).

8. See 12 CFR 225.26.

9. 12 U.S.C. § 2901 *et seq.*; see, e.g., *BancOne Corporation*, 83 *Federal Reserve Bulletin* 602 (1997).

10. See *First Hawaiian, Inc.*, 79 *Federal Reserve Bulletin* 966 (1993).

11. The Los Angeles banking market is defined as the Los Angeles Ranally Metro Area and the towns of Acton in Los Angeles County, Rancho Santa Margarita in Orange County, and Rosamond in Kern County, all in California.

12. Deposit and market share data are based on annual branch reports filed as of June 30, 2003, and on calculations in which the deposits of thrift institutions are included at 50 percent. The Board has previously indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991). Because the Board has analyzed the competitive factors in this case as if Quaker City and Popular were a combined entity, the deposits of Quaker City Bank are included at 100 percent in the calculation of *pro forma* market share. *First Banks, Inc.*, 76 *Federal Reserve Bulletin* 669 (1990).

13. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in the Los Angeles banking market. Popular would operate the 39th largest depository institution in the market, controlling deposits of \$1.4 billion, which represent less than 1 percent of market deposits. After consummation of the proposal, the HHI for the Los Angeles banking market would continue to be moderately concentrated at 1081, and numerous competitors would remain in the market.

The Department of Justice has reviewed the proposal and advised the Board that consummation is not likely to have a significantly adverse effect on competition in the Los Angeles banking market. The other federal banking agencies also have been afforded an opportunity to comment on the proposal and have not objected.

Based on these and all other 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 banking resources in the Los Angeles banking market or any other relevant banking market and that competitive considerations are consistent with approval.

Financial and Managerial Resources and Future Prospects

In reviewing the proposal under section 4 of the BHC Act, the Bank Merger Act, and the FRA, the Board has carefully considered the financial and managerial resources and future prospects of Popular and Quaker City and their respective subsidiaries. The Board also has reviewed the effect the transaction would have on those resources in light of all the facts of record. The Board's review of these factors has considered, among other things, confidential reports of examination and other supervisory information received from the primary federal supervisors of the organizations involved, publicly reported and other financial information provided by Popular and Quaker City, and public comments. In addition, the Board has consulted with the relevant supervisory agencies, including the Office of Thrift Supervision ("OTS").

Popular proposes to acquire Quaker City primarily by issuing trust preferred securities and debt securities. Popular, Banco Popular, and its other subsidiary depository institutions are well capitalized and would remain so on consummation of the proposal.

The Board also has considered the managerial resources of Popular and Quaker City, particularly the supervisory experience and assessments of management by the organizations' primary federal supervisors and their records of compliance with applicable banking and thrift laws. In addition, the Board has carefully reviewed the examination records of Popular and its subsidiary depository institutions, including assessments of their risk-management

of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

systems and other policies. The Board also has considered Popular's plans for implementing the proposed acquisition, including its available managerial resources, and Popular's record of successfully integrating recently acquired institutions into its existing operations.

Based on these and all the facts of record, the Board concludes that the financial and managerial resources of the organizations involved as well as their future prospects are consistent with approval under section 4 of the BHC Act, the Bank Merger Act, and the FRA.

Convenience and Needs and CRA Performance Considerations

In acting on this proposal under the Bank Merger Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of performance of the relevant insured depository institutions under the CRA. In addition, the Board must review the records of performance under the CRA of the relevant insured depository institutions when acting on a notice under section 4 of the BHC Act to acquire an insured savings association. The CRA requires the Board to assess each institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, consistent with the institution's safe and sound operation, and to take this record into account in evaluating a proposal to acquire an insured depository institution.¹⁴

The Board has considered carefully the CRA performance records of the subsidiary insured depository institutions of Popular and Quaker City in light of all the facts of record, including public comments on the proposal. Three commenters opposed the proposal. One commenter noted that Banco Popular received a rating of "low satisfactory" under the lending test at its most recent CRA performance evaluation. Commenters expressed concern that the acquisition would negatively affect Quaker City Bank, which received an "outstanding" rating at its most recent CRA performance evaluation. All three commenters asserted that Banco Popular had not served the needs of Hispanics in LMI communities in its California assessment areas because the bank had not adequately promoted its remittance program for international money transfers or the use of the Matricula Consular, an identity card for Mexican nationals living outside Mexico, as an acceptable form of identification for opening a bank account.¹⁵ Commenters also expressed concerns about Popular Cash Express ("PCE"), a nonbanking subsidiary of Popular that provides check-cashing services. Specifically, commenters

alleged that Banco Popular relies on PCE's check-cashing outlets to provide "second-tier" financial products to the "unbanked" Hispanic population in California, while it uses Banco Popular's full-service branches to serve the needs of higher income consumers in its California assessment areas.¹⁶

Popular has indicated that on consummation of the proposal, it plans to evaluate both banks' CRA compliance measures and integrate some of Quaker City Bank's community-related policies and programs. Banco Popular expects to maintain Quaker City Bank's community-related policies and programs and its strong record of multifamily home lending. Banco Popular also plans to continue to operate Quaker City Bank's branches in retail stores that serve many LMI residents.

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹⁷ At its most recent CRA evaluation by the Federal Reserve Bank of New York, Banco Popular received a "satisfactory" rating, as of October 28, 2002 ("2002 Evaluation").¹⁸ Quaker City Bank received an "outstanding" rating at its most recent CRA performance evaluation by the OTS, as of September 13, 2003.

B. CRA Performance of Banco Popular

Although Banco Popular received "low satisfactory" rating under the lending test, the bank received an overall "satisfactory" CRA performance rating. Moreover, the bank received "outstanding" ratings under the investment and service tests, based on its nationwide and California-

16. PCE operates 77 offices in California, with 74 of those offices in LMI census tracts. PCE primarily cashes checks, transmits money, and sells money orders. PCE does not engage in "payday lending." Neither the CRA nor other law requires a banking organization to offer its retail banking products and services through its nonbanking subsidiaries. The Board notes that 64 percent of Banco Popular's branches in its California assessment areas are in LMI census tracts (11 of its 17 branches), and Banco Popular would operate three additional branches in LMI areas on consummation of the proposal.

17. See *Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

18. Popular operates two additional subsidiary banks, Banco Popular de Puerto Rico, San Juan, Puerto Rico ("BPPR"), and Banco Popular, National Association, Orlando, Florida ("BPNA"). BPPR, Popular's largest subsidiary bank, received an "outstanding" CRA performance rating from the Federal Reserve Bank of New York, as of June 3, 2003. BPNA received a "satisfactory" rating for CRA performance from the Office of the Comptroller of the Currency, as of July 7, 2003.

14. 12 U.S.C. § 2903.

15. Popular stated that Banco Popular accepts the Matricula Consular identification card as valid identification for a variety of services offered by the bank. Customers may use the identification card to open a Banco Popular "Acceso Checking" account, which has no minimum balance requirement and offers free check-writing privileges and ATM transactions, or an "Acceso Savings" account, which offers a low-minimum-balance requirement and free ATM transactions.

based activities.¹⁹ Examiners reported that the Banco Popular's total volume of housing-related and small business loans demonstrated adequate responsiveness to the credit needs in its California and other assessment areas during the evaluation period.²⁰ They also reported that the bank's overall distribution of loans among individuals of different income levels and businesses of different sizes by revenue was good. Examiners commended Banco Popular's overall levels of both community development lending and qualified investments in its California and other assessment areas. In addition, examiners found that, overall, Banco Popular's retail delivery systems were readily accessible to geographies and individuals of different income levels in all the bank's assessment areas.

In its California assessment areas, examiners determined that Banco Popular demonstrated adequate responsiveness to housing-related credit needs and that the bank's overall geographic distribution of housing-related loans reflected excellent loan penetration in LMI geographies. Examiners reported that, compared with the level of owner-occupied housing units in LMI areas of Los Angeles, the bank's overall distribution of home purchase and refinance loans across geographies of different income levels was excellent.²¹

Banco Popular has provided a substantial proportion of its housing-related loans to minority individuals. Examiners found that a majority of the number and dollar amount of Home Mortgage Disclosure Act ("HMDA")²² loans that Banco Popular made in California were extended to minority borrowers, including Hispanics. In 2003, approximately 70 percent of the number and 67 percent of the dollar amount of Banco Popular's total HMDA loans in California were made to minority borrowers, and approximately 51 percent of the number and 57 percent of the dollar amount of the bank's total HMDA loans in California were made to Hispanic borrowers. The percentages of Banco Popular's HMDA loans to minority borrowers, particularly Hispanics, were even higher in the Los Angeles Primary Metropolitan Statistical Area ("PMSA"). During 2003,

approximately 70 percent of the total number and dollar amount of the bank's HMDA loans in the Los Angeles PMSA were extended to minority borrowers, and approximately 60 percent of the dollar amount of its total HMDA loans was to Hispanic borrowers.²³

With respect to small loans to businesses,²⁴ examiners reported that the bank's distribution of such loans to businesses of different sizes in the bank's Los Angeles CMSA was adequate when compared with the number of businesses with gross annual revenues of \$1 million or less and the performance of the aggregate of lenders in the market ("aggregate lenders"). For the year 2003, more than 50 percent of the number and dollar amount of Banco Popular's total loans in California were to small businesses.²⁵ In addition, examiners noted that the bank's overall geographic distribution of small loans to businesses in LMI geographies in the Los Angeles PMSA was excellent and exceeded the aggregate lenders' performance in those geographies. In 2003, Banco Popular increased its total amount of small loans to businesses in the Los Angeles area by \$26 million to a total of approximately \$98 million.²⁶

Examiners also characterized the bank's community development lending in California as excellent, with more than \$11 million in community development loans extended during the examination period in response to assessment-area credit needs. Examples of Banco Popular's community development loans included a \$3.4 million loan to a small business in a low-income census tract in Los Angeles to provide 90 jobs for LMI individuals and a \$1.5 million construction loan for 12 units of affordable housing in the City of Commerce as part of a program to improve the community's residential housing.

In the bank's California assessment area, examiners noted that Banco Popular had an excellent level of qualified investments and grants that exhibited strong responsiveness to credit and community development needs. During the evaluation period, the bank's qualified investments in California totaled \$1.3 million. Examiners reported that Banco Popular's investments showed excellent responsiveness to the most pressing credit and community develop-

19. Examiners evaluated Banco Popular's CRA performance in its nine assessment areas in New York, New Jersey, Illinois, California, Florida, and Texas. The bank's California assessment areas included the San Diego Metropolitan Statistical Area ("MSA") and the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area ("Los Angeles CMSA"). The Los Angeles CMSA contained 94 percent of the bank's branches and 93 percent of its deposits in the California assessment areas.

20. The evaluation period was January 1, 2000, through October 28, 2002. Loan products reviewed included home purchase, home refinance, home improvement, multifamily, small business loans, and other loans qualifying as community development lending.

21. One commenter maintained that Banco Popular's lending performance for home refinancings for low-income borrowers was described in the 2002 Evaluation as "weak." However, examiners qualified this description by stating that the bank's lending was adequate given the large disparity between incomes and housing prices in the Los Angeles area and that the aggregate performance of Banco Popular's competitors also was weak. Examiners also noted that the low level of refinancings to low-income borrowers generally reflected the low level of homeownership by low-income families.

22. 12 U.S.C. § 2801 *et seq.*

23. In 2003, Banco Popular made 2,863 HMDA loans totaling approximately \$303 million nationwide. Eighty-three percent of the number and approximately 70 percent of the dollar amount of the bank's HMDA loans were to minority borrowers, with the highest percentage of those loans to Hispanic borrowers.

24. Small loans to businesses are loans that are originated in amounts of \$1 million or less and are either secured by nonfarm, nonresidential properties or are classified as commercial and industrial loans.

25. A small business is a business with gross annual revenues of \$1 million or less.

26. Nationwide, Banco Popular increased the dollar value of its small loans to businesses approximately 15 percent, from approximately \$310 million to approximately \$356 million. Banco Popular represented that it is a nationwide leader in providing Small Business Administration ("SBA") loans and is a leading participant in the SBA 504 Program in California, which provides long-term, fixed-rate loans with low down payments to "certified development companies." Popular also participates in the SBA's Preferred Lenders Program, which simplifies loan closing and administration for borrowers.

ment needs in the bank's assessment areas, which included substantial investments directed to agencies that support affordable housing development. Examiners also favorably noted that more than 25 percent of Banco Popular's lending activity was directed to economic development to help provide small business credit, identified as an important need in the California assessment areas.

With respect to retail services, examiners reported that delivery systems were readily accessible to geographies and individuals of different income levels in the bank's Los Angeles assessment area. In addition, examiners noted favorably that 11 of Banco Popular's 17 branches were in LMI geographies. Examiners determined that the bank's record of opening and closing branches in California improved the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. In addition, they noted that the bank opened two branches in moderate-income census tracts and closed two branches in a non-LMI area during the evaluation period. Examiners also found that the bank's branch products and services were consistent across all portions of the bank's assessment areas, including LMI geographies and to LMI individuals. Banco Popular reported that 67 percent of its branches nationwide and 83 percent of its branches in California are in LMI census tracts. Examiners found that Banco Popular provided a relatively high level of community development services in the Los Angeles assessment area. Banco Popular stated that it promotes and markets all its banking services in Spanish and English.

C. CRA Performance of Quaker City Bank

As previously noted, Quaker City Bank received an overall "outstanding" rating for performance under the CRA.²⁷ Examiners characterized the thrift's responsiveness to the credit needs of "highly disadvantaged" persons as excellent and commended the thrift for its flexible and innovative loan products.

Examiners rated the thrift's performance under the lending test as "outstanding" based on its excellent level of HMDA-reportable lending in LMI geographies, which significantly exceeded the percentages for the aggregate lenders, and its record of housing-related lending to small businesses. Examiners also praised Quaker City Bank for its loan distribution, noting that the thrift's market share for HMDA-reportable loans in LMI census tracts was double its total market share for such lending in its assessment area. In addition, examiners characterized Quaker City Bank as having a good record of HMDA loan distribution among residential borrowers of different income levels.

27. This review period covered January 1, 1999, through March 31, 2001. Loan products reviewed include home mortgage loans, small business loans, and nonresidential mortgage loans. During the review period, the principal lending activity of the institution was the origination or purchase of residential and commercial mortgage loans, with the majority of the institution's loan portfolio secured by real estate. Quaker City delineated its assessment area as Los Angeles, Orange, and Riverside Counties.

Quaker City Bank's investment test performance was rated "high satisfactory." The institution's qualified community development investments totaled \$1.4 million and included financing for affordable housing for LMI individuals and grants to a number of organizations that provide community development services in the bank's assessment area. In particular, examiners commended the thrift for its grant to fund housing for the developmentally handicapped in Whittier.

Examiners rated the institution's performance under the service test as "outstanding." The institution expanded its branch network by seven during the review period and offered extended hours in its new in-store Wal-Mart branches. Examiners noted that the thrift tailored its services to the customer base of the institution's combined assessment area by providing a "totally free" checking account. In addition, Quaker City Bank's employees provided numerous community development services in the assessment area, such as offering affordable housing workshops for senior citizens and home-buyer seminars for other community members in its assessment area.

D. Conclusion on Convenience and Needs and CRA Performance Considerations

The Board has carefully considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by Popular, public comment on the proposal, and confidential supervisory information. The Board notes that the proposal would expand the availability of banking products to the customers of Banco Popular and Quaker City, drawing on Banco Popular's focus on commercial lending and Quaker City Bank's focus on mortgage lending. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor and the CRA performance records of the relevant depository institutions are consistent with approval.²⁸

28. One commenter also requested that the Board condition its approval on Banco Popular's committing to provide a definitive plan that outlines Popular's goals for CRA performance, philanthropic contributions, and contracting with minority suppliers. The Board focuses on the CRA performance record of an applicant and the programs that an applicant has in place to serve the credit needs of its assessment areas at the time the Board reviews a proposal under the convenience and needs factor. See, e.g., *J.P. Morgan Chase & Co.*, 90 *Federal Reserve Bulletin* 352 (2004). The CRA performance records of Banco Popular and Quaker City Bank and their current programs for serving the credit needs of their communities are consistent with approval and do not warrant any conditions related to CRA performance in the future. In addition, the Board notes that neither the CRA nor the agencies' implementing rules require that financial institutions engage in any type of philanthropy. The Board also notes that concerns related to an institution's contracting with minority suppliers for products and services are outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See, e.g., *Bank of America Corporation*, 90 *Federal Reserve Bulletin* 217, 223 n.31 (2004); see also *Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973).

Public Benefits

As part of its evaluation of the public interest factors under section 4 of the BHC Act, the Board also has reviewed carefully the other public benefits and possible adverse effects of the proposal. The record indicates that consummation of the proposal would result in benefits to consumers and businesses currently served by Quaker City Bank by expanding the number of available branches and providing customers with greater access to the expertise of Banco Popular in such areas as commercial lending and international transactions. Based on the foregoing and all the facts of record, the Board has determined that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any possible adverse effects under the standard of review set forth in section 4(j)(2) of the BHC Act.

Other Considerations

As previously noted, Banco Popular also has applied under section 9 of the FRA to establish branches at the locations listed in the Appendix. The Board has considered the factors it is required to consider when reviewing an application under section 9 of the FRA and, for the reasons discussed in this order, finds those factors to be consistent with approval. The Board has also concluded that the factors it must review under section 5(d)(3) of the FDI Act are consistent with approval.²⁹

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the notice and applications should be, and hereby are, approved.³⁰ In reaching its

conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act, the Bank Merger Act, and other applicable statutes. The Board's approval is specifically conditioned on compliance by Popular with the conditions imposed in this order, including compliance with state law, and the commitments made to the Board in connection with the applications process. The Board's approval also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 CFR 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with and to prevent evasion of the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of this action, these conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions and, as such, may be enforced in proceedings under applicable law.

The merger shall not be consummated before the fifteenth calendar day after the effective date of this order, and no part of the proposal may be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors, effective August 5, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DE V. FRIERSON
Deputy Secretary of the Board

Appendix

Quaker City Bank's Branches in California to be acquired by Banco Popular

Anaheim

8160 East Santa Ana Canyon Road South

Brea

220 South State College Boulevard

Chino

3943 Grand Avenue

comments do not present their views adequately. The commenters' requests also fail to identify disputed issues of fact that are material to the Board's decision that would be clarified by a public meeting or hearing. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the requests for a public meeting or hearing on the proposal are denied.

29. The record in this case shows that:

- (1) The transaction would not result in the transfer of any federally insured depository institution's federal deposit insurance from one federal deposit insurance fund to another;
- (2) Popular and Banco Popular currently meet, and on consummation of the proposed transaction would continue to meet, all applicable capital standards; and
- (3) The proposed transaction would comply with the interstate banking provisions of the BHC Act if Quaker City Bank were a state bank that Popular was applying to acquire. *See* 12 U.S.C. § 1815(d)(3).

30. Several commenters requested that the Board hold a public meeting or hearing on the proposal. Neither the Bank Merger Act nor the BHC Act requires the Board to hold a public hearing or meeting on an application. Under its regulations, the Board may, in its discretion, hold a public meeting or hearing on an application. *See* 12 CFR 262.3(i). The Board's regulations provide for a hearing on a notice to acquire nonbanking companies if there are disputed issues of material fact that cannot be resolved in some other matter. 12 CFR 225.25(a)(2). The Board has considered carefully the commenters' requests in light of all the facts of record. The Board has accumulated a substantial record in this case that includes examination information, supervisory information, public records, and information submitted by Popular. The public has had ample opportunity to submit comments on the proposal and, in fact, commenters have submitted written comments that the Board has considered carefully in acting on the proposal. The commenters' requests fail to demonstrate why written

Corona

479 McKinley Street
1290 East Ontario Avenue

Foothill Ranch

26502 Towne Centre Drive

Fullerton

1701 North Euclid Street

Hacienda Heights

3160 South Colima Road

Huntington Beach

8230 Talbert Avenue

La Habra

401 East Whittier Boulevard
1201 West Imperial Highway

La Mirada

12333 South La Mirada Boulevard

La Quinta

79-295 Highway 111

Lakewood

2770 Carson Street

Lancaster

1731 East Avenue J

Long Beach

151 East 5th Street

Murrieta

41200 Murrieta Hot Springs Road

Northridge

19821 Rinaldi Street

Palmdale

37140 47th Street East

Pico Rivera

8500 Washington Boulevard

Placentia

870 North Rose Drive

Rowland Heights

18220 Colima Road

San Marcos

732 Center Drive

Santa Fe Springs

13310 Telegraph Road

Temecula

32225 Highway 79 South Street

Whittier

7021 Greenleaf Avenue
7355 Greenleaf Avenue
13120 Philadelphia Street
15175 Whittier Boulevard

*National City Corporation
Cleveland, Ohio*

Order Approving the Acquisition of a Bank Holding Company

National City Corporation ("National City"), a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. §1842) to acquire Wayne Bancorp, Inc., Wooster ("Wayne"), and its subsidiary banks, The Wayne County National Bank of Wooster, Wooster ("Wayne Bank"), and Savings Bank & Trust ("SB&T"), Wadsworth, all in Ohio. National City also has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act and section 225.28(b)(1) of the Board's Regulation Y to acquire a nonbanking subsidiary of Wayne and thereby engage in permissible lending activities (12 U.S.C. §§ 1843(c)(8) and 1843(j); 12 CFR 225.28(b)(1)).

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (69 *Federal Register* 34,675 (2004)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in sections 3 and 4 of the BHC Act.

National City, with total consolidated assets of \$130.7 billion, is the ninth largest depository organization in the United States, controlling \$88.3 billion in deposits, which represents approximately 1.4 percent of the total amount of deposits of insured depository institutions in the United States.¹ National City is the largest depository organization in Ohio, controlling \$34 billion in deposits,

1. Total asset and deposit data are as of March 31, 2004; nationwide ranking data are as of December 31, 2003; and statewide deposit and ranking data are as of June 30, 2003. Data reflect subsequent merger activity through August 11, 2004.

which represents approximately 16.1 percent of the total amount of deposits of insured depository institutions in the state (“state deposits”). National City also operates subsidiary insured depository institutions in Illinois, Indiana, Kentucky, Michigan, Missouri, and Pennsylvania.

Wayne, with total consolidated assets of approximately \$812.2 million, is the 16th largest depository organization in Ohio, controlling \$689.8 million in deposits, which represents less than 1 percent of state deposits. Wayne operates subsidiary insured depository institutions only in Ohio.

On consummation of this proposal, National City would remain the ninth largest depository organization in the United States, with total consolidated assets of approximately \$131.5 billion, and would control approximately 1.5 percent of the total amount of deposits of insured depository institutions in the United States.² National City would remain the largest depository organization in Ohio, controlling approximately \$34.7 billion in deposits, which represents approximately 16.5 percent of state deposits.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or that would further any attempt to monopolize the business of banking in any relevant banking market. It 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 clearly are outweighed in the public interest by its effect in meeting the convenience and needs of the community to be served.³

National City and Wayne compete directly in the Akron, Canton, Cleveland, and Dover–New Philadelphia banking markets, all in Ohio.⁴ The Board has reviewed carefully the competitive effects of the proposal in each of these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the markets, the relative shares of total deposits in depository institutions in the markets (“market deposits”) controlled by National City and Wayne,⁵ the con-

centration level of market deposits and the increase in this level as measured by the Herfindahl–Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),⁶ and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in each of these banking markets.⁷ After consummation, the Akron, Canton, and Dover–New Philadelphia banking markets would remain moderately concentrated, and the Cleveland banking market would remain highly concentrated. The change in market shares would be small and numerous competitors would remain in all these banking markets.

The Department of Justice also has conducted a detailed review of the proposal’s competitive effects and has advised the Board that consummation of the proposal would not have a significantly adverse effect on competition in any relevant banking market. The appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on these and all other 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 banking resources in the four banking markets discussed above or in any other relevant banking market and that competitive considerations relating to this proposal are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has carefully considered these factors in light of all the facts of record, including reports of examination, other confidential supervisory information received from the primary federal banking agency that supervises each institution, publicly reported and other financial information, and information provided by National City.

National City is well capitalized and will remain so on consummation of the proposal. Moreover, National City has indicated that the transaction would be funded from available liquid resources.

2. The data for National City include consummations of proposals by National City to acquire Allegiant Bancorp, Inc., St. Louis, Missouri (“Allegiant proposal”), which the Board approved on March 15, 2004; and Provident Financial Group, Inc., Cincinnati, Ohio (“Provident proposal”), which the Board approved on June 8, 2004. See *National City Corporation*, 90 *Federal Reserve Bulletin* 236 (2004) (“Allegiant Order”); *National City Corporation*, 90 *Federal Reserve Bulletin* 352 (2004) (“Provident Order”).

3. 12 U.S.C. § 1842(c)(1).

4. These banking markets are described in Appendix A.

5. Market share data are as of June 30, 2003, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Board* 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted

basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

6. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800 and highly concentrated if the post-merger HHI is more than 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

7. The effects of the proposal on the concentration of banking resources in the banking markets are described in Appendix B.

The Board also has considered the managerial resources of National City and Wayne and the banks to be acquired, including the assessments of management by the relevant bank supervisory agencies and the organizations' records of compliance with applicable banking laws. In addition, the Board has reviewed the examination records of National City, Wayne, and their subsidiary depository institutions, including assessment of their risk management systems. The Board also has considered National City's plans to integrate Wayne and its subsidiaries after consummation of the proposal and the proposed management of the resulting organization.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of National City, Wayne, Wayne Bank, and SB&T are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").⁸ The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.

The Board has considered carefully the convenience and needs factor and the CRA performance records of the subsidiary banks of National City and Wayne in light of all the facts of record, including a public comment received on the proposal. The Board recently considered the convenience and needs factor in National City's proposals to acquire Allegiant and Provident. In those proposals, the Board conducted detailed reviews of the CRA performance records of the insured depository institutions controlled by National City and the lending records of all of National City's subsidiary banks and nonbank lending subsidiaries, including analyses of data reported by National City under the Home Mortgage Disclosure Act ("HMDA")⁹ and the branch closing policies of National City. The Board found the records in each proposal to be consistent with approval.¹⁰

The commenter reiterated the concerns it expressed in the Allegiant and Provident proposals about National City's home mortgage lending operations, including the subprime lending activities of First Franklin Financial Corporation, San Jose, California ("First Franklin"), a subsidi-

ary of National City Bank of Indiana, Indianapolis, Indiana ("NC Indiana"). In commenting on this proposal, the commenter asserted, based on its analysis of data reported by National City under HMDA for the Canton, Ohio, Metropolitan Statistical Area ("MSA") ("Canton MSA"), that National City engages in discriminatory treatment of minorities in its home mortgage lending operations.

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹¹

As noted, the Board has recently reviewed the CRA performance records of the subsidiary insured depository institutions of National City.¹² At their most recent CRA evaluations by the Office of the Comptroller of the Currency ("OCC"), National City Bank, Cleveland ("NC Bank"), National City's largest subsidiary bank as measured by total deposits, received an "outstanding" rating, and NC Indiana, National City's largest subsidiary bank as measured by total assets, received a "satisfactory" rating.¹³ In addition, The Provident Bank, Cincinnati, Ohio, which National City recently acquired, received an "outstanding" rating by the Federal Reserve Bank of Cleveland ("Reserve Bank") at its most recent CRA evaluation.¹⁴ National City's five other subsidiary banks received either "outstanding" or "satisfactory" ratings at their most recent CRA evaluations.¹⁵

The most recent CRA evaluations of NC Bank and NC Indiana were discussed in the Allegiant and Provident Orders. Based on a review of the record in this case, the Board hereby reaffirms and adopts the facts and findings detailed in those orders concerning National City's CRA performance record.

As discussed in the previous orders, the most recent CRA evaluation of NC Bank characterized the bank's overall record of home mortgage and small business lending as excellent and commended its level of community development lending.¹⁶ Examiners noted favorably the use

11. See *Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

12. See *Allegiant Order and Provident Order*.

13. Both ratings are as of February 22, 2000.

14. The rating was as of March 29, 2004.

15. Appendix C lists the most recent CRA ratings of National City's subsidiary banks, including the recently acquired Allegiant Bank, St. Louis, and Provident Bank.

16. See *Allegiant Order and Provident Order*. In evaluating the records of performance under the CRA of NC Bank and NC Indiana, examiners considered home mortgage loans by certain affiliates in the banks' assessment areas. The loans reviewed by examiners included

8. 12 U.S.C. § 2901 *et seq.*

9. 12 U.S.C. § 2801 *et seq.*

10. See *Allegiant Order and Provident Order*.

of several flexible lending products designed to address affordable housing needs of LMI individuals and commended the bank's level of qualified investments. In addition, examiners reported that NC Bank's community development services were excellent and praised the distribution of the bank's branches.

At NC Indiana's most recent CRA performance evaluation, examiners commended the bank's record of home mortgage lending to borrowers of different income levels and its community development lending. NC Indiana's most recent evaluation also commended the bank's strong level of qualified investments and characterized the distribution of the bank's branches throughout its assessment area, including LMI geographies, as excellent.

The Board also carefully reviewed the CRA performance records of Wayne's subsidiary banks at their most recent CRA performance evaluations. Wayne Bank received a "satisfactory" rating by the OCC, and SB&T received an "outstanding" rating by the Reserve Bank.¹⁷ Examiners stated that Wayne Bank's level of overall lending reflected excellent responsiveness to the credit needs of the bank's assessment area. In addition, examiners characterized as excellent Wayne Bank's distribution of home purchase and home improvement loans to LMI borrowers and the bank's geographic distribution of home mortgage loans and small loans to businesses and farms.¹⁸ Examiners also determined that Wayne Bank's level of community development lending and investment was adequate, and they noted favorably the number of branches the bank had in moderate income geographies.

Examiners of SB&T characterized the distribution of the bank's consumer, home mortgage, and small business loans to borrowers of different income levels as excellent throughout its assessment areas.¹⁹ They commented that the bank's geographic distribution of loans in different census tracts was more than reasonable, as was its lending distribution among individuals of different income levels

and among businesses and farms of different annual revenue levels.

B. HMDA Data, Subprime Lending, and Fair Lending Record

The Board has carefully considered the lending record and HMDA data reported by National City in light of the public comment received on this proposal. Based on a review of National City's HMDA data in the Canton MSA for 2002, the commenter reiterated its contentions in the Allegiant and Provident proposals that National City's lending operations were organized to direct First Franklin's higher-priced loans disproportionately to minority and LMI borrowers and in LMI and predominantly minority communities, as compared with the other subsidiaries of National City engaged in home mortgage lending, including National City's subsidiary banks, NC Mortgage, and NC Mortgage Services (collectively, "National City Lenders").²⁰

As noted in the *Allegiant* and *Provident Orders*, the Board reviewed HMDA data reported by all of National City's subsidiary bank and nonbank lending subsidiaries in the MSAs that comprise the banks' major assessment areas. The analyses included a comparison of the HMDA data of First Franklin with combined data submitted by the National City Lenders.²¹ The Board concluded that the 2002 HMDA data did not support the contention that National City disproportionately directed First Franklin's loans to minority and LMI borrowers or in LMI and predominantly minority communities as compared with the National City Lenders. Moreover, the Board concluded that denial disparity ratios of the National City Lenders for African-American and Hispanic applicants for total HMDA-reportable loans were generally comparable with or lower than those of aggregate lenders in a majority of the MSAs reviewed.²² Based on its review of the record in this case, the Board hereby reaffirms and adopts the HMDA analyses detailed in the *Allegiant Order* and the *Provident Order*.

The Board's review of the final 2003 HMDA data of First Franklin, the National City Lenders, and the aggregate

loans reported by National City Mortgage Corporation, Miamisburg, Ohio ("NC Mortgage") (a subsidiary of NC Indiana); National City Mortgage Services, Kalamazoo, Michigan ("NC Mortgage Services") (a subsidiary of National City Bank of the Midwest, Bannockburn, Illinois); and other bank and nonbank affiliates of NC Bank.

17. Wayne Bank was evaluated as of February 24, 2003. SB&T, the former Chippewa Valley Bank, Wadsworth ("Chippewa"), was evaluated as of April 7, 2003. On May 31, 2003, Wayne acquired Banc Services, Inc. and its subsidiary bank, Savings Bank & Trust, both in Orville, Ohio ("Old SB&T"). On July 1, 2003, Old SB&T was merged into Wayne's subsidiary bank, Chippewa, with Chippewa as the surviving bank, and renamed as Savings Bank & Trust. Old SB&T received a "satisfactory" rating from the Reserve Bank at its last CRA performance evaluation, as of April 9, 2001.

18. Small loans to businesses are loans with originated amounts of \$1 million or less that are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans. Small loans to farms are loans with originated amounts of \$500,000 or less that are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

19. The commenter criticized Old SB&T for denying 100 percent of its applications for home purchase loans by borrowers in LMI census tracts in the Canton MSA in 2002. As noted, Wayne did not acquire Old SB&T until 2003 and Wayne's subsidiary banks did not have branches in the Canton MSA in 2002.

20. The commenter asserted that First Franklin made more home purchase loans to African Americans in the Canton MSA than NC Bank or NC Mortgage. The commenter also criticized National City for the number of denials of home improvement loan applications by African Americans in the Canton MSA by NC Bank compared to the number of home purchase loans originated by First Franklin in the same area.

21. In evaluating the Allegiant and Provident proposals, the Board analyzed HMDA data for 2001 and 2002 for the National City Lenders, First Franklin, and the aggregate of lenders ("aggregate lenders") in the areas reviewed and preliminary 2003 HMDA data for the National City Lenders. In this context, the lending data of the aggregate lenders represent the cumulative lending for all financial institutions that reported HMDA data in a given area.

22. The total HMDA-reportable loans include home purchase, home refinancing, home improvement, and multifamily residential loans. The denial disparity ratio equals the denial rate for a particular racial category (for example, African Americans) divided by the denial rate for whites.

gate lenders in the MSAs previously reviewed and in the Canton MSA supports the Board's conclusions in those orders. The National City Lenders made more HMDA-reportable loans to African-American borrowers than did First Franklin in the Canton MSA. In addition, the percentage of total HMDA-reportable loans that the National City Lenders made to African-American borrowers in the Canton MSA was comparable with the aggregate lenders. Furthermore, the denial disparity ratios of the National City Lenders for African-American and Hispanic applicants for total HMDA-reportable loans in the Canton MSA approximated or were lower than those of the aggregate lenders in 2003.

The Board recognizes that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending and provide only limited information about covered loans. Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information, including examination reports that provide on-site evaluations of compliance with fair lending laws by National City's banks and their lending subsidiaries, including First Franklin.

As noted in the *Allegiant* and *Provident Orders*, examiners found no evidence of prohibited discrimination or other illegal credit practices at any of National City's subsidiary banks or the banks' lending subsidiaries at their most recent CRA performance evaluations.

The record also indicates that National City has taken several affirmative steps to ensure compliance with fair lending laws. National City has a centralized compliance function and has implemented corporate-wide compliance policies and procedures to help ensure that all National City business lines, including those of First Franklin, comply with all fair lending and other consumer protection laws and regulations. It employs compliance officers and staff responsible for compliance training and monitoring, and conducts file reviews for compliance with federal and state consumer protection rules and regulations for all product lines and origination sources, including First Franklin. National City also regularly performs self-assessments of its compliance with fair lending law and provides training in fair lending policy for its employees.²³

The Board also has considered the HMDA data in light of other information, including the CRA performance records of National City's and Wayne's subsidiary banks. These records demonstrate that National City and Wayne

are active in helping to meet the credit needs of their entire communities.

C. Conclusion on Convenience and Needs Factor

The Board has carefully considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by National City, a public comment on the proposal, and confidential supervisory information.²⁴ The Board notes that the proposal would allow National City to provide a broader range of products and services to Wayne's customers. Moreover, Wayne's customers would have access to an expanded network of branch offices and automated teller machines. Based on a review of the entire record, and for the reasons discussed above and in the *Allegiant* and *Provident Orders*, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant depository institutions, are consistent with approval.

Nonbanking Activities

National City also has filed a notice under sections 4(c)(8) and 4(j) of the BHC Act to acquire Access Financial, Massillon, Ohio, a Wayne subsidiary that engages in consumer lending activities. The Board has determined by regulation that making, acquiring, brokering, or servicing loans is permissible for bank holding companies under the Board's Regulation Y,²⁵ and National City has committed to conduct this activity in accordance with the Board's regulations and orders for bank holding companies engaged in these activities.

To approve the notice, the Board must determine that National City's acquisition of Access Financial and the performance of the proposed activities "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."²⁶ As part of its evaluation of these factors, the Board has considered the financial and managerial resources of National City, its subsidiaries, and the company to be acquired, and the effect of the proposed transaction on those resources. For the reasons noted above, and based on all the facts of record, the Board concludes that financial and managerial considerations are consistent with approval of the notice.

23. The commenter also reasserted criticisms raised in the *Allegiant* and *Provident* proposals that National City pays loan brokers yield-spread premiums and does not have a program for referring to the National City Lenders loan applicants of First Franklin who qualify for credit from those affiliates. As noted in the *Provident Order*, National City has represented that all loan applicants are evaluated individually on their credit qualifications and the loans they receive are based on those qualifications. Moreover, National City has a substantial compliance program in place to ensure that First Franklin and the National City Lenders do not engage in abusive lending practices. The Board also notes that the payment of yield-spread premiums to brokers is not a prohibited practice.

24. The commenter voiced again a criticism it raised in the *Provident* proposal about National City's funding of third-party consumer lending operations, including payday lenders, pawn shop operators, and rent-to-own businesses. National City has represented that its credit evaluations of these types of lenders include, as applicable, the customer's reputation and adherence to applicable law, including the Fair Debt Collection Practices Act. Moreover, National City has represented that it monitors those borrowers' compliance with industry best practices through due diligence, including "blind shopping" programs and interviews with management.

25. See 12 CFR 225.28(b)(1).

26. See 12 U.S.C. § 1843(j)(2)(A).

The Board also has considered the competitive effects of National City's proposed acquisition of Access Financial in light of all the facts of record. Access Financial engages in consumer lending through one office in the Akron banking market, and National City engages in consumer lending through its subsidiary banks in that market. The record in this case indicates that there are numerous providers of consumer lending services in the Akron banking market and that the market for this service is unconcentrated. Accordingly, the Board concludes that National City's acquisition of Access Financial would not have a significantly adverse effect on competition in any relevant market.

The Board also has reviewed carefully the public benefits of the proposed acquisition of Access Financial. The proposal would allow National City to provide an expanded array of consumer loan products and services to customers of Access Financial. Based on these and other matters discussed in this order, as well as all the facts of record, the Board has determined that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh possible adverse effects under the standard of review set forth in section 4(j)(2) of the BHC Act.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application and notice should be, and hereby are, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by National City with the conditions imposed in this order and the commitments made to the Board in connection with the application and notice, including compliance with state law. The Board's approval of the nonbanking aspects of the proposal is also subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 CFR 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with and to prevent evasion of the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of these actions, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions and, as such, may be enforced in proceedings under applicable law.

The acquisitions of Wayne Bank and SB&T shall not be consummated before the fifteenth calendar day after the effective date of this order, and no part of the proposal shall be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors, effective August 31, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DE V. FRIERSON
Deputy Secretary of the Board

Appendix A

Ohio Banking Market Definitions

Akron

Summit County, excluding the townships of Sagamore Hills, Northfield Center, Twinsburg, Richfield, Boston, and Hudson; Portage County, excluding the townships of Aurora, Streetsboro, Mantua, Hiram, Nelson, Shalersville, Freedom, and Windham; the townships of Homer, Harrisville, Westfield, Guilford, Wadsworth, and Sharon in Medina County; Lawrence township and the western half of Lake township in Stark County; and the townships of Milton and Chippewa in Wayne County.

Canton

Stark County, excluding Lawrence township and the western half of Lake township; Carroll County; the township of Smith in Mahoning County; and the townships of Lawrence and Sandy in Tuscarawas County.

Cleveland

Cuyahoga, Lake, Lorain, and Geauga Counties; the townships of Sagamore Hills, Northfield Center, Twinsburg, Richfield, Boston, and Hudson in Summit County; Medina County, excluding the townships of Homer, Harrisville, Westfield, Guilford, Wadsworth, and Sharon; the townships of Aurora and Streetsboro in Portage County; and the city of Vermillion in Erie County.

Dover–New Philadelphia

Tuscarawas County, excluding the townships of Lawrence and Sandy; the townships of Monroe, North, Franklin, Stock, Washington, Nottingham, Freeport, and Moorefield in Harrison County; and the townships of Salt Creek, Paint, Berlin, Walnut Creek, and Clark in Holmes County.

Appendix B

Ohio Banking Markets in which National City and Wayne Compete Directly

Akron

National City operates the third largest depository institution in the Akron banking market, controlling \$1 billion in deposits, which represents 13 percent of market deposits. Wayne operates the 12th largest depository institution in the market, controlling \$138 million in deposits, which

represents 1.8 percent of market deposits. On consummation of the proposal, National City would remain the third largest depository institution in the market, controlling deposits of \$1.1 billion, which represent approximately 14.7 percent of market deposits. The HHI would increase 46 points to 1,436. Twenty-six bank and thrift competitors would remain in the market.

Canton

National City operates the seventh largest depository institution in the Canton banking market, controlling \$226 million in deposits, which represents 4.7 percent of market deposits. Wayne operates the 13th largest depository institution in the market, controlling \$41 million in deposits, which represents less than 1 percent of market deposits. On consummation of the proposal, National City would remain the seventh largest depository institution in the market, controlling deposits of \$267 million, which represent approximately 5.6 percent of market deposits. The HHI would increase 8 points to 1,432. Eighteen bank and thrift competitors would remain in the market.

Cleveland

National City operates the second largest depository institution in the Cleveland banking market, controlling

\$15.2 billion in deposits, which represents 25.6 percent of market deposits. Wayne operates the 31st largest depository institution in the market, controlling \$16 million in deposits, which represents less than 1 percent of market deposits. On consummation of the proposal, National City would remain the second largest depository institution in the market. The HHI would increase 2 points to 1,933. Thirty-five bank and thrift competitors would remain in the market.

Dover–New Philadelphia

National City operates the sixth largest depository institution in the Dover–New Philadelphia banking market, controlling \$67 million in deposits, which represents 5.6 percent of market deposits. Wayne operates the 18th largest depository institution in the market, controlling \$7 million in deposits, which represents less than 1 percent of market deposits. On consummation of the proposal, National City would remain the sixth largest depository institution in the market, controlling deposits of \$73 million, which represent 6.2 percent of market deposits. The HHI would increase 6 points to 1,208. Twenty bank and thrift competitors would remain in the market.

Appendix C

CRA Performance Evaluations of National City

Subsidiary Bank	CRA Rating	Date	Supervisor
1. National City Bank, Cleveland, Ohio	Outstanding	February 2000	OCC
2. National City Bank of Indiana, Indianapolis, Indiana	Satisfactory	February 2000	OCC
3. The Madison Bank & Trust Company, Madison, Indiana	Outstanding	May 1999	FDIC
4. National City Bank of Kentucky, Louisville, Kentucky	Satisfactory	February 2000	OCC
5. National City Bank of the Midwest, Bannockburn, Illinois	Outstanding	February 2000	OCC
6. National City Bank of Pennsylvania, Pittsburgh, Pennsylvania	Outstanding	February 2000	OCC
7. National City Bank of Southern Indiana, New Albany, Indiana	Satisfactory	February 2000	OCC
8. The Provident Bank, Cincinnati, Ohio	Outstanding	March 2004	Federal Reserve Bank of Cleveland

*North Fork Bancorporation, Inc.
Melville, New York*

Order Approving the Acquisition of a Bank Holding Company

North Fork Bancorporation ("North Fork"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act to acquire GreenPoint Financial Corp. ("GreenPoint") and its subsidiary bank, GreenPoint Bank, both in New York, New York.¹ North Fork also has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act and section 225.28(b)(12) of the Board's Regulation Y to acquire a nonbanking subsidiary of GreenPoint and thereby engage in permissible community development activities.²

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (69 *Federal Register* 21,833 (2004)). The time for filing comments has expired, and the Board has considered the proposal and all comments in light of the factors set forth in sections 3 and 4 of the BHC Act.

North Fork, with total consolidated assets of approximately \$25.6 billion, operates insured depository institutions³ in New York, Connecticut, and New Jersey that control deposits totaling approximately \$18 billion, which represents less than 1 percent of total deposits in insured depository institutions in the United States.⁴ North Fork is the seventh largest depository organization in New York, controlling deposits of \$14 billion, which represents approximately 2.4 percent of total deposits in depository institutions in the state ("state deposits").⁵ GreenPoint, with total consolidated assets of approximately \$23.8 billion, is the eighth largest insured depository organization in New York, controlling deposits of \$12.6 billion, which represents approximately 2.2 percent of state deposits.

On consummation of the proposal, North Fork, with total consolidated assets of \$54.1 billion,⁶ would control deposits of approximately \$31.6 billion, which represents less than 1 percent of total deposits in insured depository institutions nationwide. North Fork would become the fifth largest depository organization in New York, controlling deposits in the state of \$26.6 billion, which represents approximately 4.5 percent of state deposits.

1. 12 U.S.C. § 1842.

2. 12 U.S.C. §§ 1843(c)(8) and 1843(j); 12 CFR 225.28(b)(12).

3. In this context, the term "insured depository institution" includes insured commercial banks, savings associations, and savings banks.

4. Asset and national deposit data are as of March 31, 2004, and have been adjusted to account for the merger of The Trust Company of New Jersey, Jersey City, New Jersey ("TCNJ"), into North Fork's lead subsidiary bank, North Fork Bank, Mattituck, New York ("North Fork Bank"), on May 15, 2004.

5. Statewide deposit and ranking data are as of June 30, 2003.

6. This amount includes approximately \$5.4 billion in one-time balance sheet adjustments.

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 banking market. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal clearly are 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

North Fork and GreenPoint compete directly in the Metropolitan New York/New Jersey banking market ("New York banking market").⁸ The Board has reviewed carefully 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 shares of total deposits in depository institutions in the market ("market deposits") controlled by North Fork and GreenPoint, the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines"),⁹ and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in the New York banking market. On consummation of the proposal, North Fork would become the fifth largest depository organization in this market, controlling \$30 billion in deposits, which represents approximately 4.7 percent of market deposits.¹⁰ The HHI would increase by only 11 points to

7. 12 U.S.C. § 1842(c)(1).

8. The New York banking market is defined as the counties of Bronx, Dutchess, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster, and Westchester in New York; the counties of Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren and portions of Mercer County in New Jersey; Pike County in Pennsylvania; and Fairfield County and portions of Litchfield and New Haven Counties in Connecticut.

9. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered unconcentrated if the post-merger HHI is below 1000. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

10. Market share data are as of June 30, 2003, adjusted to include North Fork's acquisition of TCNJ, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

982, the market would remain unconcentrated, and numerous competitors would remain in the market.

The Department of Justice also has conducted a review of the competitive effects of the proposal and has advised the Board that consummation of the proposal would not have a significantly adverse effect on competition in the New York banking market or any other relevant banking market. 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 banking resources in any relevant banking market and that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors. The Board has carefully considered these factors in light of all the facts of record, including reports of examination, other confidential supervisory information received from the primary federal supervisors for the subsidiary depository institutions of North Fork and GreenPoint, information provided by North Fork, and public comment on the proposal. In addition, the Board has consulted with the Federal Deposit Insurance Corporation ("FDIC"), the primary federal supervisor of North Fork's subsidiary banks, concerning the proposal.

North Fork is well capitalized and will remain so on consummation of the proposal. Moreover, the proposal is structured as a share exchange and involves no acquisition debt.

The Board also has considered the managerial resources and the examination records of North Fork, GreenPoint, and GreenPoint Bank, including their risk management systems and other policies; North Fork's record of integrating past merger proposals; and the proposed management after consummation, including management of each of its current and proposed subsidiaries.¹¹ Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of North Fork, GreenPoint, and GreenPoint Bank are consistent with approval, as are the other supervisory factors under the BHC Act.¹²

11. A commenter criticized North Fork's management of its mortgage operations by referencing an administrative action brought by the New York Attorney General's Office ("NYAG's Office") against North Fork that involved escrow fees improperly charged to 30 accounts. The NYAG's Office confirmed that this matter was resolved in May 2003, when North Fork corrected the alleged errors, reimbursed the escrow fees it charged the customers involved, and paid a small fine.

12. The commenter also expressed concern that GreenPoint Bank's subsidiary, GreenPoint Mortgage Funding, Inc. ("GPMF"), might be outsourcing certain back-office services to vendors in foreign countries and questioned whether customers' financial information was

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").¹³ The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.

The Board has considered carefully the convenience and needs factor and the CRA performance records of the subsidiary banks of North Fork and GreenPoint in light of all the facts of record, including public comment on the proposal. A commenter opposing the proposal asserted, based on data reported under the Home Mortgage Disclosure Act ("HMDA"),¹⁴ that North Fork and GreenPoint engage in discriminatory treatment of African-American and Hispanic individuals in their home mortgage lending operations. The commenter also contended that the banks do not make their products and services available in low-income and predominantly minority areas, particularly in the Bronx, and instead provide financial support to "fringe banking" businesses, such as check cashers and pawn shops, in those areas. In addition, the commenter expressed concern about potential branch closures resulting from this proposal.¹⁵

being properly safeguarded. Many U.S. financial institutions use service providers to perform various functions, such as data processing. The use of service providers, whether domestic or foreign-based, is a common business practice and is not prohibited by federal banking laws. The Board expects U.S. financial institutions to manage effectively the risks associated with their outsourcing arrangements and to comply with all applicable legal and regulatory requirements, regardless of whether these arrangements are with domestic or foreign firms. U.S. financial institutions have various obligations under federal law to protect the privacy and security of information about their customers, including information transferred or transmitted to a foreign-based service provider. In supervising financial institutions with outsourcing arrangements, the federal financial supervisory agencies focus on the ability and obligation of the financial institutions to maintain controls over the privacy and security practices of their service providers that have custody or access to customer information. The Board has consulted with the FDIC and reviewed information submitted by North Fork and GreenPoint about the banks' controls over service providers.

13. 12 U.S.C. § 2901 *et seq.*

14. 12 U.S.C. § 2801 *et seq.*

15. The commenter also expressed concern about possible job losses resulting from this proposal. The effect of a proposed acquisition on employment in a community is not among the factors included in the BHC Act, and the convenience and needs factor has been interpreted consistently by the federal banking agencies, the courts, and the Congress to relate to the effect of a proposal on the availability and quality of banking services in the community. See *Wells Fargo & Company*, 82 *Federal Reserve Bulletin* 445, 457 (1996).

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹⁶

North Fork Bank received an "outstanding" rating at its most recent CRA evaluation by the FDIC, as of August 19, 2002.¹⁷ GreenPoint Bank also received an "outstanding" rating at its most recent CRA performance evaluation by the FDIC, as of January 28, 2002. North Fork has indicated that GreenPoint Bank would be merged into North Fork Bank after consummation of the proposal.¹⁸ North Fork stated that it would identify the best products and services currently offered by both institutions and endeavor to make them available to all customers.

B. CRA Performance of North Fork Bank

North Fork Bank's most recent CRA evaluation characterized its overall record of home mortgage and small business lending as excellent and praised the bank's level of community development lending. Examiners noted favorably the use of several flexible lending products designed to address affordable housing needs of LMI individuals and commended the bank's level of qualified investments. In addition, examiners commended North Fork Bank's community development services and the distribution of the bank's branches.

North Fork Bank also received an "outstanding" rating under the lending test at its most recent CRA performance evaluation.¹⁹ Examiners commended North Fork Bank for its responsiveness to the assessment areas' credit needs and excellent level of lending activity.

Examiners also commended North Fork Bank for the excellent overall geographic distribution of its lending and good distribution of its home mortgage loans to borrowers throughout the assessment areas and noted North Fork's use of Modification, Extension, and Consolidation Agreements ("MECAs") in addition to HMDA-reportable

loans.²⁰ Examiners found that North Fork Bank's home purchase lending in LMI census tracts exceeded the percentage of owner-occupied housing units and the aggregate lending data. For example, examiners noted that North Fork Bank made approximately 24 percent of its total home purchase loan originations during the assessment period to borrowers in LMI census tracts, which was more than double the percentage of owner-occupied housing units in LMI census tracts in the bank's assessment areas.²¹ Examiners also noted that approximately 29 percent of North Fork Bank's 2000 home purchase loans were made to borrowers in LMI census tracts, compared with the approximately 16 percent originated by the lenders in the aggregate ("aggregate lenders").²²

Examiners commended North Fork Bank for developing flexible lending products and programs, such as the North Fork Subsidy Program, which provides borrowers who meet certain income guidelines and purchase homes in predominantly minority communities with closing-cost grants of up to \$3,000; and the North Fork Bank Affordable Housing Program, which combines low down-payment requirements, below market interest rates, and reduced loan costs for applicants with total household income of \$65,000 or less. In addition, examiners reported that North Fork Bank participated in several government-sponsored programs that offered flexible underwriting for home mortgages through secondary market providers, such as Fannie Mae, and worked with the State of New York

20. A MECA is an agreement under which a lender and a borrower agree to modify the terms of an existing loan by, for example, extending the final repayment date. MECAs do not involve lending additional money and are not reported under HMDA, but achieve the same results as a loan purchase or loan refinancing and may be considered in evaluating an institution's CRA performance. See *Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* at 36,632 (2001).

21. The commenter asserted that North Fork Bank failed to originate adequate numbers of mortgage loans in LMI areas of Brooklyn, the Bronx, and Manhattan. Although the Board has recognized that banks help serve the banking needs of communities by making a variety of products and services available, the CRA does not require an institution to participate in any specific loan programs or provide any specific types of products or services in its assessment area. Examiners noted that data from the 2000 Census show that a majority of the housing units in the bank's assessment areas are renter-occupied. In light of these demographic data, examiners praised North Fork Bank's lending in LMI communities and noted North Fork's leadership in responding to the credit needs of economically disadvantaged areas, in part through the bank's multifamily lending activities. Examiners found that during the evaluation period, North Fork Bank originated or purchased 265 multifamily loans (including MECAs) on properties in LMI census tracts, totaling approximately \$345 million, which represented approximately 47 percent of the number and 41 percent of the dollar amount of North Fork Bank's total multifamily lending activities in its assessment areas during the evaluation period. Examiners stated that the majority of the bank's LMI multifamily loans were originated in the counties of Kings (Brooklyn), Bronx, and New York (Manhattan). Examiners also determined, after a sampling of the rent rolls for these properties, that all the bank's LMI multifamily loans involve affordable housing and meet the definition of community development lending.

22. The lending data of the lenders in the aggregate represent the cumulative lending for all financial institutions that have reported HMDA data in a particular area.

16. See *Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

17. North Fork's other subsidiary depository institution, Superior Savings of New England, National Association, Branford, Connecticut ("Superior"), received a "satisfactory" CRA performance rating from the Office of the Comptroller of the Currency ("OCC"), as of September 30, 2002. The OCC has designated Superior as a wholesale bank. As of March 31, 2004, Superior reported assets of \$462 million, representing approximately 2.1 percent of North Fork's total assets.

18. The FDIC has approved the Bank Merger Act (12 U.S.C. § 1828(c)) application related to this transaction.

19. The evaluation period for the lending test was January 1, 2000, through June 30, 2002; the evaluation period for the investment test and service test was October 1, 1999, through June 30, 2002.

Mortgage Association to offer loan programs focused on first-time homebuyers or LMI borrowers. North Fork also provides loan products with special terms to promote cooperative housing opportunities for LMI borrowers.

Examiners characterized North Fork Bank's willingness to serve the credit needs of small- and medium-sized businesses as impressive particularly given the size of the bank. During the evaluation period, North Fork Bank originated more than 15,000 small loans to businesses in its assessment areas,²³ totaling more than \$1.4 billion.²⁴ Examiners reported that the bank exhibited excellent geographic distribution of small loans to businesses in its assessment areas compared with the aggregate lenders.²⁵ North Fork stated that North Fork Bank made almost \$800 million in small loans to businesses in 2002, including 280 small loans to businesses totaling more than \$21 million in the Bronx, which made North Fork Bank the fourth largest small business lender in the Bronx in that year.²⁶ North Fork also stated that, in 2003, North Fork Bank substantially increased the number of small loans to businesses and loans to small businesses in the Bronx.

Examiners commended North Fork Bank for its leadership in making community development loans and in responding to the credit needs of economically disadvantaged areas, individuals, and small businesses. During the evaluation period, North Fork Bank originated more than 30 community development loans totaling more than \$83 million in its assessment areas. These loans included \$4 million in credit for a retail development in an LMI neighborhood in Bronx County, a \$14 million loan for renovations and a permanent mortgage for an industrial

warehouse in an LMI area in the Hunts Point section of Bronx County, more than \$5 million in credit to fund the rehabilitation of a 48-unit apartment building in an LMI neighborhood in Harlem, and loans to improve healthcare facilities for low-income individuals and families. In 2003, North Fork Bank originated 23 new community development loans totaling more than \$76 million.

North Fork Bank received an "outstanding" rating under the investment test at its most recent CRA performance evaluation. Examiners commended North Fork Bank for its excellent commitment to the community development organizations in its assessment areas and noted the bank's leadership in investing in innovative and complex qualified investments. During the evaluation period, North Fork Bank made 100 community development investments totaling more than \$34 million in its assessment areas. North Fork Bank's total community development investments in its assessment areas, including grants, totaled more than \$66 million. These investments included a \$5 million investment in multifamily housing revenue bonds issued by the New York City Housing Development Corporation, a \$15 million investment in an industrial revenue bond supporting the creation of a 147-unit rental facility for low-income senior citizens in Central Islip, and a \$2.3 million investment through the CRA Fund in securities financing the mortgage of a Section 8 housing project in the Bronx.²⁷ Since the evaluation period, North Fork Bank's level of qualified community development investments has increased to \$89.5 million.

North Fork Bank also received an "outstanding" rating under the service test. Examiners reported that North Fork Bank offered an excellent level of support to its community and commended North Fork Bank for offering community development services not provided by other area financial institutions, such as the bank's financial literacy programs. Examiners stated that North Fork Bank offered a full range of banking services at its branches and that its branches and delivery systems provided access to financial products and services for consumers of different income levels and in LMI geographies, noting that North Fork Bank had increased the accessibility of its products and services.²⁸ In addition, examiners reported that the bank's distribution of 28 branches and 49 automated teller machines ("ATMs") among LMI census tracts was reasonable. They also noted that 42 additional branches were adjacent to LMI census tracts, increasing the combined percentage of branches in or nearby LMI census tracts from approximately 17 percent to 42 percent of the bank's total number of branches.

23. Small loans to business are loans that are originated in amounts of \$1 million or less and are either secured by nonfarm, nonresidential properties or are classified as commercial and industrial loans.

24. The commenter expressed concern that some of North Fork's small business lending financed retail check cashers or other nontraditional providers of financial services. According to information provided by North Fork, North Fork Bank has depository and lending relationships with entities engaged in retail check-cashing and money-transmittal activities. North Fork takes steps to ensure that such companies are appropriately licensed and supervised and that their principals meet background requirements. North Fork stated that it has no role in the implementation of the policies or procedures of its retail check-cashing customers and that it has refused to lend to, or terminated relationships with, nontraditional product providers that North Fork believed were engaged in questionable practices. The Board notes that North Fork Bank owns a check-cashing affiliate, CBMC, Inc., that it acquired as part of a prior bank merger. This affiliate is licensed and supervised by the New York State Banking Department ("NYSBD") and examined by the FDIC. The Board has consulted with the FDIC and the NYSBD regarding their most recent reviews of the company's activities.

25. Examiners noted that, in 2000, North Fork Bank originated 25 percent of its small loans to businesses in LMI census tracts, comparing favorably with the aggregate lenders, which originated approximately 17 percent of their small loans to businesses in LMI census tracts. During the evaluation period, North Fork Bank also originated 24 percent of its small loans to businesses in LMI census tracts, which compared favorably to the fact that approximately 21 percent of the businesses were in LMI census tracts.

26. The commenter asserted that North Fork Bank's level of small business lending in the Bronx was inadequate.

27. The Section 8 program provides rent subsidies directly to landlords on behalf of very low-income families, the elderly, and the disabled. The program is administered by local public housing agencies using funds from the Department of Housing and Urban Development.

28. The commenter expressed concerns about North Fork Bank's branch distribution in LMI and minority areas in Bronx County. North Fork has five branches and six free-standing ATMs in LMI and predominantly minority census tracts in the Bronx.

In addition, examiners noted that NBC's record of opening and closing branches did not adversely affect the accessibility of delivery systems, particularly in LMI census tracts. Examiners also commended NBC for its service to a number of organizations pursuing affordable housing, small business development, and community service initiatives targeted at LMI areas and individuals.

2. *First Market FSB.* As noted above, First Market FSB received a "satisfactory" CRA rating from the OTS at its most recent CRA performance evaluation, as of October 30, 2003. Under the lending test, First Market FSB received a "high satisfactory" rating. Examiners noted that the institution's record of mortgage lending to LMI borrowers was good and its geographic distribution of loans was reasonable. Examiners reported that First Market FSB enhanced its lending performance through the use of programs and products designed for LMI borrowers. These programs included First Market FSB's CRA Home Improvement Loan Program, an alternative to higher-cost personal loans, and its Affordable Mortgage Product, which requires a nominal down payment of \$500, allows loan-to-value ratios up to 100 percent, and uses flexible underwriting guidelines. Examiners also noted that First Market FSB originated a significant number of business loans and community development loans.⁴⁴

Examiners rated First Market FSB's performance under the investment test as "outstanding." Examiners reported that the institution's level of qualified investments was excellent. These investments included a targeted mortgage-backed security, a housing development bond, participation in a loan consortium, and financial donations.

Under the service test, First Market FSB received a "high satisfactory" rating. Examiners reported that the institution's delivery system was accessible to essentially all portions of its assessment area.

3. *NBC FSB.* As noted above, NBC FSB received an overall "satisfactory" CRA performance rating from the OTS at its most recent performance evaluation, as of February 4, 2003. The institution received a "high satisfactory" rating under the lending test and a "low satisfactory" rating under the investment test. Examiners noted that NBC FSB's lending levels reflected a good responsiveness to the community's credit needs and its lending to borrowers of different income levels was excellent. Examiners also favorably noted NBC FSB's use of two special loan

programs for LMI borrowers through which it originated 25 loans totaling almost \$800,000. They noted that NBC FSB's performance under the investment test was mitigated by its lending performance and limited investment authority.

Under the service test, NBC FSB received a "high satisfactory" rating. Examiners noted that NBC FSB's delivery system was readily accessible to essentially all portions of the assessment area through its two full-service, in-store supermarket branches and that the institution's extended business hours were tailored to meet the convenience and needs of the areas served.

E. HMDA Data and Fair Lending Record

The Board also has carefully considered the lending records of SunTrust and National Commerce in light of comments received on the HMDA data for 2001 and 2002 reported by the organizations' subsidiary banks and their lending subsidiaries.⁴⁵ Some commenters alleged that SunTrust and National Commerce disproportionately excluded or denied applications for HMDA-reportable loans by minorities.⁴⁶

The HMDA data for 2002 and 2003 indicate that the percentages of total HMDA-reportable loans originated by SunTrust Bank⁴⁷ to African Americans and Hispanics generally lagged the performance of the aggregate lenders in the markets reviewed.⁴⁸ In addition, SunTrust Bank's

45. Some commenters alleged that SunTrust Mortgage had pre-screened applicants and inappropriately directed African-American applicants to SunTrust Bank. To support this claim, commenters asserted that SunTrust Bank reported significantly higher denial rates than SunTrust Mortgage. SunTrust represented that SunTrust Mortgage and SunTrust Bank do not offer different residential mortgage products to which customers could be directed and that applications are processed through the same lending channel, regardless of which SunTrust affiliate received the applications. SunTrust further asserted that SunTrust Bank performed origination services on behalf of SunTrust Mortgage in certain markets in 2002.

46. In addition, some commenters expressed concerns that NBC's tiered-pricing program for mortgage loans has resulted in a disparate impact on African-American borrowers and, thus, violated fair lending laws. Under the tiered-pricing system, the bank charges a higher interest rate for loans of \$75,000 or less. Commenters asserted that through this program, NBC engaged in a pattern and practice that had an adverse and disparate impact on African Americans, who disproportionately apply for mortgage loans in amounts of less than \$75,000. SunTrust responded that NBC's pricing structure was not discriminatory and that the bank's pricing based on loan amount was applied neutrally and without regard to any prohibited factor. SunTrust stated that it does not have a tiered-pricing practice and that on consummation of the proposal, mortgage loans originated by all its subsidiaries, including NBC, would be priced in accordance with SunTrust policies and practices. The commenters' fair lending allegations have been forwarded to the OCC, the primary federal supervisor of NBC and the agency responsible for enforcing fair lending laws at the bank.

47. For purposes of this review, SunTrust Bank's HMDA data include data reported by SunTrust Mortgage.

48. The Board analyzed HMDA data for 2002 and 2003 reported by SunTrust Bank in MSAs and statewide in Alabama, Florida, Georgia, Maryland, Tennessee, Virginia, and Washington, D.C. The statewide data include the relevant data from the MSAs in SunTrust Bank's assessment areas in a particular state or Washington, D.C.

consider when reviewing an application under the BHC Act. See *Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973). The commenter also criticized Wal-Mart's attempts to enter the banking system. The Board notes that Wal-Mart does not control any insured depository institution and, consequently, is not deemed to be a bank holding company. In addition, National Commerce's branching agreement with Wal-Mart does not cause the store to control a depository institution and, therefore, does not make Wal-Mart subject to the BHC Act.

44. During the review period, First Market FSB originated 387 business loans totaling \$48 million, including \$27 million in loans to small businesses, and 6 community development loans totaling \$2 million.

denial disparity ratios⁴⁹ for African-American and Hispanic applicants in 2002 and 2003 were generally higher than the ratios for the aggregate lenders in the markets reviewed.

The HMDA data indicate, however, that the percentages of SunTrust Bank's total HMDA-reportable loans to African Americans and Hispanics increased modestly from 2002 to 2003 in most of the markets reviewed. Moreover, the bank's denial disparity ratios for African-American and Hispanic applicants decreased from 2002 to 2003 in most of the markets reviewed.⁵⁰ SunTrust Bank increased the number of loans to African-American and Hispanic individuals and to borrowers in predominantly minority census tracts in all but one of the markets reviewed during this time period.

The HMDA data for 2003 indicate that the percentages of National Commerce's total HMDA-reportable loans that were originated to African-American borrowers lagged the percentages for the aggregate lenders in most of the markets reviewed, but exceeded the percentages for the aggregate lenders in West Virginia and Arkansas.⁵¹ However, National Commerce's percentages of HMDA-reportable loan originations to Hispanic borrowers in 2003 exceeded or were comparable with the percentages for the aggregate lenders in all but one of the states reviewed. In addition, National Commerce's denial disparity ratios in 2003 were lower than or comparable with the ratios for the aggregate lenders in the majority of the markets reviewed.

Although the HMDA data may reflect certain disparities in the rates of loan applications, originations, and denials

among members of different racial groups and persons at different income levels in certain local areas, the HMDA data generally do not indicate that SunTrust or National Commerce excluded any race or income segment of the population or geographic areas on a prohibited basis. The Board nevertheless is concerned when the record of an institution indicates disparities in lending and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of race or income level. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending and provide only limited information about covered loans.⁵² HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has not assisted adequately in meeting its community credit needs or has engaged in illegal lending discrimination.

Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information, including examination reports that provide on-site evaluations of compliance with fair lending laws by the subsidiary depository and lending institutions of SunTrust and National Commerce. Examiners noted no substantive fair lending issues or concerns in the consumer compliance examinations of the depository institutions controlled by SunTrust or National Commerce.

The record also indicates that SunTrust and National Commerce have taken various measures to help ensure compliance with fair lending laws. National Commerce has instituted corporate-wide policies and procedures to help ensure compliance with all fair lending and other consumer protection laws and regulations. In addition, National Commerce has a Compliance Department with 12 full-time professionals and each mortgage division has a full-time compliance officer.

SunTrust Bank has taken various steps to increase its mortgage lending to minorities. To market its mortgage loan products more effectively to minorities, SunTrust entered into a one-year agreement in 2001 with Fannie Mae, called the Multicultural Homeownership Initiative, under which SunTrust agreed to provide up to \$1 billion in Fannie Mae mortgage loans to homebuyers who are immigrants or minorities ("multicultural homebuyers"). SunTrust represented that it met this goal before the agreement expired and entered into a new two-year agreement with Fannie Mae in June 2002 to originate \$2.5 billion in loans to underserved borrowers, primarily multicultural homebuyers. SunTrust further represented that it met that

52. The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

SunTrust Bank's percentages of HMDA-reportable loan originations to African Americans in 2003 were comparable with the percentages for the aggregate lenders in Alabama, Georgia, Maryland, Virginia, and Washington, D.C., but lagged the percentages for the aggregate in Florida and Tennessee. SunTrust Bank's percentages of HMDA-reportable loans to Hispanic applicants lagged the percentages for the aggregate lenders in Georgia, Florida, and Virginia, but were comparable with or exceeded the aggregate lenders in Alabama, Tennessee, and Washington, D.C. SunTrust Bank's percentages of HMDA-reportable loans to borrowers in minority census tracts exceeded or were comparable with the performance of aggregate lenders in Maryland, Virginia, Tennessee, and Washington, D.C., but lagged in Alabama, Georgia, and Florida.

49. The denial disparity ratio equals the denial rate for a particular racial category (for example, African American) divided by the denial rate for whites.

50. In August 2003, SunTrust purchased and assumed most of the assets and liabilities of Sun America Mortgage, Inc., Richmond, Virginia ("Sun America Mortgage"), which were transferred to SunTrust Mortgage. Some commenters asserted, based on data from Sun America Mortgage, that SunTrust disproportionately denied or excluded African-American and Hispanic applicants. In addition, one commenter submitted a complaint that SunTrust had not provided him Sun America Mortgage's HMDA data as he requested. The Sun America Mortgage HMDA data cited by these commenters covered a period before SunTrust Bank acquired any assets or liabilities from Sun America Mortgage and are not part of SunTrust Bank's HMDA data records.

51. The Board analyzed HMDA data for 2002 and 2003 reported by NBC, NBC FSB, and First Market FSB in MSAs in Arkansas, Georgia, North Carolina, Mississippi, South Carolina, Tennessee, Virginia, and West Virginia and the institutions' statewide data in these states.

goal in June 2004 and that it is currently negotiating with Fannie Mae to extend the commitment. In addition, SunTrust stated that from 2001 to 2004, it offered educational and training programs on multicultural homeownership opportunities to realtors and loan officers throughout its assessment areas. SunTrust represented that these initiatives have resulted in the improvement noted above in its overall lending to minorities in 2003.

SunTrust's compliance programs include the implementation of fair lending policies and procedures, self-assessments and transactional testing, complaint-monitoring processes, and employee training. SunTrust Bank and SunTrust Mortgage operate a consolidated consumer compliance function that is under the direction of SunTrust's Corporate Compliance Manager. This compliance function is divided into five units focused on mortgage loans, consumer loans, commercial loans, deposit products, and fair lending compliance. SunTrust stated that it expects to implement its compliance structure, policies, and processes throughout the resulting organization.

The Board also has considered the HMDA data in light of other information, including the CRA performance records of the subsidiary depository institutions of SunTrust and National Commerce. These records demonstrate that SunTrust and National Commerce are active in helping to meet the credit needs of their entire communities.

F. Branch Closings

Some commenters expressed concerns that the proposal would result in possible branch closings. The Board has carefully considered these comments in light of all the facts of record. SunTrust represented that as a result of the merger, branches might be closed in those markets where branches of SunTrust Bank overlap with those of NBC, but that it has not made any decisions about specific branches to be closed, relocated, or consolidated.⁵³ SunTrust indicated that branch closings would be made in accordance with SunTrust's branch closing policy, which requires, among other factors, consideration of the proposal's effects on LMI communities. In the 2002 Evaluation, examiners reported that the bank's record of closing branches did not adversely affect accessibility to its services, particularly with respect to LMI areas and individuals. Examiners also reviewed SunTrust's corporate branch closing policy and determined that it met all regulatory requirements. In addition, examiners found that NBC's record of opening and closing branches did not adversely affect the accessibility of its delivery systems for banking services, particularly in LMI geographies.

The Board also has considered the fact that federal banking law provides a specific mechanism for addressing

branch closings.⁵⁴ Federal law requires an insured depository institution to provide notice to the public and to the appropriate federal supervisory agency before closing a branch. In addition, the Board notes that the Board, the OTS, and the OCC, as the appropriate federal supervisors of SunTrust Bank and National Commerce's subsidiary depository institutions, will continue to review each depository institution's branch closing record in the course of conducting CRA performance evaluations.

G. Conclusion on Convenience and Needs and CRA Performance

The Board has carefully considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by SunTrust and National Commerce, comments on the proposal, confidential supervisory information, and SunTrust's plans to implement its CRA-related policies, procedures, and programs at NBC, First Market FSB, and NBC FSB.⁵⁵ The Board notes that the proposal would expand the availability and array of banking products and services to the customers of SunTrust and National Commerce, including access to expanded branch and ATM networks and internet banking services. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor and the CRA performance records of the relevant depository institutions are consistent with approval.

Nonbanking Activities

As noted above, SunTrust also has filed a notice under sections 4(c)(8) and 4(j) of the BHC Act to acquire the nonbanking subsidiaries of National Commerce, including, among others, NBC FSB and First Market FSB.⁵⁶ In addition to operating savings associations, SunTrust would engage in a number of other nonbanking activities that are permissible for bank holding companies under Regulation Y, including real and personal property leasing, financial and investment advisory services, trust company activities, community development, and data processing.⁵⁷ SunTrust has committed that it will conduct these nonbanking activities in accordance with the Board's regula-

54. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 *Federal Register* 34,844 (1999)), requires that a bank provide the public with at least 30 days' notice and the appropriate federal supervisory agency and customers of the branch with at least 90 days' notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

55. One commenter alleged improprieties regarding his mortgage from Sun America Mortgage. SunTrust stated that no SunTrust entity is or was a party to this loan, and that the loan was sold before the SunTrust/Sun America transaction.

56. See Appendix A.

57. 12 CFR 225.28(b)(3), (4)(ii), (5), (6), (12), (14).

53. One commenter expressed concern that SunTrust may target rural branches in North Carolina for closure. SunTrust currently has no branches in North Carolina and has indicated that this acquisition is motivated in part by its intent to expand into new markets.

tions and orders approving the activities for bank holding companies.

To approve this notice, the Board also must determine that the proposed acquisition of National Commerce's nonbanking subsidiaries by SunTrust "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."⁵⁸ As part of its evaluation of these factors, the Board has considered the financial condition and managerial resources of SunTrust, its subsidiaries, and the companies to be acquired, as well as the effect of the proposed transaction on those resources. For the reasons discussed above, and based on all the facts of record, the Board concludes that financial and managerial considerations are consistent with approval.

The Board also has reviewed the competitive effects of SunTrust's proposed acquisition of National Commerce's nonbanking depository subsidiaries. For the reasons stated earlier, and based on all the facts of record, consummation of this proposal would be consistent with Board precedent and DOJ Guidelines in the Richmond, Newport News-Hampton, and Fredericksburg banking markets where SunTrust Bank and First Market FSB compete directly.

In addition, SunTrust and National Commerce compete directly in trust company, data processing, investment advisory, and community development activities. The markets for each of these nonbanking activities are regional or national in scope, except the market for community development, which is local. The record in this case indicates that there are numerous providers of each of these services and that SunTrust and National Commerce's levels of participation are relatively small. Based on all the facts of record, the Board concludes that consummation of the proposed nonbanking acquisitions is not likely to have any significantly adverse competitive effects.

The Board also has reviewed carefully the public benefits of the proposed acquisition of National Commerce's nonbank subsidiaries. SunTrust has indicated that the expanded geographic scope of SunTrust's nonbanking operations would provide added convenience to current and future customers of SunTrust and National Commerce, and that customers of both institutions would have access to a broader array of products and services.

The Board concludes that the conduct of the proposed nonbanking activities within the framework of Regulation Y and Board precedent is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices, that would outweigh the public benefits of the proposal, such as increased customer convenience and gains in efficiency. Accordingly, based on all the facts of record, the Board has determined that the balance of public benefits factor that it must consider under section 4(j)(2) of the BHC Act is consistent with approval of SunTrust's notice.

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the applications and notice should be, and hereby are, approved.⁵⁹ In reaching this conclusion, the Board has considered all the facts of record in light of the factors it is required to consider under the BHC Act and other applicable statutes.⁶⁰ The Board's approval is specifically conditioned on compliance by SunTrust with the conditions in this order and with all the commitments made to the Board in connection with this proposal, including the branch divestiture commitments discussed above, and receipt of all other regulatory approvals. The Board's approval of the nonbanking aspects of the proposal also is subject to all the conditions set forth in Regulation Y, and to the Board's authority to require such

59. A number of commenters requested that the Board deny the proposal, delay action on the proposal, or extend the comment period until SunTrust enters into various agreements proposed by the commenters. The Board believes that the record in this case does not warrant postponing its consideration of the proposal. During the applications process, the Board has accumulated a significant record, including reports of examination, supervisory information, public reports and information, and considerable public comment. The Board believes this record is sufficient to allow it to assess the factors it is required to consider under the BHC Act. The BHC Act and the Board's processing rules establish time periods for consideration and action on acquisition proposals. Moreover, as discussed above, the CRA requires the Board to consider the existing record of performance of an organization and does not require an organization to enter into contracts or agreements with interested parties to implement its CRA programs. For the reasons discussed above, the Board believes that commenters have had ample opportunity to submit their views and, in fact, they have provided substantial written submissions that the Board has considered carefully in acting on the proposal. Based on a review of all the facts of record, the Board concludes that delaying consideration of the proposal, granting an extension of the comment period, or denying the proposal on the grounds discussed above is not warranted.

60. Many commenters requested that the Board hold a public hearing or meeting on the proposal. Section 3 of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for any of the banks to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation from any supervisory authority. Under its rules, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 CFR 225.16(e). In addition, the Board's rules provide for a hearing on a notice to acquire a nonbanking company if there are disputed issues of material facts that cannot be resolved in another manner. 12 CFR 225.25(a)(2). The Board has considered carefully the commenters' requests in light of all the facts of record. As noted, the public has had ample opportunity to submit comments on the proposal and, in fact, the commenters have submitted written comments that the Board has considered carefully in acting on the proposal. The commenters' requests fail to demonstrate why their written comments do not present their views adequately or why a meeting or hearing otherwise would be necessary or appropriate. Their requests also fail to identify disputed issues of fact that are material to the Board's decision that would be clarified by a public hearing or meeting. For these reasons, and based on all the facts of record, the Board has determined that a public hearing or meeting is not required or warranted in this case. Accordingly, the requests for a public hearing or meeting on the proposal are denied.

58. 12 U.S.C. § 1843(j)(2)(A).

modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of this action, the commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The bank acquisition shall not be consummated before the fifteenth calendar day after the effective date of this order, and no part of the proposal may be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Atlanta, acting pursuant to delegated authority.

By order of the Board of Governors, effective September 14, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DE V. FRIERSON
Deputy Secretary of the Board

Appendix A

Nonbanking Activities of National Commerce¹

- (1) Extending credit, servicing loans, and factoring, in accordance with section 225.28(b)(1) of Regulation Y (12 CFR 225.28(b)(1)), through TransPlatinum Service Corp., Nashville ("TransPlatinum");
- (2) Leasing personal and real property, in accordance with section 225.28(b)(3) of Regulation Y (12 CFR 225.28(b)(3)), through USI Alliance Corp., Memphis ("USI");
- (3) Operating savings associations, in accordance with section 225.28(b)(4)(ii) of Regulation Y (12 CFR 225.28(b)(4)(ii)), through First Market FSB and NBC FSB;
- (4) Operating a nondepository trust company, in accordance with section 225.28(b)(5) of Regulation Y (12 CFR 225.28(b)(5)), through First Mercantile Trust Company, Memphis ("Trust Company");
- (5) Providing financial and investment advisory services, in accordance with section 225.28(b)(6) of Regulation Y (12 CFR 225.28(b)(6)), through FMT Capital Management, Inc., Commerce Capital Management, Inc., both in Memphis, Trust Company, and Brooks, Montague & Associates, Inc., Chattanooga;

- (6) Engaging in community development activities, in accordance with section 225.28(b)(12) of Regulation Y (12 CFR 225.28(b)(12)), through Senior Housing Crime Prevention Foundation Investment Corporation, Memphis, and USI; and
- (7) Providing data processing and data transmission services, in accordance with section 225.28(b)(14) of Regulation Y (12 CFR 225.28(b)(14)), through TransPlatinum.

Appendix B

Banking Markets where SunTrust Bank and National Commerce's Subsidiary Depository Institutions Compete Directly

Georgia Banking Markets

Atlanta

Bartow, Cherokee, Clayton, Cobb, Coweta, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gwinnett, Henry, Newton, Paulding, Rockdale, and Walton Counties; the towns of Auburn and Winder in Barrow County; the town of Luthersville in Meriwether County; and Hall County, excluding the town of Clermont.

Dalton

Murray and Whitfield Counties.

Rome

Rome and Polk Counties.

Savannah

Bryan, Chatham, and Effingham Counties.

Tennessee Banking Markets

Chattanooga (Tennessee and Georgia)

The Chattanooga MSA, excluding the town of Monteagle in Marion County, Tennessee.

Cleveland

Bradley County and the towns of Benton and Ocoee in Polk County.

Knoxville

Anderson, Knox, Loudon, Roane, and Union Counties; the portion of Blount County northwest of Chilhowee Mountain; the towns of Harriman and Oliver Springs in Morgan County; the towns of Seymour and Kodak in Sevier County; and the towns of Blaine, Buffalo Springs, Joppa, Lea Springs, and Powder Springs in Grainger County.

1. All the named subsidiaries are in Tennessee and include organizations controlled by them.

Lawrence County

Lawrence County.

Morristown–Newport

Cocke and Hamblen Counties; the towns of Baneberry, Jefferson City, Jefferson Estates, Leadvale, Talbot, and White Pine in Jefferson County; and Grainger County, excluding the towns of Blaine, Buffalo Springs, Joppa, Lea Springs, and Powder Springs.

Nashville

Cheatham, Davidson, Robertson, Rutherford, Sumner, Williamson, and Wilson Counties.

*Virginia Banking Markets**Fredericksburg*

Caroline, King George, and Spotsylvania Counties; Stafford County, excluding the portion in the Washington, DC–MD–VA Rannally Metropolitan Area (“RMA”); the independent city of Fredericksburg; the town of Lake Anna in Louisa County; and the towns of Colonial Beach, Leadstown, Oak Grove, and Potomac Beach in Westmoreland County.

Newport News–Hampton

The Newport News–Hampton RMA; the non-RMA portions of James City and Mathews Counties; and the independent cities of Hampton, Newport News, Poquoson, and Williamsburg.

Pulaski–Radford

Montgomery and Pulaski Counties and the independent city of Radford.

Richmond

The Richmond RMA; the non-RMA portions of Chesterfield, Dinwiddie, Goochland, Hanover, Henrico, Powhatan, and Prince George Counties; Charles City, King and Queen, King William, and New Kent Counties; and the independent cities of Colonial Heights, Hopewell, Petersburg, and Richmond.

Roanoke

The Roanoke RMA; the non-RMA portions of Botetourt and Roanoke Counties; the town of Boones Mill in Franklin County; and the independent cities of Roanoke and Salem.

Appendix C

Market Data for Banking Markets without Divestitures

*Unconcentrated Banking Market**Morristown–Newport, Tennessee*

SunTrust operates the fifth largest depository institution in the market, controlling deposits of \$142.7 million, which represent approximately 10.5 percent of market deposits. National Commerce operates the 11th largest depository institution in the market, controlling deposits of \$36.5 million, which represent approximately 2.7 percent of market deposits. After the proposed merger, SunTrust would operate the second largest depository institution in the market, controlling deposits of approximately \$179.2 million, which represent approximately 13.1 percent of market deposits. Seventeen depository institutions would remain in the banking market. The HHI would increase by 56 points to 984.

*Moderately Concentrated Banking Markets**Georgia Banking Markets**Atlanta*

SunTrust operates the second largest depository institution in the market, controlling deposits of \$13.8 billion, which represent approximately 19.1 percent of market deposits. National Commerce operates the 13th largest depository institution in the market, controlling deposits of \$549.4 million, which represent less than 1 percent of market deposits. After the proposed merger, SunTrust would remain the second largest depository institution in the market, controlling deposits of approximately \$14.4 billion, which represent approximately 19.9 percent of market deposits. Eighty-seven depository institutions would remain in the banking market. The HHI would increase by 29 points to 1317.

Dalton

SunTrust operates the 14th largest depository institution in the market, controlling deposits of \$4.4 million, which represent less than 1 percent of market deposits. National Commerce operates the 11th largest depository institution in the market, controlling deposits of \$22.1 million, which represent approximately 1.3 percent of market deposits. After the proposed merger, SunTrust would operate the tenth largest depository institution in the market, controlling deposits of approximately \$26.5 million, which represent approximately 1.6 percent of market deposits. Thirteen depository institutions would remain in the banking market. The HHI would increase by 1 point to 1390.

Rome

SunTrust operates the largest depository institution in the market, controlling deposits of \$289.2 million, which represent approximately 20.3 percent of market deposits. National Commerce operates the tenth largest depository institution in the market, controlling deposits of \$40.4 million, which represent approximately 2.8 percent of market deposits. After the proposed merger, SunTrust would remain the largest depository institution in the market, controlling deposits of approximately \$329.6 million, which represent approximately 23.1 percent of market deposits. Twelve depository institutions would remain in the banking market. The HHI would increase by 11 points to 1359.

Savannah

SunTrust operates the third largest depository institution in the market, controlling deposits of \$702.7 million, which represent approximately 19.3 percent of market deposits. National Commerce operates the sixth largest depository institution in the market, controlling deposits of \$137.2 million, which represent approximately 3.8 percent of market deposits. After the proposed merger, SunTrust would operate the largest depository institution in the market, controlling deposits of approximately \$839.9 million, which represent approximately 23.1 percent of market deposits. Eighteen depository institutions would remain in the banking market. The HHI would increase by 146 points to 1684.

*Tennessee Banking Markets**Chattanooga (Tennessee and Georgia)*

SunTrust operates the largest depository institution in the market, controlling deposits of \$1.2 billion, which represent approximately 21 percent of market deposits. National Commerce operates the ninth largest depository institution in the market, controlling deposits of \$141.7 million, which represent approximately 2.5 percent of market deposits. After the proposed merger, SunTrust would remain the largest depository institution in the market, controlling deposits of approximately \$1.3 billion, which represent approximately 23.6 percent of market deposits. Twenty-three depository institutions would remain in the banking market. The HHI would increase by 106 points to 1448.

Cleveland

SunTrust operates the sixth largest depository institution with four branches in the market, controlling deposits of \$102.7 million, which represent approximately 8.9 percent of market deposits. National Commerce opened a *de novo* branch in the market on January 21, 2004. FDIC deposit data reflecting the deposits of National Commerce's branch are not yet available. After the proposed merger, nine depository institutions would remain in the market. The

Board has considered SunTrust's deposits in the market, the number of competing institutions and the deposits controlled by those institutions, and the recent entry of National Commerce's branch. The HHI would remain unchanged at 1579. Based on all the facts of record, the Board concludes that consummation of the proposal would have a *de minimis* effect in this banking market.

Knoxville

SunTrust operates the third largest depository institution in the market, controlling deposits of \$1.3 billion, which represent approximately 14.4 percent of market deposits. National Commerce operates the eighth largest depository institution in the market, controlling deposits of \$310.1 million, which represent approximately 3.4 percent of market deposits. After the proposed merger, SunTrust would operate the second largest depository institution in the market, controlling deposits of approximately \$1.6 billion, which represent approximately 17.8 percent of market deposits. Thirty-two depository institutions would remain in the banking market. The HHI would increase by 92 points to 1215.

Nashville

SunTrust operates the third largest depository institution in the market, controlling deposits of \$3.3 billion, which represent approximately 16.9 percent of market deposits. National Commerce operates the ninth largest depository institution in the market, controlling deposits of \$619.4 million, which represent approximately 3.2 percent of market deposits. After the proposed merger, SunTrust would operate the largest depository institution in the market, controlling deposits of approximately \$3.9 billion, which represent approximately 20.1 percent of market deposits. Thirty-five depository institutions would remain in the banking market. The HHI would increase by 107 points to 1214.

*Virginia Banking Markets**Fredericksburg*

SunTrust operates the seventh largest depository institution in the market, controlling deposits of \$95.2 million, which represent approximately 4.5 percent of market deposits. National Commerce operates the ninth largest depository institution in the market, controlling deposits of \$38.3 million, which represent approximately 1.8 percent of market deposits. After the proposed merger, SunTrust would operate the sixth largest depository institution in the market, controlling deposits of approximately \$133.5 million, which represent approximately 6.3 percent of market deposits. Fourteen depository institutions would remain in the banking market. The HHI would increase by 16 points to 1793.

Newport News–Hampton

SunTrust operates the largest depository institution in the market, controlling deposits of \$847.9 million, which represent approximately 22.1 percent of market deposits. National Commerce operates the 13th largest depository institution in the market, controlling deposits of \$31.3 million, which represent less than 1 percent of market deposits. After the proposed merger, SunTrust would remain the largest depository institution in the market, controlling deposits of approximately \$879.2 million, which represent approximately 22.9 percent of market deposits. Eighteen depository institutions would remain in the banking market. The HHI would increase by 36 points to 1406.

Pulaski–Radford

SunTrust operates the seventh largest depository institution in the market, controlling deposits of \$98.3 million, which represent approximately 6.4 percent of market deposits. National Commerce operates the tenth largest depository institution in the market, controlling deposits of \$21.5 million, which represent approximately 1.4 percent of market deposits. After the proposed merger, SunTrust would operate the fourth largest depository institution in the market, controlling deposits of approximately \$119.7 million, which represent approximately 7.8 percent of market deposits. Ten depository institutions would remain in the banking market. The HHI would increase by 18 points to 1789.

Richmond

SunTrust operates the fifth largest depository institution in the market, controlling deposits of \$2.4 billion, which represent approximately 10.2 percent of market deposits. National Commerce operates the sixth largest depository institution in the market, controlling deposits of \$813.7 million, which represent approximately 3.5 percent of market deposits. After the proposed merger, SunTrust would operate the fourth largest depository institution in the market, controlling deposits of approximately \$3.2 billion, which represent approximately 13.7 percent of market deposits. Thirty depository institutions would remain in the banking market. The HHI would increase by 71 points to 1619.

Roanoke

SunTrust operates the third largest depository institution in the market, controlling deposits of \$608.3 million, which represent approximately 13.6 percent of market deposits. National Commerce operates the fourth largest depository institution in the market, controlling deposits of \$445.2 million, which represent approximately 9.9 percent of market deposits. After the proposed merger, SunTrust would operate the largest depository institution in the market, controlling deposits of approximately \$1 billion, which represent approximately 23.5 percent of market deposits.

Fifteen depository institutions would remain in the banking market. The HHI would increase by 269 points to 1491.

*ORDERS ISSUED UNDER BANK MERGER ACT**Gateway Bank & Trust Co.
Elizabeth City, North Carolina**Order Approving the Acquisition and Establishment of
Branches*

Gateway Bank & Trust Co. (“Gateway”), a state member bank, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”) to assume certain liabilities and acquire certain assets of three branches of Provident Bank of Maryland, Baltimore, Maryland (“Provident”).¹ These branches are in Elizabeth City, North Carolina (“Elizabeth City Branch”), and Emporia and Suffolk, both in Virginia (collectively, “Virginia Branches”).²

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the Bank Merger Act and the Board’s Rules of Procedure (12 CFR 262.3(b)). As required by the Bank Merger Act, reports on the competitive effects of the merger were requested from the United States Attorney General and the other federal banking agencies. The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in the Bank Merger Act.

Gateway, with total consolidated assets of \$353 million, is the 43rd largest insured depository institution in North Carolina, controlling deposits of \$184.2 million. The Elizabeth City Branch controls deposits of \$52 million. On consummation of the proposal, Gateway would remain the 43rd largest insured depository institution in North Carolina, controlling deposits of \$236.2 million, which represent less than 1 percent of total deposits of insured depository institutions in the state.³

Gateway is the 119th largest insured depository institution in Virginia, controlling state deposits of approximately \$48 million. The Virginia Branches control deposits of \$90.8 million. On consummation of the proposal, Gateway would become the 81st largest insured depository institution in Virginia, controlling deposits of \$139.6 million, which represent less than 1 percent of total deposits of insured depository institutions in the state.

1. 12 U.S.C. § 1828(c).

2. See 12 U.S.C. § 1831u. The branches are at 400 West Ehringhaus Street in Elizabeth City, 520 S. Main Street in Emporia, and 2825 Godwin Boulevard in Suffolk. Provident will continue to operate branches in Maryland, Virginia, Pennsylvania, and the District of Columbia.

3. Asset data are as of March 31, 2004. Deposit data and ranking data are as of June 30, 2003, and reflect merger and acquisition activity through April 20, 2004.

Interstate Analysis

Gateway is in North Carolina and proposes to acquire two branches in Virginia, as well as a branch in North Carolina. Section 102 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal Act") authorizes a bank to merge with another bank under certain conditions unless, before June 1, 1997, the home state of one of the banks involved in the transaction adopted a law expressly prohibiting merger transactions involving out-of-state banks.⁴ Virginia and North Carolina have enacted legislation allowing interstate mergers between banks in their states and out-of-state banks pursuant to the provisions of the Riegle-Neal Act.⁵ Gateway has complied with state law requirements, and the proposal meets all other requirements of the Riegle-Neal Act.⁶ Accordingly, the Riegle-Neal Act authorizes the proposed interstate branch acquisitions.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving an application if the proposal would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking.⁷ The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant market, unless the Board finds that the anti-competitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.⁸

Gateway proposes to acquire a Provident branch in each of the following markets where Gateway and Provident compete directly: the Norfolk-Portsmouth, Virginia-North Carolina, banking market ("Norfolk-Portsmouth Market") and the Elizabeth City, North Carolina,⁹ banking market ("Elizabeth City Market"). The Board has carefully reviewed the competitive effects of the proposal in these banking markets in light of all the facts of record, including the number of competitors that would remain and the relative shares of total deposits in depository institutions in

each market ("market deposits") they would control,¹⁰ the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index ("HHI") and the Department of Justice Merger Guidelines ("DOJ Guidelines"),¹¹ and other characteristics of the markets.

After consummation of the proposal, the Norfolk-Portsmouth Market would remain moderately concentrated, and the post-merger HHI would be consistent with the DOJ Guidelines and Board precedent. Numerous competitors would remain in the banking market.¹²

In the Elizabeth City Market, however, the HHI would exceed DOJ Guidelines on consummation. Gateway is the second largest insured depository institution in the market, controlling deposits of \$143.3 million, which represent 21.9 percent of market deposits. Provident is the sixth largest depository institution with deposits of \$52 million, which represent approximately 8 percent of market deposits. On consummation of the merger, Gateway would become the largest depository institution in the market, controlling deposits of \$195.3 million, which represent approximately 29.9 percent of market deposits. The HHI would increase by 349 points to 2014.

Several factors indicate that the proposal is not likely to have a significant adverse effect on competition in the market. Nine commercial banking organizations would remain in the market after consummation. Four of Gateway's largest commercial bank competitors each would control more than 9 percent of market deposits and the two largest competitors would control more than 22 percent and 16 percent of market deposits, respectively. Although there has been no *de novo* entry in recent years, the Elizabeth City Market has economic characteristics that

10. Market share data are based on calculations in which the deposits of thrift institutions are included at 50 percent before consummation. The Board has previously indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board regularly has included thrift deposits in the calculation of market share on a 50 percent weighted basis.

11. 49 *Federal Register* 26,823 (1984). Under these guidelines, a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800 and highly concentrated if the post-merger HHI is more than 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal thresholds for an increase in the HHI when screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

12. Gateway operates the 14th largest depository institution in the market, controlling deposits of approximately \$48 million or less than 1 percent of market deposits. Provident operates the 22nd largest depository institution in the market, controlling deposits of \$42 million. On consummation of the proposal, Gateway would remain the 14th largest depository institution in the market, controlling deposits of \$90 million or less than 1 percent of market deposits. The HHI would increase by 1 point to 1,325 and 21 institutions would remain in the market.

4. Pub. L. No 103-328, 108 Stat. 2338 (1994); see 12 U.S.C. § 1831u.

5. See Va. Code Ann. 6.1-44.1 *et seq.* (effective March 16, 1995); 1999 N.C. Sess. Laws 53-224(11) (effective May 21, 1999).

6. Gateway is adequately capitalized and the resulting bank would continue to be adequately capitalized and adequately managed on consummation of this proposal. Gateway and its affiliates would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States and less than 30 percent of the total amount of deposits of insured depository institutions in Virginia. See 12 U.S.C. § 1831u.

7. 12 U.S.C. § 1828(c)(5)(A).

8. 12 U.S.C. § 1828(c)(5)(A) and (B).

9. The Norfolk-Portsmouth Market is defined as the independent cities of Chesapeake, Norfolk, Portsmouth, Suffolk, and Virginia Beach in Virginia; and Currituck County, North Carolina. The Elizabeth City Market is defined as the counties of Camden, Pasquotank, and Perquimans in North Carolina.

suggest it is modestly attractive for new entry. The market has experienced above-average population growth relative to the average of nonmetropolitan areas in North Carolina, and per capita income and deposits per banking office exceed the average for nonmetropolitan counties in the state. In addition, recent rates of increase in population and bank deposits in the market are higher compared with national rates.

The Board also has considered that the market has a large and active credit union that offers a full range of retail banking products. North Carolina's State Employees' Credit Union ("SECU") is the second largest credit union in the United States, with more than \$10 billion in total deposits. Approximately 75 percent of the residents in the market are eligible to become members of SECU. In addition, SECU operates street-level branches and multiple automated teller machines that are easily accessible to residents in the market. SECU controls approximately \$68 million in deposits in the Elizabeth City Market. The Board concludes that this credit union exerts a competitive influence that mitigates, in part, the potential anticompetitive effects of the proposal.¹³

The Board concludes that the foregoing considerations, including the number and size of competitors that would remain in the Elizabeth City Market after consummation, the presence of a large, accessible credit union, the structure and attractiveness for entry of the market, and other factors, mitigate the transaction's potential anticompetitive effects. The Department of Justice has advised the Board that consummation of the proposal is not likely to have a significantly adverse competitive effect in the Elizabeth City Market. The Board also has received no objections to the proposal from the other federal banking agencies. Based on all the facts of record, the Board concludes that consummation of the proposed transaction would not likely result in a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive factors are consistent with approval.

Financial and Managerial Resources and Future Prospects

In reviewing the proposal under the Bank Merger Act, the Board has also carefully considered the financial and managerial resources and the future prospects of Gateway and the Provident branches to be acquired. The Board has reviewed these factors in light of all the facts of record, including confidential reports of examination assessing the financial and managerial resources of Gateway and information provided by Gateway. The Board notes that Gate-

13. With deposits of SECU included at 50 percent, Gateway would be the largest of eleven depository institutions in the market, with 20.8 percent of market deposits, and Provident would be the sixth largest depository institution in the market, controlling 7.6 percent of market deposits. On consummation of the proposal, Gateway would remain the largest depository institution in the market with deposits of \$211.3 million or 28.4 percent of market deposits. The HHI would increase by 315 points to 1844.

way currently is well capitalized and is expected to remain so after consummation of the proposal. In addition, the Board has considered Gateway's plans to implement the proposal, including its available managerial resources. Gateway has sufficient financial and managerial resources to consummate the proposal. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of the institutions involved are consistent with approval of the proposal.

Convenience and Needs Considerations

In acting on the proposal, the Board also must consider its effects on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the CRA. 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹⁴

The Board has carefully considered the effects of the proposal on the convenience and needs of the communities to be served in light of all the facts of record, including Gateway's CRA performance record and other information from the bank. Gateway received an overall rating of "satisfactory" at its most recent CRA performance evaluation by the Federal Deposit Insurance Corporation ("FDIC"), as of April 1, 2001.¹⁵ Provident also received a satisfactory overall rating at its most recent CRA performance evaluation by the FDIC, as of October 1, 2001. In addition, the Board notes that the three branches to be acquired are somewhat remote from Provident's main operations in Maryland and Northern Virginia. With their proximity to Gateway's branches, the bank plans for these branches to play a central role in expanding its community banking services in northeastern North Carolina and the Tidewater region of Virginia.

Based on these and all the facts of record, the Board has concluded that considerations relating to the convenience and needs of the communities to be served, including the CRA performance records of the institutions involved, are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the Bank Merger Act and other applicable statutes. The Board's approval is specifically conditioned on the commitments that Gateway made to the Board in connection with the application, including a commitment to comply with state law. These

14. *Interagency Questions and Answers Regarding Community Reinvestment*, 66 *Federal Register* 36,620 and 36,639 (2001).

15. Gateway became a state member bank on October 1, 2001.

commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Richmond, acting pursuant to delegated authority.

By order of the Board of Governors, effective August 3, 2004.

Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

Banco de Chile
Santiago, Chile

Order Approving Establishment of a Branch

Banco de Chile ("Bank"), Santiago, Chile, a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 7(d) of the IBA (12 U.S.C. §3105(d)) to establish a branch in Miami, Florida. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in Miami, Florida (*The Miami Herald*, October 2, 2003). The time for filing comments has expired, and all comments have been considered.

Bank, with total assets of \$15.3 billion, is one of the largest banks in Chile.¹ Three Chilean entities, LQ Inversiones Financieras S.A., Sociedad Matriz del Banco de Chile S.A., and Sociedad Administradora de la Obligacion Sabordinada, directly own 20.2 percent, 18.5 percent, and 42 percent, respectively, of the Bank's shares.² These three entities are directly or indirectly controlled by Quiñenco S.A., Santiago, Chile, which, in turn, is indirectly controlled by the Luksburg Foundation ("Luksburg"), Vaduz, Liechtenstein, Bank's ultimate parent.³ Bank provides a wide variety of financial services, including retail and corporate banking, insurance and brokerage services, fund management, financial advisory services, securitization,

and trade-related financing. Bank operates approximately 240 branches in Chile, as well as representative offices in Argentina, Brazil, and Mexico. Luksburg and Bank are qualifying foreign banking organizations pursuant to Regulation K.

In the United States, Bank operates a branch office in New York, New York, and an agency in Miami, Florida. New York is Bank's home state. Bank proposes to establish a branch outside of its home state by upgrading its Miami agency into a branch pursuant to section 5(a)(7)(B) of the IBA (12 U.S.C. §3103(a)(7)(B)). The proposed branch would continue the business of Bank's Miami office agency, but would also enable Bank to accept at its Miami office wholesale and other limited deposits from U.S. residents.

In order to approve an application by a foreign bank to establish a branch in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of the United States and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. §3105(d)(2); 12 CFR 211.24).⁴ The Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. §3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3)).

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant issues.

With respect to supervision by home country authorities, the Board previously has determined that Bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor, the Superintendencia de Bancos e Instituciones Financieras ("SBIF").⁵ Bank continues to be supervised by the SBIF on substan-

4. In assessing this standard, the Board considers, among other factors, 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 examination reports, audit reports, or otherwise;
- (iii) obtain information on the dealings with 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;
- (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis.

These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board's determination.

5. See *Banco de Chile*, 80 *Federal Reserve Bulletin* 179 (1994); See also, *Banco de Credito e Inversiones S.A.*, 85 *Federal Reserve Bulletin* 446 (1999).

1. Asset data are as of December 31, 2003.

2. No other shareholder owns directly more than 10 percent of Bank's shares.

3. Mr. Andronico Luksic Abaroa indirectly controls 56 percent of the shares of Quiñenco through Luksburg. Two other members of the Luksic family each indirectly control approximately 13.2 percent of Quiñenco's shares. The remainder of Quiñenco's shares are publicly traded on the New York and Chilean Stock Exchanges and no other shareholder owns more than 5 percent of those shares.

tially the same terms and conditions. Based on all the facts of record, it has been determined that Bank continues to be subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.⁶

The additional standards set forth in section 7 of the IBA and Regulation K (*see* 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2)–(3)) have also been taken into account. SBIF has no objection to the establishment of the proposed branch.

Chile's risk-based capital standards are consistent with those established by the Basle Capital Accord ("Accord"). Bank's capital is in excess of the minimum levels that would be required by the Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. Bank has established controls and procedures for the proposed branch to ensure compliance with U.S. law and for its operations in general.

Chile is a member of GAFISUD (Financial Action Task Force for South America), which is an observer organization to the Financial Action Task Force. Chile has enacted laws and adopted regulations to deter money laundering. Money laundering is a criminal offense in Chile, and financial institutions are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. Bank has policies and procedures to comply with these laws and regulations. Bank's compliance with applicable laws and regulations is monitored by its auditors and SBIF.

With respect to access to information about Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Bank operates have been reviewed and relevant government authorities have been communicated with regarding access to information. Bank and its ultimate parent, Luksburg, have committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bank and its ultimate parent have committed to cooperate with the Board to obtain any necessary consents or waivers that

might be required from third parties for disclosure of such information. In addition, subject to certain conditions, SBIF may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

In order to approve a proposal to establish a branch in a state outside a foreign bank's home state by upgrading an agency pursuant to section 5(a)(7)(B) of the IBA (12 U.S.C. § 3103(a)(7)(B)), the Board is required to determine that

- (i) the establishment of such branch is permitted by the state where the branch is to be established; and
- (ii) the agency to be upgraded was in operation in that state on the day before September 29, 1994, or has been in operation in that state for a period of time that meets the state's minimum age requirement permitted under 12 U.S.C. § 1831u(a)(5).

These requirements have been met in this case.

On the basis of all the facts of record, and subject to the commitments made by Bank and its ultimate parent, as well as the terms and conditions set forth in this order, Bank's application to establish a branch is hereby approved.⁷ Should any restrictions on access to information on the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank and its ultimate parent with the commitments made to the Board in connection with this application and with the conditions in this order.⁸ These commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with this decision and, as such, may be enforced in proceedings under applicable law against Bank and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective July 27, 2004.

ROBERT DEV. FRIERSON
Deputy Secretary of the Board

6. In reaching this view, the oversight of Bank's parent companies has been considered. Under the Chilean General Banking Law, Bank's two immediate parent holding companies, Sociedad Matriz del Banco de Chile S.A. and Sociedad Administradora de la Obligación Subordinada, are subject to supervision by the SBIF. In addition, under the Chilean General Banking Law, the SBIF has authority to request that Bank provide information to the SBIF concerning any of its parent holding companies. The Chilean General Banking Law and the Chilean Corporations Law also contain restrictions on transactions with affiliates.

7. Approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board.

8. The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the State of Florida to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of Florida to license the proposed office of Bank in accordance with any terms or conditions that it may impose.

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175. THE FUTURE OF RETAIL ELECTRONIC PAYMENTS SYSTEMS: INDUSTRY INTERVIEWS AND ANALYSIS, Federal Reserve Staff, for the Payments System Development Committee, Federal Reserve System. December 2002. 27 pp.
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<i>Weekly Releases</i>					
H.2. Actions of the Board: Applications and Reports Received	\$55.00	n.a.	Friday	Week ending previous Saturday	...
H.3. Aggregate Reserves of Depository Institutions and the Monetary Base ³	\$20.00	n.a.	Thursday	Week ending previous Wednesday	1.20
H.4.1. Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks ³	\$20.00	n.a.	Thursday	Week ending previous Wednesday	1.11, 1.18
H.6. Money Stock Measures ³	\$35.00	n.a.	Thursday	Week ending Monday of previous week	1.21
H.8. Assets and Liabilities of Commercial Banks in the United States ³	\$30.00	n.a.	Friday	Week ending previous Wednesday	1.26A-F
H.10. Foreign Exchange Rates ³	\$20.00	\$20.00	Monday	Week ending previous Friday	3.28
H.15. Selected Interest Rates ³	\$20.00	\$20.00	Monday	Week ending previous Friday	1.35
<i>Monthly Releases</i>					
G.5. Foreign Exchange Rates ³	\$ 5.00	\$ 5.00	First of month	Previous month	3.28
G.17. Industrial Production and Capacity Utilization ³	\$15.00	n.a.	Midmonth	Previous month	2.12, 2.13
G.19. Consumer Credit ³	\$ 5.00	\$ 5.00	Fifth working day of month	Second month previous	1.55, 1.56
G.20. Finance Companies ³	\$ 5.00	n.a.	End of month	Second month previous	1.51, 1.52

Release number and title	Annual mail rate	Annual fax rate	Approximate release days ¹	Period or date to which data refer	Corresponding <i>Bulletin</i> or <i>Statistical Supplement</i> table numbers ²
<i>Quarterly Releases</i>					
E.2. Survey of Terms of Business Lending ³	\$ 5.00	n.a.	Midmonth of March, June, September, and December	February, May, August, and November	4.23
E.11. Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks	\$ 5.00	n.a.	15th of March, June, September, and December	Previous quarter	...
E.16. Country Exposure Lending Survey ³	\$ 5.00	n.a.	January, April, July, and October	Previous quarter	...
Z.1. Flow of Funds Accounts of the United States: Flows and Outstandings ³	\$25.00	n.a.	Second week of March, June, September, and December	Previous quarter	1.57, 1.58, 1.59, 1.60

1. Please note that for some releases, there is normally a certain variability in the release date because of reporting or processing procedures. Moreover, for all series unusual circumstances may, from time to time, result in a release date being later than anticipated.

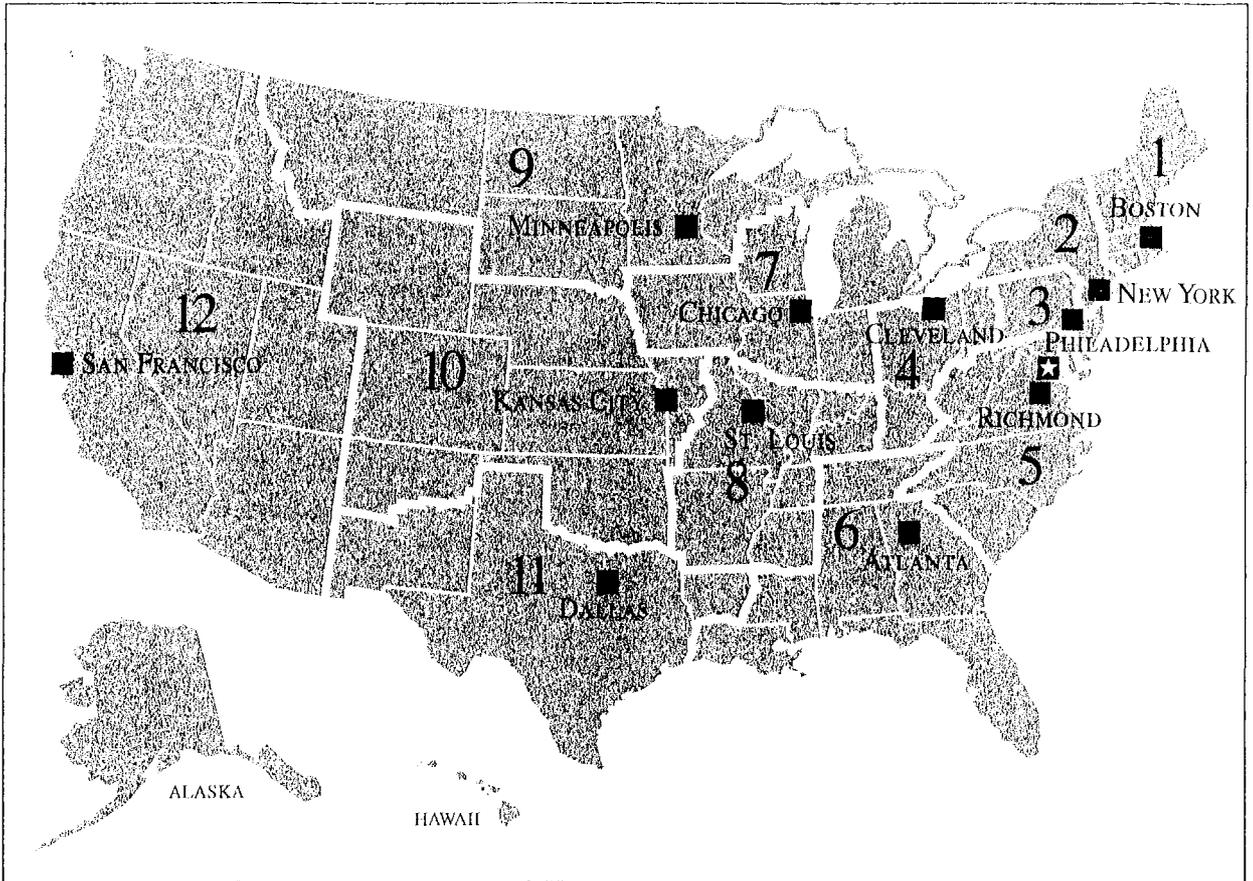
2. Beginning with the Winter 2004 issue (vol. 90, no. 1) of the *Bulletin*, the corresponding table for the statistical release no longer appears in the

Bulletin. Statistical tables are now published in the *Statistical Supplement to the Federal Reserve Bulletin*; the table numbers, however, remain the same.

3. These releases are also available on the Board's web site, www.federalreserve.gov/releases.

n.a. Not available.

Maps of the Federal Reserve System



LEGEND

Both pages

- Federal Reserve Bank city
- ⊠ Board of Governors of the Federal Reserve System, Washington, D.C.

Facing page

- Federal Reserve Branch city
- Branch boundary

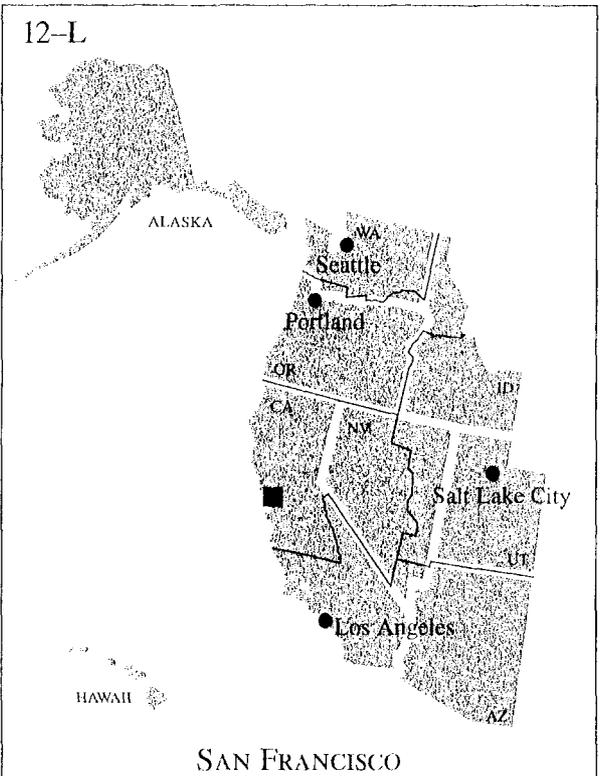
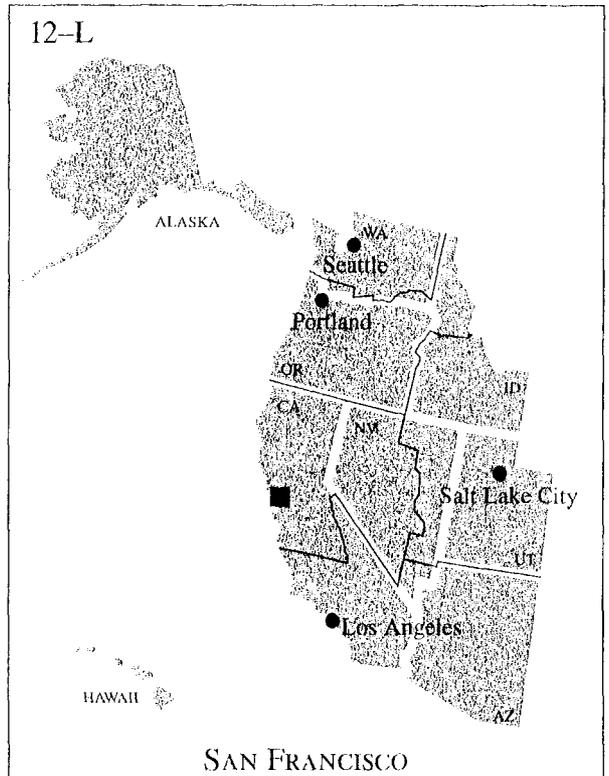
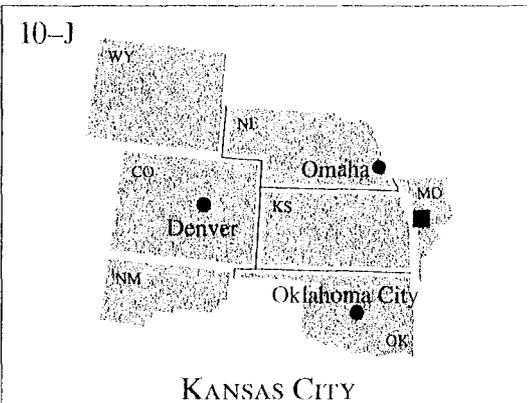
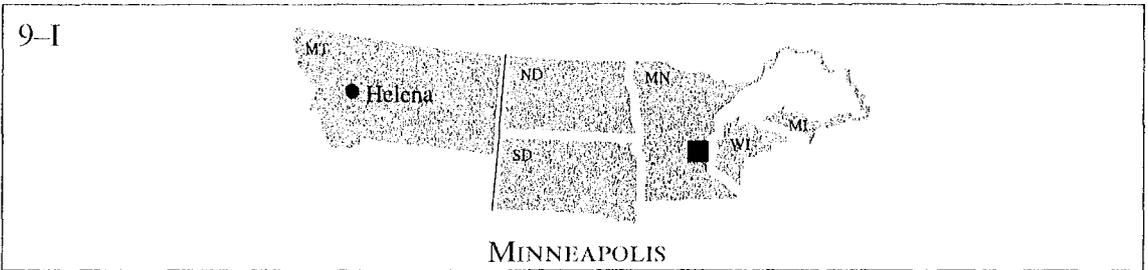
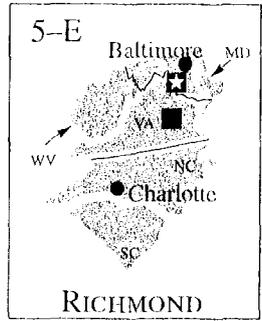
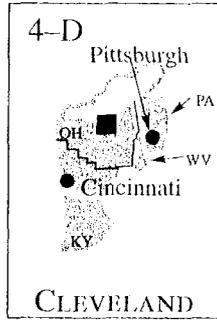
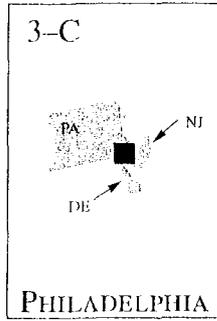
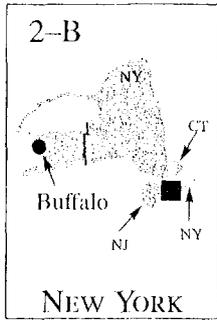
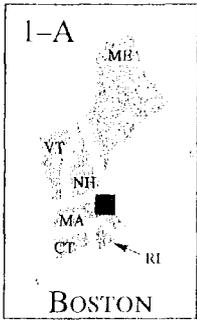
NOTE

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii.

The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth

of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Board of Governors revised the branch boundaries of the System most recently in February 1996.



Federal Reserve Banks, Branches, and Offices

FEDERAL RESERVE BANK branch, or facility	Zip	Chairman Deputy Chairman	President First Vice President	Vice President in charge of branch
BOSTON*	02106	Samuel O. Thier Blenda J. Wilson	Cathy E. Minehan Paul M. Connolly	
NEW YORK*	10045	John E. Sexton Jerry I. Speyer	Timothy F. Geithner Christine M. Cumming	
Buffalo	14240	Vacancy		Barbara L. Walter ¹
PHILADELPHIA	19105	Ronald J. Naples Doris M. Damm	Anthony M. Santomero William H. Stone, Jr.	
CLEVELAND*	44101	Robert W. Mahoney Charles E. Bunch	Sandra Pianalto Robert Christy Moore	
Cincinnati	45201	Dennis C. Cuneo		Barbara B. Henshaw
Pittsburgh	15230	Roy W. Haley		Robert B. Schaub
RICHMOND*	23219	Wesley S. Williams, Jr. Thomas J. Mackell, Jr.	Jeffrey M. Lacker Walter A. Varvel	
Baltimore	21203	Owen E. Herrnstadt		William J. Tignanelli ¹
Charlotte	28230	Michael A. Almond		Jeffrey S. Kane ¹
ATLANTA	30303	David M. Ratcliffe V. Larkin Martin	Jack Guynn Patrick K. Barron	
Birmingham	35242	Catherine Crenshaw		James M. McKee ¹
Jacksonville	32231	Julie Hilton		Lee C. Jones
Miami	33152	Rosa Sugranes		Christopher L. Oakley
Nashville	37203	Rodney Lawler		Juan Del Busto
New Orleans	70161	Dave Dennis		Melvyn K. Purcell ¹
				Robert J. Musso ¹
CHICAGO*	60690	W. James Farrell Miles D. White	Michael H. Moskow Gordon R. G. Werkema	
Detroit	48231	Edsel B. Ford II		Glenn Hansen ¹
ST. LOUIS	63166	Walter L. Metcalfe, Jr. Gayle P. W. Jackson	William Poole W. LeGrande Rives	
Little Rock	72203	Scott T. Ford		Robert A. Hopkins
Louisville	40232	Cornelius A. Martin		Thomas A. Boone
Memphis	38101	Meredith B. Allen		Martha Perine Beard
MINNEAPOLIS	55480	Linda Hall Whitman Frank L. Sims	Gary H. Stern James M. Lyon	
Helena	59601	Dean Folkvord		Samuel H. Gane
KANSAS CITY	64198	Richard H. Bard Robert A. Funk	Thomas M. Hoenig Richard K. Rasdall	
Denver	80217	Thomas Williams		Pamela L. Weinstein
Oklahoma City	73125	Tyree O. Minner		Dwayne E. Boggs
Omaha	68102	A.F. Raimondo		Steven D. Evans
DALLAS	75201	Ray L. Hunt Patricia M. Patterson	Robert D. McTeer, Jr. Helen E. Holcomb	
El Paso	79999	Ron C. Helm		Robert W. Gilmer ³
Houston	77252	Lupe Fraga		Robert Smith III ¹
San Antonio	78295	Ron R. Harris		James L. Stull ¹
SAN FRANCISCO	94120	George M. Scalise Sheila D. Harris	Janet L. Yellen John F. Moore	
Los Angeles	90051	William D. Jones		Mark L. Mullinix ²
Portland	97208	Karla S. Chambers		Richard B. Hornsby
Salt Lake City	84125	H. Roger Boyer		Andrea P. Wolcott
Seattle	98124	Mic R. Dinsmore		Mark Gould

*Additional offices of these Banks are located at Windsor Locks, Connecticut 06096; East Rutherford, New Jersey 07016; Utica at Oriskany, New York 13424; Columbus, Ohio 43216; Columbia, South Carolina 29210; Charleston, West Virginia 25311; Des Moines, Iowa 50306; Indianapolis, Indiana 46204; Milwaukee, Wisconsin 53202; and Peoria, Illinois 61607.

1. Senior vice president
2. Executive vice president
3. Acting

Index to Volume 90

	Pages		Pages
ALVAREZ, Scott G., General Counsel, Legal Division	350	Bank Holding Company Act of 1956—Continued	
Anguelov, Christoslav E., article	1–18	RBSG International Holdings, Ltd.,	
Articles		Edinburgh, Scotland	87–93, 489–503
Credit report accuracy and access to credit	297–322	Regions Financial Corporation	389–402
Federal Reserve Banks as fiscal agents and depositories		Royal Bank of Scotland, plc, The,	
of the United States in a changing financial		Edinburgh, Scotland	87–93, 489–503
environment	435–46	Royal Bank of Scotland Group, plc, The,	
Federal Reserve personal financial education initiatives ..	447–57	Edinburgh, Scotland	87–93, 489–503
Industrial production and capacity utilization:		Shinhan Financial Group Co., Ltd., Seoul, Korea	85–87
The 2003 annual revision	32–46	Sky Financial Group, Inc.	378–82
Monetary policy reports to the Congress	125–52, 265–88	S&T Bancorp, Inc.	79–85
Profits and balance sheet developments at U.S.		SunTrust Bank, Inc.	533–47
commercial banks in 2003	162–91	SunTrust Bank Holding Company	533–47
Recent developments in cross-border investment		UBS, AG, Zurich, Switzerland	215–17
in securities	19–31	<i>Bank Holding Company Supervision Manual</i>	63–65, 345–46
Summary of papers presented at the conference		Banking, electronic (<i>See</i> Electronic banking)	
“Models and Monetary Policy: Research in the		Banking industry	
Tradition of Dale Henderson, Richard Porter,		Profits	162–91
and Peter Tinsley”	289–96	Report data	47–48
Summary of papers presented at the second conference		U.S., reports on condition of	47–54, 192–96, 323–27, 458–62
of the International Research Forum		Banking on Youth program, Federal Reserve Bank	
on monetary policy	153–61	of New York	448
ASAP.gov payment service	440	Bank merger, activity in the United States, 1994–2003,	
Asset-size exemption thresholds	56–57	staff study summary	328
Athey, Atkeson, and Kehoe, summary of paper		Bank Merger Act, orders issued under	
on monetary policy	156	Banco de Chile, Santiago, Chile	550–51
Automated clearinghouse system	437	Gateway Bank & Trust Co.	547–50
Automated Standard Application for Payments	440	Bank of America, merger with FleetBoston Financial	
Automated teller machine (ATM), use	3	Corporation, public meeting	59
Availability of Funds and Collection of Checks		Bank One Corporation, proposed merger with J.P. Morgan	
(Reg. CC), check-processing operations,		Chase and Co.	202
amendments	55–56, 199, 330–31, 464	Bank Secrecy Act, examination procedures	336
Avery, Robert B., article	297–322	Basel Committee on Banking Supervision, <i>International</i>	
BANK holding companies, rating system, proposed revisions ..	334	<i>Convergence of Capital Measurement and</i>	
Bank Holding Companies and Change in Bank Control		<i>Capital Standards: A Revised Framework</i>	343–44
(Reg. Y)	55	Batini, Levine, and Pearlman, summary of paper	
Bank Holding Company Act of 1956, orders issued under		on monetary policy	157–58
AllNations Bancorporation, Inc.	68–69	Bayard, Kimberly, article	32–46
Associated Banc-Corp.	503–11	Bayoumi, Laxton, and Pesenti, summary of paper	
Banco Popular North America	513–19	on monetary policy	158
Bank of America Corporation	217–36	Beige Book release	62
Barclays Bank, PLC	511–13	Benigno and Woodford, summary of papers	
Capital One Financial Corporation	479–81	on monetary policy	155–56, 292
Central Pacific Financial Corp.	93–103	Bertaut, Carol C., article	19–31
Citizens Financial Group, Inc.	87–93, 489–503	Board of Governors	
Desjardins FSB Holdings, Inc.	69–72	Agreement with Canadian Imperial Bank of Commerce	59
Desjardins Group, The, Montreal, Canada	69–72	Consumer Advisory Council	
Federation des Caisses Desjardins du Quebec,		Meetings	205, 347, 474
Levis, Canada	69–72	Members and officers, appointments	61–62
FleetBoston Financial Corporation	217–36	Nominations for appointments requested	347–48
F.N.B. Corporation	481–84	Discount rate meetings, minutes	62, 205, 347, 474
Haines Financial Corp.	484–85	Greenspan, Chairman Alan, statements on nomination	
John Hancock Financial Services, Inc.	373–77	and oath of office	329
J.P. Morgan Chase and Co.	212–15, 352–72	Membership history	249–51
La Caisse Central Desjardins du Quebec,		Observance of national day of mourning	348
Montreal, Canada	69–72	Official staff changes	
LBT Bancshares, Inc.	485–89	Alvarez, Scott G.	350
Manulife Financial Corporation, Toronto, Canada	373–77	Braunstein, Sandra F.	207–08
Mountain Home Bancshares, Inc.	377–78	Clark, Steve	477
National City Corporation	236–41, 382–89, 519–26	Coleman, Stacy	207
NewAlliance Bancshares, Inc.	242–46	Connors, Thomas	476
New Regions Financial Corporation	389–402	Danker, Deborah J.	476–77
North Fork Bancorporation, Inc.	526–33	Elmendorf, Douglas	350, 351
PNC Bancorp, Inc.	72–79	Fields, Christine	477
PNC Financial Services Group, Inc., The	72–79	Freeman, Richard	476
Popular International Bank, Inc., San Juan, Puerto Rico ..	513–19	Gagnon, Joseph	476
Popular North America, Inc.	513–19	Gibson, Michael	207
		Hancock, Diana	350, 351
		Hoskins, Lisa	207

	Pages		Pages
Board of Governors—Continued		Commercial banks—Continued	
Official staff changes—Continued		Loans and performance	165–69, 175–79
Kamin, Steven	476	Profitability	162, 171–78
Leahy, Michael	476	Securities holdings	169
Liang, J. Nellie	350	Commercial paper programs, capital requirements	336
Mattingly, Virgil	350	Commercial real estate loans	176
O'Malley, Charles	477, 478	Community Reinvestment Act	198, 332
Passmore, S. Wayne	350–51	Community Reinvestment (Reg. BB)	197, 198, 332
Pauley, Darrell	477	Complex structured finance activities	336–37
Peters, Fay	66	Computer banking	3, 7–10
Porter, Richard D.	208	Condition of U.S. Banking Industry	47–54, 192–96, 323–27, 458–62
Purcell, Peter J.	66–67	Connors, Thomas, Senior Associate Director, Division of International Finance	476
Reidhill, Marsha	477–78	Consumer Advisory Council	
Reifschneider, David L.	350	Meetings	205, 347, 474
Riesz, James	477, 478	Members and officers, appointments	61–62
Sauls, Billy	477	Nominations for appointments requested	347–48
Schemering, Stephen C.	350	Consumer brochure on predatory lending, Spanish	204
Sheets, Nathan	476	<i>Consumer Guide to Check 21 and Substitute Checks</i>	474
Sichel, Daniel	350, 351	Consumer information, disposal of	337
Siciliano, Steve	350	Consumer Leasing (Reg. M)	55, 332
Smith, Dolores S.	207	Consumer protection, E-banking and	4
Spicer, Donald	477	Consumer reporting agencies, study of adequacy of disputed information investigations	465
Wascher, William L. III	350	Consumers	
White, Alice Patricia	207	Credit report accuracy and access to credit, article	297–322
Thrift Institutions Advisory Council	60–61	Electronic banking and, 1995–2003, article	1–18
Website improvements	203–04	Finances of, 2004 survey	337–38
Bounced-check protection	331–32, 335, 473	Spending	129–30, 268–69
Braunstein, Sandra F., Director, Division of Consumer and Community Affairs	207–08	Corporate profits	133–36, 272–74
Business finance	133–36, 272–74	CRA (<i>See</i> Community Reinvestment Act)	
Business sector, loans and developments	132–36, 165–66, 270–74	Credit	
CALEM, Paul S., article	297–322	Data accuracy	304–13
Call Report Modernization initiative, website	203, 334–35	Insurance, prescreened solicitations	333–34
Canadian Imperial Bank of Commerce	59	Medical information, use of for credit eligibility	335
Canner, Glenn B., article	297–322	Record samples	302–04
Canzoneri, Cumby, and Diba, summary of conference paper	292–93	Reporting	300–02
Capacity utilization (<i>See</i> Industrial production and capacity utilization)		Reports	298–302
Capital, commercial banks	170, 336	Scores, calculation of	299, 303
Capital adequacy regulations, revision	344	Stale accounts	309
Capital framework, revision	343–44, 344	Credit report accuracy and access to credit, article	297–322
Carlson, Mark, article	162–91	Cross-border investments	19–31, 27–29, 29
Central banking, publication planned	347, 563	DANKER, Deborah J., Special Assistant to the Board, Division of Monetary Affairs	476–77
Central Data Repository (CDR)	334–35, 469	Debit card fees and use	3, 7, 333
Chairmen and deputy chairmen, Federal Reserve Banks, appointments	466–67	Debt, financial intermediation and	146–48, 284
Check 21 Act (Check Clearing for the 21st Century Act)	331, 474	DeCorleto, Donna A., article	435–46
Check-processing operations		Depositories, Federal Reserve Banks as, article	435–46
Availability of Funds and Collection of Checks, Reg. CC	55–56, 199, 330–31, 464	Depository institutions	
Check 21 Act, consumer guides published	474	Exemption thresholds	56–57
Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers		Municipal securities service by Federal Reserve Banks	466
through Fedwire (Reg. J)	330, 465	Reserve requirement exemption amount for 2005	466
Electronic	444, 463–64	Derivatives transactions	170–71
Federal Reserve Banks	467–68	Direct deposit use	3
Clark, Steve, Senior Associate Director, Management Division	477	Disclosure standards, proposed rules	55
Coleman, Stacy, Assistant Director, Division of Banking Supervision and Regulation	207	Discount rate meetings, minutes	62, 205, 347, 474
Collard and Dellas, summary of paper on monetary policy	153–54	Disputed consumer information, study of investigations	465
Collection agencies	306–07, 318	Dormant bank	200–01
Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire (Reg. J)	330, 465	E-BANKING (<i>See</i> Electronic banking)	
Collection services by Federal Reserve Banks for federal government	442–44	Economic developments, by sector	
Commercial and industrial loans	175–76	Business	132–36, 270–74
<i>Commercial Bank Examination Manual</i>	62–63, 344–45	Economies, foreign	285–88
Commercial banks		Financial markets	144–48, 266, 268–74, 282–85
Balance sheet developments	164–71	Foreign	138–40, 270–74, 285–88
Capital	170	Government	136–40, 274–76
Derivatives transactions	170–71	Household	129–32, 268–70
Income and expenses, tables	181–91	Labor	140–42, 278–80
Interest income and expense	172–74	Prices	142–44, 280–82
International operations	178	Economy, U.S.	
Liabilities	169	Developments in 2004	266
		Monetary policy reports	125–52, 265–88
		Projections for 2004	128
		Projections for 2004 and 2005	267
		EFTA	4
		EFTPS tax collection service	442

	Pages		Pages
Electronic banking		Fiscal agents, Federal Reserve Banks, article	435-46
Availability and future use of	13-14	Fiscal Impact Tool (FIT)	58-59
Consumer perceptions	10-13	Fixed investments	132-33, 270-71
Consumer protection	4	FleetBoston Financial Corporation, merger with	
E-banking technologies	1-5	Bank of America	59
Implications of e-banking for consumer education	14-15	Food stamp payment services	440, 442
Use and users of e-banking	5-10	Foreign investments (<i>See</i> International investments)	
Electronic check conversion, proposed amendments		Foreign margin stocks	201
for guidance	463-64	Foreign sector, economic developments	138-40, 276-78, 285-86
Electronic check-processing application	444	Forte, Gregg, article	153-61
Electronic Federal Tax Payment System (EFTPS)	442	Fox, Lynn, article	447-57
Electronic Fund Transfer Act	4	Freeman, Richard, Associate Director, Division	
Electronic Fund Transfers (Reg. E)	55, 332, 463-64	of International Finance	476
Elmendorf, Douglas, Assistant Director and Chief,		FR-ETA tax payment services	442
Division of Research and Statistics	350, 351	FTC	56
Emerging-market economies, developments	151-52, 287-88	Fuhrer and Olivei, summary of conference paper	291-92
Employment	140-41, 278-79	GAGNON, Joseph, Assistant Director, Division	
Enforcement actions (<i>See</i> Litigation, Final enforcement		of International Finance	476
decisions issued by Board of Governors)		Galf, López-Salido, and Vallés, summary of paper	
Equal Credit Opportunity (Reg. B)	55, 332	on monetary policy	157
Equity markets	145-46, 283-84	Georgia Summit on Economic and Financial Education,	
Erhman and Fratzler, summary of paper		Federal Reserve Bank of Atlanta	449
on monetary policy	158-59	Gibson, Michael, Assistant Director and Chief, Division of	
Export developments	138-40, 276-77	Research and Statistics	207
FACT Act (<i>See</i> Fair and Accurate Transactions Act of 2003)		Goodfriend, Marvin, summary of conference paper	294-95
Faia and Monacelli, summary of paper on monetary policy	160	Government sector, economic developments	136-40, 274-76
Fair and Accurate Transactions Act of 2003	56, 198, 300, 335-36	Government securities clearance and settlement,	
Fair Credit Reporting Act	56, 198, 299-300, 335	working group report	57-58
Fair Credit Reporting (Reg. V)	200, 330	Grant payment service	440
Faith-based financial education initiative, Federal		Great Minds Think!, Federal Reserve Bank	
Reserve Bank of Philadelphia	449	of Cleveland	448-49
Faust, Jon, article	289-96	Greenspan, Chairman Alan, nomination and oath of office,	
FCRA (<i>See</i> Fair Credit Reporting Act)		statements	329
FedACH electronic payment service	440	Griever, William L., article	19-31
Federal government, economic developments	136-37, 274-75	HANCOCK, Diana, Assistant Director and Chief,	
Federal Open Market Committee		Division of Research and Statistics	350, 351
Schedule for 2005	340	Hanson and Sargent, summary of conference paper	289-90
Statements	55, 197, 329-30, 463	Hilgert, Marianne A., article	1-18
Federal Reserve Banks		HMDA	56-57
Chairmen and deputy chairmen, appointments	466-67	Hoffman, Joy, Federal Reserve Bank of San Francisco,	
Check-processing operations	55-56, 199, 330-31, 464, 465, 467-68, 474	article	447-57
Financial education activities	448-49	Hogarth, Jeanne M., article	1-18
Income figures	58	Home Mortgage Disclosure Act	56-57
Lacker, Jeffrey M., appointed president, Federal		Home Mortgage Disclosure (Reg. C)	56-57, 199, 465
Reserve Bank of Richmond	339-40	Home mortgage disclosure requirements	465
Municipal securities service	466	Home mortgage disclosure tables	199
Payments services	439-42	Hoskins, Lisa, Assistant Director, Division of Banking	
Payments system strategy	338-39	Supervision and Regulation	207
Reimbursement for fiscal agent and depository services	444-45	Household sector	
Yellen, Dr. Janet L., appointed president, Federal		Economic developments	129-32, 268-70
Reserve Bank of San Francisco	202-03	Finance	131-32, 270
Federal Reserve Banks as fiscal agents and depositories		Loans	166-68, 176-77
of the United States in a changing financial		IMPORT developments	138-40, 276-77
environment, article	435-46	Income, commercial banks, Federal Reserve Banks	58, 181-91
Federal Reserve Electronic Tax Application	442	Industrial economies, developments	150-51, 286-87
Federal Reserve personal financial education initiatives,		Industrial production and capacity utilization	
article	447-57	Annual revision, 2003, article	32-46
Federal Reserve System, financial education initiatives	449-50, 450, 454-57	Capacity and capacity utilization	35-37
Federal tax collections services	442-43	Industrial production	34
Federal Trade Commission	56	Revision results	33-37
Fedwire Funds electronic payment service	440	Tables	40-46
Fedwire securities service	438	Technical aspects	37-39
Fields, Christine, Associate Director, Management Division	477	Insurance, credit, prescreened solicitations	333-34
Fifty dollar redesigned note	340-42, 471-73	Interest income and expense, commercial banks	172-74
Finance	131-32, 133-36	Interest rates, financial markets	127, 144-45, 282-83
Financial account, U.S.	139-40, 277-78	"Internal Ratings-Based Systems for Retail Credit Risk	
Financial education		for Regulatory Capital"	473-74
Effectiveness	451	International Banking Act of 1978, orders issued under	
Federal Reserve System education initiatives, article	447-57	Gjensidige NOR Sparebank, ASA, Oslo, Norway	246-48
Initiatives by Federal Reserve Districts, table	454-57	HBOS Treasury Services, plc, London,	
Meetings on Indian reservations, Federal Reserve		United Kingdom	103-05
Bank of San Francisco	449	Hypothesenbank in Essen, AG, Essen, Germany	402-03
Financial intermediation, debt and	146-48, 284	Macquarie Bank Limited, Sydney, Australia	105-07
Financial markets, economic developments	126-28, 144-48, 266-67, 282-85	<i>International Convergence of Capital Measurement</i>	
Fiscal agent check services for government payments	442	and <i>Capital Standards: A Revised Framework</i>	343-44
		International federal payments, electronic	441

	Pages		Pages
International investments		Litigation—Continued	
Cross-border, in securities	27–29	Final enforcement decisions—Continued	
Foreign holdings of U.S. securities	20–21, 27	UBS, AG, Zurich, Switzerland	348
Patterns	21–23	Ulrich, Gene	411–18
Problem areas and improvement initiatives	29–30	Termination of enforcement actions issued by Board of	
Securities	19–31	Governors	
U.S. holdings of foreign securities	23–27	Bank of Ephraim	350
<i>International Journal of Central Banking</i>	347, 563	Byron Center State Bank	350
International monetary policy developments	148–52	Community First Bank and Trust	206
International operations, U.S., commercial banks	178	Fifth Third Bancorp	206
International Research Forum on Monetary Policy,		Fifth Third Bank	206
summary of papers presented, article	153–61	First American Bank	349
International sector, economic		First State Bank of West Manchester	349
developments	138–40, 276–78, 285–86	Korea Exchange Bank, Seoul, Korea	349
International trade	138–40, 276–77	Madison Bank	349
Internet Phishing scam, brochure	469–70	Marathon Bank, The	350
Intra-governmental payments	440	MidSouth Bank	350
Inventory investments	133, 271–72	Midstate Bancorp, Inc.	350
Investment funds, policy statement on financial support	60	MSB Shares, Inc.	350
Investment of tax proceeds	443	O.A.K. Financial Corporation	350
Investments (<i>See also</i> International investments)		Texas Coastal Bank	350
Fixed	132–33, 270–71	Written agreements approved by Federal Reserve Board	
Inventory	133, 271–72	ABN AMRO Bank, N.V., Amsterdam, The Netherlands	349
Residential	131, 269	Bank of Ephraim	349
JOURNAL of central banking, publication	347, 563	Cache Valley Bank	349
J.P. Morgan Chase and Co., proposed merger with		Cache Valley Banking Company	349
Bank One Corporation	202	CIB Marine Bancshares, Inc.	349
KAMIN, Steven, Associate Director, Division		Citizens Bank of Cochran, The	349
of International Finance	476	Combank	66
Kelly and Leroy, summary of conference paper	294	Commercial Bank, The	66
King and Wolman, summary of paper on monetary policy	159–60	Community State Bank, The	475
LABOR costs	141–42, 279–80	County Bank	475
Labor markets, economic developments	140–42, 278–80	Custar State Bank, The	206
Lacker, Jeffrey M., appointed president, Federal		First Midwest Bank	349
Reserve Bank of Richmond	339–40	Kenco Bancshares, Inc.	349
Leahy, Michael, Assistant Director, Division		Midwest Banc Holdings, Inc.	206
of International Finance	476	Midwest Bank and Trust Company	206
Legal developments (<i>See</i> Bank Holding Company Act of 1956,		Planters Bank and Trust Company	206
orders issued under; Bank Merger Act, orders issued under;		Putnam-Greene Financial Corporation	349
International Banking Act of 1978, orders issued under;		Standard Chartered, plc, London, United Kingdom	475
Litigation)		Standard Chartered Bank, London, United Kingdom	475
Liabilities, commercial banks	169	Traders Bank, A Banking Corporation	474–75
Liang, J. Nellie, Assistant Director, Division of Research and		Union Bank of California International	475
Statistics	350	Utah Bancshares	349
Litigation		Virginia Heartland Bank	206
Cease and desist orders issued by Board of Governors		Loans	
AmSouth Bank of Birmingham	475–76	Business	165–66
Bazy, Dominique	205	Commercial bank	165–69, 175–79
CAB Holding, LLC	348	Commercial real estate	176
CitiFinancial Credit Company	349	Household	166–68, 176–77
Citigroup, Inc.	349	Loss provisions for	177
Cowboy State Bancorp, Inc.	205–06	Performance of	175–78
Cowboy State Bank	65	Loan-to-deposit ratios, Riegle–Neal Interstate Banking	
Huang, Paul Shi H.	348	and Branching Efficiency Act	468–69
Putnam County Bank	65	MARGIN stocks, foreign, removed from list	201
Riggs International Banking Corporation	348	Mattingly, Virgil, General Counsel, retirement	350
Riggs National Corporation	348	McCallum and Nelson, summary of conference paper	293–94
Civil money penalties		Medical information, use for credit approval	335
AmSouth Bank of Birmingham	475–76	Membership of the Board of Governors, historical list	249–51
Bank of Currituck, The	65	Military personnel, electronic payments to	440
Hocking Valley Bank	205	Monetary aggregates (M2)	148, 284–85
Provident Bank	65	Monetary policy	
Final enforcement decisions issued by Board of Governors		Reports to the Congress	125–52, 265–88
Brown, Garfield C., Jr.	65, 403–05	Summary of papers presented at the conference,	
Butler, Marian L.	405–07	Models and Monetary Policy: Research in the	
Credit Agricole, S.A.	66	Tradition of Dale Henderson, Richard Porter,	
Credit Agricole, S.A., Paris, France	206	and Peter Tinsley	289–96
Credit Agricole Indosuez	206	Summary of papers presented at the second conference	
Credit Lyonnais, S.A.	65–66, 206	of the International Research Forum	153–61
Edmond, Stephanie	348, 407–09	Money Smart Week, Federal Reserve Bank of Chicago	448
Kushner, Charles	475	Money stock data, revision	208–11
Matzdorff, Kenneth M.	475	Morin, Norman, article	32–46
McCarthy, Susan Diehl	411–18	NATIVE Americans	
Peyrelevade, Jean	65	Financial education, meetings on reservations,	
Rowe, Cynthia	409–11	Federal Reserve Bank of San Francisco	449
Smolinski, Scott	66	Youth Committee of the Native Financial Education	
		Coalition, Federal Reserve Bank of Minneapolis	449

	Pages		Pages
Non-interest-bearing instruments, commercial banks ...	173, 174-75	Reifschneider, David L.—Continued	
Note, redesigned \$50	340-42, 471-73	Deputy Associate Director, Division of Research and Statistics	350
OFFICE of the Superintendent of Financial Institutions (OSFI)	59	Reports	
O'Malley, Charles, Assistant Director, Management Division	477, 478	Condition of the U.S. banking industry	47-54, 192-96, 323-27, 458-62
Opt-out, affiliate marketing	335-36	Government Securities Clearance and Settlement	57
Orphanides, Athanasios, article	289-96	Reports on the condition of the U.S. banking industry	47-54, 192-96, 323-27, 458-62
Orphanides and Williams, summary of paper on monetary policy	154-55	Residential investments	131, 269
Overdraft protection	331-32, 335, 473	Retail credit risk	473-74
PAPER-CHECK government payment services	441	Riesz, James, Associate Director, Management Division ..	477, 478
Paper-check tax payment services	442-43	Rules (See also Regulations, Board of Governors)	
Passmore, S. Wayne, Assistant Director, Division of Research and Statistics	350-51	Asset-backed commercial paper programs	336
Pauley, Darrell, Deputy Director, Management Division	477	Disclosures	55
Pay.gov Internet portal	443-44	FACT Act	198
Payments system		Fair and Accurate Transactions Act	56
Federal Reserve Bank strategy to meet demands	338-39	Medical information, use of for credit eligibility	335
Risk, policy statement changes	201, 332-33, 464	Opt-out, affiliate marketing	335-36
Perli, Roberto, article	162-91	Regulation CC	55-56
Personal financial education, Federal Reserve education initiatives, article	447-57	Regulation Y	55
Peters, Fay, Director, Management Division	66	Trust preferred securities	333
Phishing Internet scam, brochure	469-70	SAULS, Billy, Associate Director, Management Division	477
Pilloff, Steven J., summary of staff study	328	Savings bonds	439
Policy Statement on Payments System Risk ..	201, 332-33, 464-65	Schemering, Stephen C., Senior Adviser, retirement	350
Porter, Richard D., Senior Adviser, Division of Monetary Affairs	208	Second conference of the International Research Forum on Monetary Policy	153-61
Postal money orders, government payment services	441	Securities	
Prices, economic developments	142-44, 280-82	Commercial bank holdings	169
Privacy notices	59-60	Cross-border investment, article	19-31
Production (See Industrial production and capacity utilization)		Definitive municipal, proposed discontinuation of Federal Reserve Bank services to depository institutions	466
Productivity, economic developments	141-42, 279-80	Federal Reserve Bank services	437-39
Profits and balance sheet developments at U.S. commercial banks in 2003, article	162-91	Fedwire service	438
<i>Protecting Yourself from Overdraft and Bounced-Check Fees</i> ..	473	Foreign holdings of U.S.	20
Publications		Foreign investment patterns	21-23
<i>Bank Holding Company Supervision Manual</i>	63-65, 345-46	Savings bonds	439
<i>Commercial Bank Examination Manual</i>	62-63, 344-45	TreasuryDirect	438-39
<i>Consumer Guide to Check 21 and Substitute Checks</i>	474	Treasury marketable	438-39
<i>International Convergence of Capital Measurement and Capital Standards: A Revised Framework</i>	343	U.S. holdings of foreign	23-27
<i>International Journal of Central Banking</i>	347, 563	Securities and Exchange Commission, comment letter on proposed Regulation B.	473
<i>Protecting Yourself from Overdraft and Bounced-Check Fees</i>	473	Security features, redesigned \$50 note	340-42
<i>Utilizar su hogar como garantía para un préstamo es arriesgado</i> (Putting Your Home on the Line is Risky Business)	204	Shared National Credit Review, syndicated bank loans	470-71
<i>What You Should Know about Your Checks</i>	474	Sheets, Nathan, Assistant Director, Division of International Finance	476
Public records	307, 318	Sichel, Daniel, Assistant Director, Division of Research and Statistics	350, 351
Purcell, Peter J., Associate Director, Division of Information Technology	66-67	Siciliano, Steve, Assistant General Counsel, Legal Division ..	350
REAL estate loans	176-78	Small business finances, survey	338
Recent developments in cross-border investment in securities, article	19-31	Smith, Dolores S., Director, Division of Consumer and Community Affairs, retirement	207
Regulations, Board of Governors		Spanish version of workbook on personal finances, Federal Reserve Bank of Dallas	449
B, Equal Credit Opportunity	55, 332	Spicer, Donald, Associate Director, Management Division	477
C, Home Mortgage Disclosure	56-57, 199, 465	Staff study summary, Bank merger activity in the United States, 1994-2003	328
E, Electronic Fund Transfers	55, 332, 463-64	State-chartered banks, guidance on unfair or deceptive practices	203
J, Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire	330, 465	State governments, economic developments	137-38, 275-76
M, Consumer Leasing	55, 332	Statements, Federal Open Market Committee	55, 197, 329-30, 463
V, Fair Credit Reporting	200, 330	Summary of papers presented at the conference, Models and Monetary Policy: Research in the Tradition of Dale Henderson, Richard Porter, and Peter Tinsley, article	289-96
Y, Bank Holding Companies and Change in Bank Control ..	55	Summary of papers presented at the second conference of the International Research Forum on monetary policy, article	153-61
Z, Truth in Lending	55, 199-200, 332	Survey of Consumer Finances, 2004, study	337-38
BB, Community Reinvestment	197, 198, 332	Survey of Small Business Finances, study	338
CC, Availability of Funds and Collection of Checks	55-56, 199, 330-31, 464	Syndicated bank loans, Shared National Credit Review	470-71
DD, Truth in Savings	55, 331-32, 335	TECHNOLOGY, used in electronic banking	1-5
Reidhill, Marsha, Associate Director, Management Division	477, 478	There's a Lot to Learn about Money national awareness campaign	447-48
Reifschneider, David L.		Thrift Institutions Advisory Council (TIAC), new members, officers, and appointments	60-61
Article	289-96		

	Pages		Pages
TreasuryDirect	438	WASCHER, William L. III, Deputy Associate Director,	
Treasury offset program	444	Division of Research and Statistics	350
Treasury Tax and Loan (TT&L) program	443	Web-based Central Data Repository	334-35, 469
Trimble, Theresa A., article	435-46	Websites	
Trust preferred securities, proposed rule	333	Call Report Modernization initiative	203
Truth in Lending (Reg. Z)	55, 199-200, 332	Federal Reserve Board	203-4
Truth in Savings (Reg. DD)	55, 331-32, 332	<i>What You Should Know about Your Checks</i>	474
TT&L program	443	White, Alice Patricia, Deputy Associate Director,	
		Division of Research and Statistics	207
UNEMPLOYMENT	140-41, 278-79	Williams, John, summary of conference paper	290-91
Unfair or deceptive practices by state-chartered banks,		Working Group on Government Securities Clearance and	
guidance	203	Settlement, report	57-58
U.S. commercial banks, profits and balance sheet		Working Group on NewBank Implementation	200-01
developments, article	162-91		
U.S. consumers and electronic banking, 1995-2003, article	1-18	YELLEN, Dr. Janet L., appointed president, Federal	
<i>Utilizar su hogar como garantía para un préstamo es</i>		Reserve Bank of San Francisco	202-03
<i>arriesgado</i> (Putting Your Home on the Line		Youth Committee of the Native Financial Education Coalition,	
Is Risky Business)	204	Federal Reserve Bank of Minneapolis	449
VENDOR payments, federal	440		