

FEDERAL RESERVE SYSTEM

Chemical Bank
Midland, Michigan

Order Approving Establishment of a Branch

Chemical Bank, a state member bank subsidiary of Chemical Financial Corporation, both of Midland, Michigan, has requested the Board's approval under section 9 of the Federal Reserve Act ("FRA")¹ and the Board's Regulation H² to operate a mobile branch to collect deposits and bank-related documents from business customers in certain counties in Michigan.³ The proposed mobile branch would be a branch under federal law because it would take deposits from Chemical Bank's customers.⁴ However,

¹ 12 U.S.C. § 321. See 12 U.S.C. § 36; Mich. Comp. Laws 487.13711 (permitting a Michigan state-chartered bank to establish and operate a mobile branch at any location within the State of Michigan). Although state law permits a state-chartered bank to establish and operate a mobile branch, Chemical Bank has not filed an application to establish a mobile branch with the Michigan Department of Insurance and Financial Services ("DIFS"). Instead, Chemical Bank proposes to operate the mobile branch as a messenger service under Michigan state law, which does not require the filing of a prior notice or application with the DIFS. Mich. Comp. Laws 487.14101.

² 12 CFR part 208.

³ The mobile branch would operate in the following counties, all in Michigan: Alcona, Allegan, Alpena, Antrim, Arenac, Bay, Barry, Benzie, Berrien, Branch, Calhoun, Cass, Cheboygan, Charlevoix, Clare, Crawford, Emmet, Gladwin, Grand Traverse, Gratiot, Hillsdale, Huron, Ionia, Iosco, Isabella, Kalamazoo, Kalkaska, Kent, Lake, Leelanau, Manistee, Mason, Mecosta, Midland, Missaukee, Montcalm, Montmorency, Newaygo, Ogemaw, Osceola, Oscoda, Otsego, Ottawa, Presque Isle, Roscommon, Saginaw, Sanilac, Tuscola, Van Buren, and Wexford. Chemical Bank previously received approval to operate a mobile branch in the counties of Shiawassee and Genesee, both in Michigan. Chemical Bank would not operate the mobile branch in any other county in Michigan.

⁴ The Board's Regulation H defines a branch as "any branch bank, branch office, branch agency, additional office, or any branch place of business that receives deposits, pays

Chemical Bank proposes to operate the mobile branch as a messenger service for purposes of Michigan law.⁵ Chemical Bank must obtain Board approval prior to expanding the branch activities of the proposed mobile branch beyond those activities permitted as state-law messenger services.⁶

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the Board's Rules of Procedure.⁷ The time for submitting comments has expired, and the Board has considered the application and all comments received in light of the factors specified in the FRA.

Chemical Financial Corporation is the eighth largest depository organization in Michigan, with 187 branches throughout the state and approximately \$7.3 billion in deposits, which represents approximately 3.8 percent of the total amount of deposits of insured depository institutions in the state.⁸

Under the Board's Regulation H, which implements section 9 of the FRA, the factors that the Board must consider in acting on branch applications include (1) the financial history and condition of the applying bank and the general character of its management; (2) the adequacy of the bank's capital and its future earnings prospects; (3) the convenience and needs of the community to be served by the branch; (4) in the

checks, or lends money." 12 CFR 208.2(c)(1). Regulation H specifically provides that a branch may include a mobile facility. Id.

⁵ Under Michigan law, a Michigan state-chartered bank may operate a messenger service that engages in limited activities, including among other things, collecting deposits and picking up or delivering cash, currency, checks, drafts, securities, and certain other items. Mich. Comp. Laws 487.11202(m).

⁶ Under Michigan law, Chemical Bank must provide prior notice to the director of the DIFS to establish a mobile branch. Mich. Comp. Laws 487.13711.

⁷ 12 CFR 262.3(b).

⁸ Data are as of June 30, 2015. In this context, insured depository institutions include insured commercial banks, savings and loan associations, and savings banks.

case of branches with deposit-taking capability, the bank's performance under the Community Reinvestment Act ("CRA");⁹ and (5) whether the bank's investment in bank premises in establishing the branch satisfies certain criteria.¹⁰ The Board must consider these same factors in acting on mobile branch applications.

The Board has considered the application in light of these factors and the public comment on the proposal received from the chief executive officer of a prospective bank competitor headquartered in Cheboygan County, Michigan. The commenter asserts that its community's financial services needs are adequately met by the financial institutions currently operating there. The commenter also contends that Chemical Bank does not currently have, nor does it plan to establish, a physical presence in Cheboygan County.

Financial, Managerial, and Other Supervisory Considerations

In considering the financial history and condition, earnings prospects, and capital adequacy of Chemical Bank, the Board has reviewed reports of examination, other supervisory information, publicly reported and other financial information, information provided by Chemical Bank, and the comment received. Chemical Bank is well capitalized and would remain so upon consummation of the proposal. After considering all the facts of record, the Board concludes that the financial history and condition, capital adequacy, and future earnings prospects of Chemical Bank are consistent with approval of the proposal. The Board also has reviewed Chemical Bank's proposed investment in the mobile branch and concludes that its investment is consistent with regulatory limitations on investment in bank premises.¹¹

In considering Chemical Bank's managerial resources, the Board has reviewed the bank's examination record, including assessments of its management, risk-

⁹ 12 U.S.C. § 2901 et seq.

¹⁰ 12 CFR 208.6(b).

¹¹ 12 CFR 208.21(a).

management systems, and operations. The Board also has considered its supervisory experiences with Chemical Bank and the bank's record of compliance with applicable banking laws, including anti-money-laundering laws, and the bank security procedures that would apply to the mobile branch.¹² Chemical Bank is considered to be well managed. Based on this review and all the facts of record, the Board concludes that the character of Chemical Bank's management, including the effectiveness of Chemical Bank in combatting money-laundering activities and Chemical Bank's branch security procedures, is consistent with approval of the proposal.

Convenience and Needs Considerations

In considering the effects of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institution is helping to meet the credit needs of the communities it serves, as well as other potential effects of the proposal on the convenience and needs of the communities to be served.¹³ In this evaluation, the Board places particular emphasis on the record of the relevant depository institution under the CRA. The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,¹⁴ and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods.¹⁵

In addition, the Board considers the bank's overall compliance record and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant

¹² See 12 CFR 208.61(c).

¹³ 12 CFR 208.6(b)(3).

¹⁴ 12 U.S.C. § 2901(b).

¹⁵ 12 U.S.C. § 2903.

supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. In addition, the Board may consider the institution's business model, its marketing and outreach plans, the organization's plans after consummation, and any other information the Board deems relevant.

Record of Performance under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board considers an institution's performance in light of examinations and other supervisory information and information and views provided by the appropriate federal supervisors.¹⁶ The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.¹⁷ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply lending, investment, and service tests to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's home mortgage, small business, small farm, and community development lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's data reported under the Home Mortgage Disclosure Act of 1975¹⁸ in addition to small business, small farm, and

¹⁶ See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (March 11, 2010).

¹⁷ 12 U.S.C. § 2906.

¹⁸ 12 U.S.C. § 2801 et seq.

community development loan data collected and reported under the CRA regulations to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on (1) the number and amount of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas; (2) the geographic distribution of such loans, including the proportion and dispersion of the institution's lending in its assessment areas and the number and amount of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of such loans based on borrower characteristics, including the number and amount of home mortgage loans to low-, moderate-, middle-, and upper-income individuals;¹⁹ (4) the institution's community development lending, including the number and amount of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of Chemical Bank, the fair lending and compliance records of the bank, confidential supervisory information, information provided by Chemical Bank, and the public comment received on the proposal.

CRA Performance of Chemical Bank

Chemical Bank was assigned an overall "Outstanding" rating at its most recent CRA performance evaluation by the Federal Reserve Bank of Chicago, as of

¹⁹ Examiners also consider the number and amount of small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

August 26, 2013 (“Chemical Bank Evaluation”).²⁰ Each rating Chemical Bank received under the lending, investment, and service tests was an “Outstanding.”²¹

Examiners noted that Chemical Bank originated a substantial majority of loans within its assessment areas and showed excellent responsiveness to credit needs throughout its assessment areas. Examiners also noted that the bank had an excellent record of serving the credit needs of very small businesses. Further, Chemical Bank’s geographic distribution of loans reflected excellent penetration throughout the assessment areas. Examiners also noted that Chemical Bank was a leader in making community development loans inside its assessment areas and used flexible and innovative lending practices in serving assessment area needs. Examiners noted that the dollar amount of Chemical Bank’s lending increased by approximately 11.0 percent from the prior evaluation.

Examiners found that Chemical Bank provided an excellent level of qualified investments, donations, and grants. Examiners noted that the bank demonstrated excellent responsiveness to credit and community development needs. The bank also made extensive use of innovative and complex investments to support community development initiatives. Examiners noted that Chemical Bank’s CRA-

²⁰ The Chemical Bank Evaluation was conducted using Large Institution CRA Examination Procedures. The Chemical Bank Evaluation reviewed home mortgage and small business lending data from January 1, 2011, through December 31, 2012. The evaluation period for community development loans, investments, and services was July 1, 2011, through August 26, 2013.

²¹ The Chemical Bank Evaluation included a full-scope review of five assessment areas: the Grand Rapids–Wyoming, Michigan, Metropolitan Statistical Area (“MSA”); the Niles–Benton Harbor, Michigan, MSA; the Bay City, Michigan, MSA; the Kalamazoo–Portage, Michigan, MSA; and the assessment area comprising 24 non-MSA counties of North Central Michigan. A limited-scope review was performed in the Battle Creek, Michigan, MSA; the Flint, Michigan, MSA; the Holland–Grand Haven, Michigan, MSA; the Saginaw–Saginaw Township North, Michigan, MSA; the Cass County, Michigan, Assessment Area; the assessment area comprising Huron, Sanilac, and Tuscola Counties, all in Michigan; the Branch County, Michigan, Assessment Area; and the Allegan County, Michigan, Assessment Area.

qualified investments increased by approximately 32.9 percent in number and 50.5 percent in dollars from the prior evaluation.

Examiners noted that Chemical Bank's branch location changes had improved the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Examiners also found that the bank's delivery systems were readily accessible to the bank's geographies and individuals of different income levels in the assessment areas. Further, examiners highlighted that Chemical Bank was a leader in providing community development services throughout its assessment areas.

Additional CRA Activities of Chemical Bank

Chemical Bank represents that it provides a comprehensive range of banking and related financial services to meet the needs of individuals, families, and businesses in the communities it serves. Chemical Bank states that it uses innovative and flexible lending practices designed to expand homeownership opportunities for LMI borrowers, such as offering mortgages insured by the Federal Housing Administration, government-guaranteed Rural Development mortgages, and the Michigan State Housing Development Authority's single-family mortgages. In addition, Chemical Bank is involved in the Michigan State Housing Development Authority Property Improvement Program, which provides home improvement loans to LMI individuals with incomes below 80 percent of the area median income. Chemical Bank also represents that it is a leader in its assessment areas in terms of its involvement in qualified community development organizations, including in underserved rural markets in which it operates. Chemical Bank offers several commercial loan products with flexible terms to serve the needs of small business customers in its communities, including Small Business Administration loans, loans under the Capital Access Program operated by the State of Michigan, and loans under the Federal Home Loan Bank Programs for Community Investments.

Additional Convenience and Needs Considerations

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. Chemical Bank would use the

mobile branch to expand the availability of services to customers throughout its current CRA assessment areas. As noted above, a commenter objected to the proposal and alleged that Cheboygan County's financial services needs are adequately met by the financial institutions currently operating there. The Board generally considers the entry of a new competitor into a community to be a positive factor when assessing the effect of a proposal on the convenience and needs of the community because new entry provides additional alternatives for consumers and businesses.²² Chemical Bank represents that its business relationships already extend into Cheboygan County, and the proposed mobile branch would allow it to better serve the county's residents and the surrounding communities. Chemical Bank notes that the mobile branch would enhance the convenience and efficiency of the services it provides to its business customers as well as to public schools, municipalities, and other governmental entities.

Conclusion on Convenience and Needs Considerations

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

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved. The Board's approval is specifically conditioned on Chemical Bank's compliance with all commitments made to the Board in connection with the proposal as well as all conditions imposed in this order. The Board's approval is limited to conducting the proposed deposit- and document-collection services. Chemical Bank must seek Board approval before engaging in

²² See Adams Bank & Trust, FRB Order 2013-6 (September 4, 2013).

additional branch activities through the mobile branch. Furthermore, Chemical Bank must seek Board approval if it wishes to expand the areas in which it may provide mobile branch services.²³ The commitments and conditions relied on by the Board are deemed to be conditions imposed in writing in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

Approval of this application is also subject to the establishment of the proposed branch within one year of the date of this order, unless such period is extended by the Board or the Federal Reserve Bank of Chicago acting under delegated authority.

By order of the Board of Governors,²⁴ effective December 30, 2015.

Robert deV. Frierson (signed)

Robert deV. Frierson
Secretary of the Board

²³ See supra note 3.

²⁴ Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.