



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

SCOTT G. ALVAREZ
GENERAL COUNSEL

April 24, 2017

Mark C. Dietzen, Esq.
Lindquist & Vennum LLP
2000 IDS Center
80 South Eight Street
Minneapolis, MN 55402-2119

Dear Mr. Dietzen:

This is in response to your letter, dated April 14, 2017, and received on April 18, to the Federal Reserve Bank of Chicago requesting a waiver from an application requirement under the Bank Holding Company Act of 1956, as amended (“BHC Act”),¹ for Royal Bancshares, Inc. (“Royal Bancshares”), Elroy, Wisconsin, a bank holding company, to acquire State Bank of Cazenovia (“State Bank”), a stand-alone state non-member bank, Cazenovia, Wisconsin.

The purpose of the proposed transaction is to facilitate the merger of State Bank with and into Royal Bancshares’ wholly owned subsidiary state non-member bank, Royal Bank, Elroy, Wisconsin. The transaction would occur as follows: (1) Royal Bancshares would establish a Wisconsin-chartered interim bank, Royal Interim Bank, as a wholly owned subsidiary for the purpose of facilitating the transaction; (2) Royal Interim Bank would merge with and into State Bank, with State Bank as the resulting entity (“First Merger”); and (3) immediately thereafter, State Bank would merge with and into Royal Bank, with Royal Bank as the resulting entity (“Second Merger,” and collectively with the First Merger, the “Bank Merger”). You have indicated that State Bank would exist as a wholly-owned subsidiary of Royal Bancshares for only a moment in time and that State Bank would never operate as a separate entity.

Section 3 of the BHC Act and the Board’s Regulation Y require the approval of the Board before a bank holding company may acquire direct or indirect

¹ 12 U.S.C. § 1841 et seq.

ownership or control of a bank.² Through the transaction described above, Royal Bancshares would acquire direct ownership of State Bank. Accordingly, Royal Bancshares would be required to obtain the Board's approval under section 3 of the BHC Act and Regulation Y before acquiring State Bank.

In certain circumstances, however, in order to avoid duplication of regulatory review by federal banking regulators, the Board's rules provide that a bank holding company seeking to acquire shares or control of a bank need not obtain the Board's prior approval. Specifically, section 225.12(d)(2) of the Board's Regulation Y provides that a bank holding company need not obtain the Board's approval if the transaction is subject to review by a federal banking agency under section 18(c) of the Federal Deposit Insurance Act ("the Bank Merger Act"),³ and meets certain other criteria.⁴ Your proposal meets all of the applicable criteria, and Royal Bancshares has provided all necessary information.

The proposed Bank Merger requires the prior approval of the Federal Deposit Insurance Corporation ("FDIC") under the Bank Merger Act.⁵ In acting on the merger proposal, the FDIC must consider the impact the acquisition would have on competition, the financial and managerial resources and future prospects of the combined organization, the convenience and needs of the communities served by Royal Bank and State Bank, the institutions' records of performance under the Community Reinvestment Act, the institutions' effectiveness in combating money laundering activities, and risks to the stability of the United States banking or financial system.⁶ These criteria are substantially similar to the criteria the Board would consider under section 3 of the BHC Act.⁷

Additionally, at no time would State Bank operate as a separate subsidiary bank of Royal Bancshares. Following the transaction, the separate corporate existence of State Bank would cease, and Royal Bank would continue to operate as a state non-

² 12 U.S.C. § 1842(a); 12 CFR 225.11.

³ 12 U.S.C. § 1828(c).

⁴ 12 CFR 225.12(d)(2).

⁵ 12 U.S.C. § 1828(c). Royal Bank filed a Bank Merger Act application dated April 14, 2017, with the FDIC, requesting prior approval of the Bank Merger. Royal Bancshares has provided the Board with a copy of the application.

⁶ 12 U.S.C. §§ 1828(c)(5) & (11), 2902(3)(E), 2903(a)(2).

⁷ See 12 U.S.C. § 1842(c); 12 CFR 225.13.

member bank. Under these circumstances, review of the transaction under section 3 of the BHC Act would be duplicative of the review under the Bank Merger Act.

Based on a review of these and other facts presented, the Legal Division believes that no regulatory purpose would be served by requiring Royal Bancshares to file a formal application under section 3 of the BHC Act. The Legal Division, therefore, would not recommend that the Board take action to require a filing of a formal application by Royal Bancshares in connection with the transaction described above. This opinion is subject to the receipt by Royal Bancshares, Royal Bank, Royal Interim Bank, and State Bank of all other necessary regulatory approvals and compliance with any terms and conditions that may be imposed upon approval of the proposal.

This opinion is based on all the facts and representations presented to Federal Reserve staff. Any material change in those facts or representations should be communicated immediately to Federal Reserve staff and may cause this opinion to be reconsidered. This opinion is limited to this proposal and does not apply to any other transaction.

If you have any questions regarding this matter, please contact Derald Seid at (202) 452-2246 or Has Rahamatalli at (202) 452-2243, of my staff.

Sincerely,

A handwritten signature in blue ink that reads "Scott G. Allen". The signature is written in a cursive style with a large, looped initial "S" and a distinct "A" at the end.

cc: Federal Deposit Insurance Corporation