

FEDERAL RESERVE press release



For immediate release

May 21, 2001

The Federal Reserve Board today announced its approval of the proposal by Royal Bank of Canada, Montreal, Canada, and Rock Merger Subsidiary, Inc., Raleigh, North Carolina, to become bank holding companies by acquiring Centura Banks, Inc. (“Centura”) and its subsidiary bank, Centura Bank, both in Rocky Mount, North Carolina, and to acquire Centura’s nonbanking businesses.

The Board’s Order relating to this action is attached.

Attachment

FEDERAL RESERVE SYSTEM

Royal Bank of Canada
Montreal, Canada

Rock Merger Subsidiary, Inc.
Raleigh, North Carolina

Order Approving Formation of Bank Holding Companies and
Acquisition of a Bank and Nonbanking Companies

Royal Bank of Canada (“Royal Bank”), a foreign banking organization that is subject to the provisions of the Bank Holding Company Act (“BHC Act”), and Rock Merger Subsidiary, Inc. (collectively, “Applicants”) have requested the Board’s approval under section 3 of the BHC Act (12 U.S.C. § 1842) to become bank holding companies by acquiring Centura Banks, Inc. (“Centura”) and thereby indirectly acquiring Centura Bank (“Bank”), both in Rocky Mount, North Carolina.¹ Applicants also have requested the Board’s approval under sections 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. §§ 1843(c)(8) and 1843(j)) and section 225.24 of the Board’s Regulation Y (12 C.F.R. 225.24) to acquire the nonbanking subsidiaries of Centura and thereby engage in extending credit and servicing loans.²

Notice of the proposal, affording interested persons an opportunity to comment, has been published (66 Federal Register 15,480

¹ Applicants would effect the acquisition by merging Centura with and into Rock Merger Subsidiary, Inc., with Centura surviving. At the time of the merger, all shares of Centura would convert to the right to receive shares of Royal Bank.

² Royal Bank also has requested the Board’s approval to exercise an option to purchase up to 19.9 percent of Centura’s common stock if certain events occur. This option would expire on consummation of the proposed merger.

(2001)). 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.

Royal Bank, with consolidated assets of \$192 billion,³ is the largest banking organization in Canada.⁴ Royal Bank operates internationally through numerous branches and agencies, including licensed branches in New York, New York; Portland, Oregon; and Guanica, Puerto Rico. Royal Bank also controls a savings association, Security First Network Bank, Atlanta, Georgia (“Security First”). In addition, through its subsidiaries and affiliates, Royal Bank engages in a variety of other nonbanking activities, including asset management, investment banking, and mortgage lending.

Factors Governing Board Review of Bank Acquisition

The BHC Act sets forth the factors that the Board must consider when reviewing the formation of bank holding companies or the acquisition of banks. These factors are the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved in the proposal; the convenience and needs of the community to be served, including the records of performance of the insured depository institutions involved in the transaction under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) (“CRA”); the availability of information needed to determine and enforce compliance

³ Asset and ranking data are as of December 31, 1999, adjusted to reflect transactions consummated by Royal Bank after that date and exchange rates then in effect.

⁴ Royal Bank is treated as a financial holding company (“FHC”) in accordance with sections 225.90 and 225.91 of Regulation Y (12 C.F.R. 225.90 and 225.91).

with the BHC Act and other applicable federal banking laws; and, in the case of applications involving foreign banks, whether those banks are subject to comprehensive supervision and regulation on a consolidated basis by their home country supervisor.⁵

The Board has considered these factors in light of a record that includes information provided by Royal Bank and Centura, confidential supervisory and examination information, and publicly reported financial and other information. The Board also has considered information collected from the primary home country supervisor of Royal Bank and from various federal agencies. In addition, the Board has considered public comments submitted on the proposal.⁶

Convenience and Needs Considerations

The Board has long held that consideration of the convenience and needs factor includes a review of the records of the relevant depository institutions under the CRA. 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 safe and sound operation, and requires the appropriate federal 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 expansion proposals. The Board has carefully considered the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of Royal Bank and Centura in light of all the

⁵ See 12 U.S.C. § 1842(c).

⁶ The Board received comments from a community-based organization ("Commenter") on the proposal.

facts of record, including public comments contending that the proposal would have an adverse effect on the communities to be served.

As provided in the CRA, the Board evaluates the record of performance of a depository institution in light of the CRA examinations conducted by the appropriate federal supervisory agency for that institution. An institution's most recent CRA performance evaluation is a particularly important consideration in the Board's review of the convenience and needs factor because the evaluation is based on a detailed, on-site evaluation by the appropriate federal agency of the institution's overall record of performance under the CRA.⁷

Royal Bank controls one insured depository institution in the United States, Security First, which is an Internet-based savings association with branches in the Atlanta and Tampa-St. Petersburg-Clearwater ("Tampa") Metropolitan Statistical Areas ("MSAs"). Security First received an overall "outstanding" CRA performance rating, as well as an "outstanding" component rating for its performance in both Georgia and Florida, at its most recent examination by the Office of Thrift Supervision ("OTS"), its primary federal supervisor, as of September 20, 1999. Examiners concluded that Security First's record of lending to borrowers of different income levels and in LMI census tracts exceeded the criteria for satisfactory performance in the Atlanta⁸ and Tampa MSAs.⁹ Examiners found no evidence of prohibited

⁷ The Interagency Questions and Answers Regarding Community Reinvestment provide that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record. See 65 Federal Register 25,088 (2000).

⁸ Although examiners noted that Security First had a low level of mortgage lending in the Atlanta MSA, they stated that Security First's efforts to penetrate the low-income segment of the market had been impeded because

discrimination or other illegal credit practices at Security First or violations of fair lending laws.

Bank, which is Centura's only insured depository institution subsidiary, received a "satisfactory" CRA performance rating at its most recent examination by the Federal Reserve Bank of Richmond ("Reserve Bank"), as of February 28, 2000. Examiners rated Bank "high satisfactory" on the investment and service components of the overall examination rating. Examiners considered the Bank's lending to be adequate, noting that Bank was involved in a number of specialized lending programs, offered subsidized loans, and provided an affordable housing program for borrowers who did not meet Bank's standard underwriting criteria.¹⁰ Examiners concluded that Bank's flexible approach demonstrated its commitment to lending in local

approximately 8 percent of the low-income families in the MSA were below the poverty level. Since its most recent CRA performance examination, Security First received a special merit award from the Federal Home Loan Bank of Atlanta in December 2000 in its Partnership Excellence Award Competition.

⁹ These two MSAs also constitute Security First's CRA assessment areas. Commenter contended that Security First has an inappropriately narrow assessment area because its Internet focus allows it to conduct business nationwide. The OTS reviewed Security First's assessment areas as part of the institution's most recent CRA examination and determined that the delineated assessment areas complied with regulatory requirements. Moreover, the OTS will continue to review the assessment areas of Security First as part of the CRA examination process.

¹⁰ Commenter asserted that Bank disproportionately denied home purchase and home improvement loan applications of minority individuals, and that Bank had insufficient fair lending and consumer compliance procedures. In Bank's most recent compliance examination, as of February 28, 2000, the Reserve Bank found no evidence that Bank had violated substantive provisions of fair housing and fair lending laws and determined that Bank had adequate policies and procedures to support fair lending practices.

communities. No credit practices were identified as inconsistent with the substantive provisions of fair housing and fair lending laws and regulations, and examiners determined that Bank had adequate policies, procedures, and training programs to support nondiscriminatory lending practices.¹¹

In reviewing the effect of the proposal on the convenience and needs of the communities to be served, the Board has carefully considered all the facts of record, including the public comments received,¹² Applicants' responses to the comments,¹³ and evaluations of the performance of each of Royal Bank and Centura's insured subsidiary depository institutions under the

¹¹ Commenter alleged that two nonbank mortgage subsidiaries of Centura and one nonbank mortgage subsidiary of Royal Bank did not have sufficient fair lending and consumer compliance procedures. Commenter also alleged, without providing relevant supporting data, that the three mortgage lenders engaged in predatory lending by disproportionately targeting low-income and minority individuals for high interest loans. Royal Bank has provided detailed information about the fair lending policies and procedures of each of the subsidiaries identified by Commenter. The Board forwarded Commenter's letters to the Department of Housing and Urban Development, the Department of Justice, and the Federal Trade Commission, which have responsibility for enforcing fair lending laws for nondepository lending companies.

¹² Commenter submitted a newspaper article in which a couple asserted that Royal Bank's nonbank mortgage subsidiary, Prism Financial Corporation ("Prism"), sold their loan without properly notifying them. Royal Bank has provided documentation stating that the loan was sold before Royal Bank's acquisition of Prism and disclosing the content and timing of the disclosures and notices Prism provided to the borrowers concerning the sale of their loan.

¹³ Commenter alleged that Prism did not accurately report mortgage lending data under the Home Mortgage Disclosure Act (12 U.S.C. § 2801 et seq.) ("HMDA"). Royal Bank has stated that the HMDA reporting irregularity took place before Royal Bank acquired Prism and has provided information about the policies and procedures it implemented to ensure accurate HMDA reporting.

CRA. Based on a review of the entire record and for the reasons discussed above, the Board concludes that convenience and needs considerations are consistent with approval of the proposal.

Financial, Managerial, and Supervisory Considerations

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in a bank acquisition proposal.¹⁴ In assessing the financial and managerial strength of Royal Bank and its affiliates, the Board has reviewed public comments, information provided by Applicants, confidential supervisory and examination information, and publicly reported and other financial information.¹⁵ In addition, the Board consulted with relevant supervisory authorities in Canada. The capital ratios of Royal Bank exceed the minimum levels that would be required under the Basle Capital Accord and are considered equivalent to the capital ratios that would be required of a U.S. banking organization. Bank is, and on consummation of the proposal would remain, well capitalized and well managed. In light of these and all the facts of

¹⁴ 12 U.S.C. § 1842(c)(2).

¹⁵ Commenter submitted portions of a newspaper article that alleged that a Royal Bank subsidiary manipulated stock prices in 2000 in connection with its management of a pension fund. Commenter also referenced newspaper articles reporting that Royal Bank had discovered and reported to Canadian authorities in 2001 a pattern of trading at another subsidiary that suggested traders were using inside information. These articles also described the steps Royal Bank had taken to address the events at each of the subsidiaries, including removing the individuals responsible for the suspicious activities, hiring new management officials, and instituting policies and procedures designed to ensure that repeat violations would not occur. The appropriate Canadian authorities have informed the Board's staff that they are satisfied with Royal Bank's response to each incident.

record, the Board concludes that the financial and managerial resources and future prospects of Applicants and Bank are consistent with approval.

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 supervision or regulation on a consolidated basis by the appropriate authorities in the bank’s home country.”¹⁶ The home country supervisor of Royal Bank is Canada’s Office of the Superintendent of Financial Institutions (“OSFI”), which is responsible for the prudential supervision and regulation of federally regulated Canadian financial institutions. In approving applications under the BHC Act and the International Banking Act (12 U.S.C. § 3101 *et seq.*) (“IBA”), the Board previously has determined that Canadian banks, including Royal Bank, are subject to comprehensive consolidated supervision by the OSFI.¹⁷ In this case, the Board finds that the OSFI continues to supervise Royal Bank in substantially the same manner as it supervised Canadian banks at the time of those previous determinations. Based on this finding and all the facts of record, the Board concludes that Royal Bank continues to be subject to

¹⁶ 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 C.F.R. § 225.13(a)(4). Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised and 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 C.F.R. 211.24(c)(1).

¹⁷ See Royal Bank of Canada, 83 Federal Reserve Bulletin 442 (1997); see also National Bank of Canada, 82 Federal Reserve Bulletin 769 (1996).

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.¹⁸ The Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Royal Bank operates and has communicated with relevant government authorities concerning access to information. In addition, Royal Bank previously has committed to make available to the Board such information on the operations of Royal Bank and its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the IBA, and other applicable federal law. Royal Bank also previously has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable Royal Bank to make such information available to the Board. In light of these commitments, the Board concludes that Royal Bank has 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.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a bank acquisition proposal that would result in a monopoly. The BHC Act also prohibits the Board from approving a proposed acquisition that would substantially lessen competition or tend to create a monopoly in any relevant

¹⁸ See 12 U.S.C. § 1842(c)(3)(A).

banking market, unless 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.¹⁹ The subsidiary depository institutions of Royal Bank and Centura do not compete in any banking market, and the number of competitors in the relevant banking markets would remain unchanged after the acquisition. Accordingly, 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.²⁰

Nonbanking Activities

Applicants also have filed notices under section 4(c)(8) of the BHC Act to acquire Centura's nonbanking subsidiaries and thereby engage in extending credit and servicing loans. The Board has determined by regulation that extending credit and servicing loans is closely related to banking for purposes of the BHC Act. Applicants have committed to conduct this activity in accordance with the Board's regulations and orders.

In order to approve the notices filed by Applicants to acquire certain nonbanking subsidiaries of Centura, the Board is required by section

¹⁹ 12 U.S.C. § 1842(c)(1).

²⁰ On consummation of the proposal, North Carolina would be the home state of Applicants and Bank for purposes of the BHC Act, including the interstate banking provisions of section 3(d) of the act. The Board has determined that the proposed transaction is not barred by section 3(d) of the BHC Act. See 12 U.S.C. §§ 1841(o)(4), 1842(d). New York is and will remain Royal Bank's home state for purposes of the IBA and the Board's Regulation K. See 12 C.F.R. § 211 et seq.

4(j)(2)(A) of the BHC Act to determine that the acquisition of these subsidiaries “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.”²¹

As part of its evaluation of these factors, the Board considers the financial condition and managerial resources of the notificant, its subsidiaries, and the companies to be acquired and the effect of the proposed transaction on those resources. For the reasons discussed above and based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board also has considered the competitive effects of the proposed acquisition by Applicants of the nonbanking subsidiaries of Centura. Although the nonbanking subsidiaries of Royal Bank and Centura compete in eight markets in Virginia and North Carolina, numerous entities in each of those markets extend credit and service loans and the market for these services is unconcentrated. As a result, the Board expects that consummation of the proposal would have a de minimis effect on competition for the nonbanking services Applicants would acquire from Centura. Based on all the facts of record, the Board concludes that it is unlikely that significantly adverse competitive effects would result from the nonbanking acquisitions proposed in this transaction.

Applicants have indicated that consummation of the proposal would improve the financial position and future business prospects of Centura and allow it to offer products and services it currently does not offer and would

²¹ 12 U.S.C. § 1843(j)(2)(A).

give Royal Bank the opportunity to create a retail banking presence in the United States. In addition, there are public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider most efficient when the investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.

The Board also has concluded that the conduct of the proposed activities within the framework of Regulation Y and Board precedent is not likely to result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, 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 that the Board must consider under section 4(j) of the BHC Act is favorable and consistent with approval of the notice.

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the applications and notices should be, and hereby are, approved.²² In reaching its conclusion, the Board has considered all the

²² Commenter 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 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 C.F.R. 225.16(e). Section 4

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 specifically is conditioned on compliance by Applicants with all the commitments made in connection with the applications and notices, including the commitments discussed in this order, and the conditions set forth in the order and the Board orders and regulations noted above. The Board's approval also specifically is conditioned on Royal Bank's compliance with the commitments it previously made regarding access to information, and on the Board's receiving access to information on the operations or activities of Royal Bank and any of its affiliates that the Board deems to be appropriate to determine and enforce compliance Royal Bank and its affiliates with applicable federal statutes. If any restrictions on access to information on the operations or activities of Royal Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Royal Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Royal Bank's direct or indirect activities in the United States. The Board's approval

of the BHC Act and the Board's rules thereunder 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 manner. 12 U.S.C. § 1843(c)(8); 12 C.F.R. 225.25(a)(2). The Board has considered carefully Commenter's request in light of all the facts of record. In the Board's view, interested persons have had ample opportunity to submit their views, and Commenter submitted written comments that have been considered carefully by the Board in acting on the proposal. Commenter's request fails to demonstrate why its written comments do not present its evidence adequately and fails 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, Commenter's request for a public meeting or hearing on the proposal is denied.

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) of Regulation Y (12 C.F.R. 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. All the commitments and conditions on which the Board relied in granting its approval, including the commitments and conditions specifically described above, 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 the subsidiary bank of Centura 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 the Board or the Federal Reserve Bank of Richmond, acting pursuant to delegated authority, extends such period for good cause.

By order of the Board of Governors,²³ effective May 21, 2001.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

²³ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Meyer and Gramlich. Absent and not voting: Governor Kelley.