

# FEDERAL RESERVE SYSTEM

The Chase Manhattan Bank  
New York, New York

## Order Approving the Merger of Banks

The Chase Manhattan Bank (AChase Bank@), a state member bank, has applied under section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)) (the "Bank Merger Act") to merge with Chase Bank of Texas B San Angelo, National Association, San Angelo, Texas ("Chase Texas"). Chase Bank would be the surviving institution.<sup>1</sup>

Notice of the application, affording interested persons an opportunity to submit comments, has been given in accordance with the Bank Merger Act and the Board's Rules of Procedure (12 C.F.R. 262.3(b)). As required by the Bank Merger Act, reports on the competitive effects of the acquisitions 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 application and all facts of record, including the public comments received, in light of the factors set forth in the Bank Merger Act.

### Interstate Analysis

Section 102 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (ARiegle-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

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<sup>1</sup> Chase Bank and Chase Texas are wholly owned subsidiaries of J.P. Morgan Chase & Co., New York, New York (AJPMC@). Chase Texas has one location in San Angelo, does not take deposits, and limits its activities to providing cash management services.

transactions involving out-of-state banks.<sup>2</sup> New York and Texas 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. Chase Bank has provided a copy of its Bank Merger Act application to all the relevant state agencies. The proposal also complies with all the other requirements of the Riegle-Neal Act.<sup>3</sup> Accordingly, the Riegle-Neal Act authorizes the proposed transaction.

Competitive, Financial, and Managerial Factors

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.<sup>4</sup> 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 anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of the community to be served.<sup>5</sup> The proposed merger of Chase Bank and Chase Texas is a consolidation of two banks that are

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<sup>2</sup> 12 U.S.C. § 1831u.

<sup>3</sup> See 12 U.S.C. § 1831u. Chase Bank is adequately capitalized and adequately managed, as defined in the Riegle-Neal Act. The New York and Texas Departments of Banking have indicated that this transaction would comply with applicable New York and Texas law. See NY Banking Law, Art. 5-C, § 225; Tex. Fin. Code Ann §§ 202.001, 203.003. Chase Texas has been in existence and operation for the minimum amount of time required by Texas law. See Tex. Fin. Code Ann. § 203.005. On consummation of the proposal, Chase Bank would control less than 10 percent of the total amount of deposits in insured institutions in the United States. All other requirements of section 102 of the Riegle-Neal Act would also be met on consummation of the proposal.

<sup>4</sup> 12 U.S.C. § 1828(c)(5)(A).

<sup>5</sup> 12 U.S.C. § 1828(c)(5)(B).

affiliates in the same organization. The Board has received no objections to the proposal from the Department of Justice or from the other federal banking agencies. Accordingly, the Board concludes that consummation of the proposed transaction would not be likely to result in a significantly adverse effect on competition or on the concentration of banking resources in any banking market, and that competitive factors are consistent with approval.<sup>6</sup>

The Board also has considered the financial and managerial resources and future prospects of Chase Bank and Chase Texas. 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 the bank. Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the institutions involved are consistent with approval.

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<sup>6</sup> In reviewing the competitive effect of the proposal, the Board also reviewed a comment objecting to consolidation in the banking industry and maintaining that consolidation does not benefit the general public. The current proposal would have a de minimis effect on competition in the banking industry and on the assets controlled by Chase Bank.

### Convenience and Needs Factor

The Bank Merger Act requires the Board to consider the convenience and needs of the communities to be served. The Board has long held that consideration of the convenience and needs factor includes a review of the records of performance of the relevant depository institutions under the Community Reinvestment Act, 12 U.S.C. ' 2901 et seq. (ACRA@). Accordingly, the Board has carefully considered the effect of the proposed merger on the convenience and needs of the community to be served and the CRA records of performance of the institutions involved in light of all the facts of record, including comments received about the proposal.

Chase Bank received an Aoutstanding@ rating at its most recent CRA examination by the Federal Reserve Bank of New York (AFRBNY@), as of July 1999. As noted, Chase Texas takes no deposits and only provides cash management controlled disbursement services. Accordingly, it is not evaluated for CRA performance under the regulations of the Office of the Comptroller of the Currency ("OCC") because it is a special purpose bank.<sup>7</sup>

As part of its 1999 examination by the FRBNY, Chase Bank received a rating of Aoutstanding@ for its lending activities. Examiners characterized as excellent the bank's responsiveness to the credit needs of its assessment areas and all segments of its community, including low- and moderate-income (ALMI@) geographies and borrowers. During the review period of January 1997 to March 1999, Chase Bank and its affiliates originated or purchased approximately 87,600

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<sup>7</sup> See 12 C.F.R. 25.11(c)(3). Chase Texas used to take deposits and operate as a full-service bank. The bank received a Asatisfactory@ rating at its CRA examination by the OCC, as of August 1996, when it operated as Texas Commerce Bank B San Angelo, National Association.

small business loans, totaling more than \$5.1 billion.<sup>8</sup> More than 90 percent of these loans were in amounts of less than \$100,000, with an average loan amount of approximately \$33,000, and 21 percent by number were to businesses in LMI census tracts.<sup>9</sup> Chase Bank represented that the bank and its affiliates originated a total of almost 95,500 small business loans in 1999 and 2000, and that 21 percent of the loans were to businesses in LMI census tracts.

During the review period, Chase Bank and its affiliates originated or purchased approximately 67,100 loans, totaling more than \$11 billion, reportable under the Home Mortgage Disclosure Act, 12 U.S.C. § 2801 *et seq.* (AHMDA@).<sup>10</sup> From 1996 to 1997, Chase Bank's HMDA-related lending increased

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<sup>8</sup> In this context, "small business loans" means loans in amounts of less than \$1 million. Chase Bank also made 54 percent of its small business loans to businesses with gross annual revenues of \$1 million or less ("loans to small businesses").

<sup>9</sup> Examiners noted that 21 percent of all businesses in Chase Bank's assessment area were in LMI areas.

<sup>10</sup> A commenter asserted that Chase Bank and two mortgage lending units recently acquired by Chase Manhattan Bank USA, N.A., Newark, Delaware ("Chase USA"), an affiliate of Chase Bank, did not adequately collect or report data on the race of applicants for HMDA-related loans. Chase Bank responded that HMDA information reported by Chase Mortgage Corporation-West and cited by the commenter was loan information from the former Mellon Mortgage Company, which was acquired by Chase USA in 1999. In addition, Chase Bank stated that HMDA information reported by the mortgage units of Advanta Corporation, Horsham, Pennsylvania ("Advanta"), and cited by the commenter involved applications made by telephone. The Board notes that HMDA regulations do not require lenders to inquire about the race of individuals making mortgage loan applications by telephone, nor are lenders required to report the race of applicants who apply for a mortgage loan by mail, but do not provide race information. See 12 C.F.R. Pt. 202, App. B. In addition, a lender is not required to collect data about the race of borrowers with respect to mortgage loans purchased by the lender. See 12 C.F.R. 203.4(b)(2)(i). The Board notes that the OCC reviews Chase USA's compliance with data collection and reporting requirements under HMDA as part of the agency's periodic consumer compliance examinations of Chase USA.

25 percent by volume. From 1997 to 1998, HMDA-related lending increased by 62 percent overall and by 63 percent in LMI geographies.<sup>11</sup> Chase Bank represented that the bank and its affiliates originated or purchased a total of more than 111,000 home purchase or refinancing loans in 1999 and 2000. Chase Bank also represented that 21.4 percent of these loans in 2000 were to LMI borrowers.

Community development lending at Chase Bank was considered by examiners to be outstanding. Examiners found that since its last CRA examination, Chase Bank's community development loans had increased by 34 percent to approximately \$613 million. Chase Bank dedicated a large portion of its community development lending to support housing initiatives by financing the construction of more than 4,000 housing units in the bank's assessment areas. Chase Bank represented that in 1999 and 2000, the bank and its affiliates made 419 community development loans totaling \$750 million in Chase Bank's assessment area.

Examiners found that Chase Bank offered a variety of loan products that featured innovative and flexible lending practices to serve the credit needs of its assessment area. During the examination period, the bank originated approximately 3,600 of these loans, totaling approximately \$380 million, to assist LMI borrowers or borrowers in LMI geographies. Chase Bank was instrumental in developing and testing the AFA\$TRAK® program and other loan programs designed by the Small Business Administration (SBA®) to provide loans in amounts of \$150,000 or less to small businesses. In 1997 and

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Chase USA received an "outstanding" rating at its most recent CRA examination by the OCC, as of May 1999. Chase Bank's compliance with these requirements is also reviewed as part of the FRBNY's periodic consumer compliance examinations of Chase Bank.

<sup>11</sup> In this context, HMDA-related loans includes home purchase mortgage loans and refinancing of such loans.

1998, the bank originated more SBA loans than any other lender in the New York region. Chase Bank also used credit enhancements, such as guarantees provided by the SBA and other government agencies, to provide small business credit to borrowers who would not normally qualify for conventional loan products. In the area comprising New York State and the New York consolidated metropolitan statistical area (ANew York CMSA@), Chase Bank originated 424 innovative or flexible small business loans during 1997 and 1998, totaling more than \$56 million.

Examiners noted that Chase Bank offered innovative and flexible home mortgage products. Chase Bank participated in special lending programs, through the State of New York Mortgage Agency, the Federal National Mortgage Association (AFannie Mae@) and the Federal Home Loan Mortgage Corporation (AFreddie Mac@), that were designed to help LMI and other borrowers purchase homes in LMI geographies. In addition, the bank offered a proprietary mortgage loan program for customers financing properties in LMI geographies who did not qualify for conventional mortgage products. Chase Bank also offered a program of flexible mortgages in cooperation with a community-based organization. In the area comprising New York State and the New York CMSA, Chase originated more than 3,100 innovative or flexible mortgage loans in 1997 and 1998, totaling approximately \$325 million.

Chase Bank received an Aoutstanding@ examination rating for its investment activities. Examiners indicated that Chase Bank was responsive to the primary credit and community development needs of its assessment areas. During the examination period, Chase's level of qualified investments totaled approximately \$377 million. Examiners also characterized as excellent Chase Bank's level of qualified community development investments in facilities and organizations supporting affordable housing, economic development, and community services. Chase Bank represented that qualified investments and grants

by the bank and its affiliates exceeded \$586 million, as of December 31, 2000.

Chase Bank received a high satisfactory examination rating for its record of providing retail banking and community development services in its assessment area. Examiners stated that Chase Bank's branch delivery system was reasonably accessible to essentially all portions of its assessment areas. At the time of the examination, Chase Bank operated 486 retail branches in its combined assessment area, 22 percent of which were in LMI geographies. Chase Bank's business hours and services were responsive to the needs of all portions of its assessment areas, including LMI geographies, and the needs of LMI individuals. Examiners found that Chase offered a wide range of special banking products designed to support community development, including special savings accounts used to save for first-time home purchase expenses, education expenses, and small business capitalization. Chase Bank also provided services to nonprofit organizations seeking assistance with administering affordable housing construction loans.

In its review of the convenience and needs factor, the Board has carefully considered the entire record, including the CRA performance examinations of the insured depository institutions involved in the proposal, all the information provided by the commenter and by Chase Bank, and confidential supervisory information. Based on all the facts of 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 insured depository institutions, are consistent with approval.<sup>12</sup>

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<sup>12</sup> Commenter also expressed concern about Chase USA's acquisition of Advanta in March 2001, and sought information about the fair lending policies to be implemented by JPMC for Advanta's subprime lending. Chase Bank stated that the

## Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the proposal should be, and hereby is, approved.<sup>13</sup> The Board's approval is specifically conditioned on compliance by Chase Bank with all the commitments made in connection with the application. For purposes of this action, the commitments and conditions relied on in reaching this decision are conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

The merger may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the

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mortgage business purchased from Advanta is in the process of being integrated into JPMC's business, and that JPMC's fair lending policies and procedures will apply to the former Advanta business. Moreover, examiners found no evidence of illegal discrimination or credit practices at Chase Bank or Chase USA. Chase Bank also stated that the staff of Chase Bank and Chase USA review subprime mortgage applications and inform applicants who might qualify for a prime loan of other available mortgage products.

<sup>13</sup> The commenter has requested a public meeting or hearing on the proposal. The Bank Merger Act does not require the Board to hold a public meeting or hearing. Under its rules, the Board may, in its discretion, hold a public meeting or hearing if necessary or appropriate to clarify factual issues related to the application or to provide an opportunity for testimony. 12 C.F.R. 262.3(i). The Board has carefully considered the requests for a public meeting or hearing in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit its views and, in fact, has submitted written comments that have been carefully considered by the Board in acting on the proposal. The request fails to identify issues that may be clarified by a public meeting or hearing. The commenter has provided substantial written comments that have been carefully considered by the Board, and the request fails to show why a public meeting or hearing is necessary for the proper presentation or consideration of the commenter's views. 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 request is hereby denied.

effective date of this order, unless such period is extended by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>14</sup> effective July 9, 2001.

(signed)

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Robert deV. Frierson  
Associate Secretary of the Board

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<sup>14</sup> Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.