

FEDERAL RESERVE SYSTEM

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 Banks

The Royal Bank of Scotland Group plc (“RBS Group”), The Royal Bank of Scotland plc (“RBS”), RBSG International Holdings Ltd., and Citizens Financial Group, Inc. (“Citizens”) (collectively, “Applicants”), have requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”) (12 U.S.C. § 1842) to acquire all the voting shares of Citizens Bank of Pennsylvania, Philadelphia, Pennsylvania (“Citizens PA”), and Citizens Bank, Wilmington, Delaware (“Citizens DE”), both in formation. Citizens PA and Citizens DE are being formed to acquire 345 of the Mid-Atlantic retail branches of banks controlled by Mellon Financial Corporation, Pittsburgh, Pennsylvania (“Mellon”), and certain other business operations of Mellon.¹ The proposed acquisition of the branches and other operations of Mellon are subject to review by the

¹ Applicants propose to form Citizens PA as a Pennsylvania-chartered savings bank and Citizens DE as a Delaware-chartered bank, both of which would be insured and supervised by the Federal Deposit Insurance Corporation (“FDIC”).

FDIC under the Bank Merger Act (12 U.S.C. § 1828(c)).² The FDIC has completed its review under the Act and has approved the transaction after reviewing essentially the same factors that the Board is required to review under the BHC Act.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (66 Federal Register 45,588 (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 section 3 of the BHC Act.

RBS Group, with total consolidated assets equivalent to approximately \$479.9 billion is the 18th largest banking organization in the

² Through the proposed purchase-and-assumption transaction, Citizens PA would acquire 321 retail branches in Pennsylvania, New Jersey, and Maryland from Mellon Bank, N.A., Pittsburgh, Pennsylvania (“Mellon Bank”), and Citizens DE would acquire 19 retail branches in Delaware from Mellon Bank (DE) National Association, Wilmington, Delaware (“Mellon DE”), together with certain related assets and liabilities. Citizens PA also would acquire five additional branch buildings in Pennsylvania from Mellon Bank, but not the deposits or loans of these branches. In addition, Mellon would transfer to Citizens PA and Citizens DE its automatic teller machine network and the consumer lending, lower middle-market commercial lending, and automobile dealer floor plan lending operations of Mellon Bank and Mellon DE. Mellon also would transfer its interests in certain insurance brokerage and agency-related activities to Citizens PA and Citizens’ subsidiary bank, Citizens Bank of Rhode Island, Providence, Rhode Island, which also is supervised by the FDIC.

³ The FDIC also has granted deposit insurance to Citizens PA and Citizens DE under the Federal Deposit Insurance Act (12 U.S.C. § 1815), and each relevant state banking regulatory authority has approved the proposal under applicable state laws.

world.⁴ Citizens, with total consolidated assets of \$32.3 billion, is the 32nd largest commercial banking organization in the United States.⁵ Citizens operates subsidiary depository institutions in Rhode Island, Massachusetts, Connecticut, and New Hampshire that control approximately \$23.3 billion in deposits, representing less than 1 percent of total deposits in insured depository institutions in the United States (“total U.S. insured deposits”).⁶

Mellon operates subsidiary depository institutions in California, Delaware, Florida, Massachusetts, New Jersey, and Pennsylvania that control approximately \$29 billion in deposits, representing less than 1 percent of total U.S. insured deposits. The branches of Mellon to be acquired by Citizens are in Pennsylvania, Delaware, Maryland, and New Jersey and control deposits of approximately \$13.4 billion.⁷ On consummation of this proposal, Citizens, with total consolidated assets of \$48.9 billion, would become the 22nd largest commercial banking

⁴ Foreign asset and ranking data are as of June 30, 2001.

⁵ Asset and domestic ranking data are as of June 30, 2001.

⁶ Deposit data are as of June 30, 2001, unless otherwise noted.

organization in the United States, controlling deposits of approximately \$36.7 billion, representing approximately 1.1 percent of total U.S. insured deposits.⁸

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 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 (“CRA”);⁹ the financial and managerial resources and future prospects

⁷ Under the proposal, Citizens would acquire assets from Mellon totaling approximately \$11 billion. Citizens PA would acquire 315 branches in Pennsylvania that control deposits of approximately \$12.8 billion, representing approximately 11.9 percent of the total deposits of insured depository institutions in the state (“state deposits”); and four branches in New Jersey that control deposits of approximately \$114.2 million, representing less than 1 percent of state deposits. In addition, Citizens PA would acquire two branches from Mellon in Maryland that control deposits of approximately \$50 million, as of March 31, 2001. The branches in Maryland did not begin accepting deposits until September 1999. Citizens DE would acquire 19 branches in Delaware that control deposits of approximately \$392 million, representing less than 1 percent of state deposits. State deposits data in this footnote are as of June 30, 2000.

⁸ Mellon would retain four branches in Pennsylvania, one branch in Maryland, one branch in Delaware, and no branches in New Jersey. The deposits to be retained by Mellon in Pennsylvania, Maryland, and Delaware would represent less than 1 percent of total state deposits in each of these states.

⁹ 12 U.S.C. § 2901 *et seq.*

of the companies and banks involved in the proposal; the availability of information needed to determine and enforce compliance with the BHC Act and other applicable federal banking laws; and, in the case of applications involving a foreign bank such as RBS, whether the foreign bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.¹⁰ The Board also must consider the concentration of deposits in the nation and relevant individual states as well as compliance with other provisions of section 3(d) of the BHC Act in reviewing proposed interstate acquisitions.¹¹

The Board has considered these factors in light of a record that includes information provided by Applicants, confidential supervisory and examination information, publicly reported financial and other information, and public comments submitted on the proposal. The Board also has consulted with and considered information collected from the primary home country supervisor of RBS Group and various federal and state supervisory agencies, including the FDIC, the Pennsylvania Department of Banking, and the State of Delaware Office of the State Bank Commissioner.

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. For purposes of the BHC Act, the home state of Applicants is Rhode Island, and Applicants would acquire banks in

¹⁰ See 12 U.S.C. § 1842(c).

¹¹ See 12 U.S.C. § 1842(d).

Pennsylvania, New Jersey, Maryland, and Delaware.¹² All the conditions for an interstate acquisition enumerated in section 3(d) are met in this case.¹³ In view of 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 be in furtherance of a monopoly. The BHC Act 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 in that banking market 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.¹⁴

The subsidiary depository institutions of Citizens and Mellon currently do not compete directly in any banking market where the Mellon

¹² 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.

¹³ See 12 U.S.C. §§ 1842(d)(1)(A) and (B), 1842(d)(2)(A) and (B). Applicants meet the capital and managerial requirements established under applicable law. In addition, Applicants would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States and would not exceed the deposit limits with respect to any state. The laws of Pennsylvania, New Jersey, and Maryland do not impose a minimum age requirement on banks to be acquired, and Delaware law does not impose such a requirement on banks chartered after September 29, 1995. All other requirements under section 3(d) of the BHC Act are met in this case.

¹⁴ See 12 U.S.C. § 1842(c)(1).

branches to be acquired are located, and the number of competitors in the relevant banking markets would remain unchanged or increase after consummation of the proposal. 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.

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 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 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 carefully considered the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of Citizens and Mellon in light of all the facts of record, including public comments received on the effect the proposal would have on the communities to be served by the institutions resulting from this proposal.

Two community groups jointly submitted comments opposing the proposal and expressing concerns about the record of Citizens in meeting the convenience and needs of the communities it serves. The commenters

criticized Citizens' record of home mortgage lending to LMI borrowers and small business lending in LMI communities. Based on data submitted under the Home Mortgage Disclosure Act ("HMDA"),¹⁵ the commenters also

¹⁵ 12 U.S.C. § 2801 et seq.

alleged that Citizens engaged in disparate treatment of minority individuals in its assessment areas with respect to home mortgage lending.

A. CRA Performance Examinations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of examinations 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

Citizens Bank of Massachusetts, Boston, Massachusetts (“CBMA”), the lead depository institution of Citizens, and all of Citizens’ other subsidiary depository institutions received “outstanding” ratings at their most recent CRA performance examinations by the FDIC, as of October 12, 1999 (collectively, “1999 Citizens Evaluation”).¹⁷ Mellon Bank also received an “outstanding” rating at its most recent CRA performance examination by the Office of the Comptroller of the Currency (“OCC”).¹⁸

¹⁶ See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

¹⁷ These institutions include Citizens Bank of Rhode Island, Providence, Rhode Island (“CBRI”); Citizens Bank of Connecticut, New London, Connecticut (“CBCT”); and Citizens Bank of New Hampshire, Manchester, New Hampshire (“CBNH”). United States Trust Company, Boston, Massachusetts, a subsidiary of Citizens, is a limited-purpose trust company and, therefore, not subject to the CRA.

¹⁸ The OCC rated Mellon Bank “outstanding,” as of November 26, 1997.

As noted above, Citizens' two new subsidiary banks would acquire most of the Mid-Atlantic retail banking branches of Mellon, and the branches to be acquired would become subject to the CRA policies of Citizens. Accordingly, the Board has particularly considered the 1999 Citizens Evaluations and the fair lending policies and procedures of Citizens and its subsidiary banks (collectively, "Citizens banks"). The Board also has consulted with the FDIC and considered confidential supervisory information on the CRA performance of the Citizens banks. In addition, the Board has evaluated substantial information submitted by Citizens concerning the CRA performance of the Citizens banks since the 1999 Citizens Evaluations and has considered the lending policies, practices, and data of Citizens' lending affiliate, Citizens Mortgage Company ("CMC").¹⁹

B. CRA Performance Record of Citizens

Lending. In the 1999 Citizens Evaluations, examiners commended the Citizens banks for their strong lending record during the

Mellon's other subsidiary banks subject to the CRA received "satisfactory" ratings at their most recent CRA performance examinations: Mellon DE, by the OCC, as of December 3, 1997, and Mellon 1st Business Bank, Los Angeles, California, by the FDIC, as of November 29, 1999.

¹⁹ CMC is a subsidiary of CBRI. Citizens stated that CMC serves as the central underwriter, processor, and servicer for standard residential first mortgage loan products offered by the Citizens banks, and that the individual Citizens banks originate all other housing-related loans. CMC's HMDA data were considered in the evaluation of the lending records of the Citizens banks in the 1999 Citizens Evaluations by the FDIC.

review period.²⁰ All the Citizens banks received “outstanding” ratings under the lending tests except CBNH, which received a “high satisfactory” rating. Examiners commended the home mortgage lending activities of the Citizens banks for demonstrating excellent responsiveness to the credit needs of all segments of their assessment areas during the review period, including segments comprised of LMI borrowers and communities. Examiners determined that the records of the Citizens banks in making HMDA-reportable loans to LMI borrowers during the review period were strong and generally exceeded the lending performance of the aggregate of lenders (“aggregate lenders”) in 1998.²¹ For example, CBMA’s lending to LMI borrowers as a percentage of its total HMDA-reportable lending was almost twice that of the aggregate lenders in 1998. The 2000 HMDA data indicate that the loans to LMI borrowers made by each of the Citizens banks as a percentage of their total HMDA-reportable loans exceeded or were comparable with that of the aggregate lenders. In the 1999 Citizens Evaluation, examiners also noted that the records of the Citizens banks in

²⁰ The review period for the 1999 Citizens Evaluations was January 1, 1998, through September 30, 1999.

²¹ In this context, “HMDA-reportable loans” refers to loans reportable under HMDA, which includes home purchase, home improvement, and multifamily mortgage loans and refinancings of such loans. Loans made by the aggregate of lenders refers to all HMDA-reportable loans made in the assessment areas of the Citizens banks by all lenders required to report under HMDA.

lending in LMI census tracts during the review period generally were comparable with or exceeded that of the aggregate lenders.²²

Examiners commended all the Citizens banks for extensively using innovative and flexible loan programs to better serve local credit needs, particularly those of LMI individuals and communities.²³ For example, examiners found that CBMA offered a number of programs with reduced costs and flexible underwriting standards to provide affordable housing loans to LMI families and in LMI communities throughout its Massachusetts assessment area. The bank provided more than 630 loans totaling approximately \$42 million through these programs during the review period. Through similar programs, CBRI provided more than 320 loans totaling approximately \$22 million in its Rhode Island assessment

²² Examiners noted that, although CBCT's record of HMDA-reportable lending in LMI census tracts during the review period was adequate, its performance in this category fell below that of the aggregate lenders. Examiners attributed this performance to the strong competition from local and regional banks, the very low percentage of owner-occupied housing units in the low-income census tracts, and the bank's limited number of mortgage loan originators. Examiners found, however, that the percentage of CBCT's HMDA-reportable lending to LMI borrowers during the review period exceeded that of the aggregate lenders in 1998. To further increase its residential lending in LMI communities and to LMI borrowers, CBCT has increased its mortgage staff and added loan products and programs to assist LMI borrowers. The 2000 HMDA data indicate that the percentages of its HMDA-reportable loans made in LMI census tracts and to LMI borrowers exceeded or were comparable with that of the aggregate lenders.

²³ All the Citizens banks offer a number of special programs to promote affordable home loans to LMI individuals and in LMI communities, small business lending in LMI communities, and community development. Many of these programs were created by the banks as in-house programs or in partnership with community organizations. In addition, the Citizens banks and CMC offer a full array of government-sponsored or -insured loans.

area. Examiners also noted that CBCT developed a flexible mortgage product for homebuyers in the low-income census tracts in New Haven, Connecticut, and committed \$5 million to a program that offers mortgage loans without down-payment requirements to homebuyers in LMI communities in three Connecticut cities.

Citizens stated that since the evaluations in 1999, the Citizens banks have increased their lending under these programs. The Citizens banks collectively made more than 1800 housing-related loans totaling more than \$180 million through these innovative and flexible loan programs during 2000 and the first six months of 2001.

Examiners also commended the small business lending activities of the Citizens banks. In particular, examiners noted that the banks' records of small business lending reflected a good distribution among various income geographies and businesses of different sizes. Examiners stated that CBRI's record of small business lending in LMI census tracts in Rhode Island compared favorably with that of the aggregate lenders during the review period and commended the bank for consistently being named the leading lender of Small Business Administration ("SBA") loans in Rhode Island.²⁴ In addition, examiners commended CBMA for innovative commercial lending programs, such as its \$40 million commitment to provide below-market financing to small businesses in Boston's Enterprise Zone during a 10-year period. Examiners also commended CBCT's participation in three programs that offered flexible loan terms for small businesses in LMI census tracts in several Connecticut cities.

²⁴ CBRI has been the leading SBA lender in Rhode Island for the last six years, and CBNH has been the leading SBA lender in New Hampshire for the last three years.

Based on the small business loan data reported by Citizens, the overall volume of small business loans provided by all the Citizens banks increased from 1999 to 2000, except for CBCT. In addition, each of the Citizens banks, including CBCT, outperformed the aggregate lenders in 2000 in terms of the percentage of their total small business loans that were extended to businesses with revenues of \$1 million or less. Moreover, the percentage of each of the Citizens banks' loans to small businesses in LMI census tracts in 1999 and 2000 significantly exceeded that of the aggregate lenders in both years.

In the 1999 Citizens Evaluations, examiners generally found that the majority of the banks' small business loans during the review period were for amounts of \$100,000 or less, but that their percentages of such small business loans were below that of the aggregate lenders in 1998. Examiners noted, however, that community development was the primary purpose of a large number of the loans reported as small business loans by the Citizens banks. For example, examiners found that CBRI made 36 small business loans totaling \$6.7 million that had community development as their primary purpose, including \$2 million in loans to organizations that provide affordable housing for LMI individuals and communities in Rhode Island.

In the 1999 Citizens Evaluations, examiners commended each of the banks for their level of community development lending. During the review period, the banks made community development loans totaling more than \$48 million. For example, CBMA made a \$4.1 million loan to develop an assisted living facility that reserved 50 percent of its units for LMI elders, and CBRI made a loan of \$2.1 million to a nonprofit organization that provided counseling and intervention services to LMI individuals. CBCT

issued a \$10 million line of credit for a redevelopment project in a LMI census tract in New London, Connecticut. In addition, examiners reported that most of the \$5.5 million in community development loans that CBNH made during the review period helped finance affordable housing for LMI individuals.

The Citizens banks have maintained a high level of community development lending since the 1999 Citizens Evaluations. Citizens stated that its subsidiary banks collectively made community development loans totaling more than \$83 million during 2000 and the first six months of 2001.

Investment. In the 1999 Citizens Evaluations, examiners rated the investment activities of CBMA and CBRI as “high satisfactory” and those of CBCT and CBNH as “outstanding.” During the review period, the banks made qualified CRA investments totaling more than \$58 million and grants totaling more than \$2.3 million. These qualified investments included affordable housing mortgage-backed securities totaling more than \$24 million purchased by CBMA and CBRI. Examiners also noted that CBMA invested \$4.6 million in the Massachusetts Housing Partnership Fund (“MHPF”) and committed more than \$2.8 million in new equity to the Massachusetts Housing and Equity Fund (“MHEF”).²⁵ Both organizations finance affordable housing in LMI communities throughout the state. In addition, examiners reported that CBCT created new funds to finance affordable housing and economic development in LMI areas in Connecticut. Examiners also noted that CBNH invested \$3 million in an investment fund

²⁵ As of the 1999 Citizens Evaluation, CBMA had made total commitments of \$29 million to the MHPF and \$7.1 million to the MHEF.

for low-income multifamily housing projects and invested in tax credit projects and programs through the New Hampshire Community Development Finance Authority to support lending to small businesses and employment-transition programs for welfare recipients. Citizens stated that its subsidiary banks collectively made qualified investments and grants totaling more than \$24.8 million during 2000 and the first six months of 2001.

Services. All the Citizens subsidiary banks received an “outstanding” rating under the services test in the 1999 Citizens Evaluations. Examiners determined that the banks’ retail banking services were readily accessible to all portions of their assessment areas, including LMI communities. Examiners also noted that the banks offered a variety of alternative delivery systems and low-cost checking accounts for individuals and small businesses. In addition, examiners commended the excellent level of community services provided by the Citizens banks and the active involvement of their employees with community development organizations throughout the banks’ assessment areas.

C. HMDA Data and Fair Lending Record

The Board also has carefully considered Citizens’ lending record in light of comments on HMDA data reported by its subsidiaries.²⁶ Except for CBMA, all the Citizens banks experienced a decline in the number of loans reported under HMDA in 2000 compared with 1999, but

²⁶ Based on 2000 HMDA data, the commenters alleged that the Citizens banks disproportionately excluded and denied African-American and Hispanic applicants for home mortgage loans in various Metropolitan Statistical Areas (“MSAs”) and Primary MSAs in Massachusetts, Rhode Island, Connecticut, New Hampshire, Vermont, and Maine.

the aggregate lenders in each bank's assessment area also experienced similar declines during the same time period. Significantly, the percentage of total HMDA-reportable loans that each Citizens bank made to African-American and Hispanic applicants either increased or remained essentially the same in 2000 compared with 1999, despite the general decline in the number of originations. Moreover, the percentage of total HMDA-reportable loans that the Citizens banks originated to African-American and Hispanic individuals and in minority census tracts generally exceeded that of the aggregate lenders in 1999 and 2000.²⁷ In addition, the HMDA data indicate that the banks' denial disparity ratios for African-American and Hispanic applicants in 2000 were lower than or comparable with the aggregate lenders' denial disparity ratios for these applicants.²⁸

The HMDA data, however, reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial groups. For example, CBCT's lending to African-American and Hispanic applicants in 1999 and 2000, as a percentage of its total HMDA-reportable lending, was slightly below that of the aggregate lenders in both years. However, the bank's denial disparity ratios for African-American and Hispanic applicants in 2000 were less than or comparable with the denial disparity ratios of the aggregate lenders.

²⁷ For purposes of this HMDA analysis, "minority census tracts" means census tracts with a minority population of 80 percent or more.

²⁸ The denial disparity ratio compares the denial rate for minority loan applicants with that for nonminority applicants.

Importantly, the HMDA data do not indicate that the Citizens banks were excluding any 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 to ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of their 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. HMDA data, moreover, provide only limited information about covered loans.²⁹ 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's 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 an on-site evaluation of compliance by the Citizens banks with fair lending laws. Examiners found no evidence of prohibited discrimination or other illegal credit practices at any subsidiary depository institution controlled by Citizens. The record also indicates that

²⁹ 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.

Citizens has taken a number of affirmative steps to ensure compliance with fair lending laws. The Citizens banks have a mandatory and ongoing program in which all employees receive training on compliance with fair lending and other consumer protection laws. In addition, Citizens has established a formal fair lending committee (“Committee”) that disseminates legislative, regulatory, and industry information on fair lending matters to the appropriate employees of the Citizens banks. The Committee also reviews the Citizens banks’ lending data to evaluate potential fair lending issues with respect to credit decisions and compensation incentives, and conducts comparative file analyses. As part of a secondary review process, the Committee also compares denied applicants with approved applicants to ensure that no prohibited basis was a factor in the credit decision.

The Board also has considered the HMDA data in light of Citizens’ overall lending and community development activities discussed above, which show that the Citizens banks significantly assist in helping to meet the credit needs of their entire communities.³⁰ The Board believes that,

³⁰ 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 subsidiary, Greenwich Capital Markets, Greenwich, Connecticut (“GCM”). Applicants stated that GCM underwrites securities backed by consumer loans, including subprime mortgage loans originated by unaffiliated third parties. In addition, GCM’s affiliate, Greenwich Capital Financial Products, Inc. (“GCFP”), provides warehouse finance and repurchase facilities to unaffiliated mortgage originators, including some engaged in subprime lending. Applicants also noted that GCM has invested in securities backed by subprime loan pools that are issued by unaffiliated parties.

viewed in light of the entire record, the HMDA data indicate that Citizens' record of performance in helping to serve the credit needs of its communities is consistent with approval of the proposal.

D. Conclusion on Convenience and Needs Considerations

In reviewing the effect of the proposal on the convenience and needs of the communities to be served, the Board has carefully considered the entire record, all the information provided by the commenters and Citizens, evaluations of the performance of the Citizens banks under the CRA, and confidential supervisory information.

Based on all the facts of record and for 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.

Financial, Managerial, and Other Supervisory Factors

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks

The Board has considered all the facts of record, including the relationships of GCM, GCFP, and Citizens with unaffiliated consumer lenders. Applicants stated that GCM, GCFP, and Citizens do not play any formal or informal role in the loan origination process or in developing the loan originator's lending practices or credit approval processes. They noted, however, that GCM conducts due diligence reviews in connection with its securitization activities that typically includes reviews to determine if the originators are complying with federal and state laws. Moreover, the Board notes that the Federal Trade Commission, Department of Housing and Urban Development, and Department of Justice have responsibility for enforcing the compliance with fair lending laws of nondepository institutions.

involved in a bank acquisition proposal.³¹ In assessing the financial and managerial strength of Applicants and the banks to be acquired, the Board has reviewed information provided by Applicants, confidential supervisory and examination information, publicly reported and other financial information, and public comments.³² In addition, the Board consulted with relevant supervisory authorities in the United Kingdom.

In evaluating financial factors in expansion proposals by banking organizations, the Board consistently has considered capital adequacy to be especially important. The proposed acquisition is structured as a purchase-and-assumption transaction financed with the proceeds of a recent equity issuance by RBS Group. Citizens PA and Citizens DE would be well capitalized and the risk-based regulatory capital ratios of Citizens on a consolidated basis would remain above the well-capitalized thresholds on consummation of the proposal. In addition, the capital ratios of RBS Group on a consolidated basis and RBS would continue to exceed the minimum levels that would be required under the Basel Capital Accord. These ratios are considered equivalent to the capital ratios that would be required of a U.S. banking organization.

³¹ See 12 U.S.C. § 1842(c)(2).

³² The commenters also expressed concern that the activities of RBS Group and its affiliates in Indonesia ignored human rights concerns, damaged the environment, or caused other societal harm. These contentions contain no allegations of illegality or action that would affect the safety and soundness of the institutions involved in the proposal, and are outside the limited 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).

The Board also has considered the managerial resources of Applicants, including the examination records of Citizens and its subsidiary depository institutions by the appropriate federal financial supervisory agencies. In addition, the Board has considered the plans of Applicants to implement the proposal, including their available managerial resources and record of successfully integrating acquisitions into existing operations. After reviewing all the facts of record, the Board concludes that Applicants, including the subsidiary depository institutions of Citizens, have adequate managerial resources and appropriate risk management systems in place. Based on these and all the facts of record, the Board concludes that the financial and managerial resources and future prospects of Applicants and their subsidiary banks 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 consolidated supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country.³³ The home

³³ 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 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 C.F.R. 211.24(c)(1).

country supervisor of RBS Group is the United Kingdom’s Financial Services Agency (“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 (12 U.S.C. § 3101 *et seq.*) (“IBA”), the Board previously has determined that United Kingdom banks, including RBS, were subject to home country supervision on a consolidated basis.³⁴ 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 previous determinations. 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.³⁵ The Board has reviewed the restrictions on disclosure in relevant jurisdictions in which RBS Group operates and has communicated with relevant government authorities

³⁴ See Abbey National Treasury Services plc, 87 Federal Reserve Bulletin ___ (Order dated September 17, 2001); see also The Royal Bank of Scotland Group, 82 Federal Reserve Bulletin 428 (1996).

³⁵ See 12 U.S.C. § 1842(c)(3)(A).

concerning access to information. In addition, RBS Group and RBS 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.³⁶

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the applications should be, and hereby are,

³⁶ A commenter questioned the policies and procedures of RBS concerning correspondent banking relationships in connection with certain directives and action requests recently issued to financial institutions by government authorities. In evaluating the managerial and supervisory factors, the Board reviewed these comments in light of information submitted by RBS regarding its policies and procedures on correspondent bank and certain other customer account relationships and additional confidential information.

approved.³⁷ 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 all the representations and commitments made in connection with the application and prior commitments referenced in this order. These representations, 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 transaction shall not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal

³⁷ The commenters also requested that the Board hold a public 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 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 the appropriate 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 C.F.R. 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 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. 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 hearing is not required or warranted in this case. Accordingly, the requests for a public hearing on the proposal are denied.

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 by the Federal Reserve Bank of Boston, acting pursuant to delegated authority.

By order of the Board of Governors,³⁸ effective
November 9, 2001.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

³⁸ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.