

## FEDERAL RESERVE SYSTEM

Royal Bank of Canada, Montreal, Canada  
RBC Centura Banks, Inc., and RBC Centura Bank, Rocky Mount, North Carolina

Order Approving the Acquisition of a Savings Association, Merger of Depository Institutions, and Establishment of Branches

Royal Bank of Canada (“Royal Bank”), a foreign banking organization subject to the provisions of the Bank Holding Company Act (“BHC Act”), and its wholly owned subsidiary, RBC Centura Banks, Inc. (“RBC”) (collectively, “Notificants”), 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 sections 225.14 and 225.24 of the Board’s Regulation Y (12 C.F.R. 225.14 and 225.24) to acquire Eagle Bancshares, Inc. (“Eagle”) and its wholly owned subsidiary, Tucker Federal Bank (“Tucker”), both in Tucker, Georgia, and thereby engage in operating a savings association and conducting certain nonbanking activities as a result of the acquisition.<sup>1</sup> RBC Centura Bank (“Bank”), Rocky Mount, North Carolina, RBC’s wholly owned subsidiary, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(c)) (“Bank Merger Act”) to acquire the assets of, and to subsequently merge with, Tucker.<sup>2</sup> Bank also has applied under section 9 of the

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<sup>1</sup> RBC would engage in lending and lending-related activities through its acquisition of Eagle subsidiaries, Eagle Bancshares Capital Group, Inc.; Prime Eagle Mortgage Corporation; and Eagle Service Corporation, all in Tucker, Georgia, and TFB Management Inc., TFB Management (NC) Inc., and TFB Management (RE) Inc., all in Wilmington, Delaware. RBC also would engage in discount brokerage activities through its acquisition of Eagle Service Corporation, and in community development activities through its acquisition of Eagle’s subsidiary, Hampton Oaks, LLP, also in Tucker.

<sup>2</sup> The transaction would be effected through a series of steps. Eagle would merge with and into a wholly owned subsidiary of Royal Bank, with Eagle surviving. Eagle then would merge with and into Bank, and Bank would be the surviving

Federal Reserve Act (12 U.S.C. § 321) (“FRA”) to retain and operate branches at the main and branch offices of Tucker.<sup>3</sup>

Notice of the proposal, affording interested persons an opportunity to comment, has been published in the Federal Register (67 Federal Register 21,243; 67 Federal Register 30,928-929 (2002)) and locally 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 merger were requested from the United States Attorney General and relevant banking agencies. The time for filing comments has expired, and the Board has considered the application and notices and all comments received in light of the factors set forth in section 4 of the BHC Act, the Bank Merger Act, and the FRA.

Royal Bank, with total assets of \$226.1 billion, is the largest banking organization in Canada.<sup>4</sup> RBC operates depository institutions in Georgia, Florida, North Carolina, South Carolina, and Virginia. RBC’s subsidiary, Bank, controls deposits of \$204.2 million in Georgia, representing less than 1 percent of total deposits of insured depository institutions in the state (“state deposits”).<sup>5</sup>

Eagle’s subsidiary, Tucker, controls deposits of \$829.6 million in Georgia, representing less than 1 percent of state deposits. On consummation of the proposal, Bank would become the tenth largest depository institution in

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entity. Immediately thereafter, Tucker would merge with and into Bank, and Bank would be the survivor.

<sup>3</sup> The Tucker branches to be acquired by Bank are listed in the Appendix.

<sup>4</sup> 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). Through its subsidiaries and affiliates, Royal Bank engages in a variety of nonbanking activities, including investment banking, asset management, and mortgage lending.

<sup>5</sup> Deposit data are as of June 30, 2001. Asset data are as of March 31, 2002. In this context, depository institutions include commercial banks, savings banks, and savings associations.

Georgia, controlling deposits of approximately \$1 billion, representing less than 1 percent of state deposits.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.<sup>6</sup> The Board requires that savings associations acquired by bank holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act. RBC has committed to conform all the activities of Tucker to those permissible under section 4(c)(8) of the BHC Act and Regulation Y. Eagle engages in mortgage lending and related activities, discount brokerage, and community development activities that the Board also has determined to be closely related to banking.<sup>7</sup>

In reviewing the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the acquisition of Eagle and Tucker by Notificants “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.”<sup>8</sup> As part of its evaluation of a proposal under these public interest factors, the Board reviews the financial and managerial resources of the companies involved, as well as the effect of the proposal on competition in the relevant markets.

#### Financial, Managerial, and Future Prospects

In reviewing the proposal under section 4 of the BHC Act and the Bank Merger Act, the Board also has carefully reviewed the financial and

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<sup>6</sup> 12 C.F.R. 225.28(b)(4)(ii).

<sup>7</sup> 12 C.F.R. 225.28(b)(1); 12 C.F.R. 225.28(b)(2)(ii); 12 C.F.R. 225.28(b)(2)(iv); 12 C.F.R. 225.28(b)(12)(i).

managerial resources and the future prospects of the institutions involved.<sup>9</sup> The Board has reviewed, among other things, confidential reports of examination and confidential supervisory information assessing the financial and managerial resources of the organizations received from their primary federal supervisors, and information provided by RBC and Bank.<sup>10</sup> The Board notes that Bank is and will remain well capitalized on consummation of the proposal. Based on all the facts of record, the Board concludes that the financial and managerial resources and future

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<sup>8</sup> 12 U.S.C. § 1843(j)(2)(A).

<sup>9</sup> One commenter criticized Royal Bank for its oversight of its U.S. subsidiaries, particularly RBC Mortgage Company (“RBC Mortgage”) and RBC’s subprime lenders, First Greensboro Home Equity, Inc. (“First Greensboro”) and NCS Mortgage Lending Co. (“NCS”). RBC stated that its ownership interest in First Greensboro was divested fully by the end of September 2001, and that RBC has sold substantially all the assets of NCS and is not originating any new loans through that subsidiary.

<sup>10</sup> One commenter noted a news article that stated that Royal Bank refunded C\$17 million to some of its Visa cardholders due to confusion by the company on how to treat the calculation of interest charges accruing to new purchases when an account is paid in full by the cardholder. RBC stated that it voluntarily refunded the money after the matter came to its attention and confirmed that the company amended the cardholder agreement to eliminate any confusion.

The commenter also referred to a general news article on taxpayers’ evasion of U.S. taxes through the misuse of offshore credit cards. The commenter stated that Royal Bank issues credit cards from some jurisdictions discussed in the news article, but provided no evidence of improper or illegal behavior by Royal Bank. Royal Bank has indicated that it maintains strict “source of funds” guidelines and “know your client” rules and makes clear to any potential client participating in Royal Bank’s international private banking operations that clients are obligated to declare income in their home countries and may be liable for tax. Royal Bank also has cooperated with the Internal Revenue Service in its investigation of these practices.

prospects of the institutions involved and other supervisory factors are consistent with approval of the proposal.<sup>11</sup>

### Competitive Considerations

As part of the Board's review under the Bank Merger Act and its consideration of the public interest factors under section 4 of the BHC Act, the Board has considered carefully the competitive effects of the proposal in light of all the facts of record. Bank and Tucker compete directly in the Atlanta, Georgia, banking market ("Atlanta banking market").<sup>12</sup> Bank is the twenty-seventh largest depository institution in the market, controlling \$204.2 million in deposits, representing less than 1 percent of total deposits in depository institutions in the market ("market deposits"). Tucker is the thirteenth largest depository institution in the market, controlling \$414.8 million in deposits, representing less than 1 percent of market deposits. On consummation of the proposal, Bank would become the eighth largest depository institution in the Atlanta banking market, controlling \$1 billion in deposits, representing 1.8 percent of market deposits.<sup>13</sup>

The Herfindahl-Hirschman Index ("HHI") for the Atlanta banking market would not increase, the market would remain moderately concentrated, and

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<sup>11</sup> One commenter alleged that an insurance company subsidiary of RBC, Liberty Life Insurance Co. of Greenville, South Carolina ("Liberty Life"), discriminated against African American clients by charging them higher premiums than white clients. This matter is currently under review before the Administrative Law Judge Division of the South Carolina Department of Insurance. The Board will monitor the proceeding and take whatever action might be appropriate based on the determinations of Liberty Life's primary regulator in any final adjudication.

<sup>12</sup> The Atlanta banking market is defined as the counties of Bartow, Cherokee, Clayton, Cobb, Coweta, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gwinnett, Hall (excluding the town of Clermont), Henry, Newton, Paulding, Rockdale and Walton; and the towns of Auburn and Winder in Barrow County.

<sup>13</sup> Tucker's deposits are weighted at 50 percent before and 100 percent after the merger.

numerous competitors would remain in the market.<sup>14</sup> The Department of Justice has reviewed the proposal and advised the Board that consummation would not likely have a significantly adverse effect on competition in any relevant market. No other agency has indicated that competitive issues are raised by this proposal.

Based on all the facts of record, the Board concludes that consummation of the proposal would not result in any significantly adverse effects on competition or on the concentration of banking resources in the Atlanta banking market or in any other relevant banking market.

#### Convenience and Needs Considerations

In acting on this proposal, the Board also must consider the convenience and needs of the communities to be served and take into account the records of performance of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 et seq.) (“CRA”). The CRA requires the federal 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 considered carefully the convenience and needs factor and the CRA performance records of Bank and

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<sup>14</sup> Under the Department of Justice Merger Guidelines, 49 Federal Register 26,823 (1984), a market in which the post-merger HHI is between 1000 and 1800 is considered to be moderately concentrated. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal thresholds for an increase in the HHI when screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

Tucker in light of all the facts of record, including public comments received on the effect of the proposal on the communities to be served by the combined organization.

Two community groups submitted comments on the proposal. One commenter commended Bank on its improvement in meeting the credit needs of African Americans throughout Bank's North Carolina assessment areas. The commenter noted in particular Bank's increase in its percentage of African-American applicants in North Carolina from 1999 to 2000 and Bank's general decrease in denial disparity ratios for African Americans in North Carolina from 1999 to 2000. The commenter also noted that in almost all North Carolina Metropolitan Statistical Areas ("MSAs") in which Bank operates, the percentage of African-American borrowers in Bank's loan portfolio increased from 1999 to 2000. Finally, the commenter noted that Bank's percentage of LMI applicants in North Carolina increased from 1999 to 2000.

This commenter, however, also expressed concern about Bank's lending in certain areas, noting some MSAs in North Carolina where Bank had fewer home mortgage applications from African Americans than lenders in those MSAs in the aggregate, and MSAs where Bank's denial disparity ratios for African Americans had increased. The commenter also contended that Bank has been inconsistent in improving its services to LMI home mortgage borrowers in North Carolina, lending less of its portfolio to LMI borrowers than lenders in those MSAs in the aggregate. The commenter also expressed concern about Bank's level of community development loans from 1999 to 2000, and its possible involvement with payday lenders.<sup>15</sup>

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<sup>15</sup> In response, Bank noted that banks and other companies that provide payday lending services maintain ordinary deposit accounts with Bank. However, Bank stated that it does not engage in payday lending activities directly, does not offer or

Another commenter criticized, among other things, the subprime lending activities of the parent holding companies' mortgage lending subsidiaries. This commenter also advocated denial of the proposal based on Tucker's CRA rating and expressed concerns about Bank's plans to improve Tucker's CRA performance in the assessment areas served by Tucker.<sup>16</sup>

A. CRA Performance Evaluations

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 Bank and Tucker. 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.<sup>17</sup>

Bank received a "satisfactory" CRA rating at its most recent CRA performance examination, as of February 28, 2000, by the Federal Reserve Bank of Richmond. Tucker received a "needs to improve" CRA rating at its most recent

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have agency arrangements with any third-party payday lenders, and has not made loans to payday lenders.

<sup>16</sup> One commenter criticized another RBC subsidiary, Security First Network Bank ("SFNB"), with respect to its level of lending to low-income borrowers in the Atlanta, Georgia, MSA. The commenter also alleged that SFNB improperly sought to limit its CRA-related activities in the Atlanta, Georgia, and Tampa, Florida, MSAs because it conducted business nationwide through its Internet focus. The Board notes that SFNB was rated "outstanding" at its most recent evaluation by the Office of Thrift Supervision ("OTS"), as of September 20, 1999. In addition, the Board notes that the OTS reviewed SFNB's assessment areas as part of the institution's most recent CRA examination and determined that the delineated areas complied with CRA regulatory requirements. SFNB was merged with and into Bank on May 31, 2002.

<sup>17</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).



CRA performance examination, as of February 22, 2001, by the OTS. Examiners found no evidence of prohibited discrimination or other illegal credit practices at either institution and found no violations of the substantive provisions of fair lending and consumer protection laws.

#### B. Bank's CRA Performance Record

Examiners reported that Bank primarily served its assessment areas through direct lending and offered a variety of credit products, including residential mortgage, residential construction, home improvement, small business, commercial, consumer, agricultural, and community development loans.<sup>18</sup>

Examiners noted that 96 percent of the bank's loans are provided to businesses and consumers in its assessment areas. Examiners found that overall, Bank's dispersion of small business and small farm loans, loans subject to the Home Mortgage Disclosure Act (12 U.S.C. § 2801 et seq. ("HMDA"), and consumer

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<sup>18</sup> One commenter expressed concern that mortgage lending subsidiaries of Royal Bank and RBC engage in subprime lending. RBC stated that RBC Mortgage offers subprime loan products, but that three of its four loan products were discontinued, as of May 17, 2001. The remaining loan product, the "Rewards Loan" program, reflects the product and underwriting guidelines of Residential Funding Corporation ("RFC"), the investor to whom the loan is sold shortly after closing. The program offers a 30-year, fixed-term-rate loan, and its pricing is based on the interest rate set by RFC. The Board notes that subprime lending is a permissible activity that provides needed credit to consumers who have difficulty meeting conventional underwriting standards. The Board, however, expects bank holding companies and their affiliates to conduct their subprime lending activities without any abusive lending practices. RBC has provided information about the policies and procedures of RBC Mortgage to help ensure compliance with fair lending and other consumer protection laws and regulations. In addition, RBC has provided information about the steps that Bank and RBC Mortgage take to ensure that applicants who qualify for conventional loans are given the opportunity to apply for prime credit products. The Board notes that the commenter provided no evidence of abusive lending practices by RBC Mortgage, Bank, or any RBC subsidiary.

loans in LMI areas was reasonable.<sup>19</sup> In addition, examiners found that Bank's distribution of loans to businesses and farms with revenues of \$1 million or less was generally reasonable. Although Bank received an examination rating of "low satisfactory" under the lending test for the review period in its most recent CRA performance evaluation, examiners found that the volume of HMDA-reportable and consumer loans to be adequate. Examiners also noted that Bank's use of specialized lending programs and its participation in government subsidized loans showed that the bank was making efforts to help meet the credit needs of its assessment areas.<sup>20</sup>

As noted by examiners, during the review period Bank extended \$1.8 billion in HMDA-reportable loans, which included Federal Housing Administration, Veterans Administration, Farm Service Housing and/or Rural Housing Service, and Wilmington Home Ownership Pool ("WP") loans.<sup>21</sup> Examiners also noted that Bank offered "Affordable Housing Program" ("AHP") loans to borrowers who did not meet the underwriting criteria necessary for the

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<sup>19</sup> The review period for Bank's CRA evaluation was February 1, 1998, through September 30, 1999. During the review period, Bank's assessment areas included 15 MSAs and 13 non-MSAs. Full scope reviews were conducted in eight of the bank's assessment areas that together accounted for 56 percent of the bank's lending volume.

<sup>20</sup> Examiners noted that Bank continues to participate in the Community Investment Corporation of North Carolina ("CICNC"), which is a statewide affordable housing loan consortium that provides long-term permanent financing for LMI multifamily housing developments. During the review period, Bank extended 12 loans totaling approximately \$667,000 in combination with CICNC.

<sup>21</sup> Bank, along with 10 other lenders, participates in WP, which was established to facilitate and increase home ownership among Wilmington's LMI residents. During the review period, Bank extended one WP loan of \$58,450.

secondary market.<sup>22</sup> From February 1, 1998, to March 8, 2000, Bank provided \$44 million in AHP loans. Examiners noted that overall, Bank's lending penetration in LMI areas in North Carolina was reasonable when using aggregate lending and demographic statistics as proxies for demand.<sup>23</sup>

Examiners concluded that Bank extended an adequate level of community development loans during the review period, with approximately \$54 million in community development loans in its assessment areas, which primarily supported the creation of affordable housing for LMI individuals and extended over a broad geographic region. Examiners noted that in North Carolina, Bank made 33 community development loans totaling \$47.6 million during the review period.

After the examination, Bank reported that it made \$26.4 million in community development loans to finance 961 affordable housing units for the benefit of low-to-moderate income families throughout its assessment areas in 2000 and 2001. In addition, Bank has used its Affordable Mortgage Manager employee to visit the market and establish an outreach plan and strategy to meet CRA-related mortgage goals for that market. Bank stated that it also has held four conferences or seminars in the Wilmington, North Carolina, MSA in the first quarter of 2002 to inform first-time homebuyers, other interested persons, and Wilmington Housing Authority employees about affordable housing. Bank also stated that it is recruiting an Affordable Mortgage Specialist for the Greensboro

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<sup>22</sup> The AHP offers home purchase loans to families whose incomes do not exceed 80 percent to 100 percent of the HUD median family income for the county of residence.

<sup>23</sup> Examiners noted that in Bank's North Carolina assessment areas, 3 percent of residents reside in low-income areas and 17 percent reside in moderate-income areas. Examiners found that Bank's level of lending in LMI areas is adequate considering the population percentages in combination with the poverty rates for such areas.

market and has expanded its Community Centered Bank Program, a mortgage banking initiative involving community church leaders, in the Fayetteville market.

Similarly, Bank stated that it has committed new resources in the organization to address the CRA-related needs of LMI and minority populations in its assessment areas. Specifically, Bank represented that it hired a new Customer Segment and Product Manager to assess methods of delivering products and services aimed at LMI and predominantly minority segments of the market. Bank also stated that it intends to offer home ownership workshops in the markets noted by one commenter and to work with community groups to supplement its efforts to meet the credit needs of all the communities served by Bank.

The Board notes that examiners have recently reviewed the CRA performance of Bank. Although the examination report is not yet complete, the Board has consulted with examiners on their preliminary findings and has considered those findings in reviewing the overall performance of Bank.

Investments. Examiners rated Bank “high satisfactory” on its record of investment in light of its level of response to community development needs. During the review period, Bank maintained a securities portfolio of \$11.5 million in qualified investments. Examiners noted that Bank also continued to maintain investments in various partnerships that funded affordable housing throughout North Carolina.<sup>24</sup> In addition, Bank made two investments totaling approximately \$2.8 million in Federal Home Loan Mortgage Corporation mortgage-backed securities benefiting Virginia and South Carolina. Examiners noted that Bank also was awarded the Bank Enterprise Act award in recognition of its lending and services in economically distressed areas of North Carolina. Bank donated the

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<sup>24</sup> During the review period, Bank invested in five partnerships that funded approximately \$8.6 million in affordable housing projects in eastern and central North Carolina and the Charlotte-Gastonia-Rock Hill, Raleigh-Durham-Chapel Hill, and Rocky Mount MSAs, all in North Carolina.

award to a nonprofit organization with subsidiaries that operate as community development lenders serving LMI individuals, small businesses, and other nonprofit organizations throughout North Carolina.

Services. Bank was rated “high satisfactory” on its provision of retail banking and community development services at its last examination. Examiners found that Bank’s delivery systems, which included automated teller machines, personal computer home-based banking, and branch locations and their hours of operations, were readily accessible. Examiners noted that 19 of the bank’s branches were in LMI geographies. In addition, examiners found that bank personnel provided technical assistance to several community development organizations, including Bank’s Community Centered Banking program (“CCB”), which serve LMI residents and residents in predominantly minority areas. Through its CCB program, the bank partners with local churches to provide underserved markets with financial education programs and financial products and services. The program’s financial products include checking and savings accounts, personal loans and credit cards, check cashing identification cards, and a mortgage loan with flexible underwriting criteria and market-based interest rates that permits pre-approval on completion of an extensive homebuyers counseling program. Bank also stated that it participates with several nonprofit agencies to offer Individual Development Accounts (“IDA”) to families saving for education or home ownership, or to individuals starting a business. Through IDA, Bank provides special accounts that require no minimum balance and charge no fees, in addition to providing special services. Bank stated that it also provides financial literacy and training seminars on a variety of topics in the markets it serves.<sup>25</sup>

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<sup>25</sup> One financial literacy training program is available to high school students. Another program is available to low-income participants through its partnership with the Newport News Redevelopment and Housing Authority Self-Sufficiency Program.

### C. Tucker's CRA Performance Record

As noted above, Tucker, which would be acquired by Bank, received an unsatisfactory CRA rating at its most recent examination. Examiners found that Tucker's level of lending was low compared to the percentage of deposits derived from its assessment areas. Examiners noted that Tucker's penetration of LMI geographies in its assessment areas was poor compared to the distribution of owner-occupied housing in those areas. In addition, examiners found that Tucker made no community development loans during the review period, and characterized Tucker's level of qualified investments as too low. Examiners also considered its community development services inadequate in light of Tucker's resources and the needs in its assessment areas.

Since the examination, Tucker has established a CRA committee with the mandate to help improve its rating. The committee meets regularly with Tucker's board of directors to report on efforts to enhance lending, investment, and service activities in its communities. Tucker increased lending in its assessment areas from 7 percent to 55 percent in 2001, and has purchased a total of \$8.7 million of CRA-related first mortgage loans in its assessment areas. Tucker also has enhanced its small business lending, concentrating on small businesses with revenues of \$1 million or less. Of approximately \$70 million in small business loans originated by Tucker during 2001, almost 82 percent were made to businesses in its assessment areas.

Tucker also has improved its community development lending since the most recent examination. Loans qualifying as community development loans are specifically discussed at the thrift's weekly lending meetings. Tucker has developed an expertise in financing apartment units in LMI areas. During 2001, Tucker extended two loans totaling \$1.3 million for apartment complexes in LMI areas of Atlanta and, overall, Tucker extended ten community development loans totaling \$5.1 million. Tucker also purchased seven certificates of deposit in

institutions serving predominantly minority customers in its assessment areas and has committed conditionally to invest \$1 million in an Atlanta small business enterprise in organization that is managed by minorities.

RBC stated that it intends to supplement Tucker's recent efforts with its own corporate CRA program after the merger. RBC stated that it would meet with local community groups in communities currently served by Tucker to understand better the needs of those communities and would establish and monitor goals developed for those communities. In addition, RBC stated that it would provide new products or services as appropriate to meet the communities' credit and banking needs, including mortgage products designed to benefit LMI communities, low-cost deposit products for LMI individuals, and small business loan products for small businesses, and that it would make additional investments in community development lending for affordable housing. The Board notes that Tucker will be immediately merged into Bank, which is twice its size and has a satisfactory CRA rating.

#### D. HMDA

The Board also has carefully considered the lending record of Bank in light of comments on its 1999 and 2000 HMDA data. These data reflect improvements in Bank's lending to African-American borrowers statewide. Moreover, from 1999 to 2000, Bank's percentage of African-American applicants increased, and the denial disparity ratios decreased statewide, particularly in certain North Carolina MSAs.<sup>26</sup> One commenter expressed concern, however, about the low percentage of African-American mortgage applicants and the high denial disparity ratios for African-American applicants in certain MSAs in North

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<sup>26</sup> Statewide, the percentage of African-American applicants increased from 11.2 percent in 1999 to 13.3 percent in 2000.

Carolina. The HMDA data also reflect disparities in certain MSAs with respect to loan originations and applications in LMI areas and to LMI borrowers.<sup>27</sup>

The Board 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 that 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 the covered loans.<sup>28</sup> 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 on-site evaluation of Bank's compliance with fair lending laws, and

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<sup>27</sup> The commenter noted that the percentage of applications from LMI households increased statewide from 27.2 percent in 1999 to 29.4 percent in 2000. The commenter also reported, however, that in five of twelve MSAs, the percentage of low-income applicants decreased and in six of twelve MSAs, the percentage of LMI borrowers decreased. In addition, the commenter stated that in nine of twelve MSAs, Bank had a lower percentage of loans in its loan portfolio to LMI borrowers than the lenders in those MSAs in the aggregate.

<sup>28</sup> 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 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.



the overall lending and community development activities of Bank.<sup>29</sup> In particular, the Board notes that at Bank's most recent examination, examiners found no evidence of prohibited discriminatory practices or of substantive violations of fair lending laws. The Board notes that although the number of mortgage loan applications received by Bank from African-American applicants and applicants in predominantly minority census tracts were fewer than the number of applications received by the lenders in the aggregate, Bank's volume of HMDA-reportable loan originations to African-American applicants remained constant or increased in eight of eleven markets in North Carolina compared with increases in five markets for lenders in the aggregate. In addition, from 2000 to 2001, Bank's volume of HMDA-reportable loan originations increased in predominantly minority census tracts in six of nine MSAs in North Carolina with predominantly minority tracts, while originations for lenders in the aggregate increased or remained unchanged in three of the nine MSAs. With respect to loans to LMI individuals and in LMI census tracts, the Board notes that although Bank's percentages of loans to LMI individuals and in LMI census tracts as compared to their loans to all persons

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<sup>29</sup> One commenter criticized the denial disparity ratios of RBC Mortgage for Latino and African-American applicants in certain MSAs served by RBC Mortgage, and alleged that RBC Mortgage is focusing on Latinos and African Americans for high-cost loans and failing to offer prime credit products to qualifying applicants. This commenter also questioned whether RBC Mortgage is complying with the requirements of HMDA. Royal Bank has provided information about the policies and procedures it has implemented to comply with fair lending laws and HMDA and to ensure accurate HMDA reporting. The Board has forwarded the commenter's letter to HUD and the Federal Trade Commission, the agencies responsible for enforcing compliance with fair lending laws of nondepository institutions.

The commenter also criticized the fair lending records of First Greensboro and NCS, which, as noted above, have either been divested by Royal Bank or ceased making loans as of July 2001. The Board previously reviewed the fair lending policies and procedures of these entities. See Royal Bank of Canada, 87 Federal Reserve Bulletin 467, 469 n.11 (2001).

and in all areas is lower than the percentage for lenders in the aggregate in several markets, the Bank's origination rates for such loans approximated or exceeded the origination rates for lenders in the aggregate in the same markets.

As the Board previously noted, Bank has implemented a number of programs and made efforts to improve its performance in certain markets since its February 2000 examination. Bank also stated that it increased its HMDA-reportable lending after its most recent examination. Bank reported that in 2000, it originated 1,921 mortgage loans to LMI applicants, representing 27.8 percent of its total mortgage loan originations. In North Carolina, Bank originated 1,619 loans to LMI applicants, representing 28.5 percent of its total mortgage lending in North Carolina. Similarly, Bank stated that in 2001, it originated 2,689 mortgage loans to LMI applicants, representing 22.8 percent of its total mortgage loan originations. In North Carolina, Bank originated 2,254 loans to LMI applicants, representing 22.9 percent of its total mortgage lending in that state. The record described above also shows that Bank helps to meet the credit needs of the communities it serves, including LMI areas.

#### E. 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 considered carefully all the facts of record, including the comments received and the responses to the comments, evaluations of the performance of Bank and Tucker under the CRA, other information provided by Bank, and confidential supervisory information.<sup>30</sup> The

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<sup>30</sup> One commenter requested that Bank enter into certain commitments and provide specific plans and goals on various issues. The Board notes that the CRA requires that, in considering an acquisition proposal, the Board carefully review the actual performance records of the relevant depository institutions in helping to meet the credit needs of their communities. Neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to provide

Board also has reviewed information submitted by Bank concerning its CRA performance and activities to help ensure compliance with fair lending laws since its last performance evaluation. In addition, the Board has considered Bank's plans to improve Tucker's CRA performance after the transaction.

The record indicates that Bank has sound performance in a number of areas under the CRA. The record also indicates that there are opportunities for improvement in Bank's overall satisfactory CRA record, and the Board expects Bank to pursue those opportunities and to take the steps it has proposed to improve Tucker's CRA performance. Based on all the facts of record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs of the communities to be served, including the CRA performance records of the institutions involved, are consistent with approval of the proposal.<sup>31</sup>

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commitments regarding future performance under the CRA. Bank's proposed activities will be reviewed by the Federal Reserve Bank of Richmond in future performance evaluations, and its CRA performance record will be considered by the Board in any subsequent applications by Bank to acquire a depository institution.

<sup>31</sup> One commenter requested that the Board hold a public hearing or meeting in this case. Neither the Bank Merger Act nor the BHC Act requires the Board to hold a public hearing or meeting on an application. Under its rules, the Board may, in its discretion, hold a public meeting on an application to clarify factual issues related to the application and to provide an opportunity for testimony, if necessary. See 12 C.F.R. 262.25(e). Similarly, the Board's rules allow 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 C.F.R. 225.25(a)(2). The Board has carefully considered the commenter's request in light of all the facts of record. The Board has accumulated a substantial record in this case that includes examination information, supervisory information, public records, and information submitted by Bank. 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. The commenter's request fails to demonstrate why its written comments do not present its views

## Public Benefits

As part of its evaluation of the public interest factors, the Board also has reviewed carefully the other public benefits and possible adverse effects of the proposal.<sup>32</sup> The record indicates that consummation of the proposal would result in benefits to consumers and businesses currently served by Tucker. The Board notes that the merger would improve Tucker's financial position and future business prospects and enhance its ability to serve the needs of the public. Tucker's individual and business customers would have access to Bank's greater capital resources and expanded lines of products and services. The Board notes that there are also public benefits to be derived from allowing 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 to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.<sup>33</sup>

Based on the foregoing and all the facts of record, the Board has determined that consummation of the proposal can reasonably be expected to

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adequately. The commenter's request also fails to identify disputed issues of fact that are material to the Board's decision and 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, the request for a public meeting or hearing on the proposal is denied.

<sup>32</sup> A commenter noted that SFNB recently laid off 100 employees. The effect of a proposed transaction on employment in a community is not among the factors the Board may consider under the BHC Act or the Bank Merger Act, and the convenience and needs factor has been consistently interpreted by the federal banking agencies, the courts, and the Congress to relate to the effect of a proposal on the availability and quality of banking services in the community. See Wells Fargo & Company, 82 Federal Reserve Bulletin 445, 457 (1996).

<sup>33</sup> See BB&T Corporation, 87 Federal Reserve Bulletin 545 (2001).

produce public benefits that would outweigh any likely adverse effects under the standard of review set forth in section 4(j)(2) of the BHC Act. In addition, as noted above, Bank also has applied under section 9 of the FRA to establish branches at the former sites of Tucker's branches in Georgia. The Board has considered the factors it is required to consider when reviewing an application under section 9 of the FRA and, for the reasons discussed in this order, finds those factors to be consistent with approval.<sup>34</sup>

### Conclusion

Based on the foregoing, the Board has determined that the proposal should be, and hereby is, approved. The Board's approval is specifically conditioned on compliance by RBC and Bank with all the commitments made in connection with the applications. The Board's determination also is subject to all the conditions in Regulation Y, including those in sections 225.7 and 225.25(c) (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 holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder. The commitments and conditions relied on by the Board in reaching this decision shall be 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 merger may not be consummated before the fifteenth calendar day after the effective date of this order, and not later than three months after the effective date of this order, unless such period is extended for good cause by the

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<sup>34</sup> 12 U.S.C. § 322.

Board or the Federal Reserve Bank of Richmond, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>35</sup> effective June 24, 2002.

(signed)

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Robert deV. Frierson  
Deputy Secretary of the Board

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<sup>35</sup> Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, and Olson.

## Appendix

Addresses of Branches to be acquired by Bank

1. 1052 Peachtree Industrial Blvd.  
Suwanee, GA 30024
2. 4855 Briarcliff Rd.  
Atlanta, GA 30345
3. 1300 Dunwoody Village Pkwy.  
Dunwoody, GA 30338
4. 2710 Wesley Chapel Rd.  
Decatur, GA 30034
5. 1500 Mansell Rd.  
Alpharetta, GA 30201
6. 4650 Jonesboro Rd.  
Union City, GA 30291
7. 9115 Roosevelt Hwy.  
Palmetto, GA 30268
8. 1585 Southlake Pkwy.  
Morrow, GA 30260
9. 7906 Tara Blvd.  
Jonesboro, GA 30236
10. 2550 Odum St.  
Snellville, GA 30045
11. 395 Grayson Hwy.  
Lawrenceville, GA 30045
12. 494 Indian Trail Rd.  
Lilburn, GA 30247

13. 5424 Buford Hwy.  
Doraville, GA 30340

14. 4419 Cowan Road  
Tucker, GA 30084