FEDERAL RESERVE SYSTEM

The PNC Financial Services Group, Inc.
Pittsburgh, Pennsylvania

PNC Bancorp, Inc.
Wilmington, Delaware

Order Approving the Acquisition of a Bank Holding Company
and Merger of Bank Holding Companies

The PNC Financial Services Group, Inc. ("PNC Financial"), a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1841 et seq.), to acquire all the voting shares of United National Bancorp ("United National"), and thereby indirectly acquire UnitedTrust Bank, both in Bridgewater, New Jersey. PNC Bancorp, Inc. ("PNC Bancorp"), a bank holding company controlled by PNC Financial, also has requested the Board's approval to merge with United National.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 Federal Register 55,057 (2003)). 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.

PNC Financial, with total consolidated assets of approximately $72.3 billion, is the 20th largest commercial banking organization in the United States. PNC Financial's subsidiary depository institutions operate in Delaware, Florida, Indiana, Kentucky, New Jersey, and Pennsylvania. In Pennsylvania, PNC Financial is the largest commercial banking organization, controlling $24.4 billion in deposits, representing approximately 13 percent of total deposits in depository institutions in the state ("state deposits").[1] In New Jersey, PNC Financial is the third largest commercial banking organization, controlling $13.3 billion in deposits, representing 7.2 percent of state deposits.

United National also operates a subsidiary depository institution in Pennsylvania and New Jersey. In Pennsylvania, United National is the 142nd largest commercial banking organization, controlling deposits of approximately $155 million, representing less than 1 percent of state deposits. In New Jersey, United National is the 19th largest commercial banking organization, controlling $1.5 billion in deposits, representing less than 1 percent of state deposits. On consummation of this proposal, PNC Financial would remain the largest commercial banking organization in Pennsylvania, controlling deposits of approximately $24.6 billion, representing approximately 13 percent of state deposits, and the third largest commercial banking organization in New Jersey, controlling deposits of $14.5 billion, representing approximately 8 percent of state deposits.

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.[2] For purposes of the BHC Act, the home state of PNC Financial is

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[1] Asset, deposit, and ranking data are as of June 30, 2002. In this context, depository institutions include commercial banks, savings banks, and savings associations.

[2] A bank holding company's home state is that state in which the total deposits of all banking subsidiaries of such company were the largest on the later of July 1, 1966, or the date on which the company became a bank holding company. 12 U.S.C. § 1841(o)(4)(C).

Pennsylvania, and UnitedTrust Bank is located in New Jersey and Pennsylvania.[3] Based on a review of all the facts of record, including relevant state statutes, the Board finds that all the conditions for an interstate acquisition enumerated in section 3(d) are met in this case.[4] In light 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 would be in furtherance of any attempt to monopolize the business of banking in any relevant market. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[5]

PNC Financial and United National compete directly in the Lehigh Valley, Pennsylvania, and Metropolitan NY-NJ-PA-CT ("New York") banking

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[3] For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the states in which the bank is chartered, headquartered, or operates a branch.

[4] See 12 U.S.C. §§ 1842(d)(1)(A) and (B), 1842(d)(2)(A) and (B). PNC Financial is adequately capitalized and adequately managed, as defined by applicable law. In addition, on consummation of the proposal, PNC Financial would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States and less than 30 percent of the total deposits of insured depository institutions in each of New Jersey and Pennsylvania. See N.J. Stat. Ann. § 17:9A- 413 (2003). New Jersey and Pennsylvania do not have minimum age requirements applicable to the proposal.

[5] 12 U.S.C. § 1842(c)(1).

markets.[6] Neither market is concentrated, and numerous competitors would remain in these markets after consummation of the transaction. Consummation of the proposal would also be consistent with the Department of Justice Merger Guidelines ("DOJ Guidelines").[7] PNC Financial would remain the fourth largest commercial banking organization in the Lehigh Valley banking market, controlling deposits of $661.5 million, representing 8.1 percent of total deposits in depository institutions in the market ("market deposits"),[8] and the HHI would increase

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[6] The Lehigh Valley banking market is defined as Carbon, Lehigh, and Northampton Counties in Pennsylvania. The New York banking market is defined as New York City; Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, Sullivan, Ulster, and Westchester Counties, all in New York; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren Counties, and portions of Mercer County, all in New Jersey; Pike County in Pennsylvania; and Fairfield County and portions of Litchfield and New Haven Counties, all in Connecticut.

[7] Under the DOJ Guidelines, 49 Federal Register 26,823 (1984), a market is considered unconcentrated if the post-merger HHI is below 1000, and a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800. 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 HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

[8] Market share data are as of June 30, 2003, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Board 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

24 points to 1193. PNC Financial would become the seventh largest commercial banking organization in the New York banking market, controlling deposits of approximately $12.2 billion, representing 2.2 percent of market deposits, and the HHI would increase 2 points to 981.

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.

Financial, Managerial, and Other Supervisory Factors

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors. The Board has considered, among other things, confidential reports of examination, other confidential supervisory information received from the primary federal banking agency that supervises each institution, and public comments.[9] PNC Financial is

[9] A commenter expressed concerns about PNC Financial's managerial record in light of recent enforcement actions against the organization, including enforcement actions by the Department of Justice ("DOJ"), Federal Reserve Bank of Cleveland ("Reserve Bank") and the Office of the Comptroller of the Currency ("OCC"). The enforcement actions required PNC Financial to implement risk management systems, internal controls, and compliance procedures to ensure the continued safe and sound operation of the PNC Financial organization. PNC Financial has developed a new ethics policy and training program, an enterprisewide risk management program, and enhanced credit administration procedures, internal controls, and corporate governance procedures. After a careful review of PNC Financial's efforts to meet the requirements of the enforcement actions, the Federal Reserve and the OCC terminated their respective Written Agreements in September 2003.

and will remain well capitalized on consummation of the proposal. Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of PNC Financial, PNC Bancorp, United National, and the institutions involved are consistent with approval, as are the other supervisory factors under the BHC Act.[10]

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 Community Reinvestment Act

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In announcing its deferred prosecution agreement in June 2003, the DOJ noted that PNC Financial and PNC ICLC Corp., also in Wilmington, the PNC Financial affiliate involved in the transactions that gave rise to the enforcement actions, had fully accounted for their behavior in the transactions by providing for restitution to victims, acknowledging responsibility for the conduct of the organization, demonstrating compliance with securities law and generally accepted accounting principles, and pledging continued cooperation with respect to investigations of the transactions. The Board has reviewed the managerial factors in this case in light of the enforcement actions and the steps taken by PNC Financial to address these issues. The Board will carefully monitor PNC Financial's efforts to comply with its agreement with the DOJ and its efforts to meet the Board's standards.

[10] The commenter also expressed concern about allegations of wrongful termination and employment discrimination by former employees of PNC Bank, National Association, Pittsburgh, Pennsylvania ("PNC Bank"). These contentions and concerns 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 notes that the Equal Employment Opportunity Commission has jurisdiction to determine whether banking organizations like PNC Financial are in compliance with federal equal employment opportunity statutes under the regulations of the Department of Labor.

("CRA").[11] The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistent with their 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. In reviewing the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of PNC Financial and United National, the Board also has carefully considered public comments submitted in connection with this proposal that criticize PNC Financial's lending record with respect to minorities and PNC Financial's failure to publicly identify the number and location of bank branches that it might close after consummation of this transaction.

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 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.[12]

PNC Financial's lead bank, PNC Bank, received an "outstanding" rating at its most recent CRA performance evaluation by the OCC, as of

[11] 12 U.S.C. § 2901 et seq.

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

April 15, 2002.[13] PNC Financial's other depository institution, PNC Bank, Delaware, New Castle, Delaware, also received an "outstanding" rating at is most recent CRA performance evaluation by the Federal Deposit Insurance Corporation ("FDIC"), as of January 24, 2000. UnitedTrust Bank, the only subsidiary depository institution controlled by United National, received a "satisfactory" rating at its most recent CRA performance evaluation by the Federal Reserve Bank of New York, as of March 4, 2002.

B. CRA Performance of PNC Bank

1. Lending Test

Overall, OCC examiners rated PNC Bank "high satisfactory" for lending, noting that the bank demonstrated excellent lending activity, with good distribution of loans across geographic boundaries and to various borrowers. PNC Bank's lending data also demonstrated strong community development lending for affordable housing, community services, and economic revitalization.

Pennsylvania. PNC Bank's lending rating for Pennsylvania also was "high satisfactory."[14] The lending, investment, and service test ratings for

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[13] The overall rating for PNC Bank was a composite of its state/multistate ratings. In assigning an overall rating to PNC Bank, examiners weighted the bank's performance in some areas more heavily than others based on the percentage of the bank's overall deposits in those areas. In particular, approximately 88 percent of the deposits controlled by PNC Bank were in three areas, Pennsylvania, New Jersey, and the Philadelphia multistate Metropolitan Statistical Area ("MSA") ("Philadelphia MSA"). In evaluating PNC Bank's CRA performance, examiners considered the bank's residential mortgage lending reportable under the Home Mortgage Disclosure Act ("HMDA") (12 U.S.C. § 2801 et seq.) and its small business lending from January 1, 1998, through December 31, 2001, and the bank's community development lending from July 6, 1998, through December 31, 2001 (together, the "review period").

[14] PNC Bank's ratings for Pennsylvania did not include data from the bank's branches in the Philadelphia MSA.

PNC Bank for Pennsylvania were based primarily on the bank's performance in the two assessment areas that were subject to full-scope reviews, the Pittsburgh and Scranton/Wilkes-Barre ("Scranton") assessment areas, where approximately 77 percent of the bank's deposits in Pennsylvania were located. Examiners noted that PNC Bank's geographic distribution of loans was good. Examiners considered the volume of home mortgage lending by the bank to be excellent and the volume of small business lending to be good throughout PNC Bank's assessment areas. Community development lending also was found to have had a positive impact on PNC Bank's rating in Pennsylvania under the lending test. In the assessment areas subject to a full-scope review, PNC Bank originated or purchased approximately 61,600 small business, community development, and HMDA-reportable loans totaling approximately $3.7 billion during the review period. Of the loans in these assessment areas, HMDA-reportable loans accounted for 47,488 loans totaling $1.4 billion. In the rest of the state during the review period, PNC Bank originated or purchased 39,364 HMDA-reportable loans totaling approximately $2.3 billion.

Examiners reported that the percentage of home purchase loans by PNC Bank in the Pittsburgh assessment area's low-income census tracts was comparable with the percentage of owner-occupied housing units in those tracts. Examiners also noted that, in the Pittsburgh and Scranton assessment areas, the percentage of home purchase loans by PNC Bank in moderate-income census tracts was comparable with the percentage of owner-occupied housing units in those areas. Based on market share data for 2000 in the bank's Pittsburgh assessment area, PNC Bank ranked first for number of home purchase, home improvement, and home refinance loans. In the Scranton assessment area, PNC Bank ranked fifth for home purchase loans and first for home improvement and home refinance loans.

Examiners stated that PNC Bank had developed bankwide lending programs that demonstrated flexibility in helping to meet the credit needs of the community, such as the Basic Loan Program, which offered expanded credit criteria, extended terms, and reduced minimum loan amounts to LMI borrowers seeking home equity installment loans, personal unsecured loans, and home equity lines of credit. The bank also had similar products tailored to its Pennsylvania assessment areas, including the Primary Access Mortgage Program, a home purchase loan program sponsored by the Urban Redevelopment Authority of Pittsburgh, and other partnerships with municipal governmental loan programs.

Examiners reported that PNC Bank originated 13,678 small loans to businesses totaling approximately $1.7 billion in the Pennsylvania assessment areas subject to full-scope reviews during the review period. PNC Bank ranked fifth in the Pittsburgh assessment area and sixth in the Scranton assessment area, which examiners found commendable in light of the competition faced by the bank from large lenders that provided small business credit cards. Examiners also commented that PNC Bank's market share for small loans to businesses in low-income geographies in the Pittsburgh and Scranton assessment areas exceeded the bank's overall market share for this loan product in those assessment areas. In the rest of the state during the review period, PNC Bank originated 8,540 small loans to businesses totaling approximately $888 million.

Examiners also concluded that PNC Bank demonstrated a good volume of loans to small businesses in the assessment areas receiving a full-scope review, because the bank's market share for loans to small businesses in the Pittsburgh and Scranton assessment areas exceeded its overall market share for small business loans in those assessment areas.

According to examiners, PNC Bank's community development lending record in Pittsburgh was good, and its record in Scranton was excellent. In these assessment areas, the bank originated 87 community development loans during the review period totaling $87.9 million. For the same period, PNC Bank originated 27 community development loans totaling approximately $21.2 million in the rest of Pennsylvania. Examiners favorably noted the bank's origination of small business loans for community development. These loans included $4.3 million in construction financing to redevelop public housing in a low-income area in Pittsburgh and to develop 86 Hope VI rental units, two-thirds of which will be affordable for LMI residents.[15]

New Jersey. PNC Bank also received a "high satisfactory" rating under the lending test in New Jersey.[16] The lending, investment, and service test ratings for PNC Bank in New Jersey were based primarily on the bank's performance in the two assessment areas that were subject to full-scope reviews, the Bergen-Passaic and Newark assessment areas, where approximately 48 percent of the bank's deposits in New Jersey were located. Examiners concluded that PNC Bank's performance under the lending test was good in the Bergen-Passaic assessment area and excellent in the Newark assessment area, where the bank demonstrated a high level of community development lending.

In the two assessment areas, PNC Bank originated or purchased approximately 27,400 small business, community development, and HMDA-reportable loans totaling approximately $2.5 billion during the review period, of which 20,606 loans totaling approximately $1.9 billion were HMDA-reportable. In the rest of the state during the review period, PNC Bank originated or purchased

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[15] Hope VI is a Department of Housing and Urban Development program designed, in part, to lessen concentrations of poverty by placing public housing in nonpoverty neighborhoods and promoting mixed-income communities.

[16] PNC Bank's ratings for New Jersey did not include data from the bank's branches in the Philadelphia MSA.

27,966 HMDA-reportable loans totaling approximately $2.4 billion. Examiners noted that the percentage of home purchase, home improvement, and home refinance loans by PNC Bank to LMI census tracts in the Bergen-Passaic assessment area significantly or substantially exceeded the percentage of owner-occupied units in this area. Examiners characterized the geographic distribution of these categories of loans as excellent. With respect to home purchase, home improvement, and home refinance loans in the Newark assessment area, examiners considered the bank's geographic distribution to be adequate. In addition to offering its bankwide lending programs with flexible terms to meet the community's credit needs, PNC Bank offered products that were tailored to the needs of its New Jersey assessment areas, such as Hurricane Floyd Loans and Micro Loans.[17]

Examiners reported that PNC Bank originated 6,795 small loans totaling $578.5 million during the review period to businesses in the assessment areas subject to full-scope review. Examiners characterized the geographic distribution of these loans as excellent in both the Bergen-Passaic and Newark assessment areas. In the rest of the state during the review period, examiners reported that PNC Bank originated 6,194 small loans to businesses totaling approximately $613.1 million. In the Bergen-Passaic assessment area, the percentage of PNC Bank's loans to small businesses in LMI census tracts significantly exceeded the percentage of small businesses in these tracts. In each of these assessment areas, PNC Bank's market share of loans to small

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[17] The Hurricane Floyd Loans were offered to New Jersey residents in the fall of 1999. These loans products included flexible underwriting criteria, below-market interest rates, and 90-day deferrals of initial payments. PNC Bank's Micro Loans were offered in connection with the City of Paterson's microlending program, in which a 50 percent guarantee by the city allowed small businesses in predominantly LMI communities to qualify for otherwise unavailable small loans.

businesses was almost twice as large as its market share of loans to businesses of all sizes.

According to examiners, the level and type of community development lending by PNC Bank was responsive to the credit needs of the communities it served in its New Jersey assessment areas. In the assessment areas subject to full-scope review, PNC Bank originated 25 community development loans totaling $55.9 million during the review period. In the rest of the state, PNC Bank originated 11 community development loans totaling approximately $19.7 million during the review period. These loans included a $15 million loan to the operator of a large apartment complex in a low-income community in Newark that provided housing for elderly or disabled LMI tenants, and a line of credit to provide working capital to a Bergen-Passaic community development corporation that administered programs beneficial to LMI individuals by providing housing, a men's shelter, and job development and adult education programs.

Philadelphia MSA. PNC Bank's lending rating for the Philadelphia MSA also was "high satisfactory,"[18] with examiners commending PNC Bank's geographic distribution of loans. PNC Bank originated or purchased 50,238 small business, community development, and HMDA-reportable loans totaling approximately $3.9 billion in the Philadelphia MSA during the review period. Of the loans in this assessment area, 38,577 loans totaling approximately $2.4 billion were HMDA-reportable. Examiners noted that PNC Bank's market share for HMDA-reportable loans in LMI geographies was more than its overall market share for these loans in the assessment area. The bank's percentage of home purchase loans in LMI census tracts exceeded the percentage of owner-occupied

[18] PNC Bank's Philadelphia MSA assessment area included the Philadelphia MSA, except Salem County, New Jersey.

units in those geographies. In addition, the bank demonstrated a good distribution of HMDA-reportable loans to borrowers of all income levels.

PNC Bank offered bankwide and locally adapted loan products that demonstrated flexibility in meeting the credit needs of communities in the Philadelphia MSA. The local initiatives included PNC Bank's Philadelphia Home Improvement Loan ("PHIL") program, a program sponsored by the City of Philadelphia to provide home purchase loans with 3 percent interest rates and no home equity requirements to residents of LMI areas. During the review period, PNC Bank originated 233 of these loans, representing 61 percent of PHIL loans by all participating lenders.

Examiners stated that PNC Bank had a good volume and an excellent geographic distribution of small loans to businesses in the Philadelphia MSA. The bank originated 11,571 small loans to businesses totaling approximately $1.4 billion during the review period. The percentage of small loans by PNC Bank to businesses in LMI geographies was comparable with the percentage of businesses in those geographies. The bank's market share of small loans to businesses in LMI areas was significantly greater than its market share for small loans to businesses in the Philadelphia MSA overall.

According to examiners, PNC Bank's community development lending in the Philadelphia MSA during the review period was considered good because it addressed a broad array of community needs. Examiners reported that PNC Bank originated 89 community development loans to 50 borrowers during the review period totaling $28.4 million. Approximately 54 percent of these loans related to affordable housing, which had been an identified community credit need. A large number of the bank's community development loans also went to various nonprofit organizations that provided services to LMI individuals and families. Examiners noted that several of PNC Bank's community development loans were complex, and their structure required coordination among multiple lenders, community organizations, and governmental entities. The bank's community development lending activities included $1.5 million to help finance a collaborative effort to build a grocery store in an LMI neighborhood in Philadelphia. The project involved PNC Bank, a local community development corporation, the City of Philadelphia, and Local Initiatives Support Corporation. PNC Bank also provided a $2 million line of credit to Collaborative Lending Initiative, a community development financial institution ("CDFI") that lends money to affordable housing developers.

2. Investment Test

Overall, PNC Bank received an "outstanding" rating under the investment test. Examiners reported that the bank's community development investments demonstrated an excellent level of responsiveness to specific credit needs of the community.[19] According to examiners, PNC Bank made 833 qualifying community development investments and grants totaling approximately $88.5 million in those areas in Pennsylvania and New Jersey subject to full-scope reviews and in the Philadelphia MSA during the CRA evaluation period. These investments and grants included investments in low-income housing tax credits for projects that created affordable housing units, a collaboration with the New Jersey Department of Community Affairs to contribute to predevelopment costs for the rehabilitation of a rental apartment building for low-income families,

[19] In its Pennsylvania, New Jersey, and Philadelphia MSA assessment areas, PNC Bank received ratings of "outstanding," "high satisfactory," and "outstanding," respectively, for the investment test. The evaluation period for PNC Bank's performance under the investment test was July 6, 1998, through March 31, 2002.

and an investment in a large CDFI to support its affordable housing programs in the Philadelphia area.

3. Service Test

PNC Bank received an "outstanding" rating under the service test. Examiners noted that the bank's systems were readily accessible to geographies and individuals of different income levels, and that the bank provided an excellent level of community development service that assisted LMI individuals and areas.[20] In those areas in Pennsylvania and New Jersey subject to full-scope reviews and in the Philadelphia MSA, PNC Bank operated 379 branches during the review period, of which approximately 21 percent were in LMI geographies. In addition, PNC Bank opened 18 branches and closed 40 branches in those areas. Examiners reported that the bank's record of opening and closing branches did not adversely affect the accessibility of systems for delivering banking services in the Pittsburgh, Scranton, Bergen-Passaic, Newark, or Philadelphia MSA assessment areas. In the Pennsylvania and New Jersey areas subject to full-scope reviews and in the Philadelphia MSA during the review period, the bank increased by 44 the number of ATMs it operated in LMI geographies.

C. HMDA and Fair Lending Record

The Board also has carefully considered PNC Financial's lending record in light of comments on HMDA data reported by its subsidiaries. The commenter alleged that PNC Financial denies a higher percentage of loan requests by minority applicants than does the aggregate of all lenders ("aggregate") in the

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[20] In its Pennsylvania, New Jersey, and Philadelphia MSA assessment areas, PNC Bank received ratings of "outstanding," "high satisfactory," and "outstanding," respectively, for the service test. The evaluation period for PNC Bank's performance under the service test was July 6, 1998, through March 31, 2002.

following MSAs: Bergen-Passaic; Harrisburg, Pennsylvania; Jersey City, New Jersey; Newark; Newburgh, Pennsylvania-New York; Philadelphia; Pittsburgh; Louisville, Kentucky-Indiana; and Wilmington.[21] The 2001 and 2002 HMDA data[22] indicate that PNC Financial generally had a somewhat better record than the aggregate for lending to African Americans and a somewhat worse record than the aggregate for lending to Hispanics, as measured by denial disparity ratios.[23] The data also indicate, however, that PNC Financial generally originated a higher percentage of its HMDA-reportable loans to applicants in minority census tracts than the aggregate in 2001 and 2002.[24]

The Board is concerned when HMDA data for an institution indicate disparities in lending and believes that all banks are obligated to ensure that their

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[21] The commenter also alleged that the data PNC Financial submitted to the Board in response to its comment were inconsistent with data reported under HMDA. PNC Financial noted that the data in the response were derived from its HMDA data. The discrepancies noted by the commenter appear to have resulted from different categorizations of the data by PNC Financial in its response. For purposes of the response, PNC Financial designated the race for joint loan applicants based on the race of the primary applicant. For purposes of HMDA, however, joint applicants are categorized as "joint minority" applicants if one applicant is white and other applicant is a minority and are so categorized based on the information provided by the primary applicant if the individuals are members of different minority groups.

[22] The Board analyzed 2001 and 2002 HMDA data for PNC Financial's lending affiliates in the MSAs cited by the commenter and in the four statewide assessment areas that include these markets. The Board's review included the HMDA data reported by PNC Bank and PNC Bank, Delaware.

[23] The denial disparity ratio compares the denial rate for minority loan applicants with the rate for white applicants.

[24] For purposes of this HMDA analysis, minority census tract means a census tract with a minority population of 80 percent or more.

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.[25] 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 subsidiary depository institutions of PNC Financial with fair lending laws. Examiners found no evidence of prohibited discrimination or other illegal credit practices at any of PNC Financial's subsidiary depository institutions. Examiners also identified no substantive violations of applicable fair lending laws and regulations at these institutions.

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[25] 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.

The record also indicates that PNC Financial has taken steps to ensure compliance with fair lending laws. PNC Financial's corporate fair lending statement of policy includes a commitment to conduct credit, marketing, and pricing activities for all borrowers while maintaining safe and sound credit standards. To implement this commitment, PNC Financial has devised a fair lending program that includes employee training and a review by senior management of credit decisions, pricing, marketing, and fair credit-related policies and procedures.

The Board has also considered the HMDA data in light of the performance of PNC Financial's subsidiary banks under the CRA and the programs described above. These established efforts demonstrate that the banks are active in helping to meet the credit needs of their entire communities.

D. Branch Closings

One commenter expressed concern about PNC Financial's stated intention of closing branches after the merger of PNC Bank/UnitedTrust Bank. PNC Bank has represented that any consolidations or branch closings would comply with PNC Bank's branch closing policy and all applicable rules and regulations, and that no branches in LMI census tracts would be affected. The policy includes a review of the performance of a branch proposed for relocation, closure, or consolidation; the potential adverse impact of that the closing on the branch's local community, with special emphasis on LMI communities; and the bank's ability to serve communities where a branch is relocated, closed, or consolidated through other PNC Bank branches and departments.

The Board also has considered that federal banking law provides a specific mechanism for addressing branch closings.[26] Federal law requires an insured depository institution to provide notice to the public and the appropriate federal supervisory agency before closing a branch. In addition, the Board notes that the OCC and FDIC, as the appropriate federal supervisors of PNC Financial's subsidiary banks, will continue to review the branch closing records of the banks in the course of conducting CRA performance examinations.

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 carefully considered the entire record, including comments received and responses to the comments, evaluations of the performance of the insured depository institution subsidiaries of PNC Financial and United National under the CRA, and confidential supervisory information. The Board also considered information submitted by PNC Financial concerning its subsidiary banks' performance under the CRA since their last CRA performance evaluations and the policies and procedures in place to ensure compliance with fair lending laws, HMDA, and other applicable laws.

Based on all the facts of record, and for reasons discussed above, the Board concludes that considerations relating to the convenience and needs factors, including the CRA performance records of the relevant depository institutions, are consistent with approval of the proposal.

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[26] Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 Federal Register 34,844 (1999)), requires that a bank provide the public with at least 30 days' notice and the appropriate federal supervisory agency with at least 90 days' notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

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, approved.[27] In reaching this 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 PNC Financial with all the representations and commitments made in connection

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[27] The commenter 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 commenter's request 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 commenter has submitted written comments that the Board has considered carefully in acting on the proposal. The commenter's request fails to demonstrate why written comments do not present its 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 or meeting is not required or warranted in this case. Accordingly, the request for a public hearing on the proposal is denied.

In addition, the commenter has alleged that Federal Reserve System staff have not complied with the Board's ex parte communication policies in this case, including an allegation of inappropriate communications with PNC Financial before it filed these applications. PNC informed Reserve Bank staff of the United National proposal before submitting the applications. It is fully consistent with federal law and the Board's rules for companies considering acquisitions to provide advance notice of an acquisition proposal to the Federal Reserve System and to identify issues that might be raised by the proposal. The Board finds no basis for the commenter's claim that the applications were preapproved or that the staff engaged in any inappropriate communications.

with the applications and the receipt of all other regulatory approvals. 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 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 Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors,[28] effective November 19, 2003.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

[28] Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Bies, Olson, and Bernanke. Absent and not voting: Governors Gramlich and Kohn.