



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 29, 1997

Ms. Ruth Durrett  
Chairperson  
Rhode Island Community Reinvestment Association  
1043 Broad Street  
Providence, Rhode Island 02905

Dear Ms. Durrett:

This will respond to your request that the Board review an action by the Federal Reserve Bank of Boston ("Reserve Bank") regarding a proposal by The Royal Bank of Scotland Group plc, Edinburgh, Scotland; The Governor and Company of the Bank of Ireland, Dublin, Ireland; and their U.S. subsidiary bank holding company, Citizens Financial Group, Inc., Providence, Rhode Island (together "Citizens Financial"); to acquire BNH Bancshares, Inc. ("Bancshares") and its subsidiary bank, The Bank of New Haven ("Bank"), both in New Haven, Connecticut. In particular, you request that the Board rescind the Reserve Bank's waiver of the application requirement under section 3 of the Bank Holding Company Act ("BHC Act") dated June 13, 1997, given in connection with the proposal.

Your request presents the following facts. Citizens Financial proposes to acquire Bancshares and Bank simultaneously through a series of stock acquisitions and mergers that would result in Citizens Financial's subsidiary bank, Citizens Bank of Connecticut, New London, Connecticut ("Connecticut Bank"), acquiring Bank by merger. At no time would Bank be operated by Citizens Financial as a separate subsidiary. Citizens Financial's application to merge Connecticut Bank with Bank was approved by the Federal Deposit Insurance Corporation ("FDIC") on June 30, 1997, under the Bank Merger Act (12 U.S.C. § 1828(c)), which requires the FDIC to review the transaction using the same factors as those contained in the BHC Act. Because the proposal involves the indirect acquisition of voting stock of Bancshares by Citizens Financial, the BHC Act also requires an application to the Board.

The Board has a long-standing practice of not requiring an application under section 3 of the BHC Act if the transaction is in substance a bank merger subject to review by another federal supervisory agency. The Board adopted the practice in light of section 3(a)(4) of the BHC Act, which provides that prior Board approval is not required for the acquisition of bank assets by a subsidiary bank of a bank holding company. Based on the Board's experience in processing applications over the years, the Board has concluded that certain transactions that are not technically bank asset acquisitions by another bank can, in substance, be construed to be the equivalent of asset acquisitions and should not require a BHC Act application where no regulatory purpose would be served. Regulation Y provides the criteria and procedures for requesting a waiver for transactions, like the Citizens Financial proposal, in which a bank holding company acquires the shares of another bank holding company that is immediately dissolved or merged as part of the underlying bank merger. (12 C.F.R. 225.12(d)(2)).<sup>1/</sup> It is also the Board's practice to require an application if a Reserve Bank receives a substantive protest before a waiver request is acted on, or if the waiver request raises a significant issue that is uniquely within the Board's area of review.

The Reserve Bank sent you a copy of the waiver request on June 5, 1997, and you indicated that you did not become aware of the Reserve Bank's action on the request until July 7. By letter dated July 11, you requested that the waiver be rescinded because a review of the transaction under the Bank Merger Act by the FDIC would not consider the performance records of Citizens Financial's affiliate banks under the Community Reinvestment Act (12 U.S.C. § 2901 et seq.) ("CRA") and, in particular, the CRA performance record of Citizens Bank of Rhode Island, Providence, Rhode Island ("Rhode Island Bank"). You contend that since 1994, Rhode Island Bank has reduced its CRA-related activities in neighborhoods with predominately low- and moderate-income and minority residents, including reductions in the amount of

---

<sup>1/</sup> See 12 C.F.R. 225.12(d). To qualify for a waiver under this provision, a proposed transaction must require prior approval under the Bank Merger Act; the acquired bank must not operate as a separate entity of the acquiree bank holding company; the acquisition must not involve the acquisition of a nonbanking company; and the acquiree bank holding company must meet the Board's Capital Adequacy Guidelines. Citizens Financial committed to liquidate an inactive nonbanking subsidiary of Bancshares before consummation of the proposal, and all other requirements are met.

financial assistance provided, and in the number of branches it operates in those neighborhoods.

Your contentions have been reviewed in light of all the facts of record, including the most recent supervisory assessments of Citizens Financial and Bancshares, the pro forma effect of the transaction on Citizens Financial's capital levels under the Board's Capital Guidelines, and the fact that all of Citizens Financial's subsidiary banks received a satisfactory or better rating from the FDIC at their most recent evaluations for CRA performance. Moreover, the proposal is, in substance, a bank merger that was approved by the FDIC based on the same standards the Board applies under the BHC Act. The stock acquisitions and mergers that immediately precede the bank-to-bank merger raise no issues that are uniquely within the Board's area of review.

Your request has been presented to the members of the Board to give them an opportunity to determine whether your request warrants review of the Reserve Bank's action under the Board's Rules Regarding Delegation of Authority (12 C.F.R. 265.3). For the reasons discussed above, and based on all the facts of record, no member of the Board has requested that the Reserve Bank's granting of the waiver be reviewed or modified in any manner. Accordingly, the Board has denied your request.

Very truly yours,



Jennifer J. Johnson  
Deputy Secretary of the Board

cc: Jonathan S. Fine  
Federal Reserve Bank of Boston  
J. Barry McDonald, Jr., Esq.  
Goodwin, Procter & Hoar