

FEDERAL RESERVE SYSTEM

Huntington Bancshares, Incorporated  
Columbus, Ohio

Order Approving the Acquisition of a Bank Holding Company

Huntington Bancshares, Incorporated (“Huntington”), 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<sup>1</sup> to acquire Unizan Financial Corp. (“Unizan”) and its subsidiary bank, Unizan Bank, National Association (“Unizan Bank”), both of Canton, Ohio.<sup>2</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (70 Federal Register 66,435 (2005)).<sup>3</sup> 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.

Huntington, with total consolidated assets of \$32.7 billion, controls one depository institution, The Huntington National Bank (“Huntington Bank”), also in Columbus, with branches in Florida, Indiana, Kentucky, Michigan, Ohio, and West Virginia. Huntington is the fifth largest depository organization in Ohio, controlling deposits of approximately \$14.3 billion, which represent

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<sup>1</sup> 12 U.S.C. section 1842.

<sup>2</sup> In addition, Huntington proposes to acquire the nonbanking subsidiaries of Unizan in accordance with section 4(k) of the BHC Act (12 U.S.C. section 1843(k)).

<sup>3</sup> 12 CFR 262.3(b).

7.1 percent of the total amount of deposits of insured depository institutions in the state (“state deposits”).<sup>4</sup>

Unizan, with total consolidated assets of approximately \$2.5 billion, controls one depository institution, Unizan Bank, with branches only in Ohio. Unizan is the 14<sup>th</sup> largest depository organization in Ohio, controlling deposits of approximately \$1.9 billion, which represent less than 1 percent of state deposits. On consummation of the proposal, Huntington would become the fourth largest depository organization in Ohio, controlling deposits of approximately \$16.2 billion, which represent approximately 8.1 percent of state deposits.<sup>5</sup>

### 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 an attempt to monopolize the business of banking. The BHC Act also prohibits the Board from approving a 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 its probable effect in meeting the convenience and needs of the community to be served.<sup>6</sup>

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<sup>4</sup> Asset data are as of September 30, 2005; statewide deposit and ranking data are as of June 30, 2005, and reflect merger activity through November 21, 2005. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

<sup>5</sup> Huntington Bank has applied to the Office of the Comptroller of the Currency (“OCC”) for permission to merge with Unizan Bank and Unizan Financial Services Group, National Association, a nondepository national trust and wholly owned subsidiary of Unizan, on consummation of the proposal before the Board.

<sup>6</sup> 12 U.S.C. section 1842(c)(1).

Huntington and Unizan compete directly in the Akron, Columbus, and Dayton, Ohio banking markets.<sup>7</sup> The Board has reviewed the competitive effects of the proposal in each of these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the markets, the relative shares of total deposits of depository institutions in the markets (“market deposits”) controlled by Huntington and Unizan,<sup>8</sup> the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),<sup>9</sup> and other characteristics of the markets.

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<sup>7</sup> These banking markets are described in Appendix A.

<sup>8</sup> Deposit and market share data are as of June 30, 2005, are adjusted to reflect mergers and acquisitions through December 7, 2005, 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 Bulletin 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).

<sup>9</sup> Under the DOJ Guidelines, a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800 and highly concentrated if the post-merger HHI is more than 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.

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in each of these banking markets. After consummation, each banking market would be considered moderately concentrated, the increase in concentration would be small, and numerous competitors would remain.<sup>10</sup>

The Department of Justice also has reviewed the anticipated competitive effects of the proposal and advised the Board that consummation would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

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 resources in the Akron, Columbus, or Dayton banking markets or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

#### Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential reports of examination and other supervisory information received from the federal and state supervisors of the organizations involved, publicly reported and other financial information, information provided by Huntington, and public comments received on the proposal.

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<sup>10</sup> The effect of the proposal on the concentration of banking resources in each market is described in Appendix B.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. The Board considers a variety of measures in this evaluation, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

Huntington and Huntington Bank are well capitalized and would remain so on consummation of the proposal.<sup>11</sup> Based on its review of the record, the Board believes that Huntington has sufficient financial resources to effect the proposal. The proposed transaction is structured as a share exchange.

The Board also has considered the managerial resources of Huntington and Unizan and the effect of the proposal on those resources. In addition, the Board has considered Huntington's plans for implementing the proposal, including the proposed management after consummation.

In reviewing this proposal, the Board has assembled and considered a detailed record, including substantial confidential and public information about Huntington, Unizan, and their subsidiaries. The Board considered its supervisory experiences with Huntington; the supervisory experiences and assessments of Huntington Bank's management, risk-management systems, and operations by the OCC; and the organizations' records of compliance with applicable banking laws.

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<sup>11</sup> As noted, Huntington also intends to merge Unizan Bank into Huntington Bank on consummation of the proposal. Huntington Bank would be well capitalized after consummation of the bank merger, which the OCC recently approved.

The Board also consulted with the Securities and Exchange Commission (“SEC”) about Huntington’s record of compliance with applicable federal securities laws and considered its public settlement of an investigation initiated by the SEC related to Huntington’s accounting practices. The SEC terminated its investigation on June 2, 2005, when it approved Huntington’s proposed settlement.<sup>12</sup>

In addition, the Board has considered that on February 28, 2005, Huntington entered into a formal written agreement (“Written Agreement”) with the Federal Reserve Bank of Cleveland (“Cleveland Reserve Bank”) to address certain deficiencies in its corporate governance, accounting policies and procedures, internal audit, risk management, and financial and regulatory reporting.<sup>13</sup> The Board has considered Huntington’s record of compliance with the Written Agreement and the actions Huntington has already taken and is in the process of implementing to correct the deficiencies noted in the Written Agreement.<sup>14</sup>

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<sup>12</sup> The investigation resulted in the SEC charging Huntington, one of its current officers, and two former officers with violations of several provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, and their implementing rules. Under the settlement, Huntington and the officers entered into a cease-and-desist agreement, Huntington paid a civil money penalty of \$7.5 million for its actions, and the three officers paid disgorgement fees.

<sup>13</sup> Huntington’s Written Agreement included provisions that required Huntington to develop and submit to the Cleveland Reserve Bank the following documents: (i) written policies and procedures in the areas of accounting, financial and regulatory reporting, internal audit, and corporate governance that fully address the findings and recommendations of independent consultants approved by the Cleveland Reserve Bank; and (ii) a detailed written plan designed to strengthen Huntington’s risk management in the areas of accounting and regulatory reporting. Huntington Bank entered into a similar written agreement with the OCC, which was terminated on October 6, 2005.

<sup>14</sup> A commenter expressed a general concern about Huntington’s accounting practices.

Based on all the facts of record, including the actions Huntington has taken to address the managerial matters discussed above, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

#### Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).<sup>15</sup> The CRA requires the federal financial supervisory agencies to encourage insured depository 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.<sup>16</sup>

The Board has considered carefully all the facts of record, including the CRA performance evaluation records of the subsidiary depository institutions of Huntington and Unizan, data reported by Huntington under the Home Mortgage Disclosure Act (“HMDA”),<sup>17</sup> other information provided by Huntington, confidential supervisory information, and public comment received on the proposal. A commenter who opposed the proposal expressed concern about

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<sup>15</sup> 12 U.S.C. section 2901 et seq.; 12 U.S.C. section 1842(c)(2).

<sup>16</sup> 12 U.S.C. section 2903.

<sup>17</sup> 12 U.S.C. section 2801 et seq.

possible branch closures after consummation of the proposal. The commenter also alleged, based on 2004 HMDA data, that Huntington Bank engaged in discriminatory treatment of minority individuals in home mortgage lending.

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations 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.<sup>18</sup>

Huntington Bank received an overall "satisfactory" rating at its most recent CRA evaluation by the OCC, as of March 31, 2003. The OCC has not yet evaluated Unizan Bank's CRA performance. Unizan Bank was formed in 2002 by the merger of First National Bank of Zanesville ("First National"), Zanesville, and The United National Bank and Trust Company ("United National"), Canton, both in Ohio. Both banks had "satisfactory" CRA performance ratings by the OCC when they were consolidated.<sup>19</sup> Huntington has represented that, on consummation of the proposal, it will implement Huntington Bank's current CRA policies, procedures, and programs at the combined organization.

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<sup>18</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

<sup>19</sup> First National received an overall "satisfactory" CRA performance rating as of December 8, 1998, and United National received an overall "satisfactory" CRA performance rating as of October 29, 2001.

## B. Branch Closings

Huntington stated that it intends to close six branches and consolidate three other branches after consummation but that none of these branches are in LMI census tracts. Huntington also provided the Board with Huntington Bank's policy regarding office openings, closings, and consolidations. That policy entails a review of a number of factors before a branch is closed, including consideration of any adverse impact on LMI communities. Examiners at Huntington Bank's most recent CRA performance evaluation reported that the bank's service delivery systems were accessible to geographies and individuals of different income levels throughout its assessment areas.

The Board also has considered the fact that federal banking law provides a specific mechanism for addressing branch closings.<sup>20</sup> Federal law requires an insured depository institution to provide notice to the public and to the appropriate federal supervisor before closing a branch. In addition, the Board notes that the OCC, as the appropriate federal supervisor of Huntington Bank, will continue to review its branch closing record in the course of conducting CRA performance evaluations.

## C. HMDA and Fair Lending Records

The Board has carefully considered the lending record and HMDA data of Huntington Bank in light of public comment about its record of lending to minorities. A commenter alleged, based on 2004 HMDA data, that Huntington

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<sup>20</sup> Section 42 of the Federal Deposit Insurance Act (12 U.S.C. section 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 and customers of the branch 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.

Bank disproportionately denied applications for HMDA-reportable loans by African-American and Hispanic applicants. The commenter also asserted that Huntington Bank made higher-cost loans to African Americans and Hispanics more frequently than to nonminorities.<sup>21</sup> The Board reviewed HMDA data for 2004 reported by Huntington Bank on a company-wide basis.

Although the HMDA data might reflect certain disparities in the rates of loan applications, originations, denials, or pricing among members of different racial or ethnic groups in certain local areas, they provide an insufficient basis by themselves on which to conclude whether or not Huntington Bank is excluding or imposing higher credit costs on any racial or ethnic group on a prohibited basis. The Board recognizes that HMDA data alone, even with the recent addition of pricing information, provide only limited information about the covered loans.<sup>22</sup> HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has engaged in illegal lending discrimination.

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

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<sup>21</sup> Beginning January 1, 2004, the HMDA data required to be reported by lenders were expanded to include pricing information for loans on which the annual percentage rate (APR) exceeds the yield for U.S. Treasury securities of comparable maturity by 3 percentage points for first-lien mortgages and by 5 percentage points for second-lien mortgages. 12 CFR 203.4.

<sup>22</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 an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. In addition, credit history problems, excessive debt levels relative to income, and high loan amounts relative to the value of the real estate collateral (reasons most frequently cited for a credit denial or higher credit cost) are not available from HMDA data.

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. Because of the limitations of HMDA data, the Board has considered these data carefully and taken into account other information, including examination reports that provide on-site evaluations of compliance by Huntington Bank with fair lending laws and the CRA performance record of Huntington Bank and Unizan Bank that are detailed above. In the fair lending reviews that were conducted in conjunction with the most recent CRA performance evaluations of the subsidiary depository institutions of Huntington and Unizan, examiners noted no substantive violations of applicable fair lending laws.

The record also indicates that Huntington has taken steps to ensure compliance with fair lending and other consumer protection laws. Huntington represented that it has a comprehensive fair lending program consisting of lending policies, annual training and testing of lending personnel, fair lending analyses, and oversight and monitoring. In addition, Huntington represented that it performs fair lending analysis using regression modeling and benchmarking and monitors adherence to credit policy using monthly reporting and quality control reviews. Huntington also represented that its fair lending policy includes a second-review program for its residential lending and that its corporate underwriting department conducts a third review of denied applications from minority applicants or for loans used to finance properties in LMI areas.

The Board also has considered the HMDA data in light of other information, including Huntington's CRA lending programs and the overall performance records of the subsidiary banks of Huntington and Unizan under the CRA. These established efforts demonstrate that the institutions are active in helping to meet the credit needs of their entire communities.

D. Conclusion on Convenience and Needs Factor

The Board has carefully considered all the facts of record, including reports of examination of the CRA performance records of the institutions involved, information provided by Huntington, comments received on the proposal, and confidential supervisory information. Huntington represented that the proposal would benefit Unizan customers by providing expanded delivery channels and access to a broader array of investment products, including annuities and a broader array of mutual funds, and enhanced investment management and research capabilities. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant depository institutions, are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act.<sup>23</sup> The Board's approval

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<sup>23</sup> A commenter requested that the Board hold a public meeting or 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 the bank 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 regulations, 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 CFR 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 commenter had ample opportunity to submit its views and, in fact, submitted written comments that the Board has considered carefully in acting on the proposal. The commenter's request fails to demonstrate why the written comments do not present its views

is specifically conditioned on compliance by Huntington with the conditions imposed in this order and the commitments made in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Cleveland Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>24</sup> effective January 26, 2006.

*(signed)*

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Robert deV. Frierson  
Deputy Secretary of the Board

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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 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>24</sup> Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Bies, Olson, and Kohn.

APPENDIX A

Ohio Banking Markets in which  
Huntington and Unizan Compete Directly

*Akron*

(1) Summit County, excluding (i) the cities of Hudson, Macedonia, and Twinsburg and (ii) the townships of Boston, Northfield Center, Richfield, Sagamore Hills, and Twinsburg and the villages adjoining those townships; (2) Portage County, excluding (i) the cities of Aurora and Streetsboro and (ii) the townships of Freedom, Hiram, Mantua, Nelson, Shalersville, and Windham and the villages adjoining those townships; (3) in Medina County, the city of Wadsworth, the townships of Guilford and Sharon, and the village of Seville; (4) in Stark County, the townships of Lake and Lawrence and the villages of Canal Fulton and Hartville; and (5) in Wayne County, the city of Rittman, the townships of Chippewa and Milton, and the villages adjoining those townships.

*Columbus*

Delaware, Franklin, Fairfield, Licking, Madison, Morrow, Pickaway, and Union Counties and Perry County, excluding the township of Harrison.

*Dayton*

Greene, Miami, Montgomery, and Preble Counties.

## APPENDIX B

### Market Data for Ohio Banking Markets

#### *Akron*

Huntington operates the seventh largest depository institution in the market, controlling deposits of \$364.6 million, which represent approximately 4.2 percent of market deposits. Unizan operates the 13<sup>th</sup> largest depository institution in the market, controlling deposits of approximately \$116.6 million, which represent approximately 1.4 percent of market deposits. After consummation of the proposal, Huntington would remain the seventh largest depository organization in the market, controlling deposits of approximately \$481.2 million, which represent approximately 5.6 percent of market deposits. Twenty-three depository institutions would remain in the banking market. The HHI would increase 11 points to 1349.

#### *Columbus*

Huntington operates the largest depository institution in the market, controlling deposits of \$8.1 billion, which represent approximately 28.6 percent of market deposits. Unizan operates the 11<sup>th</sup> largest depository institution in the market, controlling deposits of approximately \$300.8 million, which represent approximately 1.1 percent of market deposits. After consummation of the proposal, Huntington would remain the largest depository organization in the market, controlling deposits of approximately \$8.4 billion, which represent approximately 29.7 percent of market deposits. Fifty-five depository institutions would remain in the banking market. The HHI would increase 60 points to 1639.

#### *Dayton*

Huntington operates the seventh largest depository institution in the market, controlling deposits of \$242.9 million, which represent approximately 2.5 percent of market deposits. Unizan operates the eighth largest depository institution in the market, controlling deposits of approximately \$225.6 million, which represent approximately 2.3 percent of market deposits. After consummation of the proposal, Huntington would become the sixth largest depository organization in the market, controlling deposits of approximately \$468.5 million, which represent approximately 4.9 percent of market deposits. Thirty depository institutions would remain in the banking market. The HHI would increase 13 points to 1512.