

FEDERAL RESERVE SYSTEM

Chemical Financial Corporation
Midland, Michigan

Order Approving the Merger of Bank Holding Companies, the Merger of Banks, and
the Establishment of Branches

Chemical Financial Corporation (“Chemical”), Midland, 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 Act¹ to merge with Lake Michigan Financial Corporation (“Lake Michigan”), Holland, and thereby indirectly acquire its subsidiary banks, The Bank of Holland (“Bank of Holland”), Holland, and The Bank of Northern Michigan (“Bank of Northern Michigan”), Petoskey, all of Michigan.

In addition, Chemical’s subsidiary state member bank, Chemical Bank, Midland, Michigan, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”) to merge with Bank of Holland and Bank of Northern Michigan, with Chemical Bank as the surviving entity.² Chemical Bank also has applied under section 9 of the Federal Reserve Act (“FRA”) to establish and operate branches at the main offices and branches of Bank of Holland and Bank of Northern Michigan.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (80 Federal Register 7594 (2015)).⁴ The time for

¹ 12 U.S.C. § 1842.

² 12 U.S.C. § 1828(c).

³ 12 U.S.C. § 321. These locations are listed in Appendix A. Chemical will consolidate two branches of Bank of Northern Michigan with neighboring branches of Chemical Bank.

⁴ 12 CFR 262.3(b).

submitting 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, the Bank Merger Act, and the FRA. As required by the Bank Merger Act, a report on the competitive effects of the merger was requested from the United States Attorney General and a copy of the request has been provided to the Federal Deposit Insurance Corporation (“FDIC”).

Chemical, with total consolidated assets of approximately \$7.3 billion, is the 144th largest depository organization in the United States.⁵ Chemical controls Chemical Bank and operates only in Michigan. Chemical Bank controls approximately \$6.0 billion in deposits and is the eighth largest insured depository institution in the state, with deposits representing 3.4 percent of the total deposits in insured depository institutions in Michigan.⁶

Lake Michigan, with consolidated assets of approximately \$1.2 billion, is the 593rd largest depository organization in the United States. Lake Michigan controls two banks, Bank of Holland and Bank of Northern Michigan, which operate only in Michigan. Lake Michigan is the 22nd largest insured depository organization in the state, controlling approximately \$937 million in deposits representing 0.5 percent of the total deposits held by insured depository institutions in Michigan.

On consummation of the proposal, Chemical would become the 128th largest depository organization in the United States, with consolidated assets of approximately \$8.7 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. Chemical would control total deposits of approximately \$6.9 billion, which represent less than 1 percent of the total

⁵ Nationwide deposit, asset, and ranking data are as of December 31, 2014. In this context, insured depository institutions include commercial banks, savings banks, savings associations, and non-deposit trust companies.

⁶ State deposit, market share, and ranking data are as of June 30, 2014, as updated to reflect changes in ownership structure from mergers through March 6, 2015 (including Chemical’s merger with Northwestern Bancorp, Inc., on October 31, 2014).

amount of deposits of insured depository institutions in the United States. In Michigan, Chemical would become the seventh largest depository organization, controlling deposits representing 3.9 percent of the total deposits held by insured depository institutions in the state.

Competitive Considerations

Section 3 of the BHC Act and the Bank Merger Act prohibit 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 in any relevant market.⁷ Both statutes also prohibit the Board from approving a proposal 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 communities to be served.⁸

Chemical and Lake Michigan have subsidiary depository institutions that compete directly in five banking markets in Michigan: Holland, Grand Rapids, Muskegon-Grand Haven, Petoskey, and Traverse City.

A. Competitive Effects in the Banking Markets

The Board has considered the competitive effects of the proposal in each of the banking markets in which Chemical and Lake Michigan compete. In particular, the Board has considered the number of competitors that would remain in the banking markets; the relative share of total deposits in insured depository institutions in the markets (“market deposits”) that Chemical Bank would control upon consummation of the proposal;⁹ the concentration levels of market deposits and the increase in these levels,

⁷ 12 U.S.C. §§ 1842(c)(1) and 1828(c)(5).

⁸ 12 U.S.C. § 1828(c)(5)(B).

⁹ Local deposit and market share data are as of June 30, 2014 (including deposits from Chemical’s merger with Northwestern Bank on October 31, 2014), 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 to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989) and National City Corporation, 70 Federal Reserve

as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”), after consummation of the proposal;¹⁰ and other characteristics of the markets.

Banking Markets Within Established Guidelines. Based on initial competitive screening data, consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Grand Rapids, Muskegon-Grand Haven, Petoskey, and Traverse City banking markets.¹¹ On consummation of the proposal, each of these four banking markets would remain moderately concentrated, and the changes in market concentrations would be within the DOJ Bank Merger Guidelines and Board precedent. In each of these banking markets, numerous competitors would remain.

Banking Market Warranting Special Scrutiny. The structural effects that consummation of the proposal would have on the Holland banking market¹² warrant a

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 53 (1991).

¹⁰ Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would 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. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

¹¹ These four banking markets and the competitive effects of the proposal in these markets are described in Appendix B.

¹² The Holland banking market is defined as the Park, Holland, Zeeland, Olive, and Port Sheldon townships in Ottawa County and the Laketown, Fillmore, and Overisel townships in Allegan County, all of Michigan.

detailed review because, using initial competitive screening data, the concentration level on consummation would exceed the threshold levels in the DOJ Bank Merger Guidelines.

Using the initial screening data, Chemical is the sixth largest depository organization in the Holland banking market, controlling approximately \$102.9 million in deposits, which represent 4.8 percent of market deposits. Lake Michigan is the largest depository organization in the market, controlling approximately \$482.9 million in deposits, which represent 22.4 percent of market deposits. On consummation, the combined entity would be the largest depository institution in the Holland banking market, controlling approximately \$585.8 million in deposits, which would represent approximately 27.2 percent of market deposits. The HHI in this market would increase by 214 points, from 1631 to 1845.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Holland banking market.¹³ Factors indicate that the increase in concentration in the Holland banking market, as measured by the above HHI and market share, overstates the potential competitive effects of the proposal in the market. In particular, six community credit unions exert a competitive influence in the Holland banking market. Each institution offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the relevant banking market.¹⁴ The

¹³ The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in, and resulting level of, concentration in a banking market. See NationsBank Corp., 84 Federal Reserve Bulletin 129 (1998).

¹⁴ The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., Mitsubishi UFJ Financial Group, Inc., FRB Order No. 2012-12 (November 14, 2012); Old National Bancorp, FRB Order No. 2012-9 (August 30, 2012); United Bankshares, Inc. (order dated June 20, 2011), 97 Federal Reserve Bulletin 19 (2nd Quar. 2011); The PNC Financial Services Group, Inc., 94 Federal Reserve Bulletin C38 (2008); The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Regions Financial Corporation, *supra*; Passumpsic Bancorp,

Board finds that these circumstances warrant including the deposits of these credit unions at a 50-percent weight in estimating market influence. This weighting takes into account the limited lending done by these credit unions to small businesses relative to commercial banks' lending levels.

This adjustment suggests that the resulting market concentration of the proposed transaction in the Holland banking market is less significant than would appear from the initial competitive screening data, which focused on commercial bank competitors. In particular, adjusting to reflect competition by other insured depository institutions in the market, the market concentration level in the Holland banking market as measured by the HHI would increase by 194, from a level of 1482 to 1676, and the market share of Chemical resulting from the transaction would increase in the market from 4.5 percent to 25.9 percent. After consummation of the proposal, the merged entity would continue to face competition from commercial bank competitors in the market, three of which have a market share greater than 15 percent.

B. Views of Other Agencies and Conclusion Regarding Competitive Factors

The DOJ conducted a review of the potential competitive effects of the merger and has advised the Board that consummation of the proposal would not be likely to 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 Holland banking market or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

92 Federal Reserve Bulletin C175 (2006); and Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

Financial, Managerial, and Other Supervisory Factors

In reviewing a proposal under the BHC Act, the Bank Merger Act, and the FRA, the Board considers the financial and managerial resources and future prospects of the institutions involved. In its evaluation of financial factors, the Board reviews the financial condition of the organizations involved on both parent-only and consolidated bases, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

Chemical and Chemical Bank are both well capitalized and would remain so on consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a cash and stock purchase, with a subsequent merger of the subsidiary depository institutions. Chemical expects to fund the transaction with cash and other liquid assets on hand. Chemical has the resources to fund the cash portion of the consideration. The asset quality, earnings, and liquidity of Chemical are consistent with approval, and Chemical appears to have adequate resources to absorb the costs of the proposal and to complete the integration of Chemical and Lake Michigan's operations. In addition, future prospects are considered consistent with approval. Based on its review of the record, the Board finds that Chemical has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has

reviewed the examination records of Chemical, Lake Michigan, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Chemical, the Board's supervisory experiences with Chemical and Lake Michigan and those of other relevant bank supervisory agencies with the organizations, and their records of compliance with applicable banking and anti-money-laundering laws.

Chemical and its subsidiary depository institution are each considered to be well managed. The directors and senior executive officers of Chemical have substantial knowledge of and experience in the banking and financial services sectors.

The Board also has considered Chemical's plans for implementing the proposal. Chemical is devoting sufficient financial and other resources to address all aspects of the post-acquisition integration process for this proposal. Chemical would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, Chemical and Lake Michigan's management have the experience and resources that should allow the combined organization to operate in a safe and sound manner.

Based on all the facts of record, including Chemical's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Chemical and Lake Michigan in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act and the Bank Merger Act, the Board must consider the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").¹⁵ The CRA requires the federal financial

¹⁵ 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

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,¹⁶ and requires the appropriate federal financial supervisory agency to take into account a relevant depository institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.¹⁷

The Board has considered all the facts of record, including reports of examination of the CRA performance of Chemical Bank, Bank of Holland, and Bank of Northern Michigan, information provided by Chemical, and confidential supervisory information.

A. Records of Performance under the CRA

As provided in the CRA, the Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions.¹⁸ The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI neighborhoods.¹⁹ 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.

CRA Performance of Chemical Bank

Chemical Bank was assigned an overall "outstanding" rating at its most recent CRA performance evaluation by the Federal Reserve Bank of Chicago ("Reserve

¹⁶ 12 U.S.C. § 2901(b).

¹⁷ 12 U.S.C. § 2903.

¹⁸ See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (2010).

¹⁹ 12 U.S.C. § 2906.

Bank”) in August 2013 (“Chemical Bank Evaluation”).²⁰ Chemical Bank received “outstanding” ratings for the each of the Lending Test, the Investment Test, and the Service Test.²¹

In evaluating the Lending Test, examiners noted that Chemical Bank originated a substantial majority of loans within its assessment areas and showed excellent responsiveness to credit needs throughout its assessment areas. Examiners also noted that the bank had an excellent record of serving the credit needs of very small businesses. Further, Chemical Bank’s geographic distribution of loans reflected excellent penetration throughout the assessment areas. Examiners also noted that Chemical Bank is a leader in making community development loans inside its assessment areas and uses flexible and innovative lending practices in serving assessment area needs. Examiners noted that the dollar amount of Chemical Bank’s lending increased by approximately 11.0 percent from the prior evaluation.

In evaluating the Investment Test, examiners found that Chemical Bank had provided an excellent level of qualified investments, donations, and grants. Examiners noted that the bank demonstrated excellent responsiveness to credit and community development needs. The bank also made extensive use of innovative and complex investments to support community development initiatives. Examiners noted

²⁰ The Chemical Bank Evaluation was conducted using the Large Institution CRA Examination Procedures. The Chemical Bank Evaluation reviewed home mortgage and small business lending data from January 1, 2011, through December 31, 2012. The evaluation period for community development loans, investments, and services was July 1, 2011, through August 26, 2013.

²¹ The Chemical Bank Evaluation included a full-scope review of five assessment areas: the Grand Rapids-Wyoming Metropolitan Statistical Area (“MSA”); the Niles-Benton Harbor MSA; the Bay City MSA; the Kalamazoo-Portage MSA; and the North Central-Non-MSA. A limited-scope review was performed in the Battle Creek MSA; the Flint MSA; the Holland-Grand Haven MSA; the Saginaw-Saginaw Township North MSA; the South Bend-Mishawaka (Multi-State) MSA (Cass County, Michigan, only); the East-Non-MSA; the South-Non-MSA; and the West-Non-MSA.

that Chemical Bank's CRA-qualified investments increased by approximately 32.9 percent in number and 50.5 percent in dollars from the prior evaluation.

In evaluating the Service Test, examiners noted that Chemical Bank's branch location changes had improved the accessibility of its delivery systems, particularly to LMI geographies and LMI individuals. Examiners also found that the bank's delivery systems were readily accessible to the bank's geographies and individuals of different income levels in the assessment areas. Further, examiners highlighted that Chemical Bank was a leader in providing community development services throughout its assessment areas.

CRA Performance of Bank of Holland

The Bank of Holland was assigned an overall "satisfactory" rating at its most recent CRA performance evaluation by the FDIC in February 2012 ("Bank of Holland Evaluation"), with ratings of "satisfactory" for the Lending Test and the Community Development Test.²²

In evaluating the Lending Test, examiners noted that the bank originated a majority of home mortgage loans and small business loans within its assessment areas.²³ Examiners also found that the bank's geographic distribution of home mortgage loans and small business loans reflected reasonable dispersion throughout its assessment areas. They further noted that the bank's distribution of loans to borrowers reflected reasonable penetration among individuals of different income levels, with room for improvement

²² The Bank of Holland Evaluation was conducted using the Intermediate Small Bank CRA Examination Procedures. The Lending Test included a review of home mortgage loans and small business loans for the period of January 1, 2010, through December 31, 2011. The Community Development Test reviewed all community development activities, including donations and investments, services, and any community development loans originated by Bank of Holland since its previous CRA evaluation, in March 2008.

²³ The Bank of Holland has two designated assessment areas. The first assessment area, the "Holland Assessment Area," consists of the whole of Ottawa County, Michigan, in the Holland-Haven MSA. The second assessment area, the "Grand Rapids Assessment Area," consists of southern portions of Kent County, Michigan, in the Grand Rapids-Wyoming MSA.

noted in penetrating businesses of different sizes. Further, examiners concluded that Bank of Holland's loan-to-deposit ratio was reasonable given its size, financial condition, and assessment areas' credit needs.

In evaluating the Community Development Test, examiners noted that Bank of Holland's level of community development performance demonstrated adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of opportunities for community development in the bank's assessment areas.

CRA Performance of Bank of Northern Michigan

The Bank of Northern Michigan was assigned an overall "satisfactory" rating at its most recent CRA performance evaluation by the FDIC in November 2013 ("Bank of Northern Michigan Evaluation"), with ratings of "satisfactory" for the Lending Test and the Community Development Test.²⁴

In evaluating the Lending Test, examiners noted that the bank originated a majority of home mortgage loans and small business loans within its assessment area.²⁵ Examiners also found that the bank's geographic distribution of home mortgage loans and small business loans reflected reasonable dispersion throughout its assessment area, and the bank's distribution of loans to borrowers reflected reasonable penetration among individuals of different income levels and businesses of different sizes. Further, examiners concluded that Bank of Northern Michigan's loan-to-deposit ratio was

²⁴ The Bank of Northern Michigan Evaluation was conducted using the Intermediate Small Bank CRA Examination Procedures. The Lending Test included a review of home mortgage loans and small business loans for the period of January 1, 2012, through September 30, 2013. The Community Development Test reviewed all community development activities, including donations and investments, services, and any community development loans originated by Bank of Northern Michigan since its previous CRA evaluation, in August 2010.

²⁵ The Bank of Northern Michigan has one designated assessment area, which comprises Charlevoix, Emmet, Grand Traverse, and Leelanau counties, all of which are nonmetropolitan areas in Michigan.

reasonable given its size, financial condition, and assessment area credit needs. Examiners also noted that Bank of Northern Michigan did not receive any complaints about its performance in meeting assessment area credit needs.

In evaluating the Community Development Test, examiners noted that Bank of Northern Michigan's level of community development performance demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of opportunities for community development in the bank's assessment area.

Additional CRA Activities of Chemical Bank

Chemical Bank represents that it provides a comprehensive range of banking and related financial services to meet the needs of individuals, families, and businesses in the communities it serves. Chemical Bank states that it uses innovative and flexible lending practices designed to expand homeownership opportunities for LMI borrowers, such as FHA Mortgages, Rural Development Mortgages, and Veteran Administration Loans. In addition, Chemical Bank is involved in both the Michigan State Housing Development Authority's Property Improvement Program loans and the federal Neighborhood Impact Program rehab grants. Chemical Bank makes available to borrowers portfolio home lending products, which provide it greater flexibility in meeting the needs of LMI borrowers. Chemical also represents that it is a leader in community development lending and that it makes loans that address all four categories of community development, including affordable housing, economic development, stabilization and revitalization, and community services. In addition to its lending

activities, Chemical Bank represents, it offers a number of retail products targeted at helping LMI customers.

B. Additional Information on Convenience and Needs of Communities to be Served by the Combined Organization

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits.

Chemical represents that the proposed transaction would strengthen the ability of the current offices of Bank of Holland and Bank of Northern Michigan to meet the convenience and needs of the communities they serve by leveraging the products and the managerial and financial resources of Chemical Bank. Chemical Bank currently has a rating of “outstanding” from its most recent CRA examination, and Chemical represents that it would bring its commitment to CRA and its resources to meet the convenience and needs of the communities currently served by Bank of Holland and Bank of Michigan, which both maintain “satisfactory” CRA ratings.

Chemical further represents that following the merger, the banking products and services of Bank of Holland and Bank of Northern Michigan would be shifted to Chemical Bank, which would continue to provide high-quality financial products to the customers and communities currently served by Bank of Holland and Bank of Northern Michigan. Bank of Holland and Bank of Northern Michigan have focused primarily on commercial lending for small and mid-sized businesses and on providing personal banking services to their owners and executives. Following the merger, consumers in the communities served by Bank of Holland and Bank of Northern Michigan would be able to take advantage of a broader array of personal banking products and services offered by Chemical Bank, including portfolio mortgage loans, consumer loans, and deposit accounts. Chemical also states that commercial lenders would be able to benefit from treasury management products and the higher lending limit of Chemical Bank following the merger. In addition, the customers of Bank of Holland and Bank of Northern

Michigan would gain access to a broad range of trust and wealth-management products and services, which are not currently offered by either bank.

Chemical represents that it does not expect that Chemical Bank would discontinue any services or products currently offered by Bank of Holland or Bank of Northern Michigan. In instances where a product or service of Bank of Holland or Bank of Northern Michigan duplicates one offered by Chemical Bank, those accounts would be migrated to the Chemical Bank product.

Although Chemical plans to consolidate two of Bank of Northern Michigan's branches with nearby Chemical Bank branches following the merger, Bank of Holland and Bank of Northern Michigan customers nevertheless would benefit from having a larger network of banking offices throughout Michigan. Customers of Bank of Holland and Bank of Northern Michigan would be able to bank at any of Chemical Bank's branch offices in that extensive network, which would extend from Michigan's southernmost tier of counties to the tip of Michigan's Lower Peninsula.

C. Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by Chemical, and confidential supervisory information. Based on the Board's assessment of the CRA performance and consumer compliance programs of Chemical Bank, Bank of Holland, and Bank of Northern Michigan, its review of examination reports, and its consultations with other agencies, the Board concludes that the convenience and needs factor, including the CRA records of the insured depository institutions involved in this transaction, is consistent with approval of the application.

Financial Stability

The Dodd-Frank Act Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended the BHC Act and the Bank Merger Act to require the

Board to consider a proposal's "risk to the stability of the United States banking or financial system."²⁶

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic "footprint" of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.²⁷ These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.²⁸

The Board has considered information relevant to risks to the stability of the United States banking or financial system. After consummation of the proposed transaction, Chemical would have approximately \$8.7 billion in consolidated assets and would not be likely to pose systemic risks. The Board generally presumes that a merger that involves an acquisition of less than \$2 billion in assets, or results in a firm with less than \$25 billion in total consolidated assets, will not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a

²⁶ Sections 604(d) and (f) of the Dodd-Frank Act, Pub. L. No. 111-203, 123 Stat. 1376, 1601, codified at 12 U.S.C. §§ 1842(c)(7) and 1828(c)(5).

²⁷ Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

²⁸ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012).

significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the U.S. banking or financial system. Based on these and all other facts of record, the Board has determined that considerations relating to financial stability are consistent with approval.

Establishment of Branches

Chemical Bank has applied under section 9 of the FRA to establish branches at the current locations of Bank of Holland and Bank of Northern Michigan. The Board has assessed the factors it is required to consider when reviewing an application under that section.²⁹ Specifically, the Board has considered Chemical Bank's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises.³⁰ For the reasons discussed in this order, the Board finds those factors to be consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the applications should be, and hereby are, 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, the Bank Merger Act, the FRA, and other applicable statutes. The Board's approval is specifically conditioned on compliance by Chemical and Chemical Bank with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the applications. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection

²⁹ 12 U.S.C. § 322; 12 CFR 208.6.

³⁰ In addition, upon consummation of the proposed transaction, Chemical Bank's investments in bank premises would remain within legal requirements under 12 CFR 208.21.

with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the 15th calendar day after the effective date of this Order or later than October 31, 2015, unless such period is extended for good cause by the Board or the Reserve Bank acting pursuant to delegated authority.

By order of the Board of Governors,³¹ effective April 20, 2015.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

³¹ Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.

Appendix A

Branches to Be Acquired by Chemical Bank

The Bank of Holland

1. 150 Central Avenue, Holland, Michigan 49423
2. 16930 Robbins Road, Suite 120, Grand Haven, Michigan 49417
3. 51 Ionia SW, Grand Rapids, Michigan 49503

The Bank of Northern Michigan

1. 406 Bay Street, Petoskey, Michigan 49770
2. 130 South Union, Traverse City, Michigan 49036

Appendix B

Chemical Bank/Bank of Holland/Bank of Northern Michigan Banking Markets in Michigan						
Consistent with Board Precedent and DOJ Bank Merger Guidelines						
Deposit data are as of June 30, 2014. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent.						
Grand Rapids, Michigan – includes Kent County (excluding Oakfield and Spencer townships); Thornapple, Irving, Carlton, Yankee Springs, Rutland and Hastings townships in Barry County; Casanovia township in Muskegon County; Salem, Dorr and Leighton townships in Allegan County; Jamestown, Georgetown, Blendon, Allendale, Tallmadge, Polkton, Wright and Chester townships in Ottawa County, all of Michigan.						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>Chemical Bank Pre-Consummation</i>	6	\$820.4M	5.8	1104	12	25
<i>Lake Michigan (Bank of Holland)</i>	17	\$146.8M	1.0			
<i>Chemical Bank Post-Consummation</i>	5	\$967.2M	6.8			
Muskegon-Grand Haven, Michigan – includes Muskegon County (excluding Casanovia township); Grand Haven, Spring Lake, Crockery and Robinson townships in Ottawa County, all of Michigan.						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>Chemical Bank Pre-Consummation</i>	11	\$30.4M	1.4	1527	2	13
<i>Lake Michigan (Bank of Holland)</i>	14	\$14.0M	0.7			
<i>Chemical Bank Post-Consummation</i>	11	\$44.4M	2.1			

Petoskey, Michigan – includes Charlevoix County, Emmet County (excluding Bliss, Carp Lake and Wawatam townships); Burt, Toscorara, Mentor and Wilmot townships in Cheboygan County; Banks township in Antrim County, all of Michigan.						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>Chemical Bank Pre-Consummation</i>	10	\$56.3M	4.7	1346	157	9
<i>Lake Michigan (Bank of Northern Michigan)</i>	2	\$196.6M	16.5			
<i>Chemical Bank Post-Consummation</i>	1	\$252.9M	21.2			
Traverse City, Michigan – includes Antrim County (excluding Banks township); Benzie County; Grand Traverse County; Kalkaska County; Leelanau County, all of Michigan.						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>Chemical Bank Pre-Consummation</i>	2	\$449.0M	15.5	1308	104	14
<i>Lake Michigan (Bank of Northern Michigan)</i>	9	\$96.9M	3.3			
<i>Chemical Bank Post-Consummation</i>	2	\$555.9M	18.8			