

FEDERAL RESERVE SYSTEM

Synovus Financial Corp.
Columbus, Georgia

Order Approving the Merger of Bank Holding Companies

Synovus Financial Corp. (“Synovus”), 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 acquire Riverside Bancshares, Inc. (“Riverside”) and its subsidiary bank, Riverside Bank (“Riverside Bank”), both of Marietta, Georgia.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (70 Federal Register 54,747 (2005)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

Synovus, with total consolidated assets of approximately \$27.1 billion, is the 46th largest depository organization in the United States.² Synovus operates 39 subsidiary insured depository institutions in Alabama, Florida, Georgia, South Carolina, and Tennessee, as well as a nondepository trust company in Georgia. Synovus is the fourth largest depository organization in Georgia, and its subsidiary depository institutions control approximately

¹ 12 U.S.C. section 1842.

² National asset and ranking data are as of September 30, 2005.

\$10.6 billion in combined deposits, which represent 7.1 percent of the total amount of deposits of insured depository institutions in the state (“state deposits”).³

Riverside, with total consolidated assets of approximately \$668.6 million, operates one depository institution, Riverside Bank, which has branches only in Georgia. Riverside Bank is the 30th largest insured depository institution in Georgia, controlling deposits of approximately \$459.5 million.

On consummation of the proposal, Synovus would have consolidated assets of \$27.8 billion. In Georgia, Synovus would remain the fourth largest depository organization, controlling deposits of \$ 11.1 billion, which represent 7.4 percent of state deposits.⁴

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 in any relevant banking market. 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 the probable effect of the proposal in meeting the convenience and needs of the community to be served.⁵

³ State deposit and ranking data are as of June 30, 2005, and reflect merger activity through November 25, 2005. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

⁴ Synovus represented that it plans to file an application with the Federal Deposit Insurance Corporation (“FDIC”) for approval under the Bank Merger Act (12 U.S.C. section 1828(c)) to merge Riverside Bank into Bank of North Georgia (“BNG”), Alpharetta, Georgia, a Synovus subsidiary bank, after consummation of the proposal.

⁵ 12 U.S.C. section 1842(c)(1).

Seven Synovus banks⁶ compete directly with Riverside Bank in the Atlanta Area Banking Market (“Atlanta Market”).⁷ The Board has carefully reviewed the competitive effects of the proposal in this banking market in light of all the facts of record, including the number of competitors that would remain in the market, the relative shares of total deposits in depository institutions in the market (“market deposits”) controlled by Synovus’s Atlanta Area banks and Riverside Bank,⁸ 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”),⁹ and other characteristics of the markets.

⁶ These institutions include: Athens First Bank & Trust Company, Athens; Bank of Coweta, Newnan; BNG; Citizens & Merchants State Bank, Douglasville; First Nation Bank, Covington; The National Bank of Walton County, Monroe; and Peachtree National Bank, Peachtree City, all of Georgia (collectively, “Synovus’s Atlanta Area banks”).

⁷ The Atlanta Market is defined as: Bartow, Cherokee, Clayton, Cobb, Coweta, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gwinnett, Henry, Newton, Paulding, Rockdale, and Walton Counties; Hall County excluding the town of Clermont; the towns of Auburn and Winder in Barrow County; and the town of Luthersville in Meriwether County, all in Georgia.

⁸ Deposit and market share data are as of June 30, 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).

⁹ Under the DOJ 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

Consummation of the proposal would be consistent with Board precedent and within the relevant thresholds in the DOJ Guidelines in the Atlanta Market. After consummation, the Atlanta Market would remain unconcentrated, as measured by the HHI. In addition, the increase in concentration would be small and numerous competitors would remain in this market.¹⁰

The Department of Justice also has reviewed the anticipated competitive effects of the proposal and advised the Board that consummation of the proposal likely would not have a significant 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 Atlanta Market or in any

HHI exceeds 1800. The Department of Justice (“DOJ”) 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 DOJ has stated that the higher than normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

¹⁰ On consummation of the proposal, the HHI would increase 4 points to 1601 in the Atlanta Market. Synovus operates the fourth largest depository organization in the market, controlling deposits of \$3.4 billion, which represent 3.9 percent of market deposits. Riverside operates the 19th largest depository institution in the market, controlling deposits of approximately \$459.5 million, which represent less than 1 percent of market deposits. After the proposed acquisition, Synovus would continue to operate the fourth largest depository organization in the market, controlling deposits of approximately \$3.9 billion, which represent 4.4 percent of market deposits. One hundred eight depository institutions would remain in the banking market.

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, other supervisory information from the various primary federal and state banking supervisors of the organizations involved in the proposal, publicly reported and other financial information, information provided by Synovus, and public comment on the proposal.¹¹

¹¹ A commenter criticized the relationship between Synovus's lead subsidiary bank, Columbus Bank and Trust ("CB&T"), Columbus, Georgia, and an unaffiliated lender, CompuCredit Corporation ("CompuCredit"), Atlanta, Georgia. The Board previously reviewed CB&T's relationship with CompuCredit in its decision approving Synovus's acquisition of a de novo institution. See Synovus Financial Corp., 91 Federal Reserve Bulletin 273, 275 n.15 (2005) ("Board's February 2005 Decision"). The Board noted that CompuCredit is an unaffiliated organization that engages in subprime credit-card and payday lending activities. CB&T and CompuCredit offer a co-branded credit card program ("credit card affinity program") under a contractual arrangement. Under the contract, CB&T reviews, modifies, and approves the credit terms and underwriting criteria proposed by CompuCredit for the credit card affinity program and issues the credit cards, and CompuCredit buys the credit card receivables and provides certain marketing and other services for the issued cards. Synovus represented that, since the Board's February 2005 Decision, CB&T has engaged in the following additional activities to ensure regulatory compliance of its CompuCredit relationship with applicable fair lending and consumer protection laws: (1) reviewing the application of the credit and underwriting criteria to the credit card accounts and the scoring used to adjust credit lines under the credit card affinity program; (2) reviewing the process for approving statement inserts and strengthening controls over the process; (3) participating in CompuCredit's internal compliance audits; (4) developing a system to allow the CB&T Compliance

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. In this evaluation, the Board considers a variety of measures, 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.

Synovus and all its subsidiary depository institutions are well capitalized and would remain so on consummation of the proposal. Based on its review of the record, the Board finds that Synovus 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 the organizations involved and the proposed combined organization. The Board has reviewed the examination records of Synovus, Riverside, and their subsidiary depository institutions, including assessments of their management,

Officer to engage in remote, anonymous monitoring of customer service and collection calls handled by CompuCredit and its service providers; and (5) requiring CB&T's Compliance Officer to perform monthly reviews of the CompuCredit relationship and to provide reports to CB&T's Credit Risk Committee concerning those reviews. In addition, Synovus represented that it is not involved in any other business conducted by CompuCredit and does not own or control CompuCredit within the meaning of the BHC Act. The Board also consulted with the FDIC and reviewed supervisory and other confidential information about the credit card affinity program and CB&T's relationship with CompuCredit.

risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking law. Synovus, Riverside, and their subsidiary depository institutions are considered to be well managed. The Board also has considered Synovus's plans for implementing the proposal, including the proposed management after consummation.

Based on all the facts of record, the Board has concluded 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").¹² 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 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.¹³

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

¹³ 12 U.S.C. section 2903.

The Board has considered carefully all the facts of record, including reports of examination of the CRA performance records of the subsidiary depository institutions of Synovus and Riverside, data reported by Synovus under the Home Mortgage Disclosure Act (“HMDA”),¹⁴ other information provided by Synovus, confidential supervisory information, and public comment received on the proposal. Based primarily on 2004 HMDA data, a commenter alleged that Synovus, through its primary mortgage lender, Synovus Mortgage Company (“SMC”), Birmingham, Alabama,¹⁵ engaged in discriminatory treatment of minority individuals in its home mortgage lending operations.

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.¹⁶

All Synovus subsidiary depository institutions that have been examined under the CRA received "outstanding" or "satisfactory" ratings at their most recent performance evaluations. CB&T, Synovus’s lead bank, received an overall “satisfactory” rating at its most recent CRA performance evaluation by the FDIC, as of April 18, 2005. Riverside Bank also received

¹⁴ 12 U.S.C. section 2801 et seq.

¹⁵ SMC is a subsidiary of First Commercial Bank, also of Birmingham.

¹⁶ See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

a “satisfactory” rating at its most recent CRA performance evaluation by the FDIC, as of November 17, 2003. Synovus has represented that it will institute BNG’s CRA policies, procedures, and programs at Riverside Bank after its merger with and into BNG. As noted above, Synovus plans to merge Riverside Bank with BNG, and Synovus will operate Riverside Bank’s branches as branches of BNG after consummation of the proposed transaction.¹⁷

B. HMDA and Fair Lending Record

The Board has carefully considered the lending record and HMDA data of SMC in light of public comment received on the proposal. The commenter alleged, based primarily on 2004 HMDA data, that SMC denied the home mortgage and refinance applications of African Americans more frequently than those of nonminority applicants in several Metropolitan Statistical Areas (“MSAs”) in Alabama and Georgia where it operates. The commenter also alleged that SMC made higher-cost loans more frequently to African-American borrowers than to nonminority borrowers on a company-wide basis, on a statewide basis in Alabama, and in MSAs in Alabama, Florida, and Georgia.¹⁸ The Board has analyzed the 2004 HMDA data reported by SMC on a company-wide basis and for its lending in Alabama, Florida, and Georgia.¹⁹

¹⁷ BNG received a “satisfactory” rating at its most recent CRA performance evaluation by the FDIC, as of June 10, 2004.

¹⁸ 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.

¹⁹ Specifically, the Board examined the HMDA data for SMC company-wide, in Alabama statewide, and in certain MSAs in Alabama, Florida, and Georgia that constitute significant markets for SMC.

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 SMC is excluding or imposing higher 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.²⁰ 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 lending institutions are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending but also equal access to credit by creditworthy applicants regardless of their race. 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 Synovus and Riverside with fair lending laws. The Board also consulted with the FDIC, the primary regulator of First Commercial Bank, SMC, and CB&T, and considered examination records of compliance with fair lending laws of these and other Synovus subsidiary depository institutions. Examiners

²⁰ 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.

noted no evidence of illegal credit discrimination by First Commercial Bank, SMC, CB&T, or any other Synovus subsidiary depository institution.

The record also indicates that Synovus and SMC have taken steps to ensure compliance with fair lending and other consumer protection laws. Synovus represented that it has programs in place to monitor and manage compliance that include periodic reviews of all consumer lending programs, systemic tracking of applicable laws and regulations, ongoing risk analyses, the development of programs to train personnel involved in consumer lending, and oversight of the drafting and use of consumer lending forms for its depository and lending institutions to verify compliance with applicable consumer and fair lending laws. Synovus also represented that it is enhancing its system for corporate-wide reporting of compliance information. Synovus represented that its internal audit function examines SMC annually, and that SMC has engaged an independent third-party firm to review monthly a random sample of all closed loans from the application stage to the loan closing for any evidence of illegal discrimination.

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

C. Conclusion on CRA Performance Records

The Board has carefully considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by the applicant, comments received on the proposal, and confidential supervisory information. Synovus represented that the proposal would provide

customers in Riverside Bank's assessment area with access to a broader array of financial products and services. 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 and the CRA performance records of the relevant depository institutions are consistent with approval.

Conclusion

Based on the foregoing and all facts of record, the Board has determined that the application should be, and hereby is, approved.²¹ 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 and other applicable statutes.²² The Board's approval is specifically conditioned on compliance by

²¹ A commenter requested that the Board hold a public hearing or meeting 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 any 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 CFR 225.16(e). The Board has considered carefully the commenter's requests in light of all the facts of record. In the Board's view, the commenter had ample opportunity to submit comments on the proposal 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 its 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 or meeting on the proposal is denied.

²² The commenter also requested that the Board extend the comment period on the proposal. As previously noted, the Board has accumulated a significant record in this case, including reports of examination, confidential supervisory information,

Synovus with the conditions imposed in this order and the commitments made to the Board 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 Federal Reserve Bank of Atlanta, acting pursuant to delegated authority.

By order of the Board of Governors,²³ effective January 19, 2006.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

public reports and information, and public comment. As noted, the commenter had ample opportunity to submit its views and has provided multiple written submissions that the Board has considered carefully in acting on the proposal. Moreover, the BHC Act and Regulation Y require the Board to act on proposals submitted under those provisions within certain time periods. Based on a review of all the facts of record, the Board has concluded that the record in this case is sufficient to warrant action at this time and that neither an extension of the comment period nor further delay in considering the proposal is necessary.

²³ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Bies, Olson, and Kohn.