

FEDERAL RESERVE SYSTEM

Citizens Banking Corporation
Flint, Michigan

Order Approving the Acquisition of a Bank Holding Company

Citizens Banking Corporation (“Citizens”), a bank 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 Republic Bancorp Inc. (“Republic”), Owosso, and its subsidiary bank, Republic Bank, Lansing, both of Michigan.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (71 Federal Register 54,992 (2006)). 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.

Citizens, with total consolidated assets of approximately \$7.8 billion, operates two subsidiary insured depository institutions with branches in Iowa, Michigan, and Wisconsin. Citizens’ subsidiary banks are Citizens Bank, Flint, Michigan, and F&M Bank – Iowa, Marshalltown, Iowa. Citizens is the ninth largest depository organization in Michigan, controlling deposits of \$4.3 billion, which represent 2.8 percent of total deposits of insured depository institutions in Michigan (“state deposits”).²

¹ 12 U.S.C. § 1842.

² Asset data are as of September 30, 2006; statewide deposit and ranking data are as of June 30, 2006, and reflect merger activity through October 18, 2006. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

Republic, with total consolidated assets of approximately \$6.2 billion, operates one insured depository institution with branches in Michigan and Ohio. Republic is the 12th largest depository organization in Michigan, controlling deposits of approximately \$2.7 billion, which represent 1.8 percent of state deposits.

On consummation of this proposal, and after accounting for the proposed divestiture, Citizens would become the seventh largest depository organization in Michigan, controlling deposits of approximately \$6.8 billion, which represent 4.6 percent of state deposits.

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company if certain conditions are met.³ For purposes of section 3(d) of the BHC Act, the home state of Citizens is Michigan,⁴ and Republic Bank is located in Michigan and Ohio.⁵

Based on a review of all the facts of record, including relevant state statutes, the Board finds that all conditions for an interstate acquisition

³ 12 U.S.C. § 1842.

⁴ Under section 3(d) of the BHC Act, a bank holding company's home state is the state in which the total deposits of all subsidiary banks of the company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. 12 U.S.C. § 1841(o)(4)(C).

⁵ For purposes of section 3(d), the Board considers a bank to be located in states in which the bank is chartered, headquartered, or operates a branch. See 12 U.S.C. §§ 1841(o)(4)-(7), 1842(d)(1)(A), and 1842 (d)(2)(B).

enumerated in section 3(d) of the BHC Act are met in this case.⁶ In light of all the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits 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 community to be served.⁷

Citizens and Republic have subsidiary depository institutions that compete directly in six markets in Michigan: Ann Arbor, Detroit, Flint, Jackson, Lansing, and Traverse City. The Board has reviewed carefully 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 banking markets, the relative shares of total deposits

⁶ See 12 U.S.C. §§ 1842(d)(1)(A)-(B), (d)(2)(A)-(B). Citizens is adequately capitalized and adequately managed, as defined by applicable law. Ohio does not require a bank to be in existence for a minimum period of time before its acquisition. On consummation of the proposal, Citizens would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States and less than 30 percent of total deposits held in Ohio by insured depository institutions. See Ohio Rev. Code 1115.05(B)(1)(a) (30 percent limit on statewide deposits). All other requirements pursuant to section 3(d) of the BHC Act would be met on consummation of the proposal.

⁷ 12 U.S.C. § 1842(c)(1).

in depository institutions in the markets (“market deposits”) controlled by Citizens and Republic,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 other characteristics of the markets, and commitments by Citizens to divest certain branches of Republic in the Flint banking market.

A. Two Banking Markets Warranting Special Scrutiny

Citizens and Republic compete directly in two banking markets that warrant a detailed review: Flint and Jackson. As discussed below, the post-consummation concentration levels in the Flint market (after accounting for the proposed divestiture) would exceed the thresholds of the DOJ Guidelines,

⁸ Deposit and market-share data are as of June 30, 2006, adjusted to reflect subsequent mergers and acquisitions through October 18, 2006, 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 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.

and Citizens' resulting market share in the market would exceed 35 percent. The post-consummation concentration level in the Jackson market would exceed the DOJ Guidelines' thresholds.

The Board has considered carefully whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would have a significantly adverse effect on competition in each market. The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase and the resulting level of concentration in a banking market.¹⁰ In both markets, the record indicates that the proposal would not have a significantly adverse impact on competition.

Flint Banking Market. In the Flint banking market,¹¹ Citizens' subsidiary, Citizens Bank ("Citizens Bank"), Flint, is the largest depository institution in the market, controlling deposits of approximately \$1.5 billion, which represent approximately 35 percent of market deposits. Republic Bank is the third largest depository institution in the market, controlling deposits of approximately \$436.9 million which represent approximately 10 percent of market deposits.

To reduce the potential adverse effects on competition in the Flint banking market, Citizens has committed to divest seven branches of Republic, with at least \$210 million in deposits, to an out-of-market insured depository

¹⁰ See NationsBank Corp., 84 Federal Reserve Bulletin 129 (1998).

¹¹ The Flint banking market is defined as Genesee County; Hazelton, Venice, Vernon, and Burns townships in Shiawassee County; Maple Grove, Taymouth, and Birch Run townships in Saginaw County; and Arbelá and Millington townships in Tuscola County, all in Michigan.

organization.¹² On consummation of the proposed merger, and after accounting for the proposed divestiture, Citizens would remain the largest depository institution in the market, controlling deposits of approximately \$1.8 billion, which would represent 41 percent of market deposits. The HHI would increase 350 points to 2502.

Several factors indicate that the increase in concentration in the Flint banking market, as measured by the HHI and Citizens' market share, overstates the potential adverse competitive effects of the proposal in the market. After consummation, and taking into account the proposed divestiture, at least 17 other insured depository institutions would continue to operate in the market. In addition, community credit unions exert an important competitive influence in the Flint banking market.¹³ Eight community credit unions control approximately

¹² Citizens has committed that, before consummation of the proposed merger, it will execute an agreement for the proposed divestiture in the Flint banking market with a purchaser that the Board determines to be competitively suitable. Citizens also has committed to complete the divestiture within 180 days after consummation of the proposed merger. In addition, Citizens has committed that, if it is unsuccessful in completing the proposed divestiture within that time period, it will transfer the unsold branch(es) to an independent trustee who will be instructed to sell the branch(es) to an alternate purchaser or purchasers in accordance with the terms of this order and without regard to price. Both the trustee and any alternate purchaser must be acceptable by the Board. See BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991).

¹³ The Board previously has considered the competitiveness of certain active credit unions as a mitigating factor. See, e.g., Regions Financial Corporation (Order dated October 20, 2006); Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006); F.N.B. Corporation, 90 Federal Reserve Bulletin 481 (2004); Gateway Bank & Trust Co., 90 Federal Reserve Bulletin 547 (2004). In the Flint and Jackson banking markets, several credit unions offer a wide range of consumer products, operate street-level branches, and have memberships

\$887.5 million in deposits in the market, which represents approximately 9 percent of market deposits on a 50 percent weighted basis. Accounting for the revised weightings of these deposits, Citizens would control approximately 37 percent of market deposits on consummation of the proposal, and the HHI would increase 288 points to 2077.¹⁴

Moreover, the record of recent entry into the Flint banking market evidences the market's attractiveness for entry. Within the past five years, six de novo bank branches and one credit union have opened in the Flint market, and all remain operational. Other factors indicate that the Flint banking market remains attractive for entry. For example, from 2002 to 2005, the market's average annualized deposit growth exceeded the average annualized deposit growth for all metropolitan areas in Michigan.

Jackson Banking Market. In the Jackson banking market,¹⁵ Citizens Bank is the third largest depository institution, controlling deposits of \$275.7 million, which represent 19 percent of market deposits. Republic Bank is the fourth largest depository institution in the market, controlling deposits of \$172 million, which represent 12 percent of market deposits. On consummation of the proposal, Citizens Bank would become the largest depository institution

open to almost all the residents in the applicable market. The Board has concluded that the activities of such credit unions in these two markets exert sufficient competitive influence to mitigate, in part, the potential adverse competitive effects of the proposal.

¹⁴ With the deposits of these credit unions weighted at 50 percent, Citizens would be the largest depository institution in the market, with approximately 32 percent of market deposits, and Republic would be the third largest depository institution in the market, controlling approximately 9 percent of market deposits.

¹⁵ The Jackson banking market is defined as Jackson County and the eastern two tiers of townships in Calhoun County, including Lee, Clarence, Marengo, Sheridan, Eckford, Albion, Clarendon, and Homer townships, all in Michigan.

in the market, controlling deposits of approximately \$447.8 million. The HHI in this market would increase 459 points to 1974, and the pro forma market share of the combined entity would be 31 percent.

Several factors indicate that the proposal would not have a significantly adverse effect on concentration in the Jackson banking market. On consummation of the proposal, at least 12 other insured depository institutions would continue to operate in the market. The Board also has evaluated the competitive influence of five active community credit unions in this market. These credit unions control approximately \$192.4 million in deposits in the market, which represents approximately 6 percent of market deposits on a 50 percent weighted basis. Accounting for the revised weightings of these deposits, Citizens would control approximately 29 percent of market deposits on consummation of the proposal, and the HHI would increase 403 points to 1747.¹⁶

In addition, the record of recent entry into the Jackson banking market evidences the market's attractiveness for entry. Within the past five years, three de novo bank branches have opened in the Jackson market, and all remain operational. Other factors indicate that the Jackson banking market continues to be attractive for entry. From 2002 to 2005, the market's annualized population growth exceeded the average annualized population growth for all metropolitan areas and nonmetropolitan counties in Michigan. Furthermore, the market's annualized income growth exceeded the average annualized income growth for all metropolitan areas in Michigan during the same period.

¹⁶ With the deposits of these credit unions weighted at 50 percent, Citizens would be the third largest depository institution in the market, with approximately 18 percent of market deposits, and Republic would be the fourth largest depository institution in the market, controlling approximately 11 percent of market deposits.

B. Banking Markets within Established Guidelines

Consummation of the proposal without divestitures would be consistent with Board precedent and within the thresholds of the DOJ Guidelines in the other four banking markets: Ann Arbor, Detroit, Lansing, and Traverse City.¹⁷ On consummation of the proposal, the Ann Arbor banking market would remain unconcentrated, the Detroit and Traverse City banking markets would remain moderately concentrated, and the Lansing banking market would become moderately concentrated, as measured by the HHI. Numerous competitors would remain in each of the four banking markets.

C. Views of Other Agencies/Conclusion on Competitive Considerations

The DOJ also conducted a detailed review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal 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 competitive effects of 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 six banking markets where Citizens and Republic compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

¹⁷ The effects of the proposal on the concentration of banking resources in these markets are described in the appendix.

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 primary federal and state supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by Citizens.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved both on a parent-only and on a consolidated basis, as well as the financial condition of the subsidiary depository institutions and significant nonbanking operations. In this evaluation, the Board considers a variety of information, 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.

The Board has considered carefully the financial factors of the proposal. Citizens, all its subsidiary depository institutions, and Republic Bank currently are well capitalized and would remain so on consummation of the proposal. Based on its review of the record, the Board also finds that Citizens has sufficient financial resources to effect the proposal. The proposed transaction

is structured as a share exchange and cash payment. The cash portion would be funded from the proceeds of an issuance of trust preferred securities and cash on hand.

The Board also has considered the managerial resources of Citizens, Republic, and their subsidiary banks. The Board has reviewed the examination records of these institutions, including assessments of their management, 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 laws and with anti-money laundering laws. Citizens, Republic, and their subsidiary depository institutions are considered well managed. The Board also has considered Citizens' plans for implementing the proposal, including the proposed management after consummation, and has consulted with the other relevant supervisory agencies for Republic Bank concerning those plans.

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").¹⁸

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

Citizens Bank and F&M Bank – Iowa received “outstanding” and “satisfactory” ratings at their most recent CRA performance evaluations by the Federal Reserve Bank of Chicago, as of July 18, 2005, and July 17, 2006, respectively. Republic Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the Federal Insurance Deposit Corporation, as of August 12, 2002. After consummation of the proposal, Citizens plans to implement its CRA policies at Republic Bank. Citizens has represented that the proposal will provide greater convenience to customers through a larger network of branches and ATMs and a broader range of financial products and services over an expanded geographic area. Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs of the community to be served and 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. The Board’s approval is specifically conditioned on compliance by Citizens with the conditions imposed in this order and the commitments made to the Board in connection with the application, including the divestiture commitment discussed above. 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 Chicago, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁹ effective December 12, 2006.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁹ Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Bies, Warsh, Kroszner, and Mishkin.

Appendix

Citizens/Republic Banking Markets in Michigan Consistent with Board Precedent and DOJ Guidelines Without Divestitures						
Data are as of June 30, 2006. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent.						
Ann Arbor – Washtenaw County, excluding Salem township; and Putnam, Hamburg, and Unadilla townships in Livingston County.						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>Citizens Pre-Consummation</i>	13	\$137.5 mil.	2.7	905	+ 16	20
<i>Republic</i>	11	\$154.7 mil.	3.0			
<i>Citizens Post-Consummation</i>	7	\$292.1 mil.	5.7			
Detroit – Oakland, Macomb, and Wayne Counties; Hadley, Metamora, Dryden, and Almont townships in Lapeer County; Berlin, Riley, Columbus, Saint Clair, Casco, China, East China, Ira, Cottrellville, and Clay townships in Saint Clair County; Tyrone, Howell, Oceola, Hartland, Iosco, Marion, Genoa, Brighton, and Green Oak townships in Livingston County; Salem township in Washtenaw County; and Ash and Berlin townships in Monroe County.						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>Citizens Pre-Consummation</i>	16	\$423.5 mil.	0.5	1,562	+ 1	49
<i>Republic</i>	12	\$530.1 mil.	0.7			
<i>Citizens Post-Consummation</i>	9	\$953.6 mil.	1.2			