

FRB Order No. 2025-03  
February 12, 2025

FEDERAL RESERVE SYSTEM  
ChoiceOne Financial Services, Inc.  
Sparta, Michigan

ChoiceOne Bank  
Sparta, Michigan

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

ChoiceOne Financial Services, Inc. (“COFS”), Sparta, Michigan, a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”),<sup>1</sup> has requested the Board’s approval under section 3 of the BHC Act<sup>2</sup> to acquire Fentura Financial, Inc. (“FFI”) and thereby indirectly acquire its nonmember bank subsidiary, The State Bank, both of Fenton, Michigan. In addition, COFS’s subsidiary state member bank, ChoiceOne Bank, Sparta, Michigan, has requested the Board’s approval to merge with The State Bank pursuant to section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”),<sup>3</sup> with ChoiceOne Bank as the surviving entity. ChoiceOne Bank also has applied under section 9 of the Federal Reserve Act (“FRA”)<sup>4</sup> to establish and operate branches at the locations of the main office and branches of The State Bank.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (89 Federal Register 70183 (August 29, 2024)), in

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<sup>1</sup> 12 U.S.C. § 1841 et seq.

<sup>2</sup> 12 U.S.C. § 1842.

<sup>3</sup> 12 U.S.C. § 1828(c).

<sup>4</sup> 12 U.S.C. § 321. These locations are listed in the Appendix.

accordance with the Board's Rules of Procedure.<sup>5</sup> The time for submitting comments has expired, and the Board received one adverse comment on the proposal. The Board has considered the proposal and the comment 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").

COFS, with consolidated assets of approximately \$2.7 billion, is the 439th largest insured depository organization in the United States.<sup>6</sup> COFS controls approximately \$2.2 billion in consolidated deposits, which represent less than one percent of the total amount of deposits of insured depository institutions in the United States.<sup>7</sup> COFS controls ChoiceOne Bank, which operates in Michigan. ChoiceOne Bank is the 16th largest insured depository institution in Michigan, controlling deposits of approximately \$2.1 billion, which represent less than one percent of the total amount of deposits of insured depository institutions in that state.

FFI, with consolidated assets of approximately \$1.8 billion, is the 613th largest insured depository organization in the United States. FFI controls approximately \$1.5 billion in consolidated deposits, which represent less than one percent of the total amount of deposits of insured depository institutions in the United States. FFI controls The State Bank, which operates in Michigan.<sup>8</sup> The State Bank is the

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<sup>5</sup> 12 CFR 262.3(b).

<sup>6</sup> Consolidated asset and national ranking data are as of September 30, 2024.

<sup>7</sup> Consolidated national deposit and market share data are as of September 30, 2024. State deposit data are as of June 30, 2024, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

<sup>8</sup> The proposal does not raise interstate issues under section 3(d) of the BHC Act because the home state of COFS is Michigan and The State Bank is located only in Michigan. See 12 U.S.C. §§ 1841(o)(4)–(7) and 1842(d). Similarly, the proposal does not raise interstate issues under section 44 of the Federal Deposit Insurance Act because Michigan

22nd largest insured depository institution in Michigan, controlling deposits of approximately \$1.4 billion, which represent less than one percent of the total amount of deposits of insured depository institutions in that state.

On consummation of this proposal, COFS would become the 296th largest insured depository organization in the United States, with consolidated assets of approximately \$4.4 billion, which would represent less than one percent of the total assets of insured depository organizations in the United States. COFS would control total consolidated deposits of approximately \$3.7 billion, which would represent less than one percent of the total amount of deposits of insured depository institutions in the United States. ChoiceOne Bank would become the 11th largest insured depository institution in Michigan, controlling deposits of approximately \$3.6 billion, which represent approximately 1.1 percent of the total deposits of insured depository institutions in that 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.<sup>9</sup> The BHC Act and the Bank Merger Act also prohibit the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any 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.<sup>10</sup>

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is the home state of both ChoiceOne Bank and The State Bank.  
See 12 U.S.C. §§ 1831u(a)(1), (g)(4)–(5), and (g)(8)–(9).

<sup>9</sup> 12 U.S.C. § 1842(c)(1)(A); 12 U.S.C. § 1828(c)(5)(A).

<sup>10</sup> 12 U.S.C. § 1842(c)(1)(B); 12 U.S.C. § 1828(c)(5)(B).

COFS and FFI have subsidiary banks that compete directly in the Detroit, Michigan, banking market (“Detroit market”).<sup>11</sup> The Board has considered the competitive effects of the proposal in this banking market. In particular, the Board has considered the relative share of total deposits in insured depository institutions in the market (“market deposits”) that COFS would control;<sup>12</sup> the concentration level of market deposits and the increase in this level, as measured by the Herfindahl-Hirschman Index (“HHI”) under the 1995 Bank Merger Competitive Review guidelines (“1995 Bank Merger Guidelines”);<sup>13</sup> the number of competitors that would remain in the market; and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the 1995 Bank Merger Guidelines in the Detroit market. On consummation, the Detroit market would remain moderately concentrated, as measured

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<sup>11</sup> The Detroit market is defined as the Oakland, Macomb, Wayne, Lapeer, Genesee, Washtenaw, St. Clair, Livingston, Lenawee, and Shiawassee counties, Michigan; portions of Monroe County, Michigan; and portions of Sanilac County, Michigan.

<sup>12</sup> Local deposit and market share data are as of June 30, 2024, 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); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in market share calculations on a 50 percent weighted basis. See, e.g., Huntington Bancshares Incorporated, FRB Order No. 2021-07, at 5–6 (May 25, 2021); Hancock Whitney Corporation, FRB Order No. 2019-12 at 6 (September 5, 2019).

<sup>13</sup> Department of Justice, Bank Merger Competitive Review – Introduction and Overview, <https://www.justice.gov/sites/default/files/atr/legacy/2007/08/14/6472.pdf> (1995). On September 17, 2024, the U.S. Department of Justice (“DOJ”) announced its withdrawal from the 1995 Bank Merger Guidelines and emphasized that the 2023 Merger Guidelines, issued on December 18, 2023, remain its sole and authoritative statement across all industries. Press Release, DOJ, “Justice Department Withdraws from 1995 Bank Merger Guidelines,” <https://www.justice.gov/opa/pr/justice-department-withdraws-1995-bank-merger-guidelines>. The 1995 Bank Merger Guidelines had been adopted together with the federal banking agencies, and none of the federal banking agencies have withdrawn from the 1995 Bank Merger Guidelines. The Board continues to apply the 1995 Bank Merger Guidelines in evaluating bank merger proposals.

by the HHI. The HHI would remain virtually unchanged, and numerous competitors would remain in the Detroit market.<sup>14</sup>

The DOJ conducted a review of the potential competitive effects of the proposal and has advised the Board that it did not conclude that the proposal would have a significantly adverse effect on competition. 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 any relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

#### ***Financial, Managerial, and Other Supervisory Considerations***

In reviewing proposals under section 3 of the BHC Act and the Bank Merger Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved, the effectiveness of the institutions in combatting money laundering, and any public comments on the proposal.<sup>15</sup> In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of public and supervisory information regarding capital adequacy,

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<sup>14</sup> COFS is the 17th largest depository organization in the Detroit market, controlling approximately \$864 million in deposits, which represent less than one percent of market deposits. FFI is the 13th largest depository organization in the market, controlling deposits of approximately \$1.1 billion, which represent less than one percent of market deposits. On consummation of the proposed transaction, COFS would become the 11th largest depository organization in the market, controlling deposits of approximately \$2.0 billion, which would represent less than one percent of market deposits. The HHI for the Detroit market would increase by 1 point to 1404, and 47 competitors would remain in the market.

<sup>15</sup> 12 U.S.C. § 1842(c)(2), (5), and (6); 12 U.S.C. § 1828(c)(5) and (11).

asset quality, liquidity, and earnings performance, as well as any public comments on the proposal. 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 to complete the proposed integration of the operations of the institutions effectively. 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.

COFS, FFI, and their subsidiary depository institutions are well capitalized, and the combined organization would remain so upon consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a share exchange, with a subsequent merger of The State Bank into ChoiceOne Bank.<sup>16</sup> The capital, asset quality, earnings, and liquidity of COFS, FFI, and their subsidiary depository institutions are consistent with approval, and COFS and ChoiceOne Bank appear to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, the future prospects of the institutions are considered consistent with approval.

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 COFS, FFI, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by COFS; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; the organizations' records of compliance with applicable banking,

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<sup>16</sup> To effect the transaction, each share of FFI common stock would be converted into a right to receive shares of COFS common stock, based on an exchange ratio, plus cash in lieu of any fractional shares. COFS has the financial resources to effect the proposed transaction.

consumer protection, and anti-money-laundering laws; and the public comment on the proposal.

COFS, FFI, and their subsidiary depository institutions are each considered to be well managed. The combined organization's senior executive officers and principals have knowledge of and experience in the banking and financial services sectors, and COFS's risk-management program appears consistent with approval.

The Board also has considered COFS's plans for implementing the proposal. COFS has conducted comprehensive due diligence and is devoting sufficient financial and other resources to address all aspects of the post-acquisition integration process for this proposal. In addition, COFS's management has the experience and resources to operate the resulting organization in a safe and sound manner. COFS plans to integrate FFI's existing management and personnel in a manner that augments COFS's management, and COFS plans to incorporate into its existing policies, procedures, and internal controls the best practices that it identifies at The State Bank.

Based on all the facts of record, including COFS's, ChoiceOne Bank's, and FFI's supervisory records, managerial and operational resources, and plans for operating the combined organization after consummation, the Board determines that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of COFS, FFI, and their subsidiary depository institutions 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 considers the effects of the proposal on the convenience and needs of the communities to be served.<sup>17</sup> In evaluating whether the proposal satisfies the

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<sup>17</sup> 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 1828(c)(5). Where applicable, the Board also considers any timely substantive comments on the proposal and, in its discretion, may consider any untimely substantive comments on the proposal.

convenience and needs statutory factor, the Board considers the impact that the proposal will or is likely to have on the communities served by the combined organization. The Board reviews a variety of information to determine whether the relevant institutions' records demonstrate a history of helping to meet the needs of their customers and communities. The Board also reviews the combined institution's post-consummation plans and the expected impact of those plans on the communities served by the combined institution, including on low- and moderate-income ("LMI") individuals and communities. The Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve and are providing access to banking products and services that meet the needs of customers and communities, including the potential impact of branch closures, consolidations, and relocations on that access. In addition, the Board reviews the records of the relevant depository institutions under the Community Reinvestment Act of 1977 ("CRA").<sup>18</sup> The Board strongly encourages insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with the institutions' safe and sound operation and their obligations under the CRA.<sup>19</sup>

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, gender, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and public comments on the proposal. The Board also may consider the acquiring institution's business model and intended marketing and outreach, the combined organization's plans after consummation, and any other information the Board deems relevant.

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<sup>18</sup> 12 U.S.C. § 2901 et seq.

<sup>19</sup> See 12 U.S.C. § 2901(b).

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of ChoiceOne Bank and The State Bank; the fair lending and compliance records of both banks; the supervisory views of the FDIC and the Federal Reserve Bank of Chicago (“Chicago Reserve Bank”); confidential supervisory information; information provided by COFS; and the public comment received on the proposal.

*Public Comment on the Proposal*

The Board received one adverse comment on the proposal. The commenter objected to the proposal, alleging that, in 2023, ChoiceOne Bank and The State Bank made fewer home loans to African American individuals as compared to white individuals in Michigan.<sup>20,21</sup>

*Businesses of the Involved Institutions and Response to the Public Comment*

Through ChoiceOne Bank, COFS offers a range of lending and deposit products. These products include loans for commercial, residential, and agricultural purposes, including loans for low- and moderate-income borrowers and small business loans. COFS also offers deposit products, such as checking, savings, negotiable order of withdrawal accounts, money market deposit accounts, and certificates of deposit.

Through The State Bank, FFI offers similar products and services.

In response to the comment, COFS represents that ChoiceOne Bank’s and The State Bank’s origination rates to African American individuals in 2023 were better

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<sup>20</sup> The data cited by the commenter corresponds to publicly available 2023 data reported by both banks under the Home Mortgage Disclosure Act of 1975 (“HMDA”), 12 U.S.C. § 2801 et seq.

<sup>21</sup> The commenter further alleged that there is an investigation into whether COFS violated federal securities laws and breached its fiduciary duties to shareholders. This portion of the comment concerns matters that are outside the scope of the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See CIT Group, Inc., FRB Board Order No. 2015-20 at 11 n.24 (July 19, 2015); Bank of America Corporation, 90 Federal Reserve Bulletin 217, 223 n.31 (2004); see also Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973).

than the performance of other lenders in Michigan and that their loan denial rates to African American individuals were comparable to those of other lenders in the state. COFS states that ChoiceOne Bank's and The State Bank's reasons for denial are in line with their respective lending policies and underwriting standards. Further, COFS asserts that HMDA data are insufficient to support the commenter's claim and contradicted by the results of ChoiceOne Bank's and The State Bank's CRA examinations in 2021 and 2022, respectively.

*Records of Performance under the CRA*

In evaluating the CRA performance of the involved institutions, the Board generally considers each institution's most recent CRA evaluation and the supervisory views of relevant federal supervisors, which in this case are the Chicago Reserve Bank with respect to ChoiceOne Bank and the FDIC with respect to The State Bank.<sup>22</sup> In addition, the Board considers information provided by the applicant and public commenter.

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.<sup>23</sup> 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 by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test ("Lending Test"), an investment test ("Investment Test"), and a service test ("Service Test") to evaluate the performance of large banks, such as ChoiceOne Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an

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<sup>22</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48506, 48548 (July 25, 2016).

<sup>23</sup> 12 U.S.C. § 2906.

institution's lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the Lending Test, examiners review and analyze an institution's data reported under HMDA, in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is evaluated based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's CRA assessment areas ("AAs"); (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;<sup>24</sup> (4) the institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.<sup>25</sup> The Investment Test evaluates the number and amounts of qualified investments that benefit the institution's AAs. The Service Test evaluates the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of the institution's community development services.<sup>26</sup>

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<sup>24</sup> Examiners also consider the number and amounts of small business and small farm loans made to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3) (2023).

<sup>25</sup> See 12 CFR 228.22(b) (2023).

<sup>26</sup> See 12 CFR 228.23 and 228.24 (2023).

Federal financial supervisors apply a Lending Test and a community development test (“Community Development Test”) to evaluate the performance of an intermediate small bank, such as The State Bank, in helping to meet the credit needs of the communities it serves. The Community Development Test evaluates the number and amounts of the institution’s community development loans and qualified investments; the extent to which the institution provides community development services; and the institution’s responsiveness through such activities to community development lending, investment, and service needs.<sup>27</sup>

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial, ethnic, or gender groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution’s credit decisions may not be available from public HMDA data.<sup>28</sup> Consequently, the Board considers additional information not available to the public that may be needed from the institution and evaluates disparities in the context of the additional information obtained regarding the lending and compliance record of an institution.

*CRA Performance of ChoiceOne Bank*

ChoiceOne Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the Chicago Reserve Bank, as of October 21, 2024 (“ChoiceOne Bank Evaluation”).<sup>29</sup> The bank received a “High

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<sup>27</sup> See 12 CFR 228.26(c) (2023).

<sup>28</sup> Importantly, credit scores are not available in the public HMDA data. Accordingly, when conducting fair lending examinations, examiners analyze additional information not available to the public before reaching a determination regarding an institution’s compliance with fair lending laws.

<sup>29</sup> The ChoiceOne Bank Evaluation was conducted using Interagency Large Institution CRA Examination Procedures. Examiners reviewed HMDA-reportable and CRA-reportable loans from January 1, 2022, through December 31, 2023. Examiners also

Satisfactory” rating for both the Lending Test and Service Test, and a “Low Satisfactory” rating for the Investment Test.<sup>30</sup>

With respect to the Lending Test, examiners found that ChoiceOne Bank’s lending levels reflected good responsiveness to credit needs in its combined AA. Examiners also found that a high percentage of loans were made in the bank’s combined AA and that the geographic distribution of loans reflected good penetration throughout the AAs. Examiners stated that the distribution of loans reflected, given the product lines offered, good penetration among borrowers of different income levels and businesses and farms of different sizes. Examiners also noted that ChoiceOne Bank made an adequate level of community development loans and exhibited a good record of serving the credit needs of low-income individuals and areas, as well as small businesses and farms. Examiners observed that ChoiceOne Bank made use of innovative and flexible lending practices in serving AA credit needs.

With respect to the Investment Test, examiners found that ChoiceOne Bank made an adequate level of qualified community development investments and grants, particularly those not routinely provided by private investors, rarely in a leadership position. Examiners found that the bank made occasional use of innovative and/or complex investments to support community development initiatives. Examiners also

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reviewed community development loans and services from August 17, 2021, through October 21, 2024.

<sup>30</sup> The ChoiceOne Bank Evaluation involved a full-scope review of the bank’s activities in its Grand Rapids-Kentwood, MI Metropolitan Statistical Area (“MSA”) and Warren-Troy-Farmington Hills, MI Metropolitan Division (“MD”) AAs. Examiners noted that the Grand Rapids-Kentwood, MI MSA AA was given the greatest weight among the full-scope reviews in the ChoiceOne Bank Evaluation because of ChoiceOne Bank’s greater presence in the area. The ChoiceOne Bank Evaluation also conducted a limited-scope review of its Muskegon, MI MSA and Non-Metropolitan Michigan-Newaygo County, MI AAs.

found that ChoiceOne Bank exhibited adequate responsiveness to credit and community development needs.

With respect to the Service Test, examiners determined that ChoiceOne Bank's delivery systems were readily accessible to the bank's geographies and individuals of different income levels in its AAs. Examiners found that the bank's record of opening and closing branches had not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and/or LMI individuals. Examiners also noted that services did not vary in a way that inconvenienced the bank's AAs, particularly LMI geographies and/or LMI individuals. Examiners found that the bank provided an adequate level of community development services.

*CRA Performance of The State Bank*

The State Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of November 28, 2022 ("The State Bank Evaluation").<sup>31</sup> The bank received "Satisfactory" ratings for the Lending and Community Development Tests.<sup>32</sup>

With respect to the Lending Test, examiners found that The State Bank's loan-to-deposit ratio was reasonable, given the institution's size, financial condition, and AA credit needs. Examiners also found that a majority of the institution's loans were in the bank's AAs and that the geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. Examiners noted that The State Bank's distribution of borrowers reflected, given the demographics of the assessment areas,

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<sup>31</sup> The State Bank Evaluation was conducted using Interagency Intermediate Small Institution CRA Examination Procedures. Examiners reviewed HMDA-reportable home mortgage loans from 2020 through 2021, and small business loans the bank originated or renewed in 2021. Examiners also reviewed community development activities from November 2, 2020, through November 28, 2022.

<sup>32</sup> The State Bank Evaluation involved full-scope reviews of the bank's activities in its Flint, MI MSA; Warren-Troy-Farmington Hills, MI MD; Saginaw, MI MSA; and Lansing-East Lansing, MI MSA AAs. The State Bank Evaluation also involved a limited-scope review of its Jackson, MI MSA AA.

reasonable penetration of loans among individuals of different income levels and businesses of different sizes. Examiners also noted that The State Bank did not receive any CRA-related complaints since its last evaluation; therefore, this factor did not affect the Lending Test rating.

With respect to the Community Development Test, examiners found that The State Bank demonstrated adequate responsiveness to community development needs in the AAs through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity, historical performance, and the need and availability of such opportunities for community development in the bank's AAs.

*The State Bank's Efforts since The State Bank's Evaluation*

COFS represents that, since The State Bank Evaluation, The State Bank has also participated in several grant and loan programs and partnerships designed to meet the credit needs of LMI borrowers, including through home improvement grants, financial education sessions for homeowners, a partnership to help small businesses navigate loan applications, and a pitch competition for small businesses. Additionally, COFS represents that The State Bank employees donated more than 1,200 volunteer hours to their communities in 2023.

*Additional Supervisory Views*

In its review of the proposal, the Board consulted with and considered the views of the Chicago Reserve Bank as the primary federal supervisor of ChoiceOne Bank and of the FDIC as the primary federal supervisor of The State Bank. The Board also considered the results of the most recent consumer compliance examinations of ChoiceOne Bank and The State Bank, which included reviews of the banks' compliance management programs and compliance with consumer protection laws and regulations, including fair lending.

The Board has taken this information, as well as the CRA performance records of ChoiceOne Bank and The State Bank, into account in evaluating the proposal, including in considering whether COFS has the experience and resources to ensure that

the combined organization would help meet the credit needs of the communities to be served following consummation of the proposed transaction.

*Additional Convenience and Needs Considerations*

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. This includes, for example, the combined organization's business model and intended marketing and outreach and existing and anticipated product and service offerings in the communities to be served by the organization; any additional plans the combined organization has for meeting the needs of its communities following consummation; and any other information the Board deems relevant. COFS represents that, following consummation of the proposal, it intends to continue offering almost all products and services currently offered by each of ChoiceOne Bank and The State Bank through the resulting bank's combined branch network.

COFS represents that the proposed transaction will allow it to enhance the menu of products and services offered to LMI and majority-minority communities in The State Bank's markets, including through the introduction of COFS products and services that are designed to meet the credit needs of LMI borrowers, such as the Down Payment Savings Account Program, the Fresh Start Credit Builder Program, and the Home Start Loan Program. COFS states that it will also improve services to LMI and minority borrowers in The State Bank's communities by expanding its First Time Home Buyer education seminars to The State Bank's markets. In addition, COFS represents that it will provide additional products to small businesses, including minority-owned and woman-owned businesses, in The State Bank's markets by expanding its Express Loans program, which provides businesses with a revolving line of credit. COFS also states that it intends to retain The State Bank's programs designed to meet the credit needs of LMI borrowers in its communities and may expand some of these programs to ChoiceOne Bank's markets.

COFS also represents that it offers a number of other products designed to meet the needs of LMI persons in the communities it serves and that it is involved in

programs and organizations aimed at meeting the needs of its communities, including nonprofit housing organizations and community foundations offering financial literacy education in rural areas. COFS represents that it will offer these products in, and expand its involvement in such programs and organizations to, The State Bank's markets. COFS further represents that customers will benefit from COFS's enhanced capacity to invest in technology, products, and services, as well as from an expanded set of product offerings for current customers of The State Bank and a more extensive branch network.

#### *Branch Closures*

Physical branches remain important to many banking organizations' ability to meet the credit needs of the local communities in which they operate. When banking organizations combine, whether through acquisitions, mergers, or consolidations, the combination has the potential to increase or to reduce consumers' and small businesses' access to available credit and other banking services. Although the Board does not have the authority to prohibit a bank from closing a branch, the Board focuses on the impact of expected branch closures, consolidations, and relocations that occur in connection with a proposal on the convenience and needs of the communities to be served by the resulting institution. In particular, the Board considers the effect of any closures, consolidations, or relocations on LMI communities.

Federal banking law provides a specific mechanism for addressing branch closings, including requiring that a bank provide notice to the public and the appropriate federal supervisory agency before a branch is closed.<sup>33</sup> In addition, the federal banking supervisory agencies evaluate a bank's record of opening and closing branches, particularly branches located in LMI geographies or primarily serving LMI individuals, as part of the CRA examination process.<sup>34</sup>

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<sup>33</sup> See 12 U.S.C. § 1831r-1. 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.

<sup>34</sup> See, e.g., 12 CFR 228.24(d)(2) (2023).

COFS represents that ChoiceOne Bank plans to retain all of The State Bank's branches and that no ChoiceOne Bank branch would be closed, consolidated, or relocated in connection with the proposal.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the records of the relevant depository institutions under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, supervisory information, information provided by COFS, the public comment on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board determines that the convenience and needs factor is consistent with approval.

*Establishment of Branches*

ChoiceOne Bank has applied under section 9 of the FRA to establish branches at the current locations of The State Bank.<sup>35</sup> The Board has assessed the factors it is required to consider when reviewing an application under that section, including ChoiceOne 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.<sup>36</sup> For the reasons discussed in this order, the Board determines that those factors are consistent with approval.

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<sup>35</sup> See 12 U.S.C. § 321. Under section 9 of the FRA, state member banks may establish and operate branches on the same terms and conditions as are applicable to the establishment of branches by national banks. A state member bank may retain any branch following a merger that might be established as a new branch of the resulting bank under state law. See 12 U.S.C. § 36(b)(2) and (c). Upon consummation, ChoiceOne Bank's branches would be permissible under applicable state law. See Mi. Code § 487.13705(1).

<sup>36</sup> 12 CFR 208.6. Upon consummation of the proposed transaction, ChoiceOne Bank's investments in bank premises would remain within the legal requirements of section 208.21(a) of the Board's Regulation H, 12 CFR 208.21(a).

### ***Financial Stability Considerations***

Section 3 of the BHC Act requires the Board to consider “the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system.”<sup>37</sup> In addition, the Bank Merger Act requires the Board to consider “risk to the stability of the United States banking or financial system.”<sup>38</sup>

To assess the likely effect of a proposed transaction on the stability of the United States 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.<sup>39</sup> 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 opacity 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 on the broader economy.<sup>40</sup>

The Board’s experience has shown that proposals involving an acquisition of less than \$10 billion in total assets, or that result in a firm with less than \$100 billion in

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<sup>37</sup> 12 U.S.C. § 1842(c)(7).

<sup>38</sup> 12 U.S.C. § 1828(c)(5).

<sup>39</sup> Many of the metrics considered by the Board measure an institution’s activities relative to the United States financial system.

<sup>40</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (February 14, 2012).

total assets, generally are not likely to pose systemic risks. Accordingly, the Board presumes that a proposal does not raise material financial stability concerns if the assets involved fall below either of these size thresholds, absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.<sup>41</sup>

In this case, the Board has considered information relevant to risks to the stability of the United States banking or financial system. The proposal involves a target with less than \$10 billion in total assets and a pro forma organization with less than \$100 billion in total assets. Both the acquirer and the target are predominantly engaged in retail and commercial banking activities.<sup>42</sup> The pro forma organization would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. In addition, the organization would not be a critical services provider or so interconnected with other firms or the markets that it would pose a significant risk to the financial system in the event of financial distress.

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 United States banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

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<sup>41</sup> See People's United Financial, Inc., FRB Order No. 2017-08 at 25–26 (March 16, 2017). Notwithstanding this presumption, the Board has the authority to review the financial stability implications of any proposal. For example, an acquisition involving a global systemically important bank could warrant a financial stability review by the Board, regardless of the size of the acquisition.

<sup>42</sup> COFS and FFI offer a range of retail and commercial banking products and services. COFS has, and as a result of the proposal would continue to have, a small market share in these products and services on a nationwide basis.

## ***Conclusion***

Based on the foregoing and all the facts of record, the Board determines that the proposal should be, and hereby is, approved.<sup>43</sup> 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, Bank Merger Act, the FRA, and other applicable statutes. The Board's approval is specifically conditioned on compliance by COFS and ChoiceOne Bank with all the conditions imposed in this order and on any commitments made to the Board in connection with the proposal. The Board's approval also is conditioned on receipt by COFS and ChoiceOne Bank of all required regulatory approvals. 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.

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<sup>43</sup> The commenter requested that the Board hold public hearings on the proposal. Under section 3(b) of the BHC Act, the Board must hold a public hearing on a proposal if the appropriate supervisory authorities for the acquiring bank or the bank to be acquired make a timely written recommendation of disapproval of the proposal.

12 U.S.C. § 1842(b); see also 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board, in its discretion, may hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present their views. The Board has considered the commenter's request in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted a written comment that the Board has considered in acting on the proposal. The commenter's request does not identify disputed issues of fact that are material to the Board's decision and would be clarified by a public hearing. In addition, the request does not demonstrate why written comments do not present the commenter's views adequately or why a 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 is not required or warranted in this case. Accordingly, the request for public hearings on the proposal is denied.

The commenter also requested an extension of the comment period for the application. The commenter's request for additional time to comment did not identify circumstances that would warrant an extension of the public comment period for this proposal. Accordingly, the Board has determined not to extend the comment period.

The proposal may not be consummated before the 15th calendar day after the effective date of this order or later than three months thereafter, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Chicago, acting under delegated authority.

By order of the Board of Governors,<sup>44</sup> effective February 12, 2025.

*(Signed) Michele Taylor Fennell*

Michele Taylor Fennell  
Associate Secretary of the Board

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<sup>44</sup> Voting for this action: Chair Powell, Vice Chair Jefferson, Vice Chair for Supervision Barr, Governors Bowman, Waller, Cook, and Kugler.

## Appendix

### **Branches to Be Established**

1. 175 N. Leroy Street, Fenton, Michigan
2. 8412 Main Street, Birch Run, Michigan
3. 134 N. First Street, Brighton, Michigan
4. 12771 Brady Road, Chesaning, Michigan
5. 31000 Northwestern Highway, Suite 150, Farmington Hills, Michigan
6. 615 S. Saginaw Street, Flint, Michigan
7. 1401 E. Hill Road, Grand Blanc, Michigan
8. 7606 S. Saginaw Street, Grand Blanc, Michigan
9. 12005 Michigan Avenue, Grass Lake, Michigan
10. 4043 Grange Hall Road, Holly, Michigan
11. 107 Main Street, Linden, Michigan
12. 200 W. State Street, Montrose, Michigan
13. 201 N. Main Street, Munith, Michigan
14. 9380 Genesee Street, New Lothrop, Michigan
15. 218 S. Washington Avenue, Suite 100, Saginaw, Michigan
16. 15095 Silver Parkway, Fenton, Michigan
17. 207 S. Saginaw Street, St. Charles, Michigan
18. 5101 M-106, Stockbridge, Michigan
19. 7590 Gratiot Road, Saginaw, Michigan
20. 18005 Silver Parkway, Fenton, Michigan