FRB Order No. 2014-16
September 30, 2014

FEDERAL RESERVE SYSTEM

Chemical Financial Corporation
Midland, Michigan

Order Approving the Acquisition of a Savings Association, Merger of Depository Institutions, and Establishment of Branches

Chemical Financial Corporation ("Chemical"), Midland, Michigan, a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act[1] to acquire Northwestern Bancorp, Inc. ("Northwestern"), and its wholly owned subsidiary, Northwestern Bank, a state savings bank that has elected to be treated as a savings association for purposes of section 10(*l*) of the Home Owners' Loan Act,[2] both of Traverse City, Michigan.

In addition, Chemical's subsidiary state member bank, Chemical Bank, also of Midland, has requested the Board's approval to merge with Northwestern Bank pursuant to section 18(c) of the Federal Deposit Insurance Act ("Bank Merger Act"), with Chemical Bank as the surviving entity.[3] Chemical Bank also has applied under section 9 of the Federal Reserve Act ("FRA")[4] to establish and operate 25 branches at the locations of Northwestern Bank's main office and branches.

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[1] 12 U.S.C. §§ 1843(c)(8) and (j).

[2] 12 U.S.C. §§ 1467a(*l*).

[3] 12 U.S.C. § 1828(c).

[4] 12 U.S.C. § 321. These locations are listed in the appendix.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (79 Federal Register 23977 (Apr. 29, 2014)) and in accordance with the Bank Merger Act and the Board's Rules of Procedure.[5] As required by the Bank Merger Act, a report on the competitive effects of the merger was requested from the United States Attorney General. The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in the BHC Act, the Bank Merger Act, and the FRA.

Chemical, with total consolidated assets of approximately $6.2 billion, is the 154th largest depository organization in the United States, controlling deposits of approximately $5.1 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.[6] Chemical Bank operates branches only in Michigan and is the ninth largest insured depository institution in the state, with its deposits representing 2.9 percent of the total amount of deposits in insured depository institutions in Michigan.[7]

Northwestern, with total consolidated assets of approximately $855 million, controls deposits of approximately $758 million. Northwestern Bank operates branches only in Michigan and is the 25th largest insured depository institution in the state, with its deposits representing 0.5 percent of the total amount of deposits in insured depository institutions in Michigan.

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[5] 12 CFR 262.3(b).

[6] Nationwide deposit ranking data are as of December 31, 2013. Asset data are as of June 30, 2014. In this context, insured depository institutions include insured commercial banks, savings banks, savings associations, and non-deposit trust companies.

[7] State market share and ranking data are as of June 30, 2013.

On consummation of the proposal, Chemical would become the eighth largest depository organization in Michigan, controlling deposits of approximately $5.9 billion, representing 3.3 percent of deposits in insured depository institutions in Michigan.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.[8] The Board requires that savings associations acquired by bank holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act.[9] Chemical has committed that all the activities of Northwestern and its nonbanking subsidiaries will conform to those permissible under section 4 of the BHC Act and Regulation Y or be divested.[10]

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[8] 12 CFR 225.28(b)(4)(ii). Northwestern Bank meets the definition of "savings association" under the BHC Act. 12 U.S.C. § 1841(j)(3).

[9] 12 CFR 225.28(b)(4)(ii).

[10] The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 4 of the BHC Act to provide that, in general, the Board may not approve an application by a bank holding company to acquire an insured depository institution if the home state of the target insured depository institution is a state other than the home state of the bank holding company and the applicant controls, or would control, more than 10 percent of the total amount of deposits of insured depository institutions in the United States. Dodd-Frank Act § 623(b), codified at 12 U.S.C. § 1843(i)(8). For purposes of the BHC Act, the home state of both Chemical and Northwestern Bank is Michigan and, therefore, section 4(i)(8) of the BHC Act does not apply to this transaction. Also, as noted, consummation of the proposal would result in Chemical controlling less than 1 percent of the deposits of U.S. insured depository institutions.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving an application if the proposal would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking.[11] The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of communities to be served.[12] In addition, the Board must consider the competitive effects of a proposal to acquire a savings association under the public benefits factor of section 4(j) of the BHC Act.[13]

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[11] 12 U.S.C. § 1828(c)(5).

[12] 12 U.S.C. § 1828(c)(5)(B). In addition to assessing the competitive effects of the proposal, in every case under the Bank Merger Act, the Board must take into consideration the financial and managerial resources and future prospects of the existing and proposed institution, the convenience and needs of the community to be served, records of compliance with anti-money-laundering laws, and the risk to the stability of the United States banking or financial system. Id. at § 1828(c)(5).

[13] 12 U.S.C. § 1843(j)(2)(A). Section 4(j)(2)(A) of the BHC Act requires the Board to consider whether the proposed acquisition of Northwestern and its nonbanking subsidiaries "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system." Id. As part of its evaluation of these factors, the Board reviews the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets, the risk to the stability of the United States banking or financial system, records of compliance with anti-money-laundering laws, and the public benefits of the proposal. See 12 CFR 225.26; see, e.g., Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012) ("Capital One Order"); Bank of America Corporation/Countrywide, 94 Federal Reserve Bulletin C81 (2008); Wachovia Corporation, 92 Federal Reserve Bulletin C138 (2006);

Chemical Bank and Northwestern Bank compete directly in the Michigan banking markets of Roscommon, Cadillac, and Gaylord.[14] The Board has reviewed the competitive effects of the proposal in those 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 the total deposits in insured depository institutions in the markets ("market deposits") that Chemical Bank would control,[15] the concentration levels of market deposits and the increase in these levels as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Bank Merger Competitive Review

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BancOne Corporation, 83 Federal Reserve Bulletin 602 (1997). In acting on a notice to acquire a savings association, the Board reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").

[14] The Roscommon banking market is defined as Crawford County, Oscoda County, and Roscommon County, all of Michigan. The Cadillac banking market is defined as Missaukee County, Wexford County, and the northern half of Osceola County, including Burdell, Sherman, Highland, Marion, Le Roy, Rose Lake, Hartwick, and Middle Branch Townships, all of Michigan. The Gaylord banking market is defined as Otsego County and Montmorency County, excluding Hillman and Rust Townships, all of Michigan.

[15] Deposit and market share data are based on data reported by insured depository institutions in the summary of deposits data as of June 30, 2013, and are based on calculations in which the deposits of thrift institutions are included. The Board has previously 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 53 (1991).

guidelines ("DOJ Bank Merger Guidelines"),[16] and other characteristics of the markets.

The structural effects that consummation of the proposal would have in the Roscommon, Cadillac, and Gaylord banking markets warrant a detailed review because the concentration levels on consummation would exceed the threshold levels in the DOJ Bank Merger Guidelines. Based on initial competitive screening data, the increases in the markets' HHIs would be, respectively, 232, 230, and 473 to levels of 2464, 2613, and 2407.

On review, it appears that two types of adjustments to the initial competitive screening data are warranted. First, the Board has evaluated the competitive influence of two thrift institutions (including Northwestern Bank) operating in the Roscommon, Cadillac, and Gaylord banking markets.[17] Each

[16] Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice ("DOJ") has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission have issued revised Horizontal Merger Guidelines, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

[17] The standard treatment of thrifts in the competitive analysis is to give their deposits 50 percent weighting to reflect their limited lending to small businesses relative to banks' lending levels. However, the Board previously has indicated that it may consider the competitiveness of a thrift institution at a level greater than 50 percent of its deposits when appropriate if competition from the institution closely approximates competition from a commercial bank. See, e.g., Banknorth Group, Inc., 75 Federal Reserve Bulletin 703 (1989). Where, as here, the facts and circumstances of a banking market indicate that a particular thrift serves as a significant source of commercial loans and provides a broad range of consumer, mortgage, and other banking products, the Board has concluded that competition

institution's commercial and industrial loan portfolios are similar to those of commercial banks in the market, as measured in terms of the ratios of those types of loans to total loans and assets.[18] Accordingly, the Board has concluded that deposits controlled by these institutions should be weighted at 100 percent in the market-share calculations.

Second, five community credit unions exert a competitive influence in the Roscommon, Cadillac, and Gaylord banking markets. Each institution offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the relevant banking market.[19] Accordingly, the Board finds that these circumstances warrant including the deposits of these credit unions at a 50 percent weight in estimating

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from such a thrift closely approximates competition from a commercial bank and that deposits controlled by the institution should be weighted at 100 percent in market-share calculations. See, e.g., River Valley Bancorp, FRB Order No. 2012-10 (October 17, 2012); Regions Financial Corporation, 93 Federal Reserve Bulletin C16 (2007); and Banknorth Group, Inc., supra.

[18] These thrift institutions each have a ratio of commercial and industrial loans to assets of more than 5 percent, which is comparable to, or greater than, the ratio for some commercial banks in the market and greater than the ratio for some thrift institutions that the Board has previously found to be full competitors of commercial banks.

[19] The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., Mitsubishi UFJ Financial Group, Inc., FRB Order No. 2012-12 (November 14, 2012); Old National Bancorp, FRB Order No. 2012-9 (August 30, 2012); United Bankshares, Inc. (order dated June 20, 2011), 97 Federal Reserve Bulletin 19 (2nd Quar. 2011); The PNC Financial Services Group, Inc., 94 Federal Reserve Bulletin C38 (2008); The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Regions Financial Corporation, supra; Passumpsic Bancorp, 92 Federal Reserve Bulletin C175 (2006); Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

market influence. This weighting takes account of the limited lending done by these credit unions to small businesses relative to banks' lending levels.

These two types of adjustments suggest that the resulting market concentration of the proposed transaction in all these markets is less significant than would appear from the measurements focused on commercial bank competitors. In particular, with these two adjustments to reflect competition by other insured depository institutions in the market, the market concentration levels in the Roscommon, Cadillac, and Gaylord banking markets as measured by the HHI would increase by 261, 329, and 403 to levels of 1909, 2338, and 1914, respectively, and the market shares of Chemical resulting from the transaction would increase in these markets from 20.4, 21.4, and 13.6 percent to 26.8, 29.1, and 28.4 percent, respectively.

The Board also has considered whether other factors mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Roscommon, Cadillac, and Gaylord banking markets. 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.[20] In each market, the record indicates that the proposal is not likely to have a significantly adverse impact on competition.

<u>Roscommon Banking Market</u>. In the Roscommon banking market, the HHI effects of the transaction would exceed the DOJ Guidelines by a modest amount.[21] Chemical would remain the second largest competitor with a

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[20] <u>See</u> <u>NationsBank Corp.</u>, 84 Federal Reserve Bulletin 129 (1998).

[21] An additional assessment of the transaction, based on competitors' shares of the total number of branches in the market, also supports the view that the structural effects of the transaction would not substantially lessen competition. Branches are

26.8 percent deposit market share. The Roscommon banking market exhibits a balanced market structure, with eight other competitively active insured depository institutions remaining, three of which would continue to each hold greater than 9 percent of deposit market share, including the market's largest participant with 28.7 percent of market deposits. The presence of viable competitors suggests that Chemical would have limited ability to unilaterally offer less attractive terms to consumers.

Cadillac Banking Market. In the Cadillac banking market, Chemical would remain the second largest competitor with a 29.1 percent deposit market share. However, eight other competitively active insured depository institutions would remain, three of which would continue to each hold greater than 9 percent of deposit market share. The Cadillac banking market has experienced a substantial decrease in market concentration in recent years, with the HHI declining by 572 points over the last five years. In addition, recent entry and expansionary activity suggests that the market is attractive to potential competitors. One bank entered the market de novoin 2012, and an existing competitor opened a new branch in 2011.

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one way banks attract customers and are able to provide services to customers throughout the market (see, for example, Robert M. Adams, Kenneth P. Brevoort, and Elizabeth K. Kiser (2007), "Who Competes with Whom? The Case of Depository Institutions," *Journal of Industrial Economics*, vol. 55, no. 1, pp. 141-167; Astrid Dick (2008), "Demand Estimation and Consumer Welfare in the Banking Industry," *Journal of Banking and Finance*, vol. 32, no. 8, pp. 1661-1676; and Katherine Ho and Joy Ishii (2011), "Location and Competition in Retail Banking," *International Journal of Industrial Organization*, vol. 29, no. 5, pp. 537-546.). The change in the pro forma branch HHI, defined as the sum of the squared branch share for each institution in the market (where the branch share is defined as an institution's number of branches in the market divided by the total number of branches in the market), in the Roscommon market would be 200 points to a level of 1538, assuming a 50 percent weight for credit union branches.

Gaylord Banking Market. In the Gaylord banking market, Chemical would become the largest competitor with a 28.4 percent deposit market share. However, seven other competitively active insured depository institutions would remain, four of which would continue to each hold greater than 11 percent of deposit market share. The Gaylord banking market has experienced a substantial decrease in market concentration in recent years, with the HHI declining by 284 points over the last five years. In addition, recent entry and expansionary activity suggests that the market may be attractive to potential competitors. One bank entered the market de novo in 2012, and a credit union competitor currently has a new branch under construction to be opened in 2014.

Other Factors and Conclusion Regarding Competitive Factors

The DOJ conducted a review of the potential competitive effects of the merger and has advised the Board that consummation would not be likely to have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the Roscommon, Cadillac, and Gaylord banking markets, or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Factors

In reviewing this proposal under section 4 of the BHC Act, the Bank Merger Act, and the FRA, the Board has considered the financial and managerial resources and future prospects of the institutions involved. In its evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the pro forma organization, including its capital position, asset quality, liquidity, and earnings prospects, and the impact of the proposed funding of the transaction. 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. The Board also considers the ability of the organization to absorb the costs of the proposal and the proposed integration of the operations of the institutions. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

Chemical and Chemical Bank are well capitalized and would remain so on consummation of the proposal. The proposed transaction is structured as a cash purchase of shares, and the total consideration for the transaction would be approximately $120 million. Chemical expects to fund the transaction with its investments and cash-equivalents on hand. The asset quality, earnings, and liquidity of Chemical are consistent with approval, and Chemical appears to have adequate resources to absorb the costs of the proposal and to complete the integration of Chemical Bank's and Northwestern Bank's operations. Future prospects are considered consistent with approval. Based on its review of the record, the Board finds that Chemical has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved and has reviewed the examination records of Chemical and Chemical Bank, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its and other relevant financial supervisory agencies' supervisory experiences with the organizations and the organizations' records of compliance with applicable banking and anti-money-laundering laws. The Board also has considered Chemical's plans for implementing the proposal. Chemical and Chemical Bank are considered to be well managed, and their boards of directors and senior management have significant banking experience. Chemical would operate the acquired branches of Northwestern Bank under Chemical's existing policies and procedures, which are considered to be satisfactory. In addition, Chemical's management has the experience and resources that should allow the combined organization to operate in a safe and sound manner.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved, as well as the records of effectiveness of Chemical and Chemical Bank in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board must consider the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the CRA.[22] As noted, the Board also must review the records of performance under the CRA of the relevant insured depository institutions when acting on a notice under section 4 of the BHC Act to acquire a savings association. 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

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[22] 12 U.S.C. § 2901 et seq.

with their safe and sound operation,[23] 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.[24]

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

A. Record of Performance under the CRA

As provided in the CRA, the Board evaluates an institution's performance based on the CRA evaluation completed by that institution's primary regulator.[25] The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI neighborhoods.[26] An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.

CRA Performance of Chemical Bank

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

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[23] 12 U.S.C. § 2901(b).

[24] 12 U.S.C. § 2903.

[25] See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (March 11, 2010).

[26] 12 U.S.C. § 2906.

("Reserve Bank") in August 2013 ("Chemical Bank Evaluation").[27] Chemical Bank received "outstanding" ratings for the Lending Test, the Investment Test, and the Service Test.[28]

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

In evaluating the Investment Test, Reserve Bank examiners found that Chemical Bank had provided an excellent level of qualified investments, donations, and grants. The examiners noted that the bank demonstrated excellent

[27] The Chemical Bank Evaluation reviewed home mortgage and small business lending data from January 1, 2011, through December 31, 2012. The evaluation period for community development loans, investments, and services was July 1, 2011, through August 26, 2013.

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

responsiveness to credit and community development needs. The bank also made extensive use of innovative and complex investments to support community development initiatives. Examiners noted that Chemical Bank's CRA-qualified investments increased by approximately 32.9 percent in number and 50.5 percent in dollars from the prior evaluation.

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

CRA Performance of Northwestern Bank

Northwestern Bank was assigned an overall "satisfactory" rating at its most recent CRA performance evaluation by the Federal Deposit Insurance Corporation in April 2014 ("Northwestern Bank Evaluation"), with ratings of "satisfactory" for the Lending Test and the Community Development Test.[29]

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[29] The Northwestern Bank Evaluation was conducted using the Intermediate Small Bank CRA Examination Procedures. The Lending Test included a review of home mortgage loans and small business loans for the period of January 1, 2012, to December 31, 2013. The Community Development Test was evaluated from a review of community development loans, investments, and service activities since Northwestern Bank's last CRA evaluation on April 1, 2011. The Northwestern Bank Evaluation reflected the activities of both Northwestern Bank and its affiliated mortgage company, Northwestern Mortgage Company. Northwestern Bank is not a reporter as defined under the Home Mortgage Disclosure Act because it does not have any offices within a MSA.

In evaluating the Lending Test, examiners noted that the bank originated a substantial majority of loans within its assessment area.[30] Examiners also found that the bank's geographic dispersion of loans reflected reasonable dispersion throughout its assessment area, and the bank's distribution of loans to borrowers reflected reasonable penetration to businesses of different sizes and among individuals of different income levels. Further, examiners concluded that Northwestern Bank's loan-to-deposit ratio was reasonable given its size, financial condition, and assessment area credit needs.

In evaluating the Community Development Test, examiners noted that Northwestern Bank's level of community development performance demonstrated adequate responsiveness to the community development needs of its assessment area through qualified loans, investments, and services, considering its capacity and the need for such activities in its assessment area. Examiners also noted that Northwestern Bank did not receive any complaints about its performance in meeting assessment area credit needs.

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

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

As discussed more fully below, the proposed transaction would provide Northwestern Bank's customers with a larger network of branches and ATMs for customers to conveniently access, a broader array of banking products

[30] Northwestern Bank has one designated assessment area, comprised of 14 counties within Michigan, including Emmet, Charlevoix, Otsego, Antrim, Crawford, Roscommon, Kalkaska, Missaukee, Grand Traverse, Leelanau, Benzie, Wexford, Manistee, and Mason, all of which are within nonmetropolitan areas.

and services, and higher legal lending limits. Chemical further represents that the combined organization will offer a wider variety of products and services that are tailored to meet the needs of LMI geographies and individuals. Although Chemical plans to close one Northwestern Bank branch following the merger and to consolidate three others with nearby Chemical Bank branches, Northwestern Bank customers nevertheless would benefit from having a larger network of banking offices throughout Michigan.

C. Conclusion on Convenience and Needs Considerations

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

Financial Stability

The Dodd-Frank Act added "risk to the stability of the United States banking or financial system" to the list of possible adverse effects that the Board must weigh against any expected public benefits in considering proposals under section 4(j) of the BHC Act, and as a factor that must be considered under section 18(c) of the Bank Merger Act.[31]

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[31] Dodd-Frank Act, § 604(e) and (f), codified at 12 U.S.C. §§ 1843(j)(2)(A) and 1828(c)(5). Other provisions of the Dodd-Frank Act impose a similar requirement that the Board consider or weigh the risks to financial stability posed by a merger,

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic "footprint" of the merged 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.[32] In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.[33]

The Board has considered information relevant to risks to the stability of the United States banking or financial system. After consummation, Chemical would have approximately $7.0 billion in consolidated assets and would be the 134th largest financial institution in the United States as measured by assets. The Board generally presumes that a merger that involves an acquisition of less than $2 billion in assets, or results in a firm with less than $25 billion in total consolidated assets, will not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant

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acquisition, or expansion proposal by a financial institution. See sections 163, 173, and 604(d) of the Dodd-Frank Act.

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

[33] For further discussion of the financial stability standard, see Capital One Order.

increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction. Chemical engages in and would continue to engage in traditional commercial banking activities. The resulting organization would experience small increases in the metrics that the Board considers to measure an institution's complexity and interconnectedness, with the resulting firm generally ranking outside of the top 100 U.S. financial institutions in terms of those metrics. For example, Chemical's intrafinancial system assets and liabilities would comprise a negligible share of the system-wide total, both before and after the transaction, and the resulting organization would control less than 0.1 percent of the assets of all U.S. depository institutions. The resulting organization would not engage in complex activities, nor would it provide critical services in such volume that disruption in those services would have a significant impact on the macroeconomic condition of the United States by disrupting trade or resulting in increased resolution difficulties.

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

Public Benefits of the Proposal

As noted above, in connection with a notice under section 4(c)(8) of the BHC Act, section 4(j) of the Act requires the Board to "consider whether performance of the activity by a bank holding company or a subsidiary of such company can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system."[34]

The Board has considered that the proposal would allow Chemical Bank to expand the range of financial products and services available to existing customers of Northwestern Bank. Chemical represents that the merger would enhance the ability of the combined entities to employ capital where it may be best utilized, to continue and expand the services presently provided to their respective customers, and to respond to changing market conditions and community needs. Chemical represents that the proposed transaction would provide Northwestern Bank's customers with a broader array of banking products and services offered by Chemical Bank, including portfolio mortgage loans, consumer loans, commercial and industrial loans, and treasury management products. Chemical also states that the combined organization would have higher legal lending limits than either Chemical Bank or Northwestern Bank. In addition, customers of both institutions would benefit from a more expansive branch and ATM network. The Board has determined that the conduct of the proposed nonbanking activities within the framework of Regulation Y, Board precedent, and this order are not likely to result in significant adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system.

On the basis of the entire record, including the commitments made in this case and conditions noted in this order, and for the reasons discussed above, the Board believes that the balance of benefits and potential adverse effects related to competition, financial and managerial resources, convenience and needs, financial stability, and other factors weigh in favor of approval of this proposal.

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[34] 12 U.S.C. § 1843(j)(2).

Accordingly, the Board has determined that the balance of the public benefits under the standard of section 4(j)(2) of the BHC Act is consistent with approval.

Establishment of Branches

As noted, Chemical Bank has applied under section 9 of the FRA to establish branches at the current locations of Northwestern Bank, and the Board has considered the factors it is required to consider when reviewing an application under that section.[35] Specifically, the Board has considered Chemical Bank's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises. For the reasons discussed in this order, the Board finds those factors to be consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the notice and applications should be, and hereby are, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act, the Bank Merger Act, and the FRA. Approval of the notice and applications is specifically conditioned on compliance by Chemical with all the commitments made in connection with this proposal and the conditions set forth in this order. The commitments and conditions are deemed to be conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

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[35] 12 U.S.C. § 322; 12 CFR 208.6.

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 by the Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors,[36] effective September 30, 2014.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

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

Appendix

Michigan Branches to Be Acquired

Acme
1. 5300 US Highway 31 North

Cadillac
2. 1573 North Mitchell Street
3. 150 Granite Street

Charlevoix
4. 1425 Bridge Street

Elk Rapids
5. 97 River Street

Gaylord
6. 711 West Main Street
7. 2091 South Ostego Avenue

Houghton Lake
8. 5213 West Houghton Lake Drive

Interlochen
9. 2112 M-137

Kalkaska
10. 112 South Cedar Street

Kingsley
11. 111 North Brownson Avenue

Leland
12. 115 North Main Street

Ludington
13. 101 East Court Street
14. 3965 West US Highway 10

Manistee
15. 325 First Street

Petoskey
16. 300 Howard Street
17. 919 Spring Street

Suttons Bay
18. 105 West Fourth Street
19. 212 North Saint Joseph Street

Traverse City
20. 625 South Garfield Traverse City
21. 107 East Front Street
22. 613 West Fourteenth St.
23. 4205 US Highway 31 South
24. 203 Union Street
25. 13936 South West Bay Shore Drive