BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 2005

Robin J. Maxwell, Esq.
Goodwin Procter LLP
599 Lexington Avenue
New York, New York 10022

Dear Ms. Maxwell:

This is in response to the request by The Royal Bank of Scotland Group plc ("RBSG"), Edinburgh, Scotland, on behalf of its subsidiary bank, Charter One Bank, National Association ("Bank"), Cleveland, Ohio, for an exemption from section 23A of the Federal Reserve Act and the Board's Regulation W to permit Bank to acquire certain assets and assume certain liabilities from RBSG as part of a corporate reorganization.[1] RBSG plans to reorganize its asset-finance business in the United States by transferring to Bank all the outstanding shares of RBS Asset Finance, Inc. ("RAFI"), New York, New York, a U.S. nonbank subsidiary of RBSG and a section 23A affiliate of Bank.

Section 23A and Regulation W limit the amount of "covered transactions," which include loans and purchases of assets, between a bank (and its subsidiaries) and any single affiliate to 10 percent of the bank's capital stock and surplus. Covered transactions include a bank's loans to an affiliate, investments in securities issued by an affiliate, purchases of assets from an affiliate, and certain other transactions. In addition, the statute and rule prohibit a bank from purchasing low-quality assets from its affiliate and require that all the bank's covered transactions be on terms and conditions that are consistent with safe and sound banking practices.[2]

Regulation W provides that a bank's acquisition of a security issued by a company that was an affiliate of the bank before the acquisition is treated as a purchase of assets by the bank from an affiliate if (i) the company becomes an operating subsidiary of the member bank as a result of the transaction; and (ii) the company has liabilities at the time of the acquisition.[3] RAFI is an affiliate of Bank and will become an operating

[1] 12 U.S.C. § 371c and 12 CFR part 223.

[2] 12 U.S.C. § 371c(a)(3) and (4).

[3] 12 CFR 223.31(a).

subsidiary of Bank in the proposed reorganization, and RAFI has liabilities. Accordingly, the acquisition of RAFI by Bank would be treated as an asset purchase subject to the quantitative and qualitative limitations of section 23A and Regulation W.[4] For purposes of Regulation W, the value of the covered transaction would be approximately [ ]—RAFI's total liabilities at the time of the reorganization.[5]

To accomplish the reorganization, RBSG has requested an exemption from section 23A and Regulation W to permit Bank to acquire all the shares of RAFI and certain other assets. Section 23A specifically authorizes the Board to exempt from the requirements of the statute, at its discretion, transactions or relationships if the Board finds such exemptions to be in the public interest and consistent with the purposes of the statute.[6] The Board has approved exemptions in similar proposals for one-time transfers that were part of corporate reorganizations and that were structured to ensure the quality of the transferred assets.[7] As in previous cases reviewed by the Board, the proposed transaction in this case is the result of a one-time corporate reorganization. According to RBSG, this exemption is expected to enable RBSG to consolidate and centralize its U.S. asset-finance business so that it can be managed in a more efficient and streamlined manner, thereby helping RBSG to contain or lower its business costs.

A majority of Bank's directors have reviewed and approved the proposed restructuring. Moreover, RBSG has indicated that it will remove any low-quality assets held by RAFI before consummation of the reorganization. In addition, RBSG has committed, as part of the exemption request:

1. to make quarterly cash contributions to Bank for a two-year period following the reorganization, equal to the book value plus any write-downs taken by Bank of any assets transferred with the transfer of RAFI that have become low-quality assets during the quarter; or

2. to repurchase, on a quarterly basis for a two-year period following the reorganization, at a price equal to the book value plus any write-downs taken by Bank, any assets transferred with the transfer of RAFI that have become low-quality assets during the quarter.

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[4] 12 CFR 223.22(a)(1).

[5] 12 CFR 223.31(a).

[6] 12 U.S.C. § 371c(f)(2).

[7] See e.g., Board letters dated May 14, 2004, to James E. Scott, Esq. (Citigroup Inc.) and dated January 8, 2001, to Bruce Moland, Esq. (Wells Fargo & Company).

In light of these considerations and all the facts presented, the transaction appears to be consistent with safe and sound banking practices and on terms that would ensure the quality of the assets transferred. Accordingly, the transaction appears to be consistent with the purposes of section 23A, and the Director of the Division of Banking Supervision and Regulation, pursuant to authority delegated by the Board, and with the concurrence of the General Counsel, hereby grants the requested exemption.

This determination is specifically conditioned on compliance by RBSG and Bank with all the commitments and representations made in connection with the request. These commitments and representations are deemed to be conditions imposed in writing in connection with this action and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific circumstances surrounding the proposed transaction and may be revoked in the event of any material change in those circumstances or any failure by RBSG or its subsidiaries to observe their commitments. Granting this exemption does not represent a determination on the permissibility of any other transactions that are subject to section 23A or concerning any other affiliate of Bank.

Very truly yours,

[signed] Robert deV. Frierson

Robert deV. Frierson
Deputy Secretary of the Board

cc: Federal Deposit Insurance Corporation
Federal Reserve Bank of Boston
Office of the Comptroller of the Currency