



Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

April 12, 1996

Mr. Robert E. Bostrom
Executive Vice President Legal and Regulatory and General Counsel
NatWest Bank National Association
10 Exchange Place
Jersey City, New Jersey 07302

Dear Mr. Bostrom:

This is in response to your four operating subsidiary notification letters to the Office of the Comptroller of the Currency ("OCC") dated March 14, 1996. NatWest Bank National Association (Charter No. 374) ("the Bank") proposes to acquire three subsidiaries from its holding company and to establish a fourth subsidiary to take over certain additional activities now conducted in an affiliate. The activities of the proposed subsidiaries and the reason for transferring them to the Bank are set out below. The activities proposed for the subsidiaries are all permissible for national banks. Accordingly, based on the descriptions, representations, and commitments in your letters, and subject to the conditions below, the subsidiaries are approved.

I. BACKGROUND

The Bank proposes to acquire three subsidiaries from its holding company: (1) NatWest Bank (Delaware) ("the Delaware Bank"); (2) NatWest Services, Inc. ("NatWest Services"); and (3) NatWest Pennsylvania Corporation ("NatWest Pennsylvania"). The Delaware Bank itself has two subsidiaries -- NatWest (Delaware) Consumer Services Inc. ("NCSI") and NatWest Insurance Agency Services, Inc. ("NatWest Insurance") -- that will become second-tier subsidiaries of the Bank. The Bank also proposes to establish a new subsidiary, Fleet (Delaware) Servicing Corp. ("Servicing Corp"), to take over certain loan servicing now conducted in the Delaware Bank. The activities of each proposed subsidiary are described below in the portion of the Discussion addressing each subsidiary.

The Bank filed these operating subsidiary notices in connection with a merger application filed with the OCC by Fleet Bank of New York, National Association ("Fleet-NY") and the Bank to permit Fleet-NY to merge into the Bank (the "Bank Merger") under the charter of the Bank and with the name "Fleet Bank, National Association" ("Fleet-Resulting"). The Bank Merger is pursuant to an Agreement and Plan of Merger between the Fleet Financial Group, Inc. and National Westminster Bank Plc. Fleet-NY is a wholly-owned indirect subsidiary of Fleet Financial Group. The Bank and the Delaware Bank are wholly-owned subsidiaries of National

Westminster Bancorp NJ, which is in turn a wholly-owned subsidiary (indirectly through two intermediate holding companies, National Westminster Bancorp, Inc. and NatWest Holdings, Inc.) of National Westminster Bank Plc, a foreign bank based in London, England.

Fleet Financial Group has agreed to acquire the Bank, the Delaware Bank, and certain other United States operations connected with the two banks from National Westminster Bank Plc. The other operations currently are conducted in the subsidiaries of National Westminster Bancorp NJ and National Westminster Bancorp, Inc., that are the subject of these operating subsidiary notices. The transfer of the subsidiaries will move these activities related to the Bank from the holding companies to the Bank. The transaction between Fleet Financial Group and National Westminster Bank Plc is structured solely as a Bank Merger between Fleet-NY and the Bank. Prior to the Bank Merger, the Delaware Bank and the other companies involved will become subsidiaries of the Bank through these operating subsidiary notices. After the Bank Merger, the subsidiaries involved in these notifications, as well as the other current subsidiaries of the Bank, will continue as subsidiaries of Fleet-Resulting.¹

II. DISCUSSION

A. The Delaware Bank and its Two Subsidiaries.

1. The Delaware Bank.

The Bank proposes to acquire the Delaware Bank, as a wholly-owned operating subsidiary, to engage in the business of a credit card bank as permitted by the Competitive Equality Banking Act of 1987 ("CEBA"). The Bank will acquire all of the shares of the Delaware Bank by way of a capital contribution from its holding company, National Westminster Bancorp NJ ("Bancorp NJ"), which currently owns all of the stock of the Delaware Bank. The Delaware Bank is located at 824 Market Street, Wilmington, Delaware.

The Delaware Bank is an insured, state nonmember bank, organized under Chapter 7 of Title 5 of the Delaware Code and subject to limitations on activities imposed by the Delaware Financial Center Development Act. It has a full Delaware bank charter but is currently only engaged in a nationwide consumer lending business including credit cards, consumer lines of credit, installment loans, student loans, and home equity loans. It also has made a limited number of commercial loans and investments in Delaware to satisfy its obligations under the Community Reinvestment Act. It has only one office in Delaware. This office is not operated in a manner and at a location that is likely to attract customers from the general public in Delaware. The office is not located at street level.

Prior to becoming an operating subsidiary of the Bank, the Delaware Bank will amend its articles of association to restrict its activities to the following CEBA permitted activities: engaging only in credit card operations; not accepting demand deposits or deposits that the

¹ After the Bank Merger, it is expected the names of the subsidiaries, just as the name of the Bank, will be changed to reflect the Fleet ownership. In this letter we use the current names.

depositor may withdraw by check or similar means for payment to third parties or others; not accepting any savings or time deposits of less than \$100,000; maintaining only one office that accepts deposits; and not engaging in the business of making commercial loans.

The Delaware Bank will continue to engage in such CEBA permitted activities subsequent to the Bank Merger. It will be funded, in part, from time and savings deposits in excess of \$100,000 and other third party sources not inconsistent with CEBA. Any funding provided by the Bank will be consistent with safe and sound banking practices as required by Section 23A of the Federal Reserve Act.

The Delaware Bank currently holds certain consumer loans, other than credit cards, and corporate credit card accounts which are impermissible for a CEBA credit card bank ("non-CEBA assets"). It will divest itself of these non-CEBA assets shortly prior to or simultaneous with it becoming an operating subsidiary of the Bank by transferring them to the Bank by means of a sale to the Bank at book value of all but low quality loans and by a dividend to Bancorp NJ and contribution by Bancorp NJ to the Bank of the low quality loans.²

The proposed acquisition of the Delaware Bank as an operating subsidiary to engage in the business of a CEBA credit card bank is legally permissible. The issuance of credit cards and the other activities permitted for a CEBA credit card bank are permissible for national banks under 12 U.S.C. § 24(7). Many national banks issue credit cards. The Bank's ownership of the Delaware Bank as an operating subsidiary also does not raise issues under either the federal Bank Holding Company Act or Delaware bank holding company law. A bank that restricts its activities to those permitted for CEBA credit card banks is not a "bank" for purposes of either the Bank Holding Company Act or Delaware law. See 12 U.S.C. § 1841(c)(2)(F); Del. Code Ann. tit. 5, § 842 (Michie 1995). The Delaware Bank will be so limited, and therefore it will not be a "bank" and the Bank will not be a "bank holding company" for purposes of both the Bank Holding Company Act and Delaware law.

The location of the Delaware Bank's office in Delaware, considered from the perspective of its permissibility for the Bank, is consistent with the McFadden Act, 12 U.S.C. § 36. First, the office is the office of separate state-chartered bank and conducts its deposit-taking and loan-making business for that bank, not for the Bank. Thus, arguably the office should not be attributed to the Bank for branching purposes under the McFadden Act. See OCC Letter No. 711 at page 7 (February 23, 1996) (applying similar analysis to lending by joint venture in which national bank participates). Second, even if the office and its activities were to be attributed to the Bank for McFadden Act purposes, it is permissible. The office's deposit-taking will be conducted only through the mail or wire services. Its loan-making will be conducted only by credit cards. The office is not located at street level, and it does not conduct business

² The Bank believes the transfer of non-CEBA assets between the related banks, structured in the manner proposed, as well as the contribution of the Delaware Bank, NatWest Services, and NatWest Pennsylvania from Bancorp NJ to the Bank, will be consistent with the provisions of 12 U.S.C. §§ 371c & 371c-1, to the extent applicable. In addition, in connection with these operating subsidiary notifications and the related Bank Merger, the OCC reviewed the transactions for safety and soundness considerations with respect to their impact on NatWest and Fleet-Resulting and determined there would be no supervisory objection to the transactions.

to attract customers from the general public in Delaware or to serve customers in person. A bank facility to which the public does not have access is not a branch for McFadden Act purposes, even if branch functions of 12 U.S.C. § 36(j) are performed there. See, e.g., OCC Letter No. 634 at pages 4-5, 8 (July 23, 1993); OCC Letter No. 636 at pages 3-4 (July 23, 1993). Thus, even if the office is viewed as an office of the Bank, it is not a branch and so does not violate the McFadden Act.

2. Two Subsidiaries of the Delaware Bank.

The Delaware Bank itself currently has two wholly-owned operating subsidiaries that will become second-tier subsidiaries of the Bank when the Delaware Bank becomes a subsidiary of the Bank. The first subsidiary is NatWest (Delaware) Consumer Services Inc. ("NCSI"). NCSI is a single purpose corporation organized to be a limited partner with several other financial institutions in USA Value Exchange, L.P., a limited partnership organized under Delaware law (the "Limited Partnership"). The Limited Partnership has one general partner, USA Value Exchange Corp. ("USA Corp") in which each bank participant, including the Delaware Bank through NCSI, has a less than 5% equity interest. The Limited Partnership is engaged in the business of analyzing purchase patterns of credit card customers of the participating banks in connection with "statement stuffer" marketing.

NCSI's participation in the Limited Partnership is a permissible activity for national banks. National banks may participate in limited partnerships and other joint enterprises as a means of conducting their business, subject to certain limitations which are met here. The Limited Partnership is engaged in a bank permissible activity, namely, analyzing customer information to determine potential needs and including brochures in statements about the availability of nonbanking products from vendors. See, e.g. OCC Letter No. 316 (December 4, 1984). The manner of NCSI's participation is consistent with OCC requirements. Under the terms of its limited partnership agreement, the Limited Partnership's activities are limited to those permissible for national banks, it is subject to OCC examination, and the liability of the limited partners is limited to their initial capital investment. See, e.g., Unpublished OCC Letter (January 13, 1988) (participation in mortgage servicing limited partnership). See also OCC Letter No. 346 (July 31, 1985) (similar requirements for national bank participation in general partnership; limitation on liability through operating subsidiary structure).

NCSI's ownership of an equity interest in USA Corp is also permissible. National banks may own stock in a company if the primary purpose is to conduct business through the joint corporate enterprise, not to be a passive investor. This principle is especially pertinent for multiparticipant, user-owned co-operative or membership entities such as USA Corp and the Limited Partnership. National banks have participated in such membership corporations since at least 1966. See Letter of Acting Comptroller William Camp (November 18, 1966) (ownership in non-profit corporation that acts as clearinghouse for credit card transactions of member banks). Accord Letter of Deputy Chief Counsel John Shockey (December 19, 1975) (ownership in Depository Trust Company of New York). See also OCC Letter No. 697 (November 15, 1995) (applying similar analysis to larger minority interests in joint ventures with fewer participants).

NCSI's equity ownership in USA Corp is consistent with these principles. The equity interest is held to facilitate NCSI's participation with other financial institutions in a bank permissible activity. Ownership of the USA Corp stock is limited to interested parties. There are restrictions on transferability of the shares. The stock ownership gives NCSI certain rights to participate in the affairs of the USA Corp. The ownership of the stock presents pass through benefits to customers of the participating institutions by providing them with information on the availability of products and services in which they might be interested. Currently, 34 other banking companies are participants in USA Corp and the Limited Partnership.

The second subsidiary is NatWest Insurance Agency Services, Inc. ("NatWest Insurance"). Currently, NatWest Insurance has licensed a number of insurance agents to sell insurance in the States of New York and New Jersey. Prior to the Delaware Bank becoming an operating subsidiary of the Bank, these licensed agents will terminate their relationship with NatWest Insurance and not conduct any business on its behalf. NatWest Insurance will seek to retain its license on an inactive basis with the consent of the Delaware Insurance Commissioner. While an operating subsidiary of the Bank, NatWest Insurance will conduct no business but merely will be retained as a corporate shell for name-saving purposes. NatWest Insurance will not engage in any insurance activities, or any other activity for which OCC prior approval is required, without first obtaining such approval. The Bank commits that it will notify and receive the prior approval of the OCC before NatWest Insurance is activated to conduct any insurance activity or any other activity for which OCC prior approval is required. Retention of NatWest Insurance under these conditions is permissible.

B. Servicing Corp.

The Bank proposes to establish a new operating subsidiary, Fleet (Delaware) Servicing Corp ("Servicing Corp"). Servicing Corp will be a Delaware corporation and will be located at 824 Market Street, Wilmington, Delaware, the same location as the Delaware Bank. Servicing Corp will provide the Bank and its affiliates with back-office services for consumer loan transactions, including the consumer loans that are non-CEBA assets of the Delaware Bank and that are being transferred to the Bank, as outlined above.

Back-office loan servicing is, of course, permissible for national banks and their subsidiaries. Moreover, Servicing Corp's office in Delaware is not a "branch" of the Bank for purposes of 12 U.S.C. § 36, both because the performance of administrative processing of loans is not a branch function under section 36(j) and because the public does not have access to the office. See OCC Letter No. 634 supra; OCC Letter No. 636 supra.

C. NatWest Services.

The Bank also proposes to acquire NatWest Services Inc., Scranton, Pennsylvania, ("NatWest Services") as an operating subsidiary to provide certain back-office services to the Bank and the Delaware Bank. The Bank will acquire all of the shares of NatWest Services by way of a capital contribution from its holding company, Bancorp NJ, which currently owns all of the shares of NatWest Services pursuant to Section 4(c)(1)(C) of the Bank Holding Company

Act. NatWest Services has one office which is located at One NatWest Circle, Glenmaura Corporate Center, Scranton, Pennsylvania.

NatWest Services currently provides a wide-range of back-office operational support services for the Bank and the Delaware Bank. The transfer of the subsidiary will simply bring these support functions under the Bank. The services include: back-office custodial and processing services for the Bank's commercial loans; electronic funds transfer and automated clearing house payments support; operational support for trade finance products; credit card support services; payroll and other human resources services for Bank employees; operating the Bank's customer response telephone and telephone sales services; monitoring and support for the Bank's automated teller, internal computer, and telephone systems; branch operations, items-in-transit, and checks and transactions processing support; and other back-office support services. Additional back-office services may be provided by NatWest Services in the future. Any such services will be consistent with those provided by back-office bank service providers. NatWest Services does not engage in any core branching functions (i.e., lending money, taking deposits, or cashing checks) and will not engage in such activities in the future. All of the activities conducted by NatWest Services are strictly back-office in nature, and the facility itself is not open to the public.

These activities are, of course, integral to the Bank's conduct of its banking businesses and are permissible for national banks and their subsidiaries. See, e.g., OCC Letter No. 493 (November 22, 1989); OCC Letter No. 137 (December 27, 1979). In addition, the facility in Scranton is not a "branch" of the Bank for purposes of 12 U.S.C. § 36 both because it does not engage in any branching functions under 12 U.S.C. § 36(j) and because it is not open to the public. See OCC Letter No. 634 supra; OCC Letter No. 636 supra.

D. NatWest Pennsylvania.

The Bank also proposes to acquire NatWest Pennsylvania Corporation ("NatWest Pennsylvania") as an operating subsidiary. NatWest Pennsylvania operates the Bank's loan production office ("LPO") in Bala Cynwyd, Pennsylvania. It is currently owned by National Westminster Bancorp ("Bancorp"). Bancorp will contribute all of the shares of NatWest Pennsylvania to its subsidiary, Bancorp NJ, which then will contribute the shares to the Bank.

The activities conducted by NatWest Pennsylvania are as follows: soliciting loan business, including interviewing, counseling and assisting borrowers and potential borrowers; negotiating loan terms; and preparing recommendations for approval or disapproval of loan proposals. NatWest Pennsylvania does not approve loans and no loan proceeds are disbursed at NatWest Pennsylvania's office. Accordingly, its activities fall within the safe harbor under which national banks may originate loans at nonbranch sites (such as LPOs) without those sites being considered branches. See 12 C.F.R. § 7.1004 (effective April 1, 1996) (formerly 12 C.F.R. § 7.7380). See also OCC Letter No. 634 supra at 9.

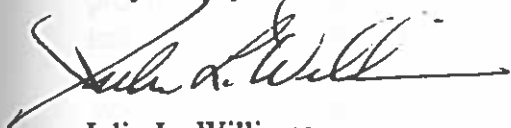
III. CONCLUSION

The activities of the proposed subsidiaries are all permissible for national banks and their operating subsidiaries. Accordingly, the Bank's proposed subsidiaries are approved. Their approval is based on the descriptions, representations, and commitments in your letter. In addition, approval to acquire the Delaware Bank and its two subsidiaries is subject to the following conditions:

1. As long as the Delaware Bank is owned by the Bank, the Bank shall assure that the Delaware Bank's activities are limited to those permitted for a CEBA credit card bank under 12 U.S.C. § 1841(c)(2)(F) and that the Delaware Bank maintains its status as an "insured depository institution" within the meaning of 12 U.S.C. § 1813(c)(2). The Bank shall notify the OCC and obtain prior OCC approval before the Delaware Bank commences activities which would affect its status as either a CEBA credit card bank or an insured bank.
2. As long as the Delaware Bank is owned by the Bank and the Delaware Bank owns NatWest Insurance, NatWest Insurance shall remain inactive, unless the Bank notifies the OCC and obtains prior OCC approval for NatWest Insurance to conduct any insurance activities or any other activity for which OCC approval is required.
3. At the earliest practicable time, the Bank shall notify the OCC of any action initiated or taken by the Federal Deposit Insurance Corporation that is directed toward termination of the Delaware Bank's status as an insured depository institution.

Please be advised that the conditions of this approval are deemed to be "conditions imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. § 1818(b)(1).

Very truly yours,



Julie L. Williams
Chief Counsel

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