FRB Order No. 2017-30
October 30, 2017

FEDERAL RESERVE SYSTEM

Southside Bancshares, Inc.
Tyler, Texas

Order Approving the Merger of Bank Holding Companies

Southside Bancshares, Inc. ("Southside"), Tyler, Texas, a financial holding company within the meaning of the Bank Holding Company Act of 1956 ("BHC Act"),[1] has requested the Board's approval under section 3 of the BHC Act[2] to merge with Diboll State Bancshares, Inc. ("Diboll"), and thereby indirectly acquire First Bank & Trust East Texas ("First Bank"), both of Diboll, Texas. Following the proposed acquisition, First Bank would be merged into Southside's subsidiary bank, Southside Bank, Tyler, Texas.[3]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (82 Federal Register 33496 (July 20, 2017)).[4] The time for submitting comments has expired.

Southside, with consolidated assets of approximately $5.6 billion, is the 192nd largest insured depository organization in the United States.[5] Southside controls approximately $3.6 billion in consolidated deposits, which represent less than 1 percent

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[1] 12 U.S.C. § 1841 et seq.

[2] 12 U.S.C. § 1842.

[3] The merger of First Bank into Southside Bank is subject to approval of the Federal Deposit Insurance Corporation ("FDIC"), pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c). The FDIC approved the bank merger on August 25, 2017.

[4] 12 CFR 262.3(b).

[5] National asset data, market share, and ranking data are as of June 30, 2017, unless otherwise noted.

of the total amount of deposits of insured depository institutions in the United States.[6] Southside controls Southside Bank, which operates only in Texas. Southside is the 21st largest insured depository organization in Texas, controlling deposits of approximately $3.6 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.[7]

Diboll, with assets of approximately $993.8 million, is the 729th largest insured depository organization in the United States, controlling approximately $888 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Diboll controls First Bank, which operates only in Texas. Diboll is the 76th largest insured depository organization in Texas, controlling deposits of approximately $867.3 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, Southside would become the 175th largest insured depository organization in the United States, with consolidated assets of approximately $6.6 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. Southside would control consolidated deposits of approximately $4.5 billion, which represent less than 1 percent of the total amount of deposits of insured depository organizations in the United States. Southside would become the 20th largest insured depository organization in Texas, controlling deposits of $4.5 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

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[6] In this context, insured depository institutions include commercial banks, credit unions, savings and loan associations, and savings banks.

[7] State asset data, market share, and ranking data are as of June 30, 2016, unless otherwise noted.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market.[8] The BHC Act also prohibits 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.[9]

Southside and Diboll have subsidiary depository institutions that compete directly in the Tyler, Texas, banking market ("Tyler market");[10] the Palestine, Texas, banking market ("Palestine Market");[11] and the Longview, Texas, banking market ("Longview Market").[12] The Board has considered the competitive effects of the proposal in these banking markets. In particular, the Board has considered the number of competitors that would remain in the markets; the relative share of total deposits in insured depository institutions in the markets ("market deposits") that Southside would control;[13] the concentration levels of market deposits and the increase in these levels, as

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[8] 12 U.S.C. § 1842(c)(1)(A).

[9] 12 U.S.C. § 1842(c)(1)(B).

[10] The Tyler market includes Smith County; the southern portion of Wood County, including the cities of Alba, Mineola, and Hawkins; the eastern portion of Van Zandt County, including the cities of Van and Ben Wheeler; the eastern portion of Henderson County, including the cities of Brownsboro and Larue; and the northwest portion of Cherokee County, including the city of Mount Selman, all in Texas.

[11] The Palestine market includes Anderson County, including the cities of Elkhart, Frankston, and Palestine, all in Texas.

[12] The Longview market includes Gregg, Harrison, Marion, and Upshur counties and the northern two thirds of Rusk County, including the cities of Henderson and New London, all in Texas.

[13] Local deposit and market share data are as of June 30, 2016, 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

measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");[14] and other characteristics of the market.

Banking Markets Within Established Guidelines. Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Palestine and Longview banking markets.[15] On consummation of the proposal, the Longview market would remain unconcentrated, and the Palestine market would remain moderately concentrated. In each of these banking markets, numerous competitors would remain.

Banking Market Warranting Special Scrutiny. The competitive effects of the proposal in the Tyler market warrants a detailed review because the proposal would result in the market deposit share of Southside exceeding 35 percent when using initial competitive screening data. Southside is the largest depository organization in the Tyler market, controlling deposits of approximately $2.36 billion, which represent

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become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989) and National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

[14] 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 issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

[15] These two banking markets and the competitive effects of the proposal in these markets are described in Appendix A.

approximately 35.98 percent of market deposits. Diboll is the 22nd largest depository organization in the market, controlling deposits of approximately $24.5 million, which represent approximately 0.37 percent of market deposits. On consummation of the proposal, the combined entity would be the largest depository organization in the Tyler market, controlling deposits of approximately $2.38 billion, which would represent approximately 36.35 percent of market deposits. The HHI in the market would increase by 27 points, from 1,602 to 1,629.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Tyler market.[16] Factors indicate that the increase in concentration in the Tyler market, as measured by market share, overstates the potential competitive effects of the proposal in the market.

The Board has considered the competitive influence of six community credit unions in the Tyler market. The institutions offer a wide range of consumer banking products, operate street level branches, and have broad membership criteria that includes almost all of the residents in the relevant banking market.[17] The Board finds that these circumstances warrant including the deposits of these credit unions at a 50 percent weight in estimating market influence. This weighting takes into account the

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[16] The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in, and resulting level of, concentration in a banking market. See Nationsbank Corp., 84 Federal Reserve Bulletin 129 (1998).

[17] The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., Chemical Financial Corporation, FRB Order No. 2015-13 (April 20, 2015); 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); Passumpsic Bancorp, 92 Federal Reserve Bulletin C175 (2006); and Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

limited commercial and industrial lending done by these credit unions relative to commercial banks' lending levels.

In this case, adjustments to reflect competition from credit unions reduce the measured concentration level in the Tyler market. Specifically, after consummation, the market share of Southside in the Tyler market resulting from the transaction would decrease from 36.35, the unadjusted percentage, to 35.23 percent, the adjusted amount. The HHI would increase by 25 from 1,507 to 1,532.

The Board has also examined other aspects of the structure of the Tyler market that mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Tyler market. After consummation of the proposal, Southside would face competition from 28 other depository institutions in the market, one of which would control more than 10 percent of market deposits and two of which would each control more than 5 percent of market deposits. The presence of these viable competitors suggests that Southside would have limited ability to unilaterally offer less attractive terms to consumers and that these competitors are able to exert competitive pressure on Southside in the Tyler market. This conclusion is supported in this case by an analysis of private pricing data, which indicates that Southside's fees and interest rates for deposit products in the Tyler market are close to the median prices of other banks in the market and do not deviate substantially from Southside's prices in markets where Southside is not the dominant firm. Moreover, although Southside would continue to hold a dominate market share position, the change in market share would be *de minimis* and the market would remain moderately concentrated.

Conclusion Regarding Competitive Effects

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

Based on all of the facts of record, particularly the structure of the relevant markets and the number of remaining competitors, as well as the other factors discussed above, 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 Longview, Palestine, or Tyler markets, or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.[18] In its evaluation of the 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 information, including capital adequacy, asset quality, liquidity, and earnings performance. 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 effectively the proposed integration of the operations of the institutions. 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.

[18] 12 U.S.C. §§ 1842(c)(2), (5), and (6).

Southside and Diboll are both well capitalized, and the combined entity would remain so on consummation of the proposed transaction. The proposed transaction is a bank holding company merger, with a subsequent merger of Southside Bank and First Bank.[19] The asset quality, earnings, and liquidity of both Southside and Diboll are consistent with approval, and Southside appears to have adequate resources to absorb the related costs of the proposal and to complete integration of the institutions' operations. In addition, future prospects of the institutions under the proposal 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 Southside, Diboll, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Southside; the Board's supervisory experiences and those of the FDIC with the organizations; and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws.

Southside, Diboll, and their subsidiary depository institutions are considered to be well managed. Southside's directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and Southside's risk-management program appears consistent with approval of this expansionary proposal.

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[19] To effect the holding company merger, a wholly owned subsidiary of Southside formed to facilitate the transaction would merge with Diboll, with Diboll as the surviving entity, and immediately thereafter Diboll would merge with Southside, with Southside as the surviving entity. Upon consummation of the merger of Diboll with Southside, each share of Diboll common stock would be exchanged for a portion of the aggregate merger consideration, which would consist of Southside common stock and cash. First Bank would then merge with and into Southside Bank, with Southside Bank as the surviving entity. Southside has the financial resources to effect the transaction.

The Board also has considered Southside's plans for implementing the proposal. Southside has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-integration process for this proposal. Southside would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, Southside's management has the experience and resources to operate the combined organization in a safe and sound manner, and Southside plans to integrate First Bank's existing senior management in a manner that augments Southside Bank's management.[20]

Based on all the facts of record, including the supervisory records of Southside, Diboll, and their subsidiary banks, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Southside and Diboll in combating money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.[21] In its evaluation of the effects of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of the communities to be served. In this evaluation, the Board places particular emphasis on the records of the relevant

[20] On consummation, two members currently on the board of directors of Diboll will be appointed to the board of Southside.

[21] 12 U.S.C. § 1842(c)(2).

depository institutions under the Community Reinvestment Act ("CRA").[22] 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 with their safe and sound operation,[23] and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.[24]

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

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 Southside Bank and First Bank, the fair lending and compliance records of both banks, the supervisory views of the FDIC, confidential supervisory information, and information provided by Southside.

Records of Performance Under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance of the relevant institutions, as

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[22] 12 U.S.C. § 2901 et seq.; 12 CFR 225.13(b)(3).

[23] 12 U.S.C. § 2901(b).

[24] 12 U.S.C. § 2903.

well as information and views provided by the appropriate federal supervisors.[25] In this case, the Board considered the supervisory views of the FDIC.

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.[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 by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply lending, investment, and service tests to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's home mortgage, small business, small farm, and community development lending 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 the Home Mortgage Disclosure Act,[27] 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 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 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

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[25] See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48506, 48548 (July 25, 2016).

[26] 12 U.S.C. § 2906.

[27] 12 U.S.C. § 2801 et seq.

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;[28] (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. Intermediate small banks are subject to the lending test, as well as a community development test that evaluates the number and amounts of their community development loans and qualified investments, the extent to which they provide community development services, and their responsiveness to community development lending, investment, and service needs.[29]

CRA Performance of Southside Bank

Southside Bank was assigned an overall rating of "Outstanding" at its most recent CRA performance evaluation by the FDIC, as of October 19, 2015 ("Southside Bank Evaluation").[30] The bank received "Outstanding" ratings for each of the

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[28] Examiners also consider the number and amounts of small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less; small business and small farm loans by loan amounts at origination; and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

[29] See 12 CFR 228.26(c).

[30] The Southside Bank Evaluation was conducted using the Large Institution CRA Examination Procedures. Examiners reviewed home purchase, home improvement, and home refinance mortgage loans, and small business and small farm loans, for the period between July 29, 2013, and October 19, 2015. The evaluation period for community development lending, investments, and services was July 29, 2013, through October 19, 2015.

The Southside Bank Evaluation included a full-scope evaluation of the Tyler Metropolitan Statistical Area ("MSA") AA. Limited-scope evaluations were performed for the Longview MSA AA; Dallas-Plano-Irving Metropolitan District ("MD") AA; Fort Worth-Arlington MD AA; and the Austin-Round Rock-San Marcos MSA AA. Data

Investment Test and the Service Test and a "High Satisfactory" rating for the Lending Test. Southside Bank's performance in the Tyler MSA AA was weighted most heavily by examiners due to the level of the bank's activity in that area.

Examiners concluded that Southside Bank's performance demonstrated an excellent responsiveness to credit needs in its assessment areas. In particular, examiners found that Southside Bank exhibited excellent performance regarding the level of its lending activity, including home mortgage and small business lending. Examiners noted that a high percentage of the bank's loans were originated inside its AAs, including the bank's small business and home mortgage loans. Examiners further noted that, based on 2013 peer data on lending activity, Southside Bank ranked first among 54 CRA-reporting institutions in the Tyler MSA AA.

Examiners also found that the bank exhibited an overall good record of lending to borrowers of different income and revenue levels. In reaching this conclusion, examiners considered the bank's good record of lending to small businesses of different revenue levels to offset the bank's adequate record of lending to home mortgage borrowers of different income levels. Examiners also concluded that the geographic distribution of the bank's lending was good. Examiners noted that Southside Bank made use of innovative and flexible lending practices in order to serve the needs of its AAs, including LMI borrowers and small businesses. Examiners observed that Southside Bank participates in several affordable housing programs that provide loans with relaxed qualifications or provide grant money for down payment and closing cost assistance.

Examiners also considered the bank to be a leader in community development lending. Examiners found that Southside Bank's management made extraordinary efforts to identify and locate community development lending

from non-metropolitan areas in Texas were aggregated to form one non-metropolitan AA, and examiners conducted a limited-scope evaluation of this AA.

opportunities, as evidenced by the variety and geographic range of the bank's community development loans.

Examiners also concluded that Southside Bank's responsiveness to credit and community development needs was excellent. In reaching this conclusion, examiners noted that all of the bank's investments and donations benefitted the bank's AAs or the state of Texas. Examiners also determined that the level of the bank's qualified investments and donations was excellent. They noted that a majority of the bank's investments were made in school districts in Texas, including 62 school districts where the majority of students are economically disadvantaged.

In addition, examiners found that Southside Bank provided delivery systems that were readily accessible to its customers. The bank's delivery channels included online and mobile banking, automatic teller machines, and branches. Examiners concluded that the bank tailored its retail banking locations and services to meet the needs of LMI individuals. In particular, examiners found that changes to Southside Bank's branch network over the evaluation period had improved accessibility for LMI individuals and noted that the bank had tailored its hours and service locations to meet the needs of LMI individuals.

CRA Performance of First Bank

First Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of May 31, 2016 ("First Bank Evaluation").[31] First Bank received a "Satisfactory" rating for the Lending Test and an

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[31] The First Bank Evaluation was conducted using Intermediate Small Bank CRA Examination Procedures. For the Lending Test, examiners reviewed small business, small farm, home mortgage, and consumer loans originated by the bank from August 19, 2013, through May 31, 2016. Because commercial loans and home mortgage loans together comprised approximately 60.5 percent of the bank's loan portfolio, examiners focused the Lending Test on such loans. For the Community Development Test, examiners reviewed the bank's qualified community development lending, investments, and service activities from August 19, 2013, through May 31, 2016.

"Outstanding" rating for the Community Development Test. Although First Bank's overall rating took into consideration its performance in each of its MSA AAs, examiners gave significantly more weight to the bank's records in the bank's non-MSA AAs due to the higher volume of loans in those areas.

For the Lending Test, examiners focused their evaluation on First Bank's small business and home mortgage loans. Examiners found that First Bank's loan-to-deposit ratio was reasonable given its size, business strategy, and financial condition relative to the needs of the bank's AAs. Examiners found that First Bank originated a majority of its lending within its AAs. Specifically, examiners noted that First Bank originated a majority of its small business and mortgage loans inside of its AAs measured both by number and dollar volume. Examiners also found that First Bank's distribution of small business loans among borrowers of different incomes and revenues was reasonable. Similarly, examiners determined that First Bank demonstrated a reasonable record of geographically distributing its small business loans throughout its AAs. Examiners also considered the bank's geographic distribution of home mortgage loans to be reasonable.

With respect to community development, examiners considered First Bank's community development loans, community development investments, and community development services. Examiners found that First Bank's record of community development lending was excellent. In addition, examiners considered First Bank's responsiveness to community development needs to be excellent given the bank's capacity and the availability of opportunities in the bank's AAs. Examiners found that First Bank exhibited an adequate record of providing community development

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Examiners included qualified investments from the previous examination period if the investments were still outstanding.

The First Bank Evaluation included full-scope reviews of First Bank's performance in its non-MSA AAs in Anderson County, Texas, and in Nacogdoches, San Augustine, Sabine, Angelina, and Jasper counties, all in Texas. Examiners conducted limited-scope reviews of performance in the Houston-Woodlands-Sugar Land, Texas MSA AA, the Longview, Texas MSA AA, and the Tyler, Texas MSA AA.

investments and donations and an excellent record of providing community development loans. Examiners noted that the bank directed a substantial majority of community development activities towards efforts to revitalize and stabilize geographies within its AAs. In addition, examiners concluded that the bank demonstrated an adequate record of providing community development services. This conclusion was based on excellent performance regarding the availability of services, but adequate performance regarding the types of services.

Views of the FDIC

In its review of the proposal, the Board consulted with the FDIC regarding Southside Bank's CRA, consumer compliance, and fair lending records. The Board has considered the results of the most recent consumer compliance examination of Southside Bank conducted by the FDIC, which included a review of Southside Bank's policies and procedures for complying with fair lending and other consumer compliance laws.

The Board has taken the results of the FDIC's examinations and its consultations with the FDIC into account in evaluating this proposal, including in considering whether Southside Bank has the experience and resources to ensure that policies and programs are implemented in a manner that would allow the combined organization to effectively serve the credit needs of all the communities within the firm's AAs.

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. Southside represents that upon consummation of the proposal, existing customers of First Bank would have access to a more expansive line of products and services. Southside also represents that the acquisition would reduce expenses for both institutions and thus make available expanded resources to the communities currently served by Southside Bank and First Bank. Southside represents that, following the proposed transaction, it will continue to provide a level of service consistent with Southside Bank's current CRA performance.

Conclusion on Convenience and Needs Considerations

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

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 3 of the BHC Act to require 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."[32]

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.[33] These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures,

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[32] Dodd-Frank Act §§ 604(d) and (f), Pub. L. No. 111-203, 124 Stat. 1376, 1601–1602 (2010), codified at 12 U.S.C. §§ 1842(c)(7) and 1828(c)(5).

[33] Many of the metrics considered by the Board measure an institution's activities relative to the United States financial system.

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.[34]

The Board's experience has shown that proposals involving an acquisition of less than $10 billion in assets, or that result in a firm with less than $100 billion in total assets, are generally 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.[35]

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 that is less than $10 billion in assets and a pro forma organization of less than $100 billion in assets. Both the acquirer and the target are predominantly engaged in a variety of consumer and commercial banking activities.[36] The pro forma organization would have minimal cross-border activities and would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate

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[34] For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (February 14, 2012).

[35] See Peoples 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.

[36] Southside primarily offers commercial and consumer banking services, mortgage banking services, commercial real estate lending, wealth management services, and treasury management. Diboll primarily offers commercial and consumer banking services, commercial real estate lending, and trust services. In each of the activities in which it engages, Southside has, and as a result of the proposal would continue to have, a small market share on a nationwide basis, and numerous competitors would remain for these services.

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.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. Approval of this proposal is specifically conditioned on compliance by Southside with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth 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 by the Federal Reserve Bank of Dallas, acting under delegated authority.

By order of the Board of Governors,[37] effective October 30, 2017.

Ann E. Misback (signed)

Ann E. Misback
Secretary of the Board

[37] Voting for this action: Chair Yellen, Vice Chairman for Supervision Quarles, and Governors Powell and Brainard.

Appendix A

Southside (Southside Bank)/Diboll (First Bank) Banking Markets in Texas Consistent with Board Precedent and DOJ Bank Merger Guidelines						
Deposit data are as of June 30, 2016. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent.						
Palestine, Texas – Anderson County, including the cities of Elkhart, Frankston, and Palestine, all in Texas.						
	Rank	**Amount of Deposits**	**Market Deposit Shares (%)**	**Resulting HHI**	**Change in HHI**	**Remaining Number of Competitors**
Southside Bank Pre-Consummation	9	$5.7M	1.0	1729	7	9
Diboll (First Bank)	7	$19.2M	3.4			
Southside Bank Post-Consummation	7	$24.9M	4.4			
Longview, Texas – Gregg, Harrison, Marion, and Upshur counties; the northern two thirds of Rusk County, including the cities of Henderson and New London, all in Texas.						
	Rank	**Amount of Deposits**	**Market Deposit Shares (%)**	**Resulting HHI**	**Change in HHI**	**Remaining Number of Competitors**
Southside Bank Pre-Consummation	10	$194.7M	3.5	952	4	26
Diboll (First Bank)	21	$28.1M	0.5			
Southside Bank Post-Consummation	6	$222.8M	4.0			