FRB Order No. 2019-10
June 27, 2019

FEDERAL RESERVE SYSTEM

Texas Independent Bancshares, Inc.
Texas City, Texas

Order Approving the Acquisition of a Savings and Loan Holding Company,
the Acquisition of a Federal Savings Bank, the Merger of Depository Institutions,
and the Establishment of Branches

Texas Independent Bancshares, Inc. ("TIB"), Texas City, 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 sections 4(c)(8) and 4(j) of the BHC Act[2] to acquire Preferred Bancshares, Inc. ("Preferred"), Houston, Texas, a savings and loan holding company, and thereby indirectly acquire Preferred Bank, Houston, Texas, a federal savings bank. Following the proposed acquisition, Preferred would be merged into TIB.[3]

In addition, TIB's subsidiary state member bank, Texas First Bank, Texas City, Texas, has requested the Board's approval to merge with Preferred Bank, pursuant to section 18(c) of the Federal Deposit Insurance Act ("Bank Merger Act"),[4] with Texas First Bank as the surviving entity. Texas First Bank also has applied under section 9 of the Federal Reserve Act ("FRA")[5] to establish and operate branches at the main office and branches of Preferred Bank.

---

[1] 12 U.S.C. § 1841 et seq.

[2] 12 U.S.C. §§ 1843(c)(8) and (j).

[3] TIB has formed a merger subsidiary that would merge with Preferred, with Preferred as the surviving entity. Preferred would then merge into TIB.

[4] 12 U.S.C. § 1828(c).

[5] 12 U.S.C. § 321; see 12 CFR 208.6. 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 (84 Federal Register 11789 (March 28, 2019)) and has been given in accordance with the Bank Merger Act and the Board's Rules of Procedure.[6] 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. As required by the Bank Merger Act, a report on the competitive effects of the merger was requested from the United States Attorney General, and a copy of the request has been provided to the Federal Deposit Insurance Corporation.

TIB, with consolidated assets of approximately $1.1 billion, is the 703rd largest insured depository organization in the United States. TIB controls approximately $966.9 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.[7] TIB controls Texas First Bank, which operates solely in Texas. Texas First Bank is the 73rd largest insured depository organization in Texas, controlling deposits of approximately $948.1 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.[8]

Preferred, with consolidated assets of approximately $282.3 million, is the 2,359th largest insured depository organization in the United States, controlling approximately $237.9 million in deposits. Preferred controls Preferred Bank, which operates solely in Texas. Preferred Bank is the 205th largest insured depository institution in Texas, controlling deposits of approximately $251.3 million, which

[6] 12 CFR 262.3(b).

[7] Consolidated asset data are as of December 31, 2018. Nationwide asset ranking and deposit data are as of December 31, 2018, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

[8] State asset ranking and deposit data are as of June 30, 2018, unless otherwise noted.

represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of the proposal, TIB would become the 577th largest insured depository organization in the United States, with consolidated assets of approximately $1.4 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. TIB would control total deposits of approximately $1.2 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Texas, TIB would become the 60th largest depository organization, controlling deposits of approximately $1.2 billion, which represent less than 1 percent of the total deposits of insured depository institutions.

Factors Governing Board Review of the Transaction

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.[9] 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(c)(8) of the BHC Act.[10] TIB has committed that all of the activities of Preferred and its subsidiaries would conform to those permissible under section 4 of the BHC Act and Regulation Y or be divested.

Section 4(j)(2)(A) of the BHC Act requires the Board to consider whether the proposed acquisition of Preferred Bank "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."[11]

---

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

[10] 12 CFR 225.28(b)(4)(ii).

[11] 12 U.S.C. § 1843(j)(2)(A).

As part of its evaluation, the Board reviews the financial and managerial resources and the future prospects 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, and the public benefits of the proposal.[12] The Board also reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[13]

In addition, 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 institutions, the competitive effects of the proposal in the relevant markets, the convenience and needs of the communities to be served, the institutions' records of compliance with anti-money-laundering laws, and the risk of the proposal to the stability of the United States banking or financial system.[14]

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.[15] 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

---

[12] See 12 CFR 225.26; see, e.g., Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012); Bank of America Corporation/Countrywide, 94 Federal Reserve Bulletin C81 (2008); Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

[13] 12 U.S.C. § 2901 et seq.

[14] The proposal does not raise interstate issues under section 4(c)(8) of the BHC Act because Texas is the home state of TIB and is where Preferred Bank's home office is located. See 12 U.S.C. § 1843(i)(8).

[15] 12 U.S.C. § 1828(c)(5)(A).

served.[16] In addition, as part of the Board's consideration of the factors under section 4(j)(2) of the BHC Act, the Board evaluates the competitive effects of a proposal in light of all of the facts of record.[17]

TIB and Preferred compete directly in the Houston, Texas, banking market.[18] The Board has considered the competitive effects of the proposal in this banking market in light of the facts of record. In particular, the Board has considered the number of competitors that would remain in the market; the relative shares of total deposits of insured depository institutions in the market ("market deposits") that TIB would control;[19] 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 guidelines ("DOJ Bank Merger Guidelines");[20] and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Houston, Texas,

---

[16] 12 U.S.C. § 1828(c)(5)(B).

[17] 12 U.S.C. § 1843(j)(2)(A).

[18] The Houston, Texas, banking market is defined as Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller counties, all in Texas.

[19] Local deposit and market share data are as of June 30, 2018, and are based on calculations in which the deposits of thrift institutions are included at 50 percent.

[20] 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), www.justice.gov/opa/pr/2010/August/10-at-938.html.

banking market. On consummation of the proposal, the Houston, Texas, banking market would remain highly concentrated, as measured by the HHI, according to the DOJ Bank Merger Guidelines. The HHI in this market would decrease slightly, and numerous competitors would remain in the market.[21]

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 have a significantly adverse effect on competition in any relevant banking market, including the Houston, Texas, 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 of 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 Houston, Texas, banking market 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 proposals under the Bank Merger Act and section 4 of the BHC Act, the Board considers the financial and managerial resources and the future

[21] TIB operates the 24th largest depository institution in the Houston, Texas, banking market, controlling approximately $904.6 million in deposits, which represent less than 1 percent of market deposits. For purposes of the HHI analysis, Preferred operates the 62nd largest depository institution in the same market and is treated as controlling approximately $125.6 million in deposits (i.e., actual deposits weighted at 50 percent), which represent less than 1 percent of market deposits. On consummation of the proposed transaction, TIB would become the 23rd largest depository institution in the Houston, Texas, banking market, controlling deposits of approximately $1.2 billion, which represent less than 1 percent of market deposits. The HHI for the Houston, Texas, banking market would decrease by 2 points to 2148, and 91 competitors would remain in the market. For purposes of the competitive analysis, once a savings association is acquired by a bank holding company, the Board weights the deposits controlled by the savings association at 100 percent, similar to a commercial bank.

prospects of the institutions involved.[22] In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as public comments on the proposal. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to complete 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.

TIB and Preferred are both well capitalized, and the combined entity would remain so on consummation of the proposed transaction. The proposed transaction is structured as a cash and share exchange, with a subsequent merger of the subsidiary depository institutions.[23] The asset quality, earnings, and liquidity of TIB and Preferred are consistent with approval, and TIB appears to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions'

[22] 12 U.S.C. §§ 1843(j)(4); 1828(c)(5) and (11).

[23] To effect the holding company merger, a wholly owned subsidiary of TIB formed to facilitate the transaction would merge with Preferred, with Preferred as the surviving entity ("First-Step Merger"). At the effective time of the First-Step Merger, the shareholders of Preferred would receive a cash payment for their stock. Immediately thereafter, Preferred would merge with TIB, with TIB as the surviving entity. Preferred Bank would then merge with and into Texas First Bank, with Texas First Bank as the surviving entity. TIB has the financial resources to effect the proposed transaction.

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 TIB, Preferred, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by TIB, the Board's supervisory experiences with TIB and Preferred and those of other relevant bank supervisory agencies with the organizations, and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws, as well as information provided by the commenter.

TIB, Preferred, and their subsidiary depository institutions are each considered to be well managed. TIB's existing risk-management program and its directors and senior management are considered to be satisfactory. The directors and senior executive officers of TIB have substantial knowledge of and experience in the banking and financial services sectors.

The Board also has considered TIB's plans for implementing the proposal. TIB has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. TIB would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, TIB's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and TIB plans to integrate Preferred's existing management and personnel in a manner that augments TIB's management.[24]

---

[24] On consummation, two individuals currently serving as senior management officials of Preferred and Preferred Bank would become senior management officials of TIB and Texas First Bank.

Based on all the facts of record, including TIB's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board determines 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 TIB and Preferred in combating 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 effects of the proposal on the convenience and needs of the communities to be served.[25] In addition, as part of weighing the possible adverse effects of a transaction against its public benefits as required by section 4(j)(2) of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.[26] 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 these communities, as well as other potential effects of the proposal on the convenience and needs of the communities to be served, and places particular emphasis on the records of the relevant depository institutions under the CRA. 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,[27] 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.[28]

---

[25] 12 U.S.C. § 1828(c)(5)(B).

[26] 12 U.S.C. § 1843(j)(2).

[27] 12 U.S.C. § 2901(b).

[28] 12 U.S.C. § 2903.

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. 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 Texas First Bank and Preferred Bank; the fair lending and compliance records of both banks; the supervisory views of the Federal Reserve Bank of Dallas ("Reserve Bank") and the Office of the Comptroller of the Currency ("OCC"); confidential supervisory information; information provided by TIB; and the public comment received on the proposal.

Public Comment on the Proposal

One commenter objected to the proposal, alleging that Texas First Bank discriminates against African Americans and "redlines" African American neighborhoods in Houston, Texas.[29] Specifically, the commenter alleged that Texas First Bank has denied African American individuals and African American-owned businesses equal access to capital and credit by heavily concentrating its branches in predominantly white neighborhoods and its banking services to white individuals and white-owned businesses

---

[29] Redlining is the practice of providing unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristics of the residents of the area in which a credit seeker resides or will reside or in which a property to be mortgaged is located. See Interagency Fair Lending Examination Procedures (August 2009), available at https://www.ffiec.gov/pdf/fairlend.pdf.

The commenter also criticized Texas First Bank's activities and operations in Dallas, Texas, an area in which the bank does not have operations.

in Houston. The commenter also alleged that Texas First Bank disfavors certain African American neighborhoods in Houston with respect to its lending, marketing, and community development activities and in other respects.

Businesses of the Involved Institutions and Response to Comments

Texas First Bank is a regional banking franchise headquartered in Texas City, Texas. It is a full-service bank that offers a wide range of financial services, with a focus on loans and deposit services to small- and middle-market commercial businesses. Texas First Bank's lending portfolio primarily consists of small business, commercial real estate, commercial and industrial, and one-to-four family residential real estate loans, with a limited residential mortgage and consumer loan portfolio. Preferred Bank, a federal savings bank with five branches in Texas, offers a full range of loans and deposit services to its customers, with a focus on residential real estate lending.

TIB disputes the commenter's allegations and asserts that approval of the proposed transaction is warranted based on the banks' CRA performance evaluations and Texas First Bank's lending activities and responsiveness to community development needs in Houston. TIB asserts that Texas First Bank has consistently met the requirements of the CRA and is committed to continuing to meet the goals of the CRA after consummation of the transaction. TIB notes that as part of Texas First Bank's CRA performance evaluation, examiners found that the bank's efforts to meet the credit needs of LMI communities were satisfactory.

Records of Performance Under the CRA

In evaluating the CRA performance of the involved institutions, the Board generally considers the institutions' most recent CRA evaluation, as well as other information and supervisory views from the appropriate federal supervisors, which in this case are the Reserve Bank and the OCC.[30] In addition, the Board considers information provided by the applicant and by public commenters.

---

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

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.[31] An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test ("Lending Test") and a community development test ("Community Development Test") to evaluate the performance of an intermediate small bank, such as Texas First Bank, 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 ("HMDA"),[32] 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 CRA assessment areas ("AAs"); (2) the geographic distribution of such loans, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of such loans based on borrower characteristics, including the number and amounts of home mortgage loans to

---

[31] 12 U.S.C. § 2906.

[32] 12 U.S.C. § 2801 et seq.

low-, moderate-, middle-, and upper-income individuals;[33] (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.[34] The Community Development Test evaluates the number and amounts of an institution's community development loans and qualified investments; the extent to which the institution provides community development services; and the institution's responsiveness to community development lending, investment, and service needs.[35] Small banks, such as Preferred Bank, are subject to the Lending Test only.

CRA Performance of Texas First Bank

The Reserve Bank assigned Texas First Bank an overall rating of "Satisfactory" at its most recent CRA performance evaluation, as of July 11, 2016 ("Texas First Bank Evaluation").[36] The bank received a "Satisfactory" rating for the Lending Test and an "Outstanding" rating for the Community Development Test.[37]

---

[33] 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 amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

[34] See 12 CFR 228.22(b).

[35] 12 CFR 228.26(c).

[36] The Texas First Bank Evaluation was conducted using the CRA Intermediate Small Bank Examination Procedures. Examiners reviewed mortgage loans reported pursuant to HMDA and commercial loans, giving greater weight to the commercial lending portfolio because it represented the largest volume of the bank's lending efforts. Examiners reviewed HMDA lending data reported by the institution for the period January 1, 2013, through December 31, 2015. Examiners also reviewed a sample of commercial loans originated by Texas First Bank between July 1, 2015, and December 31, 2015. The evaluation period for community development was the period since Texas First Bank's previous CRA evaluation, dated February 4, 2013.

[37] Examiners reviewed Texas First Bank's two AAs: the Texas City AA, which consisted of Brazoria, Chambers, Galveston, Harris, and Liberty counties; and five of nine counties comprising the Houston-The Woodlands-Sugar Land, Texas Metropolitan

Examiners found that Texas First Bank made a substantial majority of its home mortgage loans and small business loans in its two AAs. Examiners determined that the bank had a reasonable penetration of loans among borrowers of different income levels and that the distribution of HMDA loans to LMI borrowers was reasonable, given the high levels of competition, housing costs, and income in the AAs. Examiners found that the bank had a reasonable penetration of lending to businesses of different sizes, especially given the local competition. Examiners further found that the geographic distribution of the bank's loans reflected reasonable dispersion throughout the bank's AAs. Examiners noted that the bank's loan-to-deposit ratio was reasonable given the bank's size, financial condition, and the credit needs of its AA. Examiners concluded that the bank did a reasonable job of meeting the small business needs of its AAs.

Examiners found that that Texas First Bank's performance under the Community Development Test demonstrated excellent responsiveness to the community development needs of its AAs, considering the capacity, loan demand, and available lending opportunities in those areas.

In the Texas City AA, an area of concern to the commenter, examiners found that the geographic distribution of Texas First Bank's loans reflected a reasonable distribution throughout the AA. Examiners determined that the distribution of Texas First Bank's loans among LMI geographies reflected reasonable dispersion throughout the Texas City AA. Overall, examiners found that the distribution of Texas First Bank's borrowers within the Texas City AA reflected reasonable penetration among individuals of different income levels and businesses of different sizes.

Examiners determined that Texas First Bank demonstrated excellent responsiveness to the community development needs of the Texas City AA through qualified investments and social services targeted to LMI individuals in the community.

Statistical Area (MSA); and the Beaumont County AA, which consisted of Harden and Jefferson counties and two of four counties comprising the Beaumont-Port Arthur, Texas MSA.

Examiners noted that the bank provided community development services through its branches, 40 percent of which were located in LMI areas.

Texas First Bank's Activities Since the Texas First Bank Evaluation

TIB represents that Texas First Bank continues to build upon its strong CRA performance. TIB represents that Texas First Bank has originated a majority of its home mortgage and small business loans within its AAs. TIB notes that the bank increased its loan-to-deposit ratio to almost 65 percent as of March 31, 2019, with a quarterly average of around 59 percent since the previous CRA evaluation. Moreover, TIB asserts that Texas First Bank has provided community development investments and community development loans within its AAs, as well as community development loans throughout Texas.

CRA Performance of Preferred Bank

The OCC assigned Preferred Bank an overall rating of "Satisfactory" at its most recent CRA performance evaluation, as of March 10, 2015 ("Preferred Bank Evaluation").[38]

Examiners found that Preferred Bank maintained a reasonable loan-to-deposit ratio compared with the ratios of similarly situated banks. Examiners also found that a substantial majority of Preferred Bank's loans were made within the bank's single AA. Examiners considered the distribution of loans to reflect reasonable penetration among borrowers of different income levels and businesses of different sizes. Examiners determined that the overall geographic distribution of Preferred Bank's loans reflected outstanding dispersion for business loans in the bank's AA but poor dispersion in LMI census tracts for residential mortgage loans. Examiners noted that Preferred Bank

[38] The Preferred Bank Evaluation was conducted using the CRA Small Bank Examination Procedures. Examiners reviewed lending data for the period January 1, 2013, through December 31, 2014, giving more weight to business loans, which comprised the largest volume of the bank's loans. Examiners reviewed Preferred Bank's sole AA, which consisted of Harris, Montgomery, and Fort Bend counties in the Houston-The Woodlands-Sugar Land, Texas MSA.

offered lines of credit for construction projects and working capital in response to the community's credit needs.

Additional Supervisory Views

The Board has considered the results of the most recent consumer compliance examination of Texas First Bank conducted by Reserve Bank examiners, which included a review of the bank's compliance risk management program and the bank's compliance with consumer protection laws and regulations. The Board also has considered the results of the most recent consumer compliance examination of Preferred Bank conducted by the OCC, which included a review of the bank's consumer compliance function.

The Board has taken this information, as well as the CRA performance records of Texas First Bank and Preferred Bank, into account in evaluating the proposed transaction, including in considering whether TIB has the experience and resources to ensure that Texas First Bank helps to meet the credit needs of the communities within its 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. TIB represents that, following the proposed transaction, the combined organization would continue to offer a range of deposit and credit products and services that benefit the communities in which Texas First Bank and Preferred Bank each presently conduct business, including credit products and services that help fulfill the needs of LMI demographics. For example, TIB represents that consumer loans presently offered to Texas First Bank customers would be expanded to the customer base of Preferred Bank and that the single-family loan portfolio of Preferred Bank would be expanded to include the customer base of Texas First Bank.

Conclusion on Convenience and Needs Considerations

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

Financial Stability

The Bank Merger Act and section 4 of the BHC Act require the Board to consider a proposal's "risk to the stability of the United States banking or financial system."[39]

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.[40] These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the 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.[41]

---

[39] 12 U.S.C. §§ 1843(j)(2)(A) and 1828(c)(5).

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

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

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.[42]

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.[43] 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 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

---

[42] 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.

[43] TIB and Preferred primarily offer a range of retail and commercial banking products and services. TIB has, and as a result of the proposed transaction would continue to have, a small market share in these products and services on a nationwide basis, and numerous competitors would remain for these products and services.

Board determines that considerations relating to financial stability are consistent with approval.

Weighing of Public Benefits of the Proposal

As noted above, in connection with a proposal under section 4 of the BHC Act, the Board is required 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 interest, unsound banking practices, or risk to the stability of the United States banking or financial system."[44] As discussed above, the Board has considered that the proposed transaction would provide greater services, product offerings, and geographic scope to customers of Preferred Bank. In addition, the acquisition would ensure continuity and strength of service to those customers.

The Board concludes that the conduct of the proposed nonbanking activities within the framework of Regulation Y, Board precedent, and this order, is not likely to result in significant adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices, or risk to the stability of the United States banking or financial system. On the basis of the entire record, and for the reasons discussed above, the Board concludes that the balance of benefits and potential adverse effects related to competition, financial and managerial resources, convenience to the public, financial stability, and other factors weighs in favor of approval of this proposal. Accordingly, the Board determines that the balance of the public benefits under the standard of section 4(j)(2) of the BHC Act is consistent with approval.[45]

---

[44] 12 U.S.C. § 1843(j)(2).

[45] 12 U.S.C. § 1843(j)(2)(A).

Establishment of Branches

Texas First Bank has applied under section 9 of the FRA to establish branches at the current locations of Preferred Bank.[46] The Board has assessed the factors it is required to consider when reviewing an application under that section, including Texas First 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.[47] For the reasons discussed in this order, the Board determines that those factors are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the proposal 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, the Bank Merger Act, the FRA, and other applicable statutes. The Board's approval is specifically conditioned on compliance by TIB and Texas First Bank 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 acquisition of Preferred and Preferred Bank may occur immediately. The merger of Preferred Bank and Texas First Bank may not be consummated before the 15th calendar day after the effective date of this order, and the acquisition and merger

---

[46] See 12 U.S.C. § 321. Under section 9 of the FRA, state member banks may establish and operate branches on the same terms and conditions as are applicable to the establishment of branches by national banks. See 12 U.S.C. § 36(d).

[47] 12 U.S.C. § 322; 12 CFR 208.6. Upon consummation of the proposed transaction, Texas First Bank's investments in bank premises would remain within the legal requirements of 12 CFR 208.21.

may not be consummated later than three months thereafter, unless such period is extended for good cause by the Board or the Reserve Bank, acting under delegated authority.

By order of the Board of Governors,[48] effective June 27, 2019.

Michele Taylor Fennell (signed)
Michele Taylor Fennell
Assistant Secretary of the Board

[48] Voting for this action: Chair Powell, Vice Chair Clarida, Vice Chair for Supervision Quarles, and Governors Brainard and Bowman.

Appendix

Branches to Be Established by Texas First Bank

1. 11757 Katy Freeway, Suite 100, Houston, Texas 77079
2. 16522 Stuebner Airline Road, Spring, Texas 77379
3. 4648 Beechnut Street, Houston, Texas 77096
4. 3000 Research Forest Drive, Suite 190, The Woodlands, Texas 77381
5. 1192 W. Dallas, Suite A, Conroe, Texas 77301

-End-