

FEDERAL RESERVE SYSTEM

Home BancShares, Inc.  
Conway, Arkansas

Order Approving the Merger of Bank Holding Companies, the Merger of Banks, and the  
Establishment of Branches

Home BancShares, Inc. (“Home”), Conway, Arkansas, a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”),<sup>1</sup> has requested the Board’s approval under section 3 of the BHC Act<sup>2</sup> to acquire Happy Bancshares, Inc. (“Happy”), Canyon, Texas, a bank holding company, and thereby indirectly acquire its state nonmember bank, Happy State Bank (“Happy Bank”), Happy, Texas. In addition, Home’s subsidiary state member bank, Centennial Bank, Conway Arkansas, has requested the Board’s approval to merge with Happy Bank pursuant to section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”),<sup>3</sup> with Centennial Bank as the surviving entity. Centennial Bank also has applied under section 9 of the Federal Reserve Act (“FRA”)<sup>4</sup> to establish and operate branches at the locations of the main office and branches of Happy Bank.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (86 Federal Register 58279 (October 21, 2021)).<sup>5</sup> The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the

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<sup>1</sup> 12 U.S.C. § 1841 et seq.

<sup>2</sup> 12 U.S.C. § 1842.

<sup>3</sup> 12 U.S.C. § 1828(c).

<sup>4</sup> 12 U.S.C. § 321. These locations are listed in the Appendix.

<sup>5</sup> 12 CFR 262.3(b).

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 (“FDIC”).

Home, with consolidated assets of approximately \$18.1 billion, is the 115th largest insured depository organization in the United States.<sup>6</sup> Home controls approximately \$14.0 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Home controls Centennial Bank, which operates in Alabama, Arkansas, Florida, and New York.<sup>7</sup> Centennial Bank is the 6th largest insured depository institution in Arkansas, controlling deposits of approximately \$5.4 billion, which represents 5.9 percent of the total deposits of insured depository institutions in that state.<sup>8</sup>

Happy, with consolidated assets of approximately \$6.8 billion, is the 218th largest insured depository organization in the United States. Happy controls approximately \$5.5 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Happy controls Happy Bank, which operates only in Texas.

On consummation of this proposal, Home would become the 89th largest insured depository organization in the United States, with consolidated assets of approximately \$24.9 billion, which would represent less than 1 percent of the total assets of insured depository institutions in the United States. Home would control consolidated deposits of approximately \$19.5 billion, which would represent less than 1 percent of the

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<sup>6</sup> Consolidated asset data is as of December 31, 2021, and national deposit data, ranking, and market share data are as of September 30, 2021. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

<sup>7</sup> Centennial Bank’s main office is in Arkansas and maintains branches in Alabama, Arkansas, Florida, and New York. Centennial Bank also operates loan production offices in New York, California, and Florida.

<sup>8</sup> State deposit ranking and deposit data are as of June 30, 2021.

total amount of deposits of insured depository institutions in the United States. Centennial Bank would become the 28th largest insured depository organization in Texas, controlling deposits of approximately \$5.3 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state.

### *Interstate Analysis*

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company that is well capitalized and well managed to acquire control of a bank located in a state other than the home state of the bank holding company without regard to whether the transaction would be prohibited under state law.<sup>9</sup> Similarly, section 44 of the Federal Deposit Insurance Act (“FDI Act”) generally provides that, if certain conditions are met, the Board may approve an application by a bank to engage in an interstate merger transaction with a bank that has a different home state without regard to whether the transaction would be prohibited under state law, provided that the resulting bank would be well capitalized and well managed.<sup>10</sup> The Board may not approve, under either provision, an application that would permit an out-of-state bank holding company or out-of-state bank to acquire a bank in a host state if the target bank has not been in existence for the lesser of the state statutory minimum period of time or five years.<sup>11</sup> In addition, the Board may not approve an interstate application under these provisions if the bank holding company or resulting bank controls or, upon consummation of the proposed transaction, would control more than 10 percent of the total deposits of insured depository institutions in the United States or, in certain circumstances, if the bank holding company or resulting bank, upon consummation, would control 30 percent or more of the total deposits of insured depository institutions in any state in which the acquirer and target have overlapping

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<sup>9</sup> 12 U.S.C. § 1842(d)(1)(A).

<sup>10</sup> 12 U.S.C. § 1831u(a)(1).

<sup>11</sup> 12 U.S.C. § 1842(d)(1)(B); 12 U.S.C. § 1831u(a)(5).

banking operations.<sup>12</sup> Moreover, the Bank Merger Act includes a prohibition on approval of interstate transactions where the resulting insured depository institution, together with its insured depository institution affiliates, controls or, upon consummation of the proposed transaction, would control, more than 10 percent of the total amount of deposits of insured depository institutions in the United States.<sup>13</sup> The Board must also take into account the record of the applicant bank under the Community Reinvestment Act of 1977 (“CRA”)<sup>14</sup> and the applicant’s record of compliance with applicable state community reinvestment laws.<sup>15</sup>

For purposes of these provisions, the home state of Home is Arkansas.<sup>16</sup> The home state of Centennial Bank also is Arkansas.<sup>17</sup> The home state of Happy Bank is Texas, and Happy Bank is located only in Texas. Home, Centennial Bank, and Happy Bank are well capitalized and well managed under applicable law, and Centennial Bank also would be well capitalized and well managed upon consummation of the proposal. Centennial Bank has a “Satisfactory” rating under the CRA. Texas and Arkansas have minimum age requirements that could apply to this transaction; but Home, Centennial Bank, Happy, and Happy Bank have each been in existence for more than five years and

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<sup>12</sup> 12 U.S.C. § 1842(d)(2)(A) and (B); 12 U.S.C. § 1831u(b)(2)(A) and (B). For purposes of section 3(d) of the BHC Act, the acquiring and target organizations have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or a branch. The Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. § 1841(o)(4)–(7).

<sup>13</sup> 12 U.S.C. § 1828(c)(13).

<sup>14</sup> 12 U.S.C. § 2901 et seq.

<sup>15</sup> 12 U.S.C. § 1842(d)(3).

<sup>16</sup> 12 U.S.C. § 1841(o)(4)(C). A bank holding company’s home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

<sup>17</sup> 12 U.S.C. § 1841(o)(4); 12 U.S.C. § 1831u(g)(4). A state bank’s home state is the state by which the bank is chartered.

satisfy the applicable requirements.<sup>18</sup> There are no state community reinvestment laws or other minimum age requirements that apply to this proposal.

On consummation of the proposed transaction, Home would control less than 1 percent of the total amount of consolidated deposits in insured depository institutions in the United States. Alabama, Arkansas, Florida, and Texas each impose a limit on the total amount of in-state deposits that a single banking organization may control.<sup>19</sup> The combined organization would control approximately 5.9 percent of the total amount of deposits of insured depository institutions in Arkansas, and less than 1 percent of such deposits in Alabama, Florida, New York, and Texas. Accordingly, in light of all the facts of record, the Board is not precluded from approving the proposal under section 3(d) of the BHC Act, section 44 of the FDI Act, or the interstate provisions of the Bank Merger Act.

### ***Competitive Considerations***

Section 3 of the BHC Act and the Bank Merger Act prohibit 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.<sup>20</sup> The BHC Act and Bank Merger Act also prohibit 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.<sup>21</sup>

Centennial Bank and Happy Bank do not compete directly in any banking market. The Department of Justice conducted a review of the potential competitive

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<sup>18</sup> Tex. Fin. Code § 202.003(a) (5 years); Ark. Code. §§ 23-45-102, 23-48-505 (5 years).

<sup>19</sup> Ala. Code § 5-13B-23(b) (30 percent); Ark. Code. § 23-48-406 (25 percent); Fla. Stat. § 658.2953(5)(b) (30 percent); Tex. Fin. Code § 203.004(a) (20 percent).

<sup>20</sup> 12 U.S.C. § 1842(c)(1)(A); 12 U.S.C. § 1828(c)(5)(A).

<sup>21</sup> 12 U.S.C. § 1842(c)(1)(B); 12 U.S.C. § 1828(c)(5)(B).

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. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in any 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 and the Bank Merger Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved, the effectiveness of the institutions in combating money laundering, and any public comments on the proposal.<sup>22</sup> 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 public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as the impact of the proposed funding of the transaction and any 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 effectively complete 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

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<sup>22</sup> 12 U.S.C. § 1842(c)(2), (5), and (6); 12 U.S.C. § 1828(c)(5) and (11).

the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

Home, Happy, and their subsidiary depository institutions are well capitalized, and the combined organization would remain so on consummation of the proposal. The proposed transaction is a bank holding company acquisition that is structured as a share exchange, with a subsequent merger of the subsidiary banks.<sup>23</sup> The capital, asset quality, earnings, and liquidity of Home and Happy are consistent with approval, and Home and Happy appear to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, future prospects 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 Home, Happy, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Home; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws; and the public comment on the proposal.

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

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<sup>23</sup> Home would effect the holding company acquisition by merging Happy with and into a newly formed subsidiary of Home ("Merger Sub"), with Merger Sub as the surviving entity. Merger Sub subsequently would merge with and into Home, with Home surviving, and Happy Bank would then merge with and into Centennial Bank, with Centennial Bank as the surviving entity. Home has the financial resources to effect the proposed acquisition and mergers.

The Board also has considered Home's plans for implementing the proposal. Home 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. At the combined organization, Home would apply its risk-management policies, procedures, and controls, which are considered acceptable from a supervisory perspective. In addition, Home's management has the experience and resources to ensure that the combined organization would operate in a safe and sound manner.

Based on all the facts of record, including Home's supervisory record, managerial and operational resources, and plans for operating the combined organization after consummation, the Board determines that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Home and Happy in combatting money-laundering activities, are consistent with approval.

### ***Convenience and Needs Considerations***

In acting on a proposal under section 3 of the BHC Act and the Bank Merger Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.<sup>24</sup> In its evaluation, 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 these communities. The Board 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 the institutions' safe and sound operation.<sup>25</sup> The CRA also requires the appropriate federal financial

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<sup>24</sup> 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 1828(c)(5).

<sup>25</sup> 12 U.S.C. § 2901(b).



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.<sup>26</sup>

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 any public comments on the proposal. The Board also may consider the acquiring institution's business model and 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 Centennial Bank and Happy Bank, the fair lending and compliance records of both banks, the supervisory views of the Federal Reserve Bank of St. Louis and the Consumer Financial Protection Bureau ("CFPB") with respect to Centennial Bank and the FDIC with respect to Happy Bank, confidential supervisory information, and information provided by Home; and, the public comment received on the proposal.

*Public Comment on the Proposal*

One commenter objected to the proposal, alleging that in 2020, as a result of disparate marketing, Centennial Bank made fewer home loans in the states of Arkansas and Florida to African American individuals as compared to white individuals. The commenter also alleged that in 2020, as a result of the bank's disparate marketing,

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<sup>26</sup> 12 U.S.C. § 2903.

Centennial Bank made no home loans in Alabama to African American individuals but made some loans to white individuals.<sup>27</sup>

*Businesses of the Involved Institutions and Response to the Public Comment*

Through their respective branch networks, Centennial Bank and Happy Bank both offer a variety of consumer and commercial loan and deposit products and services. In response to the comment, Home represents that approval of the proposed transaction is warranted based on the CRA performance of Centennial Bank and Happy Bank, in addition to Centennial Bank's involvement in programs tailored to meet the credit needs of underserved communities, including LMI individuals, individuals in majority-minority census tracts, and first-time homebuyers. Home represents that Centennial Bank does not market products or services on the basis of race or any other protected class. Further, Home notes that the HMDA data cited in the comment do not reflect other important considerations related to mortgage loan underwriting, such as credit history, debt-to-income ratios, and loan-to-value ratios. Home represents that the HDMA data cited in the comment do not reflect the extent and range of marketing and outreach programs that Centennial Bank uses to support and service its entire market areas, including minority communities. Home also notes that in Centennial Bank's latest CRA performance evaluation, examiners stated that they had not identified any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

*Records of Performance under the CRA*

In evaluating the convenience and needs factor and the CRA performance of an institution, the Board generally considers each institution's most recent CRA evaluation as well as the supervisory views of relevant federal supervisors, which in this case are the Federal Reserve Bank of St. Louis with respect to Centennial Bank and the

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<sup>27</sup> The data cited by the commenter appears to correspond to publicly available 2020 data reported by Centennial Bank under the Home Mortgage Disclosure Act of 1975 ("HMDA"), 12 U.S.C. § 2801 *et seq.*

FDIC with respect to Happy Bank.<sup>28</sup> In addition, the Board considers information provided by the applicant and by any public commenters.

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.<sup>29</sup> 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"), an investment test ("Investment Test"), and a service test ("Service Test") to evaluate the performance of large banks, such as Centennial Bank and Happy Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an institution's lending-related activities 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 HMDA, 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 evaluated 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 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 low-, moderate-, middle-, and upper-income

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<sup>28</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48,506, 48,548 (July 25, 2016).

<sup>29</sup> 12 U.S.C. § 2906.

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;<sup>30</sup> (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.<sup>31</sup> The Investment Test evaluates the number and amounts of qualified investments that benefit the institution's AAs. The Service Test evaluates the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of the institution's community development services.<sup>32</sup>

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial, ethnic, or gender groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution's lending may not be available solely from public HMDA data.<sup>33</sup> Consequently, the Board requests additional information not available to the public that may be needed from the institution and evaluates disparities in the context of the additional information obtained regarding the lending and compliance record of an institution.

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<sup>30</sup> Examiners also consider the number and amounts of small business and small farm loans made 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).

<sup>31</sup> See 12 CFR 228.22(b).

<sup>32</sup> See 12 CFR 228.21 et seq.

<sup>33</sup> Importantly, credit score is not available in the public HMDA data. Accordingly, when conducting fair lending examinations, examiners analyze additional information not available to the public before reaching a determination regarding an institution's compliance with fair lending laws.

### *CRA Performance of Centennial Bank*

Centennial Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the Federal Reserve Bank of St. Louis, as of September 10, 2018 (“Centennial Bank Evaluation”).<sup>34</sup> The bank received “Low Satisfactory” ratings for the Lending Test, the Investment Test, and the Service Test.<sup>35</sup>

With respect to the Lending Test, examiners found that Centennial Bank’s lending levels reflected good responsiveness to AA credit needs. Examiners noted that a substantial majority of Centennial Bank’s lending was originated within the bank’s designated AAs and that the overall geographic distribution of loans reflected good penetration throughout the bank’s AAs. Examiners found that Centennial Bank’s distribution of loans by borrower’s income or revenue profile reflected adequate penetration among customers of different income levels and businesses and farms of different sizes. Examiners determined that, overall, Centennial Bank made an adequate level of community development loans and made use of innovative and flexible lending practices in serving the credit needs of its AAs. Examiners found that the Centennial

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<sup>34</sup> The Centennial Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed HMDA, small business, and small farm loan data from January 1, 2016, through December 31, 2017. Examiners reviewed community development loans, investment, and service activities from March 14, 2016, through September 9, 2018.

<sup>35</sup> The Centennial Bank Evaluation involved a full-scope review of the bank’s activities in twelve AAs: Fayetteville-Springdale-Rogers Arkansas-Missouri metropolitan statistical area (“MSA”), Little Rock-North Little Rock-Conway AR MSA, North Central Arkansas non-metropolitan statewide area (“NonMSA”), Crestview-Fort Walton Beach-Destin FL MSA, Miami-Fort Lauderdale-West Palm Beach FL MSA, Orlando-Kissimmee-Sanford FL MSA, Panama City FL MSA, Pensacola-Ferry Pass-Brent FL MSA, Tallahassee FL MSA, Tampa-St. Petersburg-Clearwater FL MSA, Daphne-Fairhope-Foley AL MSA, and New York-Newark-Jersey City NY-NJ-PA MSA. In addition, the Centennial Bank Evaluation involved a limited scope of Centennial Bank’s eight remaining AAs: Fort Smith AR-OK MSA, Jonesboro AR MSA, Northeast Arkansas NonMSA, Cape Coral-Fort Myers-Naples FL consolidated statistical area (“CSA”), Lakeland-Winter Haven FL MSA, Key West FL NonMSA, North Florida NonMSA, and North Port-Sarasota FL CSA.

Bank's lending levels reflected good responsiveness to AA credit needs in Florida and Arkansas, and adequate responsiveness for its AAs in Alabama. Examiners found that Centennial Bank's geographic distribution of loans reflected excellent penetration throughout its Alabama AAs, good penetration throughout its Florida AAs, and adequate penetration throughout its Arkansas AAs.

With respect to the Investment Test, examiners found that Centennial Bank had an adequate level of qualified community development investments and grants given the opportunity for such investments and grants within the bank's AAs. Examiners characterized Centennial Bank's investment activities as exhibiting adequate responsiveness to credit and community development needs throughout the bank's combined AAs.

With respect to the Service Test, examiners found that Centennial Bank's service delivery systems were accessible to geographies and individuals of different income levels in the AAs. Examiners noted that Centennial Bank's record of opening and closing branches had not adversely affected the accessibility of the bank's delivery systems and that the bank's services did not vary in a way that inconvenienced the needs of the bank's AAs, particularly in LMI geographies or for LMI individuals. Examiners characterized Centennial Bank as providing an adequate level of community development services within its AAs.

#### *CRA Performance of Happy Bank*

Happy Bank was assigned an overall rating of "Outstanding" at its most recent CRA performance evaluation by the FDIC, as of July 6, 2021 ("Happy Bank

Evaluation”).<sup>36</sup> The bank received a “High Satisfactory” rating for the Lending Test and “Outstanding” ratings for both the Investment and Service Tests.<sup>37</sup>

With respect to the Lending Test, examiners found that Happy Bank’s lending activity reflected excellent responsiveness to the credit needs of the bank’s AAs. Examiners determined that a high percentage of Happy Bank’s loans was made in the bank’s AAs and that the geographic distribution of Happy Bank’s loans reflected adequate penetration throughout the bank’s AAs. In addition, examiners noted that the distribution of borrowers reflected good penetration among retail customers of different income levels and business customers of different sizes, given the product lines offered by the institution. Examiners also noted that Happy Bank had an excellent record of servicing the credit needs of the most economically disadvantaged portions of its AAs, low-income individuals, and/or very small businesses, consistent with safe and sound banking practices. Examiners found that Happy Bank was a leader in making community development loans and made extensive use of innovative and/or flexible lending practices to serve the credit needs of its AAs.

With respect to the Investment Test, examiners determined that Happy Bank made an excellent level of qualified community development investments and grants, often in a leadership position, particularly those not routinely provided by private investors. Examiners noted that Happy Bank made occasional use of innovative and/or

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<sup>36</sup> The Happy Bank Evaluation was conducted using Large Institution CRA Examination Procedures for the period from April 1, 2019, through July 6, 2021. Examiners reviewed HMDA, small business, and small farm loan data from 2018, 2019, and 2020. Examiners reviewed community development loans, investments, and service activities from April 1, 2019, through July 6, 2021.

<sup>37</sup> The Happy Bank Evaluation involved a full-scope review of the bank’s activities in two AAs: Amarillo MSA and Lubbock MSA. In addition, the Happy Bank Evaluation involved a limited-scope review of five additional AAs: Abilene MSA, Austin-Round Rock-Georgetown MSA, Dallas-Fort Worth-Arlington MSA, San Antonio-New Braunfels MSA, and the TX Non-MSA (consisting of the North, South, Garza County, and Gillespie-Kerr Non-MSAs).

complex investments to support community development initiatives and exhibited good responsiveness to credit and community development needs.

With respect to the Service Test, examiners determined that Happy Bank's delivery systems were accessible to essentially all portions of the bank's AAs. Examiners found that, to the extent changes had been made, Happy Bank's record of opening and closing of branches had improved the accessibility of the bank's delivery systems, particularly to LMI geographies and/or individuals. Examiners also noted that Happy Bank's services did not vary in a way that inconvenienced certain portions of the bank's AAs, particularly LMI geographies and/or individuals. Examiners characterized Happy Bank as a leader in providing community development services.

#### *Additional Supervisory Views*

In its review of the proposal, the Board consulted with the FDIC, as the primary federal supervisor of Happy Bank. The Board also considered the results of the most recent consumer compliance examinations of Centennial Bank and Happy Bank, which included reviews of the banks' compliance management programs and compliance with consumer protection laws and regulations. In addition, the Board considered the views of the CFPB regarding the consumer compliance record of Centennial Bank.

The Board has taken the foregoing consultations and examinations into account in evaluating the proposal, including in considering whether Home has the experience and resources to ensure that the combined organization effectively implements policies and programs that would enable the combined organization to help 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. Home notes that Happy Bank has successfully served the convenience and needs of the Texas communities in which it does business and represents that Centennial Bank would continue Happy Bank's current CRA program in Texas and use it to enhance the CRA program for the combined entity.



Home represents that Centennial Bank would establish a local regional board in Texas, as it has done for prior acquisitions, which would make local decisions, understand local needs, and be permitted a measure of autonomy in decision making to benefit the communities served by the combined bank. Home also represents that Centennial Bank and Happy Bank would work closely with their existing customers and members of their respective communities to offer products and services tailored to the needs of these communities. Home asserts that the combined bank would continue to offer the existing community outreach and financial literacy programs for underserved populations offered by Centennial Bank and Home Bank throughout the combined bank's geographic footprint. Home represents that it does not anticipate significant changes in the product offerings of the combined bank and does not anticipate any branch closings as a result of the proposal.

#### *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; the views of the Federal Reserve Bank of St. Louis, CFPB, and FDIC; confidential supervisory information; information provided by Home; the public comment on the proposal; and other 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 Considerations*

Section 3 of the BHC Act requires 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."<sup>38</sup> In

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<sup>38</sup> 12 U.S.C. § 1842(c)(7).

addition, the Bank Merger Act requires the Board to consider “risk to the stability of the United States banking or financial system.”<sup>39</sup>

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic “footprint” of the 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.<sup>40</sup> 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.<sup>41</sup>

The Board’s experience has shown that proposals involving an acquisition of less than \$10 billion in total 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

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<sup>39</sup> 12 U.S.C. § 1828(c)(5).

<sup>40</sup> Many of the metrics considered by the Board measure an institution’s activities relative to the United States financial system.

<sup>41</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.<sup>42</sup>

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 has less than \$10 billion in total assets and a pro forma organization of less than \$100 billion in total assets. Both the acquirer and the target are predominantly engaged in retail and commercial banking activities.<sup>43</sup> The pro forma organization would not have cross-border activities or 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 U.S. 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.

### ***Establishment of Branches***

Centennial Bank has applied under section 9 of the FRA to establish branches at the current locations of Happy Bank.<sup>44</sup> The Board has assessed the factors it

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<sup>42</sup> See People's 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.

<sup>43</sup> Home and Happy offer a range of retail and commercial banking products and services. Home has, and as a result of the proposal would continue to have, a small market share in these products and services on a nationwide basis.

<sup>44</sup> 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. Thus, a state member bank resulting from an interstate merger

is required to consider when reviewing an application under that section, including Centennial 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.<sup>45</sup> 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 application should be, and hereby is, approved.<sup>46</sup> In reaching its conclusion, the

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transaction may maintain and operate a branch in a state other than the home state of the bank in accordance with section 44 of the FDI Act. See 12 U.S.C. § 36(d). In addition, a state member bank may retain any branch following a merger that might be established as a new branch of the resulting bank under state law, as well as any branch that, on February 25, 1927, was in operation as a branch of any bank. See 12 U.S.C. § 36(b)(2) and (c). Upon consummation, Centennial Bank's branches would be permissible under applicable state law. See Tex. Fin. Code § 203.003(a).

<sup>45</sup> 12 CFR 208.6. Upon consummation of the proposed transaction, Centennial Bank's investments in bank premises would remain within the limits of section 208.21(a) of the Board's Regulation H, 12 CFR 208.21(a).

<sup>46</sup> The commenter requested that the Board hold public hearings on the proposal. Under section 3(b) of the BHC Act, the Board must hold a public hearing on a proposal if the appropriate supervisory authorities for the acquiring bank or the bank to be acquired make a timely written recommendation of disapproval of the proposal. 12 U.S.C. § 1842(b); see also 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also, in its discretion, may hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present their views. The Board has considered the commenter's request in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted a written comment that the Board has considered in acting on the proposal. The commenter's request does not identify disputed issues of fact that are material to the Board's decision and would be clarified by a public hearing. In addition, the request does not demonstrate why written comments do not present the commenter's views adequately or why a hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing is not required or

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 Home and Centennial Bank with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on any 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 15th 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 the Federal Reserve Bank of St. Louis, acting under delegated authority.

By order of the Board of Governors,<sup>47</sup> effective February 24, 2022.

*Michele Taylor Fennell (signed)*

Michele Taylor Fennell  
Deputy Associate Secretary of the Board

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warranted in this case. Accordingly, the request for public hearings on the proposal is denied.

The commenter also requested an extension of the comment period for the application. The commenter's request for additional time to comment did not identify circumstances that would warrant an extension of the public comment period for this proposal. Accordingly, the Board has determined not to extend the comment period.

<sup>47</sup> Voting for this action: Chair Pro Tempore Powell and Governors Bowman, Brainard, and Waller.

## Appendix

### *Texas Branches to Be Established*

1. 700 S Central Expressway, Suite 120, Allen, TX 75013
2. 16633 North Dallas Pkwy, #350, Addison, TX 75001
3. 1901 Central Dr., Suite 200, Bedford, TX 76021
4. 2525 Ridgmar Blvd., #300, Fort Worth, TX 76116
5. 3503 NE 24th Ave., Building 2, Amarillo, TX 79107
6. 207-C Sidney Baker South, Kerrville, TX 78028
7. 1145 Junction Hwy, Kerrville, TX 78028
8. 3375 E I-40, Amarillo, TX 79014
9. 5100 S Coulter St., Amarillo, TX 79119
10. 2614 S. Georgia St., Amarillo, TX 79109
11. 3423 S Soncy Road, Amarillo, TX 79119
12. 500 Tascosa Road, Amarillo, TX 79159
13. 701 S Taylor St., LB 120, Amarillo, TX 79101
14. 1431 W Wilson St., Borger, TX 79007
15. 1908 4th Ave., Canyon, TX 79015
16. 312 E 2nd St., Dalhart, TX 79022
17. 800 S Dumas Ave., Dumas, TX 79029
18. 105 S Wall St., Floydada, TX 79235
19. 100 E Main St., Happy, TX 79042
20. 201 N Main St., Lockney, TX 79421
21. 4402 19th St., Lubbock, TX 79407
22. 4411 98th St., Lubbock, TX 79424
23. 1025 Main St., Matador, TX 79244
24. 612 S Main St., Olton, TX 79064
25. 1125 N Hobart St., Pampa, TX 79065
26. 3110 Olton Road, Plainview, TX 79072
27. 711 N Main St., Shamrock, TX 79079
28. 500 Main St., Silverton, TX 79257
29. 100 N Main St., Stratford, TX 79084
30. 416 Main St., Sunray, TX 79086
31. 1408 S Alan L Bean Blvd., Wheeler, TX 79096
32. 901 MoPac Expressway S, Building 3, Ste 140, Austin, TX 78746
33. 221 S Main St., White Deer, TX 79097
34. 1689 River Road, Boerne, TX 78006
35. 710 S Adams, Fredericksburg, TX 78624
36. 424 Broadway St., Hart, TX 79043
37. 904 Avenue O, Lubbock, TX 79401
38. 6602 Quaker Ave., Lubbock, TX 79413
39. 7207 82nd St., Lubbock, TX 79424
40. 1292 Loop 337, New Braunfels, TX 78130

41. 210 N Broadway, Post, TX 79356
42. 103 Texas Ave., Slaton, TX 79364
43. 3201 Olton Road, Plainview, TX 79072
44. 1 Village Dr., Suite 100, Abilene, TX 79606
45. 1000 S Buchanan St., Amarillo, TX 79101
46. 5050 S Western St., Amarillo, TX 79109
47. 4302 SW 45th St., Amarillo, TX 79109
48. 3401 Bell St., Amarillo, TX 79109
49. 200 Main St., Canadian, TX 79014
50. 110 N 25 Mile Ave., Hereford, TX 79014
51. 621 Noel St., Memphis, TX 79245
52. 21 N Main St., Higgins, TX 79046
53. 201 Euclid Ave., Panhandle, TX 79068
54. 111 N 2nd St., Texline, TX 79087
55. 201 Main St., Turkey, TX 79261
56. 101 S Wheeler Ave., Mobeetie, TX 79061
57. 125 S Austin, Tulia, TX 79088
58. 101 N 3rd St., Bovina, TX 79009
59. 215 W Bedford St., Dimmitt, TX 79027
60. 202 S 1st St., Muleshoe, TX 79347
61. 1601 S 1st St., Tahoka, TX 79373
62. 559 IH 35, Suite 100, Round Rock, TX 78664
63. 2727 West 7th Street, Fort Worth, TX 76107<sup>48</sup>

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<sup>48</sup> Home represents that both the FDIC and Texas Department of Banking approved an application by Happy Bank to open a full-service branch at this location, where Happy Bank currently operates a loan processing office. Home anticipates opening the full-service branch in the second quarter of 2022.