FRB Order No. 2022-19
September 14, 2022

FEDERAL RESERVE SYSTEM

CBTX, Inc.
Beaumont, Texas

Order Approving the Merger of Bank Holding Companies

CBTX, Inc. ("CBTX"), Beaumont, Texas, a bank holding company within the meaning of the Bank Holding Company Act of 1956 ("BHC Act"),[1] has requested the Board's approval under section 3 of the BHC Act[2] to merge with Allegiance Bancshares, Inc. ("ABI"), a bank holding company, and thereby indirectly acquire its state nonmember bank subsidiary, Allegiance Bank, both of Houston, Texas. Following the proposed merger, CBTX's subsidiary, CommunityBank of Texas, National Association ("CommunityBank"), Beaumont, Texas, would be merged into Allegiance Bank.[3]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (87 Federal Register 4887 (January 31, 2022)), in accordance with the Board's Rules of Procedure.[4] 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 BHC Act.

CBTX, with consolidated assets of approximately $4.4 billion, is the 279th largest insured depository organization in the United States.[5] CBTX controls

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[1] 12 U.S.C. § 1841 et seq.

[2] 12 U.S.C. § 1842.

[3] The merger of CommunityBank into Allegiance Bank was approved by the Federal Deposit Insurance Corporation ("FDIC") on June 15, 2022, pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c).

[4] 12 CFR 262.3(b).

[5] Consolidated asset and national ranking data are as of March 31, 2022.

approximately $3.8 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.[6] CBTX controls CommunityBank, which operates branches in Texas. CommunityBank is the 35th largest insured depository institution in Texas, controlling deposits of approximately $3.4 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.[7]

ABI, with consolidated assets of approximately $7.1 billion, is the 197th largest insured depository organization in the United States. ABI controls approximately $6.2 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. ABI controls Allegiance Bank, which operates branches in Texas. Allegiance Bank is the 28th largest insured depository institution in Texas, controlling deposits of approximately $5.5 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of the proposal, CBTX would become the 147th largest insured depository organization in the United States, with consolidated assets of approximately $11.6 billion, which would represent less than 1 percent of the total assets of insured depository organizations in the United States. CBTX would control total consolidated deposits of approximately $10 billion, which would represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Texas, CBTX would become the 19th largest insured depository institution, controlling deposits of approximately $8.9 billion, which would represent less than 1 percent of the total deposits of insured depository institutions in that state.

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[6] Consolidated national deposit and market share data are as of March 31, 2022. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

[7] State deposit ranking and deposit data are as of June 30, 2021.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market.[8] The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the communities to be served.[9]

CBTX and ABI have subsidiary banks that compete directly in the Houston, Texas, banking market ("Houston market")[10] and the Beaumont-Port Arthur, Texas, banking market ("Beaumont market").[11] The Board has considered the competitive effects of the proposal in these banking markets. In particular, the Board has considered the relative share of total deposits in insured depository institutions in the market ("market deposits") that CBTX would control;[12] the concentration level of market deposits and the increase in this level, as measured by the Herfindahl-Hirschman Index

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[8] 12 U.S.C. § 1842(c)(1)(A).

[9] 12 U.S.C. § 1842(c)(1)(B).

[10] The Houston market is defined as the Houston-The Woodlands-Sugar Land metropolitan statistical area ("MSA"), which includes Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, and Waller counties; San Jacinto, Wharton, Colorado, Matagorda, Polk, and Walker counties; and the southern portion (the Navasota Census County Division) of Grimes County.

[11] The Beaumont market is defined as the Beaumont-Port Arthur, Texas MSA, which includes Hardin, Jefferson, and Orange counties.

[12] Local deposit and market share data are as of June 30, 2021, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

("HHI") under the Department of Justice ("DOJ") Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");[13] the number of competitors that would remain in the market; 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 and Beaumont markets. On consummation, the Houston market would remain highly concentrated, there would be a two-point increase in the HHI in the Houston market, and 107 competitors would remain in the market.[14] The Beaumont market would remain moderately concentrated, as measured by the HHI, according to the DOJ Bank Merger

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[13] In applying the DOJ Bank Merger Guidelines issued in 1995 (see https://www.justice.gov/atr/bank-merger-competitive-review-introduction-and-overview-1995), the Board looks to the DOJ's Horizontal Merger Guidelines, issued in 1992 and amended in 1997, for the characterization of a market's concentration. See https://www.justice.gov/atr/horizontal-merger-guidelines-0. Under these Horizontal Merger Guidelines, which were in effect prior to 2010, 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 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 (see https://www.justice.gov/atr/horizontal-merger-guidelines-08192010), the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), available at https://www.justice.gov/opa/pr/department-justice-and-federal-trade-commission-issue-revised-horizontal-merger-guidelines.

[14] CBTX is the 17th largest depository organization in the Houston market, controlling approximately $1.9 billion in deposits, which represent 0.58 percent of market deposits. ABI is the 11th largest depository organization in the market, controlling deposits of approximately $5.2 billion, which represent 1.55 percent of market deposits. On consummation of the proposed transaction, CBTX would become the 8th largest depository organization in the market, controlling deposits of approximately $7.2 billion, which would represent 2.13 percent of market deposits. The HHI for the Houston market would increase by 2 points to 2384.

Guidelines. In the Beaumont market, the HHI would increase by 138 points, and 17 competitors would remain in the market.[15]

The DOJ also has conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. 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 the Houston market, the Beaumont market, or any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved, the effectiveness of the institutions in combatting money laundering, and any public comments on the proposal.[16] 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

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[15] CBTX is the largest depository organization in the Beaumont market, controlling approximately $1.4 billion in deposits, which represent 19.61 percent of market deposits. ABI is the 9th largest depository organization in the market, controlling deposits of approximately $244 million, which represent 3.51 percent of market deposits. On consummation of the proposed transaction, CBTX would remain the largest depository organization in the market, controlling deposits of approximately $1.6 billion, which would represent 23.12 percent of market deposits. The HHI for the Beaumont market would increase by 138 points to 1299.

[16] 12 U.S.C. § 1842(c)(2), (5), and (6).

considers a variety of public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as 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 the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

CBTX, ABI, and their subsidiary depository institutions are well capitalized, and the combined organization would remain so upon 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 depository institutions.[17] The capital, asset quality, earnings, and liquidity of CBTX and ABI are consistent with approval, and CBTX and ABI appear to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, the future prospects of the institutions 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 CBTX, ABI, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by CBTX; the Board's supervisory experiences and those of other relevant bank supervisory agencies

[17] To effect the transaction, each share of Allegiance common stock would be converted into a right to receive shares of CBTX common stock based on an exchange ratio. CBTX has the financial resources to effect the proposed acquisition and mergers.

with the organizations; the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws; and any public comments received on the proposal.

CBTX, ABI, and their subsidiary depository institutions are 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.

The Board also has considered the plans for implementing the proposal. CBTX 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, CBTX would apply enhanced risk-management policies, procedures, and controls appropriate for the significantly larger organization that would result from the proposal. These policies, procedures, and controls are considered acceptable from a supervisory perspective. In addition, management of CBTX and ABI have the experience and resources to operate the combined organization in a safe and sound manner, and CBTX plans to integrate ABI's existing management and personnel in a manner that augments CBTX's management.

Based on all the facts of record, including CBTX's and ABI's supervisory records, 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 CBTX and ABI 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, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.[18] 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 Community Reinvestment Act ("CRA").[19] 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,[20] 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.[21]

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, gender, 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, its marketing and outreach plans, its 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 CommunityBank and Allegiance Bank; the fair lending and compliance records of both banks; the supervisory views of the FDIC and the Office of the

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[18] 12 U.S.C. § 1842(c)(2).

[19] 12 U.S.C. § 2901 et seq.

[20] 12 U.S.C. § 2901(b).

[21] 12 U.S.C. § 2903.

Comptroller of the Currency ("OCC"); confidential supervisory information; information provided by CBTX; and the public comments received on the proposal.

Summary of Public Comments on the Proposal

The Board received 18 public comments on the proposal from nonprofit organizations and other interested organizations and individuals. The vast majority of commenters expressed support for the proposal.[22] Most of the commenters commended CommunityBank for its dedication to community service, philanthropy, and community reinvestment as well as the bank employees' commitment to volunteering. In particular, the commenters noted service of CommunityBank executives on the boards of nonprofit organizations. Commenters also praised both CommunityBank's and Allegiance Bank's creative community development financing activities and funding for affordable housing.

The Board received one adverse comment on the proposal. The commenter objected to the proposal, alleging that in 2020, both CommunityBank and Allegiance Bank made fewer home loans in Texas to African American individuals as compared to white individuals.[23] The commenter also noted a 2021 civil money penalty against CommunityBank by the OCC for violations of the OCC's Bank Secrecy Act ("BSA") regulations.

Businesses of the Involved Institutions and Response to the Public Comment

CBTX operates primarily through CommunityBank and the bank's network of branches in Texas. CommunityBank offers a broad range of consumer and commercial loan and deposit products. These products include checking and savings accounts, debit cards, and retirement accounts as well as credit products, such as commercial and small business loans and mortgage loans. ABI operates through Allegiance Bank and the bank's network of branches in Texas. Allegiance Bank offers

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[22] The Board received 17 comments in support of the proposal.

[23] The data cited by the commenter appears to correspond to publicly available 2020 data by CommunityBank and Allegiance Bank under the Home Mortgage Disclosure Act of 1975 ("HMDA"). 12 U.S.C. § 2901 et seq.

consumer and commercial loan and deposit products. These products include checking, savings, and depository services as well as commercial, mortgage, agricultural, construction, and consumer loans.

In response to the comment, CBTX represents that the limited HMDA data referenced by the commenter are not inconsistent with approval of its application and do not reflect the CRA records or performance of either CommunityBank or Allegiance Bank in meeting the credit needs of their communities, including LMI areas and minority borrowers. In addition, CBTX notes that CRA examiners did not find any evidence of discriminatory or other illegal credit practices at CommunityBank or Allegiance Bank.

With regard to the BSA allegation, the commenter referred to civil money penalties imposed in connection with a June 17, 2020, Formal Agreement between CommunityBank and the OCC, which required the bank to take a number of steps to improve its BSA program.[24] The Formal Agreement was terminated on September 30, 2021, after the OCC determined that the continued existence of the agreement was no longer required. CBTX also paid civil money penalties to the OCC and FinCEN in 2021 in connection with the deficiencies identified in 2020.[25]

In addition, CBTX represents its BSA and anti-money laundering compliance program, which CBTX has enhanced to address regulators' concerns, would be implemented at the combined organization. CBTX states that its BSA and anti-money laundering compliance program has been improved to address regulators' concerns, particularly with regard to the program's personnel, technology, department structure, and reporting lines.

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[24] Among other measures, CBTX was required to improve its BSA-related internal controls; appoint a compliance committee; implement an automated BSA monitoring system; conduct adequate and independent BSA audits; implement comprehensive training programs; hire a permanent BSA officer; and develop enhanced due diligence, customer due diligence, and customer risk identification programs.

[25] In evaluating the comment, the Board has considered information provided by CBTX and reviewed confidential supervisory information with respect to the matters at issue in the Formal Agreement.

CBTX asserts that it is committed to continuing to meet its obligations under the CRA after consummation of the transaction. CBTX represents that both CommunityBank and Allegiance Bank have made efforts to increase mortgage applications from African Americans through marketing and advertisements, and both banks maintain relationships with nonprofits and community organizations serving African American communities. Additionally, CBTX asserts that CommunityBank provides significant affordable housing loans, and both banks provide flexible lending products attractive to LMI individuals. CBTX asserts that the combined organization would continue both banks' community outreach programs.

Records of Performance under the CRA

In evaluating the CRA performance of the involved institutions, the Board generally considers each institution's most recent CRA evaluation and the supervisory views of relevant federal supervisors, which in this case is the OCC with respect to CommunityBank and the FDIC with respect to Allegiance Bank.[26] In addition, the Board considers information provided by the applicant and by 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.[27] 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 CommunityBank and Allegiance Bank,

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

[27] 12 U.S.C. § 2906.

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 geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;[28] (4) the institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.[29] The Investment Test evaluates the number and amounts of qualified investments that benefit the institution's AAs, and the Service Test evaluates the availability and effectiveness of

[28] 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).

[29] See 12 CFR 228.22(b).

the institution's systems for delivering retail banking services and the extent and innovativeness of the institution's community development services.[30]

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.[31] 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.

CRA Performance of CommunityBank

CommunityBank was assigned an overall rating of "Outstanding" at its most recent CRA performance evaluation by the OCC, as of April 8, 2019 ("CommunityBank Evaluation").[32] The bank received "Outstanding" ratings for both the

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[30] See 12 CFR 228.21 et seq.

[31] When conducting fair lending examinations, examiners analyze additional information not available to the public, such as credit scores, before reaching a determination regarding an institution's compliance with fair lending laws.

[32] The CommunityBank Evaluation was conducted using Large Institution CRA Examination Procedures. The evaluation period for the Lending Test for small loans to businesses and home mortgage loans was January 1, 2016, through December 31, 2018. The evaluation period for CD Loans, Investments, and Services Tests was March 29, 2016, through December 31, 2018.

Lending Test and the Service Test, and a "High Satisfactory" rating for the Investment Test.[33]

With respect to the Lending Test, examiners found that CommunityBank's lending levels reflected good responsiveness to community credit needs. Examiners also found that the bank's mortgage and small business lending exhibited a good geographic dispersion, given the performance context. Examiners noted that although CommunityBank focused on commercial lending, it also provided mortgage loan products during the assessment period.

Examiners determined that CommunityBank's distribution of loans to retail customers of different income levels and business customers of different revenue sizes reflected good penetration, and the bank's distribution of small loans to businesses was good. Examiners found that CommunityBank provided an excellent level of community development loans in its two full-scope AAs and that the bank's performance in the limited-scope AA was consistent with the community development loan performance in the full-scope AAs.

With respect to the Investment Test, examiners found that CommunityBank's performance in the two full-scope AAs was good and that the bank made a significant level of qualified investments and donations with good responsiveness to the needs of its AAs. However, examiners observed that the bank's performance was weaker in its non-MSA AA than in the two full-scope AAs. With respect to the Service

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[33] The CommunityBank Evaluation involved full-scope reviews of the bank's activities in the Houston MSA AA and Beaumont MSA AA ("full-scope AAs"). The CommunityBank Evaluation involved a limited-scope review of the bank's Non-Metropolitan Statistical Area ("Non-MSA") AA, which was comprised of Wharton, Jasper, and Tyler counties ("limited-scope AA").

Examiners noted that the Houston MSA AA was given the most weight in the CommunityBank Evaluation, since CommunityBank's operations generally were heavily concentrated in that area. Additionally, because CommunityBank was regarded primarily as a commercial bank within the communities it served, small loans to businesses were assigned the greatest weight in the Lending Test, since that was the primary loan product for the bank. The Lending Test also received the most weight among the tests performed.

Test, examiners found that CommunityBank's performance was excellent, based on the bank's geographic distribution of full-service banking offices and ATMs, as well as the bank's strong commitment to community development services.

CRA Performance of Allegiance Bank

Allegiance Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of May 27, 2021 ("Allegiance Bank Evaluation").[34] The bank received a "High Satisfactory" rating for both the Lending Test and the Service Test and received an "Outstanding" rating for the Investment Test.[35]

With respect to the Lending Test, examiners found that Allegiance Bank's lending levels reflected excellent responsiveness to AA credit needs and that a high percentage of loans were made in the bank's AA. Examiners also found that the bank's geographic distribution of loans reflected adequate penetration throughout the AAs and, given the product lines offered by the institution, that the distribution of borrowers reflected adequate penetration among retail customers of different income levels and business customers of different sizes. Additionally, examiners determined the bank exhibited a good record of serving the credit needs of the most economically disadvantaged areas of its AAs, low-income individuals, and very small businesses. Examiners found the bank made extensive use of innovative and flexible lending

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[34] The Allegiance Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed loan data and community development activities from April 23, 2018, through May 27, 2021.

[35] The Allegiance Bank Evaluation involved a full-scope review of the bank's activities in the Houston MSA AA and Beaumont MSA AA. Examiners noted that Houston MSA AA was given the most weight in the Allegiance Bank Evaluation. Examiners used full-scope procedures to assess the bank's performance in the Beaumont MSA AA since examiners had not reviewed it previously, as it was added following the bank's prior CRA evaluation. Examiners did not analyze small farm loans, since they did not account for a substantial portion of either the number or dollar volume of reported loans. Small business loans received more weight in both AAs because they represented a higher proportion of the loan categories reviewed by both number and dollar volume.

practices in order to serve AA credit needs and was a leader in making community development loans.

With respect to the Investment Test, examiners determined that Allegiance Bank had an excellent level of qualified community development investments and grants, including those that were not routinely provided by private investors. Examiners found the bank exhibited excellent responsiveness to credit and community development needs and used innovative or complex investments to support community development initiatives. With respect to the Service Test, examiners found Allegiance Bank's delivery systems to be reasonably accessible and that the bank's opening and closing of branches had not adversely affected the accessibility of the bank's delivery systems, particularly in LMI geographies and to LMI individuals. In addition, examiners noted that the bank's services did not vary in a way that inconvenienced customers within the bank's AAs, particularly LMI customers and customers in LMI areas.

Additional Supervisory Views

In its review of the proposal, the Board consulted with and considered the views of the OCC, as the primary federal supervisor of CommunityBank, and the FDIC, as the primary federal supervisor of Allegiance Bank, with respect to the banks' CRA, consumer compliance, and fair lending records. The Board also considered the results of the most recent consumer compliance examinations of CommunityBank and Allegiance Bank, which included reviews of the banks' compliance management programs and compliance with consumer protection laws and regulations.

The Board has taken the foregoing consultations and examinations into account in evaluating the proposal, including in considering whether CBTX has the experience and resources to ensure that the combined organization would help meet the credit needs of the communities to be served following consummation of the proposed transaction.

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. CBTX represents that the proposed transaction would allow CommunityBank and Allegiance Bank to combine their complementary product and service offerings, which would benefit the banks' communities and enable the combined institution to develop an enhanced CRA program. CBTX states that while both banks focus primarily on commercial banking, CommunityBank's full line of personal financial products and services for retail customers complements Allegiance Bank's tailored financial services for businesses and entrepreneurs. CBTX represents that both banks would continue to offer banking deposit and credit products to meet the needs of LMI individuals and communities and small businesses.

CBTX states that it is considering consolidating three pairs of branches where the Allegiance Bank and CommunityBank branches are located in close proximity.[36] CBTX asserts that the branch consolidations would not meaningfully impact customer service or affect the nature of the combined bank's business, given the proximity of the existing branches.

The FDIC's approval of the merger of CommunityBank into Allegiance Bank includes a condition requiring the combined institution to develop an action plan, to be submitted to the FDIC for approval, for improving the extent of home mortgage applications from, and originations to, African American applicants in the combined institution's assessment areas. This condition will help ensure that the resulting firm

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[36] Section 42 of the Federal Deposit Insurance Act (12 U.S.C. §1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 Federal Register 34844 (June 29, 1999)), requires that a bank provide the public with at least 30 days' notice, and the appropriate federal supervisory agency with at least 90 days' notice, before the date of a proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

helps in meeting the home mortgage credit needs of the African American population in the combined institution's assessment areas.

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, confidential supervisory information, information provided by CBTX, the public comments 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 convenience and needs considerations are 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."[37]

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 would contribute to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.[38] These categories are not exhaustive, and additional categories could inform the Board's decision.

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[37] 12 U.S.C. § 1842(c)(7).

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

In addition to these quantitative measures, the Board considers qualitative factors, such as the opacity 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 on the broader economy.[39]

The Board's experience has shown that proposals involving the acquisition of a firm with less than $10 billion in total assets, or that would result in a firm with less than $100 billion in total assets, generally are 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.[40]

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 with less than $10 billion in total assets and a pro forma organization with less than $100 billion in total assets. Both the acquirer and the target are predominantly engaged in commercial banking activities and also offer retail products and services.[41] The pro forma organization 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

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

[40] 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.

[41] CBTX and ABI focus on commercial banking products and services but also offer retail banking products and services. CBTX 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.

services provider or so interconnected with other firms or the markets that it would pose a significant risk to the financial system in the event of financial distress.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the United States banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved.[42] In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by CBTX with all the conditions imposed in this order and on any commitments made to the Board in connection with the proposal. The Board's approval also is conditioned on receipt by CBTX of all required regulatory

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[42] A commenter requested that the Board hold public hearings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on any proposal unless 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); 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities.

Under its rules and in its discretion, the Board also may hold a public meeting 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 meeting. In addition, the request does not demonstrate why written comments do not present the commenter's views adequately or why a meeting otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public meeting is not required or warranted in this case. Accordingly, the request for a public meeting is denied.

approvals. 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 Dallas, acting under delegated authority.

By order of the Board of Governors,[43] effective September 14, 2022.

Michele Taylor Fennell (signed)
Michele Taylor Fennell
Deputy Associate Secretary of the Board

43 Voting for this action: Chair Powell, Vice Chair Brainard, Vice Chair for Supervision Barr, Governors Bowman, Waller, Cook and Jefferson.