

FEDERAL RESERVE SYSTEM

Veritex Community Bank  
Dallas, Texas

Order Approving Establishment of a Branch

Veritex Community Bank (“Veritex Bank”), a state member bank subsidiary of Veritex Holdings, Inc., both of Dallas, Texas, has requested the Board’s approval under section 9 of the Federal Reserve Act (“Act”)<sup>1</sup> and the Board’s Regulation H<sup>2</sup> to establish a branch at 2700 Oak Lawn Avenue, Dallas, Texas (the “Oak Lawn branch”).

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the Board’s Rules of Procedure.<sup>3</sup> The time for filing comments has expired, and the Board has considered the notice and all comments received in light of the factors specified in the Act.

Veritex Bank is the 89th largest depository institution in Texas, controlling approximately \$613 million in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.<sup>4</sup> Veritex Bank’s main office is in Dallas, and the bank has eight additional branches throughout Dallas and Collin counties.

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<sup>1</sup> 12 U.S.C. § 321 et seq.

<sup>2</sup> 12 CFR part 208.

<sup>3</sup> 12 CFR 262.3(b).

<sup>4</sup> Data are as of June 30, 2014, the most recent available, and are updated to reflect mergers through that date. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

Under the Board's Regulation H, which implements section 9 of the Act,<sup>5</sup> the factors that the Board must consider in acting on branch applications include (1) the financial history and condition of the applying bank and the general character of its management; (2) the adequacy of the bank's capital and its future earnings prospects; (3) the convenience and needs of the community to be served by the branch; (4) in the case of branches with deposit-taking capability, the bank's performance under the Community Reinvestment Act ("CRA");<sup>6</sup> and (5) whether the bank's investment in bank premises in establishing the branch satisfies certain criteria.<sup>7</sup>

The Board has considered the application in light of these factors and public comment received on the proposal. A commenter objected to the proposal and alleged that Veritex Bank discriminates against African Americans and redlines African American neighborhoods, particularly in Dallas.<sup>8</sup>

#### Financial, Managerial, and Other Supervisory Considerations

In considering the financial history and condition, earnings prospects, and capital adequacy of Veritex Bank, the Board has reviewed reports of examination, other supervisory information, publicly reported and other financial information, information provided by Veritex Bank, and the comment received. Veritex Bank is well capitalized and would remain so on consummation of the proposal. After carefully considering all the facts of record, the Board has concluded that the financial history and condition, capital adequacy, and future earnings prospects of Veritex Bank are consistent with approval of the proposal. The Board also has reviewed Veritex Bank's proposed

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<sup>5</sup> 12 CFR 208.6(b).

<sup>6</sup> 12 U.S.C. § 2901 et seq.

<sup>7</sup> 12 CFR 208.6(b).

<sup>8</sup> Redlining is the practice of denying a creditworthy applicant a loan or service in a certain neighborhood even though the applicant may otherwise be eligible for the loan or service.

investment in the Oak Lawn branch and concluded that its investment is consistent with regulatory limitations on investment in bank premises.<sup>9</sup>

In considering Veritex Bank's managerial resources, the Board has reviewed the bank's examination record, including assessments of its management, risk-management systems, and operations. The Board also has considered its supervisory experiences with Veritex Bank and the bank's record of compliance with applicable banking laws, including anti-money-laundering laws. Veritex Bank is considered to be well managed. Based on this review and all the facts of record, the Board has concluded that the character of Veritex Bank's management, as well as the records of effectiveness of Veritex Bank in combatting money laundering activities, are consistent with approval of the proposal.

#### Convenience and Needs Considerations

The Board also has considered the convenience and needs of the community to be served, taking into account the comment received and the bank's performance under the CRA. The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation.<sup>10</sup> In addition, the CRA requires the appropriate federal financial supervisory agency to take into account a relevant depository institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.<sup>11</sup>

The Board has considered all the facts of record. The Oak Lawn branch would be located in an LMI area and an area where the majority of the residents are minority. The Board has also considered reports of examination of the CRA performance

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<sup>9</sup> 12 CFR 208.21(a).

<sup>10</sup> 12 U.S.C. § 2901(b).

<sup>11</sup> 12 U.S.C. § 2903.

of Veritex Bank, data reported by Veritex Bank under the Home Mortgage Disclosure Act (“HMDA”),<sup>12</sup> other information provided by Veritex Bank, confidential supervisory information, the public comment received on the proposal, and other information. As noted above, a commenter objected to the proposal and alleged that Veritex Bank had engaged in discriminatory lending practices in the Dallas area.

A. Record of Performance Under the CRA

As provided in the CRA, the Board evaluates an institution’s performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of that institution.<sup>13</sup> The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution’s record of meeting the credit needs of its entire community, including LMI neighborhoods.<sup>14</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 of the institution’s overall record of performance under the CRA by its appropriate federal supervisor.<sup>15</sup>

Veritex Bank received a “satisfactory” rating by the Federal Reserve Bank of Dallas (“Reserve Bank”) at its most recent CRA performance evaluation, as of November 12, 2013 (“2013 CRA Evaluation”). Veritex Bank received “satisfactory” ratings for the Lending Test and the Community Development Test.<sup>16</sup> Examiners noted

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<sup>12</sup> 12 U.S.C. § 2801 et seq.

<sup>13</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665.

<sup>14</sup> 12 U.S.C. § 2906.

<sup>15</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642 (2010).

<sup>16</sup> The 2013 CRA Evaluation was conducted using the Intermediate Small Bank CRA Examination Procedures. For the Lending Test, a sample of small business loans originated from July 1, 2012, through December 31, 2012 was evaluated, as well as Veritex Bank’s 2011 and 2012 HMDA data.

that Veritex Bank has been reasonably responsive to the credit needs and community development needs of its assessment areas. Examiners noted that Veritex Bank extended the majority of its loans inside its assessment area and that its distribution of loans to LMI borrowers and to businesses of different sizes was reasonable. More specifically, the examiners found that the geographic distribution of the bank's lending reflected excellent penetration throughout the assessment area, including LMI geographies, given the location of the bank's branches and the competitive local banking environment. In addition, examiners found no evidence of discriminatory or other illegal credit practices and found that the bank was in compliance with the substantive provisions of relevant anti-discrimination laws and regulations. The proposed branch would be located in an LMI area and is expected to provide a source of lending and other banking services to minorities and LMI residents in that area.

Examiners noted that the bank's responsiveness to community development needs was adequate considering its capacity, those needs, and available opportunities. According to examiners, Veritex Bank applied its community development resources to meet community needs, primarily through community development lending initiatives and social services targeted to LMI individuals in its community.

Veritex Bank represents that, since the 2013 CRA Evaluation, it has become a member of the Dallas Mortgage Assistance Program, which assists homebuyers with total household income of less than 80 percent of the Dallas Area median family income to purchase a home within the Dallas city limits. Veritex Bank represented that it is working to launch financial literacy and mortgage awareness programs in LMI areas. In addition, the bank represents that it is working to increase mortgage lending in LMI areas, particularly southern Dallas County, and is working toward developing relationships with non-profit and other small business assistance entities to develop potential loan relationships.

#### B. Fair Lending and Other Consumer Protection Laws

The Board has considered the record of Veritex Bank in complying with fair lending and other consumer protection laws. As part of this evaluation, the Board

reviewed Veritex Bank's 2013 CRA Evaluation and a comprehensive fair lending and redlining review completed by the Reserve Bank at Veritex Bank; assessed Veritex Bank's HMDA data and fair lending policies and procedures; and considered confidential supervisory information, other information, the comment on the application, and the bank's response to the comment.

The Board also considered that the location of the Oak Lawn branch is in an LMI area and an area where the majority of the residents are minority. The proposed branch will be located near West Dallas, a traditionally underserved community, and the bank intends to use the proposed branch's location to establish new deposit and lending relationships with customers in the area. Veritex Bank also represents that the Oak Lawn branch will benefit depositors by improving customer convenience, creating efficiency, and expanding the availability of products and services to banking customers within the underserved community of West Dallas.

#### *Fair Lending Analysis*

The Reserve Bank conducted a comprehensive fair lending and redlining review at Veritex Bank contemporaneously with the 2013 CRA Evaluation of Veritex Bank. Based on their entire review, examiners did not find evidence of illegal credit discrimination.

With respect to the bank's branching strategy, examiners found that the majority of Veritex Bank's branches were located in tracts in which 25-50 percent or a majority of the population is minority. Examiners noted that a number of the bank's branches were added as a result of recent acquisitions and that most of the de novo branches have stayed within the footprint established by the acquired banks, with half of such branches being in tracts where 25-50 percent of the population is minority at the time of the examination. Examiners did not find any disparity in access to products and services between branches in tracts that do not have a substantial population of minorities and those in which either 25-50 percent or a majority of the population is minority. Examiners further found the bank's branching locations to be reasonable.

Examiners also reviewed the bank's lending policies and procedures, including the fair lending policy. Veritex Bank has instituted policies and procedures to help ensure compliance with fair lending and other consumer protection laws and regulations. Veritex Bank has a formal fair lending compliance program, which includes a training program and a fair lending compliance webinar for all employees. Veritex Bank also has a centralized consumer complaints process for resolving any complaints. Veritex bank completes internal fair lending audits and contracts with an external firm to perform semi-annual audits.

#### *HMDA Data*

The Board analyzed Veritex Bank's HMDA data related to all HMDA-reportable loans from 2011, 2012, and 2013 for its assessment area to develop a view of the bank's overall lending patterns. In particular, as described further below, the Board reviewed the data developed by Reserve Bank examiners in their recent redlining review of the bank. Veritex Bank's assessment area, at the time of the 2013 CRA Evaluation, included portions of Dallas and Collin counties. The assessment area included substantially all of the census tracts in Collin County in which African Americans and/or Hispanic residents composed a majority of the population in those tracts. The assessment area also included nearly half of such tracts in Dallas County.<sup>17</sup>

The Board is concerned when HMDA data for an institution indicate lending disparities. The Board believes that all lending institutions are obligated to ensure that their lending practices are based on criteria that are consistent with safe and sound lending, but also to provide equal access to credit by creditworthy applicants, regardless of their race or ethnicity. Although HMDA data may reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in certain local areas, HMDA data alone do not provide a

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<sup>17</sup> Following the 2013 CRA Evaluation Veritex Bank expanded the Dallas County portion of its assessment area to include all of Dallas County.

sufficient basis on which to conclude whether a bank excludes or denies credit to any group on a prohibited basis.<sup>18</sup> Fully evaluating a bank's compliance with fair lending laws and regulations requires a thorough review of the bank's application and underwriting policies and procedures, as well as access to information contained in the application files, to determine whether the observed lending disparities persist after taking into account legitimate underwriting factors.

In comparing the percentage of Veritex Bank's HMDA applications and originations in census tracts in which a majority of the population is African American and/or Hispanic to the aggregate of all lenders or the adjusted aggregate for 2011 and 2012, examiners did not find statistically significant disparities for the portion of the bank's assessment area located in Collin County in 2011 or 2012 or for the portion located in Dallas County in 2011. Examiners found some statistically significant disparities in the bank's percentage of applications from such tracts compared to the aggregate and the adjusted aggregate in 2012 in Dallas County. However, the bank's percentage of originations from census tracts in which a majority of the population is African American and/or Hispanic did not differ in a statistically significant way compared with the aggregate and adjusted aggregate in Dallas County in 2012.

### C. Conclusion on Convenience and Needs Considerations

As noted, the Reserve Bank conducted a comprehensive fair lending and redlining review at Veritex Bank contemporaneously with the 2013 CRA Evaluation of Veritex Bank and, based on their entire review, did not find evidence of illegal credit discrimination. Moreover, the Oak Lawn branch would be located in an LMI area and an

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<sup>18</sup> The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of any applicant's creditworthiness. In addition, credit history problems, excessive debt levels relative to income, and high loan amounts relative to the value of the real estate collateral (the reasons most frequently cited for a credit denial or higher credit cost) are not always available from HMDA data.

area where the majority of the residents are minority, which is expected to allow Veritex Bank to establish new deposit and lending relationships with, and better serve, customers in the area. Based on all the facts of record, and for the reasons described in this order, the Board concludes that the convenience and needs factor, including Veritex Bank's CRA record, is consistent with approval of the application.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. The Board's approval is specifically conditioned on Veritex Bank's compliance with all commitments made to the Board in connection with the proposal as well as all conditions imposed in this order. The commitments and conditions relied on by the Board are deemed to be conditions imposed in writing in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

Approval of this application is also subject to the establishment of the proposed branch within one year of the date of this order, unless such period is extended by the Board or the Reserve Bank, acting under authority delegated by the Board.

By order of the Board of Governors,<sup>19</sup> effective December 8, 2014.

*Margaret McCloskey Shanks (signed)*

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Margaret McCloskey Shanks  
Deputy Secretary of the Board

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<sup>19</sup> Voting for this action: Chair Yellen and Vice Chairman Fischer, Governors Tarullo, Powell, and Brainard