

FEDERAL RESERVE SYSTEM

Sandhills Bancshares, Inc.
Iraan, Texas

Order Approving the Formation of a Bank Holding Company

Sandhills Bancshares, Inc. (“Sandhills”) has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)¹ to become a bank holding company and to acquire all the voting shares of TransPecos Banks-Iraan (“Bank”),² both of Iraan, from TransPecos Financial Corp., San Antonio, all of Texas.³

Notice of the proposal, affording interested persons an opportunity to comment, has been published (74 Federal Register 34,015 (2009)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

Sandhills is a newly organized corporation formed for the purpose of acquiring control of Bank. Bank, with total assets of approximately \$23.7 million, is the 583rd largest insured depository institution in Texas, controlling deposits of

¹ 12 U.S.C. § 1842.

² Bank’s name will change to Tejas Bank after the acquisition. Bank currently has one branch in Iraan, Texas, and had filed an application with the Federal Deposit Insurance Corporation (“FDIC”) and the Texas Department of Banking (“TDOB”), Bank’s primary federal and state supervisors, to establish a second branch in Monahans, Texas, on consummation of this proposal. The Board received one comment in opposition and fourteen comments in support of the proposal to establish the Monahans branch. Those comments were forwarded to the TDOB and FDIC, and both agencies have approved the proposed branch (September 8 and September 11, 2009, respectively).

³ The seller is a bank holding company with one other subsidiary bank, TransPecos Banks, Pecos, Texas.

approximately \$21.2 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.⁴

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or that would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant 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 community to be served.⁵

Sandhills does not currently control a depository institution. Based on all the facts of record, the Board has concluded that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations and Future Prospects

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors.⁶ The Board has considered the factors in light of all the facts of record, including supervisory and examination information received from the relevant federal and state supervisors of Bank and publicly reported and other available financial information, including information provided by

⁴ Asset and deposit data are as of June 30, 2009. State ranking is based on 2008 FDIC Summary of Deposit data. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

⁵ 12 U.S.C. § 1842(c)(1).

⁶ 12 U.S.C. § 1842(c)(2) and (3).

Sandhills. In addition, the Board has consulted with the primary federal and state supervisors of Bank.

In evaluating financial factors in proposals involving newly formed small bank holding companies, the Board reviews the financial condition of both the applicant and the target depository institution. The Board also evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding on the transaction. In addition, for proposals involving small bank holding companies, the Board evaluates the institutions' compliance with the Board's Small Bank Holding Company Policy Statement, including compliance with those measures that are to be used to assess capital adequacy and overall financial strength.⁷ In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

The Board has considered carefully the financial factors of the proposal. Bank currently is well capitalized and would remain so on consummation of the proposal, and Sandhills would be in compliance with relevant capital standards. The transaction is structured as a cash purchase funded from the proceeds of an issuance of new holding company stock. Based on its review of those factors, the Board finds that Sandhills has sufficient financial resources to effect the proposal and to comply with the Board's Small Bank Holding Company Policy Statement.⁸

The Board also has considered the managerial resources of the applicant, including the proposed management of the organization. The Board has reviewed the examination records of Bank, including assessments of its current management, risk-management systems, and operations. In addition, the Board has considered the supervisory experience of the other relevant banking agencies with Bank, including its records of compliance with applicable banking laws and anti-money laundering laws,

⁷ 12 CFR 225, appendix C.

⁸ Sandhills also has adequate resources to finance the establishment of the proposed Monahans branch.

and the proposed management officials and principal shareholders of Sandhills. The Board also has considered Sandhills' plan for the proposed acquisition, including the proposed changes in management at Bank after the acquisition.⁹

The Board also has considered carefully the future prospects of Sandhills and Bank. Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.¹⁰

Convenience and Needs Considerations

In acting on proposals under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured

⁹ The Board received a comment regarding two proposed officers and directors of Sandhills from a bank in Monahans, Texas, where Bank plans to open its new branch. One of the individuals was previously employed by a bank that was acquired by the commenter, and the other had worked for a company that provided services to such bank. The commenter alleged that these individuals potentially could use proprietary knowledge about the commenter's operations and customers. The commenter also alleged that the proposed service of its former employee at Sandhills would violate an unwritten, implied agreement not to serve as an employee of a competitor institution. The commenter further alleged, without providing any substantiating information, that the second proposed official had previously failed to provide certain services to the bank acquired by the commenter. The proposed management officials denied the commenter's allegations including that any implied agreement restricts the employment of any of Bank's employees. In weighing the managerial factor, the Board has considered carefully the information provided by the commenter, information on all proposed management officials provided by Sandhills, including information on the management record in banking of the individual who was employed by the bank acquired by the commenter, and available supervisory and other information.

¹⁰ The commenter also raised concerns about the future prospects of the proposed Monahans branch. As previously noted, the Board forwarded these comments to the TDOB and FDIC, the primary supervisors with jurisdiction to act on the proposed branch filings, for their consideration, and both agencies have approved establishment of the branch.

depository institutions under the Community Reinvestment Act (“CRA”).¹¹ Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the FDIC, as of July 30, 2007. After consummation of the proposal, Sandhills does not plan to alter the Bank’s current CRA policies. Sandhills has represented that the proposal would provide convenience to Bank’s customers by continuing products and services currently offered by Bank.

Conclusion

Based on the foregoing and all facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board’s approval is specifically conditioned on compliance by Sandhills with all representations and commitments made to the Board in connection with the application. For purposes of this action, these representations and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Dallas, acting pursuant to delegated authority.

By order of the Board of Governors,¹² effective October 1, 2009.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹¹ 12 U.S.C. § 2901 et seq.

¹² Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.