

FEDERAL RESERVE SYSTEM

Cullen/Frost Bankers, Inc.
San Antonio, Texas

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

Cullen/Frost Bankers, Inc. (“Cullen/Frost”), San Antonio, Texas, has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)¹ to merge with WNB Bancshares, Inc. (“WNB Bancshares”), and thereby acquire its subsidiary bank, Western National Bank, both of Odessa, Texas. In addition, Cullen/Frost’s subsidiary state member bank, Frost Bank, San Antonio, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”)² to merge with Western National Bank, with Frost Bank as the surviving entity. Frost Bank also has applied under section 9 of the Federal Reserve Act (“FRA”) to establish and operate branches at the main office and the branches of Western National Bank.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (78 Federal Register 54647 (September 5, 2013)).⁴ As required by the Bank Merger Act, a report on the competitive effects of the bank merger was requested from the United States

¹ 12 U.S.C. § 1842.

² 12 U.S.C. § 1828(c).

³ 12 U.S.C. § 321. These locations are listed in the appendix.

⁴ 12 CFR 262.3(b).

Attorney General, and a copy of the request was provided to the appropriate banking agency. 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, the Bank Merger Act, and the FRA.

Cullen/Frost, with consolidated assets of approximately \$24.4 billion, is the 55th largest insured depository organization in the United States, controlling approximately \$20.8 billion in deposits.⁵ Cullen/Frost controls Frost Bank, which operates only in Texas. Frost Bank is the sixth largest depository institution in Texas, controlling deposits of \$19.1 billion, which represent 2.9 percent of the total deposits of insured depository institutions in that state.⁶

WNB Bancshares, with total consolidated assets of \$1.5 billion, controls Western National Bank, which operates in Texas. Western National Bank is the 45th largest insured depository institution in Texas, controlling deposits of approximately \$1.2 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, Cullen/Frost would become the 53rd largest insured depository organization in the United States, controlling consolidated assets of approximately \$25.9 billion. Cullen/Frost would control total consolidated deposits of approximately \$22.2 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Texas, Frost Bank would remain the sixth largest insured

⁵ Asset and nationwide deposit-ranking data are as of December 31, 2013, unless otherwise noted.

⁶ State deposit data are as of June 30, 2013, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

depository organization, controlling deposits of approximately \$20.3 billion, which represent 3.1 percent of the total deposits of insured depository institutions in that state.

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. Both statutes also prohibit 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.⁷

Cullen/Frost and WNB Bancshares have subsidiary depository institutions that compete directly in the San Antonio, Texas, banking market.⁸ The Board has considered the competitive effects of the proposal in this banking market in light of all the facts of record. In particular, the Board has considered the relative shares of total deposits in insured depository institutions in the markets (“market deposits”) controlled by Cullen/Frost and WNB Bancshares;⁹ the

⁷ 12 U.S.C. §§ 1842(c)(1) and 1828(c)(5).

⁸ The San Antonio banking market is defined as Bexar, Comal, Guadalupe, Kendall, and Wilson counties, all in Texas.

⁹ Deposit and market share data are as of June 30, 2013, 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), and National (continued)

concentration levels of market deposits and the increase in these levels, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);¹⁰ the number of competitors that would remain in the banking 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 for this market. On consummation of the proposal, the banking market would remain highly concentrated, as measured by the HHI, and numerous competitors would remain.¹¹

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).

¹⁰ Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), www.justice.gov/opa/pr/2010/August/10-at-938.html.

¹¹ Cullen/Frost operates the second largest depository institution in the San Antonio banking market, with approximately \$7.1 billion in deposits, which represent 13.4 percent of market deposits. WNB Bancshares operates the 34th largest depository institution in the market, controlling deposits of approximately \$44.9 million, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, Cullen/Frost would continue to operate (continued)

The DOJ 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 banking market in which Cullen/Frost and WNB Bancshares compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In evaluating financial factors in expansionary proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and a consolidated basis, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, and 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

the second largest depository institution in the market, controlling deposits of approximately \$7.1 billion, which represent 13.4 percent of market deposits. The HHI would increase by two points to 3061, and 52 competitors would remain in the market.

the proposed integration of the operations of the institutions. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. Further, the Board has considered the future prospects of the organizations involved in the proposal in light of the financial and managerial resources and the proposed business plan.

The Board has considered the financial factors of the proposal. Cullen/Frost and Frost Bank are both well capitalized and would remain so on consummation of the proposed acquisition. The proposed transaction is a bank holding company merger, structured as an exchange of shares.¹² The asset quality, earnings, and liquidity of Frost Bank and Western National Bank are consistent with approval, and Cullen/Frost appears to have adequate resources to absorb the costs of the proposal and to complete integration of the institutions' operations. Based on its review of the record, the Board finds that the organization has sufficient financial resources to effect the proposal.

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 Cullen/Frost, WNB Bancshares, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other bank supervisory agencies with the

¹² Applicants would effect the acquisition by merging Special Prairie Holding Co., a wholly owned subsidiary of Cullen/Frost, with and into WNB Bancshares (with WNB Bancshares as the survivor). At the time of the merger, each share of WNB Bancshares common stock would be converted into a right to receive Cullen/Frost common stock and cash, based on an exchange ratio. Immediately after this merger, WNB Bancshares would merge with and into Cullen/Frost (with Cullen/Frost as the survivor).

organizations and their records of compliance with applicable banking and anti-money-laundering laws.

Cullen/Frost, WNB Bancshares, and their subsidiary depository institutions are each considered to be well managed. Cullen/Frost's existing risk-management program and its directorate and senior management are considered to be satisfactory. The directors and senior executive officers of Cullen/Frost have substantial knowledge of and experience in the banking and financial services sectors.¹³

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

Cullen/Frost's supervisory record, managerial and operational resources, and plans for operating the combined institutions after consummation provide a reasonable basis to conclude that managerial factors are consistent with approval.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future

¹³ Both the chairman and the chief executive officer of Cullen/Frost would continue in their roles following consummation of the proposed transaction.

prospects of the organizations involved in the proposal, as well as the records of effectiveness of Cullen/Frost and WNB Bancshares 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 under the Bank Merger Act, the Board must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act (“CRA”).¹⁴ 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,¹⁵ and 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.¹⁶

The Board has considered all the facts of record, including reports of examination of the CRA performance of Frost Bank and Western National Bank, data reported by Frost Bank and Western National Bank under the Home Mortgage Disclosure Act (“HMDA”),¹⁷ other information provided by Cullen/Frost, confidential supervisory information, and the public comment received on the

¹⁴ 12 U.S.C. §§ 1842(c)(2) and 1828(c)(5); 12 U.S.C. § 2901 et seq.

¹⁵ 12 U.S.C. § 2901(b).

¹⁶ 12 U.S.C. § 2903.

¹⁷ 12 U.S.C. § 2801 et seq.

proposal. A commenter objected to the proposal and alleged that Frost Bank had engaged in discriminatory lending practices in the Houston, Texas, area.

A. Records 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 the relevant institutions.¹⁸ 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.¹⁹ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, onsite evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.

CRA Performance of Frost Bank

Frost Bank was assigned a "satisfactory" rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency ("OCC"), as of August 11, 2008 ("Frost Bank Evaluation"). Examiners noted that Frost Bank's lending levels reflected good responsiveness to its deposit market share and area credit needs, particularly regarding loans to small businesses, and that Frost Bank's level of community development loans was high.²⁰ Frost Bank

¹⁸ See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642 at 11665 (March 11, 2010).

¹⁹ 12 U.S.C. § 2906.

²⁰ The evaluation period for the Lending Test in the Frost Bank Evaluation was January 1, 2005, through December 31, 2007, except for community development (continued)

received “high satisfactory” ratings on both the Lending Test and Investment Test and a “low satisfactory” rating on the Service Test.²¹

For the Lending Test, examiners noted that Frost Bank’s lending levels reflected good responsiveness to its deposit market share and area credit needs, particularly regarding loans to small businesses.²² Examiners also observed that the bank’s distribution of all CRA-reportable loans by income level of geography was good. Examiners did not identify any conspicuous gaps in the geographic distribution of home mortgage loans and small loans to businesses during the evaluation period, and they noted that the bank’s distribution of loans inside its assessment areas was excellent. Examiners found that Frost Bank’s

loans, which had an evaluation period from January 1, 2005, through August 10, 2008. The evaluation period for the Investment Test and Service Test was from January 1, 2005, through August 10, 2008.

²¹ The Frost Bank Evaluation was conducted using Large Institution CRA Examination Procedures and included a full-scope assessment review of four areas: the Austin-Round Rock, Texas Metropolitan Statistical Area (“MSA”) (“Austin MSA”); the Houston, Texas Assessment Area (“Houston AA”); the San Antonio, Texas Assessment Area (“San Antonio AA”); and the Tarrant County, Texas Assessment Area (“Tarrant County AA”). A limited-scope review was performed in the Brownsville-Harlingen, Texas and McAllen-Edinburg-Mission, Texas MSAs; the Corpus Christi, Texas Assessment Area; the Dallas County, Texas Assessment Area; and the Willacy County, Texas Assessment Area. Examiners placed approximately equal weight on the bank’s performance in the Houston AA, the San Antonio AA, and the Tarrant County AA based on their respective shares of deposits and loans. Examiners placed less weight on the bank’s performance in the Austin MSA given its smaller market share of loans and deposits.

²² In evaluating the Lending Test, examiners placed greater weight on Frost Bank’s small business lending, which represented 74 percent of the bank’s CRA-reportable loans originated or purchased during the evaluation period.

distribution of all CRA-reportable loans by income level of the borrower was adequate.

Examiners noted that Frost Bank's performance in community development lending had a positive impact on Frost Bank's Lending Test performance in three of the bank's four full-scope assessment areas and an overall positive impact on the Lending Test conclusions. During the evaluation period, Frost Bank originated three loans totaling \$90,000 within the Austin MSA, 14 community development loans totaling approximately \$24.4 million in the Houston AA, 17 loans totaling approximately \$82.8 million in the San Antonio AA, and 16 loans totaling approximately \$42.5 million in the Tarrant County AA. Examiners noted that, in the Houston AA, Frost Bank originated an \$8.5 million loan for the construction and short-term financing of facilities for a nonprofit organization that provided services related to the treatment and prevention of alcohol and drug abuse. Examiners noted that the majority of the beneficiaries of the organization's services were LMI individuals.

In evaluating Frost Bank's performance under the Investment Test, examiners found that Frost Bank's investments were beneficial to, and met the identified needs of, the bank's assessment areas. During the evaluation period, Frost Bank made 103 investments, grants, and donations totaling approximately \$9.4 million within the Austin MSA; 103 investments, grants, and donations totaling approximately \$8.8 million within the Houston AA; 147 investments, grants, and donations totaling approximately \$15.7 million within the San Antonio AA; and 62 investments, grants, and donations totaling approximately \$9.5 million within the Tarrant County AA. In the Houston AA, Frost Bank's investments included mortgage-backed securities totaling approximately \$8.6 million and included donations to community organizations that promoted the growth of small businesses and that supported the needs of LMI individuals.

In evaluating Frost Bank's performance under the Service Test, examiners found that the bank's distribution of branches and the accessibility to its products and services in all assessment areas were adequate. Examiners noted that Frost Bank offered a payroll card product to large commercial customers to assist them with meeting the needs of the underserved and that minimum- and low-wage workers who did not have a banking relationship or a checking account benefited from the product. Examiners observed that Frost Bank provided a relatively high level of community development services in the assessment areas receiving a full-scope review.

During the course of the Frost Bank Evaluation, examiners did not find any evidence that Frost Bank engaged in discriminatory or other illegal credit practices.

CRA Performance of Western National Bank

Western National Bank was assigned a "satisfactory" rating at its most recent CRA performance evaluation by the OCC, as of October 15, 2009 ("Western National Bank Evaluation").²³ Examiners noted that Western National Bank made a substantial majority of its loans to borrowers within its CRA assessment areas, as measured by both number of loans and dollar amount.²⁴

²³ The Western National Bank Evaluation was conducted using the Intermediate Small Bank CRA Examination Procedures, and examiners reviewed a sample of the bank's small business loans from January 1, 2007, through August 31, 2009, and a sample of the bank's residential real estate lending from January 1, 2005, through August 31, 2009. The evaluation period for the Western National Bank Evaluation was April 20, 2005, through October 15, 2009.

²⁴ The Western National Bank Evaluation included a full-scope assessment review of two areas: the Midland, Texas MSA ("Midland MSA") and the Odessa, Texas MSA. A limited-scope review was performed in the Bexar County, Texas Assessment Area.

As described in the Western National Bank Evaluation, the bank's performance under the Lending Test was rated "satisfactory." Examiners found that a substantial majority of the bank's loans sampled by examiners (78 percent of the number of loans and 68 percent of the dollar amount of the loans) were made within its assessment areas. Examiners found that the bank's distribution of loans made to individuals and families of different income levels and to businesses of different sizes was reasonable and that the geographic dispersion of Western National Bank's small business loans was reasonable throughout the assessment areas.

Western National Bank's performance under the Community Development Test was rated "satisfactory." Examiners found that the bank's community development performance reflected an adequate responsiveness to community development needs within the assessment areas. During the evaluation period, Western National Bank made 15 loans totaling approximately \$1.5 million to purchase lots and/or construct one-to-four-family residences for LMI persons in LMI census tracts within the Midland MSA. Western National Bank's qualified community development investments included donations to 19 organizations totaling approximately \$4.2 million. Western National Bank also purchased equity investments of which approximately \$1.7 million qualified as benefiting LMI households. Examiners noted that the bank, through its employees, was involved in a variety of community development services that reflected an adequate responsiveness to the communities' needs.

Frost Bank's efforts since the 2008 CRA Evaluation

The Federal Reserve Bank of Dallas (“Reserve Bank”) began a CRA examination of Frost Bank in the second quarter of 2013.²⁵ Overall, examiners found that Frost Bank’s CRA performance remained satisfactory.²⁶ Examiners found that Frost Bank’s lending activity reflected good responsiveness to the bank’s assessment area credit needs. The geographic distribution of loans reflected good penetration throughout the assessment areas, and the distribution of borrowers reflected good penetration among customers of different income levels and businesses of various revenue sizes. The bank’s level of community development loans was adequate, and its qualified community development investments and grants in its assessment areas were significant. Frost Bank’s retail services were found to be reasonably accessible to the bank’s geographies and to individuals of different income levels, and the bank provided a relatively high level of community development services.

In the Houston AA, examiners found that the geographic distribution of Frost Bank’s HMDA loans was good and borrower distribution was adequate. The geographic distribution of the bank’s small business loans was good. During the review period, the percentage of the bank’s small business loans originated in LMI census tracts and the percentage of the bank’s small business loans to businesses with revenues of \$1 million or less exceeded the aggregate of all reporters of such data. Examiners found that during the review period, Frost Bank originated six community development loans totaling over \$39 million, including

²⁵ The review period for the Lending Test was January 1, 2010, through December 31, 2011. The review period for the Investment Test and Service Test was August 11, 2008, through December 31, 2011.

²⁶ The findings and conclusions are in the process of being finalized.

two community development loans that provided economic development to a low-income area and a loan to a Small Business Investment Company that specializes in providing long-term debt and equity capital to small businesses. In addition, Frost Bank made 79 separate investments totaling over \$11 million during the review period, including investments in multiple bonds designated for affordable housing. The bank provided numerous investments to ACCION Texas, which provides credit and services to small businesses and entrepreneurs who are unable to obtain financing from traditional sources. Examiners noted that Frost Bank was also particularly responsive in teaching financial literacy and assisting the Houston area in various ways after Hurricane Ike.

B. Fair Lending and Other Consumer Protection Laws

The Board has considered the record of Frost Bank in complying with fair lending and other consumer protection laws. As part of this consideration, the Board reviewed the Frost Bank Evaluation and Frost Bank's record of performance in helping to meet the credit needs of its communities since the Frost Bank Evaluation, considered the Reserve Bank's recent evaluation of Frost Bank's compliance with fair lending laws, evaluated Frost Bank's fair lending policies and procedures, and considered the comment on the application.

HMDA Data and Fair Lending Analysis

The Reserve Bank recently conducted a review of Frost Bank's fair lending performance in Harris County, Texas, where Houston is located, and in Dallas County, Texas.²⁷ A commenter alleged that Frost Bank disfavors African American neighborhoods in the Houston area in Harris County with respect to

²⁷ The Reserve Bank considered data from January 1, 2010, through December 31, 2013.

access to its banking products and services and that the bank has engaged in redlining. The Reserve Bank considered the comment in connection with its review of Frost Bank's fair lending performance. The Reserve Bank analyzed Frost Bank's lending data, assessment area definitions, geographic distribution of branches, and marketing and outreach efforts, and the analysis did not confirm the commenter's assertion of redlining.

With respect to mortgage lending, Cullen/Frost represents that Frost Bank's percentage of HMDA-reportable applications in minority census tracts in the Houston, Texas MSA ("Houston MSA") approximated or exceeded that of the aggregate of all lenders in 2010, 2011, and 2012, and that Frost Bank's percentage of HMDA-reportable applications in African American census tracts in the Houston MSA exceeded that of the aggregate in all three years.²⁸

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 provide equal access to credit by creditworthy applicants, regardless of their race or ethnicity. Although the 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 sufficient basis on which to conclude whether Frost Bank

²⁸ Frost Bank also represents that it ceased origination of one-to-four-family conventional residential mortgage loans in 2000. Home improvement lending currently is the bank's primary HMDA-reportable product.

The commenter also alleged that Frost Bank discriminates against African Americans in its provision of factoring services. Frost Bank represents that it does not actively market factoring services and provides such services to a limited number of customers as an accommodation.

excluded or denied credit to any group on a prohibited basis.²⁹ Fully evaluating Frost Bank's compliance with fair lending laws and regulations would require 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.

Reserve Bank examiners reviewed Frost Bank's HMDA data in the Houston area for the period 2010-13.³⁰ The data revealed that the bank is making mortgage loans available in areas of Harris County in which the majority of residents are either African American or Hispanic. Frost Bank generally outperformed or was approximately comparable to its peer institutions in terms of receiving applications from and originating HMDA loans in African American or Hispanic census tracts in Harris County for the period 2010-13. Frost Bank's percentage of applications from such tracts increased between 2010 and 2013. Frost Bank's percentage of originations in such tracts also increased between 2010 and 2013.³¹

²⁹ 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 an 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.

³⁰ The 2013 HMDA peer data are preliminary.

³¹ Frost Bank originated mortgage loans for the review period in zip codes of Harris County in which the majority of residents are African American, including some in or near the particular zip codes noted by the commenter. Examiners noted that home mortgage lending opportunities may be limited in the zip codes noted by (continued)

The Reserve Bank reviewed the geographic distribution of Frost Bank's branches, the bank's marketing activities, and other community outreach efforts. The examination showed that there are no differences between services available at Frost Bank branch offices located in areas with concentrations of minority residents and other areas. Examiners, using a radius based on competition from other financial institutions, found that Frost Bank's branches reached a majority of the neighborhoods in the Houston area identified by the commenter. The branches in those neighborhoods do not have shorter operating hours. In addition, Frost Bank provides mobile branch vans in Harris County that are equipped to support a variety of financial products. Frost Bank's marketing activities and community outreach efforts include partnering with local nonprofit organizations to provide outreach to LMI communities and providing financial education to individuals and small businesses.

An underwriting and pricing review was also performed as part of the fair lending examination. The Reserve Bank reviewed HMDA data for all loan applications received by Frost Bank between 2010 and 2012. The review found that the bank followed its articulated underwriting guidelines and found no evidence of illegal credit discrimination.

The Board also reviewed Frost Bank's small business lending in Harris County for the period 2010-13. The data revealed that the bank is making small business loans available in areas in which the majority of residents are either African American or Hispanic. Frost Bank's percentage of small business loan originations in African American or Hispanic census tracts decreased by less than a

the commenter by factors such as the relatively high percentage of renters, the proportion of residents living below the poverty level, and the relatively high unemployment rate.

percentage point between 2010 and 2013 and exceeded or was approximately comparable to its peers' origination of small business loans in such tracts between 2010 and 2012. In 2013, Frost Bank's percentage of small business loan originations in African American or Hispanic census tracts trailed its peers.³²

Frost Bank's Fair Lending Program

Frost Bank has instituted policies and procedures to help ensure compliance with all fair lending and other consumer protection laws and regulations, and the Board has reviewed these policies. The company's legal and compliance risk-management program includes an annual fair lending risk assessment to analyze potential vulnerabilities in loan processes and controls and annual compliance training for applicable employees. Frost Bank analyzes its HMDA data at least annually for disparities in underwriting and pricing. Frost Bank's risk-management systems and its policies and procedures for ensuring compliance with fair lending laws would be implemented at the combined organization.³³

³² Frost Bank originated small business loans for the review period in zip codes of Harris County in which the majority of residents are African American, including some in or near the particular zip codes noted by the commenter.

The Reserve Bank's review of Dallas County, like the review of Harris County, did not disclose illegal credit discrimination based on its review of Frost Bank's assessment area, branching, lending, and marketing.

³³ Cullen/Frost has committed not to engage in any expansionary activities, including branching within its existing market areas, until such time that the Board has deemed Cullen/Frost to have clearly developed a policy to support future expansion in its compliance program, including fair lending, and to hire additional staff with requisite knowledge and experience to manage and control the bank's fair lending risk, which might be heightened by expansion.

C. Additional Information on Convenience and Needs of Communities to Be Served by the Combined Organization

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits.

Cullen/Frost represents that the proposal would provide opportunities to achieve cost savings for the combined organization by consolidating redundant functions, including data processing. Cullen/Frost notes that the combined organization would be able to provide customers with benefits through more efficient and cost-effective provision of banking services and would be able to dedicate additional resources to meeting the banking needs of its customers. Cullen/Frost also states that the greater resources of the combined organization would increase credit availability to consumers and businesses in the communities that Western National Bank serves today.

Cullen/Frost also states that the proposal would offer customers convenience through a broader range of financial products and services. Cullen/Frost represents that customers of WNB Bancshares would have access to additional leasing, factoring, and asset-based lending services; improved online-banking cash management services; additional treasury management products for businesses; insurance products and services; trust, custody, and wealth management products and services; and additional products for individuals, such as personal lines of credit, home equity loans, home improvement loans, and home equity lines of credit. Cullen/Frost states that WNB Bancshares customers would have access to Cullen/Frost's call center and mobile application, which would increase access to banking services.

In addition, Cullen/Frost represents that the merger would benefit current customers of Western National Bank through access to significantly larger branch and ATM networks. The branch network available to Cullen/Frost and WNB Bancshares customers would increase from 115 and 8, respectively, to 122 locations throughout Texas.³⁴ Customers of Western National Bank would also gain access to Cullen/Frost's network of 132 bank-owned ATMs and free access to Valero Corner Store ATMs in Texas through Frost Bank's partnership with a third-party ATM network operator.

D. Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by Cullen/Frost, confidential supervisory information, the public comment on the proposal, and the commitments made by Cullen/Frost. Based on the above, the Board believes that the convenience and needs factor, including the CRA records of the insured depository institutions involved in this transaction, is consistent with approval of the application.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 3 of the BHC Act to require the Board to consider "the extent to which a proposed acquisition, merger, or consolidation

³⁴ Cullen/Frost proposes to close one branch of Western National Bank in San Antonio on consummation of the merger to consolidate overlapping locations within the branch structure of the combined organization. The branch is not located in an LMI area.

would result in greater or more concentrated risk to the stability of the United States banking or financial system.”³⁵ The Dodd-Frank Act also amended the Bank Merger Act to require the Board to consider “the risk to the stability of the United States banking or financial system.”³⁶

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.³⁷ 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

³⁵ Section 604(d) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, 1601, codified at 12 U.S.C. § 1842(c)(7).

³⁶ Section 604(f) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, 1602, codified at 12 U.S.C. § 1828(c)(5).

³⁷ Many of the metrics considered by the Board measure an institution’s activities relative to the U.S. financial system.

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.³⁸

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation, Cullen/Frost would have approximately \$25.9 billion in consolidated assets and, by any of a number of alternative measures of firm size, would be between the 50th and 75th largest U.S. financial institution. The Board generally presumes that a merger that involves an acquisition of less than \$2 billion in assets, or results in a firm with less than \$25 billion in consolidated assets, will not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction. The companies engage and would continue to engage in traditional commercial banking activities. The resulting organization would experience small increases in the metrics that the Board considers to measure an institution's complexity and interconnectedness, with the resulting firm generally ranking outside of the top 50 U.S. financial institutions in terms of those metrics. For example, Cullen/Frost's intrafinancial assets and liabilities would constitute a negligible share of the systemwide total, both before and after the transaction. The resulting organization would not engage in complex activities or provide critical services in such volume that disruption in such services would have a great impact on the macroeconomic condition of the United States by disrupting trade or resulting in increased resolution difficulties.

³⁸ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012).

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 has determined that considerations relating to financial stability are consistent with approval.

Other Considerations

Cullen/Frost also has applied under section 9 of the FRA to establish and operate branches at the locations of the main office and branches of Western National Bank.³⁹ The Board has assessed the factors it is required to consider when reviewing an application under section 9 of the FRA and finds those factors to be consistent with approval.⁴⁰

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the applications should be, and hereby are, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act, the Bank Merger Act, the FRA, and other applicable statutes. The Board's approval is specifically conditioned on compliance by Cullen/Frost with all the conditions imposed in this order, including receipt of all regulatory approvals, and on the commitments made to the Board in connection with the applications. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by

³⁹ As discussed above, Cullen/Frost proposes to close one branch of Western National Bank in San Antonio.

⁴⁰ 12 U.S.C. § 322; 12 CFR 208.6(b).

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 fifteenth calendar day after the effective date of this order, or later than three months after the date of this order, unless such period is extended for good cause by the Board or the Reserve Bank, acting under delegated authority.

By order of the Board of Governors,⁴¹ effective May 14, 2014.

Robert deV. Frierson (signed)

Robert deV. Frierson
Secretary of the Board

⁴¹ Voting for this action: Chair Yellen and Governors Tarullo, Stein, and Powell.

Appendix

Branches in Texas to be Established by Frost Bank

Odessa

801 N. Texas Avenue
2700 West County Road
2710 Grandview
3501 Faudree Road

Midland

508 W. Wall Street
800 West Wadley
4101 North Midland Drive

San Antonio

12800 San Pedro Avenue