FRB Order No. 2015-09
February 27, 2015

FEDERAL RESERVE SYSTEM

Centennial Bank
Conway, Arkansas

Order Approving the Acquisition of Assets, Assumption of Liabilities, and the Establishment of Branches

Centennial Bank ("Centennial"),[1] Conway, Arkansas, a state member bank, has requested the Board's approval under section 18(c) of the Federal Deposit Insurance Act[2] ("Bank Merger Act") to acquire certain assets and assume certain liabilities of Doral Bank ("Doral"), San Juan, Puerto Rico, a state nonmember bank. In addition, Centennial has applied under section 9 of the Federal Reserve Act ("FRA")[3] to establish and operate branches at the locations of the branches acquired from Doral.

The Federal Deposit Insurance Corporation ("FDIC") has been appointed receiver of Doral and has scheduled the sale of certain assets and the transfer of certain liabilities of Doral for February 27, 2015. The FDIC, as receiver, has selected a consortium bid lead by Banco Popular de Puerto Rico ("Banco Popular"), San Juan, Puerto Rico, as the least-cost proposal in accordance with the least-cost-resolution requirements in the Federal Deposit Insurance Act ("FDI Act")[4] and eliminated more costly proposals. The FDIC has recommended immediate action by the Board on Banco Popular's consortium proposal to prevent the probable failure of Doral.

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[1] Centennial is a subsidiary of Home Bancshares, Inc. ("Home"), Conway, Arkansas.

[2] 12 U.S.C. § 1828(c).

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

[4] See 12 U.S.C. §§ 1821, 1822, and 1823(c)-(k). The least-cost procedures require the FDIC to choose the resolution method in which the total amount of the FDIC's expenditures and obligations incurred (including any immediate or long-term obligation and any direct or contingent liability) is the least costly to the Deposit Insurance Fund of all possible methods.

Centennial is a member of the Banco Popular consortium. Banco Popular will acquire certain assets and assume certain liabilities from the FDIC.[5] Centennial will then acquire the Florida branches of Doral directly from Banco Popular.

On the basis of the information before the Board, the Board finds that it must act immediately pursuant to the Bank Merger Act[6] to safeguard the depositors of Doral. Accordingly, public notice of the application and opportunity for comment is not required by the Bank Merger Act.

Centennial, with total assets of approximately $7.2 billion, operates in Alabama, Arkansas, and Florida.[7] Centennial is the 35th largest insured depository institution in Florida, controlling deposits of approximately $1.5 billion, which represent 0.3 percent of the total deposits of insured depository institutions in the state ("total deposits").

Doral, with total assets of approximately $6.4 billion, operates in Puerto Rico, New York, and Florida.[8] Doral is the 50th largest insured depository institution in Florida, controlling deposits of approximately $921 million, which represent 0.2 percent of the total deposits in that state.

On consummation of this proposal, Centennial would become the 25th largest insured depository institution in Florida, controlling deposits of approximately $2.4 billion, which represent 0.5 percent of the total deposits in that state.

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[5] See Banco Popular de Puerto Rico, FRB Order 2015-10 (Feb. 27, 2015).

[6] 12 U.S.C. § 1828(c).

[7] Asset and nationwide deposit-ranking data are as of September 30, 2014. State deposit and ranking data are as of June 30, 2014. As of December 31, 2014, Centennial had total assets of approximately $7.2 billion. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

[8] Asset and nationwide deposit-ranking data are as of September 30, 2014. State deposit and ranking data are as of June 30, 2014. As of December 31, 2014, Doral had total assets of approximately $5.9 billion.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market.[9] The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of the communities to be served.[10]

Centennial and Doral compete directly in the Pensacola and Panama City banking markets, both in Florida. The Board has reviewed the competitive effects of the proposal in each of these banking markets in light of all the facts of record. In particular, the Board has considered the financial condition of Doral and the fact that the Office of the Commissioner of Financial Institutions of Puerto Rico ("Puerto Rico OCFI") has placed the bank into FDIC receivership. In addition, the FDIC, as receiver for Doral, has selected Centennial's consortium bid with Banco Popular in accordance with the least-cost-resolution requirements in the FDI Act. The Board also has considered the resulting loss of Doral as an independent competitor in all the banking markets where it operates if this transaction is not consummated, as well as various measures of competition and market concentration, and other characteristics of the markets.

Under the proposal, Centennial would purchase certain assets and assume certain liabilities of Doral in Florida and thereby merge the branches acquired from Doral into a viable ongoing concern with demonstrated capital strength and management capability. Centennial's proposal would continue the availability of credit opportunities and banking services for the customers and communities that Doral served and avoid serious economic disruption in Florida.

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[9] 12 U.S.C. § 1828(c)(5)(A).

[10] 12 U.S.C. § 1828(c)(5)(B).

In addition, the Board has considered the competitive effects of the proposal in the Pensacola and Panama City banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets; the relative shares of total deposits in insured depository institutions in the markets ("market deposits") that Centennial would control; the 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");[11] and other characteristics of the markets.

In the Panama City Area, Florida, banking market (the "Panama City banking market"),[12] Centennial is the fifth largest depository institution, controlling approximately $256.4 million in deposits, which represent approximately 8.8 percent of deposits in that market. Doral is the largest depository institution, controlling approximately $763 million in deposits, which represent approximately 23.7 percent of deposits in that market. In the Pensacola Area, Florida, banking market (the "Pensacola banking market"),[13] Centennial is the 17th largest depository institution, controlling approximately $22.5 million in deposits, which represent less than 1 percent

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[11] 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. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

[12] The Panama City banking market includes Bay and Gulf counties, and the southern half of Washington County, including the towns of Vernon and Wausau, all in Florida.

[13] The Pensacola banking market is defined to include Escambia and Santa Rosa Counties, Florida.

of the deposits in that market. Doral is the 11th largest depository institution, controlling approximately $158.2 million in deposits, which represent approximately 3.3 percent of the deposits in that market.

This proposal would be consistent with Board precedent in the Panama City and Pensacola banking markets. Centennial would become the largest depository institution in the Panama City banking market, controlling approximately $1.0 billion in deposits, which represent approximately 31.7 percent of deposits in that market. The HHI would increase approximately 379 points, from 1164 to 1542. Fifteen other commercial banking organizations would remain in that market. Centennial would become the tenth largest depository institution in the Pensacola banking market, controlling approximately $180.7 million in deposits, which represent approximately 3.8 percent of deposits in that market. The HHI would increase by 3 points, from 1111 to 1114. Twenty other commercial banking organizations would remain in that market.

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.

Based on all of 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 markets in which Centennial and Doral compete 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 reviewing a proposal under the Bank Merger Act, the Board considers the financial and managerial resources and future prospects of the institutions involved and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential supervisory and examination information from the U.S. banking supervisors of the institutions involved, and publicly reported and other financial information, including information provided by Centennial.

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 consolidated basis, as well as the financial condition of the subsidiary depository institutions and significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial resources, the Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction.

Centennial is well capitalized and would remain so on consummation of the proposal. Based on its review of the record in this case, the Board finds that Centennial has sufficient financial resources to effect the proposal. As noted, the proposed transaction is structured as a purchase of certain assets and assumption of certain liabilities from Banco Popular, which has purchased the assets and assumed the liabilities from the FDIC as receiver, and the transaction will be funded by cash.

The Board also has considered the managerial resources of Centennial and has reviewed the examination records of Centennial, including assessments of its management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant banking supervisory agencies, including the FDIC, with the organization and its record of compliance with applicable banking and anti-money-laundering laws. The Board also has considered Centennial's plans for implementing the proposal, including its plans for managing the integration of the acquired assets and operations into the bank.

Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of Centennial are consistent with approval under the Bank Merger Act, as are the other statutory factors.

Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board must consider 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 financial institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank acquisition proposals.

The Board has considered all the facts of record, including reports of examination of the CRA performance of Centennial, information provided by Centennial, and confidential supervisory information.

A. Record of Performance under the CRA

As provided in the CRA, the Board evaluates an institution's performance based on the CRA evaluation completed by that institution's primary regulator.[15] 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.[16] 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.

CRA Performance of Centennial

Centennial received an overall rating of "satisfactory" at its most recent CRA performance examination by the Federal Reserve Bank of St. Louis, as of

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[14] 12 U.S.C. § 2901 et seq.

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

[16] 12 U.S.C. § 2906.

July 8, 2013.[17] Centennial received "high satisfactory" ratings for the Lending Test, the Investment Test, and the Service Test.

In evaluating the Service Test, examiners noted that Centennial's delivery systems were accessible to the bank's assessment areas and individuals of different income levels. In addition, examiners noted that Centennial's services did not vary in a way that would inconvenience individuals in its assessment area. The examiners also noted that Centennial provided a relatively high level of community development services within the assessment areas.

In evaluating the Investment Test, examiners found that Centennial made a significant level of qualified community development investments and grants and was occasionally in a leadership position. The examiners also noted that Centennial made a good level of qualified community development investments in its assessment areas.

In evaluating the Lending Test, examiners found that Centennial's overall lending activity reflected good responsiveness to the credit needs of its assessment areas and that Centennial originated a substantial percentage of its loans in its assessment areas during the period reviewed. In addition, examiners noted that the geographic distribution of loans demonstrated good penetration throughout the assessment areas and among customers of different income levels and business customers and farms of different sizes.

After consummation of the proposal, Centennial plans to implement its CRA policies at the branches acquired from Doral.

B. 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. The Board believes that the proposal will result in substantial benefits to the convenience and needs of the communities to be served by

[17] Centennial's CRA evaluation was conducted using Large Bank CRA Examination Procedures, and examiners reviewed the bank's lending activity in 2011 and 2012.

maintaining the availability of credit and deposit services to customers of Doral. Centennial represents that Doral's customers will continue to receive the full range of products and services to which they are accustomed. Although Centennial does not anticipate that there will be any immediate significant changes in services or products as a result of the proposal, Centennial's management will evaluate the products, services, and fee schedules of Doral and make certain changes in order to align them with what is currently offered by Centennial.

C. 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 Centennial, and confidential supervisory information. Based on the Board's assessment of the CRA performance and consumer compliance programs of Centennial, its review of examination reports, and its consultations with other agencies, the Board concludes 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 the Bank Merger Act to require the Board to consider a merger proposal's "risk to the stability of the United States banking or financial system."[18]

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

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

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.[19] These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.[20]

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation of the proposed transaction, Home would have approximately $7.9 billion in consolidated assets and would not be likely to pose systemic risks. The Board generally presumes that a merger resulting in a firm with less than $25 billion in total consolidated assets would 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.

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.

Establishment of Branches

Centennial has applied under section 9 of the FRA to establish and operate branches at the locations of the acquired branches of Doral, and the Board has considered the factors it is required to consider when reviewing an application under that section.[21]

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[19] Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

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

[21] 12 U.S.C. § 322; 12 CFR 208.6.

Specifically, the Board has considered Centennial's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises. For the reasons discussed in this order, the Board finds those factors to be consistent with approval.

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 Bank Merger Act and the FRA. Approval of the applications is specifically conditioned on compliance by Centennial with all the commitments made in connection with this proposal and the conditions set forth in this order. The commitments and conditions are deemed to be conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

Because the Board has found that it must act immediately to prevent the probable failure of Doral, the transaction may be consummated immediately. In no event, however, should the transaction be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of St. Louis acting pursuant to delegated authority.

By order of the Board of Governors,[22] effective February 27, 2015.

Robert deV. Frierson (signed)

Robert deV. Frierson
Secretary of the Board

[22] Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.

Appendix

Branches to be Established by Centennial Bank

1. 1002 West 23rd Street, Panama City, Florida 32405
2. 701 Harrison Avenue, Panama City, Florida 32401
3. 123 North Tyndall Parkway, Panama City, Florida 32404
4. 415 North Richard Jackson Blvd., Panama City Beach, Florida 32404
5. 4920 Bayou Blvd., Pensacola, Florida 32503