

FEDERAL RESERVE SYSTEM

Republic Bancorp, Inc.
Louisville, Kentucky

Order Approving the Merger of Bank Holding Companies

Republic Bancorp, Inc. (“Republic”), Louisville, Kentucky, a financial holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to merge with Cornerstone Bancorp, Inc. (“Cornerstone”), and thereby indirectly acquire Cornerstone Community Bank (“Cornerstone Bank”), both of St. Petersburg, Florida. Immediately following the proposed merger, Cornerstone Bank would be merged into Republic’s subsidiary bank, Republic Bank & Trust Company (“Republic Bank”), Louisville, Kentucky.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (80 Federal Register 68870 (November 6, 2015)).⁴ The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Republic, with consolidated assets of approximately \$4.1 billion, is the 263rd largest insured depository organization in the United States. Republic currently

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ The merger of Cornerstone Bank into Republic Bank is subject to the approval of the Federal Deposit Insurance Corporation (“FDIC”) pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c). The FDIC approved the bank merger on February 10, 2016.

⁴ 12 CFR 262.3(b).

controls approximately \$2.3 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁵ Republic controls Republic Bank, which operates in Kentucky, Indiana, Ohio, Tennessee, and Florida. Republic Bank is the 208th largest insured depository institution in Florida, controlling deposits of approximately \$72.9 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.⁶

Cornerstone, with consolidated assets of approximately \$241.2 million, is the 2,615th largest insured depository organization in the United States. Cornerstone currently controls approximately \$206 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Cornerstone controls Cornerstone Bank, which operates solely in Florida. Cornerstone Bank is the 138th largest insured depository institution in Florida, controlling deposits of approximately \$206 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, Republic would become the 257th largest depository organization in the United States, with consolidated assets of approximately \$4.3 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. Republic would control consolidated deposits of approximately \$2.5 billion, which represent less than 1 percent of the total amount of deposits of insured depository organizations in the United States. In Florida, Republic Bank would become the 110th largest depository organization, controlling deposits of approximately \$278.8 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

⁵ Asset data and nationwide deposit-ranking data are as of June 30, 2015, unless otherwise noted.

⁶ State deposit data are as of June 30, 2015, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings and loan associations, and savings banks.

Interstate and Deposit Cap Analysis

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of the bank holding company without regard to whether the transaction is prohibited under state law.⁷ Under this section, the Board may not approve an application that would permit an out-of-state bank holding company to acquire a bank in a host state if the bank has not been in existence for the lesser of the state statutory minimum period of time or five years.⁸ In addition, the Board may not approve an interstate application if the bank holding company controls or would upon consummation of the proposed transaction control more than 10 percent of the total deposits of insured depository institutions in the United States, or 30 percent or more of the total deposits of insured depository institutions in the target bank's home state or in any state in which the acquirer and target have overlapping banking operations.⁹

For purposes of the BHC Act, the home state of Republic is Kentucky, and Cornerstone Bank's home state is Florida.¹⁰ Republic is well capitalized and well managed under applicable law, and Republic Bank has a satisfactory Community

⁷ 12 U.S.C. § 1842(d)(1)(A).

⁸ 12 U.S.C. § 1842(d)(1)(B).

⁹ 12 U.S.C. § 1842(d)(2)(A) and (B). The acquiring and target institutions have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or a branch. For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. § 1841(o)(4)–(7).

¹⁰ See 12 U.S.C. § 1841(o)(4). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. A state bank's home state is the state in which the bank is chartered.

Reinvestment Act (“CRA”)¹¹ rating. Florida does not have minimum age requirements,¹² and Cornerstone Bank has been in existence for more than five years.

On consummation of the proposed transaction, Republic would control less than 1 percent of the total amount of consolidated deposits in insured depository institutions in the United States. In addition, the combined organization would control less than 30 percent of the total amount of deposits of insured depository institutions in Florida, the only state in which Republic and Cornerstone have overlapping banking operations. Accordingly, in light of all the facts of record, the Board may approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the Board finds that 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.¹³

Republic and Cornerstone have subsidiary depository institutions that compete directly in one geographic banking market, Tampa Bay Area, Florida (“Tampa Bay market”).¹⁴ 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 number of competitors that would remain in the banking market; the relative share of total deposits in insured depository institutions in the market (“market deposits”) that

¹¹ 12 U.S.C. § 2901 et seq.

¹² Fla. Stat. Ann. § 658.2953.

¹³ 12 U.S.C. § 1842(c)(1).

¹⁴ The Tampa Bay market is defined as Hernando, Hillsborough, Pinellas, and Pasco counties, Florida.

Republic would control;¹⁵ 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”);¹⁶ 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 the Tampa Bay market. On consummation, the Tampa Bay market would remain moderately concentrated, as measured by the HHI, according to the DOJ Bank Merger Guidelines. The change in the HHI would be small, and numerous competitors would remain in the market.¹⁷

¹⁵ Deposit and market share data are as of June 30, 2015, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50-percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

¹⁶ 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.

¹⁷ Republic operates the 44th largest depository institution in the Tampa Bay market, controlling approximately \$72.9 million in deposits, which represent 0.1 percent of market deposits. Cornerstone operates the 28th largest depository institution in the same market, controlling deposits of approximately \$206 million, which represent about 0.3 percent of market deposits. On consummation of the proposed transaction, Republic would become the 25th largest depository organization in the market, controlling deposits of approximately \$278.8 million, which represent 0.4 percent of market deposits. The HHI for the Tampa Bay market would increase by less than 1 point to 1,054, and 60 competitors would remain in the 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. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

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 Tampa Bay market or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved. In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of public and supervisory information regarding capital adequacy, asset quality, and earnings performance, as well as public comments on the proposal. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to complete effectively the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

Republic and Cornerstone are both well capitalized and would remain so on consummation of the proposed transaction. The proposed transaction is a bank holding

company merger that is structured as an exchange of shares for cash.¹⁸ The asset quality, earnings, and liquidity of Republic Bank and Cornerstone Bank are consistent with approval, and Republic appears to have adequate resources to absorb the costs of the proposal and to complete integration of the institutions' operations. In addition, future prospects are considered consistent with approval.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Republic, Cornerstone, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Republic; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws; as well as information provided by the commenter.

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

¹⁸ As proposed, Republic Acquisition Corp., a subsidiary of Republic recently formed to facilitate the transaction, would merge with and into Cornerstone with Cornerstone as the surviving entity ("Acquisition Merger"). At the effective time of the Acquisition Merger, shares of Cornerstone would be converted into the right to receive cash, based on an exchange ratio. All outstanding stock options would be canceled in exchange for cash payment equal to the spread between the option exercise prices and the exchange ratio. Immediately after the Acquisition Merger, Cornerstone would merge with and into Republic, with Republic as the surviving entity, and Cornerstone Bank would merge with and into Republic Bank, with Republic Bank as the surviving entity. Republic has the financial resources to fund these merger transactions.

The Board also has considered Republic's plans for implementing the proposal. Republic has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-integration process for this proposal. Republic would implement its risk-management policies, procedures, and controls at the combined organization, which are considered acceptable from a supervisory perspective. In addition, Republic's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and Republic plans to integrate Cornerstone's existing management and personnel in a manner that augments Republic's management.¹⁹

Based on all the facts of record, including Republic's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Republic and Cornerstone in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.²⁰ In its evaluation of the effects of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of the communities to be served. In this evaluation, the Board places particular emphasis on the records of the relevant

¹⁹ On consummation, five individuals currently serving as senior management officials at Cornerstone or Cornerstone Bank will serve as senior management officials at Republic Bank, including Cornerstone Bank's CEO who will be retained as Republic Bank's Market President of the Florida market.

²⁰ 12 U.S.C. § 1842(c)(2).

depository institutions 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,²¹ and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods.²²

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. The Board also may consider the institution's business model, its marketing and outreach plans, the organization's plans after consummation, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of Republic Bank and Cornerstone Bank; the fair lending and compliance records of both banks; the supervisory views of the FDIC; confidential supervisory information; information provided by Republic; and the public comments received on the proposal.

Public Comments Regarding the Proposal

In this case, the Board received comments from a commenter who objects to the proposal on the basis of alleged disparities in the number of residential real estate loans made to African Americans and Hispanics, as compared to whites, by Republic

²¹ 12 U.S.C. § 2901(b).

²² 12 U.S.C. § 2903.

Bank in the Louisville-Jefferson County, Kentucky-Indiana Metropolitan Statistical Area (“Louisville MSA”) and the Nashville, Tennessee MSA (“Nashville MSA”), as reflected in data reported under the Home Mortgage Disclosure Act (“HMDA”) for 2014.²³ The commenter also criticizes the rate at which Republic Bank denied applications by African Americans, compared to that for whites, for home purchase and home improvement loans in the Louisville MSA, as reported under HMDA for 2014. In addition, the commenter expresses general concerns regarding Republic Bank’s Build Card program, a recently launched credit card that the commenter describes as a subprime credit card. The commenter expresses concerns over the annualized interest rate that the bank charges cardholders. The commenter also generally contends that Republic Bank’s past tax refund anticipation loan product is an example of problems with Republic Bank’s lending record.²⁴ The FDIC considered the same comments in connection with its review of the underlying bank merger application and found the CRA record and convenience and needs factor consistent with approval of the proposal on February 10, 2016.²⁵

²³ The commenter’s concerns focus on the number of home purchase loans, home refinance loans, and home improvement loans that Republic Bank offered to African Americans and Hispanics compared to whites in the Louisville MSA, as well as the number of home purchase loans that Republic Bank offered to African Americans and Hispanics compared to whites in the Nashville MSA.

²⁴ Through partnerships with tax preparers and tax software preparation companies, Republic Bank offered tax refund anticipation loans whereby the bank extended tax refund advances to taxpayers shortly after they filed their tax returns. The advances were secured by the taxpayers’ refunds. In response to safety and soundness and consumer compliance concerns raised by the FDIC regarding this tax refund anticipation loan product offered by Republic Bank, the product was discontinued in 2012 pursuant to an agreement between the FDIC and Republic Bank. Republic Bank recently launched a new product that offers advances of taxpayers’ refunds; however, as discussed in more detail below, Republic represents that the new product has significantly different terms and protections that address the FDIC’s concerns regarding the prior product.

²⁵ Letter from M. Anthony Lowe, Regional Director of FDIC Chicago Regional Office, to Cynthia W. Young, Wyatt, Tarrant & Combs, LLP (February 10, 2016).

Businesses of the Involved Institutions and Response to Comments

Republic Bank is a full-service bank, offering a broad range of financial products and services to consumers and businesses. Through its branch network in Kentucky, Indiana, Florida, Ohio, and Tennessee, it offers a variety of traditional banking products to consumers, including mortgage loan products, consumer loans, credit cards, and checking and savings products. Republic Bank's business-focused products and services include community development loans, Small Business Administration loans, commercial real estate and development loans, and equipment finance products.

Cornerstone Bank is a full-service bank that offers a more limited range of retail and commercial banking products and services through four branches in Pinellas County, Florida. Its products and services include home equity loans, auto loans, a variety of checking and savings products, construction and land acquisition development loans, equipment financing, and loans for business acquisitions and expansions.

Republic denies that the HMDA data presented by the commenter reflect discriminatory or unfair lending practices by Republic Bank in the Louisville or Nashville MSAs. Republic represents that its denial rates to African Americans in the Louisville MSA reflect judgments based on credit history, loan-to-value ratios, debt-to-income ratios, and other nondiscriminatory factors. Republic also represents that it continuously deploys strategies to increase its lending to minorities in the Louisville MSA, as well as in its other markets. Republic represents that these efforts have resulted in its applications from African Americans increasing by 45 percent between the 2014 and 2015 calendar years and in its originations to African Americans increasing by 100 percent in the Louisville MSA during the same period.

In response to allegations about low levels of lending to African Americans in the Nashville MSA, Republic explains that the bank entered the Nashville market in 2012 after acquiring a failed bank with a single branch that was primarily engaged in commercial lending and had no minority applicants. Since the acquisition, Republic represents that it has added a second branch in the market, conducted significant outreach

to community organizations, and engaged in marketing efforts in areas with high minority concentrations. Republic represents that these efforts have resulted in recent improvements in its consumer lending footprint in the market, including increases in applications by and originations to minority applicants.

Republic asserts that it has policies and procedures to ensure compliance with fair lending laws and to monitor fair lending risk, including annual fair lending risk assessments, and HMDA and fair lending monitoring conducted by dedicated staff as well as an outside firm to gain additional insight into applicable risks.

Republic argues that its Build Card program is an affordable alternative to other short-term financing options, such as payday loans. Republic contends that its Build Card is appropriately priced for risk, provides customers with transparency regarding the total cost of credit, does not have hidden fees or add-on products, and has simple pricing that is easy for consumers to understand.

Republic acknowledges that it discontinued a tax refund anticipation loan product in 2012 and launched a new tax refund product in January 2016 under the brand name Easy Advance. However, Republic represents that the new product was designed with terms and features that address supervisory concerns with the prior product, and that the bank reviewed the product with the FDIC prior to launch. Republic represents that, unlike the prior product, no fee or interest is charged to the customer for an Easy Advance loan; rather, for each origination a flat fee is paid by the bank's tax preparation partners, who are contractually prohibited from passing the cost of the fee to the customer.²⁶ Further, Republic represents that its Easy Advance loans are capped at a much lower amount than the prior product, and that there is no recourse against the customer if the tax refund is insufficient to repay the loan. Republic also represents that it requires each tax preparer that offers the Easy Advance product to undergo training for

²⁶ Republic represents that its tax preparation partners offer the Easy Advance product as a marketing tool for attracting customers to their tax preparation services. Republic asserts that it closely monitors its partners for compliance with the prohibition against passing the origination fees to customers.

compliance with relevant laws, regulations, and program terms, and that it monitors its partners through on-site reviews and audits.

Records of Performance under the CRA

As indicated above, in evaluating the convenience and needs factor and CRA performance, the Board evaluates an institution's performance in light of examinations and other supervisory information, information provided by public commenters, and information and views provided by the appropriate federal supervisors.²⁷

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.²⁸ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply lending, investment, and service tests to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's home mortgage, small business, small farm, and community development lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's HMDA data in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending

²⁷ See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (March 11, 2010).

²⁸ 12 U.S.C. § 2906.

performance is based on (1) the number and amount of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas; (2) the geographic distribution of such loans, including the proportion and dispersion of the institution's lending in its assessment areas and the number and amount of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of such loans based on borrower characteristics, including the number and amount of home mortgage loans to low-, moderate-, middle-, and upper-income individuals;²⁹ (4) the institution's community development lending, including the number and amount of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution's credit decisions is not available from HMDA data.³⁰ Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of an institution. In assessing the convenience and needs factor in this case, the Board has considered all of the facts of record, including reports of examination of the CRA performance of Republic Bank and Cornerstone Bank, the fair lending and compliance records of both banks, the

²⁹ Examiners also consider the number and amount of small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

³⁰ Other data relevant to credit decisions could include credit history, debt-to-income ratios, and loan-to-value ratios. Accordingly, when conducting fair lending examinations, examiners analyze such additional information before reaching a determination regarding an institution's compliance with fair lending laws.

supervisory views of the FDIC, confidential supervisory information, information provided by Republic, and the public comments received on the proposal.

CRA Performance of Republic Bank

Republic Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the FDIC, as of June 23, 2014 (“Republic Bank Evaluation”).³¹ The bank received “High Satisfactory” ratings for both the Lending Test and the Investment Test and an “Outstanding” rating for the Service Test.³²

Examiners found that Republic Bank’s overall lending levels reflected good responsiveness to credit needs in its assessment areas. According to examiners, the bank used innovative and flexible lending practices in order to serve assessment area credit needs. Examiners found that a substantial majority of the bank’s loans were made to borrowers within its assessment areas. Overall, the examiners also found that geographic distribution of the bank’s loans reflected adequate penetration throughout its assessment areas.³³ Exceptionally, in the Nashville MSA, examiners found the geographic distribution of the bank’s loans to be poor; however, examiners noted that the bank did not enter this assessment area until 2012 and operated only two branches in the assessment area. Further, examiners found that, overall, the bank exhibited adequate responsiveness to the credit needs of the assessment area.

Examiners found that the distribution of the bank’s borrowers reflected adequate penetration among customers of different income levels and businesses of

³¹ The Republic Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed loans reported, pursuant to HMDA and CRA data collection requirements (geographic distribution and borrower distribution) in 2012 and 2013. The evaluation period for community development lending, investments, and services was September 12, 2011, through June 23, 2014.

³² The Republic Bank Evaluation included a full-scope evaluation of the Louisville MSA; Lexington-Fayette, Kentucky MSA; and Nashville MSA.

³³ Examiners also concluded that geographic distribution of the bank’s home purchase lending in LMI census tracts was adequate, and noted strong competition in the Louisville MSA for home purchase loans and other residential and small business loans.

different sizes. Examiners noted that Republic Bank exhibited an adequate record of serving the credit needs of the most economically disadvantaged areas of its assessment areas, low-income individuals, and very small businesses. For example, examiners found that the bank made a relatively high level of community development loans within its assessment areas. Republic Bank's community development lending efforts primarily focused on lending to community development organizations that provide essential services to LMI individuals and revitalizing and stabilizing economically distressed geographies within the bank's assessment areas.

Examiners found that Republic Bank made a significant level of qualified community development investments and grants within its assessment areas, including the Louisville MSA. The bank was occasionally found to be a leader in providing investments not routinely provided by private investors. Examiners found that the types of qualified investments held by Republic Bank demonstrated a commitment to meeting community needs. These investments included low-income housing tax credits and equity investments in community development housing and development organizations within the bank's assessment areas.

Examiners found Republic Bank's delivery systems to be accessible to all portions of the bank's assessment areas. The hours and services offered at Republic Bank's branch locations were found to be comparable, regardless of the income level of the census tract. Examiners found that the bank was a leader in providing community development services and technical assistance to organizations that provide community development services, particularly in the Louisville MSA. In particular, examiners noted that the bank is a leader in supporting programs that connect individuals who lack adequate access to financial services with financial institutions that provide free or low-cost products. Examiners also noted that the bank is a leader in supporting programs that promote financial literacy within its assessment areas.

Republic Bank's Efforts Since the 2014 CRA Evaluation

Republic represents that, since the Republic Bank Evaluation, Republic Bank has remained active in marketing a wide selection of products and services

specifically designed for LMI borrowers and has made a number of community development loans to support affordable housing and small businesses in its assessment areas. Republic represents that the bank has engaged in various outreach efforts and community service opportunities with organizations that serve LMI persons and communities, including organizations that focus on financial education initiatives, neighborhood rehabilitation efforts, and affordable housing. In addition, Republic represents that the bank has routinely advertised and marketed products and services in census tracts with high minority populations within its assessment areas.

CRA Performance of Cornerstone Bank

Cornerstone Bank received an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the FDIC, as of June 1, 2015 (“Cornerstone Bank Evaluation”).³⁴ Examiners concluded that the bank offers a variety of business and consumer credit products that meet the needs of the communities that it serves. Examiners found that the bank’s loan-to-deposit ratio was reasonable given the bank’s size, financial condition, and the credit needs of its assessment area. Examiners also noted that a substantial majority of the bank’s small business loans were originated within its assessment area. Further, examiners found that the geographic distribution of the bank’s loans reflected a reasonable dispersion throughout its assessment area, and that the bank’s distribution of loans to borrowers reflected excellent penetration among businesses of different sizes.

Views of Other Regulators, and FDIC Approval of the Bank Merger

The Board has consulted with the FDIC, the primary federal supervisor of Republic Bank, regarding the FDIC’s review of the proposed merger of Republic Bank and Cornerstone Bank. The FDIC conducted a review of the same comments that were

³⁴ The Cornerstone Bank Evaluation was conducted using Small Institution CRA Examination Procedures. Examiners reviewed the bank’s lending activity from June 22, 2009, through June 1, 2015. The Cornerstone Bank Evaluation reviewed the bank’s Pinellas County assessment area.

submitted to the Board, taking into consideration the HMDA data cited by the commenter; Republic Bank's CRA, consumer compliance, and fair lending records; and the bank's outreach to African Americans and Hispanics and in LMI communities.³⁵ The FDIC also conducted a recent consumer compliance examination and fair lending review of Republic Bank. The Board reviewed the examination report and consulted with the FDIC regarding Republic Bank's record of compliance with fair lending and other consumer protection laws and regulations and the bank's policies and procedures to help ensure compliance with fair lending and other consumer protection laws and regulations. Republic Bank intends to implement those policies and procedures at the combined organization following consummation of the transaction.

After a full review of the proposal, including consideration of the public comments, the FDIC determined that the proposal met the standards of the Bank Merger Act and approved the proposal. The FDIC did not impose any special conditions related to fair lending or CRA performance.

Additional Convenience and Needs Considerations

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. Republic represents that upon consummation of the proposal, existing customers of Cornerstone would have access to a complement of products and services that are more expansive than those currently available to Cornerstone customers, including a wider variety of checking and savings products, enhanced small business accounts, treasury management services, credit cards, home mortgage loans, and enhanced internet and mobile banking platforms. Republic also represents that no products would be discontinued as a result of the proposal. Moreover, Republic asserts that customers of both institutions would benefit from a more expansive branch and ATM network.

³⁵ The FDIC also considered the comments regarding Republic Bank's Build Card and former tax refund product. Further, as noted, Republic Bank informed the FDIC of a new tax refund loan product prior to its launch. The FDIC will continue to monitor Republic Bank's product offerings as part of the ongoing supervisory process.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the records of the relevant depository institutions involved under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, consultations with the FDIC, confidential supervisory information, information provided by Republic, the public comments on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval.

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 would result in greater or more concentrated risks 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

³⁶ Dodd-Frank Act § 604(d), Pub. L. No. 111-203, 124 Stat. 1376, 1601 (2010), codified at 12 U.S.C. § 1842(c)(7).

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

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.³⁸

In this case, the Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation, Republic would have approximately \$4.3 billion in consolidated assets and, by any of a number of alternative measures of firm size, Republic would not be likely to pose systemic risks. The Board generally presumes that a proposal that involves an acquisition of less than \$2 billion in assets, or that 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.

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 determines that considerations relating to financial stability are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved.³⁹ In reaching its conclusion, the

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

³⁹ The commenter requested that the Board hold public hearings or meetings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on any application unless the appropriate supervisory authorities for the bank to be acquired make a timely written recommendation of denial of the application. 12 U.S.C. § 1842(b); 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also may, in its discretion, hold a public hearing if appropriate to allow interested persons

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 Republic with all the conditions imposed in this Order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the proposal. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth calendar day after the effective date of this Order or later than three months thereafter, unless such period is extended for good cause by the Board or the Federal Reserve Bank of St. Louis, acting under delegated authority.

By order of the Board of Governors,⁴⁰ effective May 2, 2016.

Margaret McCloskey Shanks (signed)

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Deputy Secretary of the Board

an opportunity to provide relevant testimony when written comments would not adequately represent their views. The Board has considered the commenter's request in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted written comments that the Board has considered in acting on the proposal. The commenter's request did not identify disputed issues of fact material to the Board's decision and that would be clarified by a public meeting. In addition, the request did not demonstrate why written comments do not present the commenter's views adequately or why a hearing or meeting otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing or meeting is not required or warranted in this case. Accordingly, the request for a public hearing or meeting on the proposal is denied.

⁴⁰ Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.