

FEDERAL RESERVE SYSTEM

Anchor Bancshares, Inc.  
Houston, Texas

Order Approving the Formation of a Bank Holding Company

Anchor Bancshares, Inc. (“Anchor”), Houston, Texas, has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)<sup>1</sup> to become a bank holding company by acquiring 100 percent of the voting shares of First Bancshares of Texas, Inc. (“First Bancshares”), McGregor, Texas, and thereby indirectly acquiring control of its subsidiary state nonmember bank, Security Bank of Crawford (“SBC”), Crawford, Texas.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (81 Federal Register 60701 (2016)).<sup>2</sup> 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.

Anchor is a newly organized Texas corporation formed for the purpose of acquiring control of First Bancshares. First Bancshares, with consolidated assets of approximately \$32.3 million, is the 5,712th largest insured depository organization in the United States, controlling approximately \$27.6 million in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.<sup>3</sup> First Bancshares controls SBC, which operates only in Texas. First

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<sup>1</sup> 12 U.S.C. § 1842(a)(1).

<sup>2</sup> 12 CFR 262.3(b).

<sup>3</sup> Asset and nationwide deposit-ranking data are as of June 30, 2016, unless otherwise noted.

Bancshares is the 509th largest insured depository organization in Texas, controlling deposits of approximately \$17.9 million, which represent less than 1 percent of total deposits of insured depository institutions in that state.<sup>4</sup>

### 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 any 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 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.<sup>5</sup>

Anchor is a newly formed company that does not control any depository institutions. Consequently, the proposal does not involve a merger or acquisition that would result in a monopoly or elimination of a competitor in any relevant market. The Department of Justice has advised the Board that it does not believe that consummation of the proposal is likely to 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 any relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

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<sup>4</sup> State deposit data are as of June 30, 2015, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

<sup>5</sup> 12 U.S.C. § 1842(c)(1).

### Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under 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 the financial condition of the organizations involved, 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, and public comments on the proposal. The Board also evaluates the effect of the transaction on the financial condition of the applicant, including its capital position, asset quality, liquidity, and earnings prospects, and the impact of the proposed funding of the transaction. 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.

On consummation of the proposal, Anchor would be well capitalized. In addition, SBC is well capitalized. The transaction is structured as a cash purchase funded from capital contributions made to Anchor by its principals. In addition, future prospects are considered consistent with approval. Based on its review of the record, the Board finds that Anchor has sufficient financial resources to effect the proposal and to comply with the Board's Small Bank Holding Company Policy Statement.<sup>6</sup>

The Board also has considered the managerial resources of the applicant and the public comments received on the proposal. The Board has reviewed the examination records of First Bancshares and SBC, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant bank supervisory agencies with the organizations and their records of compliance with applicable banking and anti-money-laundering laws.

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<sup>6</sup> Anchor would be a small bank holding company after acquiring control of First Bancshares and would be subject to the Small Bank Holding Company Policy Statement. 12 CFR 225, appendix C.

First Bancshares and SBC are both considered to be well managed. First Bancshares' existing risk-management program and its directorate and senior management are considered to be satisfactory. The directors and senior executive officers of First Bancshares have substantial knowledge of and experience in the banking and financial services sectors. Anchor represents that it has no plans to effect significant changes in management at SBC, other than the appointment of two principals of Anchor to SBC's board of directors. The current officers and directors of SBC will serve as directors on the board of Anchor.

Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved, as well as the records of effectiveness of First Bancshares and SBC 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 must consider the effects of the proposal on the convenience and needs of the communities to be served. 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 institution is helping to meet the credit needs of the communities it serves, 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 depository institution under the Community Reinvestment Act ("CRA").<sup>7</sup> The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,<sup>8</sup> and requires the appropriate federal financial supervisory agency to take into account a relevant depository institution's

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<sup>7</sup> 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

<sup>8</sup> 12 U.S.C. § 2901(b).

record of meeting the credit needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods, in evaluating bank expansionary proposals.<sup>9</sup>

In addition, the Board considers the bank’s overall compliance record 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 SBC, the fair lending and compliance record of the bank, the supervisory views of the Federal Deposit Insurance Corporation (“FDIC”), confidential supervisory information, other information provided by Anchor, and the public comments received on the proposal.

#### *Public Comments Regarding the Proposal*

One commenter objects to the proposal, alleging that Anchor discriminates against African Americans and “redlines” African American neighborhoods, particularly in the Dallas and Houston areas, both in Texas, with respect to its branching, marketing, and lending activities.<sup>10</sup> The commenter also states that Anchor has no advertising or marketing efforts directed at African American communities.

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<sup>9</sup> 12 U.S.C. § 2903.

<sup>10</sup> Redlining is the practice of providing unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristics of the residents of the area in which a credit seeker resides or will reside or in which a property to be mortgaged is located. See Interagency Fair Lending Examination Procedures (August 2009), available at <https://www.ffiec.gov/pdf/fairlend.pdf>.

*Businesses of the Involved Institutions and Response to Comments*

Anchor states that it is a newly formed entity with no banking operations or operating locations in either Houston or Dallas, and it has not engaged in any advertising or marketing activities anywhere. Anchor further states that upon consummation of the proposed transaction, Anchor intends to operate SBC at its current location of Crawford, Texas, which is outside the Houston and Dallas metropolitan statistical areas.

SBC is a one-branch community bank serving the City of Crawford, western McLennan County, and surrounding communities. SBC offers commercial and consumer deposit accounts with online banking and bill pay and 24-hour telephone banking. Deposit accounts include no-service-charge checking, money market, savings, and certificates of deposit. SBC makes loans in the community for a wide range of purposes, including for business, farm, and personal needs.

SBC represents that it has not engaged in nor received any consumer complaints regarding discriminatory lending practices in Houston, Dallas, or elsewhere. SBC emphasizes that it operates out of one location in Crawford, Texas, and that it does not have any material lending activity in Houston or Dallas. SBC states that it has consistently operated and continues to operate in material compliance with all applicable consumer regulations and that SBC's compliance with fair lending statutes and regulations has been consistently reviewed by the FDIC as part of its regular CRA performance evaluations.

*Records of Performance Under the CRA*

In evaluating the convenience and needs factor and CRA performance, the Board considers substantial information in addition to information provided by public commenters and the applicant's response to comments. In particular, the Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance record of the institution, as well as information and

views provided by the appropriate federal supervisors.<sup>11</sup> In this case, the Board considered the supervisory views of and information provided by the FDIC.

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.<sup>12</sup> An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.

In general, federal financial supervisors apply a lending test to evaluate the performance of a small insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's lending-related activities 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 available data under the Home Mortgage Disclosure Act ("HMDA"), automated loan reports, and other reports generated by the institution to assess the institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on the institution's loan-to-deposit ratio, loan originations for sale to the secondary market, lending-related activities in its assessment areas, record of engaging in lending-related activities for borrowers of different income levels and businesses and farms of different sizes, geographic distribution of loans, and record of taking action in response to written complaints about its performance.<sup>13</sup>

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<sup>11</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642 at 11665 (2010).

<sup>12</sup> 12 U.S.C. § 2906.

<sup>13</sup> See 12 CFR 228.26(b).

The Board is concerned when commenters assert that data reflect disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in local areas. However, in this case, the Board recognizes that neither the applicant nor SBC operates in the banking markets identified by the commenter. Rather, the applicant is a newly formed company, and SBC is a small banking organization that operates only in Crawford, Texas, and not in the Dallas or Houston banking markets.

*CRA Performance of SBC*

SBC was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the FDIC in August 2014 (the “SBC Evaluation”).<sup>14</sup> Examiners determined that SBC demonstrated reasonable performance regarding its loan-to-deposit ratio given the bank’s asset size, financial condition, and assessment area credit needs. In addition, examiners found that a majority of loans sampled were made within the assessment area, illustrating a reasonable commitment to meeting the credit needs of the local community. Examiners also noted that the bank’s geographic distribution of lending within the assessment area reflected reasonable performance.

During the SBC Evaluation, FDIC examiners reviewed SBC’s loan data to evaluate risks of discrimination.<sup>15</sup> Examiners also reviewed the bank’s policies and procedures for fair lending. The Board has considered the results of these reviews.

Anchor represents that since the SBC Evaluation, the bank’s lending strategy has not changed. SBC has increased its lending for multifamily rental units for low- to moderate-income families and individuals. In addition, SBC has not received any complaints from the public regarding any alleged violations of the Equal Credit Opportunity Act or other fair lending laws. Anchor represents that it has no plans to

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<sup>14</sup> SBC’s CRA evaluation was conducted using Small Institution CRA Examination Procedures, and examiners reviewed the bank’s lending activity from August 10, 2009, through August 4, 2014.

<sup>15</sup> SBC is not required to report home loan data under the HMDA because it falls below the HMDA asset-size exemption threshold. See 12 CFR 1003.2(1)(i). SBC’s assessment area contains no majority minority census tracts.

effect significant changes in management at SBC. Anchor believes that such continuity in management is in the best interests of the communities served by SBC. Further, Anchor represents that SBC has historically received satisfactory ratings during its CRA examinations and that SBC does not anticipate undertaking any new programs, activities, or products that would undermine its consistently satisfactory ratings.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the report of examination of the CRA record of the institution involved, information provided by Anchor, the public comments received, and confidential supervisory information. Based on the Board's assessment of the CRA performance and consumer compliance programs of SBC, review of examination reports, consultations with the FDIC, and all the facts of record, the Board concludes that the convenience and needs factor, including the CRA record of the insured depository institution 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 would result in greater or more concentrated risks to the stability of the United States banking or financial system."<sup>16</sup>

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

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<sup>16</sup> Section 604(d) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 1842(c)(7).

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.<sup>17</sup> 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.<sup>18</sup>

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation, Anchor would have approximately \$32.3 million in consolidated assets and would not be likely to pose a systemic risk. The Board generally presumes that a merger or acquisition resulting in a firm with less than \$25 billion in 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 concludes 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. 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 and other applicable statutes. The Board's approval is

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<sup>17</sup> Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

<sup>18</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

specifically conditioned on compliance by Anchor 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 application. 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 15th 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 Dallas, acting under delegated authority.

By order of the Board of Governors,<sup>19</sup> effective February 9, 2017.

*Margaret McCloskey Shanks (signed)*

Margaret McCloskey Shanks  
Deputy Secretary of the Board

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