

FEDERAL RESERVE SYSTEM

PlainsCapital Bank  
Dallas, Texas

Order Approving the Establishment of Branches

PlainsCapital Bank, a state member bank subsidiary of Hilltop Holdings, Inc. (“Hilltop”), both of Dallas, Texas, has requested the Board’s approval under section 9 of the Federal Reserve Act (“FRA”)<sup>1</sup> and the Board’s Regulation H<sup>2</sup> to establish two branches in Frisco, Texas.<sup>3</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the Board’s Rules of Procedure.<sup>4</sup> The time for submitting comments has expired, and the Board has considered the proposal and the comments received in light of the factors specified in the FRA.

Hilltop is the 13th largest depository organization in Texas with 63 branches throughout Texas, controlling approximately \$6.3 billion in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state.<sup>5</sup> PlainsCapital Bank operates only in Texas, and the bank’s main

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<sup>1</sup> 12 U.S.C. § 321.

<sup>2</sup> 12 CFR part 208.

<sup>3</sup> PlainsCapital Bank proposes to establish one branch at One Cowboys Way and one branch at 6635 Cowboys Way, both in Frisco, Texas.

<sup>4</sup> 12 CFR 262.3(b).

<sup>5</sup> 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.

office is in Dallas, Texas. PlainsCapital Bank’s wholly owned nonbank subsidiary, PrimeLending, A PlainsCapital Company (“PrimeLending”), engages in national mortgage lending and has approximately 300 offices in 42 states.<sup>6</sup>

Under section 208.6 of the Board’s Regulation H,<sup>7</sup> which implements section 9 of the FRA, the factors that the Board must consider in acting on branch applications include (1) the financial history and condition of the applying bank and the general character of its management; (2) the adequacy of the bank’s capital and its future earnings prospects; (3) the convenience and needs of the community to be served by the branch; (4) in the case of branches with deposit-taking capability, the bank’s performance under the Community Reinvestment Act (“CRA”);<sup>8</sup> and (5) whether the bank’s investment in bank premises in establishing the branch satisfies certain criteria.<sup>9</sup>

The Board has considered the application in light of these factors and the public comment received on the proposal. One commenter objects to the proposal, alleging that PlainsCapital Bank 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, lending, and community development activities.<sup>10</sup>

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<sup>6</sup> PlainsCapital Bank represents that the vast majority of its residential mortgage lending is conducted through PrimeLending.

<sup>7</sup> 12 CFR 208.6(b).

<sup>8</sup> 12 U.S.C. § 2901 et seq.

<sup>9</sup> 12 CFR 208.21(a).

<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>.

## Financial, Managerial, and Other Supervisory Considerations

In considering the financial history and condition, earnings prospects, and capital adequacy of PlainsCapital Bank, the Board has reviewed reports of examination, other supervisory information, publicly reported and other financial information, information provided by PlainsCapital Bank, and the comment received on the proposal. PlainsCapital Bank is well capitalized and would remain so upon consummation of the proposal. The asset quality, earnings, and liquidity of PlainsCapital Bank are consistent with approval, and PlainsCapital Bank appears to have adequate resources to absorb the costs of the proposal. In addition, future earnings prospects are considered consistent with approval. The Board also has reviewed PlainsCapital Bank's proposed investment in the branches and concludes that its investment is consistent with regulatory limitations on investment in bank premises.<sup>11</sup>

In considering PlainsCapital Bank's managerial resources, the Board has reviewed the bank's examination record, including assessments of its management, risk-management systems, and operations. The Board also has considered its supervisory experiences with PlainsCapital Bank and the bank's record of compliance with applicable banking laws, including consumer protection and anti-money-laundering laws. PlainsCapital Bank is considered to be well managed. PlainsCapital Bank's directors and senior executive officers have substantial knowledge of and experience in the banking and financial services sectors, and the bank's risk-management program appears consistent with approval.

Based on this review and all the facts of record, the Board concludes that PlainsCapital Bank's management, financial history and condition, capital adequacy, and future earnings prospects, as well as the effectiveness of PlainsCapital Bank in combatting money-laundering activities, are consistent with approval of the proposal.

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<sup>11</sup> 12 CFR 208.21(a).

## Convenience and Needs Considerations

In considering 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.<sup>12</sup> In this evaluation, the Board places particular emphasis on the record of the relevant depository institution 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,<sup>13</sup> 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.<sup>14</sup>

In addition, the Board considers the bank's overall compliance record and the results of 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 PlainsCapital Bank; the fair lending and compliance records of the bank; confidential supervisory information; information provided by PlainsCapital Bank; and

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<sup>12</sup> 12 CFR 208.6(b)(3).

<sup>13</sup> 12 U.S.C. § 2901(b).

<sup>14</sup> 12 U.S.C. § 2903.

the public comment received on the proposal. One commenter objects to the proposal, alleging that PlainsCapital Bank has engaged in discriminatory practices in Dallas and Houston. Specifically, the commenter alleges that PlainsCapital Bank engages in redlining in these areas. The commenter alleges that PlainsCapital Bank disfavors certain African American neighborhoods in Dallas and Houston and has limited its lending, marketing activities, community development activities, and branching in those neighborhoods.

PlainsCapital Bank denies the commenter's allegations, arguing that it has a strong commitment to ensuring compliance with consumer laws and a strong lending record under the Home Mortgage Disclosure Act ("HMDA"), and that the bank and PrimeLending both have comprehensive policies and procedures to ensure that they do not engage in discriminatory practices. PlainsCapital Bank represents that these policies and procedures include controls to determine if disparities exist regarding pricing and fees, analysis of approved and denied loans, and frequent fair lending reviews. PlainsCapital Bank also represents that its board of directors has a designated CRA/Compliance Committee that provides enhanced oversight to both the bank's and PrimeLending's compliance programs.

PlainsCapital Bank notes that it is a relatively recent entrant to the Houston area and only has two branches in the area, as it entered the market in late 2013 through the acquisition of a failed bank. PlainsCapital Bank represents that one of those two branches is located in a majority-minority area. While Houston is currently its smallest market, PlainsCapital Bank represents that it is actively working to expand the bank's presence in the community. PlainsCapital Bank asserts that, over the last two years, it has assembled a strong team of lenders, credit underwriters and loan administration staff, and it recently hired a new Houston market president. PlainsCapital Bank represents that, as a result of these efforts, the bank has expanded its loan portfolio in the Houston area by approximately 73 percent in 2015 and 31 percent in 2016, and continuously evaluates opportunities to further expand its presence in the market. Further, PlainsCapital Bank represents that it and PrimeLending engage in marketing and outreach, including targeted

radio and advertising campaigns, to achieve lending penetration in LMI and minority census tracts.

*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 response to comments by the applicant. In particular, the Board evaluates an institution's performance in light of examinations and other supervisory information and information and views provided by the appropriate federal supervisors.<sup>15</sup> In this case, the Board considered the information collected by and findings of examiners from the Federal Reserve Bank of Dallas ("Reserve Bank"), who conducted an on-site CRA performance evaluation of PlainsCapital Bank.

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>16</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 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 data reported under HMDA,

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<sup>15</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48506, 48548 (July 25, 2016).

<sup>16</sup> 12 U.S.C. § 2906.

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 performance is based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas; (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its assessment areas and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;<sup>17</sup> (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 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. 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 typically is not available to commenters.<sup>18</sup> Consequently, these alleged

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<sup>17</sup> Examiners also consider the number and amounts of small business and small farm loans made 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).

<sup>18</sup> 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.

disparities must be evaluated in the context of other information regarding the lending record of an institution.

*CRA Performance of PlainsCapital Bank*

PlainsCapital Bank was assigned an overall “Satisfactory” rating at its most recent CRA performance evaluation by the Reserve Bank, as of July 7, 2015 (“PlainsCapital Bank Evaluation”).<sup>19</sup> PlainsCapital Bank received a “High Satisfactory” rating for the Lending Test and a “Low Satisfactory” rating for both the Investment Test and the Service Test.<sup>20</sup>

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<sup>19</sup> The PlainsCapital Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed HMDA, small business, and small farm lending activities reported by the bank from January 1, 2013, through December 31, 2014, except for those reported by Southwest Securities, FSB, a bank that was merged into PlainsCapital Bank on January 1, 2015, and which had an evaluation period from July 1, 2013, through December 31, 2014. The evaluation period for community development lending, investments, and services was June 3, 2013, through July 7, 2015.

<sup>20</sup> The PlainsCapital Bank Evaluation included a full-scope review of the bank’s assessment areas within the following Metropolitan Statistical Areas (“MSAs”): the Dallas-Fort Worth-Arlington, Texas, MSA (“Dallas assessment area”); the Lubbock, Texas, MSA; the McAllen-Edinburg-Mission, Texas, MSA; and the Brownsville-Harlingen, Texas, MSA. A limited-scope review was conducted in the bank’s assessment areas within the Austin-Round Rock, Texas, MSA; the San Antonio-New Braunfels, Texas, MSA; the Houston-The Woodlands-Sugar Land, Texas, MSA (“Houston assessment area”); the El Paso, Texas, MSA; the Corpus Christi, Texas, MSA; the Laredo, Texas, MSA; the Victoria, Texas, MSA; Jim Wells County, Texas; and Maverick County, Texas.

The commenter alleged that PlainsCapital Bank’s definitions of the Houston and Dallas assessment areas arbitrarily exclude African American neighborhoods in the Houston and Dallas areas. The Board’s regulations prohibit the delineation of a CRA assessment area that reflects illegal discrimination. 12 CFR 228.41(e)(2). Assessment areas generally should include entire political subdivisions. Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48506, 48549 (July 25, 2016). The Houston assessment area comprises the entirety of Harris and Montgomery counties. The Dallas assessment area comprises the entirety of Collin, Denton, Dallas, Parker, and Tarrant counties. Reserve Bank examiners found that the bank’s assessment areas were appropriate and offered opportunities to lend in majority-minority geographies.

Examiners found that PlainsCapital Bank's overall lending activity reflected good responsiveness to credit needs in its assessment areas and that the bank made a high percentage of its loans inside its assessment areas. According to examiners, the bank's geographic distribution of loans reflected adequate penetration throughout the assessment areas. Examiners also found that, overall, the bank's distribution of borrowers reflected good penetration among customers of different income levels and businesses of different sizes. Further, examiners noted that the bank made a relatively high level of community development loans, the majority of which were for affordable housing and economic development. Community development loans were also made to organizations providing services targeted to LMI individuals.

In the Dallas assessment area, an area where the commenter focused, examiners determined that PlainsCapital Bank exhibited good lending performance. The bank's geographic distribution of loans was judged to reflect adequate penetration throughout the assessment area, with no conspicuous lending gaps. Examiners also found that the bank's lending performance reflected good penetration among individuals of different income levels and businesses of different sizes. Further, examiners noted that PlainsCapital Bank made a relatively high level of community development loans in the assessment area, which were to a variety of projects for affordable housing and the revitalizing and stabilizing of LMI areas.

PlainsCapital Bank has only recently entered the Houston banking market and has a limited presence in the Houston assessment area, another area of concern to the commenter. Examiners noted that the bank maintains only 3 percent of its total number of branches and holds only 3.5 percent of its total deposits in the market. The PlainsCapital Bank Evaluation included a limited-scope review of lending activity by PlainsCapital Bank in the Houston assessment area. Examiners concluded that PlainsCapital Bank's lending performance in the Houston assessment area was better than its lending performance in other assessment areas. The bank's geographic distribution of loans was judged to reflect good penetration throughout the assessment area. Examiners also found that the bank's lending performance reflected good

penetration among borrowers of different income levels and businesses of different sizes. Further, examiners found that the bank made a high level of community development loans in the assessment area.

Examiners found that PlainsCapital Bank provided an adequate level of qualified community development investments and donations in its assessment areas. Examiners noted that PlainsCapital Bank's investments demonstrated adequate responsiveness to credit and community development needs throughout its assessment areas. However, examiners found that PlainsCapital Bank's investment performance varied among its assessment areas, with the majority of its investments concentrated in the Dallas assessment area.

In the Dallas assessment area, examiners determined that PlainsCapital Bank provided an excellent level of qualified community development investments and responsiveness to credit and community needs. Examiners noted that the investments provided support for small businesses and affordable housing, and that community contacts had identified the need for and opportunities to make such investments. Examiners also found that the bank made donations to various organizations that provide support services to LMI individuals. In the Houston assessment area, examiners concluded that PlainsCapital Bank's investment performance was consistent with its bank-wide investment performance.

Examiners found that PlainsCapital Bank's retail delivery systems were reasonably accessible to the geographies and individuals of different income levels in its assessment areas. Examiners further noted that PlainsCapital Bank's opening and closing of branches did not adversely affect the accessibility of banking services, particularly to LMI geographies and/or individuals. Further, examiners found that the banking services and business hours did not vary in a way that inconvenienced any portion of the bank's assessment areas, particularly LMI geographies and individuals. However, examiners found that PlainsCapital Bank provided only a limited level of community development services that benefited all of its assessment areas and that such services were concentrated in the Dallas assessment area.

In the Dallas assessment area, examiners concluded that PlainsCapital Bank provided a relatively high level of community development services. Examiners also found that PlainsCapital Bank's delivery systems were accessible to the bank's geographies and to individuals of different income levels in the assessment area and services did not vary in a way that would inconvenience LMI geographies or individuals. In the Houston assessment area, examiners concluded that PlainsCapital Bank's service performance was consistent with its bank-wide service performance.

*PlainsCapital Bank's Efforts Since the 2015 CRA Evaluation*

PlainsCapital Bank represents that since the PlainsCapital Bank Evaluation, it has continued to offer several lending and deposit products specifically designed for LMI populations that are utilized by individuals and businesses in LMI and/or minority census tracts, including in its Houston and Dallas assessment areas. Such products include a closing-cost assistance program offered by PrimeLending and its "Simply Free" and "Business Free" checking accounts, which are consumer and business checking accounts with no minimum balance or monthly fees. PlainsCapital Bank also participates in the Federal Home Loan Bank of Dallas Homebuyer Equity Leverage Partnership, which provides low-income, qualified first-time homebuyers with down-payment assistance.

PlainsCapital Bank represents that it has continued its strong commitment to serving the banking needs of its assessment areas, including the Houston and Dallas assessment areas, through community development lending, investments, and services. For example, the bank represents that it has made community development loans that provided funding for small businesses and supported affordable housing projects, including a loan to support an affordable housing complex in an LMI, majority-minority census tract within the Houston assessment area. PlainsCapital Bank also represents that it has made a number of community development investments that supported affordable housing developments in LMI areas, including within the Dallas and Houston assessment areas. The bank represents that it has continued to make donations to organizations that focus on providing services to LMI and minority individuals and communities.

Additionally, PlainsCapital Bank represents that bank employees have actively participated in a variety of volunteer activities in its assessment areas, such as financial literacy classes at local schools in Dallas and Houston, including schools with primarily LMI and minority students.

*Additional Supervisory Views*

The Board has considered the results of a recent consumer compliance examination conducted by Reserve Bank examiners, which included a review of the bank's compliance risk management program and the bank's compliance with consumer protection laws and regulations. As part of the consumer compliance examination, Reserve Bank examiners also evaluated PlainsCapital Bank's fair lending compliance management program, which included an evaluation of the bank's fair lending-related policies, procedures, and limits; board and senior management oversight of the bank's fair lending management program; fair lending risk-monitoring and management information systems; and internal controls relating to fair lending.

*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. PlainsCapital Bank represents that the proposed branches would provide benefits to the bank's current customers and to the community as a whole. Both branches will be in Collin County, Texas, where the bank currently only has a single branch. The bank asserts that the proposed branches will be in a pedestrian-friendly area and will increase the accessibility of the bank's products and services, particularly to retail customers.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the CRA record of PlainsCapital Bank and its recent entry into the Houston banking market; the bank's record of compliance with fair lending and other consumer protection laws; confidential supervisory information; information provided by PlainsCapital Bank; 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.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved. The Board's approval is specifically conditioned on PlainsCapital Bank's compliance with all the commitments made to the Board in connection with the proposal as well as all conditions imposed in this order. 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.

Approval of this application is also subject to the establishment of the proposed branches within one year of the date of this order, unless such period is extended by the Board or the Reserve Bank, acting under authority delegated by the Board.

By order of the Board of Governors,<sup>21</sup> effective February 24, 2017.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks  
Deputy Secretary of the Board

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<sup>21</sup> Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.