

FEDERAL RESERVE SYSTEM

Veritex Holdings, Inc.
Dallas, Texas

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

Veritex Holdings, Inc. (“Veritex Holdings”), Dallas, Texas, a bank 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 Sovereign Bancshares, Inc. (“Sovereign Bancshares”), and thereby indirectly acquire Sovereign Bank, both of Dallas, Texas.

In addition, Veritex Holdings’ subsidiary state member bank, Veritex Community Bank (“Veritex Bank”), Dallas, Texas, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”) to merge with Sovereign Bank, with Veritex Bank as the surviving entity.³ Veritex Bank also has applied under section 9 of the Federal Reserve Act (“FRA”) to establish and operate branches at the main office and branches of Sovereign Bank.⁴

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (82 Federal Register 8425 (January 25, 2017)).⁵ 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

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ 12 U.S.C. § 1828(c).

⁴ 12 U.S.C. § 321. These locations are listed in the Appendix.

⁵ 12 CFR 262.3(b).

BHC Act, the Bank Merger Act, and the FRA. As required by the Bank Merger Act, a report on the competitive effects of the merger was requested from the United States Attorney General, and a copy of the request has been provided to the Federal Deposit Insurance Corporation (“FDIC”).

Veritex Holdings, with consolidated assets of approximately \$1.4 billion, is the 524th largest insured depository organization in the United States.⁶ Veritex Holdings controls approximately \$1.1 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁷ Veritex Holdings controls Veritex Bank, which operates only in Texas. Veritex Holdings is the 64th largest insured depository organization in Texas, controlling deposits of approximately \$1.0 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.⁸

Sovereign Bancshares, with consolidated assets of approximately \$1.1 billion, is the 670th largest insured depository organization in the United States, controlling approximately \$857.3 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Sovereign Bancshares controls Sovereign Bank, which operates only in Texas. Sovereign Bancshares is the 80th largest insured depository organization in Texas, controlling deposits of approximately \$814.7 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, Veritex Holdings would become the 338th largest insured depository organization in the United States, with consolidated assets of approximately \$2.5 billion, which represent less than 1 percent of the total assets

⁶ National asset data, market share, and ranking data are as of December 31, 2016, unless otherwise noted.

⁷ In this context, insured depository institutions include commercial banks, credit unions, savings and loan associations, and savings banks.

⁸ State asset data, market share, and ranking data are as of June 30, 2016, unless otherwise noted.

of insured depository institutions in the United States. Veritex Holdings would control consolidated deposits of approximately \$2.0 billion, which represent less than 1 percent of the total amount of deposits of insured depository organizations in the United States. Veritex Holdings would become the 38th largest insured depository organization in Texas, controlling deposits representing less than 1 percent of the total deposits of insured depository institutions in that state.

Competitive Considerations

Section 3 of the BHC Act and the Bank Merger Act prohibit the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market.⁹ Both statutes also prohibit the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any 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.¹⁰

Veritex Holdings and Sovereign Bancshares have subsidiary depository institutions that compete directly in the Dallas, Texas, banking market (“Dallas market”).¹¹ The Board has considered the competitive effects of the proposal in this banking market. In particular, the Board has considered the number of competitors that would remain in the market; the relative shares of total deposits in insured depository institutions in the market (“market deposits”) that Veritex Holdings would control;¹² the

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

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

¹¹ The Dallas market includes Dallas and Rockwall counties; the southeastern quadrant of Denton County, including Denton and Lewisville; the southwestern quadrant of Collin County, including McKinney and Plano; the communities of Forney and Terrell in Kaufman County; and Midlothian, Waxahachie and Ferris in Ellis County, all in Texas.

¹² Local deposit and market share data are as of June 30, 2016, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. 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”);¹³ 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 Dallas market. On consummation of the proposal, the Dallas market would remain moderately concentrated, as measured by the HHI, according to the DOJ Bank Merger Guidelines. The change in HHI in this market would be small, and numerous competitors would remain in the market.¹⁴

Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. *See, e.g., Midwest Financial Group*, 75 Federal Reserve Bulletin 386 (1989) and *National 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).

¹³ 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), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

¹⁴ Veritex Holdings operates the 23rd largest depository institution in the Dallas market, controlling approximately \$1.0 billion in deposits, which represent less than 1 percent of market deposits. Sovereign Bancshares operates the 28th largest depository institution in the same market, controlling approximately \$539.7 million in deposits, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, Veritex Holdings would become the 16th largest depository organization in the market, controlling deposits of approximately \$1.6 billion, which represent less than 1 percent of

The DOJ also has conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market, including the Dallas 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 Dallas 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 and the Bank Merger Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.¹⁵ In its evaluation of the 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 information, including 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 the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The

market deposits. The HHI for the Dallas market would increase by 1 point to 1792, and 121 competitors would remain in the market.

¹⁵ 12 U.S.C. §§ 1842(c)(2), (5), and (6), and 1828(c)(5) and (11).

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.

Veritex Holdings and Sovereign Bancshares are both well capitalized, and the combined entity would remain so on consummation of the proposed transaction. The proposed transaction is a bank holding company merger, with a subsequent merger of Veritex Bank and Sovereign Bank.¹⁶ The asset quality, earnings, and liquidity of both Veritex Bank and Sovereign Bank are consistent with approval, and Veritex Holdings appears to have adequate resources to absorb the costs of the proposal and to complete the 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 Veritex Holdings, Sovereign Bancshares, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Veritex Holdings; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws.

Veritex Holdings, Sovereign Bancshares, and their subsidiary depository institutions are considered to be well managed. Veritex Holdings has a record of successfully integrating organizations into its operations and risk-management systems

¹⁶ To effect the holding company merger, a wholly owned subsidiary of Veritex Holdings formed to facilitate the transaction would merge with Sovereign Bancshares, with Sovereign Bancshares as the surviving entity, and immediately thereafter Sovereign Bancshares would merge with Veritex Holdings, with Veritex Holdings as the surviving entity. Upon consummation of that merger, each share of Sovereign Bancshares common stock would be entitled to receive a portion of the aggregate merger consideration, which would consist of Veritex Holdings common stock and cash. Sovereign Bank would then merge with and into Veritex Bank, with Veritex Bank as the surviving entity. Veritex Holdings has the financial resources to effect the transaction.

after acquisitions. Veritex Holdings' directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and its risk-management program appears consistent with approval of this expansionary proposal.

The Board also has considered Veritex Holdings' plans for implementing the proposal. Veritex Holdings 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. Veritex Holdings would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, Veritex Holdings' management has the experience and resources to operate the combined organization in a safe and sound manner, and Veritex Holdings plans to integrate Sovereign Bancshares' existing management and personnel in a manner that augments Veritex Holdings' management.¹⁷

Based on all the facts of record, including the supervisory records of Veritex Holdings, Sovereign Bancshares, and their subsidiary banks, 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 Veritex Holdings and Sovereign Bancshares in combating money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act and the Bank Merger Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.¹⁸ In its evaluation of the effects of the proposal on the

¹⁷ On consummation, Sovereign Bancshares' president and chief executive officer, as well as the chairman of its board of directors, will be appointed to the boards of directors of Veritex Holdings and Veritex Bank. Additionally, one of these individuals is expected to be appointed vice chairman of the board of directors of Veritex Holdings.

¹⁸ 12 U.S.C. §§ 1842(c)(2) and 1828(c)(5).

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 depository institutions under the Community Reinvestment Act (“CRA”).¹⁹ 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,²⁰ 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, in evaluating bank expansionary proposals.²¹

In addition, the Board considers the banks’ overall compliance records and their 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 Veritex Bank and Sovereign Bank; the fair lending and compliance records of both banks; the supervisory views of the FDIC; confidential supervisory

¹⁹ 12 U.S.C. § 2901 et seq.; 12 CFR 225.13(b)(3).

²⁰ 12 U.S.C. § 2901(b).

²¹ 12 U.S.C. § 2903.

information; information provided by Veritex Holdings; and the public comments received on the proposal.

Public Comments Regarding the Proposal

The Board received comments from one commenter opposing the proposal. The commenter alleged that Veritex Bank discriminates against African Americans and “redlines” African American neighborhoods, particularly in the Dallas and Houston areas,²² both in Texas, with respect to its branching, marketing, and lending activities.²³ The commenter also alleged that Veritex Bank has designated its CRA assessment area in a manner that excludes majority African American neighborhoods in Dallas. In addition, the commenter alleged that Sovereign Bank also discriminates against African Americans and redlines African American neighborhoods.

Businesses of the Involved Institutions and Response to Comments

Veritex Holdings and Veritex Bank offer a range of financial products and services to individual customers and businesses. Veritex Bank is a full-service retail bank offering agricultural, commercial, home purchase, home improvement, home equity, and vehicle loans. Through its network of 11 branches, Veritex Bank offers a wide range of deposit products including various checking accounts, savings accounts, certificates of deposit, individual retirement accounts, money market accounts, and NOW accounts. Veritex Bank also provides automated teller machines, debit cards, and internet banking.

Sovereign Bancshares and Sovereign Bank offer deposit and loan products and specialize in commercial banking activities. Sovereign Bank offers a range of

²² Veritex currently has no branch locations in Houston.

²³ 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 products and services to individual customers and businesses, including business loans, commercial real estate lending, and consumer deposit products.

Veritex Holdings denies the commenter's allegations of discriminatory lending and redlining with respect to the branching, marketing, and lending activities of Veritex Bank. Veritex Holdings asserts that Veritex Bank maintains appropriate controls to ensure compliance with applicable fair lending laws and regulations, and asserts that Veritex Bank designated the entirety of two counties in the Dallas area as its CRA assessment area,²⁴ in part to ensure that no LMI or high minority census tracts were excluded or neglected. Veritex Holdings further asserts that Veritex Bank's management is committed to ensuring that no geographic areas are excluded by branch location decisions. With respect to fair lending, Veritex Holdings asserts that the bank has implemented policies and procedures to ensure fair lending compliance, including an equal credit opportunity policy and a fair lending policy, among others. Veritex Holdings represents that Veritex Bank monitors and reviews loan policies and practices for the purpose of measuring compliance with fair lending laws and equal credit opportunity requirements, and that this monitoring includes internal and external audits, as well as training programs.

In response to the commenter's criticism that Veritex Bank has no advertising or marketing efforts directed at African American communities, Veritex Holdings asserts that Veritex Bank has directed advertising and marketing efforts towards individuals and small businesses in areas typically underserved by banks, including African American communities. Veritex Holdings represents that these marketing efforts include partnerships with various community organizations, including one that facilitates micro lending to low- and moderate-income individuals.

The commenter also noted that Sovereign Bank discriminates against African Americans and redlines in African American neighborhoods. Veritex Holdings notes that as part of its community development activities, a majority of Sovereign

²⁴ These counties, the Dallas and Collin counties, are defined below.

Bank's community development loans have been to borrowers in predominantly minority census tracts. Veritex Holdings represents that as part of Sovereign Bank's CRA efforts, it has made qualified donations to organizations that help to support financial literacy and money management to individuals in census tracts that are over 50 percent minority, as well as to organizations that focus on housing, ending homelessness, and providing other social services targeted to LMI individuals in the Dallas metropolitan area. Further, Veritex Holdings represents that, through Sovereign Bank branch locations, bank personnel provide community development services to organizations located in predominantly minority census tracts and meet with different community groups, including an alliance for the homeless, which helps the bank better understand the needs of the communities it serves. Veritex Holdings also represents that Sovereign Bank has implemented processes to comply with anti-discrimination requirements, including the establishment of a fair lending committee that reviews, among other things, high-rate loans and consumer loans with origination fees.

Records of Performance under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board considers substantial information in addition to the information provided by the 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 records of the relevant institutions, as well as information and views provided by the appropriate federal supervisors.²⁵ In this case, the Board considered the views of its supervisory staff and of examiners from the Federal Reserve Bank of Dallas ("Reserve Bank") and 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

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

meet the credit needs of its entire community, including LMI neighborhoods.²⁶ 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.²⁷

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 Home Mortgage Disclosure Act ("HMDA")²⁸ data, 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.²⁹ Intermediate small banks are subject to the lending test, as well as a community development test that evaluates the number and amount of their community development loans and qualified investments; the extent to which they

²⁶ 12 U.S.C. § 2906.

²⁷ See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48506, 48548 (July 25, 2016).

²⁸ 12 U.S.C. § 2801 et seq.

²⁹ See 12 CFR 228.26(b).

provide community development services; and their responsiveness to community development lending, investment, and service needs.³⁰

CRA Performance of Veritex Bank

Veritex Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the Reserve Bank, as of January 23, 2017 (“Veritex Bank Evaluation”).³¹ The bank received “Satisfactory” ratings for each of the Lending Test and the Community Development Test. The Veritex Bank Evaluation included full-scope evaluations of Dallas and Collin counties in the Dallas-Plano-Irving Metropolitan Division, an area of concern to the commenter.

Examiners concluded that the bank’s performance demonstrated a reasonable responsiveness to credit needs in its assessment area. Examiners noted that a substantial majority of the bank’s HMDA and small business loans were originated inside its assessment area. Examiners found that the bank’s net loan-to-deposit ratio was considered reasonable, given the bank’s size and financial condition, the credit needs of the assessment area, and the competitive local banking environment.

Examiners also found that the bank’s distribution of lending to borrowers reflected a reasonable penetration among individuals of different income levels (including LMI borrowers) and that the geographic dispersion of the bank’s lending was reasonable given the performance context. Examiners determined that the distribution of HMDA loans by borrower income level was reasonable given the high level of competition in the assessment area and low volume of loans originated to LMI borrowers by the aggregate lenders. Loans were generally made in close proximity to the bank’s branches, and there were no conspicuous gaps or anomalies in the lending patterns. The

³⁰ See 12 CFR 228.26(c).

³¹ The Veritex Bank Evaluation was conducted using the Intermediate Small Bank CRA Examination Procedures. For the Lending Test, examiners reviewed HMDA loans reported by Veritex Bank in 2014 and 2015 and small business loans originated by the bank between April 1, 2016, and September 30, 2016. For the Community Development Test, examiners reviewed community development lending, investments, and services based on data from November 12, 2013, through January 23, 2017.

distribution of the remainder of bank lending in middle- and upper-income geographies did not affect the conclusions about the bank's performance considering its lending in LMI geographies. With respect to small business lending, examiners found geographic distribution to be reasonable.

Examiners also determined that Veritex Bank's responsiveness to community development needs was adequate considering the bank's capacity and its primary focus as a commercial lender. Examiners noted that the bank applied its community development resources strategically to meet community needs, primarily through qualified loans and community services targeted to LMI individuals in its community, and that the bank provided community development services through its branches in LMI areas. Examiners found that the bank provided a high level of retail services in its assessment area. Specifically, examiners found Veritex Bank's delivery systems to be accessible to geographies and individuals of different income levels in its assessment area. Examiners also noted that the bank's record of opening and closing branches had not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and individuals, and that its services did not vary in a way that inconvenienced its assessment area, particularly LMI geographies and individuals.

CRA Performance of Sovereign Bank

Sovereign Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of March 30, 2015 ("Sovereign Bank Evaluation").³² Sovereign Bank received a "Satisfactory" rating for the Lending

³² The Sovereign Bank Evaluation was conducted using Intermediate Small Bank CRA Examination Procedures. For the Lending Test, examiners reviewed small business loans originated by the bank from January 1, 2014, through December 31, 2014. Because commercial loans comprised approximately 49 percent of the bank's loan portfolio and its primary product line, examiners focused the Lending Test on small business loans. For the Community Development Test, examiners reviewed the bank's qualified community development lending, investments, and service activities from June 19, 2012, through March 30, 2015.

Test and an “Outstanding” rating for the Community Development Test. Although Sovereign Bank’s overall rating took into consideration its performance in each of its MSA AAs, examiners gave significantly more weight to the bank’s records in the Dallas, Texas MSA AA due to the higher volume of loans in that area.

For the Lending Test, examiners evaluated Sovereign Bank’s small business loans. Based on this evaluation, examiners found that Sovereign Bank’s loan-to-deposit ratio reflected reasonable responsiveness to credit needs in its assessment areas given its size and financial condition. Examiners found that Sovereign Bank originated a majority of its lending within the bank’s assessment areas. Specifically, examiners noted that Sovereign Bank originated a majority of its small business loans by number and dollar volume inside of its assessment areas. Examiners found that Sovereign Bank displayed a reasonable level of penetration regarding its distribution of loans based on borrower profile and that the bank’s record of lending to businesses of different sizes reflected a reasonable performance. Examiners also found that Sovereign Bank demonstrated a reasonable record of geographically distributing its loans throughout the assessment areas. Examiners found that the bank’s lending in moderate-income areas reflected reasonable performance, but lending in low-income census tracts demonstrated poor performance. However, examiners noted that the geographic distribution of the bank’s small business loans reflected a reasonable record of lending within the assessment areas when performance context factors that mitigate the bank’s small business loan originations in LMI census tracts were considered. These performance context factors include (1) the bank’s concentrated marketing efforts in LMI areas to increase small business loan volume through its Small Business Administration Loan Programs, such as by mailing out letters advertising the program in each assessment area,

The Sovereign Bank Evaluation included a full-scope review of performance in the Dallas-Fort Worth-Arlington, Texas Metropolitan Statistical Area Assessment Area (“Dallas, Texas MSA AA”); and a limited-scope review of performance in the Austin-Round Rock, Texas MSA assessment area and the Houston-The Woodlands-Sugar Land, Texas MSA assessment area.

and (2) the bank's targeting of businesses, and specifically those with gross annual revenues of less than \$1 million, in the bank's low-income census tracts. Overall, examiners noted that, considering efforts made to increase small business lending in LMI areas and the heavy concentration of bank competition in the Dallas MSA AA, the bank's geographic distribution of small business loans reflected reasonable dispersion.

With respect to community development, examiners considered Sovereign Bank's community development loans, community development investments, and community development services. Examiners found that Sovereign Bank demonstrated an excellent record regarding its community development lending. Examiners also found that Sovereign Bank exhibited an adequate record regarding its community development investments and donations. Specifically, examiners noted that the bank had adequate responsiveness to community development needs combined with an adequate level regarding the number and dollar volume of community development investments and donations. Examiners found that Sovereign Bank established an excellent record of providing community development services to LMI individuals through its contribution of financial expertise and involvement in activities directed at LMI individuals and families. Examiners further noted that Sovereign Bank provided a range of banking products and services to meet the needs of consumer and commercial customers and that its branch offices and delivery systems were readily accessible to LMI borrowers.

Sovereign Bank's Efforts since the Sovereign Bank Evaluation

Veritex Holdings represents that since the Sovereign Bank Evaluation, Sovereign Bank has worked to continue to serve its communities through its small business lending, community service activities, outreach efforts, investments, and donations. Specifically, Veritex Holdings represents that since its last evaluation, Sovereign Bank has continued to provide for community development services through non-profit organizations to LMI individuals and that the bank's employees have continued to serve its communities through work on the boards of directors of non-profit organizations. Veritex Holdings represents that Sovereign Bank's CRA committee meets

with different community groups, which helps the bank understand the needs of the communities it serves.

Additional Supervisory Reviews

The Board has considered the results of the most recent consumer compliance examinations of Veritex Bank conducted by Reserve Bank examiners, which included a review of the compliance management program and the banks' compliance with consumer protection laws and regulations. As part of the consumer compliance examinations, Reserve Bank examiners also evaluated Veritex Bank's fair lending management program, including the bank's fair-lending-related practices, policies, procedures, and internal controls.

The Board also has considered the results of a recent consumer compliance examination of Sovereign Bank conducted by FDIC examiners, which included a review of the bank's compliance management system and the bank's compliance with consumer protection laws, including fair lending laws and regulations.

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. Veritex Holdings represents that it has no plans to discontinue any significant product or service currently offered by Veritex Bank or Sovereign Bank. Specifically, Veritex Bank represents that it will continue to offer customers a range of deposit and credit products and services that benefit the communities in which Veritex Bank and Sovereign Bank each presently conduct business, including those credit products and services that fulfill the needs of LMI demographics. Veritex Bank represents that, following the proposed transaction, customers of Sovereign Bank would have access to a complement of products and services that are more expansive than those currently available to Sovereign Bank customers, including residential mortgage loan products, and that Sovereign Bank customers would also have increased access to Veritex Bank's offices by telephone and online applications, which may increase access to banking services. In addition, Veritex Bank asserts that customers of both institutions would benefit from a more expansive

branch and ATM network. Following the proposed transaction, Veritex Bank represents that it will continue to provide a level of service consistent with Veritex Bank's current CRA performance.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA records of the relevant depository institutions involved, the institutions' records of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by Veritex Bank, public comments on the proposal, and the 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 and the Bank Merger Act to require the Board to consider a proposal's "risk to the stability of the United States banking or financial system."³³

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.³⁴ These categories are not exhaustive, and additional categories could

³³ Dodd-Frank Act §§ 604(d) and (f), Pub. L. No. 111-203, 124 Stat. 1376, 1601–1602 (2010), codified at 12 U.S.C. §§ 1842(c)(7) and 1828(c)(5).

³⁴ Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

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.³⁵

The Board's experience has shown that proposals involving an acquisition of less than \$10 billion in assets, or that results in a firm with less than \$100 billion in total assets, are generally not likely to pose systemic risks. Accordingly, the Board presumes that a proposal does not raise material financial stability concerns if the assets involved fall below either of these size thresholds, absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.³⁶

In this case, the Board has considered information relevant to risks to the stability of the U.S. banking or financial system. The proposal involves a target that is less than \$10 billion in assets and a pro forma organization of less than \$100 billion in assets. Both the acquirer and the target are predominantly engaged in a variety of consumer and commercial banking activities.³⁷ The pro forma organization would have

³⁵ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (February 14, 2012).

³⁶ See Peoples United Financial, Inc., FRB Order No. 2017-08 at 25-26 (March 16, 2017). Notwithstanding this presumption, the Board has the authority to review the financial stability implications of any proposal. For example, an acquisition involving a global systemically important bank could warrant a financial stability review by the Board, regardless of the size of the acquisition.

³⁷ Veritex Holdings primarily offers commercial and consumer banking services, mortgage banking services, commercial real estate lending, and treasury management. Sovereign Bancshares primarily offers commercial and consumer banking services, commercial real estate lending, and treasury management. In each of the activities in which it engages, Veritex Holdings has, and as a result of the proposal would continue to have, a small market share on a nationwide basis, and numerous competitors would remain for these services.

minimal cross-border activities and would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. In addition, the organization would not be a critical services provider or so interconnected with other firms or the markets that it would pose a significant risk to the financial system in the event of financial distress.

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.

Establishment of Branches

Veritex Bank has applied under section 9 of the FRA to establish branches at the current locations of Sovereign Bank.³⁸ The Board has assessed the factors it is required to consider when reviewing an application under that section.³⁹ Specifically, the Board has considered Veritex Bank's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance,

³⁸ See 12 U.S.C. § 321. Under section 9 of the FRA, state member banks may establish and operate branches on the same terms and conditions as are applicable to the establishment of branches by national banks. Thus, state member banks may retain any branch following a merger that was a branch of any bank participating in the merger prior to February 25, 1927, or that under state law may be established as a new branch of the resulting bank or retained as an existing branch of the resulting bank. See 12 U.S.C. §§ 36(b)(2) and (c). Upon consummation, all of Veritex Bank's branches would be permissible under applicable state law. See Tex. Fin. Code §§ 32.203; 32.301(c).

³⁹ 12 U.S.C. § 322; 12 CFR 208.6.

and investment in bank premises.⁴⁰ For the reasons discussed in this order, the Board finds those factors to be consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the proposal should be, and hereby is, approved.⁴¹ In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act, the Bank Merger Act, the FRA, and other applicable statutes. Approval of this proposal is specifically conditioned on compliance by Veritex Holdings and Veritex Bank with all the conditions set forth 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

⁴⁰ Upon consummation of the proposed transaction, Veritex Bank's investments in bank premises would remain within legal requirements, under 12 CFR 208.21.

⁴¹ The Board construes the comment received on the proposal to include a request that the Board hold public hearings 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 may, in its discretion, hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present their views. The Board has considered the commenter's request in light of all the facts of record. Notice of the proposal was published in the Federal Register on January 25, 2017, and in the relevant newspaper of general circulation (The Dallas Morning News) on January 13, January 20, and February 10, 2017. The comment period ended on February 12, 2017. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted a written comment that the Board has considered in acting on the proposal. The commenter's request does not identify disputed issues of fact that are material to the Board's decision and that would be clarified by a public hearing. In addition, the request does not demonstrate why the written comment does not present the commenter's views adequately or why a hearing 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 is not required or warranted in this case. Accordingly, the request for a public hearing on the proposal is denied.

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 by the Reserve Bank, acting under delegated authority.

By order of the Board of Governors,⁴² effective July 6, 2017.

Ann E. Misback (signed)

Ann E. Misback
Secretary of the Board

⁴² Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Powell and Brainard.

Appendix

Branches to Be Established by Veritex Bank

1. 600 West 5th Street, Austin, Texas 78701
2. 150 South Bell Boulevard, Cedar Park, Texas 78613
3. 17950 Preston Road, Suite 100, Dallas, Texas 75252
4. 6060 Sherry Lane, Dallas, Texas 75225
5. 7255 North State Highway 161, Irving, Texas 75039
6. 3800 Matlock Road, Arlington, Texas, 76015
7. 2438 East Southlake Boulevard, Southlake, Texas 76092
8. 2800 West 7th Street, Fort Worth, Texas 76107
9. 5111 San Felipe, Houston, Texas 77056
10. 777 Post Oak Boulevard, Suite 700, Houston, Texas 77056