

FEDERAL RESERVE SYSTEM

Frost Bank  
San Antonio, Texas

Order Approving the Establishment of a Branch

Frost Bank, a state member bank subsidiary of Cullen/Frost Bankers Incorporated, both of San Antonio, 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 a branch located at 640 Taylor Street, Fort Worth, Texas.

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>3</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.

Cullen/Frost Bankers Incorporated, with total assets of \$31.0 billion, is the 48th largest depository organization in the United States, controlling approximately \$25.6 billion in deposits, which represent less than 1.0 percent of the total amount of deposits of insured depository institutions in the United States.<sup>4</sup> Frost Bank operates through 148 branches located in Texas, and the bank's main office is in San Antonio, Texas.

---

<sup>1</sup> 12 U.S.C. § 321.

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

<sup>3</sup> 12 CFR 262.3(b).

<sup>4</sup> Total assets are as of September 30, 2017. National asset ranking and deposit data are as of June 30, 2017.

Under section 208.6 of the Board’s Regulation H,<sup>5</sup> which implements section 9 of the FRA, the factors that the Board must consider in acting on a branch application 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>6</sup> and (5) whether the bank’s investment in bank premises in establishing the branch satisfies certain criteria.<sup>7</sup> The Board has considered the application in light of these factors and the public comments received on the proposal.

#### Financial, Managerial, and Other Supervisory Considerations

In considering the financial history and condition, earnings prospects, and capital adequacy of Frost Bank, the Board has reviewed reports of examination, other supervisory information, publicly reported and other financial information, information provided by Frost Bank, and the comments received on the proposal. Frost Bank is well capitalized and would remain so upon consummation of the proposal. The asset quality, earnings, and liquidity of Frost Bank are consistent with approval, and Frost 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 Frost Bank’s proposed investment in the branch and concludes that the bank’s investment is consistent with regulatory limitations on investment in bank premises.<sup>8</sup>

In considering Frost 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

---

<sup>5</sup> 12 CFR 208.6(b).

<sup>6</sup> 12 U.S.C. § 2901 et seq.

<sup>7</sup> 12 CFR 208.21(a).

<sup>8</sup> 12 CFR 208.21(a).

experiences with Frost Bank and the bank's record of compliance with applicable banking laws, including consumer protection and anti-money-laundering laws. Frost Bank is considered to be well managed. Frost 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 to be consistent with approval.

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

#### 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>9</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>10</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, in evaluating a bank branching proposal.<sup>11</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

---

<sup>9</sup> 12 CFR 208.6(b)(3).

<sup>10</sup> 12 U.S.C. § 2901(b).

<sup>11</sup> 12 U.S.C. § 2903.

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 Frost Bank, the fair lending and compliance records of the bank, confidential supervisory information, information provided by Frost Bank, and the public comments received on the proposal.

#### *Public Comments on the Proposal*

A commenter objected to the proposal, alleging that Frost Bank has engaged in redlining in Dallas and Houston, Texas.<sup>12</sup> Specifically, the commenter alleged that Frost Bank disfavors certain African American neighborhoods in Houston and Dallas and has limited its lending, marketing activities, community development activities, and branching in those areas.

#### *Business of the Applicant and Response to Comments*

Through its network of branches, Frost Bank offers a broad range of loan and deposit products and services to consumers and businesses, including commercial and industrial, residential, agricultural, and consumer loans; personal checking and savings accounts; international banking, correspondent banking, and trust services; and

---

<sup>12</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>.

treasury management services. In response to the comment, Frost Bank denies the commenter's allegations and represents that since 2015, it has opened nine branches that directly contribute to serving the needs of majority-minority communities, including three in Dallas and three in Houston. In addition, Frost Bank represents that it has developed and implemented a comprehensive marketing and outreach program to serve the needs of historically underserved neighborhoods, including majority-minority neighborhoods and individuals.

*Record 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>13</sup> In this case, the Board considered the information collected by and the findings of examiners from the Federal Reserve Bank of Dallas ("Reserve Bank"), who conducted an on-site CRA performance evaluation of Frost 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>14</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

---

<sup>13</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48506, 48548 (July 25, 2016).

<sup>14</sup> 12 U.S.C. § 2906.

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 the Home Mortgage Disclosure Act ("HMDA"),<sup>15</sup> 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 ("AAs"); (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>16</sup> (4) the institution's community development lending, including the number and amounts 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.

#### *CRA Performance of Frost Bank*

Frost Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the Reserve Bank, as of July 13, 2015

---

<sup>15</sup> 12 U.S.C. § 2801 et seq.

<sup>16</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).

(“Frost Bank Evaluation”).<sup>17</sup> The bank received an “Outstanding” rating for the Investment Test and “High Satisfactory” ratings for the Lending Test and the Service Test.<sup>18</sup>

Examiners found that Frost Bank’s overall lending activity was responsive to the credit needs in all of its AAs. According to examiners, the bank made a substantial majority of its loans inside its AAs. Examiners noted that, overall, the distribution of the bank’s home mortgage borrowers of different income levels was adequate and the bank’s distribution of small business lending reflected good penetration among businesses of different revenue sizes. Examiners found that the bank’s overall geographic distribution of loans reflected excellent penetration. Examiners noted that the bank made a relatively high level of community development loans for a variety of purposes, including multifamily housing, but the majority were for affordable housing and community services to individuals or LMI areas.

Examiners found Frost Bank’s lending performance in the Houston AA to be good. Examiners found that the geographic distribution of the bank’s loans in this AA reflected excellent penetration, and the bank’s borrowers reflected adequate penetration

---

<sup>17</sup> The Frost Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed HMDA and small business and small farm lending activities reported by the bank from January 1, 2012, through December 31, 2014. For the Midland and Odessa, Texas, Metropolitan Statistical Areas (“MSAs”), the lending performance was based upon loan data for the period January 1, 2014, through December 31, 2014. The evaluation period for community development lending, investments, and services was January 1, 2012, through December 31, 2014. For the Midland and Odessa MSAs, the review period for community development activity was from January 1, 2014, through December 31, 2014.

<sup>18</sup> The Frost Bank Evaluation included a full-scope review of the bank’s AAs within the following MSAs: Austin-Round Rock-San Marcos, Texas, MSA; Fort Worth-Arlington, Texas, Metropolitan Division; Houston-Sugar Land-Bayton, Texas, MSA (“Houston AA”); McAllen-Edinburg-Mission, Texas, MSA; San Antonio-New Braunfels, Texas, MSA. A limited-scope review was conducted in the bank’s AAs within the Brownsville-Harlington, Texas, MSA; Corpus Christi, Texas, MSA; Dallas-Plano-Irving, Texas, Metropolitan Division (“Dallas AA”); Midland, Texas, MSA; Odessa, Texas, MSA; and Willacy County, Texas.

among individuals of different income levels and businesses of different revenue sizes. Examiners found the bank's community development lending to be excellent, noting that the bank was a leader in making community development loans. In the Dallas AA, another area of concern for the commenter, examiners found the bank's lending performance to be below its overall lending performance, noting the bank's lower levels of community development lending.

Examiners found that the bank's investments demonstrated excellent responsiveness to the most pressing credit and community development needs throughout its AAs. Examiners found that the bank had an excellent level of qualified community development investments and grants, particularly those types not routinely provided by private investors. In addition, examiners noted that the bank made extensive use of innovative and/or complex investments to support community development initiatives. In the Houston AA, examiners found that the bank exhibited excellent responsiveness to credit and community development needs through its investment activities, which included investments for affordable housing. The bank's investment performance in the Dallas AA was found to be consistent with the bank's overall investment performance.

Examiners found that Frost Bank provided a relatively high level of community development services throughout its AAs. Frost Bank's retail delivery systems were found to be reasonably accessible to geographies and individuals of different income levels located in its AAs. Examiners further noted that Frost Bank's opening and closing of branches generally did not adversely affect the accessibility of banking services, particularly to LMI geographies and/or individuals. Examiners found that the banking services did not vary in a way that inconvenienced its AAs, particularly LMI geographies and individuals.

In the Houston AA, examiners found that Frost Bank's performance under the Service Test was adequate. Examiners compared the distribution of the bank's delivery systems to households and businesses within the area, and found the distribution impacted accessibility to portions of the bank's geographies and individuals of different income levels. Examiners found, however, that the bank's retail and community

development services reflected adequate responsiveness to the needs of the AA. Moreover, examiners found that the bank's record of opening or closing branches in the Houston AA had generally not affected the accessibility of its delivery systems. In the Dallas AA, examiners concluded that Frost Bank's service performance was consistent with its overall service performance.

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

Frost Bank represents that since the Frost Bank Evaluation, it has continued to help meet the credit needs of its AAs, including the needs of LMI communities and individuals. Frost Bank represents that it has made community development loans that promote affordable housing and support economic development and revitalization, as well as loans to organizations providing community services to LMI individuals and families. In addition, the bank asserts that it has continued to purchase mortgage-backed securities secured by mortgage loans made to LMI borrowers, invested in school bonds that fund economically disadvantaged school districts throughout Texas, and made contributions to benefit the community directly in each of the bank's AAs, including Dallas and Houston. The bank represents that it has continued to make available a low-cost checking account and low-cost unsecured and secured home improvement loans for LMI individuals. Additionally, Frost Bank asserts that it has continued to provide financial education for youths, adults, seniors, and small businesses and has conducted educational events for LMI homeowners on home improvement, home-improvement loan options, and the importance of good credit.

*Additional Supervisory Views*

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

controls. In addition, the Board has consulted with the Consumer Financial Protection Bureau concerning the bank's supervisory record.

*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. The bank represents that an existing bank branch will be closed concurrently with the opening of the proposed branch and that the distance between the two branches was just slightly over the threshold requiring the bank to treat this as a branch opening/closure rather than a relocation. The bank asserts that the proposed branch would be easier to access than the current branch, provide customers access to all of the bank's financial services in a single location, and provide a higher level of security for the bank's employees and customers.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the CRA record of Frost Bank, the bank's record of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by Frost 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.<sup>19</sup> The Board's approval is

---

<sup>19</sup> The Board construes the comments received on the proposal to include a request that the Board hold public hearings on the proposal. 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. 12 CFR 262.3(e). The Board has considered the commenter's request in light of all the facts of record. Notice of the proposal was published in a relevant newspaper of general circulation on July 13, 2017. The comment period ended on July 28, 2017. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted written comments that the Board has considered in acting

specifically conditioned on Frost 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.

The branch must be established within one year of the date of this order, unless such period is extended for good cause by the Board or the Reserve Bank, acting under authority delegated by the Board.

By order of the Board of Governors,<sup>20</sup> effective November 22, 2017.

*Ann E. Misback (signed)*

---

Ann E. Misback  
Secretary of the Board

---

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.

<sup>20</sup> Voting for this action: Chair Yellen, Vice Chairman for Supervision Quarles, and Governors Powell and Brainard.