

FEDERAL RESERVE SYSTEM

Compass Bank
Birmingham, Alabama

Order Approving the Establishment of a Branch

Compass Bank, Birmingham, Alabama, a state member bank subsidiary of Banco Bilbao Vizcaya Argentaria, S.A., Bilbao, Spain, and BBVA Compass Bancshares, Inc., Houston, Texas (“BBVA Compass”), has requested the Board’s approval under section 9 of the Federal Reserve Act (“FRA”)¹ and the Board’s Regulation H² to establish a branch at 12525 Memorial Drive, Houston, Texas.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the Board’s Rules of Procedure.⁴ 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.

BBVA Compass, with consolidated assets of \$87.6 billion, is the 40th largest depository organization in the United States, controlling approximately \$69.9 billion in deposits, which represent less than 1.0 percent of the total amount of

¹ 12 U.S.C. § 321.

² 12 CFR Part 208.

³ The proposed branch would replace an existing branch located only 0.4 miles away from and in the same census tract as the proposed branch.

⁴ 12 CFR 262.3(b).

deposits of insured depository institutions in the United States.⁵ Compass Bank operates through 646 offices located in Alabama, Arizona, California, Colorado, Florida, New Mexico, and Texas, and the bank's main office is in Birmingham, Alabama. In Texas, Compass Bank is the fifth largest depository institution, with 342 offices, controlling approximately \$36.2 billion in deposits, which represent approximately 4.4 percent of the total amount of deposits in that state.⁶

Under section 208.6 of the Board's Regulation H,⁷ 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 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");⁸ and (5) whether the bank's investment in bank premises in establishing the branch satisfies certain criteria.⁹ The Board has considered the application in light of these factors and the public comment received on the proposal.

Financial, Managerial, and Other Supervisory Considerations

In considering the financial history and condition, earnings prospects, and capital adequacy of Compass Bank, the Board has reviewed reports of examination, other supervisory information, publicly reported and other financial information, information provided by Compass Bank, and the comment received on the proposal. Compass Bank is well capitalized and would remain so upon consummation of the proposal. The asset

⁵ Total assets are as of June 30, 2018. National asset ranking and deposit data are as of March 31, 2018. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

⁶ State deposit data are as of June 30, 2017.

⁷ 12 CFR 208.6(b).

⁸ 12 U.S.C. § 2901 et seq.

⁹ 12 CFR 208.21(a).

quality, earnings, and liquidity of Compass Bank are consistent with approval, and Compass Bank appears to have adequate resources to absorb the costs of the proposal. In addition, future earnings prospects are consistent with approval. The Board also has reviewed Compass Bank's proposed investment in the branch and concludes that the bank's investment is consistent with regulatory limitations on investment in bank premises.¹⁰

In considering Compass 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 Compass Bank and the bank's record of compliance with applicable banking laws, including anti-money-laundering laws. Compass 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 Compass Bank's management, financial history and condition, capital adequacy, and future earnings prospects, as well as the effectiveness of Compass 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.¹¹ 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

¹⁰ 12 CFR 208.21(a).

¹¹ 12 CFR 208.6(b)(3).

needs of the local communities in which they operate, consistent with their safe and sound operation,¹² 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.¹³

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 loan 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, marketing and outreach plans, and 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 Compass Bank, the fair lending and compliance records of the bank, confidential supervisory information, information provided by Compass Bank, and the public comment received on the proposal.

Public Comment on the Proposal

A commenter objected to the proposal, alleging that Compass Bank has engaged in redlining in Houston, Texas.¹⁴ Specifically, the commenter alleged that

¹² 12 U.S.C. § 2901(b).

¹³ 12 U.S.C. § 2903.

¹⁴ 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>.

Compass Bank disfavors certain African American neighborhoods in Houston in its lending, marketing, community development, and branching and in other respects.

Business of the Applicant and Response to Comment

Through its network of branches, Compass Bank offers a variety of loan and deposit products and services to consumers and businesses, including residential real estate, consumer, and commercial loan products. With respect to the comment, Compass Bank denies the commenter's allegations and represents that the bank treats all requests for credit equally and does not consider race when underwriting loans. Compass Bank further represents that it attempts to serve all segments of the population in its Houston assessment area ("AA"), including underserved, underbanked, and LMI consumers. Additionally, Compass Bank represents that it closely monitors its mortgage application and originations activity, paying particular attention to high-minority census tracts, and that it maintains and monitors marketing and outreach plans for areas that have statistically high redlining risk

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.¹⁵ In this case, the Board considered information collected by and findings of examiners from the Federal Reserve Bank of Atlanta ("Reserve 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.¹⁶ An

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

¹⁶ 12 U.S.C. § 2906.

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 the Home Mortgage Disclosure Act ("HMDA"),¹⁷ 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 AAs; (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of such loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;¹⁸ (4) the institution's community development lending, including the number and amounts of community

¹⁷ 12 U.S.C. § 2801 et seq.

¹⁸ 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).

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 Compass Bank

Compass Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the Reserve Bank, as of December 7, 2015 ("Compass Bank Evaluation").¹⁹ Compass Bank received "High Satisfactory" ratings for the Lending Test and the Investment Test and a "Low Satisfactory" rating for the Service Test.²⁰

Examiners found that Compass Bank's overall lending activity in its AAs in Texas and in five other states was good.²¹ According to examiners, the geographic distribution of loans throughout the bank's AAs was good. Examiners also found that the

¹⁹ The Compass Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed HMDA-reportable and CRA small business lending from January 1, 2014, through December 31, 2014, except for community development loans, which were evaluated from April 1, 2013, through March 31, 2015. The evaluation period for the bank's retail banking services was 2014, excepting its record of opening and closing branch offices, which was evaluated from January 1, 2013, through December 31, 2014. The evaluation period for community development loans, investments, and services was April 1, 2013, through March 31, 2015.

²⁰ The Compass Bank Evaluation included a full-scope review of the bank's AAs within the following areas: the Birmingham–Hoover, Alabama, Metropolitan Statistical Area ("MSA"); the Mobile, Alabama, MSA; the Phoenix–Mesa–Glendale, Arizona, MSA; the Riverside–San Bernardino–Ontario, California, MSA; the San Diego–Carlsbad–San Marcos, California, MSA; the Stockton, California, MSA; the Denver–Aurora–Broomfield, Colorado, MSA; the Jacksonville, Florida, MSA; the Albuquerque, New Mexico, MSA; the Dallas–Fort Worth–Arlington, Texas, MSA; the Houston–Sugar Land–Baytown, Texas, MSA ("Houston AA"); the San Antonio–New Braunfels, Texas, MSA; and the AA comprising Val Verde and Maverick counties, both in Texas. A limited-scope review was conducted in 65 other assessment areas in Alabama, Arizona, California, Colorado, Florida, New Mexico, and Texas.

²¹ Compass Bank showed good lending performance in Alabama, Arizona, Colorado, Florida, New Mexico, and Texas. Compass Bank showed adequate lending performance in California.

bank had a good distribution of loans among borrowers of different income levels and businesses of different sizes. Examiners noted that the bank made an adequate level of community development loans during the review period. Examiners found that Compass Bank's community development loans were made for a variety of purposes, including providing community services targeted to LMI individuals, promoting economic development by financing small businesses, supporting affordable housing, and revitalizing or stabilizing targeted LMI census tracts.

In the Houston AA, the area of interest to the commenter, examiners determined that Compass Bank exhibited good lending performance. The bank's geographic distribution of loans was found to reflect good penetration throughout the AA. Examiners found that the bank's distribution of borrowers reflected good penetration among borrowers of different income levels and businesses of different revenue sizes. Compass Bank was found to have made a relatively high level of community development loans in the Houston AA.

Examiners found that Compass Bank's overall investment performance was good in Texas and Alabama and adequate in the other states in which it operates.²² A majority of Compass Bank's investments supported affordable housing. Compass Bank purchased securities backed by government-guaranteed mortgages to qualified LMI borrowers, invested in Low Income Housing Tax Credit projects,²³ and invested in community development financial institutions that finance affordable housing for LMI borrowers and promote economic development via small business loan funds and microfinancing. Examiners found that the majority of the bank's qualified contributions supported organizations engaged in community services for LMI individuals or communities, including financial counseling, youth and family programs, home repairs, health services, and job training.

²² Compass Bank's performance in Texas had the greatest impact on its performance under the Investment Test due to the relatively high concentration of branches, deposits, and lending in the state.

²³ See 26 U.S.C. § 42.

In the Houston AA, examiners found that Compass Bank made a significant level of qualified investments and was in a leadership position with respect to some of its investments. Examiners noted that Compass Bank's contributions were responsive to several identified community development needs in this AA, which included investments in projects that supported affordable housing, financial education and literacy, and small business development.

Compass Bank's Service Test performance in Alabama was good, and it was adequate in the other states in which the bank operates, including Texas. Examiners noted that, overall, Compass Bank's retail delivery systems were reasonably accessible to the geographies and individuals of different income levels. Examiners found that the bank's banking services and business hours did not vary in a way that inconvenienced the bank's AAs, including LMI geographies. Examiners also noted that Compass Bank offered no- or low-cost deposit accounts and various alternative delivery systems. However, examiners found that Compass Bank's closing of branches adversely affected the accessibility of banking services in some AAs, including the Houston AA. During the review period, the bank closed 39 branches, the majority in Texas, and 10 of these branches were located in LMI census tracts.²⁴

Examiners indicated that the bank provided an adequate level of community development services throughout the bank's AAs. Examiners noted that the bank's employees were involved in organizations and activities that promoted or facilitated affordable housing for LMI individuals; provided community services for LMI individuals, such as financial literacy education; and promoted economic development and revitalization of LMI areas.

In the Houston AA, Compass Bank's performance on the Service Test was found to be adequate. Examiners noted that, during the review period, two branches were

²⁴ Compass Bank represents that it completes a full CRA and fair lending impact analysis prior to closing or consolidating any branches in accordance with its branch-closing policy.

opened (both in upper-income census tracts) and three branches were closed (two in LMI tracts and one in an upper-income tract), and that the changes to branch distribution as a result of the closures adversely impacted the accessibility of retail banking services for some LMI geographies and individuals in the AA. Examiners found that Compass Bank provided a relatively high level of community development services in the AA and that these services were responsive to identified community development needs in the AA.

Compass Bank's Efforts Since the Compass Bank Evaluation

Compass Bank represents that since the Compass Bank Evaluation, it has continued to help meet the credit needs in its AAs, including the needs of LMI communities and individuals. Compass Bank represents that it has developed new tools and programs to monitor and improve its CRA performance. In addition, the bank asserts that it has increased its levels of community development lending and investment and has developed new retail services and partnerships to better respond to the needs of LMI customers. In the Houston AA, Compass Bank represents that it has made loans and investments targeted toward the construction of affordable housing and has provided grants to organizations that support affordable housing, economic development, and disaster recovery efforts.

Additional Supervisory Views of the Reserve Bank

The Board has considered the results of a 2015 target examination of Compass Bank's Fair Housing Act ("FHA") fair lending program. The Board also has considered the preliminary findings of a more recent FHA examination, which included a redlining review of a number of markets, including the Houston AA. The redlining review included an evaluation of the bank's lending, marketing and outreach, assessment area, and branching. With respect to branching, the review in the Houston AA included a review of Compass Bank's branch distribution, branch openings and closures, branch products and services, and branch hours.²⁵

²⁵ The Board also considered Compass Bank's supervisory record with the Bureau of Consumer Financial Protection.

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. As noted, the proposed branch would replace an existing branch located 0.4 miles away. The bank asserts that the proposed branch would allow the bank to continue to serve existing customers' banking needs. While the products and services offered at the proposed branch would be substantially the same as those offered at the existing branch, the bank represents that the new branch's design and features would enhance current services and allow the bank to serve additional customers in the community.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA record of Compass Bank, the bank's record of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by Compass Bank, the public comment 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.²⁶ The Board's approval is

²⁶ The Board construes the comment 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 relevant newspapers of general circulation on May 18, 2018. The comment period ended on June 4, 2018. 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

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

Approval of this application is also subject to the establishment of the proposed branch 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,²⁷ effective September 25, 2018.

Ann E. Misback (signed)

Ann E. Misback
Secretary of the Board

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.

²⁷ Voting for this action: Chairman Powell, Vice Chairman Clarida, Vice Chairman for Supervision Quarles, and Governor Brainard.