

FRB Order No. 2018-24
November 6, 2018

FEDERAL RESERVE SYSTEM

Comerica Bank
Dallas, Texas

Order Approving the Establishment of Branches

Comerica Bank, a state member bank subsidiary of Comerica Incorporated, both of Dallas, Texas, has requested the Board's approval under section 9 of the Federal Reserve Act ("FRA")¹ and the Board's Regulation H² to establish two branches in 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 public comment received in light of the factors specified in the FRA.

Comerica Incorporated, with consolidated assets of \$72.2 billion, is the 42nd largest depository organization in the United States, controlling approximately \$57.7 billion in deposits, which represent less than 1 percent of the total amount of

¹ 12 U.S.C. § 321.

² 12 CFR Part 208.

³ Comerica Bank proposes to establish one branch at 6829 Hillcrest Avenue, Dallas, Texas ("Dallas branch") and one branch at 2 Riverway Drive, Suite 160, Houston, Texas ("Houston branch"). Comerica Bank represents that the Houston branch is intended to replace a branch that is located 2.8 miles away.

⁴ 12 CFR 262.3(b).

deposits of insured depository institutions in the United States.⁵ Comerica Bank operates through 441 offices located in Arizona, California, Florida, Michigan, and Texas, and Comerica Bank's main office is in Dallas, Texas. In Texas, Comerica Bank is the 11th largest depository institution, with 122 offices, controlling approximately \$9.5 billion in deposits, which represent approximately 1.2 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 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 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 Houston and Dallas branch applications 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 Comerica Bank, the Board has reviewed reports of examination, other supervisory information, publicly reported and other financial information, information provided by Comerica Bank, and the public comment received on the proposal. Comerica Bank is well capitalized and would remain so upon consummation of

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).

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

In considering Comerica 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 Comerica Bank and the bank's record of compliance with applicable banking, consumer protection, and anti-money-laundering laws. Comerica 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 the record, the Board concludes that Comerica Bank's management, financial history and condition, capital adequacy, and future earnings prospects, as well as the effectiveness of Comerica Bank in combatting money-laundering activities, are consistent with approval of the proposal.

Convenience and Needs Considerations

In considering the effects of a proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institution is helping to meet the credit needs of the communities it serves, as well as other potential effects of the proposal on the convenience and needs of the communities to be served. In this evaluation, the Board places particular emphasis on the record of the 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

¹⁰ 12 CFR 208.21(a).

communities in which they operate, consistent with their safe and sound operation,¹¹ 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.¹²

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 public comments received on the proposal. The Board also may consider the institution's business model, marketing and outreach plans, 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 Comerica Bank, the fair lending and compliance records of Comerica Bank, confidential supervisory information, information provided by Comerica Bank, and the public comment received on the proposal.

Public Comment on the Proposal

A commenter objected to the proposal, alleging that Comerica Bank has engaged in redlining and discriminates against African Americans in Houston and Dallas, Texas.¹³ Specifically, the commenter alleged that Comerica Bank has denied African

¹¹ 12 U.S.C. § 2901(b).

¹² 12 U.S.C. § 2903.

¹³ 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>.

American individuals and African American-owned businesses equal access to capital and credit by heavily concentrating its outreach and banking activities in predominantly white neighborhoods and to white individuals and white-owned businesses. The commenter also alleges that Comerica Bank disfavors certain African American neighborhoods in Houston and Dallas with respect to its lending, marketing, community development, and branching activities.

Business of the Applicant and Response to Comment

Through its network of branches, Comerica Bank offers a variety of retail and commercial banking products and services to consumers and businesses, including consumer and commercial products, such as commercial and industrial loans, wealth management services, treasury management services, capital market products, international trade finance, and investment management and advisory services. Comerica Bank represents that it has policies and processes in place to ensure compliance with all anti-discrimination laws and regulations and emphasizes that it has received an Outstanding or Satisfactory CRA rating for many years. In addition, Comerica Bank represents that it has a longstanding commitment to investment in its communities, particularly the Houston area, and has two programs in place to enhance lending to LMI communities and communities of color.

Record of Performance under the CRA

In evaluating the convenience and needs factor and the CRA performance of an institution, the Board generally considers the institution's most recent CRA evaluation, as well as other information and supervisory views from the relevant federal supervisor or supervisors, which in this case is the Federal Reserve Bank of Dallas ("Reserve Bank").¹⁴ In addition, the Board considers information provided by the applicant and by public commenters.

¹⁴ See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48506, 48548 (July 25, 2016).

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.¹⁵ An institution’s most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution’s primary federal supervisor of the institution’s overall record of lending in its communities.

In general, federal financial supervisors apply lending, investment, and service tests to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution’s home mortgage, small business, small farm, and community development lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution’s data reported under the Home Mortgage Disclosure Act (“HMDA”),¹⁶ 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 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;¹⁷

¹⁵ 12 U.S.C. § 2906.

¹⁶ 12 U.S.C. § 2801 *et seq.*

¹⁷ 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,

(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. Large institutions also are subject to an investment test, which evaluates the number and amounts of qualified investments that benefit their AAs, and a service test, which evaluates the availability and effectiveness of their systems for delivering retail banking services and the extent and innovativeness of their community development services.

CRA Performance of Comerica Bank

Comerica Bank was assigned an overall “Satisfactory” rating at its most recent CRA performance evaluation by the Reserve Bank, as of June 22, 2015 (“Comerica Bank Evaluation”).¹⁸ Comerica Bank received “High Satisfactory” ratings for the Lending test and the Service test and an “Outstanding” rating for the Investment test.¹⁹

Examiners found that Comerica Bank’s overall lending activity was good in all the states in which it operates, including Texas. According to examiners, the

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).

¹⁸ The Comerica Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed HMDA-reportable and small business loans, and home equity lines of credit from January 1, 2012, through December 31, 2014. The evaluation period for community development loans, investments, and services was April 1, 2012, through December 31, 2014.

¹⁹ The Comerica Bank Evaluation included a full-scope review of the bank’s AAs within the following areas: the Phoenix-Mesa-Scottsdale, Arizona Metropolitan Statistical Area (“MSA”); the Los Angeles-Anaheim-Long Beach, California MSA; the San Jose-Sunnyvale-Santa Clara, California MSA; the Miami-Fort Lauderdale-West Palm Beach, Florida MSA; the Detroit-Warren-Dearborn, Michigan MSA; the Grand Rapids-Wyoming, Michigan MSA; the Dallas-Fort Worth-Arlington, Texas MSA (“Dallas AA”); and the Houston-The Woodlands-Sugar Land, Texas MSA (“Houston AA”). Limited-scope reviews were conducted in 24 other assessment areas in California, Florida, Michigan, and Texas.

geographic distribution of loans throughout the bank's AAs was excellent. Examiners found that the bank had an adequate distribution of loans among borrowers of different income levels and businesses of different sizes. In addition, examiners found that the bank's lending activity reflected good responsiveness to the credit needs of the AAs, and a substantial majority of the loans were made in the bank's AAs. Examiners also noted that the bank made a relatively high level of community development loans during the review period for a variety of purposes, including for financing affordable housing and high-impact community development projects, promoting economic development, including job creation, and revitalizing or stabilizing targeted communities in LMI census tracts and empowerment zones.

Examiners rated Comerica Bank's performance in Texas under the Lending test as "High Satisfactory." In both the Dallas and Houston AAs, the two areas of interest to the commenter, examiners determined that Comerica Bank's lending levels reflected good responsiveness to the AAs' credit needs. Examiners found that the bank's geographic distribution of loans reflected excellent penetration throughout Texas, including in both the Houston and Dallas AAs. Examiners also found that the bank's distribution of loans to borrowers of different income levels and to businesses of different revenue sizes was adequate in both the Houston and Dallas AAs. Examiners determined that Comerica Bank made a relatively high level of community development loans in Texas. In the Dallas AA, examiners found Comerica Bank to be a leader in community development lending; however, examiners found that Comerica Bank made a low level of community development loans in the Houston AA.

Examiners found that Comerica Bank had an excellent level of qualified community development investments and grants and was often in a leadership position throughout its AAs, including in Texas. Examiners noted that the bank's investments demonstrated good responsiveness to the most pressing credit and community development needs throughout its AAs. Examiners found that the bank's primary vehicle for qualified community development investments was through Low Income Housing

Tax Credit (“LIHTC”)²⁰ projects in the states in which it operates. Examiners noted that these LIHTC investments addressed vital needs for affordable housing throughout the bank’s AAs and had a material impact on the communities the bank served. Examiners found that, in addition to statewide donations and investments, the Dallas and Houston AAs benefitted from Comerica Bank’s LIHTC investments.

Examiners found that Comerica Bank’s retail delivery systems were accessible to geographies and individuals of different income levels within its AAs. Examiners noted that Comerica Bank’s banking services and business hours did not vary in a way that inconvenienced any portion of the bank’s AAs, particularly LMI geographies and individuals. Examiners also noted that in most areas, Comerica Bank had Saturday and extended morning and evening hours and offered no- or low-cost deposit accounts. Examiners found that the bank’s record of opening and closing offices in Texas during the review period had not affected the accessibility of its delivery systems, including to LMI geographies or individuals.

In the Houston and Dallas AAs, examiners found Comerica Bank’s performance on the Service test to be adequate and excellent, respectively. Examiners noted that the bank’s level of community development services was good in Texas. 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 the economic development and revitalization of LMI areas.

In the Dallas AA, examiners found that Comerica Bank was a leader in providing retail and community development services and that these services reflected excellent responsiveness to the needs of the AA. In the Houston AA, examiners found that Comerica Bank’s retail and community development services reflected adequate responsiveness to the credit needs of the AA.

²⁰ See 26 U.S.C. § 42.

Comerica Bank's Efforts Since the Comerica Bank Evaluation

Comerica Bank represents that since the Comerica Bank Evaluation it has made several enhancements to its CRA program, including by establishing a CRA working group in early 2017. Comerica Bank represents that it restructured its CRA Department in 2018 to utilize a first line of defense/second line of defense strategy and that its systems are being upgraded to improve efficiency and accuracy of reporting. Comerica Bank notes that it has made a significant number of loans to businesses located in LMI census tracts in Dallas and Houston and a significant number of community development loans in the Dallas and Houston AAs. Finally, Comerica Bank represents that it has made a significant number of CRA-qualified investments and CRA-qualified charitable contributions in both the Dallas and Houston AAs.

Additional Supervisory Views of the Reserve Bank

The Board has considered the results of a recent target examination of Comerica Bank's Fair Housing Act fair lending program, which included a redlining review of a number of markets, including the Dallas and Houston AAs. The redlining review included an evaluation of the bank's AA delineation, lending, marketing and outreach efforts, and branching. The Board also has considered Comerica 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. Comerica Bank asserts that the proposed branches would offer expanded hours for customers to handle transactions through video and other new technologies. Excluding safe deposit and night depository services, Comerica Bank represents that the products and services to be offered at the Houston branch would be substantially the same as those offered at the existing branch that the proposed branch would replace. Comerica Bank asserts that the Dallas branch would provide additional convenience and accessibility to products and services for the

surrounding neighborhoods, businesses, and office building complexes, and the greater Dallas community and economy.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA record of Comerica Bank, the bank's record of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by Comerica 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 applications should be, and hereby are, approved.²¹ The Board's approval is specifically conditioned on compliance by Comerica 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

²¹ The Board construes the public comment to include a request that the Board hold public hearings on the applications. 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 Dallas branch application was published in relevant newspapers of general circulation on August 17, 2018, and the comment period ended on September 1, 2018. Notice of the Houston branch application was published in relevant newspapers of general circulation on July 19, 2018, and the comment period ended on August 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 would be clarified by a public hearing. In addition, the request does not demonstrate why the written comments do 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.

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 the applications is also subject to the establishment of the proposed branches in Dallas and Houston, respectively, 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,²² effective November 6, 2018.

Ann E. Misback (signed)

Ann E. Misback,
Secretary of the Board

²² Voting for this action: Chairman Powell, Vice Chairman Clarida, Vice Chairman for Supervision Quarles, and Governor Brainard.