

FEDERAL RESERVE SYSTEM

Cadence Bancorporation
Houston, Texas

Order Approving the Merger of Bank Holding Companies

Cadence Bancorporation (“Cadence”), Houston, 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 acquire and merge with State Bank Financial Corporation (“SBFC”), Atlanta, Georgia, and thereby indirectly acquire SBFC’s subsidiary nonmember bank, State Bank and Trust Company (“State Bank”), Macon, Georgia. Following the proposed acquisition, State Bank would be merged into Cadence’s subsidiary bank, Cadence Bank, N.A. (“Cadence Bank”), Birmingham, Alabama.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (83 Federal Register 48425 (September 25, 2018)).⁴ 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 BHC Act.

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ The merger of State Bank into Cadence Bank is subject to approval by the Office of the Comptroller of the Currency (“OCC”), pursuant to section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”). 12 U.S.C. § 1828(c). The OCC approved the bank merger on October 4, 2018.

⁴ 12 CFR 262.3(b).

Cadence, with consolidated assets of approximately \$11.3 billion, is the 132nd largest insured depository organization in the United States.⁵ Cadence controls approximately \$9.5 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Cadence controls Cadence Bank, which operates branches in Alabama, Florida, Mississippi, Tennessee, and Texas.⁶

SBFC, with consolidated assets of approximately \$5.0 billion, is the 216th largest insured depository organization in the United States. SBFC controls approximately \$4.3 billion in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. SBFC controls State Bank, which operates only in Georgia.

On consummation of the proposal, Cadence would become the 100th largest insured depository organization in the United States, with consolidated assets of approximately \$16.3 billion, which represent less than 1 percent of the total assets of insured depository organizations in the United States. Cadence would control consolidated deposits of approximately \$13.8 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁷ In Georgia, Cadence would become the 12th largest insured depository organization, controlling deposits of approximately \$4.4 billion, which would represent approximately 1.7 percent of the total deposits of insured depository institutions in that state.

Interstate and Deposit Cap Analysis

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company to acquire

⁵ National asset data are as of June 30, 2018. National deposit, ranking, and market-share data are as of June 30, 2018, unless otherwise noted.

⁶ State deposit data are as of June 30, 2018.

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

control of a bank located in a state other than the home state of the bank holding company, without regard to whether the transaction is prohibited under state law.⁸ The Board may not approve an application that would permit an out-of-state bank holding company to acquire a bank in a host state if the bank has not been in existence for the lesser of the state statutory minimum period of time or five years.⁹ In addition, the Board may not approve an interstate application if the bank holding company controls or, upon consummation of the proposed transaction, would control more than 10 percent of the total deposits of insured depository institutions in the United States or, in certain circumstances, if the bank holding company, upon consummation, would control 30 percent or more of the total deposits of insured depository institutions in any state in which the acquirer and target have overlapping banking operations.¹⁰

For purposes of the BHC Act, the home state of Cadence is Mississippi and State Bank is located only in Georgia.¹¹ Cadence and Cadence Bank are well capitalized and well managed under applicable law, and Cadence Bank has a “Satisfactory” rating

⁸ 12 U.S.C. § 1842(d)(1)(A).

⁹ 12 U.S.C. § 1842(d)(1)(B).

¹⁰ 12 U.S.C. § 1842(d)(2)(A) and (B). For purposes of section 3(d) of the BHC Act, the acquiring and target institutions have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or a branch. The Board considers a bank to be located in the states in which the bank is chartered, headquartered, or operates a branch. See 12 U.S.C. § 1841(o)(4)–(7).

¹¹ See 12 U.S.C. § 1841(o)(4). A bank holding company’s home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. Cadence (then named Community Bancorp LLC) became a bank holding company on March 4, 2011, when it acquired Cadence Bank. At that time, Mississippi was the state in which the total deposits of Cadence Bank were largest.

under the Community Reinvestment Act of 1977 (“CRA”).¹² Georgia’s three-year statutory minimum age requirement has been met.¹³

On consummation of the proposed transaction, Cadence would control less than 1 percent of the total amount of consolidated deposits of insured depository institutions in the United States. In addition, there are no states in which Cadence and SBFC have overlapping banking operations, such that a state deposit cap would apply. The Board has considered all other requirements under section 3(d) of the BHC Act, including Cadence Bank’s record of meeting the convenience and needs of the communities it serves. Accordingly, in light of all the facts of record, the Board may approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits 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.¹⁴ The BHC Act also prohibits 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 communities to be served.¹⁵

Cadence Bank and State Bank do not compete directly in any banking market. The Department of Justice has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

¹² 12 U.S.C. § 2901 et seq.

¹³ Ga. Code Ann. § 7-1-622(b)(1).

¹⁴ 12 U.S.C. § 1842(c)(1).

¹⁵ 12 U.S.C. § 1842(c)(1)(B).

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 any 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, the Board considers the financial and managerial resources and the future prospects of the institutions involved.¹⁶ In its evaluation of 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 regarding capital adequacy, asset quality, liquidity, 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 effectively the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The 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.

Cadence and Cadence Bank are well capitalized, and the combined organization would remain so on consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a share exchange, with

¹⁶ 12 U.S.C. § 1842(c)(2), (5), and (6).

a subsequent merger of the subsidiary depository institutions.¹⁷ The asset quality, earnings, and liquidity of both Cadence Bank and State Bank are consistent with approval, and Cadence appears to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, the future prospects of the institutions under the proposal 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 Cadence, SBFC, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Cadence; 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.

Cadence, SBFC, and their subsidiary depository institutions are each considered to be well managed. Cadence's directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and Cadence's risk-management program appears to be consistent with approval of this expansionary proposal.

The Board also has considered Cadence's plans for implementing the proposal. Cadence has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. Cadence would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered

¹⁷ At the effective time of the merger of SBFC with and into Cadence, each share of SBFC common stock that is issued and outstanding would be converted into a right to receive shares of Cadence common stock, based on an exchange ratio. However, no fractional shares of Cadence common stock would be issued in this share exchange, and such fractional shares would be cashed out. Cadence has the financial resources to effect the proposed transaction.

acceptable from a supervisory perspective. In addition, Cadence's management has the experience and resources to operate the combined organization in a safe and sound manner.

Based on all the facts of record, including Cadence's supervisory record, 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 the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Cadence and SBFC in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.¹⁸ In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of these communities, as well as other potential effects of the proposal on the convenience and needs of the communities to be served, and places particular emphasis on the records of the relevant depository institutions under the CRA. The CRA requires the federal bank supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with the institutions' safe and sound operations,¹⁹ and requires the appropriate federal bank 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.²⁰

In addition, the Board considers the banks' overall compliance records and 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

¹⁸ 12 U.S.C. § 1842(c)(2).

¹⁹ 12 U.S.C. § 2901(b).

²⁰ 12 U.S.C. § 2903.

certain other characteristics. The Board also considers the assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and public comments on the proposal. The Board also may consider the acquiring institution's business model and 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 Cadence Bank and State Bank; the fair lending and compliance records of both banks; the supervisory views of the OCC with respect to Cadence Bank and of the Federal Deposit Insurance Corporation ("FDIC") with respect to State Bank; confidential supervisory information; information provided by Cadence; and the public comments on the proposal.

Public Comments on the Proposal

The Board received comments from five community organizations in Houston supporting the proposal. These commenters generally described the benefits that Cadence Bank provides to the communities it serves in the Houston area. For example, these commenters described Cadence Bank's participation in various projects and partnerships that have benefited the community, including initiatives focused on enhancing economic mobility, financial services, and homeownership for LMI individuals. These commenters also highlighted the opening of a branch in a majority-minority LMI census tract in Houston, and a commenter praised Cadence Bank for funding a community development construction loan to develop a retail center in an LMI and minority community in Houston.

One commenter objected to the proposal on the basis of alleged disparities in the number of home mortgage loans made by Cadence Bank to African Americans in the Dallas-Plano-Irving, Texas Metropolitan Division ("Dallas MD") and the Birmingham-Hoover, Alabama Metropolitan Statistical Area ("Birmingham MSA"), and to African Americans and Latinos in the Houston-The Woodlands-Sugar Land, Texas

Metropolitan Statistical Area (“Houston MSA”), in each case as compared to whites in the relevant areas, based on data reported under the Home Mortgage Disclosure Act of 1975 (“HMDA”).²¹ The commenter also cited a customer complaint alleging racist management practices at Cadence Bank and alleged that Cadence and SBFC are operating as a single entity prior to the Board’s approval of the proposal.²²

Businesses of the Involved Institutions and Response to Public Comments

Cadence Bank is a full-service bank that offers a comprehensive array of commercial and consumer banking, trust and investment, mortgage, and wealth management products and services to individual customers and commercial enterprises of all sizes, through its network of branches. State Bank, through its network of branches in Georgia, offers a range of traditional banking products and services to individuals and small and medium-sized businesses, as well as loans for commercial, residential real estate, agricultural, and consumer purposes.

In response to one commenter’s allegations regarding Cadence Bank’s home mortgage lending record, Cadence notes that HMDA data do not take into consideration other critical inputs, such as borrower creditworthiness, housing prices, collateral values, credit scores, and other factors relevant to credit underwriting decisions. Additionally, Cadence asserts that HMDA data do not reflect the range of Cadence Bank’s community reinvestment activities and efforts. Cadence asserts that Cadence Bank’s home mortgage lending record is a reflection of the bank’s having to rebuild inherited mortgage lending operations and the bank’s brief tenure and small market presence. In addition, Cadence indicates that Cadence Bank recently has taken measures to enhance its CRA compliance program significantly, including adopting a CRA plan

²¹ 12 U.S.C. § 2801 et seq.

²² The commenter’s allegation that the parties are operating as a single entity prior to the Board’s approval of the proposal related to an investor conference call during which the Chief Executive Officer of Cadence stated that he intended to refer a Cadence customer to a division of State Bank. The Board does not generally view a customer referral, without more, as constituting prior control of an entity.

through 2021, which includes annual CRA performance goals in each of the bank's CRA assessment areas ("AAs"). These goals include (a) increased mortgage lending to LMI borrowers and in LMI census tracts; (b) increased lending to small businesses and businesses in LMI census tracts; and (c) increased community development lending, investments, and services. Cadence represents that Cadence Bank is in the process of formally revising its CRA plan to include its fair lending action plan's annual performance goals for increased mortgage lending to minority borrowers and in minority census tracts in each of its AAs.

With respect to the Dallas MD, Cadence notes that Cadence Bank neither has any branches nor markets its products in Dallas and that the bank's limited lending activities in Dallas primarily result from referrals from other institutions in the market for a niche mortgage loan product (*i.e.*, a second-lien purchase money mortgage loan). Cadence asserts that only a small number of home loan applications were received from African American borrowers in the Dallas MD, and a majority of those loan applications were approved, but certain approved loans were not ultimately accepted by the borrowers. With respect to the Houston MSA, Cadence represents that only a small number of home purchase loan applications were received from African American and Hispanic borrowers, and that a majority of the loans were originated. Cadence further asserts that, as a result of ongoing efforts to increase its visibility in Houston minority communities, Cadence Bank has significantly increased the percentage of its home mortgage loan applications from, and originations to, minorities and in majority-minority census tracts in the Houston MSA in 2018.

Cadence represents that Cadence Bank has taken steps to improve its record of home mortgage lending to minorities in the Birmingham MSA, including establishing a partnership to construct new homes with affordable mortgages; forming a partnership to provide assistance to low-income residents for housing repairs or renovations in a majority African-American neighborhood; and working with minority real estate organizations to increase loan applications from and originations to minorities. Cadence represents that, as a result of these efforts, Cadence Bank has improved its record of

home mortgage lending to African Americans and in majority-minority census tracts in the Birmingham MSA.

With respect to the customer complaint cited by a commenter, Cadence asserts that it maintains a robust customer complaint system. Under this system, all customer complaints are investigated and appropriately documented. When allegations or concerns about discrimination or unfair treatment are raised, such claims are escalated to the Fair Lending Officer and the Legal Department for analysis, response, and corrective action, as necessary.

Records of Performance under the CRA

In evaluating the CRA performance of the involved institutions, the Board generally considers each institution's most recent CRA evaluation, as well as other information and supervisory views from the relevant federal financial supervisor or supervisors, which in this case are the FDIC and the OCC.²³ In addition, the Board considers information provided by the applicant and by public commenters.

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.²⁴ 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 a lending test to evaluate the performance of large insured depository institutions, such as Cadence Bank and State Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an institution's lending to determine whether the institution is

²³ See Interagency Questions and Answers Regarding Community Reinvestment, 81 Fed. Reg. 48506, 48548 (July 25, 2016).

²⁴ 12 U.S.C. § 2906.

helping to meet the credit needs of individuals and geographies of all income levels. As part of the Lending Test, examiners review and analyze an institution's data reported under HMDA, 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 CRA 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 loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;²⁵ (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.²⁶ 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.²⁷

²⁵ Examiners also consider the number and amounts of small business and small farm loans 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).

²⁶ See 12 CFR 228.22(b).

²⁷ See 12 CFR 228.21 et seq.

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution's credit decisions is not available from HMDA data.²⁸ Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of an institution.

CRA Performance of Cadence Bank

Cadence Bank was assigned an overall "Satisfactory" rating at its most recent CRA Performance Evaluation by the OCC, as of July 27, 2015 ("Cadence Bank Evaluation").²⁹ The bank received "Low Satisfactory" ratings for the Lending Test,

²⁸ Other information relevant to credit decisions could include credit history, debt-to-income ratios, and loan-to-value ratios. Accordingly, when conducting fair lending examinations, examiners analyze such additional information before reaching a determination regarding an institution's compliance with fair lending laws.

²⁹ The Cadence Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Due to merger and acquisition activity, the evaluation period start dates varied by AA. Accordingly, examiners reviewed home purchase, home improvement, and home refinance mortgage loans reported under HMDA and small loans to businesses reported under the CRA from October 1, 2010, through December 31, 2014, for the Birmingham MSA, Tuscaloosa, Alabama MSA ("Tuscaloosa MSA"), North Port-Bradenton-Sarasota, Florida MSA ("Sarasota MSA"), Georgia non-MSA Counties, Mississippi non-MSA Counties, Memphis, Tennessee-Mississippi-Arkansas MSA ("Memphis MSA"), and Nashville MSA AAs; from January 1, 2012, through December 31, 2014, for all AAs in Alabama and Florida, except for the Birmingham MSA, Tuscaloosa MSA, Homosassa Springs MSA, and Sarasota MSA AAs; and from September 14, 2012, to December 31, 2014, for the Houston MSA and San Antonio MSA AAs. The evaluation period for community development loans, the Investment Test, and the Service Test was from September 14, 2010, through December 31, 2014, for the Birmingham MSA, Tuscaloosa MSA, Sarasota MSA, Georgia non-MSA Counties, Mississippi non-MSA Counties, Memphis MSA, and Nashville MSA AAs; from November 11, 2011, through December 31, 2014, for all AAs within the states of Alabama and Florida, except for the Birmingham MSA, Tuscaloosa MSA, Homosassa Springs MSA, and Sarasota MSA AAs; and from September 14, 2012, through December 31, 2014, for the Houston MSA and San Antonio MSA AAs.

Investment Test, and Service Test.³⁰ Cadence Bank's performance in Alabama and Texas was weighted most heavily by examiners.

Examiners noted that the Cadence Bank Evaluation was the first CRA examination for the bank following the combination of a severely troubled bank, a failed bank, and a niche-market bank. Examiners observed that the necessary allocation of resources to stabilize and improve the bank's financial condition impeded the bank's ability to devote significant resources to enhancing lending performance across the bank's AAs and that these considerations compensated for the noted weaknesses in the volume and distribution of loans.

Examiners found that Cadence Bank's geographic distribution of loans, including the distribution of home mortgage loans, was generally poor, although the distribution of small loans to businesses was good. Examiners noted that the overall distribution of loans and the distribution of home mortgage loans by income level of the borrower were adequate. Examiners also found that the performance of small loans to businesses was generally good. Examiners found that community development lending had a generally neutral impact on the Lending Test and noted that the bank focused community development lending on geographies where it lacked sufficient resources to markedly improve retail lending during the evaluation period.

Examiners found that Cadence Bank originated an overall adequate level of qualified community development investments that were generally responsive to community needs in the bank's AAs. Examiners noted that the bank received

³⁰ The Cadence Bank Evaluation included a full-scope review of at least one AA in each state in which the bank has branches. Each of the bank's 23 AAs was reviewed for lending, investment, and service performance using either full-scope or limited-scope examination procedures. At the time of the Cadence Bank Evaluation, Cadence Bank operated only one branch in Georgia, which has since been closed. The Cadence Bank Evaluation did not assess the bank's performance in the Dallas MD because the bank did not operate a branch in the Dallas MD during the evaluation period.

consideration for a regional investment that did not serve any of the bank's AAs, because the bank was generally responsive to needs in the AAs.

Overall, examiners concluded that bank branches ranged from reasonably accessible to accessible for limited portions of individual rating areas. Examiners noted that the bank's hours did not show significant differences between branches located in areas with different income levels. Examiners found that Cadence Bank offered an adequate level of banking services through alternate delivery systems and that the bank's opening and closing of branches throughout its AAs had not adversely impacted access to banking services.

In the Houston AA, an area of concern to a commenter, examiners found Cadence Bank's performance to be adequate. In reaching this conclusion, examiners gave consideration to the impact that the restructuring of Cadence Bank's entire mortgage origination function had on its performance in Texas, as a complete overhaul of the support and sales teams, a rewriting of operating and underwriting policies and procedures, and the development of new customer relationships in the competitive Houston market were necessary during the evaluation period. Examiners considered Cadence Bank's overall lending activity in the Houston AA to be excellent, considering the strong competition for all types of loans in this AA. Although the distribution of home mortgage loans by geography and borrower income was considered very poor, examiners found that Cadence Bank's community development lending had a significantly positive impact on lending performance in the AA. Examiners observed that the bank's community development loans in the Houston AA exhibited excellent responsiveness to identified community development needs in the AA, including affordable housing, activities that revitalized or stabilized LMI geographies, and community services targeted to LMI individuals. The bank's performance under the Investment Test and the Service Test in the Houston AA was considered adequate. Examiners noted that the bank's branch distribution in the Houston AA was considered adequate because the location of most of the bank's branches resulted from its 2012

acquisition of a niche market bank, and the branches were on major thoroughfares near public transportation or LMI census tracts.

In the Birmingham AA, another area of concern to a commenter, examiners found Cadence Bank's overall lending activity to be adequate. Examiners concluded that Cadence Bank's home mortgage lending activity was poor and its small business lending activity was good, considering competition in the AA. Examiners found that the geographic distribution of home mortgage loans was poor, and the distribution of home mortgage loans by borrower income was adequate. Examiners rated Cadence Bank's performance under the Service Test and Investment Test in the Birmingham AA as adequate and noted that the bank's excellent performance in providing community development services compensated for poor retail performance with respect to the Service Test.

Cadence's Efforts Since the Cadence Bank Evaluation

Cadence represents that, since the Cadence Bank Evaluation, Cadence Bank has engaged in significant activities to continue to improve its CRA performance, including adopting a CRA plan that runs through 2021, which includes annual CRA performance goals in each of the bank's AAs, as described above. In addition, Cadence represents that Cadence Bank has implemented a number of measures to better serve LMI and minority borrowers and communities, including, among others, hiring a new CRA officer and two regional CRA development officers, including one in Birmingham; launching a new mortgage product for owner-occupied primary residences of LMI borrowers or in LMI census tracts; increasing and focusing marketing on underserved populations to promote this new mortgage product; introducing a new loan product for small businesses; launching a new low-cost deposit product to serve LMI and other underbanked or unbanked customers; and developing partnerships with local governments and community-based organizations to facilitate home mortgage, small business, and community development lending in LMI and majority-minority communities. Cadence represents that Cadence Bank is also committed to opening more

branches in LMI and majority-minority census tracts and recently opened a new branch in Houston in an LMI and majority-minority census tract.

CRA Performance of State Bank

State Bank received an overall rating of “Satisfactory” at its most recent CRA Performance Evaluation by the FDIC, as of April 24, 2017 (“State Bank Evaluation”).³¹ The bank received a “High satisfactory” rating for the Service Test and received “Low satisfactory” ratings for the Lending Test and the Investment Test.³²

Examiners concluded that State Bank’s lending levels reflected adequate responsiveness to the AAs’ credit needs, and a majority of loans were made in the bank’s AAs. Examiners considered the geographic distribution of loans to reflect adequate penetration throughout the AAs and the distribution of borrowers to reflect generally adequate penetration among retail customers of different income levels and businesses of different sizes. Examiners found that the institution made an adequate level of community development loans and used flexible lending practices to serve the credit needs of its AAs.

Examiners found that State Bank had an adequate level of qualified community development investments and grants and that a few of the investments were in leadership positions, particularly those not routinely provided by private investors. Examiners noted that the bank exhibited good responsiveness to credit and community development needs. Examiners observed that the institution occasionally used innovative and/or complex investments to support community development initiatives.

³¹ The State Bank Evaluation was conducted using the Large Institution CRA Examination Procedures. Examiners reviewed mortgage loans reported pursuant to HMDA and small business loans reported under the CRA for the years 2014, 2015, and 2016. The evaluation period for community development loans, the Investment Test, and the Service Test was January 21, 2014, through April 24, 2017. The branch office distribution was as of April 24, 2017.

³² The State Bank Evaluation included a review of the bank’s AAs in Georgia, which included full-scope examinations of the Macon, Atlanta, and Augusta MSAs, as well as limited-scope examinations of the Warner Robins MSA and the Dooly County non-MSA.

Examiners found the bank's retail delivery systems were reasonably accessible to essentially all portions of the bank's AAs and that the opening and closing of branches generally had not adversely affected the accessibility of its delivery systems. Examiners concluded that services, including business hours, did not vary in a way that inconvenienced portions of the AAs, particularly LMI geographies and individuals. Examiners also determined that the bank provided a relatively high level of community development services within its AAs.

SBFC's Efforts Since the State Bank Evaluation

Cadence represents that, since the State Bank Evaluation, State Bank has taken actions to improve its CRA performance. Specifically, State Bank originated community development loans, including a number of extensions of credit, to revitalize businesses as well as provide financing for student housing in LMI areas. In addition, Cadence represents that State Bank's level of qualified investments has continued to grow since the State Bank Evaluation. Cadence further reports that a number of State Bank's community development investments in the bank's AAs included qualified affordable low-income housing tax credits to support multifamily housing in LMI areas. Cadence represents that the bank's officers, directors, and employees have continued to participate in a number of activities and organizations within its AAs that provide support to LMI and minority individuals and promote community development and financial literacy.

Views of the OCC and FDIC

In its review of the proposal, the Board has consulted with the OCC regarding the CRA, consumer compliance, and fair lending record of Cadence Bank. The Board has also considered the results of the most recent consumer compliance examinations of Cadence Bank and State Bank conducted by the OCC and FDIC, respectively, which included reviews of the banks' compliance management programs and the banks' compliance with consumer protection laws and regulations. The OCC reviewed and approved the Bank Merger Act application related to the proposal and, in doing so, considered adverse comments regarding the Birmingham MSA that were

similar to the comment submitted to the Board on the BHC Act application regarding the Birmingham MSA.

The Board has taken this information, as well as the CRA performance records of Cadence Bank and State Bank, into account in evaluating the proposal, including in considering whether Cadence has the experience and resources to ensure that Cadence Bank would help meet the credit needs of the communities within its AAs following the proposed transaction.

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. Cadence represents that, following consummation of the proposal, existing customers of State Bank and Cadence Bank would benefit from a more extensive network of branches and ATMs across six states, and State Bank's existing customers particularly would benefit from access to an expanded array of products and services, including wealth management, investment, and mobile banking options. In addition, Cadence represents that existing business customers of Cadence Bank would benefit from the Small Business Administration lending programs, asset-based lending activities, and payroll services offered by State Bank, which Cadence Bank would continue after consummation of the proposal.

Cadence represents that, following consummation of the proposal, Cadence Bank would maintain a high level of community development lending, investment, services, and other CRA activities throughout the combined organization's service areas. Cadence represents that the combined bank would continue to expand its mortgage lending to LMI and minority borrowers and communities; its small business lending, including in LMI and minority communities; and its community development, investment, and service activities. Cadence further represents that it is committed to working closely with community leaders, small business owners, members of nonprofit organizations, and residents in its AAs to provide information about the CRA services Cadence Bank offers and to assess the community development needs in the AAs.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the records of the relevant depository institutions under the CRA; the institutions' records of compliance with fair lending and other consumer protection laws; supervisory views of the OCC and FDIC; confidential supervisory information; information provided by Cadence; 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.

Financial Stability

Section 3 of the BHC Act requires the Board to consider “the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks 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 United States 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 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

³³ 12 U.S.C. § 1842(c)(7).

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

resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage on the broader economy.³⁵

The Board's experience has shown that proposals involving an acquisition of less than \$10 billion in total assets, or that result 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 United States banking or financial system. The proposal involves a target that has less than \$10 billion in total assets and a pro forma organization of less than \$100 billion in total assets. Both the acquirer and the target are predominately engaged in retail and commercial banking activities.³⁷ The pro forma organization would have 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.

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

³⁶ See People's 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 Cadence and SBFC both offer a range of retail and commercial banking products and services. Cadence has, and as a result of the proposal would continue to have, a small market share in these products and services on a nationwide basis.

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 United States 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.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved.³⁸ 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 and other applicable statutes. The Board's approval is

³⁸ A commenter requested that the Board hold a public hearing on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on any proposal unless the appropriate supervisory authorities for the acquiring bank or the bank to be acquired make a timely written recommendation of disapproval of the proposal. 12 U.S.C. § 1842(b); 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities in connection with this application. Under its rules, the Board also, in its discretion, may 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 of the facts of record. 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.

In addition, this commenter requested an extension of the comment period for the proposal. The Board's rules contemplate that the public comment period will not be extended absent a clear demonstration of hardship or other meritorious reason for seeking additional time. The commenter's request for additional time to comment does not identify circumstances that would warrant an extension of the public comment period for this proposal. Accordingly, the Board determines not to extend the comment period.

specifically conditioned on compliance by Cadence 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.

The proposal may not be consummated before the 15th 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 the Federal Reserve Bank of Dallas, acting under delegated authority.

By order of the Board of Governors,³⁹ effective December 7, 2018.

Ann E. Misback (signed)

Ann E. Misback
Secretary of the Board

³⁹ Voting for this action: Chairman Powell, Vice Chairman Clarida, Vice Chairman for Supervision Quarles, and Governors Brainard and Bowman.