

FEDERAL RESERVE SYSTEM

CenterState Bank Corporation  
Winter Haven, Florida

Order Approving the Merger of Bank Holding Companies

CenterState Bank Corporation (“CenterState”), Winter Haven, Florida, a financial holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),<sup>1</sup> has requested the Board’s approval under section 3 of the BHC Act<sup>2</sup> to acquire and merge with National Commerce Corporation (“Commerce”) and thereby indirectly acquire Commerce’s subsidiary bank, National Bank of Commerce (“Commerce Bank”), both of Birmingham, Alabama. Following the proposed acquisition, Commerce Bank would be merged into CenterState’s subsidiary bank, CenterState Bank, National Association (“CenterState Bank”), Winter Haven.<sup>3</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (83 Federal Register 65166 (December 19, 2018)).<sup>4</sup> 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.

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<sup>1</sup> 12 U.S.C. § 1841 et seq.

<sup>2</sup> 12 U.S.C. § 1842.

<sup>3</sup> The merger of Commerce Bank into CenterState 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”). See 12 U.S.C. § 1828(c).

<sup>4</sup> 12 CFR 262.3(b).

CenterState, with consolidated assets of approximately \$12.3 billion, is the 125th largest insured depository organization in the United States.<sup>5</sup> CenterState 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.<sup>6</sup> CenterState controls CenterState Bank, which operates in Florida, Alabama, and Georgia.<sup>7</sup> CenterState is the 17th largest insured depository organization in Florida, controlling deposits of approximately \$8.4 billion, which represent 1.4 percent of deposits in that state. CenterState is the 51st largest insured depository organization in Alabama, controlling deposits of approximately \$239.8 million, which represent less than 1 percent of deposits in that state. CenterState is the 25th largest insured depository organization in Georgia, controlling deposits of approximately \$943.7 million, which represent less than 1 percent of deposits in that state.

Commerce, with consolidated assets of approximately \$4.2 billion, is the 258th largest insured depository organization in the United States. Commerce controls approximately \$3.3 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Commerce controls Commerce Bank, which operates in Alabama, Florida, and Georgia. Commerce is the 13th largest insured depository organization in Alabama, controlling deposits of approximately \$1.2 billion, which represent 1.2 percent of deposits in that state. Commerce is the 43rd largest insured depository organization in Florida, controlling deposits of approximately \$1.4 billion, which represent less than 1 percent of deposits in that state. Commerce is the 27th largest insured depository organization in Georgia, controlling deposits of approximately \$780.4 million, which represent less than 1 percent of deposits in that state.

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<sup>5</sup> Unless otherwise noted, national asset data are as of December 31, 2018, and deposit, ranking, and market-share data are as of September 30, 2018.

<sup>6</sup> Insured depository institutions include commercial banks, savings associations, and savings banks.

<sup>7</sup> State deposit data are as of June 30, 2018.

On consummation of the proposal, CenterState would become the 103rd largest insured depository organization in the United States, with consolidated assets of approximately \$16.4 billion, which represent less than 1 percent of the total assets of insured depository organizations in the United States. CenterState would control consolidated deposits of approximately \$12.8 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Alabama, CenterState would become the 10th largest insured depository organization, controlling deposits of approximately \$1.4 billion, which would represent approximately 1.4 percent of the total deposits of insured depository institutions in that state. In Florida, CenterState would become the 16th largest insured depository organization, controlling deposits of approximately \$9.8 billion, which would represent approximately 1.7 percent of the total deposits of insured depository institutions in that state. In Georgia, CenterState would become the 17th largest insured depository organization, controlling deposits of approximately \$1.7 billion, which would represent less than 1 percent of the total deposits of insured depository institutions in that state.

#### Interstate 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 that is well capitalized and well managed to acquire control of a bank located in a state other than the home state of the bank holding company without regard to whether the transaction would be prohibited under state law.<sup>8</sup> Section 3(d) also provides that the Board (1) 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;<sup>9</sup> (2) must take into account the

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<sup>8</sup> 12 U.S.C. § 1842(d)(1)(A). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of each company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. See 12 U.S.C. § 1841(o)(4).

<sup>9</sup> 12 U.S.C. § 1842(d)(1)(B).

record of the applicant bank under the Community Reinvestment Act of 1977 (“CRA”)<sup>10</sup> and the applicant’s record of compliance with applicable state community reinvestment laws;<sup>11</sup> and (3) may not approve an application pursuant to section 3(d) if the bank holding company or resulting bank, upon consummation of the proposed transaction, would control more than 10 percent of the total deposits of insured depository institutions in the United States<sup>12</sup> or, in certain circumstances, if the bank holding company or resulting bank, 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.<sup>13</sup>

For purposes of the BHC Act, the home state of CenterState is Florida, and Commerce Bank is located in Alabama, Florida, and Georgia. CenterState is well capitalized and well managed under applicable law. The statutory minimum age requirements of Alabama and Georgia have been met because Commerce Bank has been in existence in Alabama and Georgia for more than five years.<sup>14</sup> CenterState Bank also has an “Outstanding” rating under the CRA.

On consummation of the proposed transaction, CenterState would control less than 1 percent of the total amount of consolidated deposits of insured depository institutions in the United States. Alabama and Georgia each impose a 30 percent limit on the total amount of in-state deposits that a single banking organization may control.<sup>15</sup> In

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<sup>10</sup> 12 U.S.C. § 2901 et seq.

<sup>11</sup> 12 U.S.C. § 1842(d)(3).

<sup>12</sup> 12 U.S.C. § 1842(d)(2)(A).

<sup>13</sup> 12 U.S.C. § 1842(d)(2)(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 any state in which the bank is chartered, headquartered, or operates a branch. See 12 U.S.C. § 1841(o)(4)-(7).

<sup>14</sup> Ala. Code § 5-13B-23(c) (five years); Ga. Code § 7-1-628.3(b) (three years).

<sup>15</sup> Ala. Code § 5-13B-23(b); Ga. Code § 7-1-628.3(a).

each state, the combined organization would control less than 30 percent of the total amount of in-state deposits. The Board has considered all other requirements under section 3(d) of the BHC Act. Accordingly, in light of all the facts of record, the Board determines that it is not prohibited by section 3(d) from approving the proposal.

#### 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.<sup>16</sup> 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.<sup>17</sup>

CenterState and Commerce have subsidiary banks that compete directly in ten banking markets in Alabama, Florida, and Georgia. The Board has considered the competitive effects of the proposal in these banking markets. In particular, the Board has considered the relative share of total deposits of insured depository institutions in each market (“market deposits”) that CenterState would control;<sup>18</sup> the concentration levels of market deposits and the increase in these levels in each market, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger

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<sup>16</sup> 12 U.S.C. § 1842(c)(1)(A).

<sup>17</sup> 12 U.S.C. § 1842(c)(1)(B).

<sup>18</sup> Unless otherwise indicated, state deposit and market share data are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

Competitive Review guidelines (“DOJ Bank Merger Guidelines”);<sup>19</sup> the number of competitors that would remain in each market; and other characteristics of each market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in each of the banking markets in which CenterState Bank and Commerce Bank compete. On consummation, one banking market would remain highly concentrated, eight banking markets would remain moderately concentrated, and one banking market would remain unconcentrated, as measured by the HHI, according to the DOJ Bank Merger Guidelines. The change in HHI in these markets generally would be small, consistent with Board precedent, and within the thresholds in the DOJ Bank Merger Guidelines. In addition, numerous competitors would remain in these banking markets.<sup>20</sup>

The DOJ also has conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all of the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the

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<sup>19</sup> Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), available at [www.justice.gov/opa/pr/2010/August/10-at-938.html](http://www.justice.gov/opa/pr/2010/August/10-at-938.html).

<sup>20</sup> These banking markets and the competitive effects of the proposal in these markets are described in the Appendix.

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.<sup>21</sup> 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.

CenterState, Commerce, and their subsidiary depository institutions 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 a subsequent merger of the subsidiary depository institutions.<sup>22</sup> The asset quality, earnings, and liquidity of both CenterState Bank and

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<sup>21</sup> 12 U.S.C. § 1842(c)(2), (5), and (6).

<sup>22</sup> To effect the transaction, each share of Commerce common stock would be converted into the right to receive shares of CenterState common stock, based on an exchange ratio. However, any fractional shares of CenterState common stock that would result from this

Commerce Bank are consistent with approval, and CenterState 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 CenterState, Commerce, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by CenterState; 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.

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

The Board also has considered CenterState's plans for implementing the proposal. CenterState 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. CenterState would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, CenterState's management has the experience and resources to operate the combined organization in a safe and sound

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conversion would be exchanged for cash. CenterState has the financial resources to effect the proposed transaction.

manner, and CenterState plans to integrate Commerce's existing management and personnel in a manner that augments CenterState's management.<sup>23</sup>

Based on all the facts of record, including CenterState's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board determines 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 CenterState and Commerce 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.<sup>24</sup> In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of these communities, 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,<sup>25</sup> 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.<sup>26</sup>

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<sup>23</sup> Following consummation of the proposed transaction, the chairman of Commerce would become the chief executive officer of CenterState Bank, and the president and chief executive officer of Commerce would become the chief financial officer of CenterState and CenterState Bank. In addition, three directors of Commerce would be added to the boards of directors of CenterState and CenterState Bank, and one director of Commerce Bank would be added to the board of directors of CenterState Bank.

<sup>24</sup> 12 U.S.C. § 1842(c)(2).

<sup>25</sup> 12 U.S.C. § 2901(b).

<sup>26</sup> 12 U.S.C. § 2903.

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 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 CenterState Bank and Commerce Bank, the fair lending and compliance records of both banks, the supervisory views of the OCC, confidential supervisory information, information provided by CenterState, and the public comments on the proposal.

*Public Comments on the Proposal*

The Board received comments on the proposal from one commenter. The commenter alleged disparities in CenterState Bank's home mortgage origination and denial rates in certain markets for minority applicants compared to white applicants based on data reported under the Home Mortgage Disclosure Act of 1975 ("HMDA").<sup>27</sup> Referencing a specific consumer complaint, the commenter also alleged that CenterState Bank has a history of inadequately responding to complaints from customers acquired through mergers. The commenter expressed concern that CenterState Bank would close branches and become less locally accountable upon consummation of the proposal and asserted that the proposal would not provide a public benefit.

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<sup>27</sup> 12 U.S.C. § 2801 et seq.

*Businesses of the Involved Institutions and Response to the Public  
Comments*

Through their networks of branches, CenterState Bank and Commerce Bank offer deposit, loan, trust, and wealth management products and services to retail and commercial customers.

In response to the commenter's allegations, CenterState asserts that it has a long and positive history of serving the needs, including lending needs, of the communities in its geographic footprint. CenterState contends that the commenter's selective focus on HMDA data from five markets lacks context about the bank's lending record and activities in these markets. CenterState asserts that a significant proportion of its branches are in LMI census tracts, the proportion of its mortgage originations is generally consistent with that of its peers and the demographics of the communities it serves, and its employees volunteer with organizations that serve minority and LMI borrowers. In addition, CenterState asserts that CenterState Bank made mortgage lending a central line of business only recently in 2016, so the bank's originations in 2017 were lower compared to 2018. CenterState also notes that CenterState Bank recently received an overall "Outstanding" CRA rating.

In response to the commenter's allegation that CenterState Bank has mishandled complaints from customers acquired through mergers, CenterState notes that it received only a limited number of complaints from the tens of thousands of customers acquired through the specific merger referenced in the comments. CenterState states that CenterState Bank has a comprehensive system for serving customers acquired through merger, including informing new customers of the process of transitioning to CenterState Bank and providing customer service representatives who can answer questions by phone or in person at CenterState Bank branches, and a complaint management program that tracks customer complaints, including those received through social media. CenterState asserts that CenterState Bank is committed to responding to customer complaints in a timely and thoughtful manner and to gaining insight into how to improve internal procedures and training. CenterState indicates that CenterState Bank has increased the

number of telephone lines and staff available to handle questions from customers acquired by merger.

Regarding the commenter's concern that CenterState Bank would close branches upon consummation of the proposal and that the proposal would result in less local accountability, CenterState represents that CenterState Bank does not anticipate closing any branches in connection with the proposal and that CenterState Bank focuses on the needs of local markets. In addition, CenterState states that one of the bank's core values is to be driven by local markets and that employees are encouraged to make decisions with their communities' best interests at stake.

*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 performance evaluation, as well as other information and supervisory views from the relevant federal financial supervisor, which in this case is the OCC with respect to both institutions.<sup>28</sup> 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.<sup>29</sup> An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal financial supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test ("Lending Test"), investment test ("Investment Test"), and service test ("Service Test") to evaluate the performance of a large insured depository institution, such as CenterState Bank, in

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<sup>28</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 81 Fed. Reg. 48506, 48548 (July 25, 2016).

<sup>29</sup> 12 U.S.C. § 2906.

helping to meet the credit needs of the communities it serves. The Lending Test specifically evaluates an institution's 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 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 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 loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;<sup>30</sup> (4) the institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.<sup>31</sup> The Investment Test applicable to large institutions evaluates the number and amounts of qualified investments that benefit their AAs, and the Service Test evaluates the availability and effectiveness of their systems for delivering retail banking services and the extent and innovativeness of their community development services.<sup>32</sup>

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<sup>30</sup> 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).

<sup>31</sup> See 12 CFR 228.22(b).

<sup>32</sup> See 12 CFR 228.21 et seq.

Intermediate small banks, such as Commerce Bank, are subject to the Lending Test, as well as a community development test (“Community Development Test”) that evaluates the number and amounts of their community development loans and qualified investments; the extent to which they provide community development services; and their responsiveness to community development lending, investment, and service needs.<sup>33</sup>

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.<sup>34</sup> Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of an institution.

#### *CRA Performance of CenterState Bank*

CenterState Bank was assigned an overall “Outstanding” rating at its most recent CRA Performance Evaluation by the OCC, as of May 14, 2018 (“CenterState Bank Evaluation”).<sup>35</sup> The bank received “Outstanding” ratings for the Lending Test and Service Test and a “Low Satisfactory” rating for the Investment Test.<sup>36</sup> Examiners gave

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<sup>33</sup> 12 CFR 228.26(c).

<sup>34</sup> 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.

<sup>35</sup> The CenterState Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed home mortgage lending activity reported under HMDA and small business lending activity reported under the CRA for the full calendar years of 2015, 2016, and 2017. The evaluation period for community development loans, qualified investments, and community development services was from April 6, 2015, through April 30, 2018.

<sup>36</sup> The CenterState Bank Evaluation included a full-scope review of the Lakeland-Winter Haven Metropolitan Statistical Area (“MSA”), the Miami-Fort Lauderdale-West Palm Beach MSA, the Ocala MSA, and the Putnam County non-MSA. Limited-scope evaluations were performed for the bank’s other AAs.

significant consideration to CenterState Bank's performance in the Lakeland-Winter Haven MSA.

Overall, examiners found that CenterState Bank's lending activity reflected good responsiveness to credit needs in its AAs for mortgages and small business loans, and that the bank's lending within its AAs was excellent. Examiners also found that the geographic distribution of loans reflected excellent penetration through the bank's AAs and that the borrower distribution reflected good penetration among retail customers of different income levels and business customers of different sizes. Examiners determined that CenterState Bank was a leader in making community development loans and used innovative and flexible lending practices to meet the credit needs of its communities. Examiners noted that CenterState Bank had an adequate level of qualified investments that exhibited good responsiveness to credit and community economic development needs. In addition, examiners found that CenterState Bank provided excellent retail banking services and was a leader in providing community development services.

In the Orlando-Kissimee-Sanford MSA, an area of concern to the commenter, examiners determined that CenterState Bank had good performance for mortgage lending by income and geography, good performance for small business lending, and excellent performance for small business lending by geography. Examiners noted that the geographic distribution of home mortgage loans was excellent in this MSA, and the bank's strong lending in this MSA had a significant positive impact on the bank's overall rating.

In the Miami-Fort Lauderdale-West Palm Beach MSA, another area of concern to the commenter, examiners found that CenterState Bank had an excellent distribution of home mortgage loans, based on excellent home purchase lending and excellent home refinance lending. Although examiners noted that CenterState Bank's overall loan volume in this MSA was low, they found the penetration of loans in LMI geographies was excellent. Examiners determined that the geographic distribution of small business loans in this MSA was excellent and that the distribution of home purchase and home refinance loans was adequate.

In the Tampa-St. Petersburg-Clearwater MSA, another area cited by the commenter, examiners found that home mortgage lending was good overall. Examiners noted that home mortgage lending by income and geography in the MSA was adequate and that small business lending by geography was excellent.

In the Jacksonville MSA, another area identified by the commenter, examiners found that the volume of home mortgage loans was insufficient to provide any meaningful analysis. However, examiners noted that small business lending by geography in the MSA was excellent. Examiners also noted that lending to small businesses was good, and community development lending in this MSA was strong.

In the Lakeland-Winter Haven MSA, the final area identified by the commenter, examiners found that CenterState Bank's lending activity reflected good responsiveness to credit needs. Examiners determined that the level of home mortgage and small business lending in the MSA was good. Examiners also found that the geographic distribution of home mortgage loans in the MSA was good. Examiners noted that home purchase and refinance lending in LMI geographies in the MSA was good and that home improvement lending in LMI geographies was excellent. Examiners also found that the distribution of home mortgage loans by borrower in the MSA was good.

In all of its AAs, examiners found that CenterState Bank had an adequate level of qualified community development investments that exhibited good responsiveness to credit and community economic development needs. Examiners also found that the bank occasionally used complex investments to support community development initiatives. Examiners determined that CenterState Bank's branches were accessible to geographies and individuals of different income levels. In addition, examiners concluded that acquisition and merger activity by CenterState Bank did not negatively impact the bank's branch distribution. Examiners found that CenterState Bank's hours and services offered throughout the bank's AAs did not vary in a way that inconvenienced LMI individuals.

### *CRA Performance of Commerce Bank*

Commerce Bank received an overall rating of “Satisfactory” at its most recent CRA Performance Evaluation by the OCC, as of November 16, 2015 (“Commerce Bank Evaluation”).<sup>37</sup> The bank received “Satisfactory” ratings for the Lending Test and the Community Development Test.<sup>38</sup>

Examiners found Commerce Bank’s lending in its AAs to be satisfactory and that the bank originated a majority of its loans inside its AAs. Examiners also found that Commerce Bank achieved reasonable penetration for lending to borrowers of different incomes and reasonable dispersion for geographic distribution of lending within its AAs.

Examiners found that Commerce Bank adequately responded to community development needs in its AAs through a combination of loans, investments, and services. Examiners also found that the bank had demonstrated a commitment to its community by financing community development organizations that operate in the community and participating with various committees and boards that provide affordable housing or community services to LMI individuals.

### *Views of the OCC*

In its review of the proposal, the Board consulted with the OCC regarding the CRA, consumer compliance, and fair lending record of CenterState Bank. The Board has also considered the results of the most recent consumer compliance examinations of CenterState Bank and Commerce Bank conducted by the OCC, which included reviews of the banks’ compliance management programs and compliance with consumer protection laws and regulations.

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<sup>37</sup> The Commerce Bank Evaluation was conducted using Intermediate Small Bank CRA Examination Procedures. The Commerce Bank Evaluation reviewed residential mortgage loans from January 1, 2012, through June 30, 2015, and community development activities from November 15, 2012, to November 16, 2015.

<sup>38</sup> The Commerce Bank Evaluation included a review of the bank’s AAs in Alabama and Florida, which included full-scope examinations of the Birmingham MSA AA and the Huntsville AA.

The Board has taken this information, as well as the CRA performance records of CenterState Bank and Commerce Bank, into account in evaluating the proposal, including in considering whether CenterState has the experience and resources to ensure that CenterState 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.<sup>39</sup> CenterState represents that, following consummation of the proposal, CenterState Bank would not discontinue any products or services currently offered by CenterState Bank or Commerce Bank. CenterState asserts that existing customers of Commerce Bank and CenterState Bank would benefit from a more extensive network of branches and ATMs, and Commerce Bank's existing customers would benefit from access to an expanded array of products and services, including deposit products and mobile banking services designed for public employees, seniors, students, and small businesses. CenterState maintains that customers of Commerce Bank would benefit from a broader range of mortgage loans offered by CenterState Bank, including mortgage loans for affordable housing.

CenterState represents that, following consummation of the proposal, CenterState Bank would maintain a high level of community development lending, investment, services, and other CRA activities throughout the combined organization's service areas. CenterState also represents that the combined bank would continue to expand its mortgage and small business lending to and community development, investment, and service activities for LMI and minority borrowers and communities. CenterState asserts that CenterState Bank 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 it offers and to assess the community development needs in its AAs. CenterState maintains that CenterState

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<sup>39</sup> The commenter asserted that the proposal would not produce a benefit to the public.

Bank's staff would continue to provide financial expertise to non-profit organizations and operate financial literacy workshops for LMI customers.

*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, confidential supervisory information, information provided by CenterState, 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 determines 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."<sup>40</sup>

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.<sup>41</sup> 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

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<sup>40</sup> 12 U.S.C. § 1842(c)(7).

<sup>41</sup> Many of the metrics considered by the Board measure an institution's activities relative to the United States financial system.

institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage on the broader economy.<sup>42</sup>

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.<sup>43</sup>

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.<sup>44</sup> 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.

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<sup>42</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (February 14, 2012).

<sup>43</sup> 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.

<sup>44</sup> As noted, through their subsidiary banks, CenterState and Commerce both offer a range of retail and commercial banking products and services. CenterState 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.<sup>45</sup> 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 specifically conditioned on compliance by CenterState 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

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<sup>45</sup> The 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 written comments 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 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.

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 Atlanta, acting under delegated authority.

By order of the Board of Governors,<sup>46</sup> effective March 11, 2019.

*Margaret McCloskey Shanks (signed)*

Margaret McCloskey Shanks  
Secretary of the Board

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<sup>46</sup> Voting for this action: Chair Powell, Vice Chair Clarida, Vice Chair for Supervision Quarles, and Governors Brainard and Bowman.

Appendix

<b>CenterState and Commerce Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines (Data as of June 30, 2018)</b>						
<b>Auburn/Opelika, Alabama</b> – Lee County, Alabama (less the portion that is within 12 road miles of Phenix City, Alabama or Columbus, Georgia).						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>CenterState Pre-Consummation</i>	5	\$171.3M	6.16	1220	49	17
<i>Commerce</i>	11	\$111.5M	4.01			
<i>CenterState Post-Consummation</i>	3	\$282.8M	10.17			
<b>Daytona Beach Area, Florida</b> – Flagler County; the towns of Allandale, Daytona Beach, Daytona Beach Shores, Edgewater, Holly Hill, New Smyrna Beach, Ormond Beach, Ormond-by-the-Sea, Pierson, Port Orange, and South Daytona of Volusia County; the town of Astor of Lake County, all in Florida.						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>CenterState Pre-Consummation</i>	12	\$198.1M	2.09	1456	5	20
<i>Commerce</i>	15	\$123.8M	1.31			
<i>CenterState Post-Consummation</i>	8	\$322.0M	3.40			
<b>Indian River County, Florida</b>						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>CenterState Pre-Consummation</i>	12	\$114.8M	2.53	1063	15	16
<i>Commerce</i>	11	\$130.6M	2.89			
<i>CenterState Post-Consummation</i>	9	\$245.4M	5.42			

<b>Jacksonville Area, Florida</b> – Baker, Clay, Duval, and Nassau counties; the towns of Fruit Cove, Ponte Vedra, Ponte Vedra Beach, Jacksonville, St. Johns, and Switzerland in St. Johns County, all in Florida; the city of Folkston in Charlton County, Georgia.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	15	\$189.5M	0.38	2707	1	34
<i>Commerce</i>	13	\$344.6M	0.70			
<i>CenterState Post-Consummation</i>	10	\$534.2M	1.08			
<b>North Lake/Sumter Area, Florida</b> – Sumter and Lake counties (less the towns of Astor, Clermont, and Groveland), both of Florida.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	13	\$93.4M	1.48	1313	3	17
<i>Commerce</i>	15	\$72.4M	1.14			
<i>CenterState Post-Consummation</i>	10	\$165.8M	2.62			
<b>Saint Augustine Area, Florida</b> – St. Johns County (less the towns of Fruit Cove, Ponte Vedra, Ponte Vedra Beach, Jacksonville, St. Johns, Switzerland, and Hastings), Florida.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	4	\$235.3M	11.40	1274	105	13
<i>Commerce</i>	10	\$95.7M	4.64			
<i>CenterState Post-Consummation</i>	3	\$331.1M	16.03			

<b>Orlando Area, Florida</b> – Orange, Osceola, Seminole, and the western half of Volusia counties; the towns of Clermont and Groveland in Lake County, all in Florida.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	14	\$757.7M	1.53	1285	2	43
<i>Commerce</i>	20	\$271.8M	0.55			
<i>CenterState Post-Consummation</i>	11	\$1,029.5M	2.08			
<b>Sarasota Area, Florida</b> – Manatee, Sarasota (less the portion that is both east of the Myakka River and south of Interstate 75, which includes the towns of North Port), the peninsular portion of Charlotte west of the Myakka River (including the towns of Englewood, Englewood Beach, New Point Comfort, Grove City, Cape Haze, Rotonda, Rotonda West, and Placida); Gasparilla Island (including the town of Boca Grande) in Lee County, all in Florida.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	13	\$482.7M	2.31	932	5	35
<i>Commerce</i>	21	\$204.5M	0.98			
<i>CenterState Post-Consummation</i>	8	\$687.2M	3.29			
<b>Tampa Bay Area, Florida</b> – Hernando, Hillsborough, Pinellas, and Pasco counties, all in Florida.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	15	\$854.8M	1.02	1194	0	54
<i>Commerce</i>	34	\$146.7M	0.17			
<i>CenterState Post-Consummation</i>	15	\$1,001.5M	1.19			

**Atlanta, Georgia** – Bartow, Cherokee, Clayton, Cobb, Coweta, Dawson, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gwinnett, Henry, Newton, Paulding, Rockdale, Walton, and Hall (less the town of Clermont) counties; the towns of Auburn and Winder in Barrow County and Luthersville in Meriwether County, all in Georgia.

	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	23	\$597.5M	0.35	1546	0	82
<i>Commerce</i>	21	\$780.4M	0.46			
<i>CenterState Post-Consummation</i>	16	\$1,377.9M	0.81			

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