

FEDERAL RESERVE SYSTEM

Frost Bank
San Antonio, Texas

Order Approving the Establishment of Branches

Frost Bank, a state member bank subsidiary of Cullen/Frost Bankers, Incorporated, both of San Antonio, Texas, has requested the Board's approval under section 9 of the Federal Reserve Act ("FRA")¹ and the Board's Regulation H² to establish ten branches in Texas, as set forth in Appendix A.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the Board's Rules of Procedure.⁴ The time for submitting comments has expired, and the Board has considered the proposal and the comment received in light of the factors specified in the FRA.

Cullen/Frost Bankers, Incorporated, with total assets of \$32.4 billion, is the 64th largest depository organization in the United States, controlling approximately \$27.2 billion in deposits, which represent less than 1 percent of the total amount of

¹ 12 U.S.C. § 321.

² 12 CFR part 208.

³ Under section 9 of the FRA, state member banks may establish and operate branches on the same terms and conditions as are applicable to the establishment of branches by national banks. See 12 U.S.C. § 321. A national bank may establish and operate a de novo branch within a state in which the bank is situated, if such establishment and operation is authorized under applicable state law. See 12 U.S.C. § 36(c)(2). Frost Bank only has branches in Texas and is permitted to establish additional branches under the laws of Texas. See Tex. Fin. Code Ann. § 203.006.

⁴ 12 CFR 262.3(b).

deposits of insured depository institutions in the United States.⁵ Frost Bank operates through 143 branches located in Texas, and the bank's main office is in San Antonio, Texas.⁶

Under section 208.6 of the Board's Regulation H,⁷ which implements section 9 of the FRA, the factors that the Board must consider in acting on a branch application include (1) the financial history and condition of the applying bank and the general character of its management; (2) the adequacy of the bank's capital and the bank's future earnings prospects; (3) the convenience and needs of the community to be served by the branch; (4) in the case of branches with deposit-taking capability, the bank's performance under the Community Reinvestment Act ("CRA");⁸ and (5) whether the bank's investment in bank premises in establishing the branch satisfies certain criteria.⁹ The Board has considered the branch applications in light of these factors and the public comment received on the proposal.

Financial, Managerial, and Other Supervisory Considerations

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

⁵ Total assets, national asset ranking, and national deposit data are as of December 30, 2018, and state deposit data are as of June 30, 2018, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings and loan associations, and savings banks.

⁶ In Texas, Frost Bank is the 6th largest depository organization, controlling approximately \$26.1 billion in deposits, which represent approximately 3.1 percent of the total amount of deposits of insured depository institutions in that state.

⁷ 12 CFR 208.6(b).

⁸ 12 U.S.C. § 2901 et seq.

⁹ 12 CFR 208.21(a).

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

In considering Frost Bank's managerial resources, the Board has reviewed the bank's examination record, including assessments of its management, risk-management systems, and operations. The Board also has considered its supervisory experiences with Frost Bank and the bank's record of compliance with applicable banking, consumer protection, and anti-money-laundering laws. Frost Bank is considered to be well managed. Frost Bank's directors and senior executive officers have substantial knowledge of and experience in the banking and financial services sectors, and the bank's risk-management program appears consistent with approval.

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

Convenience and Needs Considerations

In considering the effects of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institution is helping to meet the credit needs of these communities, as well as other potential effects of the proposal on the convenience and needs of the communities to be served.¹¹ In its evaluation, the Board places particular emphasis on the record of the relevant depository institution under the CRA. The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local

¹⁰ 12 CFR 208.21(a).

¹¹ 12 CFR 208.6(b)(3).

communities in which they operate, consistent with their safe and sound operation,¹² and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank branching proposals.¹³

In addition, the Board considers the bank's overall compliance record, including with respect to fair lending. Fair lending laws require all lending institutions to provide loan applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. The Board also may consider the institution's business model, marketing and outreach plans, and plans after consummation, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of Frost Bank, the fair lending and compliance records of the bank, confidential supervisory information, information provided by Frost Bank, and the public comment received on the proposal.

Public Comment on the Proposal

One commenter objected to the proposal, alleging that Frost Bank discriminates against African Americans and "redlines" African American neighborhoods in Houston and Dallas, both in Texas.¹⁴ Specifically, the commenter alleged that Frost

¹² 12 U.S.C. § 2901(b).

¹³ 12 U.S.C. § 2903.

¹⁴ Redlining is the practice of providing unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristics of the residents of the area in which a credit seeker resides or will reside or in which a property to be mortgaged is located. See Interagency Fair Lending Examination Procedures (August 2009), available at <https://www.ffiec.gov/pdf/fairlend.pdf>.

Bank has denied African American individuals and African American-owned businesses equal access to capital and credit by heavily concentrating its branches in predominantly white neighborhoods and its banking services to white individuals and white-owned businesses in Houston and Dallas. The commenter also alleges that Frost Bank disfavors certain African American neighborhoods in Houston and Dallas with respect to its branching activities and in other respects.

Business of the Applicant and Response to Comment

Frost Bank offers a broad range of retail and commercial banking products to consumers and businesses through its network of branches. The products and services include commercial, residential, agricultural, and consumer loans; personal checking and savings accounts; business checking and savings accounts; business credit cards and correspondent banking; and wealth management services.

In response to the commenter's allegations, Frost Bank asserts that it is committed to providing consistent, long-term support to the communities in which Frost Bank operates through the establishment of a branch distribution network that is designed to serve the financial needs of all segments of each community. Frost Bank represents that, prior to the decision to open, relocate, or close a branch, the bank considers the impact to the local community and the overall regional distribution network in order to ensure maintenance or enhancement of access to majority-minority neighborhoods. Frost Bank further asserts that it offers all of its products and services without regard to any prohibited basis and is committed to fair and equal treatment of all of its existing and prospective customers. Frost Bank represents that it has safeguards in place to prevent illegal discrimination, including the establishment of a comprehensive fair lending program to conduct fair lending risk assessments and fair lending monitoring. Frost Bank further represents that it engages in a comprehensive marketing and outreach program to serve the needs of historically underserved areas. Additionally, Frost Bank asserts that it has made a number of community development loans in majority-minority census tracts; in zip codes identified in the comment as being underserved "Black neighborhoods" in Dallas County; and in Harris County in Houston, Texas.

Record of Performance Under the CRA

In evaluating the CRA performance of the involved institution, the Board generally considers the institution's most recent CRA evaluation, as well as other information and supervisory views from the relevant federal supervisor, which in this case is the Federal Reserve Bank of Dallas ("Reserve Bank").¹⁵ 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.¹⁶ 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 ("Lending Test"), an investment test ("Investment Test"), and a service test ("Service Test") to evaluate the performance of a large insured depository institution, such as Frost Bank, in 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 the Home Mortgage Disclosure Act ("HMDA"),¹⁷ in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on

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

¹⁶ 12 U.S.C. § 2906.

¹⁷ 12 U.S.C. § 2801 et seq.

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;¹⁸ (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.¹⁹ The Investment Test evaluates the number and amounts of qualified investments that benefit the institution's AAs, and the Service Test evaluates the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of the institution's community development services.²⁰

CRA Performance of Frost Bank

Frost Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the Reserve Bank, as of August 13, 2018 ("Frost Bank Evaluation").²¹ The bank received an "Outstanding" rating for the

¹⁸ Examiners also consider the number and amounts of small business and small farm loans made to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

¹⁹ See 12 CFR 228.22(b).

²⁰ See 12 CFR 228.21 et seq.

²¹ The Frost Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed HMDA and small business lending activities reported by the bank from January 31, 2015, through December 31, 2017. The evaluation period for community development lending, investments, and services was from January 1,

Investment Test, and a “High Satisfactory” rating for each of the Lending Test and the Service Test.²²

Examiners found that Frost Bank’s overall lending activity reflected good responsiveness to the credit needs in all of the bank’s AAs and that the overall geographic distribution of the bank’s loans reflected excellent penetration throughout the AAs. In addition, examiners found that the distribution of the bank’s home mortgage borrowers reflected adequate penetration among borrowers of different income levels and that the bank’s distribution of small business lending reflected adequate penetration among businesses of different revenue sizes. Examiners further found that the bank originated a substantial majority of its loans inside its AAs. Examiners noted that the bank is a leader in making community development loans; such loans were made for a variety of purposes, including for multifamily housing; and the majority of community development loans were for affordable housing and community services to LMI individuals or LMI areas.

In both the Houston and Dallas AAs, the two areas of concern for the commenter, examiners determined that Frost Bank’s lending levels reflected good responsiveness to the AAs’ credit needs. In addition, examiners found that the geographic distribution of the bank’s loans reflected excellent penetration in the Houston AA and reflected good penetration in the Dallas AA. Examiners determined that the bank’s distribution of loans to borrowers of different income levels and to businesses of different revenue sizes reflected good penetration in the Houston AA and reflected

2015, through December 31, 2017. Retail branching activity was reviewed for the period of January 1, 2015, through August 13, 2018.

²² The Frost Bank Evaluation included a full-scope review of the bank’s AAs within the following areas: Corpus Christi, Texas, Metropolitan Statistical Area (“MSA”); Dallas-Plano-Irving, Texas, Metropolitan Division (“Dallas AA”); Houston-The Woodlands-Sugar Land, MSA (“Houston AA”); and San Antonio-New Braunfels, Texas, MSA. Limited-scope reviews were conducted in Frost Bank’s remaining AAs within the following areas: Austin-Round Rock-San Marcos, Texas, MSA; Brownsville-Harlingen, Texas, MSA; Fort Worth-Arlington, Texas, Metropolitan Division; McAllen-Edinburg-Mission, Texas, MSA; Midland, Texas, MSA; and Odessa, Texas, MSA.

adequate penetration in the Dallas AA. Examiners determined that Frost Bank's community development lending was excellent in both the Houston and Dallas AAs and noted that the bank was a leader in community development lending in both AAs.

Examiners found that Frost Bank's investments demonstrated excellent responsiveness to the most pressing credit and community development needs throughout the bank's AAs. In addition, examiners found that the bank had an excellent level of qualified community development investments and grants, particularly those types not routinely provided by private investors, and was often in a leadership position throughout all of its AAs, including in the Houston and Dallas AAs. Examiners noted that the bank had invested in companies that made loans to small business owners with limited access to traditional bank credit, Ginnie Mae mortgage-backed securities targeted to LMI borrowers, and general obligation bonds targeted to school districts in which over 75 percent of the students were economically disadvantaged. In both the Houston and Dallas AAs, examiners found that the bank exhibited excellent responsiveness to credit and community development needs through its investment activities, which included investments in and donations to organizations involved primarily in affordable housing initiatives.

Examiners found that Frost Bank's retail delivery systems were readily accessible to geographies and individuals of different income levels within the bank's AAs. Examiners further found that Frost Bank provided a relatively high level of community development services throughout its AAs. Examiners noted that the bank's record of opening and closing branches during the review period generally did not adversely affect the accessibility of banking services to LMI geographies and/or individuals. Examiners also noted that the bank's banking services and business hours did not vary in a way that inconvenienced any portion of the bank's AAs, including LMI geographies and individuals. Moreover, examiners determined that Frost Bank was a leader in providing community development services throughout its AAs and that community development services were excellent in all ten of the bank's AAs, including the Houston and Dallas AAs.

Frost Bank's Efforts Since the Frost Bank Evaluation

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

Additional Supervisory Considerations

In addition to the Frost Bank Evaluation, the Board has considered the results of a 2017 examination of Frost Bank's compliance with the requirements of the Fair Housing Act, which included a redlining review of the bank's ten AAs, including those in Houston and Dallas. The review included an evaluation of the bank's redlining risk for each of those markets with respect to the bank's designation of assessment areas and lending, branching, marketing, and outreach activities. In addition, the Board has considered Frost Bank's supervisory record with the Consumer Financial Protection Bureau.

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. Frost Bank asserts that the proposed branches would provide economic benefits and a broad range of financial services to the markets to be served and enable the bank to reach more consumers and businesses. Frost Bank further represents that, because of the branch expansion activity in the Houston area, Frost Bank is adding a second Community Development Officer to work closely with local agencies and community organizations within designated communities to ensure adequate coverage of CRA-service-related activities in the Houston AA.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA record of Frost Bank, the bank's records of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by Frost Bank, the public comment on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board determines that the convenience and needs factor is consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the applications should be, and hereby are, approved.²³ The Board's approval is

²³ The Board construes the comment received on the proposal to include a request that the Board hold public hearings on the proposal. Under its rules, the Board may, in its discretion, hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present their views. 12 CFR 262.3(e). The Board has considered the commenter's request in light of all the facts of record. Notices of the applications were published in the relevant newspapers of general circulation in accordance with the requirements of and for the period set forth in 12 CFR 208.6(a)(3). 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

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

Approval of these applications is also subject to the establishment of the proposed branches within one year of the date of this order, unless such period is extended by the Board or the Reserve Bank, acting under authority delegated by the Board.

By order of the Board of Governors,²⁴ effective June 20, 2019.

Michele Taylor Fennell (signed)

Michele Taylor Fennell
Assistant Secretary of the Board

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.

²⁴ Voting for this action: Chair Powell, Vice Chair Clarida, Vice Chair for Supervision Quarles, and Governors Brainard and Bowman.

Appendix A
Branches to be Established by Frost Bank

Houston-The Woodlands-Sugar Land MSA Branches:

- 19961 US Highway 59, Humble, Texas 77338
- South Mason Road and Mason Access Road, Katy, Texas 77450
- 201 South FM 270, League City, Texas 77573
- 10420 Louetta Road, Suite 120, Houston, Texas 77070
- 2200 North Frazier Street, Conroe, Texas 77303
- 3500 Little York Road, Suite B1, Houston, Texas 77093
- 8350 Long Point Road, Houston TX 77055

Corpus Christi MSA Branches:

- 501 South Shoreline Boulevard, Corpus Christi, Texas 78401
- 7444 South Padre Island Drive, Corpus Christi, Texas 78412

McAllen-Edinburg-Mission MSA Branches:

- 1010 North Westgate Drive, Weslaco, Texas 78596