

FEDERAL RESERVE SYSTEM

United Texas Bank
Dallas, Texas

Order Approving the Establishment of a Branch

United Texas Bank, a state member bank subsidiary of UTB Financial Holding Company (“UTB”), both of Dallas, Texas, has requested the Board’s approval under section 9 of the Federal Reserve Act (“FRA”)¹ and the Board’s Regulation H² to establish a branch at 10803 Preston Road, Dallas, Texas.³

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

UTB, with total consolidated assets of approximately \$1.3 billion, is the 843rd largest depository organization in the United States. UTB controls approximately \$923.4 million 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). United Texas Bank has a branch in Texas and is therefore 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 UTB controls United Texas Bank. United Texas Bank operates in Texas through two branches, and the bank's main office is in Dallas, 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 application in light of these factors and the public comment received on the proposal.

Financial, Managerial, and Other Supervisory Considerations

In considering the financial history and condition, earnings prospects, and capital adequacy of United Texas Bank, the Board has reviewed reports of examination, other supervisory information, publicly reported and other financial information, information provided by United Texas Bank, and the comment received on the proposal. United Texas Bank is well capitalized and would remain so upon consummation of the proposal. The asset quality, earnings, and liquidity of United Texas Bank are consistent with approval, and United Texas Bank appears to have adequate resources to absorb the

⁵ Consolidated asset and national deposit, ranking and market share data are as of December 31, 2021. In this context, insured depository institutions include commercial banks, savings and loan associations, and savings banks.

⁶ In Texas, UTB is the 112th largest depository organization, controlling approximately \$784 million in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state. State total deposits and state deposit ranking are as of June 30, 2021.

⁷ 12 CFR 208.6(b).

⁸ 12 U.S.C. § 2901 *et seq.*

⁹ 12 CFR 208.21(a).

costs of the proposal. In addition, future earnings prospects are considered consistent with approval. The Board also has reviewed United Texas Bank's proposed investment in the branch and concludes that the bank's investment is consistent with regulatory limitations on investment in bank premises.¹⁰

In considering United Texas 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 United Texas Bank and the bank's record of compliance with applicable banking, consumer protection, and anti-money-laundering laws. United Texas Bank is considered to be well managed. United Texas Bank's directors and senior executive officers have substantial knowledge of and experience in the banking and financial services sectors,¹¹ 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 United Texas Bank's management, financial history and condition, capital adequacy, compliance with applicable banking and consumer protection laws, and future earnings prospects, as well as the effectiveness of United Texas 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.¹² In its

¹⁰ 12 CFR 208.21(a).

¹¹ One commenter asked the Board to consider the diversity of United Texas Bank's board and management in reviewing the proposed transaction. These concerns are outside the limited factors that the Board considers when reviewing a branch application. See Sandy Spring Bancorp, Inc., 104 Federal Reserve Bulletin 113, 118 n. 26 (2017).

¹² 12 CFR 208.6(b)(3).

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 communities in which they operate, consistent with the institutions' safe and sound operation,¹³ 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.¹⁴

In addition, the Board considers the bank's overall compliance record and recent fair lending examinations. Fair lending laws require all lending institutions to provide loan applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. The Board also may consider the institution's business model, its marketing and outreach plans, its 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 United Texas Bank, the fair lending and compliance records of the bank, confidential supervisory information, information provided by United Texas Bank, and the public comment received on the proposal.

Public Comment on the Proposal

One commenter objected to the proposal, alleging that United Texas Bank failed to provide small business and consumer lending services to African American communities in Southern Dallas. Additionally, the commenter alleged that the bank has not originated any small business loans to businesses with less than \$1 million in revenue or originated any commercial loans in the low-income or high minority/high poverty

¹³ 12 U.S.C. § 2901(b).

¹⁴ 12 U.S.C. § 2903.

census tracts in the Dallas-Fort Worth metropolitan statistical area (“MSA”). The commenter also alleged that United Texas Bank does not have any branches located in low-income or high minority/high poverty census tracts, or offer any solutions for unbanked or underbanked residents, in the Dallas-Fort Worth MSA.

The commenter observed that in United Texas Bank’s August 3, 2020, CRA performance evaluation, which was not the most current CRA performance evaluation of the bank,¹⁵ it received a rating of “Needs to Improve” under the lending test (“Lending Test”).¹⁶ The commenter also observed in reference to that performance evaluation that United Texas Bank’s penetration of loans among businesses of different sizes was poor, the geographic dispersion of the bank’s lending was poor given the performance context, and that the bank’s distribution of small business loans by business revenue size was poor. In addition, the commenter alleged that United Texas Bank’s small business lending to businesses with less than \$1 million in revenue trailed in comparison to other non-credit card small business lenders in Dallas.¹⁷

Businesses of the Applicant and Response to Comment

United Texas Bank offers a variety of consumer and commercial deposit and loan products. United Texas Bank also offers remote deposit capture, ATMs, debit cards, merchant card processing, and online and mobile banking services.

In response to the commenter, United Texas Bank noted that the comment does not reflect its most recent CRA performance evaluation, dated November 3, 2021, and encouraged the commenter to review the evaluation to understand the steps that United Texas Bank has taken to serve the banking needs of the community.

¹⁵ The commenter referenced United Texas Bank’s CRA performance evaluation as of August 3, 2020. At the time of the comment, United Texas Bank’s most recent CRA performance evaluation, as of November 3, 2021, was not yet publicly available.

¹⁶ As described in more detail below, the Lending Test is one of the two tests used by federal financial supervisors to evaluate the performance of intermediate small insured depository institutions, such as United Texas Bank, under the CRA.

¹⁷ The commenter also generally requested that United Texas Bank be more responsive to the needs of the Southern Dallas community and take steps to address inequality in the Dallas-Fort Worth MSA.

Records of Performance under the CRA

In evaluating the CRA performance of the involved institution, the Board generally considers the 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 Federal Reserve Bank of Dallas ("Reserve Bank").¹⁸ In addition, the Board considers information provided by the applicant and by any 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.¹⁹ 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, the Board and the other federal financial supervisors apply a Lending Test and a community development test ("Community Development Test") to evaluate the performance of an intermediate small bank, such as United Texas Bank, in helping to meet the credit needs of the communities it serves. The Lending Test specifically evaluates an institution's lending-related activities 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 Home Mortgage Disclosure Act ("HMDA"),²⁰ automated loan reports, and other reports generated by the institution in order to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is evaluated based on the institution's (1) loan-to-deposit ratio and, as appropriate, other lending-related activities, such as loan originations for sale to the

¹⁸ See *Interagency Questions and Answers Regarding Community Reinvestment*, 81 Fed. Reg. 48506, 48548 (July 25, 2016).

¹⁹ 12 U.S.C. § 2906.

²⁰ 12 U.S.C. § 2801 *et seq.*

secondary markets, community development loans, or qualified investments; (2) percentage of loans and, as appropriate, other lending-related activities located in the bank's AAs; (3) record of lending to, and, as appropriate, engaging in other lending-related activities for, borrowers of different income levels and businesses and farms of different sizes; (4) geographic distribution of loans; and (5) record of taking action, if warranted, in response to written complaints about the institution's performance in helping to meet credit needs in the bank's AAs.²¹ The Community Development Test evaluates the number and amounts of the institution's community development loans and qualified investments; the extent to which the institution provides community development services; and the institution's responsiveness through such activities to community development lending, investment, and service needs.²²

CRA Performance of United Texas Bank

United Texas Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the Reserve Bank, as of November 3, 2021 ("United Texas Bank Evaluation").²³ The bank received a "Satisfactory" rating for both the Lending Test and the Community Development Test.²⁴

With respect to the Lending Test, examiners found that a majority of United Texas Bank's loans were made in the bank's AA. Examiners also found that the bank's net loan-to-deposit ratio was reasonable given United Texas Bank's size and financial condition, as well as the credit needs of the bank's AA. In addition, examiners determined that the bank's geographic distribution of loans reflected reasonable

²¹ See 12 CFR 228.26(b).

²² See 12 CFR 228.26(c).

²³ The United Texas Bank Evaluation was conducted using Intermediate Small Bank CRA Examination Procedures. Examiners reviewed small business loans originated by the bank between January 1, 2020, and June 30, 2021. Examiners also reviewed community development loans, qualified investments, and community development services from August 3, 2020, through November 3, 2021.

²⁴ The United Texas Bank Evaluation included a full-scope review of the bank's sole AA. United Texas Bank's AA consists of the whole counties of Dallas, Denton, and Collin, all within the Dallas-Plano-Irving Metropolitan Division, which is part of the greater Dallas-Fort Worth-Arlington MSA.

dispersion throughout the bank's AA, and the bank's loan distribution by borrower profile reflected reasonable penetration among businesses of different revenue sizes.

With respect to the Community Development Test, examiners determined that United Texas Bank's overall community development performance, as evidenced by community development loans, qualified investments, and community development services, demonstrated adequate responsiveness to the community development needs of the bank's AA.

Additional Supervisory Considerations

In addition to the United Texas Bank Evaluation, the Board has considered the most recent consumer compliance examination and fair lending record of United Texas Bank and consulted with the Reserve Bank regarding the bank's CRA, consumer compliance, and fair lending records.

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. United Texas Bank asserts that the proposed branch would increase convenience for its existing customers and offer a convenient alternative to prospective individual and business customers. United Texas Bank also asserts that the proposed branch is a direct response to the needs and convenience of its existing customers, many of whom live and work in the vicinity of the proposed branch.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA record of United Texas Bank, the bank's record of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by United Texas 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 considerations 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. The Board's approval is specifically conditioned on compliance by United Texas 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 this application is also subject to the establishment of the proposed branch within one year of the date of this order, unless such period is extended by the Board or the Reserve Bank, acting under authority delegated by the Board.

By order of the Board of Governors,²⁵ effective June 6, 2022.

Michele Taylor Fennell (signed)

Michele Taylor Fennell

Deputy Associate Secretary of the Board

²⁵ Voting for this action: Chair Powell, Vice Chair Brainard, Governors Bowman, Waller, and Jefferson. Governor Cook abstained.