

FEDERAL RESERVE SYSTEM

PlainsCapital Bank
University Park, Texas

Order Approving the Establishment of a Branch

PlainsCapital Bank (“PCB”), University Park, Texas, a wholly owned state member bank subsidiary of Hilltop Holdings (“HTH”), 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 513 West Oak Street, Suite 100, Denton, 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 comments received in light of the factors specified in the FRA.

HTH, with total consolidated assets of approximately \$16.2 billion, is the 116th largest depository organization in the United States, controlling approximately \$10.9 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). PCB 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 PCB operates only in Texas, and the bank's main office is in University Park, 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 comments received on the proposal.

Financial, Managerial, and Other Supervisory Considerations

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

⁵ Total assets, national asset ranking, and national deposit data are as of March 31, 2024, and state deposit data are as of June 30, 2023, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings and loan associations, and savings banks.

⁶ In Texas, PCB is the 17th largest depository organization, controlling approximately \$11.1 billion in deposits, which represent less than 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).

considered consistent with approval. The Board also has reviewed PCB's proposed investment in the branch and concludes that the bank's investment is consistent with regulatory limitations on investment in bank premises.

In considering PCB'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 PCB and the bank's record of compliance with applicable banking, consumer protection, and anti-money-laundering laws. PCB is considered to be well managed. PCB'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 PCB'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 PCB in combatting money-laundering activities, are consistent with approval of the proposal.

Convenience and Needs Considerations

In acting on a branching proposal under section 9 of the FRA and the Board's Regulation H, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.¹⁰ In evaluating whether the proposal satisfies the convenience and needs statutory factor, the Board considers the impact that the proposal will or is likely to have on the communities served by the bank.

The Board reviews a variety of information to determine whether the bank's record demonstrates a history of helping to meet the needs of its customers and communities. The Board also reviews the bank's plans regarding the proposed branch

¹⁰ 12 U.S.C. §321; 12 CFR 208.6(b)(3). Where applicable, the Board also considers any timely substantive comments on the proposal and, in its discretion, may consider any untimely substantive comments on the proposal.

and the expected impact of those plans on the communities served by the bank, including on low- and moderate-income (“LMI”) individuals and communities. The Board considers whether the bank is helping to meet the credit needs of the communities it serves and is providing access to banking products and services that meet the needs of customers and communities, including the potential impact of the proposed branch and any related closures, consolidations, and relocations on that access. In addition, the Board reviews the bank’s record under the CRA.¹¹ The Board strongly encourages 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 and their obligations under the CRA.¹²

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, gender, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and public comments received on the proposal.¹³ The Board also may consider the institution’s business model, its intended marketing and outreach, its plans for the proposed branch, 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 PCB; the fair lending and compliance records of the bank; the supervisory views of the Federal Reserve Bank of Dallas (“Reserve Bank”); confidential

¹¹ 12 U.S.C. § 2901 et seq.

¹² See 12 U.S.C. § 2901(b).

¹³ As noted above, where applicable, the Board, in its discretion, may consider any untimely substantive comments on the proposal.

supervisory information; information provided by PCB; and the public comments received on the proposal.

Public Comment on the Proposal

The Board received two adverse comments on the proposal, both from the same commenter. A commenter objected to the proposal, alleging that PCB failed to provide small business and consumer lending services to African American communities in Southern Dallas. Additionally, the commenter alleged that PCB made a smaller percentage of residential mortgage loans to majority African American and Hispanic neighborhoods compared to its peers in the Dallas-Fort Worth (“DFW”) metropolitan statistical area (“MSA”). Further, the commenter alleged that the bank has trailed its peers in lending to businesses with less than \$1 million in revenue and made a significantly lower level of commercial loans in minority areas compared to other areas. The commenter also alleged that PCB does not have any branches located in Southern Dallas, or offer any solutions for unbanked or underbanked residents, in the Dallas-Fort Worth MSA.

Business of the Applicant and Response to Comment

PCB offers traditional consumer and commercial products and services. The majority of its loan portfolio is comprised of residential real estate and commercial loans.

In responding to the commenter, PCB states that the proposed branch is functionally a relocation of PCB’s existing branch and will be only 0.4 miles from the existing branch. Further, PCB notes that of the seven PCB branch locations in Dallas County, five (71%) are located in or adjacent to majority-minority census tracts and three (43%) are located in or immediately adjacent to an LMI census tract, including in Southern Dallas, including a branch located at 2010 North Hampton Road, DeSoto, Texas, which is in a census tract that is both LMI and majority-minority in the area outlined by the commenter as Southern Dallas.

PCB notes that it offers its full range of consumer, commercial, and small business deposit products to the LMI communities it serves and has specific products designed to meet the needs of LMI individuals and small businesses. Specifically, PCB states it received “BankOn” certification for its new BasicAccess deposit account which includes a monthly cost of \$5, no overdraft fees, and no minimum balance requirements. Since launching in April 2022, PCB notes that it has opened 2,448 BasicAccess checking accounts, 71% of which have been to residents of majority-minority neighborhoods and 30% of accounts opened were to residents of LMI census tracts.

PCB also refers to its record of providing home mortgages to LMI individuals. Specifically, PCB notes that it and its subsidiaries actively participate in a variety of mortgage lending programs designed to assist LMI individuals and communities with features including low down payment, closing cost assistance, and discounts on mortgage insurance. PCB also notes that it has partnered with organizations to provide low-income first-time home buyers in the Dallas area with applications and down payment assistance. Further, PCB states that its mortgage lending affiliate has launched a variety of programs to expand access to credit for LMI individuals. Additionally, PCB notes that the same affiliate has given \$470,000 in donations to various community organizations that support equal housing opportunities.

With respect to small business lending, PCB notes that is a preferred lender in the U.S. Small Business Administration loan programs and has provided over \$152 million in financing to qualified small businesses in the DFW MSA. Further, PCB states that it has recently launched a program to launch automated credit decision making and loans for small businesses which targets micro and small businesses.

PCB refers to its CRA compliance record and performance in its most recent CRA performance evaluation as well as the bank’s ongoing community engagement activities. Specifically, PCB notes that it received an overall Satisfactory rating on its most recent CRA performance evaluation, an Outstanding rating under the Investment Test, and a High Satisfactory rating under the Lending Test. PCB states that it was also found to be a leader in making community development loans, originating

over \$113.9 million in qualifying loans in its DFW MSA AA, and was found to have an excellent level of qualified community development investments and grants. Finally, since its previous CRA evaluation, PCB represents that it has made over \$17 million in community developments in specific zip codes noted in the commenter's letter.

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 performance evaluation, as well as other information and supervisory views from the relevant federal financial supervisor, which in this case is the Reserve Bank.¹⁴ 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.¹⁵ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, the Board and the other federal financial supervisors apply a lending test ("Lending Test"), investment test ("Investment Test"), and service test ("Service Test") to evaluate the performance of large insured depository institutions, such as PCB, in helping to meet the credit needs of the communities they serve. 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

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

¹⁵ 12 U.S.C. § 2906.

institution's data reported under the HMDA,¹⁶ in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is evaluated based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's CRA AAs; (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;¹⁷ (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.¹⁸ 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.¹⁹

¹⁶ 12 U.S.C. § 2801 et seq.

¹⁷ Examiners also consider the number and amounts of small business and small farm loans made to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

¹⁸ See 12 CFR 228.22(b).

¹⁹ See 12 CFR 228.21 et seq.

CRA Performance of PCB

PCB was assigned an overall “Satisfactory” rating at its most recent CRA performance evaluation by the Reserve Bank, as of May 17, 2021 (“PCB Evaluation”).²⁰ The bank received a “High Satisfactory” rating for the Lending Test, a rating of “Outstanding” for the Investment Test, and a rating of “Low Satisfactory” for the Service Test.²¹

Examiners determined that PCB’s overall lending levels reflected good responsiveness to the credit needs of the bank’s AAs and that the bank’s geographic distribution of loans reflected good penetration throughout its AAs. Examiners found that a high percentage of PCB’s loans were made within the bank’s AAs. Examiners also found that the bank’s distribution of HMDA reportable loans based on borrower income reflected adequate penetration among customers of different income levels and that the bank’s distribution of small business loans reflected good penetration among businesses different revenue sizes. Examiners noted that the bank was a leader in making community development loans. Examiners also noted that the bank made excellent use of flexible lending products in serving its AAs’ needs.

Examiners found that PCB made an excellent level of community development investments and grants throughout its AAs and was often in a leadership position.

²⁰ The PCB Evaluation was conducted using Interagency Examination Procedures for Large Retail Institutions. In general, examiners reviewed HMDA-reportable loans and small business loans reported by the bank from January 1, 2017, through December 31, 2019. The evaluation period for community development lending, investments, and services was from March 12, 2018, through May 17, 2021.

²¹ The PCB Evaluation included a full-scope review of the following areas: Dallas – Fort Worth Assessment Area (“AA”); Lubbock AA, and Austin AA. Limited-scope reviews were conducted in PCB’s remaining AAs within the following areas: Cameron County, Texas AA; McAllen, Texas AA; Houston, Texas AA; Corpus Christi, Texas AA; Hood County, Texas AA; El Paso, Texas AA; Jim Wells County, Texas AA; Victoria County, Texas AA.

Examiners found that PCB's service delivery systems were reasonably accessible to geographies and individuals of different income levels in the bank's AAs, which have not been adversely affected by the bank's opening and closing of branches. Further, examiners found that PCB's record of opening and closing of branches has generally not affected the accessibility of its delivery systems to LMI geographies or individuals. Examiners noted that PCB provided an adequate level of community development services.

PCB's Efforts Since the PCB Evaluation

PCB represents that since the PCB Evaluation, PCB has funded over \$152 million in eligible community development loans in the DFW MSA. Of that amount, PCB represents that over \$61 million in community development loans were made in Dallas County. PCB also represents that it has made over \$33 million in qualified community development investments in the DFW MSA and partnered with community development organizations to assist residents in Southern Dallas. Additionally, PCB represents that its officers, directors, and employees are involved with numerous community organizations and have contributed over 3,700 volunteer hours to organizations in the DFW MSA, including over 2,100 in Dallas County.

Additional Supervisory Considerations

In addition to the PCB Evaluation, the Board has considered the most recent consumer compliance examination and fair lending record of PCB 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. PCB asserts that the proposed branch would provide greater accessibility to the Denton area. PCB also asserts that the proposed branch will continue to provide customers with access to PCB's current products and services and will be located in LMI census tracts and immediately adjacent

to LMI and majority minority census tracts. Finally, as noted above, PCB represents that the proposed branch is functionally a relocation of PCB's existing branch and will be only 0.4 miles from the existing branch.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA record of PCB, the bank's record of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by PCB, 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 PCB 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,²² effective June 27, 2024.

(Signed) Michele Taylor Fennell

Michele Taylor Fennell
Deputy Associate Secretary of the Board

²² Voting for this action: Chair Powell, Vice Chair Jefferson, Vice Chair for Supervision Barr, Governors Bowman, Waller, Cook, and Kugler.