



Legal Developments: Third Quarter, 2019

Orders Issued Under Bank Holding Company Act

Orders Issued Under Section 3 of the Bank Holding Company Act

Chemical Financial Corporation
Detroit, Michigan

Order Approving the Acquisition of a Bank Holding Company
FRB Order No. 2019-11 (July 16, 2019)

Chemical Financial Corporation (“Chemical”), Detroit, Michigan, a financial holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to acquire TCF Financial Corporation (“TCF”), Wayzata, Minnesota, and thereby indirectly acquire TCF National Bank (“TCF Bank”), Sioux Falls, South Dakota.³ Following the proposed acquisition, Chemical’s subsidiary state member bank, Chemical Bank, Detroit, Michigan, would be merged with and into TCF Bank, with TCF Bank as the surviving entity.⁴

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (84 *Federal Register* 10826 (March 22, 2019)).⁵ 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.

Chemical, with consolidated assets of approximately \$21.5 billion, is the 86th largest depository organization in the United States. Chemical controls approximately \$15.6 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁶ Chemical controls Chemical Bank, which operates in Michigan, Ohio, and Indiana. Chemical Bank is the seventh largest depository institution in Michigan, controlling deposits of approximately \$13.1 billion, which represent 6.0 percent of the total deposits of insured depository institutions in that state.⁷

¹ 12 U.S.C. § 1841 *et seq.*

² 12 U.S.C. § 1842.

³ The resultant institution would be renamed TCF Financial Corporation upon consummation of the transaction.

⁴ The merger of Chemical Bank into TCF Bank is subject to approval by the Office of the Comptroller of the Currency (“OCC”), pursuant to section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”). 12 U.S.C. § 1828(c). The OCC approved the bank merger on June 20, 2019.

⁵ *See also* 12 CFR 262.3(b).

⁶ National asset data and national deposit, ranking, and market-share data are as of December 31, 2018, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

⁷ State deposit data are as of June 30, 2018, unless otherwise noted.

TCF, with consolidated assets of approximately \$23.7 billion, is the 80th largest depository organization in the United States. TCF controls approximately \$19.0 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. TCF controls TCF Bank, which operates in Illinois, Minnesota, Michigan, Colorado, Wisconsin, South Dakota, and Arizona. TCF Bank is the 10th largest depository institution in Michigan, controlling deposits of approximately \$3.2 billion, which represent 1.5 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, Chemical would become the 51st largest insured depository organization in the United States, with consolidated assets of approximately \$45.2 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. Chemical would control approximately \$34.6 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Michigan, Chemical would become the sixth largest insured depository organization, controlling deposits of approximately \$16.3 billion, which represent 7.5 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 is prohibited under state law.⁸ The Board (1) may not approve an application that would permit an out-of-state bank holding company or bank to acquire a bank in a host state if the target bank has not been in existence for the lesser of the state statutory minimum period of time or five years;⁹ (2) must take into account the record of the applicant bank under the Community Reinvestment Act of 1977 (“CRA”)¹⁰ and the applicant’s record of compliance with applicable state community reinvestment laws;¹¹ and (3) may not approve an interstate application 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 States¹² 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.¹³

For purposes of the BHC Act, the home state of Chemical is Michigan. TCF is located in Arizona, Colorado, Illinois, Michigan, Minnesota, South Dakota and Wisconsin. Chemical is well capitalized and well managed under applicable law, and Chemical Bank has a satis-

⁸ 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. A national bank’s home state is the state in which the bank’s main office is located. *See* 12 U.S.C. § 1841(o)(4).

⁹ 12 U.S.C. § 1842(d)(1)(B).

¹⁰ 12 U.S.C. § 2901 *et seq.*

¹¹ 12 U.S.C. § 1842(d)(3).

¹² 12 U.S.C. § 1842(d)(2)(A).

¹³ 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 located in any state in which the bank is chartered, headquartered, or operates a branch. *See* 12 U.S.C. § 1841(o)(4)-(7).

factory CRA rating and is in compliance with applicable state community reinvestment laws. In addition, TCF Bank has been in existence for more than five years.

On consummation of the proposed transaction, Chemical would control less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In addition, Chemical would control approximately \$16.3 billion of the total amount of deposits of insured depository institutions in Michigan, the only state in which Chemical and TCF have overlapping banking operations. Michigan has no limit on the total amount of in-state deposits that a single banking organization may control, and Chemical's percentage of deposits would not exceed 30 percent of the total amount of in-state deposits.¹⁴ 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) of the BHC Act 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.¹⁵ 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.¹⁶

Chemical and TCF have subsidiary banks that compete directly in the Detroit, Michigan, banking market ("Detroit market").¹⁷ The Board has considered the competitive effects of the proposal in this banking market. In particular, the Board has considered the relative share of total deposits in insured depository institutions in the market ("market deposits") that Chemical would control;¹⁸ the concentration level of market deposits and the increase in this level, as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");¹⁹ the number of competitors that would remain in the market; and other characteristics of the market.

¹⁴ Mich. Comp. Laws § 487.11104(8) (2019).

¹⁵ 12 U.S.C. § 1842(c)(1)(A).

¹⁶ 12 U.S.C. § 1842(c)(1)(B).

¹⁷ The Detroit market is defined as Oakland; Macomb; Wayne; Lapeer; Genesee; Washtenaw; St. Clair; Livingston; Lenawee; Shiawassee; Monroe (except Whiteford, Bedford, and Erie townships); and Sanilac (except Greenleaf, Austin, Argyle, Moore, Minden, Wheatland, Delaware, and Forester townships) counties, all in Michigan.

¹⁸ Deposit and market share data are as of June 30, 2018, and 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) and *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).

¹⁹ 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.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Detroit market. On consummation of the proposal, the Detroit market would remain moderately concentrated, as measured by the HHI, according to the DOJ Bank Merger Guidelines. The change in HHI in this banking market would be small, and numerous competitors would remain in this banking market.²⁰

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 concentration of resources in the Detroit market or in any other 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 future prospects of the institutions involved, as well as the effectiveness of the institutions in combatting money laundering.²¹ In its evaluation of the financial factor, 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 the 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.

Chemical, TCF, 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 primarily as a share exchange, with a subsequent merger of the subsidiary depository institutions.²² The asset quality, earnings, and liquidity of both Chemical Bank and TCF Bank are consistent with

²⁰ Chemical operates the ninth largest depository institution in the Detroit market, controlling deposits of approximately \$3.5 billion, which represent approximately 2.4 percent of market deposits. TCF operates the 10th largest depository institution in that market, controlling deposits of approximately \$3.2 billion, which represent approximately 2.2 percent of market deposits. On consummation of the proposal, Chemical would become the seventh largest depository organization in the market, controlling deposits of approximately \$6.7 billion, which represent approximately 4.6 percent of market deposits. The HHI for the Detroit market would increase by 11 points to 1449, and 52 competitors would remain in the market.

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

²² To effect the transaction, each share of TCF common stock would be converted into a right to receive shares of Chemical common stock, based on an exchange ratio. Any fractional shares of Chemical common stock that would result from this conversion would be exchanged for cash. In addition, each share of TCF preferred stock would be converted into the right to receive one share of a newly created series of Chemical preferred stock. Chemical has the financial resources to effect the proposed transaction.

approval, and Chemical appears to have adequate resources to absorb the 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 Chemical, TCF, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Chemical; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws; and information provided by the commenters.

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

The Board also has considered Chemical's plans for implementing the proposal. Chemical and TCF have conducted comprehensive due diligence and are devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. In general, Chemical would implement risk-management policies, procedures, and controls at the combined organization. In addition, management of Chemical and TCF have the experience and resources to operate the combined organization in a safe and sound manner, and Chemical plans to integrate TCF's existing management and personnel in a manner that augments Chemical's management.²³

Based on all of the facts of record, including Chemical'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 future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Chemical and TCF 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.²⁴ 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 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 operations,²⁵ and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit

²³ Following consummation of the holding company merger, the board of directors of the resulting holding company would be composed of 16 directors, with eight directors designated by each of Chemical and TCF. The chairman, president, and chief executive officer of TCF would become the chief executive officer of the surviving holding company and bank.

²⁴ 12 U.S.C. § 1842(c)(2).

²⁵ 12 U.S.C. § 2901(b).

needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods, in evaluating bank expansionary proposals.²⁶

In addition, the Board considers the banks’ overall compliance records 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 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 Chemical Bank and TCF Bank; the fair lending and compliance records of both banks; the supervisory views of the Federal Reserve Bank of Chicago (“Reserve Bank”), the OCC, and the Consumer Financial Protection Bureau (“CFPB”); confidential supervisory information; information provided by Chemical; and the public comments on the proposal.

Public Comments on the Proposal

The Board received several comments in support of, and three adverse comments on, the proposal. In general, the commenters in support of the proposal believed that Chemical and TCF have a demonstrated record of providing valuable services to their communities.

Of the commenters that opposed the proposal, one commenter alleged disparities in Chemical Bank’s home mortgage origination and denial rates in the Detroit–Warren–Dearborn, Michigan Metropolitan Statistical Area (“Detroit MSA”) for minority applicants compared to white applicants, based on data reported under the Home Mortgage Disclosure Act of 1975 (“HMDA”) for 2017.²⁷

Two commenters requested that the application include a forward-looking community benefits plan detailing how Chemical would address CRA-related concerns identified by the commenters.²⁸ One of these commenters expressed concerns about the small business lending record of TCF Bank and access to TCF Bank’s branches in LMI and majority-minority areas in Milwaukee County, Wisconsin (“Milwaukee”).²⁹ This commenter also expressed concerns about the fees charged by TCF Bank, specifically alleging that the fees charged to customers in Milwaukee on checking and savings accounts were high and unjustified. In addition, this commenter expressed concerns that TCF Bank does not originate home loans—which the commenter defines to include home purchase, home repair, and

²⁶ 12 U.S.C. § 2903.

²⁷ 12 U.S.C. § 2901 *et seq.* The commenter also noted an ongoing private securities lawsuit against TCF related to the merger. Shareholder litigation is a matter of general corporate law to be adjudicated by courts of competent jurisdiction. See *Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973).

²⁸ The Board consistently has found that neither the CRA nor the federal banking agencies’ CRA regulations require depository institutions to make pledges or enter into commitments or agreements with any private party. See, e.g., *Fifth Third Bancorp*, FRB Order 2019-05 at 12 n.30 (March 6, 2019); *First Busey Corporation*, FRB Order 2019-01 at 11 n.30 (January 10, 2019); *HarborOne Mutual Bancshares*, FRB Order No. 2018-18 at 10 n.26 (September 12, 2018); *TriCo Bancshares*, FRB Order No. 2018-13 at 9 n.20 (June 6, 2018); *Howard Bancorp, Inc.*, FRB Order No. 2018-05 at 9 n.21 (February 12, 2018); *Huntington Bancshares Inc.*, FRB Order No. 2016-13 at 32 n.50 (July 29, 2016); *CIT Group, Inc.*, FRB Order No. 2015-20 at 24 n.54 (July 19, 2015); *Citigroup Inc.*, 88 *Federal Reserve Bulletin* 485 (2002); *Fifth Third Bancorp*, 80 *Federal Reserve Bulletin* 838, 841 (1994). In its evaluation, the Board reviews the existing CRA performance record of an applicant and the programs that the applicant has in place to serve the credit needs of its CRA assessment areas (“AAs”).

²⁹ This commenter focused on TCF Bank’s activities in Milwaukee, noting that Chemical Bank does not have a presence in Wisconsin.

refinance loans—to minority borrowers in the same proportions as they are represented in Milwaukee’s population.³⁰

Another commenter criticized both banks’ records of lending to small businesses in several AAs and alleged that the combined bank would have a low number of branches in majority-minority areas. This commenter expressed concerns about Chemical Bank’s record of home purchase lending in the Detroit–Dearborn–Livonia, Michigan Metropolitan Division (“Detroit MD”) and the Cleveland–Elyria, Ohio MSA (“Cleveland MSA”), based on HMDA data reported for the years 2015 through 2017. The commenter also raised concerns about TCF Bank’s record of community development loans and investments.

Businesses of the Involved Institutions and Response to the Public Comments

Chemical Bank operates through a network of branches located primarily in Michigan, Northeast Ohio, and Northern Indiana and offers commercial, retail, and fiduciary banking services, as well as insurance, investment, and wealth management services. These products and services include a wide range of deposit products, such as checking and savings accounts, commercial and consumer loans, and commercial and residential real estate lending.

TCF Bank provides commercial and retail banking services on a nationwide basis, including checking and savings accounts; credit and debit cards; check cashing and remittance services; and residential mortgage, consumer, and small business lending. Additionally, TCF Bank provides wholesale banking and enterprise services, such as commercial banking, leasing, and financing, and corporate treasury functions.

In response to the commenter’s allegations that Chemical Bank disproportionately denied home purchase loans to African American applicants as compared to white applicants in the Detroit MSA, Chemical represents that the data from that MSA demonstrate that Chemical Bank approved and originated conventional home purchase loan applications at similar rates regardless of an applicant’s race. Chemical also represents that Chemical Bank’s denial rates for applicants were similar to, or less than, peer institutions in the city of Detroit and the Detroit MSA, including in majority-minority tracts in those areas.

In response to allegations about the home purchase lending record of Chemical Bank, Chemical notes that during the bank’s most recent CRA performance examination, examiners determined that Chemical Bank had an adequate distribution of HMDA-reportable loans based on the bank’s lending in LMI census tracts and that Chemical Bank’s HMDA-reportable home purchase lending performance exceeded that of aggregate lenders in a number of respects in areas referenced by the commenter. In addition, Chemical represents that Chemical Bank monitors lending by racial composition of the census tracts in high minority areas of the bank’s AAs to identify lending patterns and create fair lending initiatives, as needed, and ensure the bank remains focused on increasing lending to minority borrowers and in minority tracts through increased CRA activities, branch distribution, and a designated Fair Lending Marketing Plan. Chemical also represents that the combined organization intends to merge the fair lending program of TCF Bank and Chemical Bank and adopt the best practices from each bank’s processes, policies, and procedures.

³⁰ The commenter also encouraged Chemical to collaborate with local community organizations in Milwaukee to improve banking services. This commenter provided a list of suggestions to increase lending activity to LMI individuals and neighborhoods and minority individuals and neighborhoods in Milwaukee.

In response to commenters' allegations about Chemical Bank's and TCF Bank's small business lending records, Chemical notes that the banks' most recent CRA performance evaluations found that Chemical Bank exhibited a good record of serving the credit needs of very small businesses and TCF Bank exhibited a good distribution of small business loans. In addition, Chemical states that TCF Bank's geographic distribution of small business loans was found to be excellent in the state of Wisconsin, which includes Milwaukee, an area of concern for a commenter, and Chemical highlights additional small business lending since the bank's most recent CRA performance evaluation. Chemical also states that it is committed to small business lending, and it expects that the combined organization's small business lending performance will reflect the strong record of both banks. Additionally, Chemical cites community service, outreach events, and minority-specific advertisement campaigns as evidence of efforts to increase minority lending.

In response to a commenter's allegations about TCF Bank's level of community development lending and investment, Chemical notes that TCF Bank received an overall "High Satisfactory" CRA rating for the Investment Test in the bank's most recent CRA performance evaluation and cites to examiners' conclusions about TCF Bank's community development lending activities. Chemical represents that TCF Bank has invested in a number of local community partnerships and maintains an active dialogue with community organizations, using input they provide to enhance the bank's CRA program and products and services targeted to the needs of LMI individuals and geographies.

In response to a commenter's allegations about TCF Bank's fees, Chemical represents that it does not expect any material discontinuations in products or services or material increases in customer fees resulting from the proposed transaction. Chemical notes that TCF Bank resolves customer concerns in ways that meet customers' needs and states that the combined organization would implement an integrated complaint management system. With respect to branching concerns, Chemical asserts that each bank routinely evaluates the CRA and fair lending impacts of their branch networks, and that the combined bank would continue this practice.

Records of Performance under the CRA

In evaluating the CRA performance of the involved institutions, the Board generally considers each institution's most recent CRA evaluation, as well as other information and supervisory views from the relevant federal financial supervisors, which in this case are the Reserve Bank for Chemical Bank and the OCC for TCF Bank.³¹ 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.³² 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"), investment test ("Investment Test"), and service test ("Service Test") to evaluate the performance of large insured depository institutions, such as Chemical Bank and TCF Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates

³¹ See Interagency Questions and Answers Regarding Community Reinvestment, 81 *Federal Register* 48506, 48548 (July 25, 2016).

³² 12 U.S.C. § 2906.

the institution's home mortgage, small business, small farm, and community development 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 CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. An 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 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;³³ (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. 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.³⁴

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.³⁵ Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of the institution.

CRA Performance of Chemical Bank

Chemical Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the Reserve Bank, as of September 18, 2017 ("Chemical Bank Evaluation").³⁶ The bank received "High Satisfactory" ratings for the Lending Test and the Investment Test and a "Low Satisfactory" rating for the Service Test.³⁷

³³ 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).

³⁴ 12 CFR 228.21 *et seq.*

³⁵ 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.

³⁶ The Chemical Bank Evaluation was conducted using Large Bank CRA Examination Procedures. For AAs that were unchanged from the prior evaluation, examiners reviewed home mortgage lending activity under HMDA and small business loans originated from 2015 through 2016. The evaluation period for community development loans, investments, and services was October 27, 2015, through September 18, 2017, for AAs that were unchanged from the prior evaluation. Examiners evaluated new AAs associated with the acquisition of Talmer Bancorp., Inc., for 2016 for CRA and HMDA-reportable data. For the new AAs, the evaluation period for community development activities was January 1, 2016, through September 18, 2017.

³⁷ The Chemical Bank Evaluation included full-scope evaluations of the South Bend-Mishawaka, Indiana-Michigan Multi-State MSA; the Elkhart-Goshen, Indiana MSA; the Ann Arbor, Michigan MSA; the Battle Creek, Michigan MSA; the Detroit MD; the Flint, Michigan MSA; the Grand Rapids-Wyoming, Michigan MSA; the Midland, Michigan MSA; the South Bend-Mishawaka, Indiana-Michigan MSA; the Warren-Troy-

Examiners found that Chemical Bank originated a substantial majority of its loans inside its AAs and that the bank's overall lending activity reflected good responsiveness to the credit needs of its communities. In addition, examiners found the bank's distribution of product lines by income level of the borrower to be adequate and the bank's distribution of loans to businesses with different revenue sizes to be excellent. Examiners noted that the bank had a good record of serving the credit needs of very small businesses and low-income individuals and areas. In addition, examiners noted that the bank uses innovative and flexible lending practices in serving the credit needs of its AAs.

In Michigan, Chemical Bank's performance under the Lending Test was rated "High Satisfactory." In the Detroit MD, an area of concern for a commenter, examiners found excellent loan penetration and adequate penetration among borrowers of different income levels.³⁸ In addition, examiners noted Chemical Bank's high level of community development loans and good record of serving the credit needs of very small businesses and of low-income individuals and areas in the Detroit MD. Moreover, examiners found that Chemical Bank outperformed peer institutions in making home purchase loans in LMI census tracts in the Detroit MD.

In Ohio, Chemical Bank's performance under the Lending Test was rated "High Satisfactory." In the Cleveland MSA, an area of concern to a commenter, examiners found that the bank's rate of lending exceeded aggregate lenders in penetration of LMI census tracts with respect to home purchase loans in 2016.

Examiners found that Chemical Bank made a significant level of qualified community development investments and grants and exhibited excellent responsiveness to credit and community development needs in its AAs. In addition, examiners noted that the bank's recent use of federal tax credits for affordable housing initiatives was innovative.

Examiners found that the bank's retail delivery systems were reasonably accessible to all geographies and individuals of different income levels. Examiners also found that the bank's services did not vary in a way that inconvenienced geographies or individuals, particularly LMI geographies and individuals. In addition, examiners noted that the bank provided a high level of community development services throughout its AAs.

Chemical's Efforts since the Chemical Bank Evaluation

Chemical states that, since the Chemical Bank Evaluation, Chemical Bank has continued to originate a substantial number of mortgage and consumer loans to LMI borrowers and has made significant community investments. Chemical represents that the bank has originated a significant number of small business and farm loans, including in LMI census tracts across the bank's AAs. Chemical also represents that Chemical Bank has originated a significant number of community development loans.

In the Detroit MD, an area of concern for commenters, Chemical asserts that Chemical Bank has originated a significant number of mortgage loans to LMI individuals and families and within LMI neighborhoods since the Chemical Bank Evaluation. Chemical represents that it has originated small business loans to small businesses and within LMI communities in the Detroit MD. In addition, Chemical states that Chemical Bank joined a

Farmington Hills, Michigan MSA; the North Michigan, Non-MSA; the Cleveland MSA; and the Youngstown–Warren–Boardman Ohio–Pennsylvania MSA. Limited-scope evaluations were conducted in the bank's remaining AAs.

³⁸ At the time of the Chemical Bank Evaluation, the Detroit MD was a new AA for Chemical Bank, with the bank having entered that market in 2016 with its acquisition of Talmer Bancorp, Inc. See *supra* note 36.

home mortgage program dedicated to helping homebuyers purchase and rehabilitate homes in the City of Detroit.

In the Cleveland MSA, Chemical contends that Chemical Bank has originated a significant amount and number of small business loans to small businesses and within LMI communities since the Chemical Bank Evaluation. In addition, Chemical represents that Chemical Bank has made additional mortgage loans to LMI individuals and invested in and lent to various community development initiatives in the Cleveland MSA.

CRA Performance of TCF Bank

TCF Bank was assigned an overall “Outstanding” rating at its most recent CRA performance evaluation by the OCC, as of December 31, 2016 (“TCF Bank Evaluation”).³⁹ The bank received an “Outstanding” rating for the Lending Test and “High Satisfactory” ratings for the Investment Test and Service Test.⁴⁰

Examiners found that the bank’s overall lending activity was good and that the bank’s community development lending activities reflected good responsiveness to the credit needs of the bank’s AAs. Examiners noted that the bank’s loan program reflected excellent geographic and borrower income distribution and found that the bank made use of innovative and flexible lending initiatives, including hardship modifications, in serving credit needs. Examiners also found that, overall, the bank’s community development lending had a positive impact on the bank’s performance on the Lending Test, and that these activities were responsive to the credit needs of the bank’s AAs.

In Wisconsin, TCF Bank’s overall lending performance was rated “Outstanding,” and its overall lending performance in the Milwaukee AA, an area of concern for a commenter, was found to be excellent, with excellent geographic and borrower income distributions for home mortgage loans. However, examiners found that the bank’s volume of loans to small businesses was poor compared to peer institutions.

Examiners found that TCF Bank had an overall good level of qualified investments and that the investments were responsive to community needs. In addition, examiners found that the bank’s branches were accessible to essentially all portions of the bank’s AAs and that there were no significant differences between branch hours, which overall were found to be good. Examiners noted that TCF Bank provided adequate levels of community development services and that the bank offered a variety of services targeted to unbanked and underbanked customers throughout its AAs.

³⁹ The TCF Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed data for the Lending Test from January 1, 2012, through December 31, 2016 (except the Champaign–Urbana MSA, where examiners reviewed data from January 1, 2012, through December 31, 2015). For the Investment and Service Tests and community development loans, examiners reviewed data from January 1, 2012, through August 6, 2017 (except the Champaign–Urbana MSA, where examiners reviewed data from January 1, 2012, through December 31, 2015). For the Chicago–Naperville–Elgin Illinois–Indiana–Wisconsin Multistate Metropolitan Area (“Chicago AA”) and Minneapolis–St. Paul–Bloomington, Minnesota MSA (“Minneapolis AA”), examiners conducted separate analyses of 2015 and 2016 data due to changes resulting from the 2014 Office of Management and Budget geographic boundary revisions.

As part of the TCF Bank Evaluation, examiners cited evidence of two violations of the Servicemember Civil Relief Act (“SCRA”) but indicated that TCF Bank had appropriately remedied the situation and improved its SCRA policies, procedures, and controls. Accordingly, examiners did not lower the CRA performance of TCF Bank as a result of this finding.

⁴⁰ The TCF Bank Evaluation included full-scope evaluations of the Chicago AA; the Minneapolis AA; the St. Cloud, Minnesota MSA; the Detroit MSA; the Colorado Springs, Colorado MSA; the Denver–Aurora–Lakewood, Colorado MSA; the Milwaukee–Waukesha–West Allis, Wisconsin MSA (“Milwaukee AA”); the Phoenix–Mesa–Scottsdale, Arizona MSA; the Sioux Falls, South Dakota MSA; and the Champaign–Urbana, Illinois MSA. Limited-scope evaluations were performed in the bank’s remaining AAs.

TCF's Efforts since the TCF Bank Evaluation

Chemical states that, since the TCF Bank Evaluation, TCF Bank has augmented its community development initiatives by centralizing community development activities and appointing new management. The bank has established and met enhanced community development lending goals and increased philanthropic grants and investments throughout its AAs. Chemical also represents that TCF Bank has continued to participate in and operate various financial literacy initiatives and has increased its small business lending efforts, including in areas of interest to the commenters.

Additional Supervisory Views

In its review of the proposal, the Board reviewed the consumer compliance and fair lending records of Chemical Bank and consulted with the OCC regarding the CRA, consumer compliance, and fair lending records of TCF Bank. The OCC reviewed and approved the Bank Merger Act application related to the proposal and, in doing so, considered timely adverse comments that were submitted to the Board on the BHC Act application. The Board has considered the results of the most recent consumer compliance examinations of Chemical Bank and TCF Bank, which included a review of the banks' compliance management programs and compliance with consumer protection laws and regulations, and considered Chemical Bank's supervisory record with the CFPB.

The Board has taken the foregoing consultations and examinations into account in evaluating the proposal, including in considering whether Chemical has the experience and resources to ensure that TCF Bank would help meet the credit needs of the communities to be served following consummation of 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. Chemical represents that, following the proposed transaction, the combined bank would retain the full range of products and services currently offered by Chemical Bank and TCF Bank. Chemical notes that customers of TCF Bank would gain access to enhanced products and services, including, among others, Chemical Bank's tax credit lending services and small business and agricultural lending programs. In addition, Chemical represents that customers of Chemical Bank would benefit by receiving access to, among other products and services, TCF Bank's nationwide home equity lines of credit and commercial finance lending, retail banking, and credit card agency services. Chemical represents that customers of both banks would benefit from a larger branch and ATM network and greater capital resources.

Chemical represents that the combined bank would continue to utilize the current products, programs, and procedures of TCF Bank, in addition to those adopted from Chemical Bank, to meet the bank's obligations under the CRA. Chemical further represents that it would work with existing partners of Chemical Bank and TCF Bank, including community groups, to achieve the combined bank's CRA and fair lending goals.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA records of the relevant depository institutions; the institutions' records of compliance with fair lending and other consumer protection laws; supervisory views of the Reserve Bank, OCC, and CFPB; confidential supervisory information; information provided by Chemical; 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.”⁴¹

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.⁴² These categories are not exhaustive, and additional categories could inform the Board’s decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.⁴³

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.⁴⁴

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 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.⁴⁵ 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.

⁴¹ 12 U.S.C. § 1842(c)(7).

⁴² Many of the metrics considered by the Board measure an institution’s activities relative to the United States financial system.

⁴³ For further discussion of the financial stability standard, see *Capital One Financial Corporation*, FRB Order 2012-2 (February 14, 2012).

⁴⁴ 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.

⁴⁵ Chemical and TCF both offer a range of retail and commercial banking products and services. Chemical 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 proposal should be, and hereby is, approved.⁴⁶ 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 Chemical with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on any commitments made to the Board in connection with the proposal. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the 15th calendar day after the effective date of this order or later than three months thereafter, unless such period is extended for good cause by the Board or the Reserve Bank, acting under delegated authority.

By order of the Board of Governors, effective July 16, 2019.

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

Margaret McCloskey Shanks
Deputy Secretary of the Board

⁴⁶ A commenter requested that the Board hold a public hearing on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on any proposal unless the appropriate supervisory authorities for the acquiring bank or the bank to be acquired make a timely written recommendation of disapproval of the proposal. 12 U.S.C. § 1842(b); 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities in connection with this application. Under its rules, the Board also, in its discretion, may hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present their views. The Board has considered the commenter's request in light of all of the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted a written comment that the Board has considered in acting on the proposal. The commenter's request does not identify disputed issues of fact that are material to the Board's decision and that would be clarified by a public hearing. In addition, the request does not demonstrate why 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.

Hancock Whitney Corporation Gulfport, Mississippi

Order Approving the Acquisition of a Bank Holding Company FRB Order No. 2019-12 (September 5, 2019)

Hancock Whitney Corporation (“Hancock Whitney”), Gulfport, Mississippi, a bank holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to merge with MidSouth Bancorp, Inc. (“MidSouth”) and thereby indirectly acquire MidSouth’s national bank subsidiary, MidSouth Bank, National Association (“MidSouth Bank”), both of Lafayette, Louisiana. Following the proposed acquisition, MidSouth Bank would be merged into Hancock Whitney’s state nonmember bank subsidiary, Hancock Whitney Bank, Gulfport, Mississippi.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (84 *Federal Register* 27,117 (June 11, 2019)).⁴ The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Hancock Whitney, with consolidated assets of approximately \$28.8 billion, is the 69th largest insured depository organization in the United States. Hancock Whitney controls approximately \$23.4 billion in consolidated deposits, which represent approximately 0.2 percent of the total amount of deposits of insured depository institutions in the United States.⁵ Hancock Whitney controls Hancock Whitney Bank, which operates in Alabama, Florida, Louisiana, Mississippi, and Texas. Hancock Whitney is the 3rd largest insured depository organization in Louisiana, controlling deposits of approximately \$13.0 billion, which represent 12.5 percent of the total deposits of insured depository institutions in that state. Hancock Whitney is the 93rd largest insured depository organization in Texas, controlling deposits of \$697.9 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.⁶

MidSouth, with consolidated assets of approximately \$1.7 billion, is the 471st largest insured depository organization in the United States. MidSouth controls approximately \$1.5 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. MidSouth controls MidSouth Bank, which operates in Louisiana and Texas. MidSouth is the 13th largest insured depository organization in Louisiana, controlling deposits of approximately \$1.3 billion, which represent 1.3 percent of the total deposits of insured depository institutions in that state. MidSouth is the 212th largest insured depository organization in Texas, controlling deposits of approximately \$240.4 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

¹ 12 U.S.C. § 1841 *et seq.*

² 12 U.S.C. § 1842.

³ The merger of MidSouth Bank into Hancock Whitney Bank is subject to approval by the Federal Deposit Insurance Corporation (“FDIC”), pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c).

⁴ 12 CFR 262.3(b).

⁵ National asset data are as of June 30, 2019, and national deposit, ranking, and market-share data are as of March 31, 2019, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

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

On consummation of the proposal, Hancock Whitney would become the 68th largest insured depository organization in the United States, with consolidated assets of approximately \$30.4 billion, which represent less than 1 percent of the total assets of insured depository organizations in the United States. Hancock Whitney would control total consolidated deposits of approximately \$24.9 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Louisiana, Hancock Whitney would remain the 3rd largest insured depository organization, controlling deposits of approximately \$14.3 billion, which represent 13.8 percent of the total deposits of insured depository institutions in the state. In Texas, Hancock Whitney would become the 76th largest insured depository organization, controlling deposits of approximately \$938.4 million, which represent less than 1 percent of total deposits of insured depository institutions in the 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.⁷ 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;⁸ (2) must take into account the record of the applicant under the Community Reinvestment Act of 1977 (“CRA”)⁹ and the applicant’s record of compliance with applicable state community reinvestment laws;¹⁰ 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 States¹¹ 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.¹²

For purposes of the BHC Act, the home state of Hancock Whitney is Mississippi, and MidSouth Bank is located in Louisiana and Texas. Hancock Whitney is well capitalized and well managed under applicable law. MidSouth Bank has been in existence for more than five years, and Hancock Whitney Bank has a “Satisfactory” rating under the CRA.

On consummation of the proposed transaction, Hancock Whitney would control less than 1 percent of the total amount of consolidated deposits in insured depository institutions in the United States. Louisiana does not impose a limit on the total amount of in-state deposits that a single banking organization may control, and Hancock Whitney’s percentage of deposits would not exceed 30 percent of the total amount of

⁷ 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)(C).

⁸ 12 U.S.C. § 1842(d)(1)(B).

⁹ 12 U.S.C. § 2901 *et seq.*

¹⁰ 12 U.S.C. § 1842(d)(3).

¹¹ 12 U.S.C. § 1842(d)(2)(A).

¹² 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 the states in which the bank is chartered or headquartered or operates a branch. *See* 12 U.S.C. § 1841(o)(4)-(7).

in-state deposits. Texas imposes a 20 percent limit on the total amount of in-state deposits that a single banking organization may control.¹³ In Texas, the combined organization would control less than 20 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.¹⁴ The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the communities to be served.¹⁵

Hancock Whitney Bank and MidSouth Bank compete directly in the Baton Rouge Area, Louisiana, banking market (“Baton Rouge market”); the Houma/Thibodaux Area, Louisiana, banking market (“Houma/Thibodaux market”); the Lafayette Area, Louisiana, banking market (“Lafayette market”); the Lake Charles Area, Louisiana, banking market (“Lake Charles market”); the Morgan City Area, Louisiana, banking market (“Morgan City market”); the Beaumont-Port Arthur, Texas, banking market (“Beaumont-Port Arthur market”); and the Houston, Texas, banking market (“Houston market”).¹⁶ 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 in insured depository institutions in each market (“market deposits”) that Hancock Whitney would control;¹⁷ the concentration level of market deposits and the increase in this level, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);¹⁸ the number of competitors that would remain in each market; and other characteristics of each market.

¹³ Tex. Fin. Code Ann. § 203.004(a).

¹⁴ 12 U.S.C. § 1842(c)(1)(A).

¹⁵ 12 U.S.C. § 1842(c)(1)(B).

¹⁶ The Baton Rouge market is defined as Ascension, Assumption (northern half), East Baton Rouge, Iberville, Livingston, Saint James, and West Baton Rouge parishes. The Houma/Thibodaux market is defined as Lafourche and Terrebonne parishes. The Lafayette market is defined as Acadia, Iberia, Lafayette, Saint Landry, Saint Martin, and Vermilion parishes. The Lake Charles market is defined as Beauregard, Calcasieu, and Cameron parishes. The Morgan City market is defined as Assumption (southern half) and Saint Mary parishes. The Beaumont-Port Arthur market is defined as Hardin, Jefferson, and Orange counties. The Houston market is defined as Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller counties.

¹⁷ Local deposit and market share data are as of June 30, 2018, and 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); and *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).

¹⁸ 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.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Baton Rouge market, the Houma/Thibodaux market, the Lafayette market, the Lake Charles market, the Morgan City market, the Beaumont-Port Arthur market, and the Houston market. On consummation of the proposal, the Baton Rouge market would remain highly concentrated as measured by the HHI, according to the DOJ Bank Merger Guidelines; however, the change in HHI would be small and numerous competitors would remain in the market.¹⁹ Similarly, the Houston market²⁰ and the Morgan City market²¹ would remain highly concentrated as measured by the HHI, according to the DOJ Bank Merger Guidelines, and several competitors would remain in the market. There would be no change in the HHI in the Houston market, and the change in the HHI in the Morgan City market would be less than 200 points. The Houma/Thibodaux, Lafayette, Lake Charles, and Beaumont-Port Arthur markets would remain moderately concentrated as measured by the HHI, according to the DOJ Bank Merger Guidelines. The change in the HHI in the Houma/Thibodaux market would be small, and numerous competitors would remain in the market.²² The change in the HHI in the Lafayette market would be less than 100 points, and 37 competitors would remain in the market.²³ The change in the HHI in the Lake Charles market would be less than 50 points, and 17 competitors would remain in the market.²⁴ The HHI in the

¹⁹ Hancock Whitney operates the 3rd largest depository institution in the Baton Rouge market, controlling approximately \$2.7 billion in deposits, which represent 14.0 percent of market deposits. MidSouth operates the 18th largest depository institution in the same market, controlling deposits of approximately \$71.6 million, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, Hancock Whitney would remain the 3rd largest depository organization in the market, controlling deposits of approximately \$2.8 billion, which represent approximately 14.4 percent of market deposits. The HHI for the Baton Rouge market would increase by 10 points to 1968, and 33 competitors would remain in the market.

²⁰ Hancock Whitney operates the 26th largest depository institution in the Houston market, controlling approximately \$697.9 million in deposits, which represent less than 1 percent of market deposits. MidSouth operates the 77th largest depository institution in the same market, controlling deposits of approximately \$36.7 million, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, Hancock Whitney would remain the 26th largest depository organization in the market, controlling deposits of approximately \$734.7 million, which represent less than 1 percent of market deposits. The HHI for the Houston market would remain unchanged at 2148 points, and 90 competitors would remain in the market.

²¹ Hancock Whitney operates the largest depository institution in the Morgan City market, controlling approximately \$278.9 million in deposits, which represent 27.8 percent of market deposits. MidSouth operates the 8th largest depository institution in the same market, controlling deposits of approximately \$34.7 million, which represent approximately 3.5 percent of market deposits. On consummation of the proposed transaction, Hancock Whitney would remain the largest depository organization in the market, controlling deposits of approximately \$313.7 million, which represent approximately 31.3 percent of market deposits. The HHI for the Morgan City market would increase by 192 points to 2011 points, and seven competitors would remain in the market.

²² Hancock Whitney operates the 3rd largest depository institution in the Houma/Thibodaux market, controlling approximately \$517.4 million in deposits, which represent 11.9 percent of market deposits. MidSouth operates the 14th largest depository institution in the same market, controlling deposits of approximately \$16.5 million, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, Hancock Whitney would remain the 3rd largest depository organization in the market, controlling deposits of approximately \$533.8 million, which represent approximately 12.2 percent of market deposits. The HHI for the Houma/Thibodaux market would increase slightly by 9 points to 1258 points, and 14 competitors would remain in the market.

²³ Hancock Whitney operates the 5th largest depository institution in the Lafayette market, controlling approximately \$795.5 million in deposits, which represent 6.2 percent of market deposits. MidSouth operates the 4th largest depository institution in the same market, controlling deposits of approximately \$815.2 million, which represent approximately 6.4 percent of market deposits. On consummation of the proposed transaction, Hancock Whitney would become the 3rd largest depository organization in the market, controlling deposits of approximately \$1.6 billion, which represent approximately 12.6 percent of market deposits. The HHI for the Lafayette market would increase slightly by 79 points to 1136 points.

²⁴ Hancock Whitney operates the 4th largest depository institution in the Lake Charles market, controlling approximately \$459.6 million in deposits, which represent 11.6 percent of market deposits. MidSouth operates the 10th largest depository institution in the same market, controlling deposits of approximately \$79.0 million, which represent approximately 2.0 percent of market deposits. On consummation of the proposed transaction, Hancock Whitney would remain the 4th largest depository organization in the market, controlling deposits of approximately \$538.6 million, which represent approximately 13.6 percent of market deposits. The HHI for the Lake Charles market would increase slightly by 47 points to 1344 points.

Beaumont-Port Arthur market would remain unchanged, and 18 competitors would remain in the market.²⁵

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 determines that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the Baton Rouge, Houma/Thibodaux, Lafayette, Lake Charles, Morgan City, Beaumont-Port Arthur, and Houston markets or in any other 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, as well as the effectiveness of the institutions in combatting money laundering.²⁶ 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.

Hancock Whitney, MidSouth, 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 primarily as a stock exchange, with a subsequent merger of the subsidiary depository institutions.²⁷ The asset quality, earnings, and liquidity of Hancock Whitney are consistent with approval, and Hancock Whitney 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.

²⁵ Hancock Whitney is not currently reporting deposits in the Beaumont-Port Arthur market. The company maintains one branch in the market, but it does not appear to have a traditional retail storefront presence. MidSouth operates the 10th largest depository institution in this market, controlling approximately \$92.3 million in deposits, which represent 1.8 percent of market deposits. On consummation of the proposal, Hancock Whitney would become the 10th largest depository institution in the market, controlling \$92.3 million in deposits, which represent 1.8 percent of market deposits.

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

²⁷ To effect the transaction, each share of MidSouth common stock would be converted into a right to receive shares of Hancock Whitney common stock, based on an exchange ratio.

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 Hancock Whitney, MidSouth, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Hancock Whitney; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws; and information provided by the commenters.

Hancock Whitney and its subsidiary depository institution are considered to be well managed. Hancock Whitney has a record of successfully integrating organizations into its operations and risk-management systems after acquisitions. Hancock Whitney's directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and Hancock Whitney's risk-management program appears consistent with approval of this expansionary proposal.

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

Based on all of the facts of record, including Hancock Whitney'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 record of effectiveness of Hancock Whitney 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.²⁸ 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 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,²⁹ 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 expansionary proposals.³⁰

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide appli-

²⁸ 12 U.S.C. § 1842(c)(2).

²⁹ 12 U.S.C. § 2901(b).

³⁰ 12 U.S.C. § 2903.

cants 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 public comments on the proposal. The Board also may consider the 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 Hancock Whitney Bank and MidSouth Bank; the fair lending and compliance records of both banks; the supervisory views of the FDIC, the Office of the Comptroller of the Currency ("OCC"), and the Consumer Financial Protection Bureau ("CFPB"); confidential supervisory information; information provided by Hancock Whitney; and the public comments received on the proposal.

Public Comments on the Proposal

The Board received two public comments on the proposal. One commenter objected to the proposal on the basis of alleged disparities in the number of home mortgage loans made by Hancock Whitney Bank to, and in the rate of denials for home mortgage applications from, African Americans and Hispanics as compared to whites in New Orleans, based on 2017 data that Hancock Whitney reported under the Home Mortgage Disclosure Act of 1975 ("HMDA").³¹ Another commenter expressed concerns with Hancock Whitney's home mortgage lending in New Orleans, East Baton Rouge, Gulfport, and Houston. The commenter also expressed concerns with Hancock Whitney's small business lending in Houston. This commenter further suggested that approval of Hancock Whitney's application should be conditioned upon an expanded action plan, or a community benefits agreement, that would address shortcomings in Hancock Whitney Bank's CRA performance.³²

Businesses of the Involved Institutions and Response to the Public Comments

Through its network of branches in Alabama, Florida, Louisiana, Mississippi, and Texas, Hancock Whitney Bank offers a variety of products and services, including traditional and online banking, commercial and small business banking, energy banking, private banking, trust and investment services, certain insurance services, mortgage services, and consumer financing. MidSouth Bank, through its branches in Louisiana and Texas, focuses primarily on commercial and consumer loans and deposit services to small- and middle-market businesses.

In response to the public comments, Hancock Whitney asserts that approval of the proposed transaction is warranted based on Hancock Whitney Bank's CRA performance. Hancock Whitney notes that the bank received an overall "Satisfactory" rating on its most recent CRA performance evaluation and satisfactory ratings in each state with cities

³¹ 12 U.S.C. § 2801 *et seq.*

³² The Board consistently has found that neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into commitments or agreements with any private party. *See, e.g., Fifth Third Bancorp*, FRB Order 2019-05 at 12 n.30 (March 6, 2019); *First Busey Corporation*, FRB Order 2019-01 at 11 n.30 (January 10, 2019); *HarborOne Mutual Bancshares*, FRB Order No. 2018-18 at 10 n.26 (September 12, 2018); *TriCo Bancshares*, FRB Order No. 2018-13 at 9 n.20 (June 6, 2018); *Howard Bancorp, Inc.*, FRB Order No. 2018-05 at 9 n.21 (February 12, 2018); *Huntington Bancshares Inc.*, FRB Order No. 2016-13 at 32 n.50 (July 29, 2016); *CIT Group, Inc.*, FRB Order No. 2015-20 at 24 n.54 (July 19, 2015); *Citigroup Inc.*, 88 *Federal Reserve Bulletin* 485 (2002); *Fifth Third Bancorp*, 80 *Federal Reserve Bulletin* 838, 841 (1994). In its evaluation, the Board reviews the existing CRA performance record of an applicant and the programs that the applicant has in place to serve the credit needs of its CRA assessment areas ("AAs").

on which the commenters focused. Hancock Whitney also emphasizes that, according to the most recent CRA performance evaluation, examiners did not identify any evidence of discriminatory or other illegal credit practices that were, as a whole, inconsistent with helping to meet community credit needs. Moreover, Hancock Whitney represents that Hancock Whitney Bank has formed a community advisory council with representatives from housing and small business non-profit organizations to provide input and feedback on community needs.

Records of Performance under the CRA

In evaluating the CRA performance of the involved institutions, the Board generally considers each institution's most recent CRA evaluation, as well as other information and the supervisory views of relevant federal supervisors, which in this case are the FDIC with respect to Hancock Whitney Bank and the OCC with respect to MidSouth Bank.³³ 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.³⁴ 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"), investment test ("Investment Test"), and service test ("Service Test") to evaluate the performance of large insured depository institutions, such as Hancock Whitney Bank and MidSouth Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an institution's lending to determine whether the institution is 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 HMDA, in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's CRA AAs; (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;³⁵ (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.³⁶ The Investment Test evaluates the number and amounts of qualified investments that benefit the institution's AAs,

³³ See Interagency Questions and Answers Regarding Community Reinvestment, 81 *Federal Register* 48,506, 48,548 (July 25, 2016).

³⁴ 12 U.S.C. § 2906.

³⁵ 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).

³⁶ See 12 CFR 228.22(b).

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.³⁷

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.³⁸ Consequently, the Board evaluates such data disparities in the context of other information regarding the lending record of an institution.

CRA Performance of Hancock Whitney Bank

Hancock Whitney Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of October 22, 2018 ("Hancock Whitney Bank Evaluation").³⁹ The bank received "High Satisfactory" ratings on the Lending Test and the Service Test and an "Outstanding" rating on the Investment Test.⁴⁰

Examiners found that Hancock Whitney Bank exhibited excellent lending activity and made a substantial majority of its loans within its AAs. Examiners determined that the bank's borrower profile revealed good penetration among retail customers of different income levels and businesses of different revenue sizes. In addition, examiners found that the geographic distribution of the bank's loans reflected adequate penetration throughout the bank's AAs. Examiners also found that the bank established a relatively high level of community development loans, although made limited use of innovative or flexible lending practices.

Examiners determined that Hancock Whitney Bank exhibited excellent investment activity. In particular, examiners found that the bank's community development activities showed excellent responsiveness and that the bank partnered with organizations to set up business information and technology training centers that improve financial literacy for LMI individuals and small business owners. Examiners also noted that the bank made occasional use of complex qualified investments but did not use innovative qualified investments.

Examiners found that Hancock Whitney Bank exhibited an adequate record of providing retail banking services. Examiners noted that the bank's branch distribution provided reasonable accessibility to essentially all portions of the bank's AAs, including to LMI individuals. Examiners made the same finding with respect to the bank's alternative delivery systems, noting that the bank provided reasonably accessible ATMs and alternative delivery systems to LMI individuals.

Hancock Whitney Bank's overall "Satisfactory" rating is consistent with the ratings of the bank's CRA performance in New Orleans, East Baton Rouge, Gulfport, and Houston,

³⁷ See 12 CFR 228.21 *et seq.*

³⁸ 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.

³⁹ The Hancock Whitney Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed home mortgage loans from January 1, 2016, to December 31, 2017. They reviewed small business loans and small farm loans from January 1, 2016, to June 30, 2018. In addition, examiners considered the community development loans originated by Hancock Whitney Bank between September 21, 2015, and October 22, 2018.

⁴⁰ The Hancock Whitney Bank Evaluation reviewed the bank's activities in each of its 24 AAs throughout Alabama, Florida, Louisiana, Mississippi, and Texas.

areas of concern to the commenters. The bank received an overall “Satisfactory” rating in Louisiana, with “High Satisfactory” ratings on the Lending Test and the Service Test and an “Outstanding” rating on the Investment Test. Examiners noted that, in Louisiana, the bank had an excellent record of lending activity and of community development investments, and provided a relatively high level of community development services, but made limited use of innovative or flexible lending practices.

Examiners found Hancock Whitney Bank’s CRA performance in the Baton Rouge Metropolitan Statistical Area (“MSA”) AA to be consistent with the bank’s performance in the state as a whole. Examiners determined that the distribution of small business loans by borrower revenue size was excellent while the distribution of home mortgage loans by borrower income level reflected adequate performance in the AA. Examiners also concluded that the geographic distribution of small business loans and home mortgage loans reflected adequate performance in the AA.

Examiners similarly found Hancock Whitney Bank’s CRA performance in the New Orleans-Metairie MSA AA to be consistent with the bank’s statewide performance. Examiners determined that the distribution of small business loans by borrower revenue size was excellent while the distribution of home mortgage loans by borrower income level reflected adequate performance in the AA. Examiners also determined that the geographic distribution of small business loans and home mortgage loans reflected adequate performance in the AA.

In Mississippi, Hancock Whitney Bank received an overall “Satisfactory” rating, with “High Satisfactory” ratings on the Lending Test and the Service Test and an “Outstanding” rating on the Investment Test. Examiners determined that the bank had an excellent record of lending activity and an excellent level of qualified investments. Examiners found that the bank made an adequate level of community development loans and limited use of innovative or flexible lending practices. Examiners determined that, within the Gulfport-Biloxi-Pascagoula MSA AA, the distribution of small business loans by borrower revenue size was excellent while the distribution of home mortgage loans by borrower income level was adequate. Examiners noted that the geographic distribution of small business loans and home mortgage loans in the AA was adequate.

In Texas, Hancock Whitney Bank received an overall “Satisfactory” rating, with “High Satisfactory” ratings on the Investment Test and the Service Test and a “Low Satisfactory” rating on the Lending Test. Examiners noted that the bank had an adequate record of lending activity, made a significant level of qualified investments, and was a leader in providing community development services, although made limited use of innovative or flexible lending practices. In the Houston-The Woodlands-Sugar Land MSA AA, examiners determined that the distribution of small business loans by borrower revenue size reflected adequate performance while the distribution of home mortgage loans by borrower income level reflected good performance. Similarly, examiners found that the geographic distribution of small business loans reflected adequate performance while the distribution of home mortgage loans reflected good performance.

Hancock Whitney Bank’s Efforts since the Hancock Whitney Bank Evaluation

Hancock Whitney states that, since the Hancock Whitney Bank Evaluation, the bank has continued to originate a substantial number of mortgage and consumer loans to LMI borrowers and has made significant community investments. Hancock Whitney represents that the bank has originated a significant number of small business and farm loans, including in LMI census tracts across the bank’s AAs. Hancock Whitney also represents that the bank has originated a significant number of community development loans.

CRA Performance of MidSouth Bank

MidSouth Bank received an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the OCC, as of February 26, 2018 (“MidSouth Bank Evaluation”).⁴¹ The bank received “High Satisfactory” ratings for the Lending Test and the Service Test and a “Low Satisfactory” rating for the Investment Test.⁴²

Examiners concluded that MidSouth Bank’s lending performance reflected good responsiveness to the credit needs in the bank’s AAs and that a good proportion of loans were originated in the bank’s AAs. Examiners found that the geographic distribution of the bank’s loans in the bank’s AAs was good and the distribution of loans by borrower income level was adequate. Examiners noted that the bank had an adequate level of qualified community development investments and was responsive to credit and community economic development needs. Finally, examiners found the bank’s delivery systems to be accessible to census tracts and individuals of different income levels in the AAs, including in LMI areas and to LMI individuals.

Additional Supervisory Views

The Board has consulted with the FDIC regarding Hancock Whitney Bank’s CRA, consumer compliance, and fair lending records and with the OCC regarding MidSouth Bank’s CRA, consumer compliance, and fair lending records. The FDIC is considering the comments received by the Board in connection with its review of the bank merger application related to the proposal. The Board has considered the results of the FDIC’s most recent consumer compliance examination of Hancock Whitney Bank and the OCC’s most recent consumer compliance examination of MidSouth Bank, which included reviews of the banks’ compliance management programs and compliance with consumer protection laws and regulations. The Board also considered Hancock Whitney Bank’s supervisory record with the CFPB.

The Board has taken the foregoing consultations and examinations into account in evaluating the proposal, including in considering whether Hancock Whitney has the experience and resources to ensure that the combined bank would help meet the credit needs of the communities to be served following consummation of 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. Hancock Whitney represents that, following consummation of the proposal, existing customers of MidSouth Bank would benefit from the technical expertise and resources that Hancock Whitney Bank has developed. In addition, Hancock Whitney asserts that, as a result of the transaction, MidSouth Bank customers would have access to a broader network of branches and loan production offices, as well as enhanced online and mobile banking platforms and equipment finance specialists.

⁴¹ The MidSouth Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed loans from January 1, 2015, through December 31, 2016, except for community development loans, which were evaluated for the period October 6, 2014, through February 26, 2018.

⁴² The MidSouth Bank Evaluation reviewed the bank’s activities in each of the bank’s 16 AAs throughout Louisiana and Texas.

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 FDIC, OCC, and CFPB; confidential supervisory information; information provided by Hancock Whitney; 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.”⁴³

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.⁴⁴ 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 opacity and complexity of an 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.⁴⁵

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.⁴⁶

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 predominantly engaged in retail and commer-

⁴³ 12 U.S.C. § 1842(c)(7).

⁴⁴ Many of the metrics considered by the Board measure an institution's activities relative to the United States financial system.

⁴⁵ For further discussion of the financial stability standard, see *Capital One Financial Corporation*, FRB Order 2012-2 (February 14, 2012).

⁴⁶ 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.

cial banking activities.⁴⁷ 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.

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.⁴⁸ 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 Hancock Whitney with all the conditions imposed in this order and on any commitments made to the Board in connection with the proposal. The Board's approval also is conditioned on receipt by Hancock Whitney of all required regulatory approvals. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the 15th calendar day after the effective date of this order or later than three months thereafter, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Atlanta, acting under delegated authority.

By order of the Board of Governors, effective September 5, 2019.

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

Ann E. Misback
Secretary of the Board

⁴⁷ Hancock Whitney and MidSouth offer a broad array of retail and commercial banking products and services. Hancock Whitney 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.

⁴⁸ One 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 bank to be acquired make a timely written recommendation of disapproval of the application. 12 U.S.C. § 1842(b); 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. 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 the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted a written comment that the Board has considered in acting on the proposal. The commenter's request does not identify disputed issues of fact that are material to the Board's decision and that would be clarified by a public hearing. In addition, the request does not demonstrate why the written comment does not present the commenter's views adequately or why a hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing is not required or warranted in this case. Accordingly, the request for a public hearing on the proposal is denied.

Order Issued Under Federal Reserve Act

Vista Bank
Ralls, Texas

*Order Approving the Establishment of a Branch
FRB Order No. 2019-13 (September 10, 2019)*

Vista Bank, a state member bank subsidiary of Vista Bancshares, Incorporated, both of Ralls, 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 5840 West Northwest Highway, 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.

Vista Bancshares, Incorporated, with total assets of \$803.6 million, is the 970th largest depository organization in the United States, controlling approximately \$734.3 million in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁵ Vista Bank operates through 13 branches located in Texas, and the bank's main office is in Ralls, 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.

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). Vista 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. The proposed branch location currently is a loan and deposit production office ("LDPO") for Vista Bank.

⁴ 12 CFR 262.3(b).

⁵ Total assets, national asset ranking, and national deposit data are as of March 31, 2019, 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, Vista Bank is the 96th largest depository organization, controlling approximately \$669.3 million in deposits, which represent approximately 0.1 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).

Financial, Managerial, and Other Supervisory Considerations

In considering the financial history and condition, earnings prospects, and capital adequacy of Vista Bank, the Board has reviewed reports of examination, other supervisory information, publicly reported and other financial information, information provided by Vista Bank, and the comment received on the proposal. Vista Bank is well capitalized and would remain so upon consummation of the proposal. The asset quality, earnings, and liquidity of Vista Bank are consistent with approval, and Vista 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 Vista 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 Vista 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 Vista Bank and the bank's record of compliance with applicable banking, consumer protection, and anti-money-laundering laws. Vista Bank is considered to be well managed. Vista 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 Vista Bank's management, financial history and condition, capital adequacy, and future earnings prospects, as well as the effectiveness of Vista 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 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

¹⁰ 12 CFR 208.21(a).

¹¹ 12 CFR 208.6(b)(3).

¹² 12 U.S.C. § 2901(b).

¹³ 12 U.S.C. § 2903.

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 Vista Bank, the fair lending and compliance records of the bank, confidential supervisory information, information provided by Vista Bank, and the public comment received on the proposal.

Public Comment on the Proposal

One commenter objected to the proposal, alleging that Vista Bank discriminates against African Americans and “redlines” African American neighborhoods in Houston and Dallas, Texas.¹⁴ Specifically, the commenter alleged that Vista 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 Vista Bank disfavors certain African American neighborhoods in Houston and Dallas with respect to its branching activities and in other respects. After the comment period ended, the commenter filed a second objection, noting that the proposed branch would not be located in an African-American neighborhood in Dallas and generally alleging that the claims of discrimination raised in the initial comment also apply to African American neighborhoods and census tracts in Lubbock, Texas, and other areas in which Vista Bank has branches.

Business of the Applicant and Response to Comment

Vista 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, real estate, agricultural, and consumer loans; personal checking and savings accounts; business checking and savings accounts; online banking; and treasury management services.

In responding to the commenter, Vista Bank notes that it does not have any branches in Houston or any full-service branches in Dallas.¹⁵ Vista Bank denies the commenter's allegations of discrimination and asserts that other allegations, such as that the bank denied “equal access to capital home equity loans” to African Americans, are clearly frivolous since the bank does not offer home equity loans to any customers. Vista Bank cites its satisfactory CRA examination record and asserts that the proposed branch would directly benefit the public by, among other things, promoting competition among financial service providers in the Dallas assessment area (“AA”). Vista Bank further represents that addi-

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>.

¹⁵ The commenter's claims of discrimination in branching and the provision of various products and services in Houston are without merit, since Vista Bank does not have operations in Houston. The commenter's claim of discrimination in branching and the provision of various products and services in Dallas also are unsubstantiated, as Vista Bank currently does not have any full-service branches in Dallas, and there is no evidence to suggest that the placement of the LDPO or the offering of products and services in Dallas is discriminatory. With respect to the commenter's claims that Vista Bank discriminates against African Americans in the provision of various products and services in Lubbock, Texas, and the other areas in which Vista Bank operates, these claims are not supported by any verifiable evidence or data. As such, these allegations are considered to be wholly unsubstantiated and, therefore, non-substantive. Accordingly, the sole claim being considered by the Board concerns the allegation that Vista Bank discriminates in the placement of branches in Lubbock and other areas in which the bank operates branches.

tional community services and financial support would be provided by Vista Bank to charities and organizations that benefit underserved communities in the Dallas AA. Although the proposed branch would not be located in a majority-minority census tract, Vista Bank asserts that the products and services offered by the branch would be competitively priced and designed to meet the convenience and needs of the public, including customers located in majority-minority and LMI communities within the Dallas AA (such as providing free accounts that can be opened and accessed online without going to the branch). Vista Bank further represents that the proposed branch would offer lending products to individuals of different income levels, regardless of location, including but not limited to automobile loans, secured and unsecured personal loans, residential mortgage loans, and SBA loans.

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").¹⁶ 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.¹⁷ 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") and a community development test ("Community Development Test") to evaluate the performance of an intermediate small bank, such as Vista Bank, in helping to meet the credit needs of the communities it serves. The Lending Test specifically evaluates the 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 the Home Mortgage Disclosure Act ("HMDA"),¹⁸ automated loan reports, and other reports generated by the institution in order to assess the 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 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 (6) 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.¹⁹ 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

¹⁶ See Interagency Questions and Answers Regarding Community Reinvestment, 81 *Fed. Reg.* 48506, 48548 (July 25, 2016).

¹⁷ 12 U.S.C. § 2906.

¹⁸ 12 U.S.C. § 2801 *et seq.*

¹⁹ See 12 CFR 228.26(b).

community development services; and the institution's responsiveness through such activities to community development lending, investment, and service needs.²⁰

CRA Performance of Vista Bank

Vista Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the Reserve Bank, as of June 12, 2017 ("Vista Bank Evaluation").²¹ The bank received "Satisfactory" ratings for both the Lending Test and the Community Development Test.²²

Examiners determined that the bank's loan-to-deposit ratio was reasonable given the bank's size, financial condition, and the credit needs of the bank's AAs. Examiners found that a majority of Vista Bank's home mortgage and small business loans were originated in the bank's AAs. Examiners noted that Vista Bank's distribution of loans based on income and revenue levels of borrowers reflected a reasonable penetration among individuals of different income levels and businesses of different sizes. In addition, examiners found that the bank's geographic distribution of loans reflected reasonable dispersion throughout the bank's AAs. Examiners concluded that the bank did a reasonable job of meeting the small business needs of its AAs.

Examiners found that Vista Bank's performance under the Community Development Test demonstrated adequate responsiveness to the community development needs of the bank's AAs, considering the bank's capacity, loan demand, and available lending opportunities in those areas. Examiners determined that the bank had applied its community development resources strategically to meet the substance of community needs, through qualified community development investments, loans, and services targeted to LMI individuals, as well as revitalization and stabilization efforts. Examiners noted that the bank transitioned to an intermediate small bank on January 1, 2017, and, prior to that date, the bank was not required to participate in community development activities.

Vista Bank's Efforts since the Vista Bank Evaluation

Vista Bank represents that, since the Vista Bank Evaluation, it has continued to help meet the credit needs of its AAs by expanding its capabilities to accept online deposit account applications on the bank's website, so that customers throughout the bank's AAs do not have to visit a physical location to open checking, savings, and time deposit accounts. Vista Bank represents that it has made community development loans that promote and support economic development and revitalization, as well as loans to organizations providing community services to LMI individuals and families. The bank asserts that it maintains investments in three small business investment companies and that the bank directed these companies to use the bank's investment to support businesses in the bank's AAs. Vista Bank also asserts that it has invested in school, city, and county bonds that benefit low and moderate income areas in the bank's communities in Texas. Additionally, Vista Bank maintains that its team members have volunteered to provide free tax prepara-

²⁰ See 12 CFR 228.26(c).

²¹ The Vista Bank Evaluation was conducted using Intermediate Small Bank CRA Examination Procedures, consisting of the Lending and Community Development tests described above. Examiners reviewed HMDA data reported by the bank from January 1, 2012, through December 31, 2016, and a sample of small business loans originated by the bank between July 1, 2016, through December 31, 2016. Examiners also reviewed community development loans, investments, and services from October 9, 2012, through June 12, 2017. However, the rating was based on community development activities by the bank since it transitioned to an intermediate small bank effective January 1, 2017.

²² The Vista Bank Evaluation included a full-scope review of the bank's two AAs: the Lubbock, Texas AA, which consists of Lubbock and Crosby counties, part of the Lubbock Metropolitan Statistical Area; and the Hale County, Texas AA, which consists of Hale County, a non-metropolitan area.

tion services to LMI individuals and that the bank has provided other contributions to benefit the community, such as a financial education program for youths in Lubbock, and has sponsored cultural and educational initiatives for LMI families in Dallas.

Additional Supervisory Considerations

In addition to the Vista Bank Evaluation, the Board has considered the results of a 2019 examination of Vista Bank's compliance with the requirements of the Fair Housing Act, which included a review of the bank's fair lending risk management program. A redlining review included an evaluation of the bank's fair lending risk management processes with respect to the bank's monitoring, branching, marketing, and outreach activities. The Board also has considered Vista Bank's supervisory record with the Texas Department of Banking.

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. Vista Bank asserts that the proposed branch would provide economic benefits and offer a broad range of financial services and products in the Dallas market and enable the bank to reach more consumers and businesses, including those located in majority-minority or LMI areas. Vista Bank represents that members of the public would benefit from the volunteer services and community support that would be provided by the branch through Vista Outreach, the Bank's community outreach program, to ensure adequate coverage of CRA-service-related activities in the Dallas market area.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA record of Vista Bank, the bank's records of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by Vista 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 application should be, and hereby is, approved.²³ The Board's approval is specifically conditioned on compliance by Vista 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 commit-

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. Notice of the application was published in the relevant newspaper of general circulation on May 24, 2019. The comment period ended on June 20, 2019. 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 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.

ments 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, effective September 10, 2019.

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

Ann E. Misback
Secretary of the Board



Legal Developments: Fourth Quarter, 2019

Orders Issued Under Bank Holding Company Act

Orders Issued Under Section 3 of the Bank Holding Company Act

BB&T Corporation
Winston-Salem, North Carolina

Order Approving the Merger of Bank Holding Companies
FRB Order No. 2019-16 (November 19, 2019)

BB&T Corporation (“BB&T”), Winston-Salem, North Carolina, a financial holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to merge with SunTrust Banks, Inc. (“SunTrust”), Atlanta, Georgia, a financial holding company, and SunTrust Bank Holding Company, Orlando, Florida, SunTrust’s wholly owned intermediate holding company, and thereby indirectly acquire SunTrust Bank, Atlanta, Georgia.³ Following the proposed acquisition, SunTrust Bank would be merged with and into BB&T’s subsidiary state non-member bank, Branch Banking and Trust Company (“Branch Bank”), Winston-Salem, North Carolina.⁴ The resulting holding company would be renamed Truist Financial Corporation (“Truist”), and the resulting bank would be renamed Truist Bank.

BB&T, with consolidated assets of approximately \$230.9 billion, is the 16th largest insured depository organization in the United States, controlling approximately \$166.7 billion in consolidated deposits, which represent approximately 1.3 percent of the total amount of deposits of insured depository institutions in the United States.⁵ BB&T controls Branch Bank, which operates in Alabama, Florida, Georgia, Indiana, Kentucky, Maryland, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, West Virginia, and the District of Columbia.

SunTrust, with consolidated assets of approximately \$222.5 billion, is the 17th largest insured depository organization in the United States, controlling approximately \$162.5 billion in consolidated deposits, which represent 1.3 percent of the total amount of deposits of insured depository institutions in the United States. SunTrust controls SunTrust Bank, which operates in Alabama, Arkansas, Florida, Georgia, Maryland,

¹ 12 U.S.C. § 1841 *et seq.*

² 12 U.S.C. § 1842.

³ BB&T would effect the acquisition by merging SunTrust with and into BB&T, with BB&T as the survivor. Shortly thereafter, SunTrust Bank Holding Company would merge with and into BB&T, with BB&T as the survivor.

⁴ The merger of SunTrust Bank into Branch Bank is subject to the approval of the Federal Deposit Insurance Corporation (“FDIC”) pursuant to section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”).

⁵ Asset and deposit data are as of June 30, 2019, unless otherwise noted and do not reflect adjustments for consolidation.

Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia.

On consummation of this proposal, Truist, as the combined organization, would become the eighth largest insured depository organization in the United States, with consolidated assets of approximately \$453.4 billion, which represent 2.0 percent of the total amount of assets of insured depository institutions in the United States. Truist would control consolidated deposits of approximately \$330.9 billion, which represent 2.6 percent of the total deposits of insured depository institutions in the United States.⁶

Public Comments on the Proposal

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (84 *Federal Register* 9340 (March 14, 2019)).⁷ The time for submitting comments has expired. The Board extended the initial period for public comment to accommodate public interest in this proposal, providing interested persons until May 3, 2019, a total of more than 50 days, to submit written comments (84 *Federal Register* 10517 (March 21, 2019)).

In addition, in light of the significant public interest in the proposal, the Board held two public meetings in Charlotte, North Carolina, and Atlanta, Georgia, to provide interested persons an opportunity to present oral testimony on the factors that the Board is required to consider under the BHC Act.⁸ Approximately 116 individuals provided oral testimony at the public meetings, a subset of which also submitted written comments. In total, the Board received approximately 1050 comments from individuals and organizations. Commenters included community groups, nonprofit organizations, customers of the two banking organizations, and other interested organizations and individuals.

A majority of commenters supported the proposal.⁹ Many of these commenters contended that the proposal would benefit communities and community organizations throughout the footprints of BB&T and SunTrust through increased resources and services provided by the combined organization. Commenters generally commended BB&T and SunTrust for their involvement in their communities and described positive experiences related to small business, community development, and charitable contribution and investment programs of both organizations. In addition, commenters praised both organizations for their corporate cultures, which encourage officers and employees to volunteer their time and resources and to provide services to community organizations.¹⁰

A significant number of commenters either opposed the proposal, requested that the Board approve the proposal subject to certain conditions, or otherwise expressed concerns about

⁶ See [Appendix I](#) for asset and deposit data by state, for states in which Branch Bank and SunTrust Bank both have banking operations.

⁷ 12 CFR 262.3(b).

⁸ The public meetings were held jointly with the FDIC on April 25, 2019, at the Charlotte Branch of the Federal Reserve Bank of Richmond and on May 3, 2019, at the Federal Reserve Bank of Atlanta.

⁹ The Board received approximately 949 comments in support of the proposal. Approximately 88 persons provided oral comments in support of the proposal.

¹⁰ A commenter contended that many commenters who supported the proposal received financial support from BB&T and SunTrust. The Board invites comments from all members of the public that have an interest in the application. The Board considers all timely and substantive comments on an application without regard to the commenters' motivation for supporting or opposing the application.

the proposal.¹¹ Many commenters questioned whether the proposal would result in public benefits. Commenters expressed concern that the proposal would result in significant job losses and branch closures. Commenters also criticized the records of performance of both institutions in meeting the credit needs of their communities, particularly minority communities and low- and moderate-income (“LMI”) communities. Commenters expressed concerns that the proposal would result in fewer services and less focus on rural communities and that it would result in customer confusion, particularly among senior citizens. In addition, commenters expressed concern that the proposal would significantly reduce competition throughout the banking markets in which BB&T and SunTrust operate. Commenters also asserted that the combined institution would pose a risk to U.S. financial stability, with the resulting institution being “too big to fail.”

In evaluating the statutory factors under the BHC Act, the Board considered the information and views presented by all commenters, including information presented at the public meetings and in written submissions. The Board also considered all of the information presented in the application and supplemental filings by BB&T, various reports filed by the relevant companies, and publicly available information. In addition, the Board consulted with the relevant financial supervisory agencies and the Department of Justice (“DOJ”) and reviewed confidential supervisory information, including examination reports on the depository institution holding companies and the depository institutions involved. After a review of all the facts of record, and for the reasons discussed in this order, the Board concludes that the statutory factors it is required to consider under the BHC Act are consistent with approval of the proposal.

Factors Governing Board Review of the Transaction

The BHC Act sets forth the factors that the Board is required to consider when reviewing the merger of bank holding companies or the acquisition of banks.¹² These factors include the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved in the proposal; the effectiveness of the involved institutions in combatting money-laundering activities; the convenience and needs of the communities to be served, including the records of performance under the Community Reinvestment Act of 1977 (“CRA”)¹³ of the insured depository institutions involved in the transaction; and the extent to which the proposal would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. For proposals involving interstate bank acquisitions by bank holding companies, the Board also must consider the concentration of deposits as a percentage of the total deposits controlled by insured depository institutions in the United States and in relevant individual states, as well as compliance with the other provisions of section 3(d) of the BHC Act.

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 is prohibited under

¹¹ The Board received approximately 104 comments in opposition to the proposal. Of these comments, approximately 70 comments were individualized written comments, and approximately 34 comments were submitted as form letters. Approximately 21 persons provided oral comments in opposition to the proposal.

¹² See 12 U.S.C. § 1842.

¹³ 12 U.S.C. § 2901 *et seq.*

state law.¹⁴ The Board (1) may not approve an application that would permit an out-of-state bank holding company or bank to acquire a bank in a host state if the target bank has not been in existence for the lesser of the state statutory minimum period of time or five years;¹⁵ (2) must take into account the record of the applicant bank under the CRA and the applicant's record of compliance with applicable state community reinvestment laws; and (3) may not approve an interstate application 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 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 the target bank's home state or in any state in which the acquirer and target have overlapping banking operations.¹⁶

For purposes of the BHC Act, the home state of BB&T is North Carolina.¹⁷ SunTrust Bank is located in Alabama, Arkansas, Florida, Georgia, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia. BB&T is well capitalized and well managed under applicable law, and Branch Bank has a satisfactory rating under the CRA.¹⁸ Alabama, Arkansas, Georgia, Mississippi, and Tennessee have minimum age requirements that apply to BB&T's acquisition of SunTrust.¹⁹ Florida, Maryland, North Carolina, South Carolina, Virginia, and the District of Columbia do not have minimum age requirements. SunTrust Bank has been in existence for more than five years.

On consummation of the proposed transaction, Truist, as the combined organization, would control 2.6 percent of the total amount of consolidated deposits in insured depository institutions in the United States. Alabama, Florida, Georgia, Maryland, South Carolina, and Tennessee each impose a 30 percent limit on the total amount of in-state deposits that a single banking organization may control.²⁰ The combined organization would control approximately 3.5 percent of the total amount of deposits of insured depository institutions in Alabama, 11.0 percent in Florida, 26.7 percent in Georgia, 13.5 percent in Maryland, 13.1 percent in South Carolina, and 9.6 percent in Tennessee.²¹ Accordingly, in light of all the facts of record, the Board may approve the proposal under section 3(d) of the BHC Act.

¹⁴ 12 U.S.C. § 1842(d)(1)(A).

¹⁵ 12 U.S.C. § 1842(d)(1)(B).

¹⁶ 12 U.S.C. § 1842(d)(2)(A) and (B). For purposes of section 3(d) of the BHC Act, the acquiring and target institutions have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or 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).

¹⁷ *See* 12 U.S.C. § 1841(o)(4). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. A national bank's home state is the state in which the main office of the bank is located.

¹⁸ Only two of the jurisdictions in which BB&T operates—West Virginia and the District of Columbia—have state community reinvestment laws. *See* W. Va. Code §§ 31A-8B-1 to 31-8B-5; D.C. Code § 26-431.01 *et seq.* However, those laws do not appear to apply to BB&T.

¹⁹ *See* Ala. Code § 5-13B-23 (5 years); Ark. Code Ann. §§ 23-45-102(18)(A) & 23-48-505 (5 years); Ga. Code Ann. § 7-1-622 (3 years); Miss. Code Ann. § 81-8-3 (5 years); Tenn. Code Ann. §§ 45-2-1402 & 1403 (3 years).

²⁰ *See* Ala. Code § 5-13B-23(b); Fla. Stat. § 658.2953; Ga. Code Ann. § 7-1-622(b)(2)(B); Md. Code Ann. Fin. Inst. § 5-905(b); S.C. Code Ann. § 34-25-240; Tenn. Code Ann. § 45-2-1404. North Carolina, Virginia, and the District of Columbia do not impose limits on the total amount of deposits an insured depository institution may control in those jurisdictions.

²¹ A commenter alleged that the acquisition could result in the combined organization controlling deposits in excess of state deposit limits. As noted above, the combined organization would not control 30 percent or more of the deposits in any state.

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.²² 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.²³

BB&T and SunTrust have subsidiary banks that compete directly in 81 banking markets in Alabama, Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia.²⁴ The Board has considered the competitive effects of the proposal in these banking markets. In particular, the Board has considered the relative shares of total deposits in insured depository institutions in the markets (“market deposits”) that BB&T would control;²⁵ the concentration levels of market deposits and the increase in these levels as measured by the Herfindahl-Hirschman Index (“HHI”) under the DOJ Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);²⁶ the number of competitors that would remain in each market; other characteristics of the markets; and, as discussed below, commitments made by BB&T to divest branches in certain markets.²⁷ The Board also has considered the public comments on the competitive effects of the proposal.²⁸

²² 12 U.S.C. § 1842(c)(1)(A).

²³ 12 U.S.C. § 1842(c)(1)(B).

²⁴ A commenter argued that the proposal would substantially lessen competition in the following areas: the Atlanta–Sandy Springs–Alpharetta, Georgia, Metropolitan Statistical Area (“MSA”); the Charlottesville, Virginia, MSA; the Deltona–Daytona Beach–Ormond Beach, Florida, MSA; the Durham–Chapel Hill, North Carolina, MSA; the Homosassa Springs, Florida, MSA; the Macon–Bibb County, Georgia, MSA; the Roanoke, Virginia, MSA; the Staunton–Waynesboro, Virginia, MSA; the Virginia Beach–Norfolk–Newport News, Virginia–North Carolina, MSA; and the Winston-Salem, North Carolina, MSA. These MSAs are not geographic banking markets and are not consistent with the Board’s geographic banking markets. Consistent with Supreme Court precedent, the Board examined the competitive effects of the proposal in the relevant geographic markets, defined below. See *United States v. Phillipsburg National Bank*, 399 U.S. 350 (1970); *United States v. Philadelphia National Bank*, 374 U.S. 321, 357 (1963). In defining the relevant geographic market, the Board and courts have consistently found that the relevant geographic market for analyzing the competitive effects of a proposal must reflect commercial and banking realities and should consist of the local area where customers can practicably turn for alternatives. See *Philadelphia National Bank*, 374 U.S. at 357; *First York Bank Corp.*, 88 *Federal Reserve Bulletin* 251, 251 (2002); *First Union Corporation*, 84 *Federal Reserve Bulletin* 489, 491–92 (1998).

²⁵ Deposit and market share data are as of June 30, 2018, and unless otherwise noted, 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 market share calculations on a 50-percent weighted basis. See, e.g., *Hancock Whitney Corporation*, FRB Order No. 2019-12 at 6 (September 5, 2019).

²⁶ 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 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.

²⁷ BB&T has agreed to divest approximately \$2.4 billion in deposits and 30 branches across North Carolina, Virginia, and Georgia.

²⁸ Commenters expressed concern that the proposal would increase concentration in banking markets throughout the Southeast and Mid-Atlantic, including in Florida, Georgia, Maryland, North Carolina, and Virginia.

Banking Markets within Established Guidelines

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in 68 banking markets. On consummation, two banking markets would become highly concentrated; 10 banking markets would remain highly concentrated; 10 banking markets would become moderately concentrated; 41 banking markets would remain moderately concentrated; and five banking markets would remain unconcentrated, as measured by the HHI. The change in the 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 most of these banking markets.²⁹

Banking Markets Warranting Special Scrutiny

The structural effects that consummation of the proposal would have in the North Lake/Sumter Area, Florida, banking market; the Atlanta, Lumpkin County, Milledgeville Area, and Wayne County banking markets, all in Georgia; the Durham–Chapel Hill and Winston–Salem banking markets, both in North Carolina; the Eastern Shore, Lexington, Martinsville, Richmond, and South Boston banking markets, all in Virginia; and the Norfolk–Portsmouth, Virginia–North Carolina, banking market warrant a detailed review because the concentration levels on consummation would exceed the thresholds in the DOJ Bank Merger Guidelines or would result in the market deposit share of BB&T equaling or exceeding 35 percent when using initial competitive screening data. In six of these markets, BB&T proposes to divest all branches to be acquired from SunTrust and, therefore, the levels of concentration as measured by the HHI would not materially increase on consummation of the merger and proposed divestitures.³⁰

Markets without Divestitures

North Lake/Sumter Area, Florida, Banking Market. Branch Bank is the fifth largest depository institution in the North Lake/Sumter Area banking market, controlling approximately \$345.8 million in deposits, which represent 7.7 percent of market deposits.³¹ SunTrust Bank is the second largest depository institution in the market, controlling approximately \$650.2 million in deposits, which represent 14.5 percent of market deposits. On consummation, Branch Bank would be the second largest depository institution in the North Lake/Sumter Area banking market, controlling approximately \$996.0 million in deposits, which

Similarly, a commenter argued that the proposal would result in consolidated market power among only a few large banks. Commenters suggested that the reduced competition as a result of the merger would result in less favorable outcomes for consumers.

A commenter also specifically alleged that the proposal would result in a substantial lessening of competition in several MSAs because the resulting market share would be “presumed to likely increase market power” under the 2010 DOJ and Federal Trade Commission Horizontal Merger Guidelines. As noted above, the DOJ has confirmed that its Bank Merger Guidelines were not modified by the 2010 DOJ and Federal Trade Commission Horizontal Merger Guidelines.

A commenter also expressed concern that the combined organization would occupy a significant portion of the national mortgage banking market. Based on data reported for 2017 under the Home Mortgage Disclosure Act of 1975 (“HMDA”), the combined organization would represent less than two percent of nationwide mortgage originations.

²⁹ These banking markets and the competitive effects of the proposal in these markets are described in Appendix II.

³⁰ The six markets are the Lumpkin County banking market, the Wayne County banking market, the Eastern Shore banking market, the Martinsville banking market, the South Boston banking market, and the Winston-Salem banking market.

³¹ The North Lake/Sumter Area banking market is defined as Sumter County, and the Census County Divisions of Fruitland Park–Lady Lake, Leesburg, and Leesburg East in Lake County, all of Florida.

would represent approximately 21.7 percent of market deposits. The HHI in this market would increase 214 points, from 1878 to 2092.

The Board has considered whether factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the North Lake/Sumter Area banking market.³² In particular, four credit unions exert a competitive influence in the North Lake/Sumter Area banking market because each institution offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the relevant banking market.³³ The Board finds that the deposits of credit unions that exhibit these characteristics should be included at a 50-percent weight in calculating its estimate of market influence (each a “qualifying credit union”). This weighting takes into account the limited lending done by credit unions to small businesses relative to commercial banks’ lending levels.

This adjustment suggests that the resulting market concentration in the North Lake/Sumter Area banking market is less significant than would appear from the initial competitive screening data. After consummation, and adjusting to reflect competition from credit unions in the market, the market concentration level in the North Lake/Sumter Area banking market as measured by the HHI would increase by 198 points, from 1736 to 1934, and the market share of BB&T would increase to 20.9 percent. Seventeen other insured depository institutions, including the credit unions, would remain in the market, including one insured depository institution with a market share of more than 36.0 percent.

Atlanta, Georgia, Banking Market. Branch Bank is the fourth largest depository institution in the Atlanta banking market, controlling approximately \$8.7 billion in deposits, which represent 5.1 percent of market deposits.³⁴ SunTrust Bank is the largest depository institution in the market, controlling approximately \$47.3 billion in deposits, which represent 27.8 percent of market deposits. On consummation, Branch Bank would be the largest depository institution in the Atlanta banking market, controlling approximately \$56.0 billion in deposits, which would represent approximately 32.9 percent of market deposits. The HHI in this market would increase 284 points, from 1547 to 1831.

The Board has considered whether factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Atlanta banking market. Two thrift institutions in the market have a commercial and industrial loan portfolio similar to those of commercial banks in the Atlanta banking market, as measured in terms of the ratios of those types of loans to total loans and assets.³⁵ Accordingly, the Board has concluded that deposits controlled by these

³² The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in, and resulting level of, concentration in a banking market. See *NationsBank Corporation*, 84 *Federal Reserve Bulletin* 129 (1998).

³³ The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., *Huntington Bancshares Incorporated*, FRB Order No. 2016-13 (July 29, 2016); *BB&T Corporation*, FRB Order No. 2015-18 (July 7, 2015); and *Wachovia Corporation*, 92 *Federal Reserve Bulletin* C183 (2006).

³⁴ The Atlanta banking market is defined as Bartow, Cherokee, Clayton, Cobb, Coweta, Dawson, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gwinnett, Hall, Henry, Jasper, Newton, Paulding, Rockdale, and Walton counties; the towns of Auburn and Winder in Barrow County; and Luthersville in Meriwether County, all in Georgia.

³⁵ The standard treatment of thrifts in the competitive analysis is to give their deposits 50 percent weight to reflect their limited lending to small businesses relative to banks’ lending levels. The Board previously has indicated, however, that it may consider the competitiveness of a thrift institution at a level greater than 50 percent of its deposits when appropriate if competition from the institution closely approximates competition from a commercial bank. See, e.g., *Banknorth Group, Inc.*, 75 *Federal Reserve Bulletin* 703 (1989). Where, as here, the facts and circumstances of a banking market indicate that a particular thrift serves as a significant source of

institutions should be weighted at 100 percent in the market-share calculations. In addition, six qualifying credit unions exert a competitive influence in the Atlanta banking market.

These adjustments suggest that the resulting market concentration in the Atlanta banking market is less significant than would appear from the initial competitive screening data. Taking the adjustments into consideration, the market concentration level in the Atlanta banking market as measured by the HHI would increase by 270 points, from 1473 to 1743, and the market share of BB&T would increase to 32.1 percent upon consummation. Eighty-seven other insured depository institutions, including the thrifts and the credit unions, would remain in the market, including two insured depository institutions each with a market share of more than 18.0 percent.

Milledgeville Area, Georgia, Banking Market. Branch Bank is the third largest depository institution in the Milledgeville Area banking market, controlling approximately \$120.6 million in deposits, which represent 14.7 percent of market deposits.³⁶ SunTrust Bank is the fourth largest depository institution in the market, controlling approximately \$107.2 million in deposits, which represent 13.1 percent of market deposits. On consummation, Branch Bank would be the largest depository institution in the Milledgeville Area banking market, controlling approximately \$227.9 million in deposits, which would represent approximately 27.8 percent of market deposits. The HHI in this market would increase 385 points, from 1686 to 2071.

The Board has considered whether factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Milledgeville Area banking market. In particular, two qualifying credit unions exert a competitive influence in the Milledgeville Area market.

This adjustment for the qualifying credit unions suggests that the resulting market concentration in the Milledgeville Area banking market is less significant than would appear from the initial competitive screening data. After consummation, the market concentration level in the Milledgeville banking market as measured by the HHI would increase by 324 points, from 1457 to 1781, and the market share of BB&T would increase to 25.5 percent. Nine other insured depository institutions, including the credit unions, would remain in the market, including two insured depository institutions each with a market share of more than 21.0 percent.

Lexington, Virginia, Banking Market. Branch Bank is the largest depository institution in the Lexington banking market, controlling approximately \$153.5 million in deposits, which represent 22.8 percent of market deposits.³⁷ SunTrust Bank is the sixth largest depository institution in the market, controlling approximately \$59.0 million in deposits, which represent 8.8 percent of market deposits. On consummation, Branch Bank would remain the largest depository institution in the Lexington banking market, controlling approximately \$212.5 million in deposits, which would represent approximately 31.6 percent of market deposits. The HHI in this market would increase 401 points, from 1478 to 1879.

commercial loans and provides a broad range of consumer, mortgage, and other banking products, the Board has concluded that competition from such a thrift closely approximates competition from a commercial bank and that deposits controlled by the institution should be weighted at 100 percent in market-share calculations. See, e.g., *River Valley Bancorp*, FRB Order No. 2012-10 (October 17, 2012); *Regions Financial Corporation*, 93 *Federal Reserve Bulletin* C16 (2007); and *Banknorth Group, Inc.*, *supra*.

³⁶ The Milledgeville Area banking market is defined as Baldwin and Hancock counties; the northern half of Wilkinson county that includes the towns of Gordon, Irwinton, Ivey, and McIntyre; and the Little River Census County Division in Putnam County, all in Georgia.

³⁷ The Lexington banking market is defined as the independent cities of Lexington and Buena Vista and Rockbridge County, all in Virginia.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Lexington banking market. In particular, two qualifying credit unions exert a competitive influence in the banking market.

This adjustment for the qualifying credit unions suggests that the resulting market concentration in the Lexington banking market is less significant than would appear from the initial competitive screening data. After consummation, and adjusting to reflect competition from the two credit unions referenced above, the market concentration level in the Lexington banking market as measured by the HHI would increase by 376 points, from 1395 to 1771, and the market share of BB&T would increase to 30.6 percent. Eight other insured depository institutions, including the credit unions, would remain in the market, including four insured depository institutions each with a market share of more than 10.0 percent.

Norfolk–Portsmouth, Virginia–North Carolina, Banking Market. Branch Bank is the fourth largest depository institution in the Norfolk–Portsmouth banking market, controlling approximately \$2.3 billion in deposits, which represent 12.7 percent of market deposits.³⁸ SunTrust Bank is the third largest depository institution in the market, controlling approximately \$2.8 billion in deposits, which represent 16.0 percent of market deposits. On consummation, Branch Bank would be the largest depository institution in the Norfolk–Portsmouth banking market, controlling approximately \$5.1 billion in deposits, which would represent approximately 28.7 percent of market deposits. The HHI in this market would increase 407 points, from 1667 to 2074.

The Board has considered whether factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Norfolk–Portsmouth banking market. In particular, one thrift institution in the market has a commercial and industrial loan portfolio similar to those of commercial banks in the Norfolk–Portsmouth banking market, as measured in terms of the ratios of those types of loans to total loans and assets. The Board has concluded that deposits controlled by this institution should be weighted at 100 percent in the market-share calculations. In addition, eight qualifying credit unions exert a competitive influence in the Norfolk–Portsmouth banking market.

These adjustments suggest that the resulting market concentration in the Norfolk–Portsmouth banking market is less significant than would appear from the initial competitive screening data. After consummation, and adjusting to reflect competition from the eight credit unions and the deposits of the thrift being weighted at 100 percent in the market, the market concentration level in the Norfolk–Portsmouth banking market as measured by the HHI would increase by 347 points, from 1435 to 1782, and the market share of BB&T would increase to 26.5 percent. Twenty-four other insured depository institutions, including the thrift and the credit unions, would remain in the market, including two insured depository institutions each with a market share of more than 20.0 percent.

Richmond, Virginia, Banking Market. Branch Bank is the fourth largest depository institution in the Richmond banking market, controlling approximately \$3.2 billion in deposits,

³⁸ The Norfolk–Portsmouth banking market is defined as the cities of Chesapeake, Norfolk, Portsmouth, Suffolk, and Virginia Beach; the Carrsville District in Isle of Wight County, all in Virginia; and Currituck and Gates counties, both in North Carolina.

which represent 8.5 percent of market deposits.³⁹ SunTrust Bank is the third largest depository institution in the market, controlling approximately \$4.5 billion in deposits, which represent 12.0 percent of market deposits. On consummation, Branch Bank would be the second largest depository institution in the Richmond banking market, controlling approximately \$7.7 billion in deposits, which would represent approximately 20.5 percent of market deposits. The HHI in this market would increase 205 points, from 2078 to 2283.

The Board has considered whether factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Richmond banking market. In particular, one qualifying credit union exerts a competitive influence in the Richmond banking market.

This adjustment for the qualifying credit union suggests that the resulting market concentration in the Richmond banking market is less significant than would appear from the initial competitive screening data. After consummation, and adjusting to reflect competition from the credit union, the market concentration level in the Richmond banking market as measured by the HHI would increase by 194 points, from 1963 to 2157, and the market share of BB&T would increase to 20.0 percent. Twenty-nine other insured depository institutions, including the credit union, would remain in the market, including one insured depository institution with a market share of more than 38.0 percent.

*Markets with Divestitures*⁴⁰

Eastern Shore, Virginia, Banking Market. Branch Bank is the fourth largest depository institution in the Eastern Shore banking market, controlling approximately \$107.1 million in deposits, which represent 16.1 percent of market deposits.⁴¹ SunTrust Bank is the third largest depository institution in the market, controlling approximately \$125.6 million in deposits, which represent 19.0 percent of market deposits. On consummation, Branch Bank would be the largest depository institution in the Eastern Shore banking market, controlling approximately \$232.7 million in deposits, which would represent approximately 35.1 percent of market deposits. The HHI in this market would increase 613 points, from 2663 to 3276.

To mitigate the potentially adverse competitive effects of the proposal in the Eastern Shore banking market, BB&T has committed to divest SunTrust's only two branches in the

³⁹ The Richmond banking market is defined as the independent cities of Colonial Heights, Hopewell, Petersburg, and Richmond; the counties of Amelia, Charles City, Chesterfield, Dinwiddie, Goochland, Hanover, Henrico, King and Queen, King William, New Kent, Powhatan, and Prince George; and the Cuckoo, Jackson, Mineral, and Mountain Road districts in Louisa County, all in Virginia.

⁴⁰ As a condition of consummation of the proposed merger, BB&T has committed that it will execute, before consummation of the proposed merger, a sales agreement with a competitively suitable banking organization. BB&T has provided a similar commitment to the DOJ. BB&T also has committed to complete the divestiture of branches within 180 days after consummation of the proposed transaction. In addition, BB&T has committed that if the proposed divestiture is not completed within the 180-day period, BB&T would transfer the unsold branches to an independent trustee, who would be instructed to sell them to an alternate purchaser or purchasers in accordance with the terms of this order and without regard to price. Both the trustee and any alternate purchaser must be deemed acceptable to the Board. *See, e.g., BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991).* For each branch to be divested, the amount of deposits to be divested has been determined through a householding methodology approved by the DOJ. This householding methodology assigns particular customers to a household and then assigns certain households to the divested branch, generally where the customers execute teller transactions most frequently. Therefore, subject to certain limited exceptions, the proposed divestitures include all deposits of customers that are householded to the divested branches, which is intended to minimize the chance that those customers would revert to the combined organization following the divestitures. Because of this householding methodology, there are de minimis increases in the HHI in several markets despite the divestiture of all of SunTrust Bank's branches in several markets.

⁴¹ The Eastern Shore banking market is defined as Accomack and Northampton counties, both in Virginia.

banking market, accounting for a total of approximately \$129.3 million in deposits, to a competitively suitable institution.⁴² Other factors also mitigate the competitive effects of the proposal in the Eastern Shore banking market. Two qualifying credit unions exert a competitive influence in the Eastern Shore banking market.

After accounting for the divestiture of SunTrust's only two branches in the market and weighting the deposits of the credit unions at 50 percent, the combined organization would control approximately 12.3 percent of market deposits, the HHI would increase by 3 points to a level of 2043, and seven other insured depository institutions, including the credit unions, would remain in the market, including two insured depository institutions each with a market share of more than 29.0 percent.

Martinsville, Virginia, Banking Market. Branch Bank is the second largest depository institution in the Martinsville banking market, controlling approximately \$336.6 million in deposits, which represent 22.5 percent of market deposits.⁴³ SunTrust Bank is the third largest depository institution in the market, controlling approximately \$253.4 million in deposits, which represent 17.0 percent of market deposits. On consummation, Branch Bank would become the largest depository institution in the Martinsville banking market, controlling approximately \$590.1 million in deposits, which would represent approximately 39.6 percent of market deposits. The HHI in this market would increase 767 points, from 2252 to 3019.

To mitigate the potentially adverse competitive effects of the proposal in the Martinsville banking market, BB&T has committed to divest all three of SunTrust's branches in the Martinsville banking market, accounting for a total of approximately \$255.7 million in deposits, to a competitively suitable institution.⁴⁴ Other factors also mitigate the competitive effects of the proposal in the Martinsville banking market. Two qualifying credit unions exert a competitive influence in the Martinsville banking market.

After accounting for the divestiture of all three of SunTrust's branches in the Martinsville banking market and weighting the deposits of the credit unions at 50 percent, the combined organization would control approximately 21.7 percent of market deposits, the HHI would decrease by 2 points from 2127 to a level of 2125,⁴⁵ and twelve other insured depository institutions, including the credit unions, would remain in the market, including one insured depository institution with a market share of more than 36.0 percent.

South Boston, Virginia, Banking Market. Branch Bank is the fourth largest depository institution in the South Boston banking market, controlling approximately \$88.2 million in deposits, which represent 16.0 percent of market deposits.⁴⁶ SunTrust Bank is the fifth largest depository institution in the market, controlling approximately \$68.5 million in deposits, which represent 12.4 percent of market deposits. On consummation, Branch Bank would be the largest depository institution in the South Boston banking market, controlling approximately \$156.7 million in deposits, which would represent approximately

⁴² As noted above, the difference between the amount of deposits included in the initial competitive screening data and those deposits to be divested is attributable to the householding methodology approved by the DOJ.

⁴³ The Martinsville banking market is defined as the independent city of Martinsville; Henry County; and Patrick County (excluding the Dan River District), all in Virginia.

⁴⁴ See *supra* note 42.

⁴⁵ The pro forma HHI decrease in the Martinsville banking market is attributable to the householding methodology for assigning accounts to particular branches approved by the DOJ, which results in SunTrust assigning additional deposits to its branch in the Martinsville banking market that exceed the standard Summary of Deposits ("SOD") data used to generate the initial HHI screening data. See *supra* note 40.

⁴⁶ The South Boston banking market is defined as Halifax County, Virginia.

28.3 percent of market deposits. The HHI in this market would increase 395 points, from 1844 to 2239.

To mitigate the potentially adverse competitive effects of the proposal in the South Boston banking market, BB&T has committed to divest SunTrust's only branch in the banking market, accounting for a total of approximately \$67.9 million in deposits, to a competitively suitable institution. Other factors also mitigate the competitive effects of the proposal in the South Boston banking market. Three qualifying credit unions exert a competitive influence in the South Boston banking market.

After accounting for the divestiture of SunTrust's only branch in the market and weighting the deposits of the credit unions at 50 percent, the combined organization would control approximately 15.1 percent of market deposits, the HHI would increase by 1 point to a level of 1638, and eight other insured depository institutions, including the credit unions, would remain in the market, including four insured depository institutions each with a market share of more than 17.0 percent.

Lumpkin County, Georgia, Banking Market. Branch Bank is the second largest depository institution in the Lumpkin County banking market, controlling approximately \$107.2 million in deposits, which represent 26.9 percent of market deposits.⁴⁷ SunTrust Bank is the fourth largest depository institution in the market, controlling approximately \$56.7 million in deposits, which represent 14.2 percent of market deposits. On consummation, Branch Bank would be the largest depository institution in the Lumpkin County banking market, controlling approximately \$164.0 million in deposits, which would represent approximately 41.2 percent of market deposits. The HHI in this market would increase 767 points, from 2284 to 3051.

To mitigate the potentially adverse competitive effects of the proposal in the Lumpkin County banking market, BB&T has committed to divest SunTrust's only branch in the banking market, accounting for a total of approximately \$63.2 million in deposits, to a competitively suitable institution.⁴⁸

After accounting for the divestiture of SunTrust's only branch in the market, the combined organization would control approximately 25.3 percent of market deposits, the HHI would decrease by 36 points to a level of 2248, and five other insured depository institutions would remain in the market, including two insured depository institutions each with a market share of more than 15.0 percent.⁴⁹

Wayne County, Georgia, Banking Market. Branch Bank is the second largest depository institution in the Wayne County banking market, controlling approximately \$47.1 million in deposits, which represent 18.9 percent of market deposits.⁵⁰ SunTrust Bank is the fourth largest depository institution in the market, controlling approximately \$36.7 million in deposits, which represent 14.7 percent of market deposits. On consummation, Branch Bank would remain the second largest depository institution in the Wayne County banking market, controlling approximately \$83.8 million in deposits, which would represent

⁴⁷ The Lumpkin County banking market is defined as Lumpkin County, Georgia.

⁴⁸ See *supra* note 42.

⁴⁹ The pro forma HHI decrease in the Lumpkin County banking market is attributable to the householding methodology approved by the DOJ, which results in SunTrust assigning additional deposits to its branch in the Lumpkin County banking market that exceed the SOD data used to generate the initial competitive screening data.

⁵⁰ The Wayne County banking market is defined as Wayne County, Georgia.

approximately 33.7 percent of market deposits. The HHI in this market would increase 558 points, from 2501 to 3059.

To mitigate the potentially adverse competitive effects of the proposal in the Wayne County banking market, BB&T has committed to divest SunTrust's only branch in the banking market, accounting for a total of approximately \$35.4 million in deposits, to a competitively suitable institution.⁵¹ Other factors also mitigate the competitive effects of the proposal in the Wayne County banking market. Two qualifying credit unions exert a competitive influence in the Wayne County banking market.

After accounting for the divestiture of SunTrust's only branch in the market and weighting the deposits of the credit unions at 50 percent, the combined organization would control approximately 17.4 percent of market deposits, the HHI would increase by 4 points to a level of 2057, and six other insured depository institutions, including the credit unions, would remain in the market, including two insured depository institutions each with a market share of more than 15.0 percent.

Winston–Salem, North Carolina, Banking Market. Branch Bank is the largest depository institution in the Winston-Salem banking market, controlling approximately \$24.7 billion in deposits, which represent 80.2 percent of market deposits.⁵² SunTrust Bank is the fourth largest depository institution in the market, controlling approximately \$627.0 million in deposits, which represent 2.0 percent of market deposits. On consummation, Branch Bank would remain the largest depository institution in the Winston–Salem banking market, controlling approximately \$25.3 billion in deposits, which would represent approximately 82.3 percent of market deposits. The HHI in this market would increase 327 points, from 6521 to 6848.

To mitigate the potentially adverse competitive effects of the proposal in the Winston-Salem banking market, BB&T has committed to divest all nine of SunTrust's branches in the Winston-Salem banking market, accounting for a total of approximately \$577.8 million in deposits, to a competitively suitable institution.⁵³ Other factors also mitigate the competitive effects of the proposal in the Winston-Salem banking market. Five qualifying credit unions exert a competitive influence in the Winston-Salem banking market.

After accounting for the divestiture of all nine of SunTrust's branches in the market and weighting the deposits of the credit unions at 50 percent, the combined organization would control approximately 79.7 percent of market deposits, and the HHI would increase by 30 points to a level of 6429. In addition, 21 other insured depository institutions, including the credit unions, would remain in the Winston-Salem banking market.

Durham–Chapel Hill, North Carolina, Banking Market. Branch Bank is the fifth largest depository institution in the Durham–Chapel Hill banking market, controlling approximately \$1.3 billion in deposits, which represent 8.7 percent of market deposits.⁵⁴ SunTrust Bank is the third largest depository institution in the market, controlling approximately \$2.2 billion in deposits, which represent 14.7 percent of market deposits. On consummation, Branch Bank would be the second largest depository institution in the Durham–Chapel Hill banking market, controlling approximately \$3.6 billion in deposits, which

⁵¹ See *supra* note 42.

⁵² The Winston–Salem banking market is defined as Davie, Forsyth, Stokes, and Yadkin counties, all in North Carolina.

⁵³ See *supra* note 42.

⁵⁴ The Durham–Chapel Hill banking market is defined as Chatham, Durham, Orange, and Person counties, all in North Carolina.

would represent approximately 23.4 percent of market deposits. The HHI in this market would increase 255 points, from 2220 to 2475.

To mitigate the potentially adverse competitive effects of the proposal in the Durham–Chapel Hill banking market, BB&T has committed to divest 11 SunTrust branches, accounting for a total of approximately \$1.1 billion in deposits, to a competitively suitable institution. Other factors also mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Durham–Chapel Hill banking market. In particular, one thrift institution in the market has a commercial and industrial loan portfolio similar to those of commercial banks in the Durham–Chapel Hill banking market, as measured in terms of the ratios of those types of loans to total loans and assets. The Board has concluded that deposits controlled by this institution should be weighted at 100 percent in the market-share calculations. In addition, four qualifying credit unions exert a competitive influence in the Durham–Chapel Hill banking market.

After accounting for the 11 branch divestitures and weighting the deposits of the thrift at 100 percent and the deposits of the four credit unions at 50 percent, the combined organization would control approximately 15.7 percent of market deposits, the HHI would increase by 29 points to a level of 2162, and 19 other insured depository institutions, including the credit unions, would remain in the market, including two insured depository institutions each with a market share of more than 14.0 percent.

Conclusion Regarding Competitive Effects

The DOJ conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal with the proposed divestitures of branches in the banking markets, as discussed above, would not likely have a significantly adverse effect on competition in those markets or in any other 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, including the proposed divestitures, and for the reasons explained above, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the banking markets in which BB&T and SunTrust compete directly or in any other 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. In its evaluation of the 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 public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as the 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.

BB&T, SunTrust, and their subsidiary depository institutions are each well capitalized, and the combined organization would remain so on consummation of the proposed merger.⁵⁵ The proposed transaction is a bank holding company merger that is structured as a share exchange.⁵⁶ The asset quality, earnings, and liquidity of both Branch Bank and SunTrust Bank are consistent with approval, and BB&T and SunTrust appear to have adequate resources to absorb the costs of the proposal and to complete the integration of the institutions' operations. In addition, future prospects 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 BB&T, SunTrust, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by BB&T, 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.

BB&T, SunTrust, and their subsidiary depository institutions are each considered to be well managed.⁵⁷ The combined organization's proposed directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and the proposed risk-management program for the combined organization appears consistent with approval of this expansionary proposal.

The Board also has considered BB&T's plans for implementing the proposal. BB&T has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-integration process for this proposal.⁵⁸ BB&T

⁵⁵ Because BB&T determined that the proposed acquisition of SunTrust would result in a material change in BB&T's risk profile and corporate structure, BB&T submitted an updated capital plan ("Resubmitted Capital Plan") to reflect the proposed acquisition. *See* 12 CFR 225.8(e)(4)(i). In reviewing the Resubmitted Capital Plan, the Federal Reserve assessed the combined organization's ability to maintain capital levels above minimum regulatory capital ratios, after undertaking all capital actions included in the updated capital plan under baseline and stressful conditions throughout a nine-quarter planning horizon. Based on this assessment, the Board does not object to BB&T's Resubmitted Capital Plan.

⁵⁶ At the time of the proposed acquisition, each share of SunTrust common stock would be converted into a right to receive shares of BB&T common stock based on an exchange ratio. In addition, each share of certain noncumulative perpetual preferred SunTrust stock would be converted into a right to receive substantially similar newly issued preferred BB&T stock.

⁵⁷ Commenters expressed concerns that the combined institution would lack robust risk-management practices and policies, putting individuals at risk, and suggested that the merger could present heightened cybersecurity and privacy risks. BB&T represents that it has made enhancements to its enterprise-wide risk-management program in recent years, including rebuilding its cybersecurity framework and investing in new cybersecurity technologies and tools. BB&T further represents that the combined organization would increase its investment in the Truist Bank's cyber protections and information technology resiliency.

Some commenters also expressed concerns about managerial resources of SunTrust and BB&T generally, given negative prior experiences with branch-level staff at both banks. BB&T represents that the combined organization would strive to maintain a customer-focused culture. In addition, complaints based on an individual customer transaction, such as a complaint relating to an individual loan denial or a loan foreclosure proceeding, generally are not considered to be substantive comments (see SR Letter 97-10 at <https://www.federalreserve.gov/boarddocs/srletters/1997/SR9710.HTM>), and, thus, generally are not taken into consideration by the Board in its evaluation of the statutory factors governing the transaction.

⁵⁸ A commenter alleged that BB&T has not successfully integrated past acquisitions, including the acquisitions of Susquehanna Bank and National Penn Bank. As noted above, BB&T is devoting sufficient resources to address the post-integration process of this proposal. BB&T further represents that it would conduct detailed planning and multiple integration testing exercises prior to the implementation of any systems conversions or

represents that the combined organization would select strong capabilities and systems from the respective existing risk-management governance, operations, and systems of BB&T and SunTrust to create a firm-wide risk-management program for the combined organization. Both BB&T's and SunTrust's existing risk-management policies, procedures, and controls are considered acceptable from a supervisory perspective. In addition, BB&T's and SunTrust's management have the experience and resources to operate the combined organization in a safe and sound manner, and the combined organization would integrate existing management and personnel from both BB&T and SunTrust.⁵⁹ Similarly, BB&T represents that an experienced team of management and other personnel is overseeing the integration planning process across all business lines and support units of both BB&T and SunTrust.

BB&T also represents that it has allocated additional staff and resources to satisfy the additional regulatory requirements that apply to bank holding companies with \$250 billion or more in total consolidated assets.⁶⁰ Specifically, Category III standards would apply to a bank holding company with assets of \$250 billion or more that does not meet the criteria for Category I or Category II standards.⁶¹ Category III standards include annual supervisory stress tests, company-run stress tests every other year, the countercyclical capital buffer, a supplementary leverage ratio, a liquidity coverage ratio requirement, and other reporting and liquidity requirements.⁶²

Based on all the facts of record, including BB&T's and SunTrust's supervisory records, managerial and operational resources, and plans for operating the combined organization after consummation, the Board determines that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of BB&T and SunTrust in combatting money-laundering activities, are consistent with approval.⁶³

other IT migration/integration actions involving customer accounts. BB&T and SunTrust also represented that the combined organization would conduct extensive training of branch and call-center personnel designed to ensure that upon consummation of the proposal, the systems conversion would not adversely impact customers, and that any questions from customers could be answered promptly.

⁵⁹ The combined organization would have a board of 22 directors, 11 each from BB&T and SunTrust. In addition, the 14 senior executive officers at the combined organization would be composed of seven current senior executive officers from each of BB&T and SunTrust.

⁶⁰ See 12 CFR 249 & 252.

⁶¹ On October 10, 2019, the Board adopted final rules tailoring the application of prudential standards to large banking organizations based on the risk profile of the banking organization (tailoring rules). See 84 *Fed. Reg.* 59032, 59035 (November 1, 2019). The tailoring rules will be effective December 31, 2019.

⁶² To facilitate continuity of requirements, BB&T has committed that the combined organization would remain subject to certain prudential standards that currently apply to BB&T and SunTrust, as well as certain standards that would apply to a bank holding company that would be subject to Category III standards after the effective date of the tailoring rules.

⁶³ A commenter alleged that the Board should not have lifted its consent order against BB&T regarding anti-money laundering issues, suggesting that such issues were not fully remediated. On January 25, 2017, BB&T entered into a Cease and Desist Order Issued Upon Consent Pursuant to the Federal Deposit Insurance Act with the Board and the North Carolina Office of the Commissioner of Banks relating to deficiencies in BB&T's overall program for Bank Secrecy Act/anti-money-laundering ("BSA/AML") compliance (the "BSA/AML Order"). The BSA/AML Order required BB&T to, among other things, take the following actions: strengthen board oversight of BB&T's firm-wide compliance risk-management program with regard to compliance with BSA/AML requirements; develop and implement a comprehensive BSA/AML plan, including an effective institution-wide BSA risk-assessment program that clearly defined acceptable BSA/AML risks; ensure that BSA/AML issues were appropriately tracked, escalated, and reviewed by senior management; create a process for periodically reevaluating staffing needed in relation to its compliance risk profile; and identifying procedures for periodic testing of the effectiveness of the compliance risk management program.

The North Carolina Office of the Commissioner of Banks terminated its participation in the BSA/AML Order on June 28, 2018. On April 18, 2019, the Board terminated the BSA/AML Order with BB&T in light of the corrective actions taken by BB&T to remediate its BSA/AML deficiencies. In particular, BB&T took a number of corrective actions, including hiring a new leadership team for its BSA/AML compliance; establishing a BSA/AML oversight committee to provide oversight of the BSA/AML compliance program; implementing an

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.⁶⁴ In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of these communities, as well as other potential effects of the proposal on the convenience and needs of the communities to be served, and places particular emphasis on the records of the relevant depository institutions under the CRA. The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,⁶⁵ 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 LMI neighborhoods.⁶⁶

In addition, the Board considers the banks' overall compliance record 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 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 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 Branch Bank and SunTrust Bank, the fair lending and compliance records of both banks, the supervisory views of the FDIC and the Consumer Financial Protection Bureau ("CFPB"), confidential supervisory information, information provided by BB&T, and the public comments on the proposal.

Summary of Public Comments on Convenience and Needs

As noted above, in total, the Board received approximately 1050 public comments on the proposal from community groups, nonprofit organizations, customers of the two banking organizations, and other interested organizations and individuals. The Board held two public meetings to facilitate receiving comments on the proposal from interested members of the public. A significant number of comments were submitted, both orally and in writing, through this process.

Many commenters supported the proposal. In general, these commenters asserted that BB&T and SunTrust provide valuable services to their communities. Commenters contended that the proposal would expand opportunities for community groups, LMI persons, and small businesses. These commenters also praised BB&T and SunTrust and their management for each bank's community outreach efforts and support for community programs and initiatives.

The Board also received a large number of comments opposing the proposal. Several commenters alleged that BB&T and SunTrust were not meeting the credit needs of

enhanced BSA/AML policy; developing and implementing new customer risk rating processes; and conducting new BSA/AML compliance training.

⁶⁴ 12 U.S.C. § 1842(c)(2).

⁶⁵ 12 U.S.C. § 2901(b).

⁶⁶ 12 U.S.C. § 2903.

minority and LMI communities and borrowers, particularly in Florida and Durham, North Carolina, or unbanked and underbanked populations. One commenter alleged that BB&T made a disproportionately low number of home purchase loans to African American and Latino borrowers in the Houston, Texas, New York, New York, and Charleston, West Virginia, areas based on data reported for 2017 under HMDA. Commenters also alleged that BB&T and SunTrust engaged in economic exclusion in the communities in which they operate, including in certain African American neighborhoods and communities. Another commenter objecting to the proposal alleged that BB&T has engaged in redlining in Dallas and Houston, Texas.⁶⁷ Specifically, the commenter alleged that BB&T disfavors certain African American neighborhoods in Dallas and Houston and has limited its lending, marketing activities, community development activities, and branching in those areas.

Several commenters expressed concern that branch closures or changes in customer accounts could adversely affect communities served by BB&T and SunTrust, especially in Durham, North Carolina, The Villages, Florida, and in rural communities, including in West Virginia.⁶⁸ Commenters also expressed concern that any branch closures or account changes could have a disproportionately adverse effect on senior citizens⁶⁹ or persons with disabilities.⁷⁰

Many commenters also expressed concern that the proposed merger could result in job losses, particularly in Winston-Salem and Durham, both in North Carolina, as well as rural areas generally.⁷¹ Other commenters contended that the larger combined bank would be less concerned with customer service in local communities, such as Luzerne County, Pennsylvania. One commenter expressed concern about potential abuses of consumers by SunTrust.⁷²

Several commenters requested that the Board condition its approval on a variety of commitments by BB&T regarding racial equity and diversity and inclusion; affordable

⁶⁷ 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 at <https://www.ffiec.gov/pdf/fairlend.pdf> (August 2009).

⁶⁸ Commenters representing organizations located in West Virginia expressed a heightened concern regarding branch closures because BB&T is the largest bank in West Virginia, and SunTrust recently closed all of its branches in the state.

⁶⁹ For example, some commenters expressed concern that the proposed merger may result in changes in accounts or services currently provided by SunTrust Bank or Branch Bank that could inconvenience or confuse customers. In particular, commenters asserted that any change in sign-on procedures and other website navigation protocols could cause confusion for seniors. Another commenter expressed concerns that changes in account numbers could inconvenience those who rely on online banking.

⁷⁰ A commenter alleged that the closure of branches that are highly accessible or close to public transportation could adversely affect persons with disabilities.

⁷¹ BB&T represents that the combined organization would take a number of steps to minimize job losses. For example, BB&T has indicated that all performing customer-facing employees would have a position with the combined organization upon consummation. Additionally, BB&T has indicated that any displaced employees would receive priority consideration for internal job opportunities and would be actively encouraged to apply for positions for which they are interested and qualified. Those displaced employees who do not remain with the combined organization would receive a market-based severance package and be offered outplacement services to assist with external job searches. Nevertheless, the potential for job losses resulting from a merger is outside of the limited statutory factors that the Board is authorized to consider when reviewing an application or notice under the BHC Act. See *Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973); see also *Wells Fargo & Company*, 82 *Federal Reserve Bulletin* 445 (1996); *Community Bank System, Inc.*, FRB Order No. 2015-34 (November 18, 2015); and *KeyCorp*, FRB Order No. 2016-12 (July 12, 2016).

⁷² The Board also received several comments arguing that SunTrust should not provide loans or other funding to private prisons. In addition, the Board received a comment urging BB&T to cease doing business with and lending money to firearm and ammunition manufacturers. These comments are outside the limited statutory factors that the Board is authorized to consider when reviewing an application or notice under the BHC Act. See *Western Bancshares*, 480 F.2d at 752–54.

housing for and lending to LMI communities and individuals; community development programs in the combined organization's footprint; financial and nonfinancial commitments in West Virginia; recruitment from and engagement with Historically Black Colleges and Universities ("HBCUs"); support of public and technical schools; programs targeted at home retention, adult literacy, workforce development, disability services, and extending credit to the unbanked and underbanked; a specified hourly minimum wage for employees; a specified level of philanthropic giving in relation to corporate earnings; and robust risk assessment tools. Several commenters requested that the Board condition approval of the application on establishment of and performance under a Community Benefits Plan.⁷³

Businesses of the Involved Institutions and Response to Comments

BB&T and Branch Bank offer financial products and services to individual customers and businesses, primarily through Branch Bank's branch network in Alabama, Florida, Georgia, Indiana, Kentucky, Maryland, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, West Virginia, and the District of Columbia. Branch Bank offers a broad range of banking products and services to its customers, including retail consumer and commercial banking, mortgage and consumer lending, lease financing, asset-based lending, discount brokerage services, annuities and mutual funds, life insurance, property and casualty insurance, health insurance, loan servicing for third-party investors, private bank and trust services, payments processing, and cash management and treasury services.

SunTrust and SunTrust Bank also offer financial products and services to individual customers and businesses, primarily through SunTrust Bank's branch network in Alabama, Arkansas, Florida, Georgia, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia. SunTrust offers a broad range of banking products and services to its customers, including mortgage lending, student lending, consumer lending, small business lending, commercial loan and lease financing, trust and wealth management services, insurance products on an agency basis, investment and mergers and acquisition advisory services, capital markets and investment banking services, and treasury and cash management services.

BB&T denies the commenters' HMDA-related allegations regarding the Newark–Jersey City, New York–New Jersey–Pennsylvania, MSA ("New York MSA"); the Charleston, West Virginia, MSA ("Charleston MSA"); the Dallas–Fort Worth–Arlington, Texas, MSA ("Dallas MSA"); and the Houston–The Woodlands–Sugar Land, Texas, MSA ("Houston MSA"); arguing that Branch Bank's record of home mortgage lending does not disproportionately or discriminatorily impact African Americans or Hispanics. BB&T represents that in the New York MSA, the bank only has one branch, and the market demographics near the branch provide limited opportunities to extend mortgage loans to minority applicants in any one year. BB&T asserts that in the Charleston MSA, the market demographics similarly limit Branch Bank's opportunities to extend mortgage loans to minority applicants, but notes that the bank's complete HMDA data reflect additional applications from minority borrowers beyond home purchase applications. BB&T notes that Branch Bank

⁷³ On July 16, 2019, BB&T and SunTrust announced a Community Plan, under which they have indicated that the combined organization would lend or invest \$60 billion to LMI borrowers and in LMI communities over a three-year period, from 2020 to 2022. The Board has consistently found that neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into commitments or agreements with any organization. See, e.g., *CIT Group, Inc.*, FRB Order No. 2015-20 at 24 n.54 (July 19, 2015); *Citigroup Inc.*, 88 *Federal Reserve Bulletin* 485 (2002); and *Fifth Third Bancorp*, 80 *Federal Reserve Bulletin* 838, 841 (1994). In its evaluation, the Board reviews the existing CRA performance record of an applicant and the programs that the applicant has in place to serve the credit needs of its CRA AAs.

has significantly increased its receipt of home mortgage loan applications from and home mortgage loan originations to minorities in Houston and Dallas. BB&T also represents that the bank maintains a robust and comprehensive compliance program to ensure credit and financial products are available for all the communities it services. In addition, BB&T asserts that Branch Bank offers many programs and community development activities to increase affordable housing opportunities for LMI individuals and majority-minority communities.

BB&T asserts that Branch Bank is actively involved in West Virginia and has maintained a high level of CRA activity in the state. Specifically, BB&T represents that the bank has actively assisted affordable housing, social services, economic development and community revitalization and stabilization efforts in West Virginia through its community development lending and qualified investment and grant activities. BB&T asserts that, in Florida, both Branch Bank and SunTrust Bank have increased their lending to and community development activities in minority communities. BB&T notes that both banks have strong CRA, fair lending, and consumer compliance programs throughout their footprints, including in Durham, North Carolina, and the banks have conducted outreach initiatives to increase mortgage and small business lending in majority-minority and LMI communities in Durham, North Carolina, and elsewhere.⁷⁴

BB&T represents that both Branch Bank and SunTrust Bank are assisting in meeting the needs of the unbanked and underbanked by offering a full range of loan and deposit products, including numerous affordable home mortgage programs, government-sponsored loan programs for home mortgage borrowers and small businesses, affordable deposit products for small businesses and nonprofit organizations and low-cost deposit products for consumers. Similarly, both banks represent that they provide free financial education resources for consumers and small businesses.

BB&T represents that Truist Bank would consider accessibility when making decisions on products and services and branching, and would form an Enterprise Accessibility Center of Excellence to implement physical and digital accessibility improvements. BB&T asserts that these efforts would make Truist Bank's products and services more accessible to all customers, including senior citizens and persons with disabilities. BB&T represents that Truist Bank would develop written communications and would mobilize call centers to minimize the effects of the merger on customers, including senior citizens.

Records of Performance under the CRA

In evaluating the convenience and needs factor and the CRA performance of an 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 or supervisors,⁷⁵ which in this case, are the FDIC for Branch Bank, the Federal Reserve Bank of Atlanta for SunTrust Bank, and the CFPB for both banks. In addition, the Board considers information provided by the applicant and by public commenters.

⁷⁴ Commenters alleged that BB&T did not provide the same level of leadership training to African American residents in Durham and students at HBCUs. These commenters suggested that the combined organization could address the alleged inequities by ensuring that any advisory committees established to advise on community needs include representatives from African American communities and organizations, as well as HBCUs. BB&T represents that its Leadership Institute has partnered with 14 HBCUs to provide enhanced leadership training to more than 730 college students.

⁷⁵ See Interagency Questions and Answers Regarding Community Reinvestment, 81 *Fed. Reg.* 48506, 48548 (July 25, 2016).

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.⁷⁶ 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 large insured depository institutions, such as Branch Bank and SunTrust Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates the institution's home mortgage, small business, small farm, and community development 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 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;⁷⁷ (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. 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.⁷⁸

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.⁷⁹ Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of an institution.

⁷⁶ 12 U.S.C. § 2906.

⁷⁷ 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).

⁷⁸ *See* 12 CFR 228.21 *et seq.*

⁷⁹ Other data 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.

CRA Performance of Branch Bank

Branch Bank was assigned an overall “Outstanding” rating at its most recent CRA performance evaluation by the FDIC, as of January 17, 2017 (“Branch Bank Evaluation”).⁸⁰ Branch Bank received a “High Satisfactory” rating for the Lending Test and “Outstanding” ratings for the Investment Test and the Service Test. The Board has consulted with the FDIC regarding the Branch Bank Evaluation.

Lending Test

Examiners found that Branch Bank’s overall lending levels reflected good responsiveness to community credit needs. According to examiners, a high percentage of the loans made by Branch Bank were made in its AAs, and the distribution of such loans reflected good penetration among retail customers of different income levels and businesses of different sizes. Examiners noted that Branch Bank used innovative and flexible lending practices in order to serve AA credit needs. Examiners identified Branch Bank as a leader in making community development loans.

Areas of Concern to Commenters—In the Charleston MSA, examiners noted that the bank’s lending reflected adequate responsiveness to AA credit needs. Examiners found that the geographic distribution of home mortgage loans reflected adequate penetration throughout the AA and the borrower profile reflected a good distribution. Examiners noted that the bank used flexible lending practices and made a relatively high level of community development loans.

In the Dallas MSA, examiners found that Branch Bank’s lending levels reflected good responsiveness to AA credit needs. Examiners noted that the bank’s geographic distribution and distribution of borrowers reflected good penetration throughout the AA. Examiners further noted that the bank used flexible lending practices and made a relatively high level of community development loans.

In the Houston MSA, examiners found that Branch Bank’s lending levels reflected good responsiveness to AA credit needs. Examiners noted that the bank’s geographic distribution of home mortgage loans reflected good penetration, while the distribution of borrowers reflected adequate penetration, throughout the AA. In addition, examiners noted that the bank used flexible lending practices and was a leader in making community development loans.

In Florida, examiners found that the bank’s geographic distribution of loans reflected adequate penetration throughout the bank’s AAs, and the borrower profile also reflected an adequate distribution. In addition, examiners noted that the bank used flexible lending practices and was a leader in making community development loans.

⁸⁰ The Branch Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed home mortgage lending data, other CRA data (small loans to businesses and farms), community development loans, qualified investments, branching activities, and community development services from January 1, 2014, through December 31, 2016. The Branch Bank Evaluation covered Branch Bank’s 138 AAs located in 13 states and nine multistate metropolitan statistical areas (“MSAs”): Alabama; Florida; Georgia; Kentucky; Maryland; New Jersey; North Carolina; Pennsylvania; South Carolina; Tennessee; Texas; Virginia; West Virginia; Cincinnati, Kentucky–Ohio, MSA; Charlotte–Concord–Gastonia, North Carolina–South Carolina, MSA; Columbus, Alabama–Georgia, MSA; Cumberland, Maryland–West Virginia, MSA; Hagerstown–Martinsburg, Maryland–West Virginia, MSA; Kingsport–Bristol–Bristol, Tennessee–Virginia, MSA; Louisville–Jefferson County, Indiana–Kentucky, MSA; Myrtle Beach–Conway–North Myrtle Beach, North Carolina–South Carolina, MSA; and Washington–Arlington–Alexandria, District of Columbia–Maryland–Virginia–West Virginia, MSA. The Branch Bank Evaluation included a full-scope review of 51 of these AAs, including all nine multistate MSAs. A limited-scope review was conducted of the remaining 87 AAs.

In the New York MSA, examiners noted that Branch Bank's lending reflected adequate responsiveness to AA credit needs, and the geographic distribution reflected adequate penetration throughout the AA. Examiners found that the bank used innovative and/or flexible lending practices to serve the AA.

In North Carolina, Branch Bank received an overall "High Satisfactory" rating for the Lending Test. In the Durham–Chapel Hill, North Carolina, MSA ("Durham MSA"), examiners found that the bank's performance was consistent with the bank's statewide performance.

In Pennsylvania, Branch Bank received an overall "High Satisfactory" rating for the Lending Test. In the Scranton–Wilkes Barre, Pennsylvania, MSA ("Scranton MSA"), which includes Luzerne County, Pennsylvania, examiners found that Branch Bank's lending performance in the AA was consistent with the bank's statewide performance.

In West Virginia, examiners found that the geographic distribution of loans reflected adequate penetration throughout the bank's AAs and the borrower profile reflected a good distribution. In addition, examiners noted that the bank used flexible lending practices and made a relatively high level of community development loans.

Investment Test

Examiners found that Branch Bank had an excellent level of qualified community development investments and grants and often was in a leadership position with respect to such investments, particularly those that were not routinely provided by private investors. Examiners noted that Branch Bank exhibited excellent responsiveness to credit and community economic development needs and made significant use of innovative and/or complex investments to support community development initiatives.

Areas of Concern to Commenters—In the Charleston MSA, examiners noted that Branch Bank provided a significant level of qualified investments in the AA. Examiners found that the bank's investments were responsive to credit and community development needs and were considered innovative and complex.

In the Dallas MSA, examiners found that Branch Bank provided a significant level of qualified investments in the AA. Examiners noted that the investments were responsive to credit and community development needs and were considered innovative and complex.

In the Houston MSA, examiners found that Branch Bank provided an excellent level of qualified investments in the AA. Examiners noted that the bank's investments were responsive to credit and community development needs and were considered innovative and complex.

In Florida, examiners noted that the bank had an excellent level of qualified investments, which were responsive to community development needs and included innovative and complex characteristics.

In the New York MSA, examiners noted that Branch Bank provided an adequate level of qualified investments in the AA, and that the investments were responsive to AA credit and community development needs.

In North Carolina, Branch Bank received an overall "Outstanding" rating for the Investment Test. In the Durham MSA, examiners found that the bank's performance was consistent with its overall statewide performance.

In Pennsylvania, Branch Bank received an overall “High Satisfactory” rating for the Investment Test. In the Scranton MSA, examiners found that Branch Bank’s performance was not inconsistent with the bank’s statewide performance in this category.

In West Virginia, examiners noted that the bank had an excellent level of qualified investments, which were responsive to community development needs and included innovative and complex characteristics.

Service Test

Examiners noted that Branch Bank’s delivery systems were accessible to essentially all portions of its AAs. Examiners also noted that, to the extent changes were made, Branch Bank’s opening and closing of branches did not adversely affect the accessibility of its delivery systems, particularly in LMI geographies or to LMI individuals. Examiners found that Branch Bank’s services were tailored to the convenience and needs of the AAs, particularly of LMI geographies and individuals. Examiners characterized Branch Bank as a leader in providing community development services.⁸¹

Areas of Concern to Commenters—In the Charleston MSA, examiners noted that the bank’s delivery systems were readily accessible to all portions of the AA, and the opening and closing of branches generally had not adversely affected the accessibility of the bank’s delivery systems.

In the Dallas MSA, examiners found that Branch Bank’s delivery systems were reasonably accessible to essentially all portions of the AA, and the opening and closing of branches had improved the accessibility of the bank’s delivery systems. Examiners noted that the bank’s services and business hours were tailored to the convenience and needs of the AA, and the bank provided a relatively high level of community development services.

In the Houston MSA, examiners found that Branch Bank’s delivery systems were reasonably accessible to essentially all portions of the AA. Examiners noted that the opening and closing of branches had improved the accessibility of the bank’s delivery systems. Examiners also noted that the services and business hours provided by the bank were tailored to the convenience and needs of the AA.

In Florida, examiners found that the bank’s delivery systems were accessible to essentially all portions of the institution’s AAs. Examiners noted that Branch Bank’s opening and closing of branches did not adversely affect the accessibility of the bank’s delivery systems, particularly in LMI geographies or to LMI individuals.

In the New York MSA, examiners found that Branch Bank’s delivery systems were reasonably accessible to essentially all portions of the AA. Examiners noted that the opening and closing of branches generally had not adversely affected the accessibility of the bank’s delivery systems.

⁸¹ Some commenters objected to the proposal noting that examiners cited a substantive violation of Regulation B, which implements the Equal Credit Opportunity Act, in the Branch Bank Evaluation. According to the Branch Bank Evaluation, the violations were limited to one loan product, and the bank implemented changes to policies, procedures, training programs, internal assessments, and other practices to prevent future discriminatory or other illegal credit practices. Examiners concluded that the violations did not warrant a downgrade of Branch Bank’s CRA rating, considering the bank’s overall CRA performance, the extent and impact of the findings, and the immediate corrective actions taken by Branch Bank.

In North Carolina, Branch Bank received an overall “Outstanding” rating for the Service Test. In the Durham MSA, examiners found that the bank’s performance was consistent the bank’s statewide performance.

In Pennsylvania, Branch Bank received an overall “High Satisfactory” rating for the Service Test. In the Scranton MSA, examiners found that Branch Bank’s lending activities were consistent with the bank’s statewide performance.

In West Virginia, examiners found that the bank’s delivery systems were accessible to essentially all portions of the institution’s AAs. Examiners noted that Branch Bank’s opening and closing of branches did not adversely affect the accessibility of the bank’s delivery systems, particularly in LMI geographies or to LMI individuals.

Branch Bank’s Efforts since the Branch Bank Evaluation

BB&T represents that, since the Branch Bank Evaluation, Branch Bank has continued to provide levels and types of CRA services, investments, and activities in all of its AAs that are consistent with its overall “Outstanding” CRA performance rating. BB&T contends that Branch Bank has continued to originate a substantial number of home mortgage loans to LMI borrowers and in LMI census tracts. BB&T notes that the bank also originated a number of small business and farm loans, including in LMI census tracts, and made significant community development investments and loans throughout the bank’s local communities. BB&T represents that Branch Bank has continued to support affordable housing through its community development lending, investments, grants and services activities, including through its participation in various Federal Housing Finance Agency mortgage loan programs targeted toward first-time homebuyers and LMI borrowers.

In addition, Branch Bank represents that it has made a wide range of community development loans to support affordable housing, economic development, revitalization of communities, and the provision of community services for the LMI community. BB&T asserts that Branch Bank’s management and employees have continued to dedicate volunteer hours to community service projects, including to community organizations that provide employment services, financial education, and literacy training for children and families.

Areas of Concern to Commenters—In the Dallas MSA, BB&T asserts that Branch Bank has strong fair lending and consumer compliance risk-management programs and has undertaken efforts to increase its mortgage and small business lending in majority-minority and LMI communities.

In the Houston MSA, BB&T asserts that Branch Bank has provided community development loans and investments focused on serving the needs of minority communities through programs that support affordable housing and minority-owned businesses. BB&T represents that Branch Bank has provided a number of homebuyer and financial literacy courses that benefited minority individuals and communities.

In the Durham MSA, BB&T asserts that Branch Bank has conducted a number of individual and community outreach activities to enhance lending to minority individuals and communities. BB&T represents that the bank’s outreach has included support for programs for homebuyer education, financial literacy, community and economic stabilization, as well as for other organizations addressing affordable housing in majority-minority communities in the Durham MSA.

In Florida, BB&T asserts that Branch Bank has taken a number of steps to increase home mortgage lending to minorities. BB&T represents that Branch Bank plans to open de novo branches in LMI and/or majority-minority census tracts in Miami and Tampa in 2019.

In West Virginia, BB&T represents that the bank has maintained a high level of home mortgage lending, small business lending, community development lending and qualified investments or grants. BB&T asserts that Branch Bank has provided community development loans, investments, and grants to support affordable housing, social services, economic development, and community revitalization and stabilization in the state.

CRA Performance of SunTrust Bank

SunTrust Bank was assigned an overall “Satisfactory” rating at its most recent CRA performance evaluation by the Federal Reserve Bank of Atlanta, as of September 16, 2016 (“SunTrust Bank Evaluation”).⁸² SunTrust Bank received “High Satisfactory” ratings for the Lending and Investment tests and a “Low Satisfactory” rating for the Service Test.

Lending Test

Examiners noted that the overall geographic distribution of HMDA-reportable lending reflected adequate penetration in LMI geographies, and the overall geographic distribution of small business lending reflected good penetration in LMI geographies. Examiners found that the overall distribution of HMDA-reportable lending among borrowers of different income levels was good, and the overall distribution of small business lending among businesses of different sizes was adequate. Examiners noted that SunTrust Bank made a relatively high level of community development loans.

Areas of Concern to Commenters—In Florida, SunTrust Bank received a “High Satisfactory” rating for the Lending Test. Examiners found that the geographic distribution of loans reflected good penetration throughout the AAs, and the distribution of loans by borrower income reflected good penetration among customers of different income levels and businesses of different revenue sizes. Examiners noted that the bank made a relatively high level of community development loans in its AAs. In The Villages MSA, examiners noted that the bank’s Lending Test performance in the AA was below the bank’s overall statewide performance.

In North Carolina, although SunTrust Bank received an overall “High Satisfactory” rating for the Lending Test, in the Durham MSA, examiners found that the bank’s lending performance was adequate. Examiners noted that the bank’s geographic distribution of loans reflected adequate penetration throughout the AA. Examiners further noted that SunTrust Bank’s distribution of borrowers reflected good penetration among borrowers of different income levels and businesses of different revenue sizes.

⁸² The SunTrust Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed HMDA-reportable and CRA small business lending data from January 1, 2014, to December 31, 2015, as well as community development loans, investments, and services from January 1, 2013, to December 31, 2015. The SunTrust Bank Evaluation covered SunTrust Bank’s 107 AAs located in nine states and four multistate MSAs: Alabama; Florida; Georgia; Maryland; North Carolina; South Carolina; Tennessee; Virginia; West Virginia; Charlotte, North Carolina–South Carolina MSA; Chattanooga, Tennessee–Georgia MSA; Memphis, Tennessee–Mississippi–Arkansas MSA; and Washington–Arlington–Alexandria, District of Columbia–Maryland–Virginia–West Virginia, MSA. The SunTrust Bank Evaluation included a full-scope review of 18 of these AAs, including the four multistate MSAs. A limited-scope review was conducted in the remaining 89 AAs.

Investment Test

Examiners found that SunTrust Bank made a significant level of qualified community development investments in response to AA community development needs. Examiners noted that most of SunTrust Bank's investments supported affordable housing, primarily through the purchase of government guaranteed mortgage-backed securities and investments in Low-Income Housing Tax Credit equity funds that financed affordable multi-family rental housing. Examiners identified SunTrust Bank as a national leader in utilizing the New Market Tax Credit Program.

Areas of Concern to Commenters—In Florida, SunTrust Bank received an overall rating of “High Satisfactory” for the Investment Test. Examiners found that the bank provided a significant level of qualified community development investments and grants that were responsive to several identified community development needs of its AAs. In The Villages MSA, examiners noted that the bank's investment performance in the AA was below the bank's overall statewide performance.

In North Carolina, SunTrust Bank received an overall “High Satisfactory” rating for the Investment Test. In the Durham MSA, examiners found that SunTrust Bank made an adequate level of qualified investments and grants in the AA relative to the bank's presence and community development investment opportunities in the AA.

Service Test

Examiners found that SunTrust Bank's retail delivery systems were reasonably accessible to geographies and individuals of different income levels in the bank's AAs. Examiners also found that SunTrust Bank provided a relatively high level of community development services. Examiners noted that eight branch closures were located in low-income tracts and 21 were in moderate-income tracts, which may have adversely affected the accessibility of banking services in some AAs.

Area of Concern to Commenters—In Florida, SunTrust Bank received an overall “Low Satisfactory” rating for the Service Test. Examiners found that the bank's retail services were reasonably accessible to the bank's geographies and individuals of different income levels in the bank's AAs. Examiners noted that the bank provided an adequate level of community development services throughout the AAs. In The Villages MSA, examiners noted that the bank's Service Test performance was below the bank's overall statewide performance.

In North Carolina, SunTrust Bank received an overall “High Satisfactory” rating for the Service Test. In the Durham MSA, examiners found that SunTrust Bank's Service Test performance was good based on the accessibility of the bank's retail services and leadership in providing community development services.

SunTrust Bank's Efforts Since the SunTrust Bank Evaluation

SunTrust represents that SunTrust Bank's CRA performance since the 2016 evaluation generally has been consistent with the bank's overall “Satisfactory” rating, and the bank's performance in several categories of CRA activity has significantly improved. SunTrust represents that the bank has made a significant number of HMDA loans to LMI borrowers and in LMI census tracts. SunTrust further represents that the bank has made small business loans in LMI census tracts and community development loans and investments geared toward revitalizing LMI geographies, providing affordable housing, and serving low-income communities.

In addition, SunTrust represents that SunTrust Bank has made a significant number of contributions and grants to nonprofit entities focused on providing affordable housing, community services, economic development, and revitalization and stabilization to LMI customers and communities. SunTrust further represents that the bank has made significant strides in providing services throughout its communities through volunteer community development service hours focused on financial education, professional development, and affordable housing.

Areas of Concern to Commenters—In the Durham MSA, SunTrust asserts that SunTrust Bank has implemented initiatives focused on benefitting LMI and minority individuals and communities. SunTrust represents that the bank has increased its community development loans, investments, and grants to and in minority communities, with a focus on affordable housing, economic development, revitalization and stabilization of distressed and underserved communities, and community services to assist LMI individuals and communities.

In Florida, SunTrust asserts that SunTrust Bank's community development services focus on affordable housing, financial education, professional development, and other community services that benefit LMI and minority communities. SunTrust represents that SunTrust Bank has provided community development loans and grants to and qualified investments in projects or organizations that served minority communities throughout Florida.

Branch Closures

As noted above, many commenters expressed concern that the proposal could result in a significant number of branch consolidations and closures, which could negatively impact LMI and rural communities. The federal banking supervisory agencies evaluate a bank's record of opening and closing branches, particularly branches located in LMI geographies or primarily serving LMI individuals, as part of the CRA examination process.⁸³ Examiners noted in the Branch Bank Evaluation that Branch Bank's opening and closing of branches had not adversely affected the accessibility of the bank's delivery systems, particularly in LMI geographies or to LMI individuals. With respect to SunTrust Bank, examiners noted that some branch closures and consolidations by SunTrust Bank may have adversely affected the accessibility of banking services in some of the bank's AAs.

The Board also has considered the fact that federal banking law provides a specific mechanism for addressing branch closings, including the provision of notice to the public and the appropriate federal supervisory agency before the branch is closed.⁸⁴ BB&T represents that any branch closures or consolidations would be subject to the combined organization's framework for ensuring that individual branch closure and consolidation decisions comply with applicable laws and regulations. In particular, BB&T represents that any branch closures or consolidations would take account of the potential impact to LMI neighborhoods and/or majority-minority census tracts, and would be subject to a thorough CRA and fair lending analysis. BB&T further represents that any merger-related closures or consolidations would not occur in any states in which BB&T and SunTrust have overlapping operations for at least one year after consummation of the proposal. BB&T also represents that Truist Bank would not close any branches in communities of 2,500 or fewer

⁸³ See, e.g., 12 CFR 228.24(d)(2). In addition, the Board notes that the FDIC, as the primary federal supervisor of Truist Bank, would continue to evaluate the bank's branch closures in the course of conducting CRA performance evaluations.

⁸⁴ See 12 U.S.C. § 1831r-1. As federal banking law requires, a bank must provide the public with at least 30 days' notice and the appropriate federal supervisory agency with at least 90 days' notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

persons for three years following consummation of the proposal. Finally, BB&T represents that Truist Bank would seek to open at least 15 new branches throughout its footprint in LMI and/or majority-minority census tracts through 2022.

Additional Supervisory Views

In connection with its review of the proposal, the Board consulted the FDIC as the primary federal supervisor of Branch Bank. The FDIC is reviewing the bank merger underlying this proposal and, in acting on the bank merger application, must consider similar statutory factors under the Bank Merger Act, including regarding convenience and needs, that the Board must consider under the BHC Act. The FDIC received the same comments on the Bank Merger Act application as the Board received on the BHC Act application, and the FDIC is evaluating these comments in connection with its review of the Bank Merger Act application. The Board considered the views of the FDIC regarding Branch Bank's CRA and consumer compliance records, record of compliance with fair lending laws and regulations, and policies and procedures relating to fair lending and other consumer protection laws and regulations. This included consideration of Branch Bank's lending record. The Board also considered the views of the Federal Reserve Bank of Atlanta regarding SunTrust Bank's CRA and consumer compliance records, record of compliance with fair lending laws and regulations, and policies and procedures relating to fair lending and other consumer protection laws and regulations. In addition, the Board considered the views of the CFPB regarding the consumer compliance records of both Branch Bank and SunTrust Bank.

The Board has taken the views of the FDIC, Federal Reserve Bank of Atlanta, and CFPB, as well as all of the information discussed above, into account in evaluating this proposal. The Board has considered whether BB&T and SunTrust have the experience and resources to ensure that the combined organization effectively implements policies and programs that would allow the combined organization to help meet the credit needs of the communities within its AAs. The Board expects Truist to ensure that Truist Bank complies with any commitments or conditions that the FDIC may obtain or impose in connection with its action on the bank merger proposal.

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. BB&T represents that the combined organization would be better able to leverage increased scale to invest further in innovation and technology for the benefit of its customers. In addition, BB&T represents that existing customers of both Branch Bank and SunTrust Bank would have access to a more extensive branch and ATM network, as well as a broader offering of products and services. BB&T also represents that corporate customers of both Branch Bank and SunTrust Bank would benefit from Truist Bank's larger lending limit for individual corporate borrowers.

On November 19, 2019, the Board issued a consent order against SunTrust Bank under the Federal Deposit Insurance Act ("Consent Order") addressing concerns that SunTrust Bank engaged in certain unfair or deceptive acts or practices ("UDAP") in violation of section 5 of the Federal Trade Commission Act of 1914.⁸⁵ The conduct addressed in the Consent Order related to misleading or deceptive disclosures or unfair practices connected with the marketing of, enrollment in, and billing for several types of add-on and similar

⁸⁵ 15 U.S.C. § 45.

products offered to business customers with deposit accounts or that utilized SunTrust credit card and debit card processing services.

SunTrust Bank terminated the practices addressed in the Consent Order in 2016 and 2017, and has cooperated with the Board's investigation. SunTrust Bank has taken steps on its own initiative to address the Board's concerns and to initiate UDAP compliance enhancements, including by changing disclosures related to the terms and conditions for add-on products and stopping automatic enrollment of accountholders in other products. Following the receipt of complaints in 2016, SunTrust Bank issued approximately \$3 million in fee refunds to business accountholders. In addition, SunTrust Bank proactively conducted an internal review in 2016 to determine if other products presented similar concerns. Upon the identification of related issues as part of its internal review, SunTrust Bank initiated an additional \$4.25 million in fee refunds to business accountholders related to other products. In total, SunTrust Bank has indicated that, has it has repaid approximately \$8.8 million in fees to business accountholders affected by these practices since 2016.

Among other things, the Consent Order requires SunTrust Bank to create a procedure for verifying that the restitution previously provided by SunTrust Bank has been appropriate and for providing additional restitution if required. This Order is conditioned on BB&T's commitment to cause Branch Bank and any successor subsidiary bank to comply with the obligations of the Consent Order.

Although the Consent Order requires SunTrust Bank to submit a plan to enhance its UDAP compliance risk-management program, BB&T represents that the UDAP compliance program of Branch Bank, including detection and monitoring controls, would be implemented at Truist Bank. BB&T also represents that the board of directors and executive management of Truist would set a tone and culture from the top of the combined organization regarding Truist Bank's UDAP compliance program.

Regarding the UDAP compliance program, BB&T represents that the roles and functions of BB&T's first, second, and third lines of defense structure would be transitioned to Truist, although some responsibilities would be reallocated to be better aligned to Truist's reporting hierarchy. BB&T also represents that a newly hired Chief Compliance Officer ("CCO") would report directly to Truist's Chief Risk Officer ("CRO"), and BB&T's current CRO would lead Truist's risk-management function. The CCO and the CCO's direct report, the leader of the Fair Lending and Responsible Banking team at the combined organization, would be primarily responsible for UDAP compliance, as well as implementation of an enhanced, firm-wide compliance risk-management program. That program would include oversight of compliance with all laws, rules, regulations, regulatory guidance, and policies and procedures. BB&T also represents that the Truist CCO would have responsibility for identifying, assessing, controlling, measuring, monitoring, and reporting all compliance risks across the combined organization. In addition to reporting to the CRO, the CCO would report to appropriate executive-level risk management committees and the combined organization's board-level risk committee. Finally, BB&T represents that all Truist Bank staff would be required to take training specific to UDAP compliance annually.

Based on its review of the record, the Board finds that BB&T's existing UDAP compliance program is satisfactory and, in light of BB&T's representations, that the UDAP compliance program of the combined company would be consistent with approval of the proposal.

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; the views of the FDIC, the Federal Reserve Bank of Atlanta, and CFPB; confidential supervisory information; information provided by BB&T; 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. The Board expects Truist to implement policies, programs, and procedures that are commensurate with the increased size and complexity of the institution.

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.”⁸⁶

To assess the likely effect of a proposed transaction on the stability of the U.S. 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.⁸⁷ These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.⁸⁸

In this case, the Board has considered information relevant to risks to the stability of the U.S. banking or financial system.⁸⁹ The Board also has considered the relative degree of difficulty of resolving the resulting firm. The Board reviewed publicly available data, comments received from the public, data compiled through the supervisory process, and data obtained through information requests to the institutions involved in the proposal, as well as qualitative information.

Size. An organization's size is one important indicator of the risk that the organization may pose to the U.S. banking or financial system. Congress has imposed specific size-based

⁸⁶ 12 U.S.C. § 1842(c)(7).

⁸⁷ Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

⁸⁸ For further discussion of the financial stability standard, see *Capital One Financial Corporation*, FRB Order No. 2012-2 (February 14, 2012).

⁸⁹ Forty-three commenters (including 34 who submitted form comments) expressed concerns that the proposed merger would have adverse effects on U.S. financial stability. Some commenters specifically alleged that the combined bank would be viewed as “too big to fail,” while other commenters expressed general concerns about the potential for the merger or the combined organization to have a significant effect on the economy. One commenter expressed specific concern about the elevated risk to the Southeast and Mid-Atlantic regions if the combined institution were to fail.

limitations on the amount of deposits and liabilities a banking organization may control.⁹⁰ In addition, section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”), requires the Board to apply enhanced prudential standards to bank holding companies with \$250 billion or more in total consolidated assets.⁹¹ Size also is among the factors that the Board must take into consideration in differentiating among banking organizations under section 165.⁹²

In this case, the Board has considered measures of the combined organization’s size relative to the U.S. financial system, including the combined organization’s consolidated assets, consolidated liabilities,⁹³ total leverage exposure, and U.S. deposits. As a result of the proposed acquisition, the combined organization would become either the eighth or ninth largest U.S. financial institution⁹⁴ based on assets, liabilities, and total leverage exposure with 1.8, 1.7, and 1.8 percent of the U.S. financial system total, respectively. Based on deposits, the combined organization would become the sixth largest U.S. financial institution, with 2.5 percent of the total deposits. These measures suggest that, although the combined organization would be large on an absolute basis, its shares of United States financial system assets, liabilities, total leverage exposure, and deposits would remain modest, and its shares of national deposits and liabilities would fall well below the 10 percent limitations set by Congress.

Although the proposed transaction would increase BB&T’s overall size and result in Truist Bank becoming the sixth largest commercial bank in the United States based on U.S. deposits, the combined organization’s larger size must be viewed in conjunction with other metrics. Accordingly, the Board has considered other factors, both individually and in combination with size, to evaluate the likely impact of this transaction on the stability of the U.S. banking or financial system.⁹⁵

Substitutability. The Board has examined whether BB&T or SunTrust engage in any activities that are critical to the functioning of the U.S. financial system and whether there would be adequate substitute providers that could quickly perform such activities should the combined organization suddenly be unable to do so as a result of severe financial distress. The Board primarily evaluated the roles of BB&T and SunTrust in payments activities, assets under custody activities, and underwriting activities. Neither BB&T nor SunTrust is a major provider of these services. The combined organization would account for approximately 0.2 percent of payments activities, 0.1 percent of assets under custody, and 0.8 percent of underwriting activities in the U.S. financial system. In addition, bilateral repurchase transactions by BB&T and SunTrust, respectively, are relatively de minimis.

⁹⁰ 12 U.S.C. §§ 1842(d)(2)(A) & 1852 (imposing a 10 percent nationwide deposit limit and a 10 percent nationwide liabilities limit on potential combinations by banking organizations).

⁹¹ See 12 U.S.C. § 5365.

⁹² See EGRRCPA § 401(a)(1)(B)(i) (codified at 12 U.S.C. § 5365(a)(2)(A)). The Board also has previously used size as a simple measure of a banking organization’s potential systemic impact and risk, and has differentiated the stringency of capital and liquidity requirements based on total consolidated asset size.

⁹³ The Board has considered both consolidated liabilities on the combined organization’s pro forma balance sheet and liabilities as computed under the limitations on consolidated liabilities in section 622 of the Dodd-Frank Act. See 12 U.S.C. § 1852.

⁹⁴ In this context, a U.S. financial institution includes all insured depository institutions, insured depository institution holding companies, nonbank financial companies supervised by the Board under Title I of the Dodd-Frank Act, and any foreign bank or company treated as a bank holding company. See 12 U.S.C. § 1852(a)(2).

⁹⁵ In addition, the Board also considered the Globally Systemic Important Banks (“GSIB”) Surcharge score of the combined organization. The GSIB Surcharge score is a measure of a firm’s systemic importance. See 80 *Fed. Reg.* 49082 (August 14, 2015). On consummation of the proposal, the combined organization would have a GSIB method 1 score of 29 points, well below the minimum threshold (130 basis points) that identifies a financial institution as a GSIB. In addition, the combined organization’s score suggests that Truist poses relatively little systemic risk, with a score that is under 10 percent of the average of the top five institutions.

The combined organization would account for less than 0.2 percent of total U.S. repurchase transactions in both the bilateral and triparty market segments.

For most of these activities, the combined organization would have a small share on a nationwide basis, and numerous competitors would remain.

Interconnectedness. The Board has examined data to determine whether financial distress experienced by the combined organization could create financial instability by being transmitted to any other institutions or markets within the U.S. banking or financial system. Specifically, the Board considered measures of interconnectedness between the combined organization and the rest of the financial system during financial distress, such as potential direct losses to counterparties, asset price declines due to fire sales, and contagion effects.

BB&T and SunTrust do not engage in business activities or participate in markets to a degree that would pose significant risk to other institutions in the event of financial distress of the combined organization. The combined organization's use of wholesale funding, as a share of the U.S. financial system wholesale funding usage, is approximately 0.6 percent and is well below its corresponding share of U.S. financial system consolidated assets. The combined organization's shares of U.S. financial system intra-financial system assets and liabilities also are less than 1 percent.

Complexity. The Board has considered the extent to which the combined organization would contribute to the overall complexity of the U.S. banking or financial system. In this analysis, the Board considered BB&T's and SunTrust's over-the-counter derivatives exposures ("OTC derivatives"), holdings of Level 3 assets,⁹⁶ and volume of trading book and available-for-sale securities. The combined organization's level of notional OTC derivatives exposures would represent approximately 0.1 percent of the total U.S. market. Similarly, the combined organization's Level 3 assets represent approximately 2.4 percent of the total U.S. market share. This amount is mitigated further by the fact that the majority of these assets consist of mortgage servicing rights, which generally can be separated easily from a bank organization's other assets. Finally, the combined trading activity of BB&T and SunTrust is minor, accounting for less than 0.1 percent of trading of equity securities and equity derivatives and of corporate bond U.S. market segments.

The Board also has considered whether the complexity of the combined organization's assets and liabilities would hinder the organization's timely and efficient resolution in the event the organization were to experience financial distress. BB&T and SunTrust do not engage in complex activities, such as being a core clearing and settlement organization for critical financial markets, that might complicate the resolution process by increasing the complexity, costs, or timeframes involved in a resolution. Under the circumstances, resolving the combined organization would not appear to involve a level of cost, time, or difficulty such that it would cause a significant increase in risk to the stability of the U.S. banking or financial system.

Cross-Border Activity. The Board has examined the cross-border activities of BB&T and SunTrust to determine whether the cross-border presence of the combined organization would create difficulties in coordinating any resolution, which could significantly increase the risk to stability of the U.S. banking or financial system. At consummation, the

⁹⁶ Level 3 assets are defined in the Statement of Financial Accounting Standards No. 157 ("Fair Value Measurements") as assets whose accounting valuations are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. These assets are deemed complex to evaluate and cannot be measured at fair value because there is not a clear market price or a standard valuation model. A higher share of these assets could lead to disorderly resolution of an entity in case of failure.

combined organization would engage in limited activities outside the United States. In particular, the combined organization would account for less than 0.1 percent of either total cross-border claims or total cross-border liabilities of banking organizations filing an FR Y-15.

Financial Stability Factors in Combination. The Board has assessed the foregoing factors individually and in combination to determine whether interactions among them might mitigate or exacerbate risks suggested by looking at them individually. The Board also has considered whether the proposed transaction would provide any stability benefits and whether prudential standards applicable to the combined organization would offset any potential risks.⁹⁷

For instance, concerns regarding the combined organization's size would be greater if BB&T or SunTrust also were highly interconnected to many different segments of the U.S. banking or financial system through counterparty relationships or other channels, or if the combined organization were to participate to a larger extent than BB&T or SunTrust do in short-term funding and capital markets. The Board's level of concern also would be greater if the structure and activities of the combined organization were sufficiently complex that, if the combined organization were to fail, it would be difficult to resolve the organization without causing significant disruptions to other financial institutions or markets.

As discussed above, the combined organization would not be highly interconnected. Furthermore, the organizational structure and operations of the combined organization would be centered on a commercial banking business, and in the event of distress, the resolution process would be handled in a predictable manner by relevant authorities. The Board also has considered other measures that are suggestive of the degree of difficulty with which the combined organization could be resolved in the event of a failure, such as the organizational and legal complexity and cross-border activities of the resulting firm. These measures suggest that the combined organization would be significantly less complicated to resolve than the largest U.S. financial institutions.

In addition, both BB&T and SunTrust are predominately engaged in retail commercial banking activities.⁹⁸ The combined 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 combined organization would not be a critical services provider or so interconnected with other firms or the markets that it would pose significant risk to the financial system in the event of financial distress.

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 U.S. 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.

⁹⁷ See 12 U.S.C. § 5365.

⁹⁸ Truist would primarily offer retail consumer and commercial banking, mortgage and consumer lending, lease financing, asset-based lending, discount brokerage services, annuities and mutual funds, life insurance, property and casualty insurance, health insurance, loan servicing for third-party investors, private bank and trust services, payments processing, cash management and treasury services, student lending, small business lending, trust and wealth management services, investment and mergers and acquisition advisory services, capital markets, and investment banking services. In each of its activities, the combined firm would have a small market share on a nationwide basis, and numerous competitors would remain for these services.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved.⁹⁹ 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 Truist with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on the commitments and representations made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth 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 Richmond, acting under delegated authority.

By order of the Board of Governors, effective November 19, 2019.

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

Ann E. Misback
Secretary of the Board

⁹⁹ A commenter requested that the Board hold public hearings or additional public meetings on the proposal. The Board has considered the commenter's request in light of all the facts of record. As noted above, the Board held public meetings in Charlotte, North Carolina, and Atlanta, Georgia. In addition, the Board extended the initial period for public comment to accommodate public interest in this proposal, providing interested persons until May 3, 2019, a total period of more than 50 days, to submit written comments. 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. For these reasons, and based on all the facts of record, the Board has determined that public hearings or additional public meetings are not required or warranted in this case. Accordingly, the request for public hearings or additional public meetings on the proposal is denied.

In addition, two commenters requested a further extension of the comment period for the proposal. As noted above, the Board provided for an extended comment period of more than 50 days. During this time, the commenters submitted detailed comments in writing regarding the proposal. The Board's rules contemplate that the public comment period will not be extended absent a clear demonstration of hardship or other meritorious reason for seeking additional time. The commenters' request for additional time to comment does not identify circumstances that would warrant an extension of the public comment period for this proposal. Accordingly, the Board has determined not to further extend the comment period.

Appendix I

Asset and Deposit Data in States where Branch Bank and SunTrust Bank Both Operate									
State / District	Branch Bank			SunTrust Bank			Truist Bank		
	Rank of Insured Depository Institution ¹ by Assets	Deposits Controlled (in billions)	Percent of Total Deposits	Rank of Insured Depository Institution by Assets	Deposits Controlled (in billions)	Percent of Total Deposits	Rank of Insured Depository Institution by Assets	Deposits Controlled (in billions)	Percent of Total Deposits
Alabama	6 th	3.7	3.7	56 th	0.2	<1	6 th	3.9	3.9
Florida	7 th	18.3	3.1	3 rd	50.6	8.6	3 rd	68.9	11.8
Georgia	5 th	12.6	5	1 st	54.4	21.7	1 st	66.9	26.7
Maryland	7 th	10.1	7	6 th	10.4	7.2	2 nd	20.5	14.1
North Carolina	3 rd	52.7	14.4	5 th	8.5	2.3	2 nd	61.2	16.7
South Carolina	3 rd	8.4	9.8	7 th	3	3.5	3 rd	11.4	13.3
Tennessee	9 th	3	1.9	3 rd	13.9	9	3 rd	16.9	10.9
Virginia	5 th	23.5	7.3	6 th	20.6	6.4	3 rd	44.1	13.6
District of Columbia	9 th	1.2	2.3	5 th	3.4	6.7	5 th	4.6	9

¹ In this context, insured depository institutions include commercial banks, savings and loan associations, and savings banks.

Appendix II

BB&T/SunTrust Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines						
Bank	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
Washington, District of Columbia–Maryland–Virginia–West Virginia – Washington, District of Columbia; Charles, Calvert, Frederick, Montgomery, and Prince George's counties; District 7 in Anne Arundel County; the Clarksville and Savage districts in Howard County, all in Maryland; Arlington, Culpeper, Fairfax, Fauquier, Loudoun, Prince William, Rappahannock, Stafford, and Warren counties; the cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park, all of Virginia; and Jefferson County, West Virginia.						
BB&T Pre-Consummation	6	\$14.0B	6.7			
SunTrust	4	\$19.1B	9.1			
BB&T Post-Consummation	2	\$33.1B	15.8	1106	121	75
Brevard County, Florida – Brevard County, Florida.						
BB&T Pre-Consummation	6	\$650.9M	7			
SunTrust	3	\$1.3B	14.2			
BB&T Post-Consummation	1	\$1.9B	21.2	1428	198	18
Citrus County, Florida – Citrus County, Florida.						
BB&T Pre-Consummation	7	\$81.0M	3.5			
SunTrust	1	\$631.2M	27.3			
BB&T Post-Consummation	1	\$712.2M	30.8	1761	192	11
Dayton Beach Area, Florida – 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 in Volusia County; and the town of Astor in Lake County, all in Florida.						
BB&T Pre-Consummation	6	\$386.0M	4.1			
SunTrust	1	\$2.6B	27.2			
BB&T Post-Consummation	1	\$2.9B	31.3	1679	223	19
Fort Myers Area, Florida – Lee County (less the towns located on Gasparilla Island) and the town of Immokalee in Collier County, both in Florida.						
BB&T Pre-Consummation	5	\$928.4M	6			
SunTrust	3	\$2.1B	13.4			
BB&T Post-Consummation	1	\$3.0B	19.4	1074	161	30
Fort Pierce Area, Florida – St. Lucie and Martin counties (less the towns of Indiantown and Hobe Sound), both in Florida.						
BB&T Pre-Consummation	11	\$286.6M	3.3			
SunTrust	6	\$716.1M	8.3			
BB&T Post-Consummation	3	\$1.0B	11.7	1131	55	16
Fort Walton Beach Area, Florida – Okaloosa and Walton counties and the western half of Holmes County, including the town of Ponce de Leon, all in Florida.						
BB&T Pre-Consummation	18	\$56.4M	1			
SunTrust	10	\$231.0M	4.4			
BB&T Post-Consummation	9	\$287.4M	5.4	813	10	27
Jacksonville Area, Florida – 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; and the city of Folkston in Charlton County, Georgia.						
BB&T Pre-Consummation	8	\$606.1M	1.2			
SunTrust	5	\$1.8B	3.7			
BB&T Post-Consummation	5	\$2.4B	4.9	2719	9	32
Miami–Fort Lauderdale Area, Florida – Broward and Miami-Dade counties, both in Florida.						
BB&T Pre-Consummation	9	\$5.6B	3			
SunTrust	7	\$8.6B	4.7			
BB&T Post-Consummation	5	\$14.2B	7.7	834	29	76
Naples Area, Florida – Collier County (minus the town of Immokalee), Florida.						
BB&T Pre-Consummation	16	\$220.7M	1.3			
SunTrust	9	\$564.8M	3.3			
BB&T Post-Consummation	9	\$785.5M	4.6	883	9	33

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Appendix II—continued

BB&T/SunTrust Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines—continued						
Bank	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
Ocala Area, Florida – Marion County, Florida.						
BB&T Pre-Consummation	11	\$126.0M	2.1			
SunTrust	1	\$1.1B	18.2			
BB&T Post-Consummation	1	\$1.2B	20.3	1213	73	20
Orlando Area, Florida – Orange, Osceola, and Seminole counties; the western half of Volusia County; and Lake County (minus the city of Astor and the Census County Divisions of Fruitland Park-Lady Lake, Leesburg, and Leesburg East), all in Florida.						
BB&T Pre-Consummation	5	\$2.0B	3.8			
SunTrust	2	\$10.6B	20.7			
BB&T Post-Consummation	1	\$12.6B	24.5	1413	158	45
Panama City Area, Florida – Bay and Gulf counties; and the southern half of Washington County, including the towns of Vernon and Wausau, all in Florida.						
BB&T Pre-Consummation	11	\$75.2M	2.5			
SunTrust	7	\$211.8M	6.9			
BB&T Post-Consummation	5	\$287.0M	9.4	1140	34	17
Pensacola Area, Florida – Escambia and Santa Rosa counties, both in Florida.						
BB&T Pre-Consummation	13	\$108.1M	1.5			
SunTrust	8	\$302.1M	4.2			
BB&T Post-Consummation	6	\$410.2M	5.7	1394	12	18
Polk County, Florida – Polk County, Florida.						
BB&T Pre-Consummation	7	\$383.0M	5			
SunTrust	3	\$1.1B	14.2			
BB&T Post-Consummation	2	\$1.4B	19.2	1613	143	17
Punta Gorda Area, Florida – Charlotte County east of Charlotte Harbor and the Myakka River; and Sarasota County east of the Myakka River and south of Interstate 75, including the town of North Port, all in Florida.						
BB&T Pre-Consummation	9	\$132.3M	3.8			
SunTrust	3	\$430.0M	12.2			
BB&T Post-Consummation	3	\$562.3M	16.6	1421	100	13
Saint Augustine Area, Florida – St. Johns County (minus the towns of Fruit Cove, Ponte Vedra, Ponte Vedra Beach, Jacksonville, St. Johns, Switzerland, and Hastings), Florida.						
BB&T Pre-Consummation	6	\$118.1M	5.7			
SunTrust	5	\$160.4M	7.8			
BB&T Post-Consummation	5	\$278.5M	13.5	1544	89	12
Sarasota, Florida – Manatee County, Sarasota County (less the portion that is both east of the Myakka River and south of Interstate 75, which includes the town of North Port); the peninsular portion of Charlotte County, west of the Myakka River that includes the towns of Englewood, Englewood Beach, New Point Comfort, Grove City, Cape Haze, Rotonda, Rotonda West, and Placida; and Gasparilla Island, including the town of Boca Grande, in Lee County, all in Florida.						
BB&T Pre-Consummation	5	\$1.2B	5.8			
SunTrust	3	\$2.2B	10.7			
BB&T Post-Consummation	2	\$3.4B	16.5	1055	123	34
Tallahassee Area, Florida – Gadsden, Jefferson, Leon, and Wakulla counties, all in Florida.						
BB&T Pre-Consummation	7	\$497.5M	6.3			
SunTrust	2	\$1.2B	15.1			
BB&T Post-Consummation	1	\$1.7B	21.4	1227	191	16
Tampa Bay Area, Florida – Hernando, Hillsborough, Pinellas, and Pasco counties, all in Florida.						
BB&T Pre-Consummation	8	\$2.6B	3.1			
SunTrust	4	\$9.9B	11.8			
BB&T Post-Consummation	3	\$12.5B	14.9	1267	73	53

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Appendix II—continued

BB&T/SunTrust Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines—continued						
Bank	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
West Palm Beach Area, Florida – Palm Beach County east of Loxahatchee; and the towns of Indiantown and Hobe Sound in Martin County, all in Florida.						
BB&T Pre-Consummation	8	\$1.7B	3.4			
SunTrust	6	\$2.8B	5.4			
BB&T Post-Consummation	4	\$4.5B	8.8	1025	37	50
Athens Area, Georgia – Barrow (less the cities of Auburn and Winder), Clarke, Jackson, Madison, Oconee, and Oglethorpe counties, all in Georgia.						
BB&T Pre-Consummation	13	\$174.1M	2.8			
SunTrust	1	\$1.1B	18.6			
BB&T Post-Consummation	1	\$1.3B	21.4	1112	106	20
Brunswick Area, Georgia – Brantley, Glynn and McIntosh counties, all in Georgia.						
BB&T Pre-Consummation	5	\$201.1M	9.6			
SunTrust	1	\$277.5M	13.2			
BB&T Post-Consummation	1	\$478.6M	22.8	1186	252	13
Carrollton Area, Georgia – Carroll and Haralson counties, both in Georgia; and the town of Ranburne in Cleburne County, Alabama.						
BB&T Pre-Consummation	3	\$381.2M	12.7			
SunTrust	6	\$131.0M	4.4			
BB&T Post-Consummation	2	\$512.2M	17.1	2647	111	11
Columbus Area, Georgia – Chattahoochee, Harris, and Muscogee counties; the towns of Junction City, Geneva, and Box Springs in Talbot County, all in Georgia; Russell County, Alabama; and the portion of Lee County, Alabama, that is within 12 road miles of Phenix City, Alabama, or Columbus, Georgia.						
BB&T Pre-Consummation	7	\$140.3M	1.7			
SunTrust	2	\$916.2M	10.9			
BB&T Post-Consummation	2	\$1.0B	12.6	4791	36	14
Dalton, Georgia – Murray and Whitfield counties, both in Georgia.						
BB&T Pre-Consummation	1	\$484.6M	18			
SunTrust	10	\$25.3M	0.9			
BB&T Post-Consummation	1	\$509.9M	18.9	1295	33	11
Douglas Area, Georgia – Atkinson and Coffee counties, both in Georgia.						
BB&T Pre-Consummation	10	\$22.7M	2.8			
SunTrust	5	\$80.3M	9.9			
BB&T Post-Consummation	5	\$103.0M	12.7	1351	56	9
Greensboro Area, Georgia – Greene and Taliaferro counties; and the Eatonton and Phoenix Census County Divisions in Putnam County, all in Georgia.						
BB&T Pre-Consummation	6	\$50.9M	6.9			
SunTrust	5	\$51.5M	7			
BB&T Post-Consummation	4	\$101.6M	13.9	1924	97	9
LaGrange Area, Georgia–Alabama – Troup County, Georgia; and Chambers County, Alabama.						
BB&T Pre-Consummation	8	\$85.9M	5.8			
SunTrust	9	\$79.3M	5.4			
BB&T Post-Consummation	3	\$165.2M	11.2	1269	62	12
Macon, Georgia – Bibb, Crawford, Houston, Jones, Macon, Peach, and Twiggs counties; and Allentown and Nicklesville in Wilkinson County, all in Georgia.						
BB&T Pre-Consummation	4	\$605.3M	11			
SunTrust	2	\$781.2M	14.2			
BB&T Post-Consummation	2	\$1.4B	25.2	1661	311	23

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Appendix II—continued

BB&T/SunTrust Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines—continued						
Bank	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
Savannah Area, Georgia – Bryan, Chatham, and Effingham counties; and the Midway CCD in Liberty County, all in Georgia.						
BB&T Pre-Consummation	6	\$468.0M	6.6			
SunTrust	1	\$1.6B	22.6			
BB&T Post-Consummation	1	\$2.1B	29.3	1588	300	20
Tift County, Georgia – Tift County; and the Lenox CCD in Cook County, both in Georgia.						
BB&T Pre-Consummation	4	\$100.2M	10.4			
SunTrust	5	\$49.7M	5.2			
BB&T Post-Consummation	4	\$149.9M	15.6	2396	107	8
Valdosta Area, Georgia – Echols, Lanier, and Lowndes counties; and the Adel-Sparks CCD in Cook County, all in Georgia.						
BB&T Pre-Consummation	14	\$45.5M	2.2			
SunTrust	16	\$30.2M	1.4			
BB&T Post-Consummation	11	\$75.7M	3.6	954	6	18
Waycross Area, Georgia – Pierce and Ware counties, both in Georgia.						
BB&T Pre-Consummation	7	\$54.0M	5.7			
SunTrust	6	\$70.7M	7.4			
BB&T Post-Consummation	4	\$124.7M	13.1	1904	85	7
Annapolis, Maryland – Anne Arundel County (excluding District 7) and Queen Anne's County, both in Maryland.						
BB&T Pre-Consummation	3	\$1.2B	10			
SunTrust	6	\$824.6M	7			
BB&T Post-Consummation	3	\$2.0B	17	1235	140	28
Baltimore, Maryland – Baltimore City and Baltimore, Carroll, Harford, and Howard (excluding the Clarksville and Savage districts) counties, all in Maryland.						
BB&T Pre-Consummation	5	\$3.8B	7			
SunTrust	6	\$1.8B	3.2			
BB&T Post-Consummation	5	\$5.6B	10.3	1810	45	42
Easton, Maryland – Talbot County, Maryland.						
BB&T Pre-Consummation	5	\$80.3M	6.2			
SunTrust	6	\$61.4M	4.7			
BB&T Post-Consummation	4	\$141.7M	10.9	2234	58	9
Salisbury, Maryland–Delaware – Wicomico County, Maryland.						
BB&T Pre-Consummation	7	\$117.8M	6.5			
SunTrust	10	\$49.5M	2.7			
BB&T Post-Consummation	7	\$167.3M	9.2	1316	35	10
Saint Mary's, Maryland – Saint Mary's County, Maryland.						
BB&T Pre-Consummation	5	\$104.6M	7.4			
SunTrust	6	\$104.0M	7.3			
BB&T Post-Consummation	4	\$208.9M	14.7	2167	108	7
Worcester, Maryland – Worcester County, Maryland.						
BB&T Pre-Consummation	4	\$185.8M	11.5			
SunTrust	7	\$57.6M	3.6			
BB&T Post-Consummation	4	\$243.4M	15.1	1658	83	11

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Appendix II—continued

BB&T/SunTrust Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines—continued						
Bank	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
Asheville, North Carolina – Buncombe, Henderson, Haywood, and Madison counties, all in North Carolina.						
BB&T Pre-Consummation	8	\$551.3M	7			
SunTrust	7	\$642.6M	8.1			
BB&T Post-Consummation	3	\$1.2B	15.1	1313	113	19
Burlington, North Carolina – Alamance and Caswell counties (excluding the Dan River, Milton, Pelham, and Yanceyville townships), both in North Carolina.						
BB&T Pre-Consummation	4	\$245.4M	11.7			
SunTrust	5	\$235.8M	11.3			
BB&T Post-Consummation	2	\$481.2M	23	1580	265	15
Charlotte, North Carolina – Anson, Cabarrus, Gaston, Lincoln, Mecklenburg, and Union counties; the city of Mooresville and the townships of Davidson and Coddle Creek in Iredell County; the townships of Atwell and China Grove in Rowan County; the King's Mountain township in Cleveland County, all in North Carolina; and Lancaster and York counties, both in South Carolina.						
BB&T Pre-Consummation	3	\$6.0B	2.8			
SunTrust	6	\$1.8B	0.8			
BB&T Post-Consummation	3	\$7.8B	3.6	5885	4	41
Greensboro–High Point, North Carolina – Davidson, Guilford, Randolph, and Rockingham counties, all in North Carolina.						
BB&T Pre-Consummation	1	\$3.0B	20.8			
SunTrust	6	\$791.0M	5.4			
BB&T Post-Consummation	1	\$3.8B	26.2	1478	227	21
Hickory, North Carolina – Alexander, Burke, Caldwell, and Catawba counties, all in North Carolina.						
BB&T Pre-Consummation	2	\$1.1B	20.6			
SunTrust	6	\$175.2M	3.4			
BB&T Post-Consummation	2	\$1.2B	24	1776	140	15
Raleigh, North Carolina – Franklin, Granville, Johnston, Wake, and Harnett (excluding the Anderson Creek, Barbeque, Johnsonville, and Stewarts Creek townships in Harnett County) counties, all in North Carolina.						
BB&T Pre-Consummation	2	\$4.6B	16			
SunTrust	6	\$1.5B	5.1			
BB&T Post-Consummation	2	\$6.1B	21.1	1480	165	36
Salisbury, North Carolina – Rowan County (excluding the townships of Atwell and China Grove), in North Carolina.						
BB&T Pre-Consummation	6	\$55.7M	4.7			
SunTrust	3	\$153.2M	12.9			
BB&T Post-Consummation	3	\$208.9M	17.6	1904	121	11
Wilmington, North Carolina – New Hanover, Pender, and Brunswick (excluding the Shallotte Township in Brunswick County) counties, all in North Carolina.						
BB&T Pre-Consummation	2	\$1.5B	16.4			
SunTrust	9	\$290.8M	3.1			
BB&T Post-Consummation	2	\$1.8B	19.5	1780	103	21
Charleston, South Carolina – Berkeley, Charleston, and Dorchester counties; the southeastern portion of Colleton County, located east of the South Edisto River on Edisto Island, all in South Carolina.						
BB&T Pre-Consummation	5	\$916.6M	6.6			
SunTrust	9	\$501.2M	3.6			
BB&T Post-Consummation	4	\$1.4B	10.2	1205	48	34
Greenville, South Carolina – Anderson, Greenville, Laurens, and Pickens counties, all in South Carolina.						
BB&T Pre-Consummation	3	\$1.8B	10.8			
SunTrust	6	\$1.1B	6.4			
BB&T Post-Consummation	2	\$2.9B	17.2	1036	138	34

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Appendix II—continued

BB&T/SunTrust Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines—continued						
Bank	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
Hilton Head Island, South Carolina – Beaufort, Hampton, and Jasper counties, all in South Carolina.						
BB&T Pre-Consummation	7	\$342.5M	7.1			
SunTrust	8	\$321.1M	6.7			
BB&T Post-Consummation	3	\$663.6M	13.8	1032	96	19
Oconee County, South Carolina – Oconee County, South Carolina.						
BB&T Pre-Consummation	6	\$77.6M	7			
SunTrust	8	\$61.7M	5.6			
BB&T Post-Consummation	4	\$139.3M	12.6	1344	79	10
Spartanburg, South Carolina – Cherokee, Spartanburg, and Union counties, all in South Carolina; and Polk County, North Carolina.						
BB&T Pre-Consummation	2	\$739.0M	12.1			
SunTrust	1	\$973.3M	15.9			
BB&T Post-Consummation	1	\$1.7B	28	1291	383	20
Cleveland, Tennessee – Bradley County and the towns of Benton and Ocoee in Polk County, all in Tennessee.						
BB&T Pre-Consummation	6	\$169.7M	9.3			
SunTrust	2	\$230.1M	12.7			
BB&T Post-Consummation	1	\$399.8M	22	1288	236	15
Chattanooga, Tennessee – Hamilton County; Marion County (minus the town of Monteagle), both in Tennessee; and Catoosa, Dade, and Walker counties, all in Georgia.						
BB&T Pre-Consummation	14	\$123.2M	1.3			
SunTrust	2	\$1.6B	17.4			
BB&T Post-Consummation	2	\$1.7B	18.7	1328	45	26
Johnson City–Bristol Area, Tennessee–Virginia – Carter, Hawkins, Sullivan, Unicoi, and Washington counties, all in Tennessee; the independent city of Bristol; Scott County; and the Tyler and Wilson county subdivisions in Washington County, all in Virginia.						
BB&T Pre-Consummation	5	\$533.5M	8.3			
SunTrust	6	\$450.0M	7			
BB&T Post-Consummation	2	\$983.5M	15.3	1129	117	30
Knoxville Area, Tennessee – Anderson, Blount, Knox, Loudon, Morgan, Roane, and Union counties; Grainger County excluding District 5 in eastern Grainger County; Jefferson County excluding Districts 3, 8, and 9 in northern and eastern Jefferson County; and Districts 6 and 9 in western Sevier County, all in Tennessee.						
BB&T Pre-Consummation	5	\$1.1B	7			
SunTrust	2	\$2.5B	15.3			
BB&T Post-Consummation	1	\$3.6B	22.3	1183	213	41
Nashville, Tennessee – Cheatham, Davidson, Dickson, Robertson, Rutherford, Sumner, Williamson, and Wilson counties, all in Tennessee.						
BB&T Pre-Consummation	14	\$715.3M	1.2			
SunTrust	4	\$6.4B	11			
BB&T Post-Consummation	4	\$7.1B	12.2	926	27	63
Sevierville Area, Tennessee – Cocke County, District 8 in eastern Jefferson County, and Sevier County excluding Districts 6 and 9 in western Sevier County, all in Tennessee.						
BB&T Pre-Consummation	7	\$131.1M	4.8			
SunTrust	10	\$90.1M	3.3			
BB&T Post-Consummation	5	\$221.2M	8.1	1555	32	12
Blacksburg, Virginia – The independent city of Radford and Floyd, Giles, Montgomery, and Pulaski counties, all in Virginia.						
BB&T Pre-Consummation	4	\$301.6M	9.1			
SunTrust	6	\$212.0M	6.4			
BB&T Post-Consummation	3	\$513.6M	15.5	1532	117	13

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Appendix II—continued

BB&T/SunTrust Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines—continued						
Bank	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
Charlottesville, Virginia – The independent city of Charlottesville; Albemarle, Buckingham, Fluvanna, Greene, Madison and Nelson counties; Districts 1, 2, and 3 in Orange County; and the Green Spring, Louisa, and Patrick Henry districts in Louisa County, all in Virginia.						
BB&T Pre-Consummation	3	\$854.9M	14.6			
SunTrust	5	\$606.6M	10.4			
BB&T Post-Consummation	1	\$1.4B	25	1683	303	20
Fredericksburg, Virginia – The independent city of Fredericksburg; Caroline, King George, and Spotsylvania counties; Districts 4 and 5 in Orange County; and the Washington District in Westmoreland County, all in Virginia.						
BB&T Pre-Consummation	2	\$633.0M	18.1			
SunTrust	7	\$155.6M	4.4			
BB&T Post-Consummation	2	\$788.6M	22.5	1975	161	15
Harrisonburg, Virginia—West Virginia – The independent city of Harrisonburg; Rockingham and Page counties, all in Virginia; and Pendleton County, West Virginia.						
BB&T Pre-Consummation	1	\$488.1M	16.6			
SunTrust	7	\$181.4M	6.2			
BB&T Post-Consummation	1	\$669.5M	22.8	1202	206	17
Lynchburg, Virginia – The independent city of Lynchburg; Amherst, Appomattox, and Campbell counties; and the portion of Bedford County east of Route 43 (excluding the independent city of Bedford, VA), all in Virginia.						
BB&T Pre-Consummation	2	\$852.9M	19.1			
SunTrust	4	\$472.5M	10.6			
BB&T Post-Consummation	1	\$1.3B	29.7	1771	407	16
Newport News—Hampton, Virginia – The cities of Hampton, Newport News, Poquoson, and Williamsburg and Gloucester, Isle of Wight (excluding the Carsville District), James City, Mathews, and York counties, all in Virginia.						
BB&T Pre-Consummation	5	\$913.1M	12.4			
SunTrust	1	\$1.3B	17.1			
BB&T Post-Consummation	1	\$2.2B	29.5	1633	424	16
Roanoke, Virginia – The independent cities of Bedford, Roanoke, and Salem; Botetourt, Craig, Franklin, and Roanoke counties; and the portion of Bedford County west of Route 43, all in Virginia.						
BB&T Pre-Consummation	3	\$879.3M	11.3			
SunTrust	2	\$1.4B	18.6			
BB&T Post-Consummation	1	\$2.3B	29.9	1757	421	18
Staunton, Virginia – The independent cities of Staunton and Waynesboro and Augusta and Highland counties, all in Virginia.						
BB&T Pre-Consummation	3	\$216.8M	12.7			
SunTrust	5	\$116.8M	6.8			
BB&T Post-Consummation	2	\$333.6M	19.5	1399	172	14
Winchester, Virginia—West Virginia – The independent city of Winchester; Clarke, Frederick, and Shenandoah, counties, all in Virginia; Hampshire County and the District 1 subdivision in Morgan County, both in West Virginia.						
BB&T Pre-Consummation	1	\$1.0B	26.9			
SunTrust	9	\$131.7M	3.5			
BB&T Post-Consummation	1	\$1.1B	30.4	1571	189	15
Data are as of June 30, 2018. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent. The remaining number of competitors noted in each market includes thrift institutions.						

First Citizens BancShares, Inc. Raleigh, North Carolina

Order Approving the Acquisition of a Bank Holding Company FRB Order No. 2019-17 (December 16, 2019)

First Citizens BancShares, Inc. (“First Citizens”), Raleigh, North Carolina, a financial holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to acquire all the voting shares of Entegra Financial Corp. (“Entegra”) and thereby indirectly acquire Entegra’s state nonmember bank subsidiary, Entegra Bank, both of Franklin, North Carolina. Following the proposed acquisition, Entegra Bank would be merged into First Citizens’ state nonmember bank subsidiary, First-Citizens Bank & Trust Company (“First Citizens Bank”), Raleigh, North Carolina.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (84 *Federal Register* 32,745 (July 9, 2019)).⁴ The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

First Citizens, which is part of the Holding F&L Family Chain,⁵ has consolidated assets of approximately \$37.8 billion and is the 61st largest insured depository organization in the United States, controlling approximately \$32.7 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁶ First Citizens controls First Citizens Bank, which operates in Arizona, California, Colorado, Florida, Georgia, Kansas, Maryland, Missouri, New Mexico, North Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Virginia, Washington, West Virginia, and Wisconsin. First Citizens Bank is the 19th largest insured depository institution in Georgia, controlling deposits of approximately \$1.2 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state. Similarly, First Citizens Bank is the fourth largest insured depository institution in North Carolina, controlling deposits of approximately \$15.8 billion, which represent 4.3 percent of the total deposits of insured depository institutions in that state.⁷ First Citizens Bank also is the fourth largest insured depository institution in South Carolina, controlling deposits of approximately \$7.5 billion, which represent 8.9 percent of the total deposits of insured depository institutions in that state.

Entegra, with consolidated assets of approximately \$1.7 billion, is the 495th largest insured depository organization in the United States, controlling approximately \$1.3 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Entegra Bank operates in Georgia, North Carolina, and South Carolina. Entegra Bank is the 55th largest insured depository institution in Georgia, controlling deposits of approximately \$307.2 million, which repre-

¹ 12 U.S.C. § 1841 *et seq.*

² 12 U.S.C. § 1842.

³ The merger of Entegra Bank into First Citizens Bank is subject to approval by the Federal Deposit Insurance Corporation (“FDIC”), pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c).

⁴ 12 CFR 262.3(b).

⁵ In addition to First Citizens, the Holding F&L Family Chain controls two other bank holding companies, Southern BancShares (N.C.), Inc., Mount Olive, and Fidelity BancShares (N.C.), Inc., Fuquay-Varina, both of North Carolina.

⁶ Asset data are as of June 30, 2019, and deposit data are as of June 30, 2018, unless otherwise noted.

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

sent less than 1 percent of the total deposits of insured depository institutions in that state. Entegra Bank is the 25th largest insured depository institution in North Carolina, controlling deposits of approximately \$829.9 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state. Entegra Bank also is the 54th largest insured depository institution in South Carolina, controlling deposits of approximately \$87.2 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of the proposal, First Citizens would become the 60th largest insured depository organization in the United States, with consolidated assets of approximately \$39.3 billion, which represent less than 1 percent of the total assets of insured depository organizations in the United States. First Citizens would control total consolidated deposits of approximately \$34.0 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Georgia, First Citizens would remain the 19th largest insured depository organization, controlling deposits of approximately \$1.5 billion, which represent less than 1 percent of the total deposits of insured depository institutions in the state. In North Carolina, First Citizens would remain the fourth largest insured depository organization, controlling deposits of approximately \$16.6 billion, which represent 4.6 percent of the total deposits of insured depository institutions in the state. In South Carolina, First Citizens would remain the fourth largest insured depository organization, controlling deposits of approximately \$7.6 billion, which represent 9.0 percent of the total deposits of insured depository institutions in the 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.⁸ 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;⁹ (2) must take into account the record of the applicant under the Community Reinvestment Act of 1977 (“CRA”)¹⁰ and the applicant’s record of compliance with applicable state community reinvestment laws;¹¹ 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 States¹² 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.¹³

⁸ 12 U.S.C. § 1842(d)(1)(A).

⁹ 12 U.S.C. § 1842(d)(1)(B).

¹⁰ 12 U.S.C. § 2901 *et seq.*

¹¹ 12 U.S.C. § 1842(d)(3).

¹² 12 U.S.C. § 1842(d)(2)(A).

¹³ 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 the states in which the bank is chartered or headquartered or operates a branch. *See* 12 U.S.C. § 1841(o)(4)-(7).

For purposes of the BHC Act, the home state of First Citizens is North Carolina.¹⁴ Entegra is located in Georgia, North Carolina, and South Carolina. First Citizens is well capitalized and well managed under applicable law and has a satisfactory rating under the CRA. Georgia has an age requirement that applies to First Citizens' acquisition of Entegra.¹⁵ South Carolina does not have a minimum age requirement. Entegra Bank has been in existence for more than five years.

On consummation of the proposed transaction, First Citizens would control less than 1 percent of the total amount of consolidated deposits in insured depository institutions in the United States. South Carolina and Georgia each impose a 30 percent limit on the total amount of in-state deposits that a single banking organization may control.¹⁶ First Citizens would control less than 1 percent of the total deposits of insured depository institutions in Georgia and 9.0 percent of the total deposits of insured depository institutions in South Carolina.

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.¹⁷ 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.¹⁸

First Citizens and Entegra have subsidiary banks that compete directly in eight banking markets in Georgia, North Carolina, and South Carolina. 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 in insured depository institutions in each market ("market deposits") that First Citizens would control;¹⁹ the concentration level of market deposits and the increase in this level, as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");²⁰ the number of competitors that would remain in each market; and other characteristics of each market.

¹⁴ See 12 U.S.C. § 1841(o)(4). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of each company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

¹⁵ Ga. Code Ann. § 7-1-628.8 (3 years).

¹⁶ Ga. Code Ann. § 7-1-622(b) and S.C. Code Ann. § 34-25-50. North Carolina does not impose a limit on the total amount of deposits an insured depository institution may control.

¹⁷ 12 U.S.C. § 1842(c)(1)(A).

¹⁸ 12 U.S.C. § 1842(c)(1)(B).

¹⁹ Local deposit and market share data are as of June 30, 2018, and 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); and *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).

²⁰ 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 DOJ has informed the Board that a bank merger or acquisi-

Banking Markets within Established Guidelines

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in four banking markets. On consummation, two banking markets would remain moderately concentrated, and two banking markets would remain unconcentrated, as measured by the HHI. The change in the HHI in these markets would be small, consistent with Board precedent, and within the thresholds in the DOJ Bank Merger Guidelines. In addition, numerous competitors would remain in most of these banking markets.²¹

Banking Markets Warranting Special Scrutiny

The structural effects that consummation of the proposal would have in the Cherokee, Transylvania County, Jackson, and Macon County banking markets, all in North Carolina, warrant a detailed review because the concentration levels on consummation would exceed the thresholds in the DOJ Bank Merger Guidelines and would result in the market deposit share of First Citizens, its affiliates, and Entegra Bank equaling or exceeding 35 percent when using initial competitive screening data.

Markets without Divestitures

Cherokee, North Carolina, Banking Market. First Citizens Bank is the second largest depository institution in the Cherokee banking market, controlling approximately \$133.1 million in deposits, which represent 21.1 percent of market deposits.²² Entegra Bank is the fourth largest depository institution in the market, controlling approximately \$59.7 million in deposits, which represent 9.5 percent of market deposits. On consummation of the proposal, First Citizens Bank would remain the second largest depository institution in the Cherokee banking market, controlling approximately \$192.8 million in deposits, which would represent approximately 30.6 percent of market deposits. The HHI in this market would increase 400 points, from 2369 to 2769.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Cherokee banking market. In particular, the Board has considered that the market has a large and active credit union that offers a full range of retail banking products. North Carolina's State Employee's Credit Union ("SECU") is the second largest credit union in the United States, and approximately 21 percent of market residents in the Cherokee banking market are members of the SECU. In addition, the SECU operates street-level branches that are easily accessible to residents in the market. SECU controls approximately \$166 million in deposits in the Cherokee banking market. The Board concludes that this credit union exerts a competitive influence that mitigates, in part, the potential anticompetitive effects of the proposal. In addition, another credit union in the Cherokee banking market, which offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the

tion 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), www.justice.gov/opa/pr/2010/August/10-at-938.html.

²¹ These banking markets and the competitive effects of the proposal in these markets are described in the Appendix.

²² The Cherokee banking market is defined as Cherokee and Clay counties, both in North Carolina.

residents in the relevant banking market, exerts a competitive influence in the market.²³ The Board finds that the deposits of these credit unions should be included at a 50-percent weight in calculating their estimated market influence. This weighting takes into account the limited lending done by credit unions to small businesses relative to commercial banks' lending levels.

After weighting the deposits of the credit unions at 50 percent, the combined organization would control approximately 26.7 percent of market deposits, and the HHI would increase by 304 points to a level of 2237. In addition to First Citizens Bank, six other depository institutions, including the credit unions, compete in the Cherokee market, including one competitor with more than 35 percent of market deposits. The presence of these market competitors suggests that First Citizens Bank would have limited ability unilaterally to offer less attractive terms to consumers, and these depository institutions would be able to exert competitive pressure on First Citizens Bank in the Cherokee banking market.

Transylvania County, North Carolina, Banking Market. First Citizens Bank is the largest depository institution in the Transylvania County banking market, controlling approximately \$138.4 million in deposits, which represent 26.2 percent of market deposits.²⁴ Entegra Bank is the fourth largest depository institution in the market, controlling approximately \$59.6 million in deposits, which represent 11.3 percent of market deposits. On consummation of the proposal, First Citizens Bank would remain the largest depository institution in the Transylvania County banking market, controlling approximately \$198.0 million in deposits, which would represent approximately 37.4 percent of market deposits. The HHI in this market would increase 589 points, from 1812 to 2401.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Transylvania County banking market. In particular, the Board has considered that the SECU is a large and active credit union in the market that offers a full range of retail banking products. Approximately 12 percent of market residents in the Transylvania County banking market are members of the SECU. In addition, the SECU operates street-level branches that are easily accessible to residents in the market. SECU controls approximately \$121 million in deposits in the Transylvania County banking market. The Board concludes that this credit union exerts a competitive influence that mitigates, in part, the potential anticompetitive effects of the proposal. In addition, three other credit unions in the Transylvania County banking market, which offer a wide range of consumer banking products, operate street-level branches, and have broad membership criteria that include almost all of the residents in the relevant banking market, exert a competitive influence in the market. The Board finds that the deposits of these credit unions should be included at a 50-percent weight in calculating their estimated market influence.

After weighting the deposits of the credit unions at 50 percent, the combined organization would control approximately 30.2 percent of market deposits, and the HHI would increase by 385 points to a level of 1692. In addition to First Citizens Bank, nine other depository institutions, including the credit unions, would compete in the Transylvania

²³ The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., *Huntington Bancshares Incorporated*, FRB Order No. 2016-13 (July 29, 2016); *BB&T Corporation*, FRB Order No. 2015-18 (July 7, 2015); and *Wachovia Corporation*, 92 *Federal Reserve Bulletin* C183 (2006).

²⁴ The Transylvania County banking market is defined as Transylvania County, North Carolina.

County banking market, including two competitors with more than 16 percent of market deposits.

Markets with Divestitures

Jackson, North Carolina, Banking Market. First Citizens Bank is the largest depository institution in the Jackson banking market, controlling approximately \$419.3 million in deposits, which represent 41.3 percent of market deposits.²⁵ Entegra Bank is the fourth largest depository institution in the market, controlling approximately \$120.0 million in deposits, which represent 11.8 percent of market deposits. On consummation of the proposal, First Citizens Bank would remain the largest depository institution in the Jackson banking market, controlling approximately \$539.4 million in deposits, which would represent approximately 53.1 percent of market deposits. The HHI in this market would increase 978 points, from 2929 to 3907.

To mitigate the potentially adverse competitive effects of the proposal in the Jackson banking market, First Citizens has committed to divest one branch, accounting for a total of approximately \$63.6 million in deposits, to a competitively suitable institution.²⁶ Other factors also mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Jackson banking market. In particular, the Board has considered that the SECU is a large and active credit union in the market that offers a full range of retail banking products. Approximately 28 percent of market residents in the Jackson banking market are members of the SECU. In addition, the SECU operates street-level branches that are easily accessible to residents in the market. SECU controls approximately \$386 million in deposits in the Jackson banking market. The Board concludes that this credit union exerts a competitive influence that mitigates, in part, the potential anticompetitive effects of the proposal. In addition, another credit union in the Jackson banking market, which offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the relevant banking market, exerts a competitive influence in the market. The Board finds that the deposits of these credit unions should be included at a 50-percent weight in calculating their estimated market influence.

First Citizens also argues that certain of its deposits in the Jackson banking market distort the measure of the competitive effects of the proposal in the market because the deposits cannot be used for lending. In conducting its competitive analysis in previous cases, the Board generally has not adjusted its market share calculations to exclude categories of deposits because all deposits are typically available to support lending and other banking activities at any location, and the deposits maintained in a specific market represent a firm's ability to compete in that market. The Board, however, has adjusted market deposits to exclude specific types of out-of-market deposits held by an acquirer in rare situations when evidence supports a finding that the out-of-market deposits are subject to legal or other restrictions that constrain an organization's ability to use those deposits to support

²⁵ The Jackson banking market is defined as Jackson, Swain, and Graham counties, all in North Carolina.

²⁶ As a condition of consummation of the proposed merger, First Citizens has committed that it will execute, before consummation of the proposed merger, a sales agreement with a competitively suitable banking organization. First Citizens has provided a similar commitment to the DOJ. First Citizens also has committed to complete the divestiture within 180 days after consummation of the proposed transaction. In addition, First Citizens has committed that if the proposed divestiture is not completed within the 180-day period, First Citizens would transfer the unsold branches to an independent trustee, who would be instructed to sell them to an alternate purchaser or purchasers in accordance with the terms of this order and without regard to price. Both the trustee and any alternate purchaser must be deemed acceptable to the Board. *See, e.g., BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991).*

its general banking activities and that there are data available to make comparable adjustments to the market shares of other participants, if appropriate.²⁷ In this case, First Citizens has some tribal deposits in the market that are subject to legal or other restrictions on the organization's ability to lend on such deposits.²⁸

After making these adjustments, accounting for the divestiture of the branch, and weighting the deposits of credit unions at 50 percent, the combined organization would control approximately 26.8 percent of market deposits, and the HHI would increase by 166 points to a level of 2170. In addition to First Citizens Bank, six other depository institutions, including the credit unions, would compete in the Jackson market, including one competitor with more than 30 percent of market deposits.

Macon County, North Carolina, Banking Market. First Citizens Bank is the third largest depository institution in the Macon County banking market, controlling approximately \$102.1 million in deposits, which represent 8.4 percent of market deposits.²⁹ Entegra Bank is the second largest depository institution in the market, controlling approximately \$334.5 million in deposits, which represent 27.5 percent of market deposits. On consummation of the proposal, First Citizens Bank would become the second largest depository institution in the Macon County banking market, controlling approximately \$436.6 million in deposits, which would represent approximately 35.8 percent of market deposits. The HHI in this market would increase 460 points, from 3110 to 3570.

To mitigate the potentially adverse competitive effects of the proposal in the Macon County banking market, First Citizens has committed to divest two branches, accounting for a total of approximately \$115.7 million in deposits, to a competitively suitable institution. Other factors also mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Macon County banking market. In particular, the Board has considered that the SECU is a large and active credit union in the market that offers a full range of retail banking products. Approximately 21 percent of market residents in the Macon County banking market are members of the SECU. In addition, the SECU operates street-level branches that are easily accessible to residents in the market. SECU controls approximately \$133 million in deposits in the Macon County banking market. The Board concludes that this credit union exerts a competitive influence that mitigates, in part, the potential anticompetitive effects of the proposal. The Board finds that the deposits of this credit union should be included at a 50-percent weight in calculating its estimated market influence.

After accounting for the divestiture of the two branches and weighting the deposits of the credit union at 50 percent, the combined organization would control approximately 26.1 percent of market deposits, and the HHI would decrease by 39 points to a level of 3021.³⁰ In addition to First Citizens Bank, two other depository institutions, including the SECU, would compete in the Macon County market, both with more than 18 percent of market deposits.

²⁷ See *Central Bancompany, Inc.*, FRB Order No. 2017-03, 5–6 (February 8, 2017); *Huntington Bancshares Incorporated*, FRB Order No. 2016-13, 12–15 (July 29, 2016). In this case, no other competitor in the market has a branch of such a size that comparable adjustments are appropriate.

²⁸ N.C. Gen. Stat. § 53C-6-3.

²⁹ The Macon County banking market is defined as Macon County, North Carolina.

³⁰ The HHI decrease in the Macon County banking market is attributable to the divestiture of the deposits at the two Entegra Bank branches in the market, which exceed the amount of deposits held by First Citizens in the Macon County banking market.

Conclusion Regarding Competitive Effects

The DOJ conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal with the proposed divestitures of branches in the banking markets, as discussed above, would not likely have a significantly adverse effect on competition in those markets or in any other 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, including the proposed divestitures, and for the reasons explained above, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the banking markets in which First Citizens and Entegra compete directly or in any other 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, as well as the effectiveness of the institutions in combatting money laundering.³¹ 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, if applicable. In this evaluation, the Board considers a variety of information regarding capital adequacy, asset quality, liquidity, and earnings performance. 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.

First Citizens, Entegra, 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 cash and share exchange.³² The asset quality, earnings, and liquidity of First Citizens are consistent with approval, and First Citizens 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.

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

³² To effect the merger, First Citizens Bank formed a wholly owned subsidiary, FC Merger Subsidiary VII, Inc. ("Merger Sub"), for the sole purpose of facilitating the transaction. Merger Sub would merge with Entegra, with Entegra as the surviving entity. As a result, First Citizens Bank would become a bank holding company for a moment in time before Entegra Bank is merged with and into First Citizens Bank.

At the effective time of the merger of Merger Sub with Entegra, each share of Entegra common stock would be converted into a right to receive cash. Immediately thereafter, Entegra would merge with First Citizens, with First Citizens as the surviving entity. Entegra Bank would then merge with and into First Citizens Bank, with First Citizens Bank as the surviving entity. First Citizens has the financial resources to effect the proposed transaction.

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 First Citizens, Entegra, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by First Citizens; 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.

First Citizens, Entegra, and their subsidiary depository institutions are each considered to be well managed. First Citizens has a record of successfully integrating organizations into its operations and risk-management systems after acquisitions. First Citizens' directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and First Citizens' risk-management program appears to be consistent with approval of this expansionary proposal.

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

Based on all of the facts of record, including First Citizens' 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 record of effectiveness of First Citizens and Entegra 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.³³ 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 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,³⁴ 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 expansionary proposals.³⁵

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 charac-

³³ 12 U.S.C. § 1842(c)(2).

³⁴ 12 U.S.C. § 2901(b).

³⁵ 12 U.S.C. § 2903.

teristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, and information provided by the applicant. The Board also may consider the 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 First Citizens Bank and Entegra Bank; the consumer compliance, including fair lending, records of both banks; the supervisory views of the FDIC; confidential supervisory information; and information provided by First Citizens.

Records of Performance under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions, as well as information and views provided by the appropriate federal supervisors. In this case, the Board considered the supervisory views of and information provided by the FDIC.³⁶

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.³⁷ 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"), investment test ("Investment Test"), and service test ("Service Test") to evaluate the performance of large insured depository institutions, such as First Citizens Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an institution's lending to determine whether the institution is 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 of 1975,³⁸ 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;³⁹ (4) the institution's community development lending, including the number and amounts of community development loans and their

³⁶ See Interagency Questions and Answers Regarding Community Reinvestment, 81 *Federal Register* 48,506, 48,548 (July 25, 2016).

³⁷ 12 U.S.C. § 2906.

³⁸ 12 U.S.C. § 2801 *et seq.*

³⁹ 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).

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.⁴⁰ 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.⁴¹

To evaluate the performance of an intermediate small bank, such as Entegra Bank, federal financial supervisors apply the Lending Test and a community development test ("Community Development Test"). The Community Development Test evaluates the number and amounts of an institution's community development loans and qualified investments; the extent to which the institution provides community development services; and the institution's responsiveness to community development lending, investment, and service needs.⁴²

CRA Performance of First Citizens Bank

First Citizens Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the FDIC, as of June 6, 2016 ("First Citizens Bank Evaluation").⁴³ First Citizens Bank received a "High Satisfactory" rating for each of the Lending, Investment, and Service Tests.

Examiners found that First Citizens Bank's lending levels reflected good responsiveness to community credit needs. Examiners noted that the bank's geographic distribution of loans reflected good penetration throughout the bank's AAs. Examiners found that the bank's lending to borrowers reflected a good distribution among businesses of different sizes, as well as a good distribution among retail customers of different incomes. Examiners noted that the bank used flexible lending practices in order to serve AA credit needs. In addition, examiners found that the bank originated a relatively high level of community development loans.

Examiners found that First Citizens Bank had a significant level of qualified community development investments and donations. Examiners noted that the bank exhibited good responsiveness to credit and community economic development needs. Examiners also noted that the bank occasionally used innovative and complex investments to support community development initiatives.

Examiners found that First Citizens Bank's delivery systems were accessible to essentially all of the bank's AAs. Examiners noted that the services and business hours offered by First Citizens Bank did not vary in a way that inconvenienced customers in its AAs, particularly LMI geographies or individuals. Examiners also noted that the bank provided

⁴⁰ See 12 CFR 228.22(b).

⁴¹ See 12 CFR 228.21 *et seq.*

⁴² 12 CFR 228.26(c).

⁴³ The First Citizens Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed home mortgage lending data, other CRA data (small loans to businesses and farms), community development loans, community development investments and services, and delivery systems for the bank's products and services from May 28, 2013, through June 6, 2016. The First Citizens Bank Evaluation covered First Citizens Bank's 74 AAs located in 16 states and five multistate metropolitan statistical areas ("MSAs"): Arizona; California; Colorado; Florida; Georgia; Maryland; New Mexico; North Carolina; Oklahoma; Oregon; South Carolina; Tennessee; Texas; Virginia; Washington; West Virginia; Augusta-Richmond County, Georgia-South Carolina, MSA; Charlotte-Concord-Gastonia, North Carolina-South Carolina, MSA; Kansas City, Missouri-Kansas, MSA; Myrtle Beach-Conway-North Myrtle Beach, South Carolina-North Carolina, MSA; Washington-Arlington-Alexandria, District of Columbia-Virginia-Maryland-West Virginia, MSA. The First Citizens Bank Evaluation included a full-scope review of 43 of these AAs, including all five multistate MSAs. A limited-scope review was conducted in the remaining 21 AAs.

a relatively high level of community development services: those that benefited organizations throughout its AAs, including organizations focused on economic development and revitalization; affordable housing; small business development; financial education; services for at-risk youth; and basic human needs for LMI individuals and areas.

CRA Performance of Entegra Bank

Entegra Bank was assigned an overall “Satisfactory” rating at its most recent CRA performance evaluation by the FDIC, as of January 9, 2017 (“Entegra Bank Evaluation”).⁴⁴ Entegra Bank received “Satisfactory” ratings for both the Lending Test and the Community Development Test.

Examiners found that Entegra Bank’s loan-to-deposit ratio was reasonable given the bank’s size and financial condition as well as the credit needs of its AAs. Examiners noted that the bank made a majority of its small business loans, and a substantial majority of its home mortgage loans, in its AAs. Examiners found that the geographic distribution of the loans reflected an excellent dispersion throughout the AAs and that the distribution of borrowers reflected a reasonable penetration of loans among businesses of different sizes and retail customers of different income levels.

Examiners found that Entegra Bank demonstrated adequate responsiveness to the community development needs of its AAs through community development loans, qualified investments, and community development services. In particular, examiners noted that the levels of community development loans and qualified investments were higher than those from the previous evaluation period. Examiners observed that the bank’s board members, officers, and employees were involved with various charitable groups and organizations throughout the AAs.

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. First Citizens represents that, following consummation of the proposal, existing customers of Entegra Bank would have access to a broader network of branches and ATMs. In addition, First Citizens represents that customers of Entegra Bank would have access to additional services, including personal, small business, and commercial property and casualty insurance; international banking; treasury services; wealth management; leasing services; and merchant services.

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, confidential supervisory information, information provided by First Citizens, 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.

⁴⁴ The Entegra Bank Evaluation was conducted using the Interagency Intermediate Small Institution CRA Examination Procedures. Examiners reviewed home mortgage lending data, other CRA data (small loans to businesses and farms), and qualified investments from March 3, 2014, through January 9, 2017. The Entegra Bank Evaluation covered four AAs in North Carolina and South Carolina, and included full-scope reviews of the Asheville, North Carolina, MSA; Greenville–Anderson–Mauldin, South Carolina, MSA; and the Non-MSA area of North Carolina, including Cherokee, Jackson, Macon, Polk, and Transylvania counties. A limited-scope review was conducted in the Spartanburg, South Carolina, MSA.

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.”⁴⁵

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.⁴⁶ These categories are not exhaustive, and additional categories could inform the Board’s decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of 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.⁴⁷

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.⁴⁸

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 predominantly engaged in retail and commercial banking activities.⁴⁹ The pro forma organization would not have 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.

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

⁴⁵ 12 U.S.C. § 1842(c)(7).

⁴⁶ Many of the metrics considered by the Board measure an institution’s activities relative to the United States financial system.

⁴⁷ For further discussion of the financial stability standard, see *Capital One Financial Corporation*, FRB Order 2012-2 (February 14, 2012).

⁴⁸ 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.

⁴⁹ First Citizens and Entegra both offer a broad array of retail and commercial banking products and services. First Citizens 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.

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

The proposal may not be consummated before the fifteenth 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 Richmond, acting under delegated authority.

By order of the Board of Governors, effective December 16, 2019.

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

Ann E. Misback
Secretary of the Board

Appendix

First Citizens/Entegra Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines						
Bank	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
Atlanta, Georgia – Bartow, Cherokee, Clayton, Cobb, Coweta, Dawson, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gwinnett, Hall, Henry, Jasper, Newton, Paulding, Rockdale, and Walton counties; the towns of Auburn and Winder in Barrow County; and Luthersville in Meriwether County, all in Georgia.						
First Citizens Pre-Consummation	21	\$750.7M	0.4			
Entegra	43	\$143.1M	0.1			
First Citizens Post-Consummation	20	\$893.9M	0.5	1547	0	85
Asheville, North Carolina – Buncombe, Henderson, Haywood, and Madison counties, all in North Carolina.						
First Citizens Pre-Consummation	2	\$1.5B	19.2			
Entegra	11	\$170.6M	2.2			
First Citizens Post-Consummation	1	\$1.7B	21.4	1283	83	19
Greenville, South Carolina – Anderson, Greenville, Laurens, and Pickens counties, all in South Carolina.						
First Citizens Pre-Consummation	7	\$915.0M	5.4			
Entegra	26	\$44.9M	0.3			
First Citizens Post-Consummation	7	\$959.9M	5.7	901	3	34
Spartanburg, South Carolina–North Carolina – Cherokee, Spartanburg, and Union counties, all in South Carolina; and Polk County, in North Carolina.						
First Citizens Pre-Consummation	3	\$709.3M	11.6			
Entegra	15	\$127.6M	2.1			
First Citizens Post-Consummation	2	\$836.9M	13.7	956	48	21
Data are as of June 30, 2019. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent. The remaining number of competitors noted in each market includes thrift institutions.						

Orders Issued Under Section 3 of the Bank Holding Company Act, the Bank Merger Act, and the Federal Reserve Act

Magnolia Banking Corporation
Magnolia, Arkansas

Farmers Bank & Trust Company
Magnolia, Arkansas

Order Approving the Merger of Bank Holding Companies, the Merger of Banks, and the Establishment of a Branch
FRB Order No. 2019-15 (October 11, 2019)

Magnolia Banking Corporation (“Magnolia”), Magnolia, Arkansas, a bank holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to merge with Prescott Bancshares, Inc. (“Prescott”), and thereby indirectly acquire Prescott’s subsidiary bank, Bank of Prescott, both of Prescott, Arkansas. Farmers Bank & Trust Company (“Farmers Bank”), Magnolia, Arkansas, the state member bank subsidiary of Magnolia, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”)³ to merge with Bank of Prescott, a state non-member bank, with Farmers Bank as the surviving entity. In addition, Farmers Bank has applied under section 9 of the Federal Reserve Act (“FRA”) to establish and operate a branch at the main office of Bank of Prescott.⁴

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (84 *Federal Register* 30715 (June 27, 2019)).⁵ The time for submitting comments has expired, and no comments were received. The Board has considered the proposal in light of the factors set forth in section 3 of the BHC Act, the Bank Merger Act, and the FRA. As required by the Bank Merger Act, a report on the competitive effects of the proposal was requested from the United States Attorney General, and a copy of the request has been provided to the Federal Deposit Insurance Corporation (“FDIC”).

Magnolia, with consolidated assets of approximately \$1.6 billion, is the 508th largest insured depository organization in the United States, controlling deposits of approximately \$907.2 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions⁶ in the United States.⁷ Magnolia controls Farmers Bank, which has offices in Arkansas and Texas. Farmers Bank is the 14th largest insured depository institution in Arkansas, with approximately \$907.2 million in deposits, which represent 1.4 percent of the total amount of deposits of insured depository institutions in that state.⁸

Prescott, with consolidated assets of approximately \$67.0 million, is the 4631th largest insured depository institution in the United States, controlling deposits of approximately

¹ 12 U.S.C. § 1841 *et seq.*

² 12 U.S.C. § 1842.

³ 12 U.S.C. § 1828(c).

⁴ 12 U.S.C. § 321. The branch would be located at 103 East 2nd Street South, Prescott, Arkansas.

⁵ 12 U.S.C. § 1828(c)(3); 12 CFR 262.3(b).

⁶ In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

⁷ National asset data are as of June 30, 2019. National deposit, ranking, and market-share data are as of June 30, 2018, unless otherwise noted.

⁸ State deposit data are as of June 30, 2018, unless otherwise noted.

\$58.6 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Prescott controls Bank of Prescott, which has offices only in Arkansas. Prescott is the 99th largest insured depository organization in Arkansas, with approximately \$58.6 million in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state.

On consummation of the proposal, Magnolia would remain the 508th largest insured depository organization in the United States, with consolidated assets of approximately \$1.7 billion. Magnolia would control approximately \$965.8 million in deposits, representing less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Farmers Bank would remain the 14th largest insured depository institution in Arkansas, controlling deposits of approximately \$965.8 million, which represent approximately 1.5 percent of the total deposits of insured depository institutions in that state.

Competitive Considerations

Section 3 of the BHC Act and the Bank Merger Act prohibit 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.⁹ Section 3 of the BHC Act and the Bank Merger Act also prohibit 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.¹⁰

Farmers Bank and Bank of Prescott compete directly in the Hope, Arkansas, banking market (“Hope market”).¹¹ The Board has considered the competitive effects of the proposal in this banking market in light of all the facts of record. In particular, the Board has considered the relative share of total deposits of insured depository institutions in the market (“market deposits”) that Farmers Bank would control;¹² the concentration levels of market deposits and the increase in these levels, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);¹³ the number of competitors that would remain in the market; and other characteristics of the market.

The competitive effects of the proposal in the Hope market would exceed the thresholds in the DOJ Bank Merger Guidelines when using initial competitive screening data. Farmers Bank is the largest competitor in the Hope market, controlling approximately

⁹ 12 U.S.C. § 1842(c)(1); 12 U.S.C. § 1828(c)(5)(A).

¹⁰ 12 U.S.C. § 1842(c)(1)(B); 12 U.S.C. § 1828(c)(5)(B).

¹¹ The Hope market is defined as Hempstead County (minus Mine Creek township) and Nevada County, both in Arkansas.

¹² Local deposit and market share data are as of June 30, 2018, and are based on calculations in which the deposits of commercially active thrift institutions are included at 100 percent and the deposits of other thrift institutions are included at 50 percent.

¹³ 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.

\$117.6 million in deposits, which represent approximately 28.9 percent of market deposits. Bank of Prescott is the third largest depository institution in the Hope market, controlling approximately \$58.6 million in deposits, which represent approximately 14.2 percent of market deposits. On consummation of the proposal, Farmers Bank would remain the largest depository institution in the Hope market, controlling approximately \$176.2 million in deposits, which would represent approximately 42.6 percent of market deposits. The HHI in the market would increase by 804 points, from 1839 to 2643.

The Board has considered whether factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Hope market.¹⁴ Factors indicate that the increase in concentration in the Hope market, as measured by the HHI and market share, overstates the potential competitive effects of the proposal in the market. In particular, one credit union exerts a competitive influence in the Hope market. The institution offers a wide range of consumer banking products, operates street-level branches, and has broad membership criteria that include almost all of the residents in the market.¹⁵ The Board finds that these circumstances warrant including the deposits of the credit union at a 50 percent weight in its calculation to estimate market influence. This weighting takes into account the limited lending done by this credit union to small businesses relative to commercial banks' lending levels. After weighting the deposits of the credit union at 50 percent, Farmers Bank, upon consummation, would control approximately 41.1 percent of market deposits, and the market concentration level in the Hope market measured by the HHI would increase by 762 points to 2512.

Although consummation of this proposal would eliminate one existing competitor, the Hope market would continue to be served by seven depository institutions, including the credit union noted above. Excluding Farmers Bank, these competitors would include a depository institution with more than 20 percent of market deposits and two depository institutions each with more than 10 percent of market deposits. The presence of these viable competitors suggests that Farmers Bank would have limited ability to offer less attractive terms to consumers unilaterally, and these competitors would be able to exert competitive pressure on Farmers Bank in the Hope market. Furthermore, the branch locations and commuting patterns of consumers within the market suggest that Farmers Bank and Bank of Prescott do not compete as closely with each other as they do with other competitors. These circumstances suggest that the analysis of market concentration overstates the likely effects of the proposal on competition.

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, including the Hope market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the Hope market or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

¹⁴ The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in, and resulting level of, concentration in a banking market. See *NationsBank Corporation*, 84 *Federal Reserve Bulletin* 129 (1998).

¹⁵ The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., *Central Banccompany, Inc.*, FRB Order No. 2017-03 (February 8, 2017); *KeyCorp*, FRB Order No. 2016-12 (July 12, 2016); *Passumpsic Bancorp*, 92 *Federal Reserve Bulletin* C175 (2006); and *Wachovia Corporation*, 92 *Federal Reserve Bulletin* C183 (2006).

Financial, Managerial, and Other Supervisory Considerations

In reviewing proposals under section 3 of the BHC Act and the Bank Merger Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.¹⁶ In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved, as well as information regarding the financial condition of the organizations' significant nonbanking operations, if applicable. In this evaluation, the Board considers a variety of information regarding capital adequacy, asset quality, liquidity, and earnings performance. 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.

Magnolia, Prescott, 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 cash exchange, with a subsequent merger of the subsidiary depository institutions.¹⁷ The asset quality, earnings, and liquidity of Magnolia and Farmers Bank are consistent with approval, and Magnolia 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 Magnolia, Prescott, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Magnolia and Farmers Bank; 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.

Magnolia and Farmers Bank are considered to be well managed. The directors and senior executive officers of Magnolia have substantial knowledge of and experience in the banking and financial services sectors, and Magnolia's risk-management program appears consistent with approval of this expansionary proposal.

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

¹⁶ 12 U.S.C. § 1842(c)(2), (5), and (6); 12 U.S.C. § 1828(c)(5).

¹⁷ Magnolia would form a wholly owned subsidiary, PBI Acquisition, Inc. ("Merger Sub"), in order to facilitate the transaction. Merger Sub would be merged into Prescott, with Prescott as the surviving entity, after which Prescott would be merged into Magnolia, with Magnolia as the surviving entity. As part of the proposed transaction, each share of Prescott common stock would be converted into a right to receive cash. Magnolia has the financial resources to effect the transaction.

tion, Magnolia's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner. Magnolia would retain the existing management of Prescott.

Based on all of the facts of record, including the supervisory records of Magnolia and Farmers Bank, their managerial and operational resources, and their plans for operating the combined organization after consummation, the Board concludes that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Magnolia and Prescott in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on proposals under section 3 of the BHC Act and the Bank Merger Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.¹⁸ In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of these communities, as well as other potential effects of the proposal on the convenience and needs of the communities to be served, and places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").¹⁹ 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,²⁰ 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 expansionary proposals.²¹

In addition, the Board considers the banks' overall compliance records, 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, and information provided by the applicant. The Board also may consider the 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 of the facts of record, including reports of examination of the CRA performance of Farmers Bank and Bank of Prescott; the consumer compliance, including fair lending, records of both banks; confidential supervisory information; and information provided by Magnolia and Farmers Bank.

Records of Performance under the CRA

In evaluating the CRA performance of the institutions involved, 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 or supervisors, which in this case are the Federal Reserve Bank of St. Louis ("Reserve Bank")

¹⁸ 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 1828(c)(5).

¹⁹ 12 U.S.C. § 2901 *et seq.*

²⁰ 12 U.S.C. § 2901(b).

²¹ 12 U.S.C. § 2903.

with respect to Farmers Bank and the FDIC with respect to Bank of Prescott. The Board also considers information provided by the applicant.²²

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.²³ 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"), and a community development test ("Community Development Test") to evaluate the performance of an intermediate small insured depository institution, such as Farmers Bank, in helping to meet the credit needs of the communities it serves. The Lending Test specifically evaluates the institution's home mortgage, small business, small farm, and community development 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,²⁴ 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;²⁵ (4) the institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.²⁶ 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 to community development lending, investment, and service needs.²⁷ Small institutions, such as Bank of Prescott, are subject only to the Lending Test.

CRA Performance of Farmers Bank

Farmers Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the Reserve Bank, as of January 23, 2017 ("Farmers Evalua-

²² See Interagency Questions and Answers Regarding Community Reinvestment, 81 *Fed. Reg.* 48506, 48548 (July 25, 2016).

²³ 12 U.S.C. § 2906.

²⁴ 12 U.S.C. § 2801 *et seq.*

²⁵ Examiners also consider the number and amounts of small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

²⁶ See 12 CFR 228.22(b).

²⁷ See 12 CFR 228.26(c).

tion”).²⁸ Farmers Bank received a “Satisfactory” rating for each of the Lending Test and the Community Development Test.²⁹

Examiners found Farmers Bank’s loan-to-deposit ratio was more than reasonable given the bank’s size, financial condition, and the credit needs of the bank’s AAs. Examiners noted that the bank extended a majority of its loans within its AAs. Examiners found that the distribution of the bank’s lending reflected reasonable penetration among individuals of different income levels and businesses of different sizes. In addition, examiners found that, overall, the bank’s geographic distribution of loans was reasonable throughout the bank’s AAs. Examiners noted no CRA-related complaints had been filed against Farmers Bank since its previous CRA evaluation.

Examiners found that Farmers Bank’s overall community development performance demonstrated adequate responsiveness to the community development needs of its AAs, considering the bank’s capacity and the availability of opportunities for development in the bank’s AAs.

CRA Performance of Bank of Prescott

Bank of Prescott was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the FDIC, as of April 2, 2018 (“Prescott Evaluation”).³⁰ The bank received a “Satisfactory” rating for the Lending Test.³¹

Examiners found that Bank of Prescott exhibited a reasonable record regarding its loan-to-deposit ratio. Examiners found that the bank originated a majority of its loans within its AA and noted that the bank’s overall geographic distribution of loans was reasonable. Examiners also noted that the bank’s record regarding its borrower profile loan distribution was reasonable.

Additional Supervisory Views

In its review of the proposal, the Board consulted with the Reserve Bank regarding the CRA and consumer compliance, including fair lending, records of Farmers Bank and considered the FDIC’s most recent CRA and consumer compliance evaluations of Bank of Prescott. The Board has taken the consultations with the Reserve Bank and the information discussed above into account in evaluating the proposal, including in considering whether Farmers Bank has the experience and resources to ensure that the combined bank would help meet the credit needs of the communities within its AAs following consummation of the proposed transaction.

²⁸ The Farmers Evaluation was conducted using Intermediate Small Institution CRA Examination Procedures. Examiners assessed the loan-to-deposit ratio for the period December 31, 2013, through September 30, 2016, and reviewed AA concentration, loan distribution by borrower profile, and the geographic distribution of loans from January 1, 2015, through December 31, 2015. Examiners reviewed community development activities from December 3, 2013, through January 23, 2017.

²⁹ The Farmers Evaluation included full-scope evaluations of the Texarkana Multistate Metropolitan Statistical Area (“MSA”) AA; the Columbia-Hempstead-Lafayette-Ouachita counties, Arkansas AA; the Hot Spring County, Arkansas AA; the Saline County, Arkansas AA; and the Collin County, Texas AA.

³⁰ The Prescott Evaluation was conducted using Small Institution CRA Examination Procedures. Examiners reviewed a random sample of small business loans for 2017 and loan-to-deposit data from June 30, 2012, to December 31, 2017.

³¹ The Prescott Evaluation included a full-scope evaluation of the bank’s sole AA, a Non-MSA AA, consisting of all of Clark County and contiguous census tracts in Hempstead County and Nevada County, all in Arkansas.

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. Magnolia represents that it does not anticipate making significant changes in or discontinuing any existing products or services of either Farmers Bank or Bank of Prescott following consummation of the bank merger. Magnolia also represents that customers of Bank of Prescott would gain access to a larger array of products and services and an expanded branch network.

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 consumer protection laws, confidential supervisory information, information provided by Magnolia and Farmers Bank, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on its review, the Board determines that the convenience and needs factor is consistent with approval.

Financial Stability

The BHC Act and the Bank Merger Act require the Board to consider the risk of the proposal “to the stability of the United States banking or financial system.”³²

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.³³ These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of 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.³⁴

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.³⁵

³² 12 U.S.C. § 1842(c)(7); 12 U.S.C. § 1828(c)(5).

³³ Many of the metrics considered by the Board measure an institution's activities relative to the United States financial system.

³⁴ For further discussion of the financial stability standard, see *Capital One Financial Corporation*, FRB Order No. 2012-2 (February 14, 2012).

³⁵ 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.

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. 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.³⁶ 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.

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.

Establishment of Branches

Farmers Bank has applied under section 9 of the FRA to establish and operate a branch at the location of the current main office Bank of Prescott.³⁷ The Board has assessed the factors it is required to consider when reviewing an application under that section. Specifically, the Board has considered Farmers Bank's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises.³⁸ For the reasons discussed in this order, the Board finds those factors to be 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. 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, the Bank Merger Act, the FRA, and other applicable statutes. The Board's approval is specifically conditioned on compliance by Magnolia and Farmers Bank with all of the conditions imposed in this order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the proposal. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth 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 Reserve Bank, acting under delegated authority.

³⁶ Farmers Bank and Bank of Prescott are predominately engaged in retail and commercial banking activities. Farmers Bank 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.

³⁷ See 12 U.S.C. § 321. 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. A national bank may establish and operate a new branch within a state in which it is situated, if such establishment and operation is authorized under applicable state law. 12 U.S.C. § 36(c). A national bank also may retain any branch following a merger that under state law may be established as a new branch of the resulting bank or retained as an existing branch of the resulting bank. See 12 U.S.C. § 36(b)(2), (c). Upon consummation, Farmers Bank's new branch would be permissible under applicable state law. See Ark. Code Ann. § 23-48-702.

³⁸ 12 U.S.C. § 322; 12 CFR 208.6. Upon consummation of the proposed transaction, Farmers Bank's investment in bank premises would remain within the legal requirements of 12 CFR 208.21.

By order of the Board of Governors, effective October 11, 2019.

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

Ann E. Misback
Secretary of the Board

Order Issued Under International Banking Act

Absa Bank Limited
Johannesburg, South Africa

*Order Approving the Establishment of a Representative Office
FRB Order No. 2019-14 (October 1, 2019)*

Absa Bank Limited (“Absa Bank”), Johannesburg, South Africa, a foreign bank within the meaning of the International Banking Act of 1978 (“IBA”), has applied under section 10(a) of the IBA¹ to establish a representative office in New York, New York (the “New York Representative Office”). The IBA provides that a foreign bank must obtain the approval of the Board to establish a representative office in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in New York, New York (*New York Daily News*, May 17, 2019). The time for submitting comments has expired, and the Board has considered all comments received.

Absa Bank, with total assets of approximately \$81.8 billion, is the third largest bank in South Africa by asset size.² Absa Bank provides retail, business, corporate and investment banking, and wealth management products and services. The bank also has subsidiaries that engage in various activities, including information technology, automotive fleet management, and property development and investing. Foreign operations of the bank include representative offices located in Nigeria and Namibia.

Absa Bank is a wholly-owned subsidiary of Absa Group Limited (“AGL” – consolidated assets of \$97.5 billion), Johannesburg, South Africa, a diversified financial services provider. In addition to Absa Bank, AGL has a majority stake in banks located in nine African countries and has subsidiaries that engage in insurance, property management, and asset management activities. AGL operates a broker dealer subsidiary in London, England, and is in the process of establishing a U.S. broker dealer subsidiary, Absa Securities U.S. Inc., New York, New York, that would engage in trading debt and equity securities.

AGL’s largest shareholder is Barclays Bank PLC (“Barclays”), London, England, which controlled AGL until 2018 and currently owns approximately 14.9 percent of AGL’s voting shares. The second largest shareholder, with 7.1 percent of AGL’s voting shares, is South Africa’s Public Investment Corporation, Pretoria, South Africa. The remaining shares of AGL are widely held.

The New York Representative Office would act as a liaison with U.S. clients and prospective clients of Absa Bank. The New York Representative Office also would market and solicit new business for banking products and services provided by Absa Bank, perform back-office functions, and assemble credit information.³

¹ 12 U.S.C. § 3107(a).

² Asset data is as of June 30, 2019. Ranking data is as of December 31, 2018.

³ A representative office may engage in representational and administrative functions in connection with the banking activities of a foreign bank, including soliciting new business for the foreign bank, conducting research, acting as a liaison between the foreign bank’s head office and customers in the United States, performing preliminary and servicing steps in connection with lending and performing back-office functions. A representative office may not contract for any deposit or deposit-like liability, lend money, or engage in any other banking activity. 12 CFR 211.24(d)(1).

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a representative office, the Board must consider whether (1) the foreign bank has furnished to the Board the information it needs to assess the application adequately, (2) the foreign bank and any foreign bank parent engage directly in the business of banking outside the United States, and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their home country supervisor.⁴ The Board also considers additional standards set forth in the IBA and Regulation K.⁵

In the case of an application to establish a representative office, the Board has by rule determined that the supervision standard may be met if the Board determines that the applicant bank is subject to a supervisory framework that is consistent with the activities of the proposed office, taking into account the nature of such activities and the operating record of the applicant bank.⁶ This is a lesser standard than the comprehensive, consolidated supervision standard applicable to applications to establish branch or agency offices of a foreign bank. The Board considers the lesser standard sufficient for approval of representative office applications because representative offices may not engage in banking activities. This application has been considered under the lesser standard.

In connection with this application, Absa Bank has provided certain commitments that limit the activities of the New York Representative Office. In particular, Absa Bank has committed that the New York Representative Office would not solicit deposits, make credit decisions or any other decisions that bind Absa Bank (except for local administrative matters), or engage in activities related to securities trading, foreign exchange, or money transmission. The New York Representative Office would engage only in the activities described in its application to the Board.

As noted above, Absa Bank engages directly in the business of banking outside the United States. Absa Bank has provided the Board with the information necessary to assess the application, through submissions that address the relevant issues. With respect to supervision by home country authorities, the Board has considered that Absa Bank is supervised by the Prudential Authority (“PA”), which operates under the South African Reserve Bank (“SARB”), and the Financial Sector Conduct Authority (“FSCA”).⁷

⁴ 12 U.S.C. § 3107(a)(2); 12 CFR 211.24(d)(2). In assessing the supervision standard, the Board considers, among other indicia of comprehensive, consolidated supervision, the extent to which home country supervisors (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings and relationships between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank’s financial condition on a worldwide consolidated basis; and (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board’s determination. 12 CFR 211.24(c)(1).

⁵ See 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2). These standards include the following: whether the bank’s home country supervisor has consented to the establishment of the office; the financial and managerial resources of the bank; whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; whether the appropriate supervisors in the home country may share information on the bank’s operations with the Board; whether the bank and its U.S. affiliates are in compliance with U.S. law; the needs of the community; and the bank’s record of operation. The Board may also, in the case of a foreign bank that presents a risk to the stability of the United States, take into account, to the extent appropriate, whether the home country of the foreign bank has adopted, or is making demonstrable progress towards adopting, an appropriate system of financial regulation for the financial system of such home country to mitigate such risk. 12 U.S.C. § 3105(d)(3)(E).

⁶ See 12 CFR 211.24(d)(2).

⁷ The Board found that Absa Bank was subject to a level of supervision consistent with approval of the establishment of a representative office in July 1997, which was also the last time the Board considered the supervisory regime in South Africa. Board Order. See 83 *Fed. Res. Bull.* 788 (July 30, 1997). Following Barclays’ acquisition of Absa Bank in 2005, Barclays closed this representative office.

The South African financial regulatory regime has been materially enhanced in recent years, culminating in legislation establishing a “twin peaks” model of supervision in 2017 and 2018. The PA is responsible for regulating banks and financial institutions, while the SARB is the central bank of the Republic of South Africa and seeks to achieve price stability and financial stability. The FSCA is a stand-alone market conduct regulator and works towards efficiency and integrity of financial markets and consumer protection. Implementation of the twin peaks regulatory model is ongoing, and Absa Bank has indicated that it expects the South African government to enact additional legislation related to conglomerate supervision and financial institution conduct and resolution.

The PA and the SARB apply a risk-based supervisory approach. The PA and/or the SARB supervise banking organizations through a combination of off-site monitoring and on-site examinations that focus on compliance with applicable laws and regulations, including anti-money-laundering rules, corporate governance, audit, internal controls, risk management, and financial condition, including asset quality, capital, liquidity, and profitability. The PA and/or the SARB conduct off-site monitoring of Absa Bank and AGL through the review of a set of periodic reports on the bank’s consolidated operations, including its branches, subsidiaries, and affiliates, both domestic and foreign. Absa Bank is required to provide annual audited financial statements to the SARB.

Based on all the facts of record, including the commitments provided by Absa Bank limiting the activities of the New York Representative Office, it has been determined that Absa Bank is subject to a supervisory framework that is consistent with the current and proposed activities of the New York Representative Office, taking into account the nature of such activities.

The following additional standards set forth in the IBA and Regulation K have also been considered: (1) whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; (2) the financial and managerial resources of the bank; (3) whether the appropriate supervisors in the home country may share information on the bank’s operations with the Board; and (4) whether the bank’s home country supervisor has consented to the establishment of the office.⁸

South Africa is a member of the Financial Action Task Force (“FATF”) regional organization, and Absa Bank has indicated that FATF recommendations have been implemented through the promulgation and implementation of the Financial Intelligence Centre Act, 2001 (“FIC Act”). The FIC Act requires the PA and/or SARB to ensure that banks have adequate controls in place to combat acts of money laundering the financing of terrorism. Accordingly, the PA and/or SARB inspects banks, including Absa Bank, on a routine and non-routine basis to assess whether they have appropriate measures in place, including anti-money laundering (AML) and sanctions policies, an AML training program, and client identification and verification requirements, as required by the FIC Act. Absa Bank has policies and procedures to comply with these laws and regulations, which are monitored by government entities responsible for AML compliance.

Absa Bank appears to have the experience and capacity to support the New York Representative Office. Absa Bank has several representative offices in Africa and has previously operated a representative office in the United States. In addition, Absa Bank has established controls and procedures for the New York Representative Office to ensure compli-

⁸ See 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2).

ance with U.S. law, as well as controls and procedures for its worldwide operations generally. Taking into consideration Absa Bank's record of operations in its home country, its overall financial resources, and its standing with its home country supervisors, financial and managerial factors are consistent with approval of Absa Bank's application to establish the New York Representative Office.

Absa Bank has committed to make available to the Board such information on the operations of Absa Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended,⁹ and other applicable federal law. To the extent that providing such information to the Board may be prohibited by law or otherwise, Absa Bank has committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for the disclosure of such information. In addition, subject to certain conditions, the PA may share information on Absa Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Absa Bank has provided adequate assurances of access to any necessary information that the Board may request. In addition, the PA has no objection to the establishment of the New York Representative Office.

Whether Absa Bank's proposal would present a risk to the stability of the United States has also been considered. The proposal would not appear to affect financial stability in the United States. In particular, the absolute and relative size of Absa Bank in its home country; the scope of Absa Bank's activities, including the types of activities it proposes to conduct in the United States and the potential for those activities to increase or transmit financial instability; and the framework in place for supervising Absa Bank in its home country do not appear to create significant risk to the financial stability of the United States. Based on these and other factors, financial stability considerations in this proposal are consistent with approval.

On the basis of all the facts of record and subject to commitments made by Absa Bank, Absa Bank's application to establish the New York Representative Office is hereby approved by the Director of the Division of Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board.¹⁰ Should any restrictions on access to information on the operations or activities of Absa Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Absa Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Absa Bank's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Absa Bank with the conditions imposed in this order and the commitments made to the Board in connection with this application.¹¹ For purposes of this action, these commitments and conditions are deemed to be conditions imposed by the Board in writing in connection with this decision and, as such, may be enforced in proceedings under applicable law.

⁹ 12 U.S.C. § 1841 *et seq.*

¹⁰ 12 CFR 265.7(d)(12).

¹¹ The Board's authority to approve the establishment of the New York Representative Office parallels the continuing authority of the State of New York to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of New York or its agent, the New York State Department of Financial Services, to license the New York Representative Office in accordance with any terms or conditions that they may impose.

By order, approved pursuant to authority delegated by the Board, effective
October 1, 2019.

Ann E. Misback
Secretary of the Board



Legal Developments: Second Quarter, 2020

Order Issued under Section 3 of the Bank Holding Company Act, the Bank Merger Act, and the Federal Reserve Act

First Horizon National Corporation
First Horizon Bank
Memphis, Tennessee

Order Approving the Merger of Bank Holding Companies, the Merger of Banks, and the Establishment of Branches
FRB Order No. 2020-01 (June 15, 2020)

First Horizon National Corporation (“First Horizon”), Memphis, Tennessee, a financial holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to merge with IBERIABANK Corporation (“IBERIABANK Corp”) and thereby indirectly acquire its subsidiary state member bank, IBERIABANK, both of Lafayette, Louisiana. In addition, First Horizon’s subsidiary state member bank, First Horizon Bank, Memphis, Tennessee, has requested the Board’s approval to merge with IBERIABANK, pursuant to section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”),³ with First Horizon Bank as the surviving entity. First Horizon Bank also has applied under section 9 of the Federal Reserve Act (“FRA”)⁴ to establish and operate branches at the locations of the main office and branches of IBERIABANK.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (84 *Federal Register* 71939 (December 30, 2019)) in accordance with the Board’s Rules of Procedure.⁵ 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 the BHC Act, the Bank Merger Act, and the FRA. As required by the Bank Merger Act, a report on the competitive effects of the merger was requested from the United States Attorney General, and a copy of the request has been provided to the Federal Deposit Insurance Corporation.

First Horizon, with consolidated assets of approximately \$47.2 billion, is the 54th largest insured depository organization in the United States, controlling approximately \$34.3 billion in consolidated deposits, which represent less than 1 percent of the total

¹ 12 U.S.C. § 1841 *et seq.*

² 12 U.S.C. § 1842.

³ 12 U.S.C. § 1828(c).

⁴ 12 U.S.C. § 321. These locations are listed in Appendix 2.

⁵ 12 CFR 262.3(b).

amount of deposits of insured depository institutions in the United States.⁶ First Horizon controls First Horizon Bank, which operates in Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia. First Horizon Bank is the largest insured depository institution in Tennessee, controlling deposits of approximately \$24.7 billion, which represent approximately 15.4 percent of the total deposits of insured depository institutions in that state. First Horizon Bank is the eighth largest insured depository institution in North Carolina, controlling deposits of approximately \$6.6 billion, which represent approximately 1.8 percent of the total deposits of insured depository institutions in that state. First Horizon Bank is the 34th largest insured depository institution in Florida, controlling deposits of approximately \$2.0 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state. First Horizon Bank is the 23rd largest insured depository institution in South Carolina, controlling deposits of approximately \$529.8 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state. First Horizon Bank is the 117th largest insured depository institution in Georgia, controlling deposits of approximately \$136.1 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state. Finally, First Horizon Bank is the 339th largest insured depository institution in Texas, controlling deposits of approximately \$113.9 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

IBERIABANK Corp, with consolidated assets of approximately \$32.2 billion, is the 67th largest insured depository organization in the United States, controlling approximately \$25.0 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. IBERIABANK Corp controls IBERIABANK, which operates in Alabama, Arkansas, Florida, Georgia, Louisiana, New York, North Carolina, South Carolina, Tennessee, and Texas. IBERIABANK is the 17th largest insured depository institution in Florida, controlling deposits of approximately \$9.5 billion, which represent 1.6 percent of the total deposits of insured depository institutions in that state. IBERIABANK is the 41st largest insured depository institution in Texas, controlling deposits of approximately \$1.8 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state. IBERIABANK is the 23rd largest insured depository institution in Georgia, controlling deposits of approximately \$1.2 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state. IBERIABANK is the 68th largest insured depository institution in Tennessee, controlling deposits of approximately \$338.9 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state. IBERIABANK is the 74th largest insured depository institution in South Carolina, controlling deposits of approximately \$25 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state. Finally, IBERIABANK is the 77th largest insured depository institution in North Carolina, controlling deposits of approximately \$7.7 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, First Horizon would become the 42nd largest insured depository organization in the United States, with consolidated assets of approximately \$80.3 billion, which represent less than 1 percent of the total amount of assets of insured depository institutions in the United States. First Horizon would control consolidated

⁶ Consolidated asset and deposit data are as of March 31, 2020. State deposit data are as of June 30, 2019, unless otherwise noted, and reflect First Horizon Bank's acquisition of SunTrust Bank branches in Georgia, North Carolina, and Virginia. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

deposits of approximately \$59.3 billion, which represent less than 1 percent of the total deposits of insured depository institutions in the United States. First Horizon would remain the largest insured depository organization in Tennessee, controlling deposits of approximately \$25.0 billion, which represent 15.6 percent of the total amount of deposits of insured depository institutions in that state. First Horizon would become the 14th largest insured depository organization in Florida, controlling deposits of approximately \$11.5 billion, which represent 1.9 percent of the total amount of deposits of insured depository institutions in that state. First Horizon would remain the eighth largest insured depository organization in North Carolina, controlling deposits of approximately \$6.6 billion, which represent 1.8 percent of the total amount of deposits of insured depository institutions in that state. First Horizon would become the 41st largest insured depository institution in Texas, controlling deposits of approximately \$1.9 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state. First Horizon would become the 20th largest insured depository institution in Georgia, controlling deposits of approximately \$1.3 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state. Finally, First Horizon would remain the 23rd largest insured depository organization in South Carolina, controlling deposits of approximately \$555.6 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state.

Interstate and Deposit Cap Analyses

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.⁷ Similarly, section 44 of the Federal Deposit Insurance Act (“FDI Act”) generally provides that, if certain conditions are met, the Board may approve an application by a bank to engage in an interstate merger transaction with a bank that has a different home state without regard to whether the transaction would be prohibited under state law, provided that the resulting bank would be well capitalized and well managed.⁸ The Board may not approve under either provision an application that would permit an out-of-state bank holding company or out-of-state bank to acquire a bank in a host state if the target bank has not been in existence for the lesser of the state statutory minimum period of time or five years.⁹ In addition, the Board may not approve an interstate application under these provisions if the bank holding company or resulting bank controls or, upon consummation of the proposed transaction, would control more than 10 percent of the total deposits of insured depository institutions in the United States or, in certain circumstances, if the bank holding company 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.¹⁰ Moreover, the Bank Merger Act includes a prohibition on approval of interstate transactions where the resulting insured depository institution, together with its insured depository institution affiliates, controls or, upon consummation of the proposed transaction, would control,

⁷ 12 U.S.C. § 1842(d)(1)(A).

⁸ 12 U.S.C. § 1831u(a)(1).

⁹ 12 U.S.C. § 1842(d)(1)(B); 12 U.S.C. § 1831u(a)(5).

¹⁰ 12 U.S.C. § 1842(d)(2)(A) and (B); 12 U.S.C. § 1831u(b)(2)(A) and (B). The acquiring and target organizations 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. For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch.

more than 10 percent of the total amount of deposits of insured depository institutions in the United States.¹¹

For purposes of these provisions, the home state of First Horizon is Tennessee.¹² The home state of First Horizon Bank also is Tennessee.¹³ The home state of IBERIABANK is Louisiana, and IBERIABANK is located in Alabama, Arkansas, Florida, Georgia, Louisiana, New York, North Carolina, South Carolina, Tennessee, and Texas. First Horizon, First Horizon Bank, and IBERIABANK are well capitalized and well managed under applicable law, and First Horizon Bank also would be well capitalized and well managed upon consummation of the proposal. IBERIABANK has been in existence for more than five years, and First Horizon Bank has a “Satisfactory” rating under the Community Reinvestment Act of 1977 (“CRA”).¹⁴

On consummation of the proposed transaction, First Horizon would control less than 1 percent of the total amount of consolidated deposits of insured depository institutions in the United States. Florida, Georgia, South Carolina, and Tennessee each impose a 30-percent limit, and Texas imposes a 20-percent limit, on the total amount of in-state deposits that a single banking organization may control.¹⁵ The combined organization would control approximately 1.9 percent of the total amount of deposits of insured depository institutions in Florida, less than 1 percent in Georgia, less than 1 percent in South Carolina, 15.6 percent in Tennessee, and less than 1 percent in Texas. Accordingly, in light of all the facts of record, the Board may approve the proposal under section 3(d) of the BHC Act, section 44 of the FDI Act, and the interstate provisions of the Bank Merger Act.

Competitive Considerations

Section 3 of the BHC Act and the Bank Merger Act prohibit 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.¹⁶ The BHC Act and the Bank Merger Act also prohibit 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.¹⁷

First Horizon and IBERIABANK Corp have subsidiary banks that compete directly in 10 banking markets in Arkansas, Florida, Mississippi, North Carolina, South Carolina, Tennessee, and Texas. The Board has considered the competitive effects of the proposal in the banking markets in which First Horizon Bank and IBERIABANK compete. In particular, the Board has considered the number of competitors that would remain in the

¹¹ 12 U.S.C. § 1828(c)(13).

¹² 12 U.S.C. § 1841(o)(4). A bank holding company’s home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

¹³ 12 U.S.C. § 1841(o)(4); 12 U.S.C. § 1831u(g)(4). A state bank’s home state is the state by which the bank is chartered.

¹⁴ 12 U.S.C. § 2901 *et seq.* The states in which First Horizon Bank operates do not have community reinvestment laws.

¹⁵ Fla. Stat. § 658.2953(5); Ga. Code Ann. § 7-1-628.3; S.C. Code Ann. § 34-25-240; Tenn. Code Ann. § 45-2-1404; Tex. Fin. Code §203.004. North Carolina does not impose a limit on the total amount of deposits an insured depository institution may control.

¹⁶ 12 U.S.C. § 1842(c)(1)(A); 12 U.S.C. § 1828(c)(5)(A).

¹⁷ 12 U.S.C. § 1842(c)(1)(B); 12 U.S.C. § 1828(c)(5)(B).

banking markets; the relative shares of total deposits of insured depository institutions in the markets (“market deposits”) that First Horizon would control;¹⁸ the concentration levels of market deposits and the increase in these levels as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);¹⁹ and other characteristics of each market.

Banking Markets within Established Guidelines

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in nine of ten banking markets. Of the nine, on consummation, two banking markets would remain highly concentrated, five banking markets would remain moderately concentrated, and two banking markets would remain unconcentrated, as measured by the HHI. The change in the 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 most of these banking markets.²⁰

Banking Market Warranting Special Scrutiny

The structural effects that consummation of the proposal would have in the Marathon Area, Florida, banking market (“Marathon banking market”) warrant a detailed review because the concentration levels on consummation would exceed the thresholds in the DOJ Bank Merger Guidelines and Board precedent when using initial competitive screening data.

First Horizon Bank is the fourth largest depository institution in the Marathon banking market, controlling approximately \$77.7 million in deposits, which represent 11.6 percent of market deposits.²¹ IBERIABANK is the third largest depository institution in the market, controlling approximately \$116.7 million in deposits, which represent 17.4 percent of market deposits. On consummation, First Horizon Bank would become the second largest depository institution in the Marathon banking market, controlling approximately \$194.4 million in deposits, which would represent approximately 29.1 percent of market deposits. The HHI in this market would increase 405 points, from 2053 to 2458.

The Board has considered whether other factors either mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Marathon banking market. In particular, the sole credit union in the

¹⁸ Deposit and market share data are as of June 30, 2019, and unless otherwise noted 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 market share calculations on a 50-percent weighted basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

¹⁹ 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), www.justice.gov/opa/pr/2010/August/10-at-938.html.

²⁰ These banking markets and the competitive effects of the proposal in these markets are described in Appendix 1.

²¹ The Marathon Area, Florida, banking market is defined as the towns of Marathon and Marathon Shores in Monroe County, Florida.

Marathon banking market exerts a competitive influence in the market. The institution offers a wide range of consumer banking products, operates a street-level branch, and has broad membership criteria that include almost all of the residents in the market.²² After including this credit union, First Horizon would control approximately 28.4 percent of market deposits, and the HHI would increase by 386 points to 2346.

The Board also has examined other aspects of the structure of the Marathon banking market that could mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Marathon banking market. After consummation of the proposal, First Horizon Bank would face competition from five other depository institutions in the market, three of which would control more than 30 percent, 20 percent, and 9 percent of market deposits. Competitors would be able to exert competitive pressure on First Horizon Bank in the Marathon banking market. In addition, First Horizon Bank and IBERIABANK focus on providing different types of banking services in the Marathon banking market.²³

The Marathon banking market has atypically strong market attractiveness, suggesting that future entry and expansion by competitors are mitigating factors. One depository institution recently entered the market by acquisition. Since 2016, aggregate deposit growth in the Marathon banking market has been more than double the average of comparable areas.

Conclusion Regarding Competitive Effects

The DOJ 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 the Marathon banking market or in any other 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 the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the banking markets in which First Horizon and IBERIABANK Corp compete directly or in any other 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 and the Bank Merger Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved, the effectiveness of the institutions in combatting money laundering, and any public comments on the proposal.²⁴ In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved

²² The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., *First Citizens Bancshares, Inc.*, FRB Order No. 2019–17 (December 16, 2019); *Magnolia Banking Corporation*, FRB Order No. 2019–15 (October 11, 2019); *Huntington Bancshares Incorporated*, FRB Order No. 2016–13 (July 29, 2016); *Wachovia Corporation*, 92 *Federal Reserve Bulletin* C183 (2006).

²³ This difference in focus is reflected in the lack of overlap between the institutions in small business lending, with First Horizon engaging in relatively little lending activity. Small business loan originations indicate that the deposit HHI overstates the merger's competitive effects within the broader cluster of banking products in Marathon. Analysis of available data suggests the transaction is unlikely to have an adverse competitive impact on small business lending in the market; on consummation, First Horizon Bank would control approximately 3.9 percent of market small business lending, and the small business loan HHI would increase by less than 1 point, to 1218. Furthermore, banks without branch locations in the market supply approximately 42 percent of the area's small business loans.

²⁴ 12 U.S.C. § 1842(c)(2), (5), and (6); 12 U.S.C. § 1828(c)(5) and (11).

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 public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as the impact of the proposed funding of the transaction. 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.

First Horizon, IBERIABANK Corp, 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 banks.²⁵ The capital, asset quality, earnings, and liquidity of First Horizon and IBERIABANK Corp are consistent with approval, and First Horizon and IBERIABANK Corp appear to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, future prospects 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 First Horizon, IBERIABANK Corp, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by First Horizon; 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.

First Horizon, IBERIABANK Corp, and their subsidiary depository institutions are considered to be well managed. The combined organization's proposed directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and the proposed risk-management program appears consistent with approval of this expansionary proposal.

The Board also has considered First Horizon's plans for implementing the proposal. First Horizon 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. The Board also has considered First Horizon's plans to withstand the potential impact of near-term economic conditions. First Horizon represents that the combined organization would select strong capabilities and systems from the existing risk-management governance, operations, and systems of First Horizon and IBERIABANK Corp to create a firm-wide risk-management program. Both First Horizon and IBERIABANK Corp's existing risk-management policies, procedures, and controls are

²⁵ To effect the transaction, each share of IBERIABANK Corp common stock would be converted into a right to receive shares of First Horizon common stock, based on an exchange ratio. In addition, each share of certain noncumulative perpetual preferred IBERIABANK Corp stock would be converted into a right to receive substantially similar newly issued noncumulative perpetual preferred First Horizon stock. First Horizon has the financial resources to fund the transaction.

considered acceptable from a supervisory perspective. In addition, First Horizon and IBERIABANK Corp's management have the experience and resources to ensure that the combined organization would operate in a safe and sound manner, and the combined organization would integrate existing management and personnel from First Horizon and IBERIABANK Corp.²⁶

Based on all of the facts of record, including First Horizon'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 record of effectiveness of First Horizon and IBERIABANK Corp 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 and the Bank Merger Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.²⁷ 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 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,²⁸ 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 expansionary proposals.²⁹

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 assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and any 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 First Horizon Bank and IBERIABANK; the fair lending and compliance records of both banks; the supervisory views of the Office of the Comptroller of the Currency ("OCC") and the Federal Reserve Bank of Atlanta ("Reserve Bank of Atlanta"); confidential supervisory information; information provided by First Horizon; and the public comments on the proposal.

²⁶ The combined organization would have a board of 17 directors, nine of whom would be appointed from First Horizon's board, and eight of whom would be appointed from IBERIABANK Corp's board. In addition, the set of senior executive officers at the combined organization would comprise four current senior executive officers from First Horizon and four current senior executive officers from IBERIABANK Corp.

²⁷ 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 1828(c)(5).

²⁸ 12 U.S.C. § 2901(b).

²⁹ 12 U.S.C. § 2903.

Summary of Public Comments

The Board received comments from 30 commenters, all of whom expressed support for the proposal. Commenters generally described positive experiences related to the small business, community development, charitable contribution, and investment programs of First Horizon. Commenters stated that First Horizon employees had volunteered at some of these organizations, dedicating their time and lending their expertise. One commenter stated that First Horizon helped the organization open its first location in Memphis, Tennessee, in 2014, and helped the organization open additional locations that provide financial literacy and empowerment programs to clients.

Records of Performance under the CRA

In evaluating the CRA performance of an institution, the Board generally considers the institution's most recent CRA performance evaluation, as well as other information and supervisory views provided by the appropriate federal financial supervisors.³⁰ In addition, the Board considers information provided by the applicant and by the 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.³¹ 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"), investment test ("Investment Test"), and service test ("Service Test") to evaluate the performance of large insured depository institutions, such as First Horizon Bank and IBERIABANK, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an institution's lending to determine whether the institution is 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 of 1975 ("HMDA"),³² 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;³³ (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

³⁰ See Interagency Questions and Answers Regarding Community Reinvestment, 81 *Fed. Reg.* 48506, 48548 (July 25, 2016).

³¹ 12 U.S.C. § 2906.

³² 12 U.S.C. § 2801 *et seq.*

³³ 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).

individuals and geographies.³⁴ 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.³⁵

CRA Performance of First Horizon Bank

First Horizon Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the OCC,³⁶ as of July 10, 2017 ("First Horizon Bank Evaluation").³⁷ First Horizon Bank was required to develop a CRA Plan as one of the conditions for acquiring the Trust Atlantic Bank on October 2, 2015. First Horizon Bank received a "High Satisfactory" rating for each of the Lending, Investment, and Service Tests. The bank's performance under its CRA Plan was "Satisfactory."

With respect to the Lending Test, examiners found that First Horizon Bank's lending levels reflected good responsiveness to community credit needs. According to examiners, the bank's geographic distribution of loans reflected adequate penetration throughout the bank's AAs. Examiners also found that First Horizon Bank's lending to borrowers reflected a good distribution among businesses of different sizes, as well as a good distribution among retail customers of different incomes. Examiners noted that First Horizon Bank originated a relatively high level of community development loans. Examiners also noted that First Horizon Bank met or exceeded the vast majority of its lending goals in the CRA Plan.

With respect to the Investment Test, examiners found that First Horizon Bank had a significant level of qualified community development investments and grants. Examiners noted that the bank exhibited good responsiveness to community credit and economic development needs. Examiners also noted that First Horizon Bank met or exceeded the vast majority of its investment goals in the CRA Plan. With respect to the Service Test, examiners found that First Horizon Bank's delivery systems were accessible to essentially all of the bank's AAs. Examiners further noted that First Horizon Bank's opening, closing, and acquisition of branches had generally not adversely affected the accessibility of its delivery systems, particularly for LMI geographies or individuals; similarly, the services and business hours offered by First Horizon Bank did not vary in a way that inconvenienced its AAs, particularly LMI geographies or individuals. Examiners found that the bank provided an adequate level of community development services in its AAs. Examiners also found that First Horizon Bank demonstrated adequate adherence to its service-related goals in the CRA Plan.

³⁴ See 12 CFR 228.22(b).

³⁵ See 12 CFR part 228, subpart B.

³⁶ On October 26, 2019, First Horizon Bank converted from a national bank into a Tennessee-chartered state member bank.

³⁷ The First Horizon Bank Evaluation was conducted using Large Institution CRA Examination Procedures. OCC examiners reviewed home-mortgage and small business lending from January 1, 2014, through December 31, 2016, except for community development loans, which were evaluated from April 8, 2014, through December 31, 2016. Examiners reviewed lending in Florida and Texas from March 16, 2016, through December 31, 2016. The evaluation period for the Investment Test and the Service Test was from April 8, 2014, through December 31, 2016. Examiners considered community development investments made by certain affiliates of First Horizon Bank. The First Horizon Bank Evaluation covered First Horizon Bank's 17 AAs, located in six states and two multistate metropolitan statistical areas ("MSAs"): Florida; North Carolina; South Carolina; Tennessee; Texas; Virginia; the Chattanooga, Tennessee–Georgia–Mississippi, MSA; and the Memphis, Tennessee–Mississippi–Arkansas, MSA. The First Horizon Bank Evaluation included a full-scope review of 11 of these AAs, including both multistate MSAs. A limited-scope review was conducted in the remaining six AAs.

First Horizon Bank's Efforts since the 2017 CRA Evaluation

First Horizon represents that First Horizon Bank continues to build upon its CRA performance. First Horizon notes that First Horizon Bank has provided free, one-on-one financial-literacy coaching and workshops at its branches in Tennessee, Mississippi, North Carolina, South Carolina, and Florida. In addition, First Horizon reports that, in 2018, First Horizon Bank announced that it had adopted a five-year community benefits agreement. First Horizon represents that, since adopting the community benefits agreement, First Horizon Bank has met or exceeded the agreement's goals related to community lending and community investment.

CRA Performance of IBERIABANK

IBERIABANK was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the Reserve Bank of Atlanta, as of May 10, 2017 ("IBERIABANK Evaluation").³⁸ IBERIABANK received a "High Satisfactory" rating for each of the Lending, Investment, and Service Tests.

With respect to the Lending Test, examiners found that IBERIABANK's overall lending performance was good. Examiners noted that the overall geographic distribution of loans throughout the bank's AAs and borrower distribution among borrowers of different income levels were adequate, while the overall distribution among businesses of different sizes was good. Additionally, examiners found that IBERIABANK originated a relatively high level of community development loans.

With respect to the Investment Test, examiners found that IBERIABANK made a significant level of qualified community development investments in response to community development needs.

With respect to the Service Test, examiners found that IBERIABANK's delivery systems were reasonably accessible to the bank's geographies and individuals of different income levels. Examiners further noted that the services and business hours offered by IBERIABANK did not vary in a way that inconvenienced its AAs, including LMI geographies or individuals. Examiners also noted that IBERIABANK was a leader in providing community development services.

IBERIABANK's Efforts since the 2017 CRA Evaluation

First Horizon represents that IBERIABANK continues to build upon its CRA performance. First Horizon notes that, in 2017, IBERIABANK announced a five-year community benefits plan aimed at improving lending, investments, and services in LMI communities. First Horizon represents that IBERIABANK has shown responsiveness to community development needs, provided community development lending, and demonstrated a commitment to community investment.

³⁸ The IBERIABANK Evaluation was conducted using Large Institution CRA Examination Procedures. Reserve Bank of Atlanta examiners reviewed home-mortgage and small business lending from January 1, 2014, through December 31, 2016, except for community development loans, which were evaluated from April 1, 2013, through December 31, 2016. Examiners considered HMDA-reportable loans made by an affiliate of IBERIABANK. The evaluation period for the Investment Test and the Service Test was from April 1, 2013, through December 31, 2016. The IBERIABANK Evaluation covered IBERIABANK's 35 AAs located in seven states: Alabama, Arkansas, Florida, Georgia, Louisiana, Tennessee, and Texas. The IBERIABANK Evaluation included a full-scope review of 10 of these AAs. A limited-scope review was conducted in the remaining 25 AAs.

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. First Horizon represents that, following consummation of the proposal, existing customers of IBERIABANK would benefit from First Horizon Bank's experience in providing fixed income capital markets services and specialized knowledge of the healthcare industry. First Horizon also represents that customers of First Horizon Bank would benefit from IBERIABANK's commercial finance expertise and knowledge of the sports and entertainment industry. In addition, First Horizon asserts that customers of both banks would benefit from the combined 12-state branch and ATM network.

First Horizon Bank and IBERIABANK separately have adopted, and are operating under, community development plans.³⁹ The plans include goals related to mortgage and small business lending, community development lending and investments, and increased access to financial services in LMI communities. First Horizon represents that both First Horizon Bank and IBERIABANK are meeting or exceeding the goals set in their respective development plans.

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, confidential supervisory information, information provided by First Horizon, 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."⁴⁰ In addition, the Bank Merger Act requires the Board to consider, in every case, "risk to the stability of the United States banking or financial system."⁴¹

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

³⁹ The Board consistently has found that neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into commitments or agreements with any organization. See, e.g., *CIT Group, Inc.*, FRB Order No. 2015-20 at 24 n. 54 (July 19, 2015); *Citigroup Inc.*, 88 *Federal Reserve Bulletin* 485 (2002); *Fifth Third Bancorp*, 80 *Federal Reserve Bulletin* 838, 841 (1994). In its evaluation, the Board reviews the existing CRA performance record of an applicant and the programs that the applicant has in place to help serve the credit needs of its CRA AAs.

⁴⁰ 12 U.S.C. § 1842(c)(7).

⁴¹ 12 U.S.C. § 1828(c)(5).

resulting firm.⁴² These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of 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.⁴³

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.⁴⁴

In this case, the Board has considered information relevant to risks to the stability of the United States banking or financial system. The proposal would result in a firm with less than \$100 billion in total assets. The pro forma organization would not have 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.

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.

Establishment of Branches

First Horizon Bank has applied under section 9 of the FRA to establish branches at the current locations of IBERIABANK.⁴⁵ The Board has assessed the factors it is required to consider when reviewing an application under that section, including First Horizon Bank's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises.⁴⁶ For

⁴² Many of the metrics considered by the Board measure an institution's activities relative to the United States financial system.

⁴³ For further discussion of the financial stability standard, see *Capital One Financial Corporation*, FRB Order 2012-02 (February 14, 2012).

⁴⁴ 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.

⁴⁵ See 12 U.S.C. § 321. 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. Thus, a state member bank resulting from an interstate merger transaction may maintain and operate a branch in a state other than the home state of the bank in accordance with section 44 of the FDI Act. See 12 U.S.C. § 36(d). In addition, a state member bank may retain any branch following a merger that might be established as a new branch of the resulting bank under state law, as well as any branch that, on February 25, 1927, was in operation as a branch of any bank. See 12 U.S.C. §§ 36(b)(2) and (c). Upon consummation, all of First Horizon Bank's branches in Tennessee would be permissible under applicable state law. See Tenn. Code Ann. §452-614.

⁴⁶ 12 CFR 208.6. Upon consummation of the proposed transaction, First Horizon Bank's investments in bank premises would remain within the legal requirements of section 208.21(a) of the Board's Regulation H, 12 CFR 208.21(a).

the reasons discussed in this order, the Board determines that those factors are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the proposal should be, and hereby is, approved. 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, the Bank Merger Act, the FRA, and other applicable statutes. The Board's approval is specifically conditioned on compliance by First Horizon and First Horizon 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 the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth 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 St. Louis, acting under delegated authority.

By order of the Board of Governors, effective June 15, 2020.

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

Michele Taylor Fennell
Assistant Secretary of the Board

Appendix 1

First Horizon/IBERIABANK Corp Banking Markets Consistent with Board Precedent and DOJ Bank Merger Guidelines						
Bank	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
Fort Myers Area, Florida – Lee County, Florida (less the towns on Gasparilla Island); and the town of Immokalee in Collier County, Florida.						
First Horizon Pre-Consummation	10	\$400.6M	2.5			
IBERIABANK Corp	8	\$516.8M	3.2			
First Horizon Post-Consummation	6	\$917.4M	5.8	1030	16	27
Key West Area, Florida – The cities of Key West, Sugarloaf, Summerland Key, and Big Pine Key in Monroe County, Florida.						
First Horizon Pre-Consummation	7	\$132.3M	8.6			
IBERIABANK Corp	4	\$168.3M	10.9			
First Horizon Post-Consummation	2	\$300.5M	19.5	2216	187	5
Miami-Fort Lauderdale Area, Florida – Broward and Miami-Dade counties, Florida; and the Cape Sable and Upper Keys townships in Monroe County, Florida, which includes Everglades National Park, the cities of Key Largo, Islamorada, Plantation Key, and Tavernier.						
First Horizon Pre-Consummation	24	\$1.0B	0.6			
IBERIABANK Corp	10	\$3.9B	2.1			
First Horizon Post-Consummation	9	\$5.0B	2.7	838	2	70
Naples Area, Florida – Collier County, Florida (minus the town of Immokalee).						
First Horizon Pre-Consummation	17	\$231.6M	1.4			
IBERIABANK Corp	6	\$1.1B	6.4			
First Horizon Post-Consummation	5	\$1.3B	7.8	846	18	30
Sarasota Area, Florida – Manatee County, Florida; Sarasota County, Florida (less the portion that is both east of the Myakka River and south of Interstate 75, which includes the town of North Port); the peninsular portion of Charlotte County, Florida, west of the Myakka River, that includes the towns of Englewood, Englewood Beach, New Point Comfort, Grove City, Cape Haze, Rotonda, Rotonda West, and Placida; and Gasparilla Island, including the town of Boca Grande, in Lee County, Florida.						
First Horizon Pre-Consummation	22	\$170.1M	0.8			
IBERIABANK Corp	12	\$504.5M	2.3			
First Horizon Post-Consummation	9	\$674.6M	3.1	1021	3	34
Greensboro-High Point, North Carolina – Davidson, Guilford, Randolph, and Rockingham counties, all in North Carolina.						
First Horizon Pre-Consummation	8	\$520.1M	3.5			
IBERIABANK Corp	21	\$7.8M	0.1			
First Horizon Post-Consummation	8	\$527.8M	3.5	1450	0	21
Greenville, South Carolina – Anderson, Greenville, Laurens, and Pickens counties, all in South Carolina.						
First Horizon Pre-Consummation	30	\$21.9M	0.1			
IBERIABANK Corp	29	\$25.8M	0.2			
First Horizon Post-Consummation	26	\$47.7M	0.3	1016	0	33
Memphis, Tennessee – Fayette, Shelby, and Tipton counties, all in Tennessee; the city of Grand Junction in Hardeman County, Tennessee; Crittenden County, Arkansas; Benton, De Soto, Marshall, Tate, and Tunica counties, all in Mississippi; the northern part of Coahoma County, Mississippi, that includes the cities of Friars Point, Coahoma, Lula, and Jonestown; Panola County, Mississippi, north of State Route 315 and extending east to Sardis Lake, including the city of Sardis; and Quitman County, Mississippi, north of State Route 315, including the cities of Birdie and Sledge.						
First Horizon Pre-Consummation	1	\$10.6B	33.2			
IBERIABANK Corp	18	\$338.9M	1			
First Horizon Post-Consummation	1	\$11.0B	34.3	1488	71	53
Houston, Texas – Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller counties, all in Texas.						
First Horizon Pre-Consummation	63	\$113.9M	0.1			
IBERIABANK Corp	20	\$1.2B	0.5			
First Horizon Post-Consummation	18	\$1.4B	0.6	2286	0	92
Data are as of June 30, 2019. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent. The remaining number of competitors noted in each market includes thrift institutions.						

Appendix 2

Alabama Branches to Be Established

1. 22530 U.S. Highway 98, Fairhope, Alabama
2. 2340 Woodcrest Place, Birmingham, Alabama
3. 2824 Cahaba Road, Birmingham, Alabama
4. 2025 Third Avenue N, Suite 100, Birmingham, Alabama
5. 1301 Decatur Highway, Fultondale, Alabama
6. 2765 John Hawkins Parkway, Hoover, Alabama
7. 100 Euclid Avenue, Mountain Brook, Alabama
8. 613 Montgomery Highway, Vestavia Hills, Alabama
9. 4700 Whitesburg Drive SW, Suite 150, Huntsville, Alabama
10. 400 Meridian Street N, Suite 108, Huntsville, Alabama
11. 53 Hughes Road, Madison, Alabama
12. 64 North Royal Street, Mobile, Alabama
13. 15 West I-65 Service Road North, Mobile, Alabama
14. 2695 Pelham Parkway, Pelham, Alabama

Arkansas Branches to Be Established

15. 706 South Walton Boulevard, Bentonville, Arkansas
16. 100 South 28th Street, Rogers, Arkansas
17. 2702 South Culberhouse Street, Suite U, Jonesboro, Arkansas
18. 420 South Main Street, Jonesboro, Arkansas
19. 1700 East Highland Drive, Jonesboro, Arkansas
20. 200 Olivia Drive, Newport, Arkansas
21. 121 Southwest Third Street, Walnut Ridge, Arkansas
22. 5800 R Street, Little Rock, Arkansas
23. 10901 North Rodney Parham Road, Little Rock, Arkansas
24. 12719 Cantrell Road, Little Rock, Arkansas
25. 111 Center Street, Suite 102, Little Rock, Arkansas
26. 4600 JFK Boulevard, North Little Rock, Arkansas
27. 205 Rice Street, Pochahontas, Arkansas
28. 5111 Highway 5 North, Bryant, Arkansas
29. 3430 Wedington Drive, Fayetteville, Arkansas
30. 2422 East Robinson, Springdale, Arkansas

Florida Branches to Be Established

31. 1201 South Andrews Avenue, Fort Lauderdale, Florida
32. 450 E. Las Olas Boulevard, Suite 1220, Fort Lauderdale, Florida
33. 150 South Pine Island Road, Suite 100, Plantation, Florida
34. 605 Bald Eagle Drive, Marco Island, Florida
35. 1905 Pine Ridge Road, Naples, Florida
36. 2180 Immokalee Road, Naples, Florida
37. 775 Airport Road North, Naples, Florida
38. 428 Ninth Street South, Naples, Florida
39. 3838 Tamiami Trail, Naples, Florida
40. 5247 Golden Gate Parkway, Naples, Florida
41. 9132 Strada Place, Suite 11105, Naples, Florida
42. 135 West Bay Street, Jacksonville, Florida
43. 201 North Franklin Street, Tampa, Florida
44. 4105 N Himes Avenue, Tampa, Florida
45. 612 S. Dale Mabry Highway, Tampa, Florida
46. 812 Del Prado Blvd, Cape Coral, Florida
47. 4670 Summerlin Road, Fort Myers, Florida

48. 6651 Orion Drive, Fort Myers, Florida
49. 9101 College Pointe Court, Fort Myers, Florida
50. 2247 First Street, Fort Myers, Florida
51. 7580 Winkler Road, Fort Myers, Florida
52. 5844 14th Street, West (U.S. 41), Bradenton, Florida
53. 5310 E. State Road 64, Bradenton, Florida
54. 2815 University Parkway, Sarasota, Florida
55. 18841 Northeast 29th Avenue, Aventura, Florida
56. 2109 Ponce De Leon Boulevard, Coral Gables, Florida
57. 1515 Sunset Drive, Coral Gables, Florida
58. 821 West 49th Street, Hialeah, Florida
59. 260 Crandon Boulevard, Key Biscayne, Florida
60. 1111 Brickell Avenue, Miami, Florida
61. 44 West Flagler Street, Miami, Florida
62. 3275 NW 87th Avenue, Miami, Florida
63. 9100 South Dadeland Boulevard, Miami, Florida
64. 102 NW 37th Avenue, Miami, Florida
65. 200 S. Biscayne Boulevard, Suite 2850, Miami, Florida
66. 1951 NW 7th Avenue, Miami, Florida
67. 1501 Alton Road, Miami Beach, Florida
68. 400 Arthur Godfrey Road, Suite 102, Miami Beach, Florida
69. 5901 Miami Lakes Drive East, Miami Lakes, Florida
70. 35 Ocean Reef Drive, Suite 100, Key Largo, Florida
71. 1075 Duval Street, Key West, Florida
72. 1000 Kennedy Drive, Key West, Florida
73. 5601 Overseas Highway, Marathon, Florida
74. 1420 West Orange Blossom Trail, Apopka, Florida
75. 100 East Packwood Avenue, Maitland, Florida
76. 600 Wilkinson Street, Suite 100, Orlando, Florida
77. 60 North Court Avenue, First Floor, Orlando, Florida
78. 918 S. Orange Avenue, Orlando, Florida
79. 1901 Edgewater Drive, Orlando, Florida
80. 315 E. Robinson Street, Orlando, Florida
81. 840 Denning Drive, Winter Park, Florida
82. 1801 North Military Trail, Boca Raton, Florida
83. 900 SE 6th Avenue, Delray Beach, Florida
84. 1315 W Indiantown Road, Jupiter, Florida
85. 2000 PGA Boulevard, North Palm Beach, Florida
86. 180 Royal Palm Way, Palm Beach, Florida
87. 605 N Olive Avenue, West Palm Beach, Florida
88. 1645 Palm Beach Lakes Boulevard, West Palm Beach, Florida
89. 3100 Tampa Road, Oldsmar, Florida
90. 777 Pasadena Avenue South, Saint Petersburg, Florida
91. 500 4th Street North, Saint Petersburg, Florida
92. 250 A1A North, Ponte Vedra Beach, Florida
93. 3323 17th Street, Sarasota, Florida
94. 8181 S. Tamiami Trail, Sarasota, Florida
95. 783 South Orange Avenue, Sarasota, Florida
96. 520 West Highway 436, Altamonte Springs, Florida
97. 7090 County Road 46a, Lake Mary, Florida
98. 505 Wekiva Springs Road, Suite 700, Longwood, Florida
99. 502 North U.S. Highway 17-92, Longwood, Florida

Georgia Branches to Be Established

100. 100 Springfield Drive, Woodstock, Georgia
101. 3625 Cumberland Boulevard, Building Two, Atlanta, Georgia
102. 709 Canton Road, Marietta, Georgia
103. 2987 Clairmont Road, NE, Suite 150, Atlanta, Georgia
104. 2221 Johnson Ferry Road, Atlanta, Georgia
105. 2555 Peachtree Parkway, Cumming, Georgia
106. 2970 Peachtree Road, NW, Suite 100, Atlanta, Georgia
107. 1010 Mansell Road, Suite 160, Roswell, Georgia
108. 200 Scientific Drive, Norcross, Georgia

Louisiana Branches to Be Established

109. 576 North Parkerson Avenue, Crowley, Louisiana
110. 916 Fifth Avenue, Kinder, Louisiana
111. 320 Texas Street, Shreveport, Louisiana
112. 6985 Fern Loop, Shreveport, Louisiana
113. 4440 Nelson Road, Lake Charles, Louisiana
114. 284 Sam Houston Jones Parkway, Lake Charles, Louisiana
115. 3001 State Highway 14, Lake Charles, Louisiana
116. 2901 Ryan Street, Lake Charles, Louisiana
117. 4100 Maplewood Drive, Sulphur, Louisiana
118. 4494 Highway 27 South, Sulphur, Louisiana
119. 10323 Gulf Highway, Lake Charles, Louisiana
120. 3700 Essen Lane, Baton Rouge, Louisiana
121. 14150 Coursey Boulevard, Baton Rouge, Louisiana
122. 7325 Highland Road, Baton Rouge, Louisiana
123. 3555 Perkins Road, Baton Rouge, Louisiana
124. 12920 Airline Highway, Baton Rouge, Louisiana
125. 171 Third Street, Baton Rouge, Louisiana
126. 403 North Lewis Street, New Iberia, Louisiana
127. 1120 Jefferson Terrace Boulevard, New Iberia, Louisiana
128. 5120 Citrus Boulevard, Harahan, Louisiana
129. 1720 Manhattan Boulevard, Harvey, Louisiana
130. 285 West Esplanade Avenue, Kenner, Louisiana
131. 1820 Barataria Boulevard, Marrero, Louisiana
132. 3801 Veterans Memorial Boulevard, Metairie, Louisiana
133. 468 Metairie Road, Metairie, Louisiana
134. 2900 Ridgelake Drive, Metairie, Louisiana
135. 3351 North Causeway Boulevard, Metairie, Louisiana
136. 9300 Jefferson Highway, River Ridge, Louisiana
137. 1100 E. Main Street, Broussard, Louisiana
138. 805 Veterans Drive, Carencro, Louisiana
139. 200 West Congress Street, Lafayette, Louisiana
140. 332 Settlers Trace, Lafayette, Louisiana
141. 2602 Johnston Street, Lafayette, Louisiana
142. 463 Heymann Boulevard, Lafayette, Louisiana
143. 4010 West Congress Street, Lafayette, Louisiana
144. 200 Westgate Road, Lafayette, Louisiana
145. 2601 Moss Street, Lafayette, Louisiana
146. 2000 Kaliste Saloom Road, Lafayette, Louisiana
147. 2200 West Pinhook Road, Lafayette, Louisiana
148. 5121 Johnston Street, Lafayette, Louisiana
149. 1327 North Trenton Street, Ruston, Louisiana
150. 400 North Vienna Street, Ruston, Louisiana

151. 601 Poydras Street, Suite 100, New Orleans, Louisiana
152. 4909 Prytania Street, New Orleans, Louisiana
153. 3412 Saint Charles Avenue, New Orleans, Louisiana
154. 6235 S. Claiborne Avenue, New Orleans, Louisiana
155. 3120 Gentilly Boulevard, New Orleans, Louisiana
156. 2401 Canal Street, New Orleans, Louisiana
157. 1409 Oretha Castle Haley Boulevard, Suite A, New Orleans, Louisiana
158. 6309 S. Claiborne Avenue, New Orleans, Louisiana
159. 301 Harrison Avenue, New Orleans, Louisiana
160. 4011 Canal Street, New Orleans, Louisiana
161. 8019 DeSiard Street, Monroe, Louisiana
162. 1300 Oliver Road, Monroe, Louisiana
163. 610 McMillan Road, West Monroe, Louisiana
164. 428 East Landry Street, Opelousas, Louisiana
165. 1410 Rees Street, Breaux Bridge, Louisiana
166. 1001 Seventh Street, Morgan City, Louisiana
167. 1003 Southeast Boulevard, Morgan City, Louisiana
168. 70470 Highway 21, Covington, Louisiana
169. 850 North Causeway Boulevard, Mandeville, Louisiana
170. 2060 Gause Boulevard East, Slidell, Louisiana
171. 706 Barrow Street, Houma, Louisiana
172. 200 East Veterans Memorial Drive, Kaplan, Louisiana

North Carolina Branch to Be Established

173. 1429 Westover Terrace, Suite 102, Greensboro, North Carolina

New York Branch to Be Established

174. 280 Park Avenue, 29th Floor East, New York, New York

South Carolina Branch to Be Established

175. 110 East Court Street, Suite 101, Greenville, South Carolina

Tennessee Branches to Be Established

176. 1010 N Germantown Parkway, Cordova, Tennessee
177. 7465 Poplar Avenue, Germantown, Tennessee
178. 7860 Wolf River Boulevard, Germantown, Tennessee
179. 4894 Poplar Avenue, Memphis, Tennessee
180. 370 S Grove Park Road, Memphis, Tennessee
181. 1296 Union Avenue, Memphis, Tennessee
182. 2504 Poplar Avenue, Memphis, Tennessee

Texas Branches to Be Established

183. 2500 Dallas Parkway, Suite 100, Plano, Texas
184. 8201 Preston Road, Suite 200, Dallas, Texas
185. 5079 Sweetwater Blvd, Sugar Land, Texas
186. 1601 Center Street, Deer Park, Texas
187. 3810 Richmond Avenue, Houston, Texas
188. 1000 Memorial City Way, Houston, Texas
189. 2555 West Holcomb Boulevard, Houston, Texas
190. 8910 West Sam Houston Parkway North, Houston, Texas
191. 11 Greenway Plaza, Houston, Texas



Changes in U.S. Family Finances from 2016 to 2019: Evidence from the Survey of Consumer Finances

Neil Bhutta, Jesse Bricker, Andrew C. Chang, Lisa J. Dettling, Sarena Goodman, Joanne W. Hsu, Kevin B. Moore, Sarah Reber, Alice Henriques Volz, and Richard A. Windle, of the Board's Division of Research and Statistics, prepared this article with assistance from Kathy Bi, Jacqueline Blair, Julia Hewitt, and Dalton Ruh.

The Federal Reserve Board's triennial Survey of Consumer Finances (SCF) collects information about family income, net worth, balance sheet components, credit use, and other financial outcomes.¹ The 2019 SCF reveals improvements in economic well-being among large parts of the income and wealth distributions since the previous time the survey was conducted in 2016, and many groups with historically lower income and wealth saw relatively large gains.²

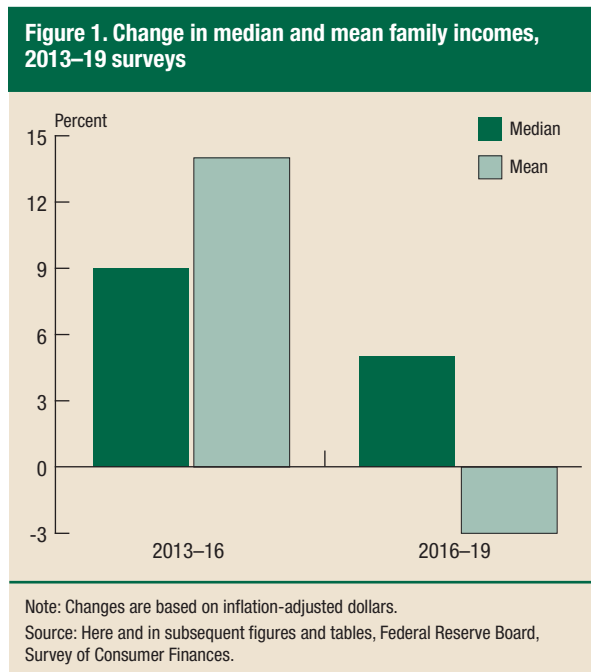
During the three years between the beginning of the 2016 and 2019 surveys, real gross domestic product grew at an annual rate of 2.5 percent, and the civilian unemployment rate fell from 5.0 percent to 3.8 percent.³ These changes in aggregate economic performance were unevenly reflected in the income of families with different characteristics. Several observations from the SCF about real family income, which is measured for the year before the survey, stand out:

- Between 2016 and 2019, median family income rose 5 percent, and mean family income decreased 3 percent ([figure 1](#)). These changes suggest that the income distribution narrowed slightly over the period, particularly as the decrease in mean income was mainly driven by families in the top 1 percent of the income distribution (see [box 1](#), "The Data Used in This Article"). These patterns stand in contrast to the 2010–16 period, during which mean income growth vastly outpaced median income growth and the income distribution widened considerably.
- Between 2016 and 2019, families that were high wealth, had a college education, or identified as White non-Hispanic experienced proportionally smaller income growth than other groups of families but continued to have the highest income:

¹ For a general description of the SCF data, see [box 1](#), "The Data Used in This Article." The appendix provides a summary of key technical aspects of the survey.

² For a detailed discussion of the 2016 survey as well as references to earlier surveys, see Jesse Bricker, Lisa J. Dettling, Alice Henriques, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, Sarah Pack, John Sabelhaus, Jeffrey Thompson, and Richard Windle (2017), "Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, vol. 103 (September), <https://www.federalreserve.gov/publications/files/scf17.pdf>.

³ Against this backdrop, the annual rate of change in the consumer price index averaged 2.2 percent. Changes in aggregate statistics reported here are measured from March to March or first quarter to first quarter of the respective survey years, just before the beginning of the field period for each survey.



- In grouping families by wealth, families at the top of the distribution experienced a sharp decline in average income (following particularly outsized gains over the 2010–16 period), whereas families in the lower and middle portions of the wealth distribution all saw modest gains.
- In grouping families by the reference person’s educational attainment, those with a college degree experienced relatively large declines in both median and mean income, whereas those with a high school diploma and those with some college experience saw gains. More broadly, the income gaps between families with a college degree and those without one decreased.

- Black non-Hispanic families and White non-Hispanic families experienced similar growth in median income, but mean income fell for White non-Hispanic families and rose slightly for Black non-Hispanic families.

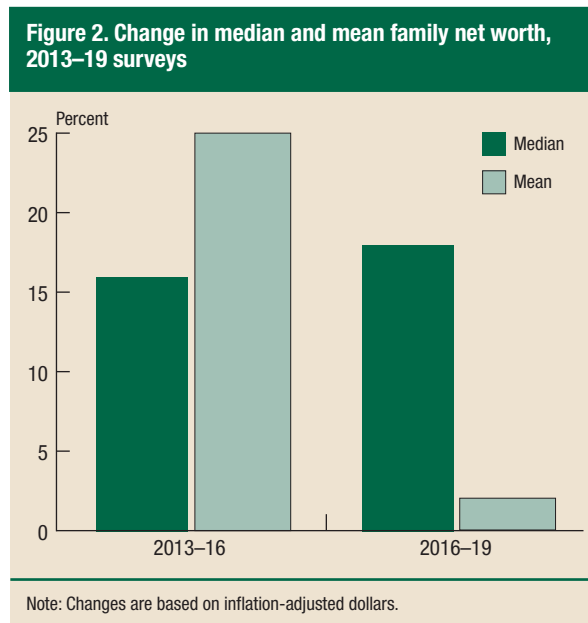
The improvements in economic activity along with rising house and corporate equity prices combined to support continued increases in median and mean family net worth (wealth) between 2016 and 2019.⁴ The national CoreLogic Home Price Index increased at an annual rate of 5.2 percent between early 2016 and early 2019, exceeding the rate of consumer price inflation. The value of corporate equity holdings, as measured by a broad stock price index, grew at around an 11.5 percent annual rate between the two surveys, leading to large inflation-adjusted increases in equity holdings.⁵ These price trends contributed to the following changes in the distribution of household net worth:

- Between 2016 and 2019, median net worth grew 18 percent, and mean net worth rose a modest 2 percent (figure 2). In contrast, the 2010–16 period saw outsized gains in mean net worth relative to median net worth, driven by growth between 2013 and 2016.
- Families at the top of the income and wealth distributions experienced very little, if any, growth in median and mean net worth between 2016 and 2019 after experiencing large gains between 2013 and 2016.
- Families near the bottom of the income and wealth distributions generally continued to experience substantial gains in median and mean net worth between 2016 and 2019.

⁴ Changes in aggregate statistics reported here are measured from March to March—and, for Standard & Poor’s (S&P) 500 stock price index, using the monthly average—of the respective survey years, just before the beginning of the field period for each survey.

⁵ Between March 2019 and March 2020, roughly the 2019 SCF field period, the national CoreLogic Home Price Index grew an additional 4.3 percent and the S&P 500 stock price index decreased 5.4 percent. These price changes emphasize the need to evaluate SCF findings in the appropriate time frame.

- Wealth continued to increase among families with either a high school diploma or some college. However, families without a high school diploma, which saw the largest proportional gains in median and mean net worth between 2013 and 2016, saw the largest drops between 2016 and 2019.
- The homeownership rate increased between 2016 and 2019 to 64.9 percent, a reversal of the declining trend between 2004 and 2016. For families that own a home, the median net housing value (the value of a home minus home-secured debt) rose to about \$120,000 from about \$106,000 in 2016.



- Nearly two-thirds of working-age families participated in retirement plans in 2019, down slightly from 2016. Participation continued to be uneven across the income distribution. Less than 40 percent of families in the bottom half of the income distribution were in a retirement plan, compared with more than 80 percent of upper-middle-income families and more than 90 percent of families in the top decile of income.
- Ownership rates of corporate equities increased between 2016 and 2019, driven by families in the lower half of the income distribution. Still, less than one-third of lower-income families in 2019 were participating in the stock market, compared with about 70 percent of upper-middle-income families and more than 90 percent of families in the top decile of the income distribution.
- About 13 percent of families in the 2019 SCF owned a privately held business, similar to 2016. Business ownership increases with income, and nearly 40 percent of families in the top decile of the income distribution owned a business.

Between 2016 and 2019, average consumer loan interest rates for major types of debt increased: The average 30-year, fixed-rate mortgage interest rate rose from 3.7 percent to 4.3 percent, the average new vehicle loan interest rate rose from 4.2 percent to 5.5 percent, and the average credit card interest rate rose from 12.3 percent to 15.1 percent.⁶ While the fraction of families with any kind of debt basically held steady between 2016 and 2019, debt balances among families with debt increased:

- Overall, debt obligations increased modestly between 2016 and 2019. Among families with debt, median debt rose 2 percent, and mean debt increased 7 percent.
- Debt secured by residential property increased substantially between 2016 and 2019. About 42 percent of families in both 2016 and 2019 had debt secured by their primary residence, and the median value of this debt increased 14 percent to \$134,800.

⁶ Changes in the mortgage interest rate are measured from March to March of the respective survey years using the contract rate on 30-year, fixed-rate conventional home mortgage commitments published by the Federal Home Loan Mortgage Corporation, while changes in the vehicle loan and credit card interest rates are measured from the first quarter to the first quarter of the respective survey years using the G.19 data on commercial bank interest rates published by the Federal Reserve Board.

Box 1. The Data Used in This Article

Data from the Survey of Consumer Finances (SCF) are the basis of the analysis presented in this article. The SCF is a triennial interview survey of U.S. families sponsored by the Board of Governors of the Federal Reserve System with the cooperation of the U.S. Department of the Treasury. Since 1992, data for the SCF have been collected by NORC, a research organization at the University of Chicago. Although the majority of the data are collected between May and December of each survey year, a small fraction of the data collection occurs in the first four months of the next calendar year. In the 2019 SCF, this portion of the data collection overlapped with early months of the COVID-19 pandemic, with about 9 percent of interviews conducted between February and April 2020.

The majority of statistics included in this article describe the characteristics of “families.” As used in this article, the SCF definition of “family” is more comparable with the U.S. Census Bureau definition of “households”—which can include one-person families—than with its use of “families.” The appendix provides full definitions of “family” for the SCF and the associated family “reference person,” along with information about how demographic and economic groups are constructed for this article.

The survey collects information on families’ total income before taxes for the calendar year preceding the survey. However, the majority of the data cover the status of families as of the time of the interview, including detailed information on their balance sheets and use of financial services as well as on their pensions, labor force participation, and demographic characteristics. Most of the core survey questionnaire has changed in only minor ways relevant to this article since 1989. However, when the questionnaire has been modified at various points to enhance and update the survey, every effort was made to ensure the maximum degree of comparability of the data over time.

The need to measure financial characteristics imposes special requirements on the sample design for the survey. The SCF is expected to provide reliable information on both attributes that are broadly distributed in the population (such as homeownership) and attributes that are highly concentrated in a relatively small part of the population (such as closely held businesses). To address this requirement, the SCF employs a sample design consisting of two parts: a standard, geographically based random sample and a special oversample of relatively wealthy families. Weights are used to combine information from the two samples to construct estimates for the full population. In the 2019 survey, 5,783 families were interviewed, and in the 2016 survey, 6,254 families were interviewed.

This article draws principally on the final data from the 2019 and 2016 surveys. To provide a larger context, some information is also included from the final versions of earlier surveys.¹ Differences between estimates from earlier surveys as reported here and as reported in earlier *Federal Reserve Bulletin* articles are attributable to additional statistical processing, correction of minor data errors, revisions to the survey weights, conceptual changes in the definitions of variables used in the articles, and adjustments for inflation. In this article, all dollar amounts from the SCF are adjusted to 2019 dollars using the “current methods” version of the consumer price index for all urban consumers. The appendix provides additional detail on the adjustments.

The principal detailed tables (tables 1 through 5) describing income, net worth, and asset and debt holdings focus on the percentage of various groups that have such items and the median and mean holding for those that have them.² Generally, when one deals with data that exhibit very large values for a relatively small part of the population—as is the case for many of the items considered in this article—estimates of the median are often statistically less sensitive to such outliers than are estimates of the mean. At the same time, means are generally more useful for comparing across population subgroups, because every member of the group contributes equally to the overall average.

As an example of the effect of outliers on mean values, consider mean income. Between 2016 and 2019, the opposite signs of the median and mean changes in income, together with the changes observed along the usual income distribution, suggest that outliers may be responsible for the negative change in mean income. Figures A and B help examine this

continued on next page

Box 1. The Data Used in This Article—*continued*

possibility and illustrate the influence of outliers. Figure A graphs the changes in median income over each survey interval since 2001 for all observations, excluding families in the top 1 percent of the income distribution. Changes between surveys are quite similar whether or not the top 1 percent of the income distribution is included. Figure B graphs the changes in mean income over each survey interval since 2001 for all observations, excluding families in the top 1 percent of the income distribution. In contrast to figure A, changes are often quite dissimilar with and without families in the top 1 percent. Indeed, excluding these families reverses the sign of the change in mean income between 2016 and 2019 to a 3.1 percent gain.³ This pattern implies that the overall decline in mean income is driven by families in the top 1 percent of the income distribution.

Figure A. Between-survey changes in median income

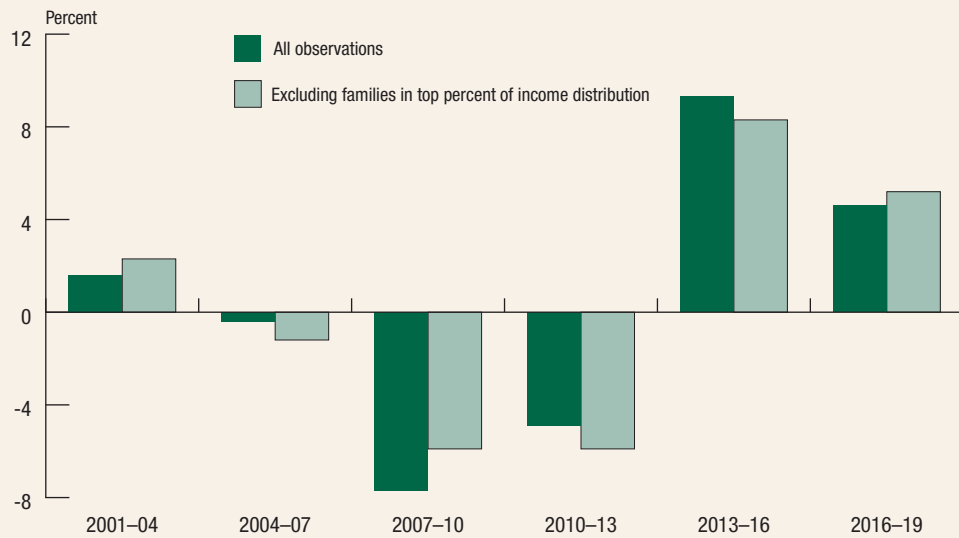
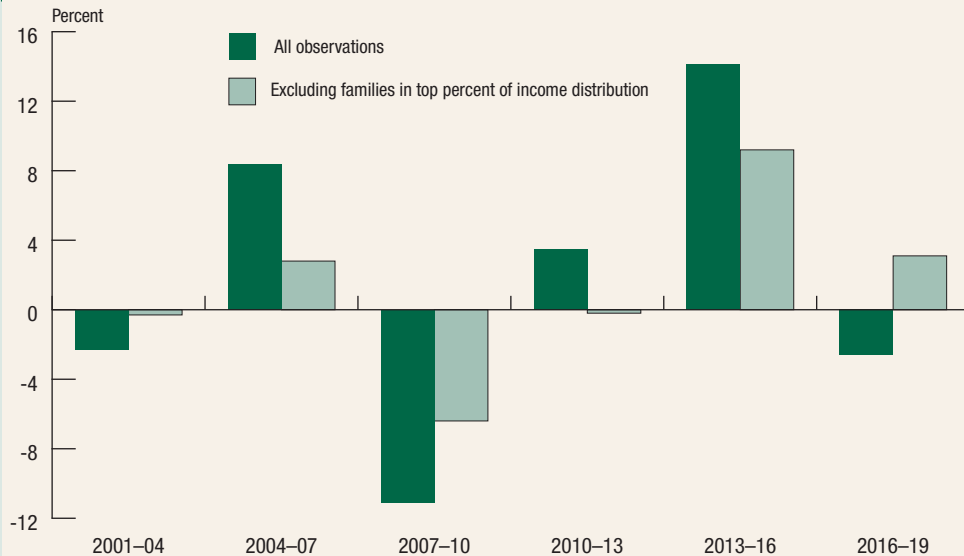


Figure B. Between-survey changes in mean income



continued on next page

Box 1. The Data Used in This Article—*continued*

One liability of using the median as a descriptive device is that medians are not additive—that is, the sum of the medians of two items for the same population is not generally equal to the median of the sum (for example, median assets minus median liabilities will generally not equal median net worth). In contrast, means for a common population are additive. In the context of this article, where a comparable median and mean are given, the gain or loss of the mean relative to the median may usually be taken as indicative of the relative change at the top of the distribution; for example, when the mean decreases more rapidly than the median, it is typically taken to indicate that the values in the upper part of the distribution fell more than those in the lower part of the distribution.

To provide a measure of the statistical significance of the developments discussed in this article, standard errors caused by sampling and imputation for missing data are given for selected estimates. Space limits prevent the inclusion of the standard errors for all estimates. Although the statistical significance of the results generally is not addressed, the article highlights findings that are significant or are interesting in a broader context. Standard errors for all estimates in [tables 1](#) and [2](#) are available on the SCF website.

¹ Additional information about the survey is available on the Board’s website at <https://www.federalreserve.gov/econresdata/scf/scfindex.htm>.

² The median of a distribution is defined as the value at which equal parts of the population considered have values that are larger or smaller.

³ This reversal is perhaps unsurprising, as the standard errors in [table 1](#) make clear the decline in mean income is not statistically significant at conventional levels.

- Between 2016 and 2019, the fraction of families with credit card debt increased. In addition, median and mean balances for families with credit card debt increased, to \$2,700 and \$6,300, respectively.
- About 22 percent of families owed student loan debt in 2019, similar to the fraction in 2016. Median balances among families owing such debt rose 10 percent between 2016 and 2019, to more than \$22,000.
- Amid rising balances and interest rates, median debt payment-to-income ratios among families with debt increased slightly between 2016 and 2019. The fraction of families with payment-to-income ratios greater than 40 percent increased 0.4 percentage point to 7.4 percent. These increases reversed declining trends observed from 2007 through 2016.

Income

Median and mean inflation-adjusted before-tax family income moved modestly in different directions between 2016 and 2019 ([table 1](#)).⁷ Median income rose 5 percent, from \$56,000 to \$58,600. Mean income decreased 3 percent, from \$109,300 to \$106,500. The decrease in mean income was mainly driven by families in the top 1 percent of the income distribution (for details, see [box 1](#), “The Data Used in This Article”). Altogether, these changes are consistent with a slight narrowing of the income distribution over this period.⁸

⁷ To measure income, the interviewers request information on the family’s income, before taxes, for the full calendar year preceding the survey. The components of income in the SCF are the following: wages, self-employment and business income, taxable and tax-exempt interest, dividends, realized capital gains, food stamps and other related support programs provided by government, pensions and withdrawals from retirement accounts, Social Security, alimony and other support payments, and miscellaneous sources of income for all members of the primary economic unit in the household.

⁸ An upcoming FEDS Note explores recent trends in the distribution of wealth and income in more detail and can be found at <https://www.federalreserve.gov/econres/notes/feds-notes/default.htm>.

Table 1. Before-tax median and mean family income, by selected characteristics of families, 2016 and 2019 surveys

Thousands of 2019 dollars, except as noted

Family characteristic	Median income			Mean income		
	2016	2019	Percentage change 2016–19	2016	2019	Percentage change 2016–19
All families	56.0 (.7)	58.6 (1.0)	5	109.3 (2.1)	106.5 (1.7)	-3
Percentile of usual income						
Less than 20	17.2	17.7	3	18.2	18.0	-1
20–39.9	35.2	36.7	4	36.4	37.3	2
40–59.9	57.5	59.1	3	58.3	59.9	3
60–79.9	91.6	94.9	4	100.1	96.8	-3
80–89.9	144.0	150.4	4	148.3	152.9	3
90–100	267.6	283.0	6	518.6	487.6	-6
Age of reference person (years)						
Less than 35	43.1	48.6	13	60.0	65.1	9
35–44	70.0	74.3	6	103.3	111.0	7
45–54	73.9	77.8	5	139.8	145.3	4
55–64	64.9	63.6	-2	150.3	130.6	-13
65–74	53.3	50.2	-6	113.4	107.8	-5
75 or more	42.6	43.1	1	82.0	74.9	-9
Education of reference person						
No high school diploma	28.2	30.8	9	41.3	39.6	-4
High school diploma	43.1	45.8	6	60.9	63.8	5
Some college	50.8	51.2	1	71.7	79.0	10
College degree	98.0	95.7	-2	201.8	176.5	-13
Race or ethnicity of respondent						
White non-Hispanic	65.1	69.0	6	131.3	122.8	-6
Black or African American non-Hispanic	37.6	40.3	7	57.5	59.6	4
Hispanic or Latino	40.9	40.7	-1	61.0	58.5	-4
Other or multiple race	53.9	55.7	3	92.5	112.0	21
Housing status						
Owner	75.7	77.4	2	142.6	136.7	-4
Renter or other	33.6	35.6	6	50.9	50.5	-1
Urbanicity						
Metropolitan statistical area (MSA)	58.7	61.1	4	116.7	112.4	-4
Non-MSA	41.1	43.2	5	57.5	62.9	9
Percentile of net worth						
Less than 25	26.9	29.9	11	36.5	37.9	4
25–49.9	44.7	46.5	4	54.1	58.2	7
50–74.9	68.9	70.3	2	79.7	80.6	1
75–89.9	96.6	101.8	5	120.7	129.9	8
90–100	229.7	236.2	3	486.0	427.9	-12

Note: Income is measured for the year before the survey. See the appendix for details on standard errors (shown in parentheses below the first row of data for the medians and means).

The income distribution widened considerably over the 2010–16 period, as a sharp 18 percent increase in mean income far outpaced a more moderate 4 percent growth in median income. Further, the changes over the most recent survey period suggest that, despite an initial bounceback in income growth between 2013 and 2016 to the robust pre-crisis rates, the United States has yet to return to the general pattern of sustained increases in income between surveys that had dated back to the early 1990s.⁹

Some predictable patterns in income levels across demographic groups are observed in the 2019 SCF, and those patterns are largely consistent with previous surveys.¹⁰ Across age groups, income shows a life-cycle pattern, rising to a peak for families in which the reference person is in one of the middle age groups and then declining for those in which the reference person is older and increasingly likely to be retired.¹¹ Income also shows a strong positive association with education; in particular, income among families in which the reference person has a college degree tends to be substantially higher than for those with less schooling. Mean income among college-educated families in the 2019 SCF was more than twice that of families in any other education group.

Among families in which the survey respondent identifies as White non-Hispanic, income is substantially higher than for all three other race and ethnic groups—Black non-Hispanic, Hispanic, and other or multiple race families.¹² Income is also considerably higher for homeowners and for families living in urban areas than for other families.¹³ Finally, family income is positively correlated with net worth.

Changes in Income by Family Characteristics

With few exceptions, median income displayed broad-based gains between 2016 and 2019 across different types of families, whether grouped by economic characteristics such as usual income, wealth, urbanicity, or homeowner status, or by demographic characteristics such as age, education, or race and ethnicity.¹⁴ However, with respect to mean income, some types of families saw gains, while many others saw losses.

A family's income at a particular time may not be indicative of its "usual" income.¹⁵ A recent spell of unemployment, a bonus from an employer, a capital loss or gain on invest-

⁹ From 2013 to 2016, both median and mean income increased substantially—9 percent and 14 percent, respectively—retracing combined losses seen over the 2007–10 and 2010–13 periods. Between 1992 and 2007, mean and median income generally increased between survey waves. Mean income increased, on average, 8.0 percent between survey waves, and median income increased, on average, 4.2 percent between survey waves. The 2001–04 period is the only exception, when mean income fell modestly.

¹⁰ Tabulated data from the survey beyond that presented in this article are available at <https://www.federalreserve.gov/econres/scfindex.htm>. This information includes some alternative versions of the tables in this article, including tables that match the structure used in earlier versions of this publication. For those who wish to make further alternative calculations, this website provides a variety of data files, a data visualization tool, and access to online tabulation software that may be used to create customized tables based on the variables analyzed in this article.

¹¹ To reflect changes in societal norms regarding family formation, composition, and responsibilities as of the 2019 survey, the term "head" has been replaced by "reference person."

¹² The appendix provides information on racial and ethnic identification in the SCF.

¹³ In this article, a family is considered a homeowner if at least one person in the family owns at least some part of the family's primary residence.

¹⁴ Changes in the experiences of families with particular characteristics can reflect shifts in the demographic composition of the survey population. The appendix provides information on evolutions in the survey's racial and ethnic composition, as well as the educational composition and the age composition, since 2004 and, in particular, indicates drift in the composition of the survey population away from families identifying as White non-Hispanic toward those identifying as one of the other racial and ethnic groups (partially on account of changes in the survey question), a more-educated survey population, and an older survey population over time.

¹⁵ Usual income is measured in the survey after actual income has been reported, if respondents indicate they experienced a temporary deviation in income from what they would earn in a "normal year." Over the past

ments, or other factors may cause income to deviate temporarily from the usual amount. Across the distribution of families grouped by their usual level of income, all quintiles saw increases in median income between 2016 and 2019. While there was little variation across income groups, families in the top decile saw the largest proportional gain.¹⁶ However, with respect to mean income, several income groups saw declines: Although changes in either direction were relatively modest for the bottom four quintiles, the top decile posted a notable 6 percent decrease, consistent with some narrowing of the income distribution between 2016 and 2019.¹⁷

All prime working-age groups (that is, those younger than age 55) saw increases in median and mean income between 2016 and 2019, ranging from 4 to 13 percent. The youngest families saw the largest gains in both median and mean income—13 percent and 9 percent, respectively. Except for the 75 and older age group, which saw a very modest increase in median income, both median and mean income decreased for all groups 55 and older, with mean income dropping 13 percent for the 55 to 64 age group.¹⁸ Notably, these groups all experienced exceptionally large growth in mean income between 2010 and 2016.

Between 2016 and 2019, growth in median income decreased with educational attainment. Families without a high school diploma saw a 9 percent increase in their median income, while families with a college degree saw a 2 percent decrease. Growth in mean income by attainment group exhibited less consistency, with both the most and least educated groups experiencing decreases. Mean income decreased 4 percent among families that did not complete high school and dropped 13 percent among families that completed college. Those with a high school diploma and those with some college saw increases of 5 percent and 10 percent, respectively. These patterns indicate that the gaps in income between families with a college degree and those without one decreased between 2016 and 2019. This change, to some extent, reflects compositional changes among families with a college degree over this period, as there was a decrease in the share of families aged 45 to 64—which, as previously noted, tend to have relatively high income—and a modest increase in the share of families that are retired.¹⁹ That said, families with a college degree experienced relatively robust growth in median and mean income between 2010 and 2016.

Over the 2016–19 period, median income rose for nearly all families grouped by race or ethnicity, with the exception of Hispanic families, which experienced a slight decline.²⁰ With respect to mean income, both Hispanic and White non-Hispanic families saw declines, while Black non-Hispanic families and families that identified as other or multiple races saw gains.²¹ Indeed, despite Black non-Hispanic families and White non-Hispanic families experiencing similarly robust growth in median income, White non-Hispanic families saw the largest drop in mean income of all the groups. That said, this drop comes on

several surveys, an increasing share of families have reported that their actual income aligned with their usual income, rising from 70 percent of families in the 2010 SCF to 77 percent of families in the 2019 SCF.

¹⁶ Each quintile represents 20 percent of the population. See the appendix for information about distribution group cutoffs.

¹⁷ Mean income for the top decile of usual income increased 30 percent over the 2010–16 period.

¹⁸ There were no noticeable changes in the share working among families in age groups older than 55; instead, decreases in various components of income are driving these changes.

¹⁹ Among families with a college degree in 2019, 34.2 percent were between ages 45 and 64, down from 37.9 percent in 2016. In 2019, 22.2 percent of families with a college degree were retired, up from 20.8 percent in 2016.

²⁰ An upcoming FEDS Note discusses differences in income and wealth holding by race and ethnicity in more detail and can be found at <https://www.federalreserve.gov/econres/notes/feds-notes/default.htm>.

²¹ While the change in the value of mean income for families identifying as other or multiple race was quite large—21 percent—it was not statistically significant at conventional levels, as the small size of the group makes the mean particularly sensitive to extreme values. Relative to 2016, families in this group were more educated, slightly older, and more likely to be in the top usual income decile in 2019.

the heels of a 24 percent surge in mean income among families in this group between 2010 and 2016.

Reflecting the top-line changes, both homeowners as well as renters and other non-owners experienced median income growth but mean income losses between 2016 and 2019. The median income gap between families living in a metropolitan statistical area (MSA) and those living in a non-MSA widened slightly between 2016 and 2019 as median income grew similarly among families in both types of areas (and the level of median income is lower for those in non-MSAs). However, the mean income gap between the two groups shrank.

In grouping families by percentile of net worth (as measured concurrently in the SCF), both median and mean income rose almost throughout the distribution between 2016 and 2019. The one exception is the mean income of families in the top decile of net worth, which dropped 12 percent, marking the first decline in either median or mean income for that group since 2010.²² Over the 2010–16 period, growth in both median and mean income among families in the top decile of the wealth distribution was exceptionally strong—19 percent and 38 percent, respectively. For families in the lowest quartile of net worth, median income jumped 11 percent to \$29,900, and mean income grew 4 percent to \$37,900 between 2016 and 2019. Families in the middle quartiles saw growth in median and mean income ranging from 1 to 8 percent over this period.

Net Worth

Median and mean inflation-adjusted net worth—the difference between families’ gross assets and their liabilities—increased between 2016 and 2019 (table 2). Specifically, the median net worth of all families rose 18 percent to \$121,700, and the mean net worth increased a modest 2 percent to \$748,800. These patterns continued growth seen over the 2013–16 period, although the gain in mean net worth over that period was a much larger 25 percent. Median and mean net worth over the 2010–13 period were effectively stagnant despite the recovery in house and other asset prices that followed the large declines in the 2007–10 period amid the Great Recession.²³

Net worth tends to rise systematically with income, as higher-income families have higher levels of saving, which results in a feedback effect of higher income from the accumulated assets.²⁴ In addition, net worth generally increases with age until it plateaus (or decreases modestly) for the oldest age groups as they retire, a pattern reflecting the fact that individuals usually save for retirement throughout their working career and then spend those savings in retirement. Finally, net worth exhibits strong differentials across groups defined in terms of education, racial or ethnic background, urbanicity, and housing status; these differentials generally mirror those for income, but the wealth differences are larger.

Changes in Net Worth by Family Characteristics

Families with higher levels of usual income reported greater levels of net worth, but changes in net worth varied substantially across the usual income distribution. On the one

²² To investigate whether the COVID-19 pandemic influenced the families included in the top decile of net worth and generated this decrease, removing interviews completed after March 1, 2020—before any state or Washington, D.C., declared a state of emergency—from the top decile reveals a larger decrease in mean income between 2016 and 2019.

²³ Between the 2010 and 2013 surveys, median net worth increased 2 percent and mean net worth did not change. Between 2007 and 2010, median net worth declined 39 percent and mean net worth declined 15 percent.

²⁴ For a discussion of patterns of saving by usual income, see box 2, “Saving Behavior.”

Table 2. Family median and mean net worth, by selected characteristics of families, 2016 and 2019 surveys

Thousands of 2019 dollars, except as noted

Family characteristic	Median net worth			Mean net worth		
	2016	2019	Percentage change 2016–19	2016	2019	Percentage change 2016–19
All families	103.5 (2.9)	121.7 (3.5)	18	736.0 (13.6)	748.8 (15.6)	2
Percentile of usual income						
Less than 20	7.1	9.8	37	82.4	114.1	38
20–39.9	31.5	44.0	40	128.0	136.0	6
40–59.9	94.2	92.9	-1	242.2	220.5	-9
60–79.9	181.5	199.1	10	394.2	423.0	7
80–89.9	421.7	382.3	-9	851.3	850.0	0
90–100	1,732.3	1,589.3	-8	4,814.3	4,850.1	1
Age of reference person (years)						
Less than 35	11.7	13.9	19	81.0	76.3	-6
35–44	63.6	91.3	44	307.0	436.2	42
45–54	132.1	168.6	28	773.7	833.2	8
55–64	199.2	212.5	7	1,241.6	1,175.9	-5
65–74	237.6	266.4	12	1,133.7	1,217.7	7
75 or more	281.6	254.8	-10	1,134.8	977.6	-14
Education of reference person						
No high school diploma	24.3	20.5	-16	167.1	137.8	-18
High school diploma	71.3	74.0	4	265.4	305.2	15
Some college	70.2	88.8	26	362.2	376.4	4
College degree	310.7	308.2	-1	1,607.2	1,519.9	-5
Race or ethnicity of respondent						
White non-Hispanic	181.9	188.2	3	993.1	983.4	-1
Black or African American non-Hispanic	18.2	24.1	33	146.8	142.5	-3
Hispanic or Latino	21.9	36.2	65	203.3	165.5	-19
Other or multiple race	68.8	74.5	8	486.8	657.2	35
Housing status						
Owner	246.2	255.0	4	1,099.9	1,102.1	0
Renter or other	5.3	6.3	18	96.8	95.6	-1
Urbanicity						
Metropolitan statistical area (MSA)	105.3	126.0	20	799.0	806.4	1
Non-MSA	93.3	90.4	-3	293.8	324.8	11
Percentile of net worth						
Less than 25	.1	.3	131	-13.0	-13.5	-5
25–49.9	42.3	57.3	36	47.5	58.1	22
50–74.9	204.0	224.1	10	217.1	236.3	9
75–89.9	643.4	652.7	1	701.2	703.7	0
90–100	2,539.3	2,598.7	2	5,675.3	5,729.6	1

Note: Net worth is the difference between families' gross assets and their liabilities. See the appendix for definitions of asset and liability categories used in the Survey of Consumer Finances as well as details on standard errors (shown in parentheses below the first row of data for the medians and means).

hand, median and mean net worth rose—in most instances, considerably—between 2016 and 2019 for the bottom two quintiles. Those in the lowest usual income quintile saw a large jump in median net worth (37 percent to \$9,800) and a similar increase in mean net worth (38 percent to \$114,100). Further, families in the fourth quintile rebounded from relatively modest gains in median and mean net worth between 2013 and 2016. On the other hand, families in the third quintile of usual income saw declines in both median and mean net worth (1 percent and 9 percent, respectively). Those toward the top of the distribution experienced the largest declines in median net worth and essentially stable mean net worth.²⁵

Nearly all age groups experienced increases in median net worth between 2016 and 2019, while mean net worth decreased for several age groups. With respect to both median and mean net worth, families aged 75 and older experienced the largest declines (10 percent and 14 percent, respectively), and families aged 35 to 44 experienced the largest increases (44 percent and 42 percent, respectively).²⁶ Growth in net housing wealth contributed to increases among those aged 35 to 44, while the drawing down of financial assets factored into decreases among the oldest group. As with income, prime working-age families generally experienced substantial gains in net worth, with the only exception being a modest decline in mean net worth among families younger than age 35.

Between 2016 and 2019, there was considerable variation in the extent to which median and mean net worth changed by education group, ranging from an 18 percent decrease to a 26 percent increase. Both measures of net worth continued to increase among families in which the reference person had either a high school diploma or some college. However, although families without a high school diploma saw the largest gains in both median and mean net worth between 2013 and 2016, they saw the largest drops between 2016 and 2019 (16 percent and 18 percent, respectively); nonetheless, both measures remained above their 2013 levels. Among families with a college degree, declines in median and mean net worth were more modest, leaving median net worth essentially unchanged from its 2013 level and mean net worth well above its 2013 level. As with income, these patterns generally point to a shrinking gap in net worth between families with and without a college degree between 2016 and 2019, with this gap nonetheless remaining substantial.²⁷

From 2016 to 2019, median net worth increased for all types of families grouped by race or ethnicity. Further, large gains among Black non-Hispanic and Hispanic families seen over the previous survey interval continued. Non-White and Hispanic families experienced larger proportional growth in median net worth than White non-Hispanic families during the 2016–19 period; nonetheless, the typical White non-Hispanic family still had more than double the amount of wealth than the typical family in any other racial or ethnic group in 2019. With respect to mean net worth, only families identified as other or multiple race saw

²⁵ The top decile of the usual income distribution in 2019 included a larger share of younger families than in 2016. Further, median net housing wealth for the top decile of usual income declined between 2016 and 2019. These two factors likely contributed to lower median wealth for this group in 2019.

²⁶ All in all, the changes in net worth by age group nearly reversed patterns once again between the two previous surveys, as families younger than age 45 and between ages 65 and 74 had experienced the only declines over the 2013–16 period. Over the 2010–13 period, median and mean net worth increased for families younger than age 45, decreased for those between ages 45 and 64, increased for those between ages 65 and 74, and decreased for the oldest group.

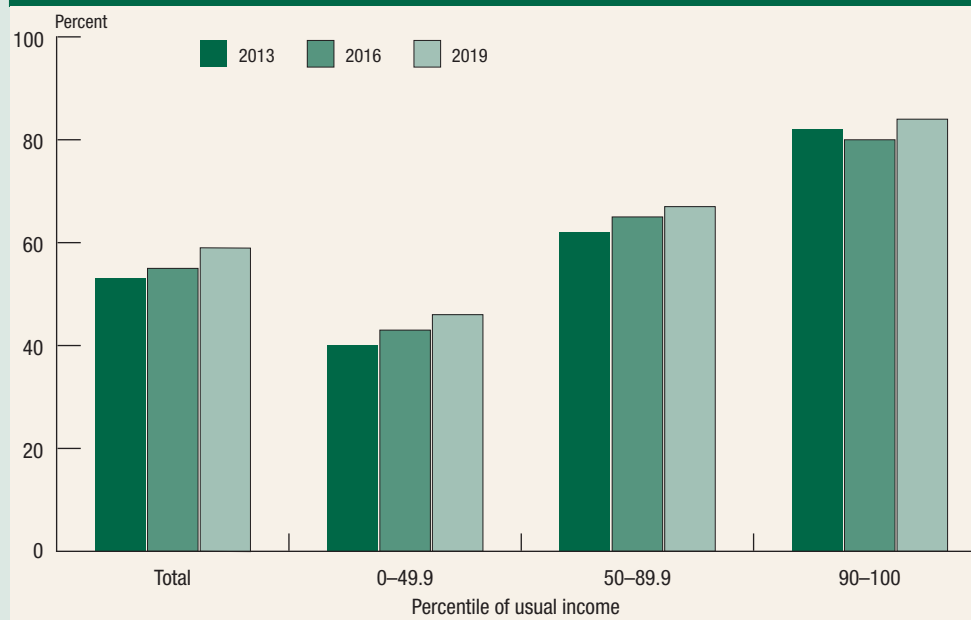
²⁷ For a discussion of transmission of wealth by parental education, see [box 3](#), “Intergenerational Transmission of Wealth.”

Box 2. Saving Behavior

Because saving out of current income is an important determinant of family net worth, the Survey of Consumer Finances asks respondents whether, over the preceding year, the family's spending was less than, more than, or about equal to its income. Though only qualitative, the answers are a useful indicator of whether families are saving.

The fraction of families that reported saving has increased over the past three surveys (figure A). Between 2016 and 2019, the proportion of all families that saved increased from 55 percent to 59 percent.

Figure A. Families that saved by usual income, 2013–19 surveys



Within a given year, the fraction of families saving is greater for families with higher usual income. In 2019, for example, the fraction of families in the top decile of income that saved was 84 percent, almost double the 46 percent of the bottom half of the income distribution that saved. Between 2016 and 2019, the fraction of families that saved increased across all three income groups.

an increase.²⁸ While two of the remaining groups experienced relatively modest decreases, mean net worth among Hispanic families dropped 19 percent.²⁹

The median net worth of homeowners grew modestly between 2016 and 2019, while their mean net worth essentially did not change. Renters or other non-homeowners, whose average levels of net worth are far exceeded by those of homeowners, experienced an 18 percent jump in median net worth and a 1 percent decline in mean net worth.

Between 2016 and 2019, families living in MSAs experienced a 20 percent increase in median net worth and a slight 1 percent increase in mean net worth, while families in other

²⁸ Similar to mean income, the change in the value of mean net worth for families identifying as other or multiple race was quite large—35 percent—but not statistically significant at conventional levels, as the small size of the group makes the mean particularly sensitive to extreme values.

²⁹ Relative to 2016, more Hispanic families were younger than age 35 in 2019. Further, this group constituted only about 10 percent of families in both 2016 and 2019, and, thus, median and mean values exhibit more variability.

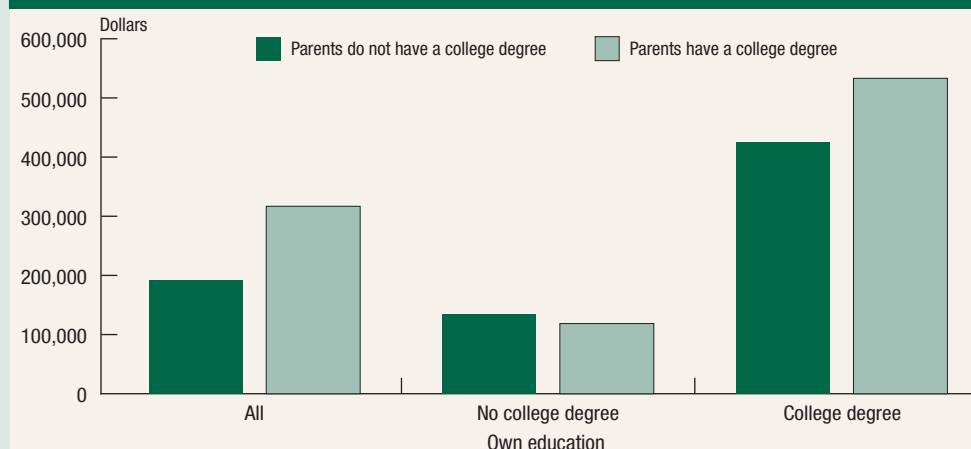
Box 3. Intergenerational Transmission of Wealth

Families can transmit wealth and resources across generations in numerous ways. Families can directly transfer their wealth to the next generation in the form of a bequest. They can also provide the next generation with *inter vivos* transfers (gifts)—for example, providing down-payment support to enable a home purchase. In addition to direct transfers or gifts, families can make investments in their children that indirectly increase their wealth. For example, families can invest in their children’s educational success, which can, in turn, increase their children’s ability to accumulate wealth.

The Survey of Consumer Finances (SCF) collects information about the highest level of education obtained by a parent. Because higher levels of education are associated with higher levels of wealth and income, as seen in [tables 1](#) and [2](#) in the main text, splitting families according to their parents’ level of education is a common way to examine the intergenerational transmission of economic resources.¹

Overall, higher levels of parental education are associated with higher wealth (figure A). The typical family with a parent with a college degree has about 1.7 times the wealth of a family without a parent with a college degree. However, a family’s own education is a stronger predictor of its wealth than the education of its parents. Further, when families are split according to their own level of education, parental education has a differential relationship with wealth holding. Among families without a college degree themselves, there is almost no relationship between parental education and wealth. However, among families with a college degree, families with a parent who also has a college degree have higher levels of wealth.

Figure A. Median wealth, by parental education and own education



The SCF collects information on all inheritances, trusts, and substantial gifts a family has received, enabling an examination of direct transfers from one generation to the next. Direct transfers collected in the SCF include both financial assets and nonfinancial assets like real estate or a business.

Parental education is positively associated with the probability that a family received an inheritance, trust, or gift (table B). Twenty-seven percent of families with a parent who has a college degree have received an inheritance, compared with 22 percent of families without a parent who has a college degree. Conditional on receiving an inheritance, higher levels of parental education are also associated with larger inheritances. Among families that have received an inheritance, the typical value of all inheritances received by families with a parent who has a college degree is \$92,700, compared with \$76,200 for families without a parent who has a college degree.²

continued on next page

Box 3. Intergenerational Transmission of Wealth—*continued*

Table B. Receipt and expected receipt of inheritances, by parental education

Percent or 2019 dollars

Parental education	Received an inheritance, trust, or gift	Conditional median value of inheritances received	Expects to receive an inheritance	Conditional median value of inheritances expected
Parents do not have a college degree	21.9%	\$76,200	9.5%	\$100,000
Parents have a college degree	27.2%	\$92,700	23.6%	\$200,000

Some families may not have received an inheritance but expect to receive one at a later date if, for example, a parent is still living. The SCF collects information on expected inheritances as well as received inheritances. Higher levels of parental education are also positively associated with expected inheritances. Families with a parent who has a college degree are more than twice as likely to expect an inheritance (23.6 percent) than families without a parent who has a college degree (9.5 percent). And conditional on expecting an inheritance, families with a parent who has a college degree expect to receive double the size of the inheritance of families without a parent who has a college degree.

¹ Parental education refers to the highest degree obtained by the reference person's mother or father.

² The value of up to three reported inheritances are adjusted to 2019 dollars using the year of receipt and the consumer price index for all urban consumers. Any additional inheritances are unadjusted because the SCF only collects the year of receipt for up to three inheritances.

areas saw a modest 3 percent dip in median net worth but an 11 percent increase in mean net worth.

Median and mean net worth rose for much of the net worth distribution, with the bottom quartile's 5 percent loss in mean net worth representing the only decline. For the lowest quartile, median net worth was \$100 in 2016 and \$300 in 2019, and mean net worth was negative \$13,000 in 2016 and negative \$13,500 in 2019. The wealth portfolio of families in the middle of the net worth distribution is dominated by housing, and, as such, changes in their wealth between surveys tend to reflect the extent to which growth in house prices surpassed inflation.³⁰ Indeed, both the second and third quartiles saw growth in their median and mean net worth between 2016 and 2019, with the second quartile experiencing particularly large gains in both measures (36 percent and 22 percent, respectively). Finally, following outsized increases in both median and mean net worth between 2010 and 2016, families near the top of the wealth distribution saw very little change in net worth; nonetheless, median and mean net worth for that group were about four and eight times the levels of the next decile, respectively—evidence that wealth remains concentrated among these families.

Assets

In 2019, virtually all families owned some type of asset, little changed from 2016 (table 3). Conditional on holding at least one asset, median total asset holdings rose 13 percent, to about \$228,000 in 2019. The conditional mean value of total assets rose a modest 2 percent.

Financial Assets

Overall, 98.7 percent of families in 2019 owned at least one financial asset—which includes transaction accounts, certificates of deposit, savings bonds, other bonds, stocks, pooled

³⁰ For instance, recessionary declines in house prices led to a disproportionate decrease in the wealth of families in the middle of the net worth distribution.

Table 3. Holding and values of assets, 2016 and 2019 surveys

Thousands of 2019 dollars, except as noted

Balance sheet item	Percent holding		Conditional median value			Conditional mean value		
	2016	2019	2016	2019	Percentage change 2016–19	2016	2019	Percentage change 2016–19
Any asset	99.4	99.6	201.9	227.6	13	842.3	860.3	2
Types of financial asset								
Any financial asset	98.5	98.7	25.0	25.7	3	361.5	363.7	1
Transaction accounts	98.0	98.2	4.8	5.3	11	42.8	41.7	-3
Certificates of deposit	6.5	7.7	21.3	25.0	18	80.5	102.0	27
Savings bonds	8.6	7.5	1.1	.8	-25	10.1	8.5	-16
Bonds	1.2	1.1	106.4	121.0	14	820.0	653.6	-20
Stocks	13.9	15.2	26.6	25.0	-6	348.6	348.5	0
Pooled investment funds	10.0	9.0	121.2	110.0	-9	825.3	854.3	4
Retirement accounts	52.1	50.5	63.8	65.0	2	243.5	255.2	5
Cash value life insurance	19.4	19.0	9.0	9.0	0	39.8	41.0	3
Other managed assets	5.5	5.9	117.0	115.0	-2	503.8	512.2	2
Other	8.1	7.4	5.9	4.0	-32	57.1	73.8	29
Types of nonfinancial asset								
Any nonfinancial asset	90.8	91.4	169.0	194.3	15	529.8	544.6	3
Vehicles	85.2	85.4	18.4	17.2	-7	27.0	26.6	-1
Primary residence	63.7	64.9	196.8	225.0	14	320.3	344.2	7
Other residential property	13.8	13.1	154.9	160.0	3	381.0	400.3	5
Equity in nonresidential property	6.2	6.7	74.5	72.0	-3	505.4	377.1	-25
Business equity	13.0	13.4	85.0	89.1	5	1,266.4	1,248.7	-1
Other	6.5	7.9	13.8	15.0	8	86.6	75.8	-13

Note: See the appendix for definitions of asset categories used in the Survey of Consumer Finances.

investment funds, retirement accounts, cash value life insurance, and other managed assets—little changed from 2016.³¹ The conditional median value of all financial assets held by families rose 3 percent to \$25,700 in 2019. The conditional mean value increased a modest 1 percent to \$363,700. The large difference between median and mean values reflects the highly disproportionate share of financial assets held by some households.

Transaction accounts—which include checking, savings, money market, call accounts, and prepaid debit cards—remained the most commonly held type of financial asset in 2019, with an ownership rate of more than 98 percent.³² The conditional median value of transaction accounts rose 11 percent between 2016 and 2019, to \$5,300. The mean value of transaction accounts in 2019 was about \$42,000, down slightly from 2016.

The second-most commonly held type of financial asset continued to be retirement accounts—including individual retirement accounts, Keogh accounts, and certain employer-sponsored accounts, such as 401(k), 403(b), and thrift savings accounts. About half of families owned such accounts in 2019. The conditional median value of retirement accounts increased a modest 2 percent between 2016 and 2019, to \$65,000, while the conditional mean value rose 5 percent to \$255,200 in 2019.³³

³¹ See the appendix for detailed definitions of SCF asset and liability categories.

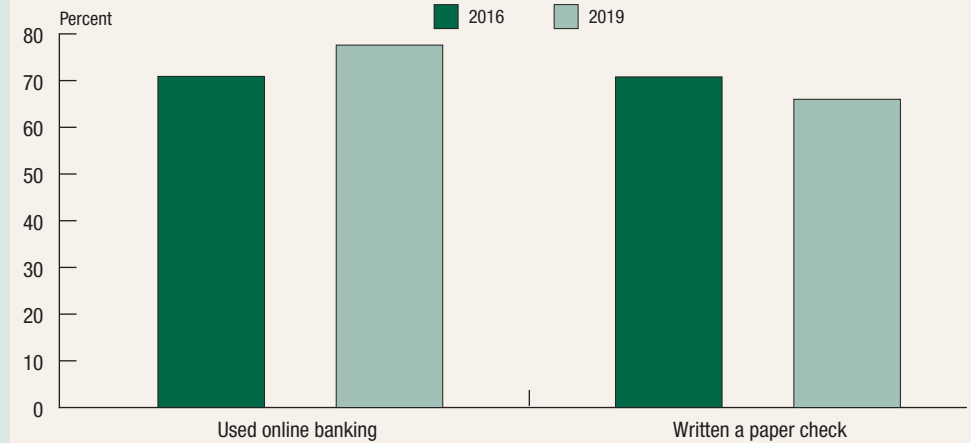
³² For a discussion on use of online and in-person banking services for transaction accounts, see [box 4](#), “Online Banking.”

³³ For more details, see [box 6](#), “Retirement Plan Participation.”

Box 4. Online Banking

The Survey of Consumer Finances (SCF) asks families about their use of online banking.¹ In 2019, families reported, on average, increased use of online banking (figure A, left bars).

Figure A. Participation in banking activities, 2016 and 2019



One question is whether use of online banking has reduced use of physical financial services.² Fortunately, the SCF also collects some information on families' use of physical financial services. For example, the fraction of families that wrote a paper check in the past 12 months to make a payment declined somewhat in 2019 (figure A, right bars).

That said, even families that used online banking continued to use at least some physical financial services, such as visiting local bank branches (table B). Among families that did not use online banking, 85 percent visited their main checking account branch and 81 percent visited their main savings account branch. Yet, even among those families that used online banking, 79 percent visited their checking account branch and 67 percent visited their savings account branch.³ Online banking appears to be an imperfect substitute for at least some physical financial services, including visiting a local bank branch.

Table B. Visiting main checking or main savings account bank branch in the past 12 months, by use of online banking in the past 12 months

Percent		
Type of banking activity	Visited checking branch	Visited savings branch
Used online banking	79	67
Did not use online banking	85	81

¹ In 2016, the SCF changed the way it asks about online banking to be a separate question. Before 2016, online banking was one of the options for how a household interacted with a financial institution.

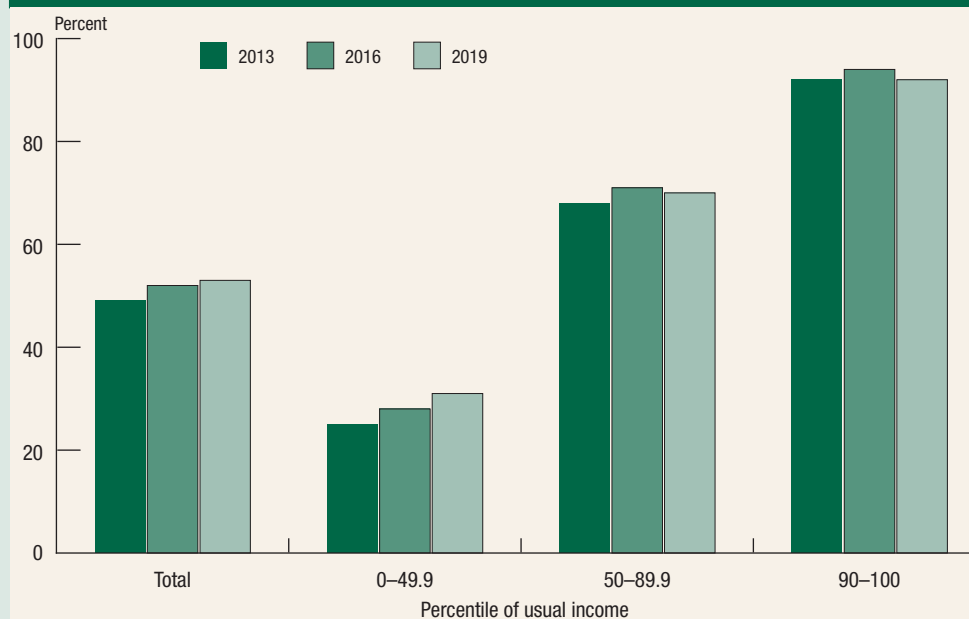
² As discussed in [box 10](#), "Shopping for Financial Services," more families are using the internet for information on borrowing or investing services, which may be contributing to the reduced use of physical financial services.

³ These statistics update the estimates in table 1 of Elliot Anenberg, Andrew C. Chang, Serafin Grundl, Kevin B. Moore, and Richard Windle (2018), "The Branch Puzzle: Why Are There Still Bank Branches?" FEDS Notes (Washington: Board of Governors of the Federal Reserve System, August 20), <https://dx.doi.org/10.17016/2380-7172.2206>.

Box 5. Direct and Indirect Holdings of Publicly Traded Stock

Families may hold stocks in publicly traded companies directly or indirectly, and information about each of these forms of stock holding is collected separately in the Survey of Consumer Finances.¹ When direct and indirect forms of stock holdings are combined, the 2019 data show a slight uptick in stock ownership since 2016. In 2019, about 53 percent of families owned stocks, compared with nearly 52 percent in 2016 (figure A). Grouping families by their location in the usual income distribution reveals that families in the bottom half of the income distribution exhibited an increase in stock ownership from 2016 to 2019. That said, in any given year, participation in the stock market among families in the two higher income groups stands well above the bottom half's participation. In 2019, about 31 percent of families in the bottom half of the income distribution held stocks, whereas about 70 percent of families in the upper-middle-income group held stock, and more than 90 percent of families in the top decile held stock.

Figure A. Families with direct and indirect holdings of stock, 2013–19 surveys



In addition to these differences across income groups in stock market participation rates, there are significant differences in the value of stock market holdings, conditional on holding stock. In 2019, the conditional median value of stock holdings for the bottom half of the income distribution was about \$10,000, compared with \$40,000 for the upper-middle-income group and nearly \$439,000 for the top income decile (table B). Conditional mean values are substantially larger than the conditional median values and exhibit wider differences across groups.

For the top decile of income, conditional median and mean values of stock holdings were higher in 2019 than in 2016 and substantially above levels observed in 2013. In contrast, for the bottom half of the distribution, conditional median and mean values were lower in 2019 relative to 2013. That said, these changes over time should be interpreted with caution, as they are influenced by changes in the composition of families holding stock. For example, as noted earlier, the bottom half of the income distribution exhibited a significant increase in stock market participation since 2013, which could push median and mean values down over time, as new participants are likely to have relatively small amounts invested in stocks.

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Box 5. Direct and Indirect Holdings of Publicly Traded Stock— *continued*

Table B. Median and mean levels for direct and indirect holdings of stock, 2013–19 surveys

Thousands of 2019 dollars

Survey year	2013	2016	2019
Conditional median values			
All	39.5	42.5	40.0
<i>Percentile of usual income</i>			
0–49.9	11.0	11.2	9.9
50–89.9	38.2	42.5	40.0
90–100	310.9	378.6	438.5
Conditional mean values			
All	296.4	366.4	373.2
<i>Percentile of usual income</i>			
0–49.9	58.9	55.7	55.8
50–89.9	145.2	162.8	174.8
90–100	1,064.4	1,452.3	1,505.2

¹ Indirect holdings are those in pooled investment funds, retirement accounts, and other managed assets. Indirect holdings, particularly through tax-deferred retirement accounts, are much more common than direct holdings.

Direct ownership of stocks increased slightly between 2016 and 2019, to more than 15 percent of families. Stocks may also be indirectly held in pooled investment funds and other managed assets, which were held by 9 percent and nearly 6 percent of families, respectively (for more on families’ stock holdings, see [box 5](#), “Direct and Indirect Holdings of Publicly Traded Stock”). Rates of ownership of almost all other types of financial assets are below 10 percent, the exception being cash value life insurance at 19 percent.

Nonfinancial Assets

Ownership of nonfinancial assets—including vehicles, residential or nonresidential property, and business equity—remained high in 2019 at about 91 percent. Ownership of primary residences increased slightly to almost 65 percent in 2019.³⁴ Reported values of primary residences rose markedly between 2016 and 2019. The conditional median value increased 14 percent to \$225,000. In addition to ownership of primary residences, about 13 percent of families in 2019 reported owning other residential property, such as second homes or time shares.

The most commonly held type of nonfinancial asset in 2019 was vehicles, which includes cars, vans, sport utility vehicles (SUV), trucks, motor homes, recreational vehicles, motorcycles, boats, airplanes, and helicopters. Between 2016 and 2019, the fraction of families owning a vehicle held steady at about 85 percent, but the conditional median value declined 7 percent, to about \$17,000.³⁵

³⁴ For more details, see [box 7](#), “Homeownership and Net Housing Wealth.”

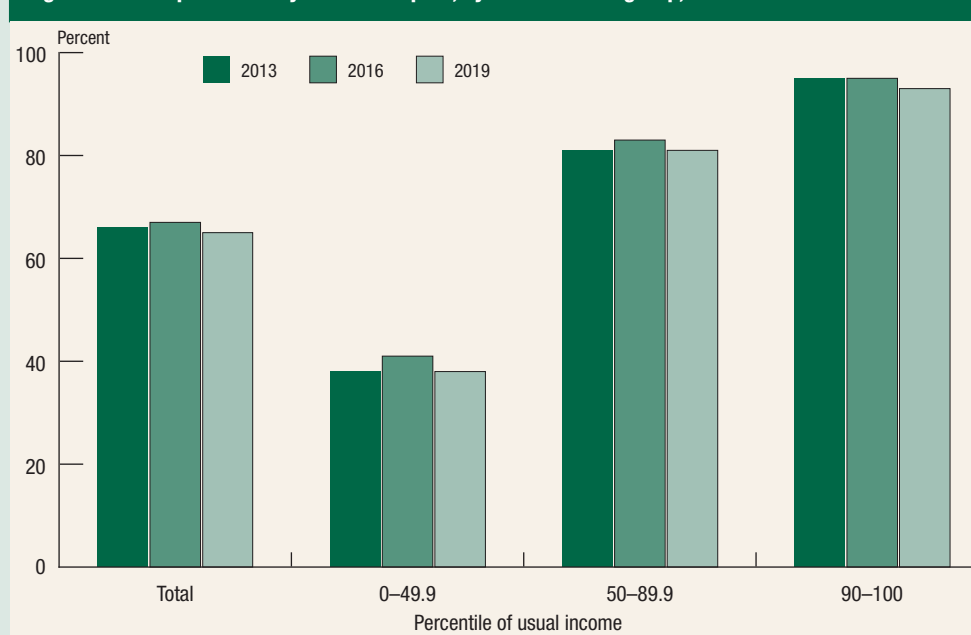
³⁵ Survey respondents are asked to provide the year, make, and model of each of their cars, vans, SUVs, and trucks. This information is used to obtain market prices from data collected by the National Automobile Dealers Association and a variety of other sources. For other types of vehicles, the respondent is asked to provide a best estimate of the current value.

Box 6. Retirement Plan Participation

Participation in retirement plans can both increase families' net worth and provide extra retirement financial security through lower taxes on savings, a guaranteed income in retirement, or both. In this discussion, a family is considered a participant in a retirement plan if it has any of the following: an individual retirement account (IRA); an account-type job pension (defined contribution plan, or DC), which includes 401(k)s; or a defined-benefit (DB) pension. The following discussion focuses on working families with a reference person aged 35 to 64, by usual income group. The focus is on these families because, generally speaking, these families have finished their education but have not retired.

Across the usual income distribution, families, on average, saw decreases in retirement plan participation from 2016 to 2019 (figure A). These decreases followed increases in 2016 and left participation little changed, on balance, since 2013.

Figure A. Participation in any retirement plan, by usual income group, over time



The decline in participation in any retirement plan from 2016 to 2019 was driven by declines in IRA or DC participation across all usual income groups (figure B, left bars). Though families in the top decile of the usual income distribution slightly decreased their IRA or DC participation, the decrease in participation for the bottom two usual income groups was more pronounced, driven by declines in IRA participation in particular (not shown).¹

Although all usual income groups decreased IRA or DC participation, for families in the top half of the distribution, there was a partially offsetting increase in DB participation, while for families in the bottom half, there was also a decline in DB participation (figure B, right bars).²

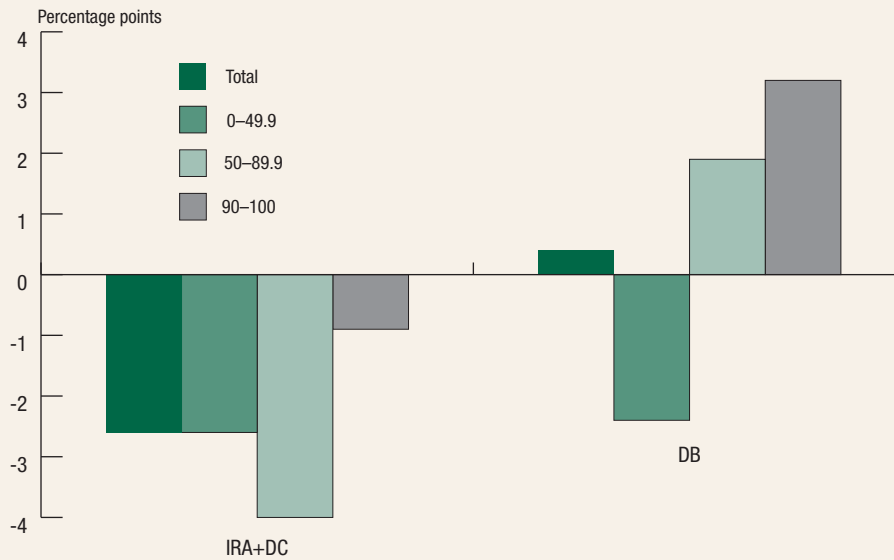
For many families, the assets held in IRAs and DC plans (typically associated with either a current job or a past job) are among the most important components of their balance sheets and are a significant determinant of their future retirement security. Among families that have these assets, the average combined IRA and DC pension account balance increased to \$269,600 in 2019, and the gains occurred throughout the usual income distribution (table C). For families in the bottom half of the distribution, although participation in IRA or DC plans fell in 2019, the average balance for participating families increased slightly from 2016, reaching \$57,400. The average balance for participating families in the upper-middle part of the distribution increased about \$3,700 between 2016 and 2019, to

continued on next page

Box 6. Retirement Plan Participation—continued

\$170,600. The average balance for participating families in the top 10 percent of the distribution increased the most, reaching \$692,800.

Figure B. 2016–19 changes in defined contribution and defined-benefit plan participation, by usual income



Note: IRA is individual retirement account, DC is defined contribution plan, and DB is defined-benefit pension.

Table C. Mean retirement savings among those with an individual retirement account or an account-type job pension, families ages 35 to 64, 2013–19 surveys

2019 dollars

Percentile of usual income	2013	2016	2019
All	213,900	252,700	269,600
0–49.9	42,900	56,900	57,400
50–89.9	161,700	166,900	170,600
90–100	489,900	682,200	692,800

¹ Participation in IRA or DC plans for the three usual income groups from lowest to highest income were 31 (29) percent, 74 (70) percent, and 92 (91) percent in 2016 (2019).

² Participation in DB plans for the three usual income groups from lowest to highest income were 17 (14) percent, 34 (36) percent, and 31 (35) percent in 2016 (2019).

Ownership of business equity was about 13 percent in 2019.³⁶ The conditional median value was more than \$89,000, and the conditional mean value was more than \$1.2 million. The wide difference between the median and mean values reflects the small fraction of privately held businesses with very high valuations. Ownership of equity in nonresidential property was 6.7 percent in 2019, and conditional median and mean values of equity in nonresidential property were about \$70,000 and \$375,000, respectively.

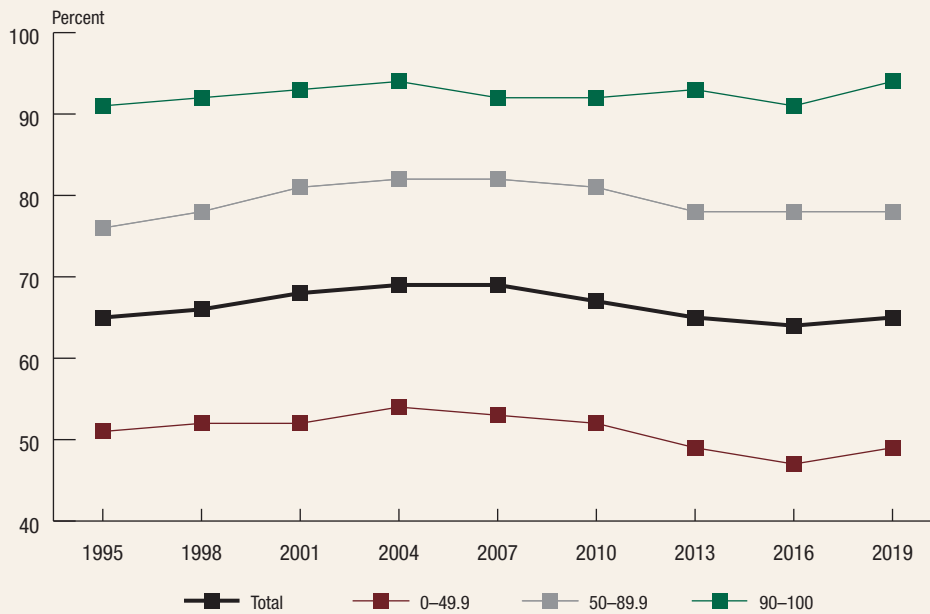
³⁶ For more details, see [box 8](#), “Holdings of Business Equity.”

Box 7. Homeownership and Net Housing Wealth

The percentage of families that owned their primary residence increased from 63.7 percent in 2016 to 64.9 percent in 2019 (figure A). The 2016 homeownership rate was the lowest recorded in the Survey of Consumer Finances (SCF) since 1989, and the 2019 rate remains well below the peak observed in 2004.¹ Across families grouped by percentile of usual income, there are large differences in homeownership rates, which tend to increase with usual income. For families in the bottom half of the income distribution, the homeownership rate was 49.1 percent in 2019, while the homeownership rate for those in the top 10 percent of the distribution was 93.6 percent.

Between 2016 and 2019, the homeownership rate rose for the bottom half and top 10 percent of the income distribution, while the rate essentially did not change for the upper-middle-income group. The 2016–19 period is a change in the trend for the bottom usual income group, for which homeownership had declined in each survey since 2007. For the top income group, the homeownership rate has fluctuated within a relatively narrow range, between 91.4 and 93.6 percent, since 2007.

Figure A. Homeownership rate, by usual income group, 1995–2019 surveys



For families that own their primary residence, the median net housing value—defined as the home’s value minus any debts secured by the home (that is, outstanding mortgages, home equity loans, and home equity lines of credit)—increased between 2016 and 2019, continuing the rise in values between 2013 and 2016 (table B).² In 2016, among homeownership families, the median net housing value was \$106,400. In 2019, that number had risen to \$120,000, an increase of 13 percent.

Across usual income groups, the median net housing value increases as usual income rises. In 2019, the median value of net housing wealth among homeowners in the bottom half of the income distribution was \$89,000. For the top income group, the mean net housing value was almost four times larger, at \$346,000.

Between 2016 and 2019, median net housing value increased for homeowners in the bottom half of the income distribution as well as for upper-middle-income homeowners. For the bottom income group, net housing value rose the most—19 percent.

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Box 7. Homeownership and Net Housing Wealth—*continued*

along with the group's increase in homeownership rates, contributed to the group's growth in wealth.

For the upper-middle-income group, the median net housing value increased 9 percent. Meanwhile, the top income group saw a net housing value decline of 6 percent. These changes stand in contrast to the patterns in 2013 and 2016, where higher-income households gained more.

Table B. Median net housing value for homeowners, 2013–19 surveys

Thousands of 2019 dollars

Percentile of usual income	2013	2016	2019
All	87.9	106.4	120.0
0–49.9	65.9	74.5	89.0
50–89.9	84.3	103.6	113.0
90–100	274.5	367.4	346.0

¹ The homeownership rate in 1989 was 63.9 percent. It rose to a peak of 69.1 percent in 2004.

² SCF respondents are asked to report the value of their home. Only primary residences are included. Debts on the home include any mortgages or home equity loans against the primary residence.

Debt, Debt Burden, and Credit Market Experiences

The share of families holding any type of debt held steady between 2016 and 2019, at roughly 77 percent (table 4).³⁷ The conditional median value of debt increased 2 percent to nearly \$65,000, and the conditional mean value increased 7 percent to more than \$140,000.

Table 4. Holding and values of debt items, 2016 and 2019 surveys

Thousands of 2019 dollars, except as noted

Types of debts	Percent holding		Conditional median value			Conditional mean value		
	2016	2019	2016	2019	Percentage change 2016–19	2016	2019	Percentage change 2016–19
Any debt	77.1	76.6	63.6	64.8	2	131.2	140.6	7
Secured by residential property								
Primary residence	41.9	42.1	118.1	134.8	14	167.7	180.8	8
Other	5.6	4.7	106.4	122.0	15	170.8	205.9	21
Lines of credit not secured by residential property	1.8	1.5	3.2	2.0	-37	59.2	40.4	-32
Installment loans								
Education loans	22.4	21.5	20.2	22.3	10	36.4	40.3	11
Vehicle loans	33.8	36.9	13.6	13.1	-4	18.3	17.6	-4
Other installment loans	11.2	10.5	3.6	3.8	5	16.4	20.6	26
Credit card balances	43.9	45.4	2.4	2.7	10	6.1	6.3	3
Other	5.4	5.2	5.3	5.0	-6	28.5	24.7	-13

Note: See the appendix for definitions of liability categories used in the Survey of Consumer Finances.

³⁷ For a discussion of the resources that families use when making borrowing and investment decisions, see box 10, “Shopping for Financial Services.” See the appendix for a detailed definition of SCF liability categories.

Debt Holdings by Type

About 42 percent of families in 2019 held debt secured by a primary residence, similar to the percentage in 2016. As observed earlier in [table 3](#), about 65 percent of families in 2019 owned their principal residence. These numbers imply that almost two-thirds of homeowners have home-secured debt, while more than one-third of homeowners own their home free of debt.

The conditional median and mean values of home-secured debt increased between 2016 and 2019, closely tracking the rise in home values shown in [table 3](#). The conditional median value of home-secured debt increased 14 percent, from \$118,100 to \$134,800, and the conditional mean value of home-secured debt increased 8 percent.

Credit card debt continued to be the most widely held type of debt in 2019, with more than 45 percent of families reporting a credit card balance after their last payment. Of those with credit card debt, the median family owed \$2,700 in 2019, up 10 percent from 2016. About 37 percent of families held vehicle loans, and nearly 22 percent of families had education loans in 2019. Conditional median and mean balances on vehicle loans declined between 2016 and 2019, as did vehicle values shown in [table 3](#). In contrast, conditional median and mean balances on education loans increased much more between surveys—to \$22,300 and \$40,300, respectively—representing a continuation of the long-term trend of rising education debt. (For more on education debt, see [box 9](#), “Education Debt.”)

In 2019, 10.5 percent of families held other installment loans, down slightly from 2016. These loans are often associated with purchases of furniture, appliances, and other durable goods, though the category also includes medical debt.

Debt Burden

The ability of individual families to service their loans is a function of many factors, including the level of their loan payments and the income and assets they have available to meet those payments. In planning their borrowing, families make assumptions about their future ability to repay their loans. Problems may occur when events turn out to be contrary to those assumptions. If economic shocks are sufficiently large and prevalent, a broad pattern of default, restraint in spending, and financial distress in the wider economy might ensue.

The SCF data can be used to construct three measures of debt burdens: leverage ratios, debt-to-income ratios, and payment-to-income ratios. Leverage ratios compare debts to assets, debt-to-income ratios compare debt to income, and payment-to-income ratios compare payments made on debt relative to income. All three ratios can be constructed either in aggregate or as a median for debtors.³⁸

Most of these ratios increased slightly between 2016 and 2019, implying families faced somewhat higher debt burdens, after having declined from 2010 to 2016 ([table 5](#)).³⁹ However, these ratios remain below their levels just before the 2007–08 financial crisis. In 2019, the median leverage ratio for debtors was slightly below its 2007 level at 33.9 percent; median debt-to-income and payment-to-income ratios for debtors in 2019—at 95.7 percent and 15.3 percent, respectively—were well below 2007 levels.⁴⁰

³⁸ The aggregate is defined as the total amount of debt held (or payments) divided by the total assets held (or income) among all survey respondents. The median for debtors is defined as the median of each individual family’s ratio among those carrying debt only.

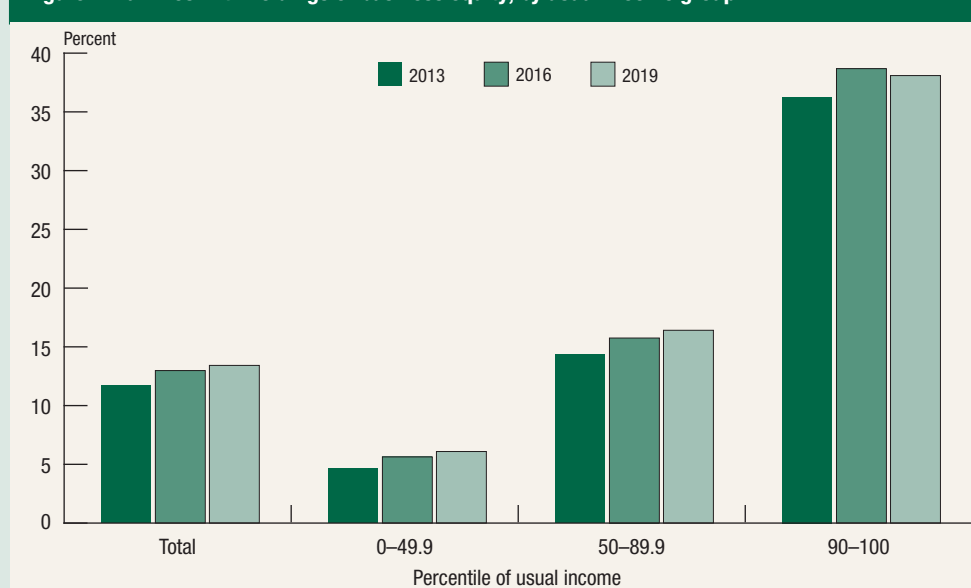
³⁹ For definitions of the components of [table 5](#), see the appendix.

⁴⁰ An alternative aggregate version of payment-to-income ratios is the debt service ratio. See Karen Dynan,

Box 8. Holdings of Business Equity

About 13 percent of families in the 2019 Survey of Consumer Finances (SCF) owned a privately held business, which is up slightly relative to the past two surveys (figure A).¹ As in past surveys, business ownership increases with income, and nearly 40 percent of families in the top income decile own a business.

Figure A. Families with holdings of business equity, by usual income group



Most families that own businesses in the SCF employ fewer than five people (table B).² For these families, mean business equity in the 2019 SCF was about \$450,000, while mean business equity for families that own businesses with five or more employees was about \$4.1 million. For businesses of each size, median valuations were more modest (\$50,000 for smaller and \$725,000 for larger businesses).

Table B. Assets and income, by size of business

Percent or 2019 dollars

Percentile of usual income	Business owners		All others
	Less than five employees	Five or more employees	
Share of businesses	78	22	n.a.
Business assets (mean)	\$ 447,400	\$4,081,500	n.a.
Business assets (median)	\$ 50,000	\$ 725,000	n.a.
Net worth* (mean)	\$1,327,500	\$3,479,500	\$392,100
Net worth* (median)	\$ 308,100	\$1,065,600	\$ 89,000
Usual income (mean)	\$ 166,700	\$ 498,900	\$ 82,000
Usual income (median)	\$ 97,600	\$ 258,600	\$ 54,500

n.a. Not applicable.

* Net worth excludes the value of businesses.

Business-owning families also tend to be wealthier and have higher incomes than families without a business (table B). For example, the mean net worth of families without a

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Kathleen Johnson, and Karen Pence (2003), "Recent Changes to a Measure of U.S. Household Debt Service," *Federal Reserve Bulletin*, vol. 89 (October), pp. 417–26, <https://www.federalreserve.gov/pubs/bulletin/2003/1003lead.pdf>. A discussion of how this measure compares with the one presented here can be found in the appendix.

Box 8. Holdings of Business Equity—*continued*

business was about \$400,000, while the mean net worth of families that own businesses employing fewer than five people or five or more people—excluding the value of businesses—was about \$1.3 million and \$3.5 million, respectively. A similar pattern is observed for mean and median family income (table B).

¹ The forms of business in this category are sole proprietorships, limited partnerships, other types of partnerships, subchapter S corporations and other types of corporations that are not publicly traded, limited liability companies, and other types of private businesses. If the family surveyed lived on a farm or ranch used at least in part for agricultural business, the value of that part, net of the corresponding share of associated debts, is included with other business assets. Note: This definition excludes the 5 percent of SCF families in which the reference person is self-employed but does not report a business interest.

² For families with more than one business, we use the business with the larger amount of employees.

Another important indicator of potential financial distress is the proportion of families with unusually large debt burdens. In 2019, 7.4 percent of debtors had payment-to-income ratios greater than 40 percent. This value represents a slight increase from 2016, when 7.0 percent of debtors had payment-to-income ratios greater than 40 percent. However, the level in 2019 is substantially lower than the level observed in 2007.

Credit Market Experiences

The SCF also collects various measures of respondents' recent experiences with credit markets, such as information on credit applications and payment behavior. The SCF asks several questions that attempt to capture whether families are credit constrained, two of which are (1) whether the family was turned down for credit over the past 12 months, and (2) whether the family decided not to apply for credit during the past 12 months for fear of being turned down.⁴¹ In 2019, almost 11 percent of families responded “yes” to the first question, and about 13 percent responded “yes” to the second.

SCF families' capacity to stay current on their financial obligations improved between 2016 and 2019, continuing a trend since 2010 (table 5). Families that have any debt at the time of their interview are asked whether they were behind on any of their loan payments in the preceding year. In 2019, 12.3 percent of families reported being late on payments, down from 13.5 percent in 2016 and 20.8 percent in 2007. The percentage of families that reported being 60 days late or more declined from 5.8 percent in 2016 to 4.6 percent in 2019, substantially below the recent peak of 8.1 percent in 2010.

The SCF asks respondents if they have taken out a payday loan in the past year. Payday loans are unsecured loans that are typically small and short term, and they generally carry interest rates far exceeding those for conventional forms of credit. In 2019, about 3 percent of families reported taking out a payday loan, similar to 2016.

Additional measures of financial distress are whether families have declared bankruptcy or experienced a foreclosure. In 2019, 2 percent of families reported having declared bankruptcy in the past five years, and about 1 percent of families reported having foreclosure proceedings brought against properties they owned in the past five years.⁴²

⁴¹ This 12-month time frame differs from analogous questions in surveys before 2016, which had asked families about their experiences with credit constraints over the past five years. Consequently, table 5 reports only one year of historical data on credit constraints over the past 12 months.

⁴² The SCF began asking about foreclosure experiences starting with the 2016 survey.

Box 9. Education Debt

Student debt continued to be the largest source, in dollar terms, of nonmortgage debt owed by families in the 2019 Survey of Consumer Finances (SCF) (see [table 4](#) in the main text).

The amount of student debt that a family has can correlate negatively or positively with economic well-being. On the one hand, increased student borrowing can reflect lower socioeconomic status during schooling that persists into later periods. In addition, higher student debt balances may crowd out consumption or investment opportunities, either directly or indirectly (via reduced access to credit). On the other hand, higher student debt balances may reflect more time in school or more expensive education, both of which are often, but not always, commensurate with better future economic positions. Table A compares families across the distribution of student debt along several key dimensions generally unavailable in other data sources and helps illustrate this tension.

Table A. Characteristics of families with student debt, 2019

2019 dollars, except as noted

Family characteristics	Tercile of student debt			All
	Lowest	Middle	Highest	
Mean student debt	5,900	23,900	92,600	40,300
Mean income	95,200	87,400	98,800	93,800
Mean net worth (excluding student debt)	230,700	193,800	298,600	240,800
Mean student loan payment-to-income ratio	1.9%	2.9%	5.0%	3.3%
Percentage of families with zero payment	28%	30%	30%	29%
Percentage of families making payments under income-driven repayment plan	27%	32%	45%	35%
Percentage of families that own their home	54%	55%	59%	56%
Percentage of families that completed their degree	55%	63%	78%	65%
Percentage of families with master's degree or higher	14%	20%	52%	28%
Mean age of reference person (years)	40	39	40	40

Note: This table excludes families with zero education debt. Education level refers to the maximum education between a reference person and his or her spouse or partner. Degree completion refers to the educational program that the household's first reported student loan financed.

The 22 percent of families with student debt had lower average income and net worth (excluding student debt) than the population (see [tables 1, 2, and 4](#) in the main text). However, the relationship is not as clear cut across the distribution of families with student debt, as both income and wealth exhibit a U-shape across the distribution, with those in the middle of the distribution (that averaged \$23,900 of student debt) having lower income and wealth than the lowest and highest terciles (that averaged \$5,900 and \$92,600, respectively).

Some measures of financial hardship, though, rise throughout the distribution.¹ The likelihood a family was making payments under an income-driven repayment (IDR) plan as well as the likelihood a family was not making student loan payments both increase with student debt.² Notably, 45 percent of families in the top one-third of the distribution reported paying under an IDR plan in 2019, a rate more than 10 percentage points higher than either of the other two groups. Further, despite disproportionately many families

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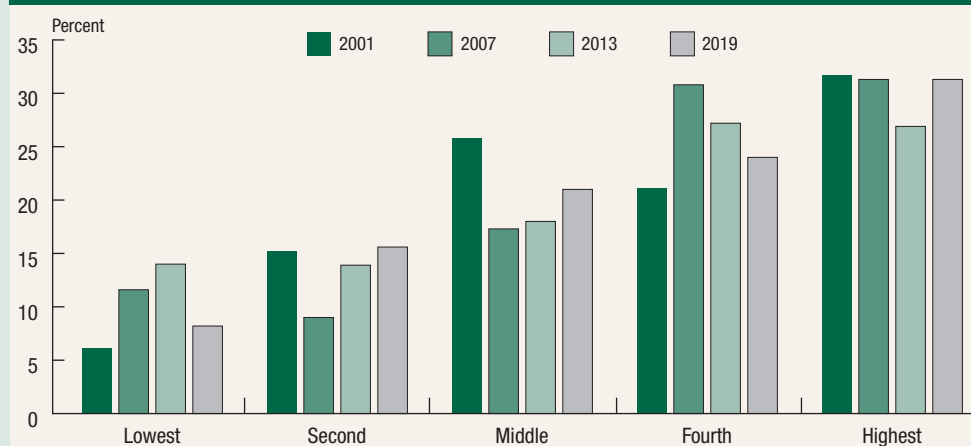
Box 9. Education Debt—*continued*

making zero or reduced payments, average student loan repayment burdens, as measured by the payment-to-income ratio, increase along the distribution.

Other measures indicate that economic positions improve throughout the distribution. Families with more debt in 2019 were more likely to both have graduated and hold an advanced degree, with those in the top one-third of the distribution more than 20 percentage points more likely to have completed their program and more than 35 percentage points more likely to have at least a master's degree than those in the bottom one-third.³ Additionally, those with more student debt were more likely to own their homes.

Figure B shows the distribution of student debt across usual income quintiles through its surge over the past couple of decades. While there is some variation in how the debt was apportioned across quintiles over time, the distribution in 2019 closely resembled the distribution in 2001. In addition, across survey periods, student debt has consistently been disproportionately held by higher-income families, which likely can support their loan payments. Indeed, in each survey, more than half of outstanding student debt belonged to the top 40 percent of the income distribution, and the bottom quintile never held more than 14 percent of the debt.

Figure B. Share of education debt, by quintile of usual income over time



¹ Table A indicates that 35 percent of families with student debt were making a payment under an IDR plan in 2019. Including families that were on an IDR plan but not making a payment increases this figure to 37 percent. In 2018, 29 percent of federal Direct Loan student borrowers were on an IDR plan, as calculated by the College Board using data from the Federal Student Loan Portfolio; see page 20 of <https://research.collegeboard.org/pdf/trends-student-aid-2018-full-report.pdf>.

² That said, the fraction of families with student debt that held a private student loan—which are not all eligible for IDR plans and can have higher interest rates than federal student loans—was inversely related to the amount of student debt a family had (not shown).

³ The SCF asks respondents with student loans whether they completed the educational program that each student loan financed, and we use the response that refers to the first reported student loan. Elsewhere in the survey, respondents are asked about their educational attainment and that of their spouse or partner, neither of which was necessarily financed with loans. Further, 32 percent of families on IDR plans had at least a master's degree (not shown), which is higher than 28 percent of all families with student debt with a master's degree in table A. These patterns are consistent with a recent Congressional Budget Office report that found that individuals who borrowed to attend graduate programs have much larger loan balances, on average, and are more likely to enroll in IDR plans than those who borrowed only to attend undergraduate programs; see <https://www.cbo.gov/system/files/2020-02/55968-CBO-IDRP.pdf>.

Table 5. Debt burdens and credit market experiences, 2007–19 surveys

Percent

Measure of debt burden or interaction with credit markets	2007	2010	2013	2016	2019
Debt burden					
Leverage ratio					
Aggregate	14.8	16.4	14.6	12.1	12.6
Median for debtors	34.8	41.3	38.6	36.4	33.9
Debt-to-income ratio					
Aggregate	115.2	124.7	104.6	92.6	101.2
Median for debtors	111.1	118.8	107.3	95.1	95.7
Payment-to-income ratio					
Aggregate	14.6	14.7	12.0	10.8	11.8
Median for debtors	18.7	18.1	15.9	14.7	15.3
Fraction with payment-to-income ratio greater than 40 percent	11.4	10.4	8.2	7.0	7.4
Credit market experiences					
Credit constrained					
Turned down for credit (past year)	n.a.	n.a.	n.a.	10.8	10.7
Did not apply for credit for fear of being turned down (past year)	n.a.	n.a.	n.a.	14.4	12.7
Either turned down for credit or feared denial (past year)	n.a.	n.a.	n.a.	20.8	18.4
Either turned down for credit or feared denial (past 5 years)	24.5	28.3	27.6	n.a.	n.a.
Late on payments					
Late on payments	20.8	17.3	14.9	13.5	12.3
Late on payments 60 days or more	5.5	8.1	6.9	5.8	4.6
Took out a payday loan in past year	2.4	3.9	4.2	3.4	2.8
Declared bankruptcy in past 5 years	3.8	3.6	4.1	3.0	2.0
Had foreclosure start in past 5 years	n.a.	n.a.	n.a.	2.1	1.3
Used credit cards for convenience only (that is, do not carry a balance)	56.2	63.0	64.0	57.5	56.0

Note: See the appendix for a description of measures of debt burden and credit market experiences.

n.a. Not available (relevant data not collected).

Finally, between 2016 and 2019, the share of families that used a credit card exclusively for convenience (that is, they did not carry a balance) essentially did not change, remaining several percentage points below the 2010 and 2013 shares.

Box 10. Shopping for Financial Services

As part of their financial lives, families make a variety of decisions to select loan products for any credit they may use or investment products for any savings they may have. To the extent that families devote more or less attention to such decisions, or are better or worse informed, the wealth of otherwise comparable families may differ substantially over time.

The Survey of Consumer Finances (SCF) contains a self-assessment of families' intensity of shopping for borrowing and investing services. Since 2016, the SCF has asked families to rate the intensity of searching for borrowing or investing services, separately, on a 0 to 10 scale, with 10 being the highest intensity.¹

Families' intensity of shopping for borrowing or investing services remained stable at a moderate level from 2016 to 2019 (table A). Another similar trend in 2019 is that families with higher usual income, on average, reported that they search more intensely for both borrowing and investing services than families with lower usual income. Among families that reported either a 9 or 10 for borrowing (investing) search intensity, families in the top usual income decile were overrepresented by about 21 (16) percent.

Table A. Mean amount of shopping around by families, by usual income group, 2016 and 2019

Index, 0–10

Percentile of usual income	Shop for credit, 2016	Shop for credit, 2019	Shop for investment, 2016	Shop for investment, 2019
All	6.5	6.5	6.0	5.9
0–49.9	5.9	5.8	5.5	5.4
50–89.9	7.1	7.1	6.4	6.3
90–100	7.3	7.4	7.0	6.8

Note: Mean intensity of shopping for credit or investment information by usual income percentile. Intensity of shopping ranges from 0 to 10, with 10 being the highest.

The SCF also asks families what sources of information they use to make decisions about borrowing or investing (table B).² In general, in 2019, families relied most heavily on the internet, personal connections, and business professionals for both borrowing and investing information.³

Table B. Sources of information for borrowing and investing decisions

Percent

Source of information	For credit			For investments		
	2001	2010	2019	2001	2010	2019
Calling around	36.2	26.9	20.7	19.4	15.7	13.1
Advertisements and media	41.8	34.2	25.0	26.8	26.1	19.5
Internet	21.8	41.7	55.5	14.8	33.0	45.2
Friends, relatives, associates	39.1	42.8	49.2	36.0	39.7	43.5
Business professionals	39.7	47.6	53.7	48.9	56.7	56.5
Does not borrow or invest	10.9	14.5	10.0	9.4	11.7	8.1
Other	8.9	5.5	6.2	15.1	8.0	9.2

The internet has become an increasingly important source of information over time. For information on borrowing, 55 percent of families reported using the internet in 2019, up 14 percentage points from 2010 and up 34 percentage points since 2001. Similarly, for information on investing, 45 percent of families reported using the internet, up 12 percentage points from 2010 and up 30 percentage points from 2001.

continued on next page

Box 10. Shopping for Financial Services—*continued*

Families reported less reliance on other forms of advertisements and media for information on borrowing or investing, also continuing a long-run trend and balancing out increased internet use. The use of friends, relatives, associates, and business professionals as sources has trended upward since 2001 for both borrowing and investing information, although it was roughly stable from 2016 to 2019 (not shown).

¹ Before 2016, the SCF also asked about shopping for financial services, though the response options were on a five-point scale, with 1 equaling “almost no shopping,” 3 equaling “moderate shopping,” and 5 equaling “a great deal of shopping.”

² The SCF asks families to list all sources of information from 24 options. Table B combines some of these options. Advertisements and media include the sum of responses to four options: advertisements, magazines, mail, and TV or radio. Business professionals combines seven options: accountant, banker, broker, financial planner, insurance agent, lawyer, and real estate agent. Other consists of nine options: don’t shop, material from work, past experience, personal research, other institution, self or spouse, shop around, store or dealer, and telemarketer. Calling around, internet, and friend or relative are individual options.

³ One way to measure the relationship between the sources of information for borrowing versus investing is using the Spearman correlation. The Spearman correlation compares the rank-order of selections between two sets of options. Using all 24 possible response options, the Spearman correlation between sources of information for borrowing versus investing in 2019 was 0.89.

Appendix: Survey Procedures and Statistical Measures

The 2019 data used here are derived from the final internal version of the survey information. Data from this survey, suitably altered to protect the privacy of respondents, along with additional tabulations of data from the surveys beginning with 1989, are expected to be available in September 2020 on the Federal Reserve Board’s website.⁴³

As part of the general reconciliations required for this article, the survey data were compared with many external estimates. One particularly important comparison is between the Survey of Consumer Finances (SCF) and the Federal Reserve’s Statistical Release Z.1, “Financial Accounts of the United States,” for the household sector.⁴⁴ This comparison suggests that when the definitions of the variables in the two sources are adjusted to a common conceptual basis, the estimates of totals in the two systems tend to be close. The data series in the SCF and in Statistical Release Z.1 usually show very similar growth rates.⁴⁵ In general, the median values for income and net worth in the SCF are most

⁴³ Data from the 2019 SCF as well as links to the data used in this article for earlier periods and links to working papers describing statistical methodologies are available on the Board’s website at <https://www.federalreserve.gov/econresdata/scf/scfindex.htm>. Results reported in this article for earlier surveys may differ from the results reported in earlier articles because of additional statistical processing, correction of data errors, revisions to the survey weights, conceptual changes in the definitions of variables used in the articles, and adjustments for inflation.

⁴⁴ See Board of Governors of the Federal Reserve System (2020), Statistical Release Z.1, “Financial Accounts of the United States” (June 11), <https://www.federalreserve.gov/releases/z1>; and Michael Batty, Jesse Bricker, Joseph Briggs, Elizabeth Holmquist, Susan McIntosh, Kevin Moore, Eric Nielsen, Sarah Reber, Molly Shatto, Kamila Sommer, Tom Sweeney, and Alice Henriques Volz (2019), “Introducing the Distributional Financial Accounts of the United States,” Finance and Economics Discussion Series 2019-017 (Washington: Board of Governors of the Federal Reserve System, March), <https://dx.doi.org/10.17016/FEDS.2019.017>.

⁴⁵ For details on how these comparisons are structured and the results of comparisons for earlier surveys, see Alice M. Henriques and Joanne W. Hsu (2013), “Analysis of Wealth Using Micro and Macro Data: A Comparison of the Survey of Consumer Finances and Flow of Funds Accounts,” Finance and Economics Discussion Series 2013-46 (Washington: Board of Governors of the Federal Reserve System, May), <https://www.federalreserve.gov/pubs/feds/2013/201346/201346pap.pdf>; and Lisa J. Dettling, Sebastian J. Devlin-Foltz, Jacob Krimmel, Sarah J. Pack, and Jeffrey P. Thompson (2015), “Comparing Micro and Macro Sources for Household Accounts in the United States: Evidence from the Survey of Consumer Finances,” Finance and Economics Discussion Series 2015-086 (Washington: Board of Governors of the Federal Reserve System, June), <http://dx.doi.org/10.17016/FEDS.2015.086>.

comparable with values in other household surveys because of the special design of the SCF sample.⁴⁶

Adjustment for Inflation

In this article, unless otherwise specified, all dollar amounts from the SCF are adjusted to 2019 dollars using the “current methods” version of the consumer price index (CPI) for all urban consumers. In an ongoing effort to improve accuracy, the U.S. Bureau of Labor Statistics has introduced several revisions to its CPI methodology. The current-methods index attempts to extend these changes to earlier years to obtain a series as consistent as possible with current practices in the official CPI.⁴⁷ To adjust assets and liabilities to 2019 dollars and to adjust family income for the preceding calendar year to 2019, the figures given in the following table were applied:

Survey year	Adjustment factor for assets and debts in the survey year	Adjustment factor for income in the calendar year before the survey year
2004	1.3557	1.3923
2007	1.2344	1.2694
2010	1.1782	1.1977
2013	1.0982	1.1144
2016	1.0636	1.0773
2019	1.0000	1.0181

Definition of “Family” in the Survey of Consumer Finances

The definition of “family” used throughout this article differs from that typically used in other government studies. In the SCF, a household unit is divided into a primary economic unit (PEU)—the family—and everyone else in the household. The PEU is intended to be the economically dominant single person or couple (whether married or living together as partners) and all other persons in the household who are financially interdependent with that economically dominant person or couple.

This report also designates a reference person within the PEU, not to convey a judgment about how an individual family is structured but as a means of organizing the data consistently. For example, the age and educational classifications ascribed to families throughout this report describe the age and education of the reference person. If a couple is economically dominant in the PEU, the reference person is the male in a mixed-sex couple or the older person in a same-sex couple. If a single person is economically dominant, that person is designated as the family reference person in this report. Note that the

⁴⁶ Family income measures help highlight the issues that can arise when comparing SCF medians and means against other survey estimates. Over the 2016–19 period, estimates of inflation-adjusted household income for the previous year from the Current Population Survey (CPS) of the U.S. Census Bureau show an increase in both the median (6.3 percent) and the mean (7.4 percent). The change in the median is slightly larger than the corresponding increase in the SCF, whereas the change in the mean is opposite signed. The medians for 2019 are similar in the SCF (\$58,600) and the CPS (\$64,200). Typically, the SCF shows a higher level of mean income than does the CPS; for 2019, the SCF yields an estimate of \$106,500, while the CPS yields an estimate of \$91,600. The two surveys differ in their definitions of the units of observation and in other aspects of their methodologies. Most relevant is the fact that a CPS household can contain more people than a corresponding SCF family. If the SCF measure is expanded to include the income of household members not included in the SCF definition of a family, the median rises 4.6 percent over the period (from \$60,300 in 2016 to \$63,100 in 2019), while the mean decreases a smaller 1.9 percent (from \$112,700 in 2016 to \$110,600 in 2019). The substantial difference in means is likely largely the result of the truncation of large values in the CPS data above a certain amount, which is done with the intent of minimizing the possibility that participants in that survey might be identifiable.

⁴⁷ For technical information about the construction of this index, see Kenneth J. Stewart and Stephen B. Reed (1999), “Consumer Price Index Research Series Using Current Methods, 1978–98,” *Monthly Labor Review*, vol. 122 (June), pp. 29–38.

term “reference person” is a new descriptor as of the 2019 survey, replacing the outdated “household head” terminology used in previous surveys.

Asset and Liability Categories in the Survey of Consumer Finances

The specific concepts of asset and liability categories in the SCF are necessarily tied to the survey question wording and associated field interviewer instructions, both of which can be found in the SCF codebook for the year(s) in question.⁴⁸ What follows is a general exposition of the asset and liability categories reported in the tables.

Transaction accounts include checking, savings, and money market deposit accounts; money market funds (MMF); call or cash accounts at brokerages; and prepaid debit cards. Call accounts include those that hold money received from the sale of securities until the money is reinvested. The savings account category includes a relatively small number of tax-preferred accounts such as medical or health savings accounts and Coverdell or 529 education accounts. Prepaid debit cards, collected in the SCF for the first time in 2016, include reloadable prepaid debit cards and government benefit cards.

Certificates of deposit are accounts held for a set period that must be cashed or renewed at the maturity date. Savings bonds include only U.S. government issues; recent series include EE, HH, and I, and older bonds may be series E and H. Other bonds include only those held directly (not part of a managed investment account or bond fund) and include corporate and mortgage-backed bonds; federal, state, and local government bonds; and foreign bonds. Stocks include publicly traded stocks that are directly held—that is, corporate equities not held as part of a managed investment account or mutual fund.

Pooled investment funds include stock funds, tax-free bond funds, government bond funds, other bond funds, and any combinations thereof but exclude MMFs and indirectly held mutual funds. These funds include all other types of directly held pooled investments, such as traditional open-end and closed-end mutual funds, exchange-traded funds, real estate investment trusts, and hedge funds.

Retirement accounts include individual retirement accounts, Keogh accounts, and certain employer-sponsored accounts, such as 401(k), 403(b), and thrift savings accounts from current or past jobs; other current job plans from which loans or withdrawals can be made; and accounts from past jobs from which the family expects to receive the account balance in the future. This definition of employer-sponsored plans is intended to confine the analysis to accounts that are portable across jobs and for which families will ultimately have the option to withdraw the balance. Usually, such accounts may be invested in virtually any asset, including stocks, bonds, pooled investment funds, options, and real estate. In principle, employer-sponsored plans may be invested in a similarly broad way, but, in practice, a person’s choices for investment are sometimes limited to a narrower set of assets.⁴⁹

⁴⁸ Codebooks for each SCF wave can be found at <https://www.federalreserve.gov/econresdata/scf/scfindex.htm>.

⁴⁹ Although tax-deferred retirement assets are clearly an important element in retirement planning, families may hold a variety of other assets intended, at least in part, to finance retirement. Two common and often particularly important types of retirement plans are not included in the assets described in this section: Social Security (the federally funded Old-Age and Survivors’ Insurance program (OASI)) and employer-sponsored defined-benefit (DB) plans. OASI is well described elsewhere, and it covers the great majority of the population. (See Social Security Administration, “Online Social Security Handbook: Your Basic Guide to the Social Security Programs,” Publication 65-008, https://www.ssa.gov/OP_Home/handbook/handbook.html.) The retirement income provided by DB plans is typically based on workers’ salaries and years of work with an employer, a group of employers, or a union. Unfortunately, future income streams from OASI and DB plans cannot be translated directly into a current value because valuation depends critically on assumptions about future events and conditions—work decisions, earnings, inflation rates, discount rates, mortality, and so on—and no widely agreed-upon standards exist for making these assumptions.

Cash value life insurance is the current (nonzero) value of any life insurance policies with a cash value that can be withdrawn. The survey measures the value of such policies according to their current cash value, not their death benefit. In this article, the cash value is included as an asset only when the cash value at the time of the interview was nonzero. This designation excludes term life insurance policies, which only provide a death benefit.

Other managed assets include personal annuities and trusts with an equity interest and managed investment accounts. Annuities may be those in which the family has an equity interest in the asset or in which the family possesses an entitlement only to a stream of income. The wealth figures in this article include only the annuities in which the family has an equity interest.⁵⁰ The trusts or managed investment accounts included in other managed assets are those in which families have an equity interest and for which components were not separately reported. Typically, such accounts are those in which the ownership is complicated or the management is undertaken by a professional.⁵¹

Other financial assets include oil and gas leases, futures contracts, royalties, proceeds from lawsuits or estates in settlement, and loans made to others. One specific financial asset excluded from this category and any other is employment-related stock options. Because such options are typically not publicly traded or their execution is otherwise constrained, their value is uncertain until the exercise date; until then, meaningful valuation would require complex assumptions about the future behavior of stock prices.

Vehicles include cars, vans, sport utility vehicles (SUV), trucks, motor homes, recreational vehicles, motorcycles, boats, airplanes, and helicopters.⁵² Primary residences include mobile homes and their sites, the parts of farms and ranches not used for farming or ranching business, condominiums, cooperatives, townhouses, other single-family homes, and other permanent dwellings. Other residential property includes second homes, time shares, one-to-four-family rental properties, and other types of residential properties. It also includes outstanding balances on loans that the family may have made to finance the sale of properties the family previously owned and that are still owed to the family.

Nonresidential real estate includes the following types of properties unless they are owned through a business: commercial property, rental property with five or more units, farmland and ranch land, undeveloped land, and all other types of nonresidential real estate. Most often, nonresidential real estate properties are functionally more like a business than a residential property. They may have several owners, they are typically worth a considerable amount, and they often carry large mortgages, which appear to be paid from the revenues from the property, not the family's other income. As in the case of privately owned businesses, the value of the property in this analysis is taken to be the net value.

Business equity includes net worth in the following forms of business: sole proprietorships, limited partnerships, other types of partnerships, S corporations and other types of corporations that are not publicly traded, limited liability companies, and other types of

⁵⁰ In 2019, 4.7 percent of families reported having any type of annuity, and of these families, 76 percent reported having an equity interest.

⁵¹ In 2019, 90.2 percent of families with trusts or managed investment accounts had an equity interest in such an account. The survey encourages respondents who have trusts or managed investment accounts held in relatively common investments to report the components separately. Of the 5.5 percent of families that reported having any kind of trust or managed investment account in 2019, 49.7 percent reported at least one of the component assets separately. Of families that detailed the components in 2019, 85.5 percent reported some type of financial asset, 12.7 percent reported a primary residence, 16.7 percent reported other real estate, 4.2 percent reported a business, and 1.1 percent reported another type of asset.

⁵² Of families owning any type of vehicle in 2019, 99.7 percent had a car, van, SUV, motorcycle, or truck. The remaining types of vehicles were held by 12.8 percent of families.

private businesses. If the family lived on a farm or ranch used at least in part for agricultural business, then the value of that part, net of the corresponding share of associated debts, is included with other business assets. In the survey, self-employment status and business ownership are independently determined.⁵³

Debt secured by residential property consists of first- and junior-lien mortgages and home equity lines of credit (HELOC) secured by the primary residence. For purposes of this article, first- and junior-lien mortgages consist only of closed-end loans—that is, loans typically with a one-time extension of credit, a set frequency of repayments, and a required repayment size that may be fixed or vary over time in accordance with a pre-specified agreement or with changes in a given market interest rate.⁵⁴ As a type of open-ended credit, HELOCs typically allow credit extensions at the borrower’s discretion subject to a prearranged limit and allow repayments at the borrower’s discretion subject to a prearranged minimum size and frequency.

Lines of credit not secured by residential property are any lines of credit except HELOCs and borrowing on credit cards.

The term “installment loan” describes closed-end consumer loans—that is, loans that typically have fixed payments and a fixed term. The most common examples are education loans, automobile loans, and loans for furniture, appliances, and other durable goods. Other installment loans include all closed-end consumer loans that are not for education or a vehicle—that is, loans that typically have fixed payments and a fixed term. Examples include loans for furniture, appliances, and other durable goods.

Credit card balances consist of balances on bank-type cards (such as Visa, MasterCard, and Discover as well as Optima and other American Express cards that routinely allow holders to carry a balance), store cards or charge accounts, care cards, gasoline company cards, so-called travel and entertainment cards (such as American Express cards that do not routinely allow holders to carry a balance and Diners Club), other credit cards, and revolving store accounts that are not tied to a credit card. Balances exclude purchases made after paying the most recent bill.

The “other” debt category comprises loans on cash value life insurance policies, loans against pension accounts, borrowing on margin accounts, and a miscellaneous category largely composed of personal loans not explicitly categorized elsewhere.

Finally, the SCF measure of liabilities excludes debt owed by family-owned businesses and debt owed on nonresidential real estate; in this article, such debt is netted against the corresponding assets.

Measures of Debt Burden and Credit Market Experiences in the Survey of Consumer Finances

The SCF includes several questions designed to capture information about respondents’ debt burdens and interactions with credit markets. The specific concepts addressed in the SCF are necessarily tied to the survey question wording and associated field interviewer

⁵³ Among the 13.4 percent of families with a business in 2019, 69.9 percent had a reference person or a spouse or partner who was self-employed; among the 14.3 percent of families in which either the reference person or a spouse or partner was self-employed, 65.5 percent owned a business.

⁵⁴ Of all families, 39.6 percent had a first-lien mortgage in 2019 (39.4 percent in 2016), 1.5 percent had a junior-lien mortgage (2.3 percent in 2016), 6.9 percent had a HELOC (6.7 percent in 2016), and 4.5 percent had a HELOC with an outstanding balance (4.4 percent in 2016).

instructions, which can be found in the SCF codebook for the year(s) in question.⁵⁵ What follows is a general exposition of the debt burden and credit market experience measures reported in the tables.

Leverage ratios compare the total of all debts to the total of all assets. The aggregate version of this measure is the sum of all debts for all SCF respondents, divided by the sum of all assets for SCF respondents. The median for debtors is the median of each individual family's leverage ratio and is calculated for those with positive values of total debt only.

The aggregate debt-to-income ratio is the sum of liabilities for all SCF respondents, divided by the total income for all SCF respondents. The median for debtors is the 50th percentile of an individual family's debt-to-income ratios and is calculated for those with positive values of total debt only.

Payment-to-income ratios measure total debt payments relative to total income.⁵⁶ The aggregate version of this measure is the sum of all debt payments for all SCF respondents, divided by total income for all SCF respondents. The median for debtors is the 50th percentile of an individual family's payment-to-income ratios and is calculated for those with positive values of total debt only.

The aggregate measure of the payment-to-income ratio referenced in this article can differ from other published measures that are conceptually similar, such as the debt service ratio, for several reasons.⁵⁷ First, the debt payments included in each measure are different. The aggregate-level measure includes only debts originated by depositories, finance companies, and other financial institutions, whereas the survey includes, in principle, debts from all sources. Second, the aggregate-level measure uses an estimate of disposable personal income from the national income and product accounts for the period concurrent with the estimated payments as the denominator of the ratio, whereas the survey measure uses total before-tax income reported by survey families for the preceding year; the differences in these two income measures are complex. Third, the payments in the aggregate-level measure are estimated using a formula that entails many assumptions about minimum payments and the distribution of loan terms at any given time; the survey measure of payments is directly asked of the survey respondents but may also include payments of taxes and insurance on real estate loans. Fourth, because the survey measures of payments and income are based on the responses of a sample of respondents, they may be affected by both sampling error and various types of response errors. As mentioned earlier in this article, the survey income measure tracks the most comparable measure of income in the U.S. Census Bureau's CPS.

The SCF asks multiple questions intended to capture whether families are credit constrained, which is broadly defined as having difficulty accessing credit.⁵⁸ One question

⁵⁵ Codebooks for each SCF wave can be found at <https://www.federalreserve.gov/econresdata/scf/scfindex.htm>.

⁵⁶ The definition of payment-to-income ratio in the SCF includes only debt payments, not payments on leases or rental payments. That said, the SCF collects information on vehicle lease payments and rent on primary residences. Therefore, the SCF can be used to create a broader measure of a family's payments that includes leases and rental payments. See, for example, Andrew C. Chang, Joanne W. Hsu, Sarah J. Pack, and Michael G. Palumbo (2018), "Where's the Money Going? The Importance of Accounting for Rent Payments in Measuring a Household's Financial Obligations," FEDS Notes (Washington: Board of Governors of the Federal Reserve System, June 20), <https://dx.doi.org/10.17016/2380-7172.2213>.

⁵⁷ See Karen Dynan, Kathleen Johnson, and Karen Pence (2003), "Recent Changes to a Measure of U.S. Household Debt Service," *Federal Reserve Bulletin*, vol. 89 (October), pp. 417–26, <https://www.federalreserve.gov/pubs/bulletin/2003/1003lead.pdf>.

⁵⁸ Before 2016, these questions had asked families about their experiences over the past five years, rather than over the past year.

asks the respondent whether the respondent or the spouse or partner applied for particular types of credit in the past year. Among those that answer in the affirmative, a follow-up question asks the respondent whether a lender declined an application for credit or provided less credit than was sought at any point in the past year. Among those that answer in the negative, a follow-up question probes the rationale behind the decision not to apply for credit in the past year and, among other choices, offers “you did not think you would get approved” as a possibility. A combination of these questions is used to measure overall credit constraints.

Delinquency on debt obligations is captured by asking families that have any debt at the time of their interview whether they have been behind in any of their loan payments in the preceding year. The survey asks if respondents have been behind at all and if they have been behind in payments for 60 days or more.

Payday loans are defined as loans that are meant to be repaid in full out of the respondent’s next paycheck; they are unsecured loans that are typically small, short term, and carry above-average interest rates.

Bankruptcy behavior over the past five years is based on a series of retrospective questions that ask whether the respondent or the partner or spouse has ever declared bankruptcy and, if so, the most recent year.

Foreclosure experience over the past five years is based on a series of retrospective questions that ask whether the respondent or the partner or spouse has ever had a foreclosure proceeding brought against an owned property and, if so, the most recent year.

Finally, convenience use of credit cards is determined using questions on whether a respondent had positive balances after the most recent payment for bank-type cards (such as Visa, MasterCard, and Discover as well as Optima and other American Express cards that routinely allow holders to carry a balance), store cards, gasoline company cards, and other credit cards.

Percentiles of the Distributions of Income and Net Worth

Throughout this article, references are made to various percentile groups of the distributions of income or net worth. For a given characteristic, a percentile can be used to define a family’s rank relative to other families. For example, the 10th percentile of the distribution of usual income is the amount of income received by a family for which less than 10 percent of other families have lower incomes and 90 percent have higher incomes. The percentiles of the distributions of income and net worth used to define the income and net worth groups in [tables 1](#) and [2](#) in the article are given in the following table:

Item	Survey year					
	2004	2007	2010	2013	2016	2019
Percentile of usual income						
20	28,400	27,700	28,800	25,600	26,900	28,400
40	48,700	47,600	47,900	44,500	46,300	47,900
60	76,600	76,200	74,300	69,300	73,900	75,300
80	123,900	121,200	119,800	114,800	118,500	127,300
90	181,000	171,400	179,700	169,800	188,400	188,400
Percentile of net worth						
25	18,000	17,500	9,800	9,600	10,800	12,400
50	126,200	148,900	91,100	89,200	103,500	121,700
75	446,300	460,200	355,500	348,400	392,500	403,800
90	1,130,600	1,123,700	1,122,300	1,034,100	1,261,800	1,220,200

The groups that are created when a distribution is divided at every 10th percentile are commonly referred to as deciles. Similarly, when a distribution is divided at every 20th (25th) percentile, the groups are known as quintiles (quartiles). Families in the first income decile, for example, are those with income below the 10th percentile.

Racial and Ethnic Identification

In this article, the race and ethnicity of a family in the SCF are classified according to the self-identification of that family's original respondent to the SCF interview. For greater comparability with earlier SCF data, the data reported in this article group respondents into four classifications based on their responses to the racial identification question: White non-Hispanic, Black non-Hispanic, Hispanic or Latino, and other or multiple race. The "other or multiple race" classification consists of respondents identifying as Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, other race, and all respondents reporting more than one racial identification.⁵⁹

The questions underlying the method of classification used in the survey were changed in both 1998 and 2004. Starting in 1998, SCF respondents were allowed to report more than one racial identification; in surveys before then, only one response was recorded. For maximum comparability with earlier data, respondents reporting multiple racial identifications were asked to report their strongest racial identification first. In data reported in this article, respondents reporting multiple racial identifications in the surveys starting with 1998 are classified as "other or multiple race." In the 2019 SCF, 6.8 percent of respondents reported more than one racial identification, up from 6.4 percent in 2016, 6.1 percent in 2013, 5.4 percent in 2007, and 2.3 percent in 2004. The public release data set includes the racial and ethnic identification variables, enabling the construction of alternative classifications.

Beginning with the 2004 survey, the question on racial identification is preceded by a question on whether respondents consider themselves to be Hispanic or Latino in culture or origin; previously, such ethnic identification was captured only to the extent that it was reported as a response to the question on racial identification. The classifications in this article ignore the information on ethnic identification available in the surveys since 2004, again for greater comparability with earlier SCF data. Of those who responded affirmatively to the question on Hispanic or Latino identification in 2019, 90.2 percent also reported "Hispanic or Latino" as one of their racial identifications, and 82.2 percent reported it as their primary racial identification. Because the question on Hispanic or Latino ethnicity precedes the one on racial identification in the surveys from 2004 through 2019, the answer to the second of these two questions may have been influenced by the answer to the first.⁶⁰

This all said, evolution of the racial and ethnic composition of the survey population represents important context for interpreting statistics describing the experiences of families by race or ethnicity over time. The next table displays the share of the SCF population each racial or ethnic group has represented in each survey since 2004 using current survey classifications:

⁵⁹ Articles for years before the 2016 SCF reported data that classified all families into two groups: White non-Hispanic and non-White or Hispanic. The definition for White non-Hispanic in this article is consistent with that used in earlier years, while the non-White or Hispanic group has been split into three classifications (Black non-Hispanic, Hispanic or Latino, and other or multiple race).

⁶⁰ For a comprehensive discussion of standards for defining race and ethnicity, see Executive Office of the President, Office of Management and Budget (2002), "Provisional Guidance on the Implementation of the 1997 Standards for Federal Data on Race and Ethnicity," guidance document (Washington: Executive Office of the President, December 15).

Race or ethnicity of respondent	Survey year					
	2004	2007	2010	2013	2016	2019
White non-Hispanic	72.2	70.7	67.5	67.2	64.7	64.9
Black non-Hispanic	13.1	11.7	13.0	13.3	14.6	14.2
Hispanic or Latino	9.0	8.6	9.7	9.6	10.2	9.6
Other or multiple race	5.8	9.0	9.9	9.9	10.5	11.3

Classifications of Educational Attainment

In this article, the educational attainment of a family refers to the highest degree obtained by the household reference person. Beginning with the 2016 survey, the SCF modified its educational attainment question to align the SCF more closely with other household surveys, including the Census and CPS. For surveys before 2016, respondents were asked to list the highest grade of school or year of college completed, and follow-up questions asked respondents about the type of degree obtained. Starting with the 2016 survey, the first educational attainment question asks about the highest degree obtained, and follow-up questions ask respondents who report a high school degree whether it was obtained by getting a General Education Development certificate or completing another equivalency program. Follow-up questions also ask respondents who report some college about the number of years of college. It is possible this change may have prompted changes in reporting, although the educational attainment of SCF families was similar to CPS families in both 2013 and 2016.⁶¹

Similar to race and ethnicity, evolution of the educational composition of the survey population represents important context for interpreting statistics describing the experiences of families by educational attainment over time. The next table displays the share of the SCF population each education group has represented in each survey since 2004 using current survey classifications:

Education of reference person	Survey year					
	2004	2007	2010	2013	2016	2019
No high school diploma	14.4	13.5	12.0	11.0	12.7	10.7
High school diploma	30.6	32.9	32.2	31.3	26.0	24.5
Some college	24.4	24.5	25.1	25.7	27.3	28.5
College degree	30.5	29.1	30.8	32.0	34.0	36.3

Age Classifications

In this article, the age of a family refers to the age of the household reference person. Similar to race and ethnicity, as well as educational attainment, evolution of the age composition of the survey population represents important context for interpreting statistics describing the experiences of families by age over time. The next table displays the share of the SCF population each age group has represented in each survey since 2004 using current survey classifications:

⁶¹ In 2013, the educational attainment of SCF (CPS) household heads was the following: 11.0 (11.3) percent had no high school degree, 31.3 (27.9) percent had a high school degree, 25.7 (29.0) percent had some college, and 32 (31.8) percent had a college degree. In 2016, the educational attainment of SCF (CPS) household heads was the following: 12.7 (10.4) percent had no high school degree, 26 (27.2) percent had a high school degree, 27.3 (28.9) percent had some college, and 34.0 (33.5) percent had a college degree.

Age of reference person (years)	Survey year					
	2004	2007	2010	2013	2016	2019
Less than 35	22.2	21.6	21.0	20.8	20.3	20.9
35–44	20.6	19.6	18.2	17.3	16.8	16.6
45–54	20.8	20.8	21.1	19.6	18.3	17.2
55–64	15.2	16.8	17.5	18.7	19.2	18.8
65–75	10.5	10.5	11.5	12.9	14.1	15.3
75 or more	10.7	10.6	10.7	10.7	11.2	11.3

The Sampling Techniques

The survey is expected to provide a core set of data on family income, assets, and liabilities. The major aspects of the sample design that address this requirement have been largely constant since 1989. The SCF combines two techniques for random sampling. First, a standard multistage area-probability sample (a geographically based random sample) is selected to provide good coverage of characteristics, such as homeownership, that are broadly distributed in the population.

Second, a supplemental sample is selected to disproportionately include wealthy families, which hold a relatively large share of such thinly held assets as noncorporate businesses and tax-exempt bonds. Called the “list sample,” this group is drawn from a list of statistical records derived from tax returns. These records are used under strict rules governing confidentiality, the rights of potential respondents to refuse participation in the survey, and the types of information that can be made available. Persons listed by *Forbes* as being among the wealthiest 400 people in the United States are excluded from sampling.⁶²

Of the 5,783 interviews completed for the 2019 SCF, 4,291 were from the area-probability sample, and 1,492 were from the list sample; for 2016, 4,754 were from the area-probability sample, and 1,500 were from the list sample. The number of families represented in the surveys considered in this article is given by the following table:

Year	Number of families represented (millions)
2004	112.1
2007	116.1
2010	117.6
2013	122.5
2016	126.0
2019	128.6

Overall population growth between 2016 and 2019 was 1.5 percent, according to figures from the U.S. Census Bureau, down from the 2.2 percent growth rate between 2013 and 2016. Also according to U.S. Census Bureau estimates, the number of households increased 2.1 percent between 2016 and 2019—well below the rate of household formation between 2013 and 2016, which was 2.9 percent. With the population growing at a slightly slower rate than household formation, the average number of persons per household barely changed, from 2.56 people in 2016 to 2.55 in 2019.

⁶² For more information, see Jesse Bricker, Alice Henriques, and Kevin Moore (2017), “Updates to the Sampling of Wealthy Families in the Survey of Consumer Finances,” Finance and Economics Discussion Series 2017-114 (Washington: Board of Governors of the Federal Reserve System, November), <https://dx.doi.org/10.17016/FEDS.2017.114>.

The Interviews

Although questions have been modified and new questions added over time, the core of the survey questionnaire has changed in only minor ways since 1989. Changes to the questionnaire generally include instances in which the structure was altered to accommodate changes in financial behaviors; changes in types of financial arrangements available to families, including those with businesses that are not publicly traded; and changes in regulations covering data collection. In 2016, interview sections on educational attainment, education loans, payment methods, and financial institutions were revised, and additional questions addressing financial literacy among respondents, parental educational attainment, and decisions under hypothetical financial situations have also been included.⁶³ For all changes, every effort has been made to ensure the maximum degree of comparability of the data over time. Except where noted in the article, the data are highly comparable over time.

The generosity of families in giving their time for interviews has been crucial to the ongoing success of the SCF. In the 2019 SCF, the median interview length was about 100 minutes. However, in some particularly complicated cases, the amount of time needed was substantially more than three hours. The role of the interviewers in this effort is also critical. Without their dedication and perseverance, the survey would not be possible.

The SCF interviews were conducted largely between the months of May and December in each survey year, with a small fraction of interviews conducted in the first four months of the next calendar year, by NORC, a social science and survey research organization at the University of Chicago. The majority of interviews were obtained in person, although interviewers were allowed to conduct telephone interviews if that was more convenient for the respondent. Each interviewer used a program running on a laptop computer to administer the survey and collect the data.

The use of computer-assisted personal interviewing has the great advantage of enforcing systematic collection of data across all cases. The computer program developed to collect the data for the SCF was tailored to allow the collection of partial information in the form of ranges whenever a respondent either did not know or did not want to reveal an exact dollar figure.

For the 2019 SCF, about 200 area-probability interviews were conducted via a mixed mode strategy of web and in-person or telephone interviews. These cases were a test of the feasibility of offering the web as a potential mode for completing the SCF. Potential respondents were provided a personalized link to obtain access to the sections of the survey to complete via the web, with a follow-up in-person or telephone interview to complete the remainder of the interview. The questions for the web portion were nearly identical to those asked in the regular in-person or telephone interview, aside from formatting changes necessary for the web instrument.

The response rate in the area-probability sample is more than double that in the list sample. In 2019, about 60 percent of households selected for the area-probability sample actually completed interviews, down from 65 percent in 2016. The overall response rate in the list sample did not change in 2019 at about one-third; in the part of the list sample likely containing the wealthiest families, the response rate was only about one-half that level.

⁶³ For a detailed list of all changes to the questionnaire in 2016, see https://www.federalreserve.gov/econres/files/2016_scf_changes.txt.

Weighting

To provide a measure of the frequency with which families similar to the sample families could be expected to be found in the population of all families, an analysis weight is computed for each case, accounting for both the systematic properties of the sample design and differential patterns of nonresponse. The SCF response rates are low by the standards of some other major government surveys, and analysis of the data confirms that the tendency to refuse participation is highly correlated with net worth. However, unlike other surveys, which almost certainly also have differential nonresponse by wealthy households, the SCF has the means to adjust for such nonresponse. A major part of SCF research is devoted to the evaluation of nonresponse and adjustments for nonresponse in the analysis weights of the survey.⁶⁴

Sources of Error

Errors may be introduced into survey results at many stages. Sampling error—the variability expected in estimates based on a sample instead of a census—is a particularly important source of error. Such error can be reduced by either increasing the size of a sample or, as is done in the SCF, designing the sample to reduce important sources of variability. Sampling error can be estimated, and for this article we use replication methods to do so.

Replication methods draw samples, called replicates, from the set of actual respondents in a way that incorporates the important dimensions of the original sample design. In the SCF, weights were computed for all of the cases in each of the replicates.⁶⁵ Every value for which standard errors are reported in this article is a weighted statistic estimated using the replicate samples. To estimate the overall standard error, a measure of the variability of these estimates is combined with a measure of the variability because of imputation for missing data.

Other errors include those that interviewers may introduce by failing to follow the survey protocol or misunderstanding a respondent's answers. SCF interviewers are given lengthy, project-specific training and ongoing coaching to minimize such problems. Respondents may introduce error by interpreting a question in a sense different from that intended by the survey. For the SCF, extensive pretesting of questions and thorough review of the data tend to reduce this source of error.

Nonresponse—either complete nonresponse to the survey or nonresponse to selected items within the survey—may be another important source of error. As noted in more detail previously, the SCF uses weighting to adjust for differential nonresponse to the survey. To address missing information on individual questions within the interview, the SCF uses statistical methods to impute missing data; the technique makes multiple estimates of missing data to allow for an estimate of the uncertainty attributable to this type of nonresponse.

⁶⁴ The weights used in this article are adjusted for differential rates of nonresponse across groups. See Arthur B. Kennickell (1999), "Revisions to the SCF Weighting Methodology: Accounting for Race/Ethnicity and Homeownership" (Washington: Board of Governors of the Federal Reserve System, January), https://www.federalreserve.gov/econresdata/scf/scf_workingpapers.htm.

⁶⁵ See Arthur B. Kennickell (2000), "Revisions to the Variance Estimation Procedure for the SCF" (Washington: Board of Governors of the Federal Reserve System, October), https://www.federalreserve.gov/econresdata/scf/scf_workingpapers.htm.