FRB Order No. 2014- 21
December 10, 2014

FEDERAL RESERVE SYSTEM

Southside Bancshares, Inc.
Tyler, Texas

Order Approving the Acquisition of a Savings and Loan Holding Company

Southside Bancshares, Inc. ("Southside"), Tyler, Texas, a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act and section 225.24 of the Board's Regulation Y[1] to acquire OmniAmerican Bancorp, Inc. ("OmniAmerican"), and thereby indirectly acquire its subsidiary savings association, OmniAmerican Bank, both of Fort Worth, Texas. Immediately following the proposed acquisition, OmniAmerican Bank would be merged into Southside's subsidiary bank, Southside Bank, Tyler, Texas.[2]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (79 Fed. Reg. 33918 (June 13, 2014)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 4 of the BHC Act.

Southside, with total consolidated assets of approximately $3.5 billion, is the 230th largest insured depository organization in the United States, controlling approximately $2.6 billion in consolidated deposits, which represent less than 1 percent

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[1] 12 U.S.C. §§ 1843(c)(8) and (j); 12 CFR 225.24.

[2] The merger of OmniAmerican Bank into Southside Bank is subject to approval by the Federal Deposit Insurance Corporation ("FDIC") under the Federal Deposit Insurance Act and by the Texas Department of Banking ("State") under state law. The FDIC approved the merger on November 7, 2014, and State approved the merger on December 5, 2014.

of the total amount of deposits in the United States. Southside Bank operates branches only in Texas. Southside Bank is the 22nd largest depository institution in Texas, controlling deposits of approximately $2.6 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.[3]

OmniAmerican, with total consolidated assets of approximately $1.3 billion, is the 502nd largest insured depository organization in the United States, controlling approximately $837 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits in the United States. OmniAmerican Bank is a savings association that operates branches only in Texas. OmniAmerican Bank is the 67th largest insured depository institution in Texas, controlling deposits of approximately $837 million, which represent less than 1 percent of the total deposits of insured depository institutions in the state.

On consummation of the proposal, Southside would become the 18th largest depository organization in Texas, with total consolidated assets of approximately $4.8 billion, which represent less than 1 percent of the total amount of assets of insured depository institutions in the United States. In Texas, Southside Bank would control total consolidated deposits of approximately $3.6 billion, which would represent less than 1 percent of the total deposits of insured depository institutions in the state.

Factors Governing Board Review of the Transaction

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.[4] The Board requires that savings associations acquired by bank holding companies or financial holding companies conform their direct and indirect activities to those permissible for bank holding companies under section

[3] Deposit data are as of June 30, 2014. Asset data are as of June 30, 2014. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

[4] 12 CFR 225.28(b)(4)(ii).

4(c)(8) of the BHC Act.[5] Southside has committed that all the activities of OmniAmerican and the nonbanking subsidiaries of OmniAmerican that it proposes to acquire engage in activities that will conform to those permissible under section 4 of the BHC Act and Regulation Y or be divested.

Section 4(j)(2)(A) of the BHC Act requires the Board to consider whether the proposed acquisition of OmniAmerican "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system."[6] As part of its evaluation of these factors, the Board reviews the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets, the risk to the stability of the United States banking or financial system, and the public benefits of the proposal.[7] In acting on a notice to acquire a savings association, the Board reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[8]

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[5] A savings association operated by a bank holding company may engage only in activities that are permissible for bank holding companies under section 4(c)(8) of the BHC Act. 12 CFR 225.28(b)(4). In this instance, Southside will immediately merge OmniAmerican Bank into Southside Bank and will not operate the savings association independently.

[6] 12 U.S.C. § 1843(j)(2)(A). Section 604(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), Pub. L. No. 111-203, 124 Stat. 1601 (2010), added "risk to the stability of the United States banking or financial system" to the list of possible adverse effects.

[7] See 12 CFR 225.26; see, e.g., Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012) ("Capital One Order"); Bank of America Corporation/Countrywide, 94 Federal Reserve Bulletin C81 (2008); Wachovia Corporation, 92 Federal Reserve Bulletin C138 (2006); BancOne Corporation, 83 Federal Reserve Bulletin 602 (1997).

[8] The Dodd-Frank Act amended section 4 of the BHC Act to provide that, in general, the Board may not approve an application by a bank holding company to acquire an insured depository institution if the home state of the target insured depository institution is a state

Competitive Considerations

As part of the Board's consideration of the factors under section 4 of the BHC Act, the Board has evaluated the competitive effects of Southside's acquisition of OmniAmerican in light of all the facts of record. Southside and OmniAmerican compete directly in the Dallas and Fort Worth banking markets, both in Texas.[9] The Board has considered the competitive effects of the proposal in these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative shares of total deposits in insured depository institutions in the markets ("market deposits") controlled by Southside and OmniAmerican,[10] the concentration levels of market deposits and the increase in those levels, as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of

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other than the home state of the bank holding company and the applicant controls, or would control, more than 10 percent of the total amount of deposits of insured depository institutions in the United States. Dodd-Frank Act § 623(b), codified at 12 U.S.C. § 1843(i)(8). For purposes of the BHC Act, the home state of both Southside and OmniAmerican is Texas and, therefore, section 4(i)(8) of the BHC Act does not apply to this transaction. Also, as noted, consummation of the proposal would result in Southside controlling less than 1 percent of the deposits of U.S. insured depository institutions.

9 The Dallas banking market is defined as Dallas and Rockwall counties; the southeastern quadrant of Denton County, including Denton and Lewisville; the southwestern quadrant of Collin County, including McKinney and Plano; the communities of Forney and Terrell in Kaufman County; and Midlothian, Waxahachie, and Ferris in Ellis County, all in Texas (the "Dallas banking market"). The Fort Worth banking market is defined as Tarrant, Johnson, and Wise counties; Parker County (minus Mineral Wells); and the southwestern quadrant of Denton County, including Roanoke, all in Texas (the "Fort Worth banking market").

10 Deposit and market share data are as of June 30, 2013, 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 of 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).

Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines"),[11] and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in both the Dallas and Fort Worth banking markets. On consummation of the proposal, the Dallas banking market would remain highly concentrated and the Fort Worth banking market would remain unconcentrated. The HHI change would be minimal and would decrease in both markets. Numerous competitors would remain in both markets.[12]

The DOJ 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 the facts of record, the Board concludes that consummation of the proposed transaction would not have a significantly adverse effect on competition or

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[11] 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 (see Press Release, Department of Justice (August 19, 2010), www.justice.gov/opa/pr/2010/August/10-at-938.html), the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified.

[12] The HHI would decrease in each market as follows: 1 point to 1807 in the Dallas banking market and 15 points to 929 in the Fort Worth banking market. Those decreases result from a pre-merger weighting of OmniAmerican's market deposits at 50 percent and a post-merger weighting at 100 percent. See Norwest Corporation, 78 Federal Reserve Bulletin 452 (1992); First Banks, Inc., 76 Federal Reserve Bulletin 669 (1990) (deposits of thrifts are included in pre-merger market share calculations on a 50 percent weighted basis but included at 100 percent in the calculation of pro forma market share because the deposits would be acquired by a commercial banking organization). The resulting pro forma shares of Southside's market deposits would be as follows: less than 1 percent in the Dallas banking market and 2.75 percent in the Fort Worth banking market.

on the concentration of resources in the banking markets in which Southside and OmniAmerican compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations weigh in favor of approval.

Financial and Managerial Resources

The Board considered the financial and managerial resources of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, liquidity, and 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 the proposed integration of the operations of the institutions. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

The Board has considered the financial factors of the proposal. Southside and Southside Bank are well capitalized and would remain so on consummation of the proposal. The proposed transaction is structured as a cash and share exchange, and total consideration for the transaction would be approximately $307 million. Southside has the resources to fund the proposed transaction. Southside is in satisfactory condition, and the asset quality, earnings, and liquidity of Southside Bank and OmniAmerican Bank weigh in favor of approval. Based on its review of the record, the Board finds that the organizations have sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved and the proposed combined organization. The Board has reviewed the examination records of Southside, Southside Bank, OmniAmerican, and OmniAmerican Bank, including assessments of their management expertise, internal controls, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant bank supervisory agencies with the organizations and the organizations' records of compliance with applicable banking laws and with anti-money-laundering laws.

Southside and Southside Bank are considered to be well managed. Southside's existing risk-management program and its directorate and senior management are considered satisfactory. The current and proposed directors and senior executive officers of Southside have substantial knowledge of, and experience in, the banking and financial services sectors. There will be no changes in the senior management of Southside following consummation of the proposal.[13]

The Board also has considered Southside's plans for implementing the proposal. Southside is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. Southside would implement its risk-management policies, procedures, and controls at the combined organization. Southside's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and Southside plans to integrate OmniAmerican's existing management and personnel in a manner that augments Southside Bank's management team.

Southside's integration record, managerial and operational resources, and plans for operating the combined institutions after consummation provide a reasonable basis to conclude that managerial factors weigh in favor of approval. Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved, as well as the record of effectiveness of the organizations in combatting money-laundering activities, on balance weigh in favor of approval.

Record of Performance 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

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[13] On consummation, Southside's board of directors will include two additional directors from OmniAmerican's current board of directors.

which they operate, consistent with the institutions' safe and sound operation.[14] The CRA requires the appropriate federal financial supervisory agency to take into account a relevant depository institution's record of meeting the convenience and needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.[15]

The Board has considered all the facts of record, including reports of examination of the CRA performance records of Southside Bank and OmniAmerican Bank, data reported by Southside Bank and OmniAmerican Bank under the Home Mortgage Disclosure Act ("HMDA"),[16] other information provided by Southside, confidential supervisory information, and the public comment received on the proposal. The commenter objected to the proposal on the basis of the mortgage lending records of Southside Bank and OmniAmerican Bank as reflected in 2012 HMDA data.

A. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the proposal in light of the examinations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions.[17] The CRA requires that the appropriate federal financial supervisory agency for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI neighborhoods.[18] 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 of the institution's overall record of performance under the CRA by its appropriate federal supervisor.

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[14] 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

[15] 12 U.S.C. § 2903.

[16] 12 U.S.C. § 2801 et seq.

[17] See Interagency Questions and Answers Regarding Community Reinvestment, 75 Fed. Reg. 11642 at 11665 (March 11, 2010).

[18] 12 U.S.C. § 2906.

CRA Performance of Southside Bank

Southside Bank was assigned an "outstanding" rating at its most recent CRA performance evaluation by the FDIC, in July 2013 ("Southside Evaluation"). Examiners concluded that Southside Bank demonstrated an excellent responsiveness to the credit needs of its assessment areas.[19] Southside Bank received a "high satisfactory" rating on the Lending Test, and an "outstanding" rating on the Investment Test and the Service Test.[20] For the Lending Test, the FDIC noted that the bank's lending activity level and geographic distribution of loans were good. Southside Bank ranked as the largest small business lender and third largest mortgage lender in the Tyler MSA, which had the greatest weight of all areas in the analysis. Examiners also noted that the institution displayed extensive use of innovative and flexible lending practices. Examiners noted that Southside Bank was a leader in making community development loans. Examiners further highlighted Southside Bank's issuance of community development loans in the Tyler MSA. Examiners noted that Southside Bank had actively participated in an Economic Development Program sponsored by the Federal Home Loan Bank of Dallas, funded FHA and VA loans, and participated in several affordable housing programs.

Concerning the Investment Test, examiners highlighted Southside Bank's significant level of qualified community development investments and grants in its assessment areas. Southside Bank also was noted as being excellent in responding to the community needs both in its assessment area and statewide. In addition, Southside Bank

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[19] Examiners focused on small business and home mortgage loans, given these are a majority of Southside Bank's loans, and put marginally more weight on Southside Bank's small business loans. In addition, examiners focused on the Tyler Metropolitan Statistical Area assessment area ("Tyler MSA") because of Southside Bank's significant presence in that area.

[20] The evaluation period for the Lending, Investment, and Service Tests in the Southside Evaluation was April 26, 2010, to July 29, 2013, except for community development loans, for which the evaluation period was from January 1, 2012, through December 31, 2012.

had a significant record of participating in investments not routinely provided by private investors.

For the Service Test, examiners noted Southside Bank's strong performance, from its readily accessible delivery systems to its tailored retail banking services. The accessibility of retail banking services has improved within the Tyler MSA. Examiners further emphasized that Southside Bank provided a relatively high level of community development services that were responsive to a variety of community development needs.

The FDIC reviewed Southside Bank's CRA performance in its review of the related Bank Merger Act application, including public comments similar to those submitted to the Board, and, in approving the application under the Bank Merger Act, found the proposal consistent with the purposes of the CRA.

CRA Performance of OmniAmerican Bank.

The Office of the Comptroller of the Currency ("OCC") assigned OmniAmerican Bank an overall CRA rating of "satisfactory" at its most recent CRA examination on April 2, 2012 ("OmniAmerican Evaluation").[21] Examiners concluded that OmniAmerican Bank demonstrated a good responsiveness to the credit needs of its assessment areas.[22] OmniAmerican Bank received ratings of "high satisfactory" for the Lending Test and the Service Test and "low satisfactory" for the Investment Test. With respect to the Lending Test, examiners noted that OmniAmerican Bank's lending activity reflected good responsiveness, and a majority of home mortgage loans, OmniAmerican Bank's primary loan product, were made within its assessment area. The geographic

[21] The evaluation period for the Lending, Investment, and Service Tests in the OmniAmerican Evaluation was from January 1, 2009, through December 31, 2011, except for community development loans, for which the evaluation period was from May 13, 2008, through April 1, 2012.

[22] Examiners focused on home mortgage loans, given that these comprise a majority of OmniAmerican Bank's loans. In addition, examiners focused on the Fort Worth Metropolitan Statistical Area assessment area ("Fort Worth MSA") because of OmniAmerican Bank's significant presence in that area.

distribution of home mortgage products was good and the distribution of loans to small businesses was excellent. The borrower distribution of such loans among borrowers of different incomes was adequate. The examiners noted that they did not detect any conspicuous or unexplained gaps in the bank's lending patterns.

Concerning community development lending, examiners found that OmniAmerican Bank's level of community development activities was adequate given its size, capacity, and the community development needs and opportunities of its assessment areas. Examiners highlighted OmniAmerican Bank's participation in specialized loan programs sponsored by the City of Arlington, Texas, including homebuyer assistance and neighborhood stabilization programs. These are assistance programs for first-time or LMI borrowers.

With respect to the Investment Test, examiners noted that although OmniAmerican Bank's qualified investments were not particularly innovative or complex, they were responsive to the community development needs in the Fort Worth MSA. OmniAmerican Bank's investments were focused in a Community Capital CRA qualified Investment Fund, which consists of various mortgage-backed securities that are fully allocated to loans benefitting LMI neighborhoods within the bank's assessment areas and small businesses by way of SBA loans.

For the Service Test, examiners noted that OmniAmerican Bank's delivery systems provided reasonable access to geographies and individuals of different income levels in the Fort Worth MSA. Examiners further emphasized that OmniAmerican Bank provided a relatively high level of community development services that were responsive to a variety of community development needs.

Fair Lending Record, HMDA Analysis, and Public Comment on the Proposal

The Board has also considered the records of Southside Bank and OmniAmerican Bank in complying with fair lending and other consumer protection laws. This includes a review of their performance as detailed in the Southside Evaluation and the OmniAmerican Evaluation. This also includes an evaluation of Southside Bank's and OmniAmerican Bank's fair lending policies and procedures and consideration of other agencies' views on Southside Bank's and OmniAmerican Bank's record of performance under fair lending laws. The Board also has taken into account the comment on the proposal.

The commenter alleged that 2012 HMDA data indicate that, in the Tyler MSA, Southside Bank made fewer conventional home purchase loans to African American than to white applicants, fewer refinancing loans to African American and Hispanic applicants than to white applicants, and fewer home improvement loans to African American than to white applicants. The commenter also asserted that, in the Tyler MSA, Southside Bank disproportionately denied applications by African American applicants for conventional home purchase loans and refinancing loans and by Hispanic applicants for refinancing loans. In addition, the commenter alleged that OmniAmerican Bank made fewer conventional home purchase and refinancing loans to African American applicants in the Fort Worth MSA. The commenter also asserted that OmniAmerican Bank disproportionately denied applications by African American applicants for conventional home purchase loans and refinancing loans and by Hispanic applicants for refinancing loans.

The Board has reviewed HMDA data from 2012 and 2013 reported by Southside Bank and OmniAmerican Bank, the most recent publicly available data. The Board analyzed data related to all HMDA-reportable loans in the Tyler and Fort Worth markets to develop a view of overall lending patterns, as well as the subset of that data related specifically to conventional home purchase, home improvement, and refinancing loans, which were the subjects of the public comment received on the proposal. Within those data sets, the Board focused its review on data related to loans made or denied to borrowers of the races and ethnicities highlighted by the public comment, i.e., African Americans and Hispanics.

With respect to Southside Bank and OmniAmerican Bank, the Board generally confirmed the HMDA data regarding levels of loans and the denial disparity ratios associated with conventional home purchase, home improvement, and refinance loans noted by the commenter. The Board is concerned when HMDA data for an institution indicate disparities in lending and believes that all lending institutions are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of their race or ethnicity. Although the HMDA data may reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in certain local areas, HMDA data alone do not provide a sufficient basis on which to conclude whether Southside Bank or OmniAmerican Bank has excluded or denied credit to any group on a prohibited basis.[23]

Because of the limitations of HMDA data, the Board also has considered other information, including examination reports that provide on-site evaluations of compliance by Southside Bank and OmniAmerican Bank with fair lending laws and regulations. The Board has considered that Southside Bank's 2012 HMDA data were reviewed and considered by examiners in the FDIC's July 2013 CRA performance evaluation. This review allowed examiners to consider specific lending information beyond the data reported in HMDA. This evaluation by examiners found no evidence of discriminatory lending practices and resulted in an "outstanding" rating. The Board also consulted with the FDIC with respect to Southside Bank's record of fair lending performance since the Southside Evaluation, including its operations and compliance program, policies and procedures, training efforts, monitoring practices, underwriting guidelines, and responses to consumer complaints. The Board also considered the FDIC's analysis of the comments against Southside Bank's bank merger filing, which was reviewed and approved by the FDIC.

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[23] The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. In addition, credit history problems, excessive debt levels relative to income, and high loan amounts relative to the value of the real estate collateral (the reasons most frequently cited for a credit denial or higher credit cost) are not available from HMDA data.

With respect to OmniAmerican Bank HMDA data on conventional home purchase or refinance loans cited by the commenter, the Board consulted with the OCC, which found no evidence of disparate treatment in its review of OmniAmerican Bank's actual lending practices. The lending policies, processes, and practices were found by the OCC to support a lending culture wherein OmniAmerican Bank was ensuring fair treatment to all applicants.

Southside's Fair Lending Program

Southside Bank's risk-management systems, policies, and procedures for assuring compliance with fair lending laws would be implemented at the combined organization, and these are considered to be satisfactory from a supervisory perspective. Southside has represented that it has a detailed and comprehensive consumer compliance and fair lending program. This includes a secondary review of all denied loan applications to ensure that the reasons for denial are well documented, supported by the applicant's application data, and outside of Southside's underwriting guidelines. Southside has also indicated that it performs a monthly analysis to help identify any patterns of discrimination and that it conducts weekly tracking of pricing exceptions for all consumer loans and daily tracking for all mortgage loans. In addition, Southside has indicated that it performs an annual fair lending risk assessment, the results of which are presented to its board of directors, and that all Southside employees who accept loan applications or answer loan questions are required to participate in fair lending training annually.

A. <u>Conclusion on CRA, Fair Lending, and HMDA Review</u>

The Board has considered all of the facts of record, information provided by Southside, confidential supervisory information, and the public comment on the proposal. Based on the Board's analysis of the HMDA data, its evaluation of Southside Bank's and OmniAmerican Bank's mortgage lending operations and compliance programs, its review of examination reports, the CRA records of the institutions involved, and its consultations with the FDIC and OCC, the Board concludes that the CRA and fair lending records of Southside Bank and OmniAmerican Bank on balance weigh in favor of approval.

Financial Stability

The Dodd-Frank Act added "risk to the stability of the United States banking or financial system" to the list of possible adverse effects that the Board must weigh against any expected public benefits in considering proposals under section 4(j) of the BHC Act.[24] 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 merged 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.[25] In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, which 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.[26]

The Board has considered information relevant to risks to the stability of the United States banking or financial system. After consummation, Southside would have approximately $4.8 billion in total consolidated assets, and by any of a number of alternative measures of firm size, Southside would be outside the 100 largest U.S.

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[24] Dodd-Frank Act, § 604(e), codified at 12 U.S.C. § 1843(j)(2)(A). Other provisions of the Dodd-Frank Act impose a similar requirement, that the Board consider or weigh the risks to financial stability posed by a merger, acquisition, or expansion proposal by a financial institution. See sections 163, 173, and 604(d) and (f) of the Dodd-Frank Act.

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

[26] For further discussion of the financial stability standard, see Capital One Order at 28.

financial institutions. The Board generally presumes that a merger that involves an acquisition of less than $2 billion in assets, or results in a firm with less than $25 billion in total consolidated assets, will not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction. The Board, therefore, concludes that financial stability considerations relating to this proposal weigh in favor of approval.

Additional Public Benefits of the Proposal

As noted above, in connection with a notice under section 4(c)(8) of the BHC Act, section 4(j) of the Act requires the Board to "consider whether performance of the activity by a bank holding company or a subsidiary of such company can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system."[27]

The Board has also considered the extent to which the proposal would benefit the customers of Southside Bank and OmniAmerican Bank. Among other things, such benefits can include merger-related cost savings, improvements in the quality of existing product offerings, and the availability of products that were not previously available to customers of any of the parties.

Southside expects that, as a result of the merger, Southside Bank's customers would have access to a variety of consumer and business services. The merger would extend the branch and ATM footprints of Southside Bank within the Dallas and Fort Worth banking markets. This would include full-service branches in five counties, allowing customers greater geographic flexibility in accessing banking services. Southside Bank will continue to offer its products and services, which are substantially

[27] 12 U.S.C. § 1843(j)(2).

the same as, and in many cases broader than, products and services offered by OmniAmerican Bank.

The Board has determined that the conduct of the proposed nonbanking activities within the framework of Regulation Y, Board precedent, and this Order are not likely to result in significant adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices, or risk to the stability of the United States banking or financial system. On the basis of the entire record, including the commitments made in this case and conditions noted in this Order, and for the reasons discussed above, the Board believes that the balance of benefits and potential adverse effects related to competition, financial and managerial resources, convenience and needs, financial stability, and other factors weighs in favor of approval of this proposal. Accordingly, the Board has determined that the balance of the public benefits under the standard of section 4(j)(2) of the BHC Act is consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the proposal should be, and hereby is, approved.[28] In reaching its

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[28] The public commenter requested that the Board hold a public hearing on the proposal. The Board's regulations provide for a hearing on a notice filed under section 4 of the BHC Act if there are disputed issues of material fact that cannot be resolved in some other manner. 12 CFR 225.25(a)(2). Under its rules, the Board also 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. 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 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.

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 Southside with the conditions imposed in this Order and the commitments made to the Board in connection with the notice. The Board's approval also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c),[29] and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. 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 later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Dallas acting pursuant to delegated authority.

By order of the Board of Governors,[30] effective December 10, 2014.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

[29] 12 CFR 225.7 and 225.25(c).

[30] Voting for this action: Chair Yellen and Vice Chairman Fischer, Governors Tarullo, Powell, and Brainard.