

FEDERAL RESERVE SYSTEM

Veritex Community Bank
Dallas, Texas

Order Approving the Establishment of a Branch

Veritex Community Bank (“VCB”), a wholly owned state member bank subsidiary of Veritex Holdings, Inc., (“VHI”), both of Dallas, Texas, has requested the Board’s approval under section 9 of the Federal Reserve Act (“FRA”)¹ and the Board’s Regulation H² to establish a branch at 4660 Sweetwater Boulevard, Sugar Land, Texas.³

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

VHI, with total consolidated assets of approximately \$12.3 billion, is the 138th largest depository organization in the United States, controlling approximately \$10.2 billion in deposits, which represent less than 1 percent of the total amount of

¹ 12 U.S.C. § 321.

² 12 CFR part 208.

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

⁴ 12 CFR 262.3(b).

deposits of insured depository institutions in the United States.⁵ VCB operates only in Texas, and the bank's main office is in Dallas, Texas.⁶

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

Financial, Managerial, and Other Supervisory Considerations

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

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

⁶ In Texas, VCB is the 20th largest depository organization, controlling approximately \$9.3 billion in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state.

⁷ 12 CFR 208.6(b).

⁸ 12 U.S.C. § 2901 et seq.

⁹ 12 CFR 208.21(a).

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

In considering VCB'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 VCB and the bank's record of compliance with applicable banking, consumer protection, and anti-money-laundering laws. VCB is considered to be well managed. VCB'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 VCB's management, financial history and condition, capital adequacy, compliance with applicable banking and consumer protection laws, and future earnings prospects, as well as the effectiveness of VCB in combatting money-laundering activities, are consistent with approval of the proposal.

Convenience and Needs Considerations

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

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

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

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

In addition, the Board considers the bank’s overall compliance record and recent fair lending examinations. Fair lending laws require all lending institutions to provide loan applicants with equal access to credit, regardless of their race, ethnicity, gender, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and public comments received on the proposal.¹³ The Board also may consider the institution’s business model, its intended marketing and outreach, its plans for the proposed branch, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of VCB; the fair lending and compliance records of the bank; the supervisory views of the Federal Reserve Bank of Dallas (“Reserve Bank”); confidential

¹¹ 12 U.S.C. § 2901 et seq.

¹² See 12 U.S.C. § 2901(b).

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

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

Public Comment on the Proposal

The Board received two adverse comments on the proposal, both from the same commenter. The commenter objected to the proposal, alleging that VCB failed to meet the needs of LMI individuals, provide small business and consumer lending services to African American communities in Southern Dallas, and conduct a community credit needs assessment for majority African American and Hispanic census tracts within Southern Dallas. Additionally, the commenter alleged that VCB had made a smaller percentage of residential mortgage loans in majority African American and Hispanic neighborhoods relative to its peers in the Dallas-Fort Worth metropolitan statistical area (“MSA”) and failed to describe any CRA initiatives in Southern Dallas undertaken since VCB’s most recent CRA examination. Further, the commenter alleged that the bank provided fewer loans to businesses with less than \$1 million in annual revenue compared with its peers. The commenter also alleged that VCB provided a significantly lower level of community development loans, commercial loans, and mortgage loans to majority minority areas as compared with other areas. Finally, the commenter alleged that VCB is not a member of certain minority trade organizations or minority chambers and has failed to adopt Bank On National Account Standards.

Business of the Applicant and Response to Comment

VCB is primarily a commercial lender, with commercial loans representing a majority of its loan portfolio. The bank offers consumer, business, commercial real estate, and residential and commercial construction loans, as well as deposit products.

In responding to the commenter, VCB states that it has complied with its obligations under the CRA and refers to the data available in its CRA examination record as evidence of compliance. Further, VCB notes that it remains a prominent small business lender and continually reviews its products and services to ensure the needs of its communities, including Southern Dallas, are met. VCB also provides information on

a mortgage product directed towards LMI individuals launched in June 2023. Specifically, the product has a maximum income limit of 80% of area median income and provides certain closing cost assistance to borrowers. To qualify for this product, the property purchased must be located within specific LMI census tracts. VCB represents that it has developed a comprehensive outreach plan to educate communities about this product and has so far closed four loans.

VCB notes that it supports and partners with a variety of community development organizations that aim to support homeownership initiatives, entrepreneurship, economic development, and financial literacy in the Dallas area. Finally, VCB states that it has made significant community development investments, including in two south Dallas housing facilities.

Record of Performance Under the CRA

In evaluating the CRA performance of the involved institution, the Board generally considers the institution's most recent CRA performance evaluation, as well as other information and supervisory views from the relevant federal financial supervisor, which in this case is the Reserve Bank.¹⁴ In addition, the Board considers information provided by the applicant and by any public commenters.

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.¹⁵ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

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

¹⁵ 12 U.S.C. § 2906.

In general, the Board and the other federal financial supervisors apply a lending test (“Lending Test”), investment test (“Investment Test”), and service test (“Service Test”) to evaluate the performance of large insured depository institutions, such as VCB, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an institution’s lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the Lending Test, examiners review and analyze an institution’s data reported under the HMDA,¹⁶ in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution’s lending activities with respect to borrowers and geographies of different income levels. The institution’s lending performance is evaluated based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution’s CRA 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;¹⁷ (4) the institution’s community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution’s use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.¹⁸ The

¹⁶ 12 U.S.C. § 2801 et seq.

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

¹⁸ See 12 CFR 228.22(b).

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

CRA Performance of VCB

VCB was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the Reserve Bank, as of April 11, 2022 ("VCB Evaluation").²⁰ The bank received a "High Satisfactory" rating for each of the Lending Test and Service Test and an "Outstanding" rating for the Investment Test.²¹

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

Examiners found that VCB made an excellent level of qualified community development investments and grants throughout its AAs, exhibiting good responsiveness to credit and community development needs.

¹⁹ See 12 CFR 228.21 et seq.

²⁰ The VCB Evaluation was conducted using Interagency Examination Procedures for Large Institutions. In general, examiners reviewed HMDA-reportable loans and small business loans reported by the bank, as well as community development lending, investments, and services, from August 5, 2019, through April 11, 2022.

²¹ The VCB Evaluation included a full-scope review of the Dallas-Fort Worth Metropolitan AA. Limited-scope reviews were conducted in VCB's remaining AAs within the following areas: Austin Metropolitan AA; Fannin County Nonmetropolitan AA; and Houston MSA AA.

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

VCB's Efforts Since the VCB Evaluation

VCB represents that it has made \$201 million and \$214 million in small business loans in 2022 and 2023 respectively. VCB also represents that it made \$55,000 and \$280,000 in loans to small farms in 2022 and 2023 respectively. Additionally, the bank states that since the VCB Evaluation, VCB has made \$312 million of community development loans and \$102 million of community development investments. VCB also notes that it has made \$1.6 million of community development donations to organizations that support community service, affordable housing, economic development, and revitalization/stabilization. Additionally, as discussed above, VCB also represents that it offers a mortgage product directed towards LMI individuals, which it launched in June 2023. Finally, VCB represents that its employees participated in 2,834 hours of community service since the VCB Evaluation.

Additional Supervisory Considerations

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

Additional Convenience and Needs Considerations

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. VCB asserts that the proposed branch would offer products and services to a large and growing county where the branch would reside. Additionally, VCB asserts that the proposed branch will allow VCB to

expand its community services footprint and work with organizations that serve low- and moderate-income individuals. VCB notes that this will include providing first time home buyers with educational opportunities, hosting programming and educational events for small businesses, contributing to charitable causes directly affecting the Fort Bend County area, and increasing small business lending throughout the county.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA record of VCB, the bank's record of compliance with fair lending and other consumer protection laws, confidential supervisory information, information provided by VCB, 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 considerations are consistent with approval.

Conclusion

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

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

By order of the Board of Governors,²² effective June 26, 2024

(Signed) Michele Taylor Fennell

Michele Taylor Fennell
Deputy Associate Secretary of the Board

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