

FEDERAL RESERVE SYSTEM

CenterState Bank Corporation  
Winter Haven, Florida

Order Approving the Acquisition of a Bank Holding Company

CenterState Bank Corporation (“CenterState”), Winter Haven, Florida, a financial holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),<sup>1</sup> has requested the Board’s approval under section 3 of the BHC Act<sup>2</sup> to acquire HCBF Holding Company, Inc. (“HCBF”), and thereby indirectly acquire Harbor Community Bank (“Harbor Bank”), both of Fort Pierce, Florida. Following the proposed acquisition, Harbor Bank would be merged into CenterState’s subsidiary bank, CenterState Bank, National Association (“CenterState Bank”), Winter Haven, Florida.<sup>3</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (82 Federal Register 45587 (September 29, 2017)).<sup>4</sup> 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.

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<sup>1</sup> 12 U.S.C. § 1841 et seq.

<sup>2</sup> 12 U.S.C. § 1842.

<sup>3</sup> The merger of Harbor Bank into CenterState Bank, which is expected to occur immediately after CenterState’s acquisition of HCBF, is subject to the approval of the Office of the Comptroller of the Currency (“OCC”), pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c). The OCC approved the bank merger on November 29, 2017.

<sup>4</sup> 12 CFR 262.3(b).

CenterState, with consolidated assets of approximately \$6.8 billion, is the 171st largest insured depository organization in the United States.<sup>5</sup> CenterState controls approximately \$5.4 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.<sup>6</sup> CenterState controls CenterState Bank, which operates only in Florida. CenterState is the 21st largest insured depository organization in Florida, controlling deposits of approximately \$4.1 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.<sup>7</sup>

HCBF, with consolidated assets of approximately \$2.2 billion, is the 415th largest depository organization in the United States. HCBF controls approximately \$1.8 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. HCBF controls Harbor Bank, which operates only in Florida.<sup>8</sup> HCBF is the 44th largest insured depository organization in Florida, controlling deposits of approximately \$1.5 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of the proposal, CenterState would become the 148th largest insured depository organization in the United States, with consolidated assets of approximately \$9.2 billion after adjustments, which represent less than 1 percent of the total assets of insured depository organizations in the United States. CenterState would control consolidated deposits of approximately \$7.2 billion, which represent less than 1

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<sup>5</sup> National asset and deposit data and market share are as of September 30, 2017, unless otherwise noted. National ranking data are as of June 30, 2017.

<sup>6</sup> In this context, insured depository institutions include commercial banks, credit unions, savings and loan associations, and savings banks.

<sup>7</sup> State asset data, market share, and ranking data are as of June 30, 2016, unless otherwise noted.

<sup>8</sup> The proposal does not raise interstate issues under section 3(d) of the BHC Act because Florida is the home state of both CenterState and Harbor Bank, and Harbor Bank operates only in Florida. See 12 U.S.C. § 1842(d).

percent of the total amount of deposits of insured depository institutions in the United States. In Florida, CenterState would become the 17th largest depository organization, controlling deposits of approximately \$5.6 billion, which represent approximately 1.0 percent of the total deposits of insured depository institutions in that state.<sup>9</sup>

### 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.<sup>10</sup> 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 Board finds that 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 community to be served.<sup>11</sup>

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<sup>9</sup> In addition to the proposed acquisition of HCBF, CenterState has proposed to acquire Sunshine Bancorp, Inc. (“Sunshine”), a savings and loan holding company, and Sunshine’s subsidiary federal savings association, Sunshine Bank, both of Plant City, Florida. The OCC approved CenterState Bank’s application for the merger of Sunshine Bank into CenterState Bank on October 26, 2017. The General Counsel of the Board has opined that no regulatory purpose would be served by requiring a filing under section 3 of the BHC Act for CenterState to acquire Sunshine. Letter to Beth S. DeSimone dated September 21, 2017; see also 12 CFR 225.12(d)(2). CenterState plans to complete the acquisition of Sunshine in the first calendar quarter of 2018.

Upon consummation of CenterState’s proposed acquisition of both Sunshine and HCBF, CenterState would become the 136th largest insured depository organization in the United States, with consolidated assets of approximately \$10.2 billion, which represent less than 1 percent of the total assets of insured depository organizations in the United States. CenterState would control consolidated deposits of approximately \$7.9 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Florida, CenterState would become the 16th largest depository organization, controlling deposits of approximately \$6.3 billion, which represent approximately 1.2 percent of the total deposits of insured depository institutions in that state.

<sup>10</sup> 12 U.S.C. § 1842(c)(1)(A).

<sup>11</sup> 12 U.S.C. § 1842(c)(1)(B).

CenterState and HCBF have subsidiary depository institutions that compete directly in 11 banking markets in Florida. The Board has considered the competitive effects of the proposal in these banking markets. In particular, the Board has considered the number of competitors that would remain in the markets, the relative shares of the total deposits in insured depository institutions in the markets (“market deposits”) that CenterState would control,<sup>12</sup> 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”),<sup>13</sup> and other characteristics of the markets.

*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 the Fort Pierce, Gainesville, Indian River, Ocala, Okeechobee, Orlando, Saint Augustine, Sarasota,

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<sup>12</sup> Local deposit and market share data are as of June 30, 2017, 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); 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).

<sup>13</sup> 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 the DOJ 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](http://www.justice.gov/opa/pr/2010/August/10-at-938.html).

Tampa Bay, and West Palm Beach banking markets.<sup>14</sup> On consummation, the Sarasota and West Palm Beach banking markets would remain unconcentrated, the Okeechobee banking market would remain highly concentrated, and the other seven banking markets would remain moderately concentrated, 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 these banking markets.

*Banking Market Warranting Special Scrutiny*

The competitive effects that consummation of the proposal would have in the Palatka Area, Florida, banking market (“Palatka banking market”)<sup>15</sup> warrant a detailed review because the proposal would result in concentration levels which exceed the thresholds in the DOJ Bank Merge Guidelines.<sup>16</sup> Using the initial competitive screening data, CenterState is the fourth largest depository organization in the Palatka banking market, controlling deposits of approximately \$78.6 million, which represent approximately 14.2 percent of market deposits. HCBF is the sixth largest depository organization in the market, controlling deposits of approximately \$60.5 million, which represent approximately 10.9 percent of market deposits. On consummation of the proposal, the combined entity would be the largest depository organization in the Palatka market, controlling deposits of approximately \$139.1 million, which would represent approximately 25.2 percent of market deposits. The HHI in the market would increase by 311 points, from 1,820 to 2,131.

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<sup>14</sup> The banking markets and the competitive effects of the proposal in these markets are described in the Appendix. Consummation of the proposal would be within the thresholds of the DOJ Bank Merger Guidelines in these markets even if CenterState’s proposed acquisition of Sunshine is taken into account.

<sup>15</sup> The Palatka banking market is defined as Putnam County and the Hastings area of St. Johns County, both in Florida.

<sup>16</sup> The analysis of this banking market would not change if CenterState’s proposed acquisition of Sunshine is taken into account, as Sunshine does not operate in the Palatka banking market.

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 Palatka banking market.<sup>17</sup> Factors indicate that the increase in concentration in the Palatka market, as measured by the above HHI and market share, overstates the potential competitive effects of the proposal in the market.

The Board has considered the competitive influence of two credit unions in the Palatka banking market. These institutions 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.<sup>18</sup> The Board finds that these circumstances warrant including the deposits of these credit unions at a 50 percent weight in estimating market influence. This weighting takes into account the limited lending done by these credit unions to small businesses relative to commercial banks' lending levels.

After consummation, adjusting to reflect competition from these credit unions, the market concentration level in the Palatka banking market as measured by the HHI would increase by 236 points, from a level of 1,466 to 1,701, and the market share of CenterState resulting from the transaction would increase from 12.4 percent to 21.9 percent.

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<sup>17</sup> 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 the banking market. See Nationsbank Corp., 84 Federal Reserve Bulletin 129 (1998).

<sup>18</sup> The Board previously has considered competition from certain active credit unions with these features as a mitigating factor. See, e.g., Central Bancompany, Inc., FRB Order No. 2017-03 (February 8, 2017); Chemical Financial Corporation, FRB Order No. 2015-13 (April 20, 2015); Mitsubishi UFJ Financial Group, Inc., FRB Order No. 2012-12 (November 14, 2012); Old National Bancorp, FRB Order No. 2012-9 (August 30, 2012); United Bankshares, Inc. (order dated June 20, 2011), 97 Federal Reserve Bulletin 19 (2nd Quar. 2011); The PNC Financial Services Group, Inc., 94 Federal Reserve Bulletin C38 (2008); The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Passumpsic Bancorp, 92 Federal Reserve Bulletin C175 (2006); and Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006).

The Board also has examined other aspects of the structure of the Palatka banking market that mitigate the competitive effects of the proposal or indicate that the proposal would not have a significantly adverse effect on competition in the Palatka market. After consummation of the proposal, CenterState would face competition from the two credit unions and five commercial banks. Excluding CenterState, four of these competitors would each control over 10 percent of market deposits, including one with a market share of over 20 percent. The presence of these viable competitors suggests that CenterState would have limited ability to unilaterally offer less attractive terms to consumers and that these competitors are able to exert competitive pressure on CenterState in the Palatka banking market.

*Conclusion Regarding Competitive Effects*

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 Palatka 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, in particular the structure of the relevant markets, the number of remaining competitors, and other factors discussed 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 Palatka banking 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 the future prospects of the institutions involved.<sup>19</sup> In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both

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<sup>19</sup> 12 U.S.C. § 1842(c)(2), (5), and (6).

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. 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.

CenterState and CenterState Bank are both well capitalized and would remain so on consummation of the proposal. The proposed transaction is a bank holding company merger that is funded primarily through an exchange of shares, with a subsequent merger of the subsidiary depository institutions.<sup>20</sup> The asset quality, earnings, and liquidity of both CenterState Bank and Harbor Bank are consistent with approval, and CenterState appears to have adequate resources to absorb the costs of the proposal and to complete the integration of the institutions' operations. In addition, future prospects 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 CenterState, HCBF, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and

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<sup>20</sup> At the time of the merger, each share of HCBF common stock would be converted into a right to receive CenterState common stock and cash, based on an exchange ratio. CenterState would fund the cash portion of the exchange through available cash and borrowing from a third party. CenterState has the financial resources to fund the transaction.



operations. In addition, the Board has considered information provided by CenterState; 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.

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

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

Based on all the facts of record, including CenterState's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes 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 CenterState and HCBF 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.<sup>21</sup> In its evaluation of the effects of the proposal on the convenience and needs

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<sup>21</sup> 12 U.S.C. § 1842(c)(2).

of the communities to be served, 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 the communities to be served. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act of 1977 (“CRA”).<sup>22</sup> 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,<sup>23</sup> 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.<sup>24</sup>

In addition, the Board considers the banks’ overall compliance records and their 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, and information provided by the applicant. The Board also may consider the institution’s business model, its 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 CenterState Bank and Harbor Bank, the compliance records of both banks, supervisory information from the OCC and the Federal Deposit Insurance Corporation (“FDIC”), and information provided by CenterState.

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<sup>22</sup> 12 U.S.C. § 2901 et seq.

<sup>23</sup> 12 U.S.C. § 2901(b).

<sup>24</sup> 12 U.S.C. § 2903.

*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 provided by the appropriate federal supervisors.<sup>25</sup> In this case, the Board considered the supervisory views of the OCC and the FDIC.

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.<sup>26</sup> 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 lending, investment, and service tests to evaluate the performance of a large insured depository institution, such as CenterState 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 of 1975 ("HMDA"),<sup>27</sup> 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

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

<sup>26</sup> 12 U.S.C. § 2906.

<sup>27</sup> 12 U.S.C. § 2801 et seq.

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;<sup>28</sup> (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.<sup>29</sup> Large institutions are also subject to an investment test that evaluates the number and amounts of qualified investments that benefit their assessment areas and a service test that evaluates the availability and effectiveness of their systems for delivering retail banking services and the extent and innovativeness of their community development services.<sup>30</sup> Intermediate small banks, such as Harbor Bank, are subject to the lending test, as well as a community development test that evaluates the number and amount of their community development loans and qualified investments, the extent to which they provide community development services, and their responsiveness to community development lending, investment, and service needs.<sup>31</sup>

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<sup>28</sup> 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).

<sup>29</sup> See 12 CFR 228.22(b).

<sup>30</sup> See 12 CFR 228.21 et seq.

<sup>31</sup> See 12 CFR 228.26(c).

*CRA Performance of CenterState Bank*

CenterState Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the OCC, as of April 6, 2015 (“CenterState Bank Evaluation”).<sup>32</sup> The bank received “High Satisfactory” ratings for the Lending Test and the Service Test and a “Low Satisfactory” rating for the Investment Test.<sup>33</sup>

Examiners found that CenterState Bank’s overall lending activity in its AAs was good and noted that the majority of the bank’s loans were originated in the bank’s AAs. Examiners noted that the bank’s home mortgage lending reflected adequate penetration among different geographies and borrower income levels. Additionally, examiners noted that the bank’s small loans to businesses reflected an excellent penetration among different geographies and borrower income levels. Examiners also found that the bank’s community development lending had a positive impact on the bank’s overall lending performance.

Examiners found that the bank’s performance under the Investment Test was adequate. Examiners noted that the bank had a significant level of qualified investments, but that its investments were statewide or regional in scope and were, therefore, less responsive to AA needs. Examiners found that the bank’s performance under the Service Test was good. Examiners noted that the bank’s retail delivery systems were accessible to the bank’s geographies and to individuals of different income levels

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<sup>32</sup> The CenterState Bank Evaluation was conducted using the Large Bank CRA Examination Procedures. Examiners reviewed HMDA loans and small business loans reported by CenterState Bank for 2012, 2013, and 2014. Examiners reviewed community development activities from March 6, 2012, through April 6, 2015.

<sup>33</sup> The CenterState Bank Examination included full-scope evaluations of three AAs, the Lakeland-Winter Haven, Florida, Metropolitan Statistical Area (“MSA”); the Orlando-Kissimmee-Sanford, Florida, MSA; and the Tampa-St. Petersburg-Clearwater, Florida MSA. Limited-scope evaluations were performed in the Fort Lauderdale-Pompano Beach-Deerfield Beach, Florida, Metropolitan Division (“MD”); West Palm Beach-Boca Raton-Delray Beach, Florida, MD; Deltona-Daytona Beach-Ormond Beach, Florida, MSA; Homosassa Springs, Florida, MSA; Jacksonville, Florida, MSA; Ocala, Florida, MSA; Port St. Lucie, Florida, MSA; Sebastian-Vero Beach, Florida, MSA; The Villages, Florida, MSA; and in Hendry, Okeechobee, and Putnam counties, all in Florida.

within its AAs. Examiners also noted that the bank provided an adequate level of community services.

*CRA Performance of Harbor Bank*

Harbor Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the FDIC, as of August 8, 2016 (“Harbor Bank Evaluation”).<sup>34</sup> The bank received “Satisfactory” ratings for the Lending Test and the Community Development Test.<sup>35</sup>

Examiners found that Harbor Bank’s loan-to-deposit ratio was reasonable given the institution’s size and financial condition and the credit needs of the bank’s AAs. Examiners noted that a substantial majority of the bank’s loans were originated within the bank’s AAs and that the geographic distribution of the bank’s loans reflected a reasonable dispersion throughout the bank’s AAs. Examiners also noted that the distribution of borrowers reflected a reasonable penetration among individuals of different income levels and businesses of different sizes. Additionally, examiners noted that Harbor Bank had not received any CRA-related complaints since its previous evaluation.

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<sup>34</sup> The Harbor Bank Evaluation was conducted using Intermediate Small Bank CRA Examination Procedures, consisting of the Lending Test and the Community Development Test. Examiners reviewed HMDA loans reported by the bank for 2014, 2015, and the first six months of 2016, as well as small business loans originated by the bank in 2015 and the first six months of 2016. Examiners reviewed community development activities from July 23, 2013, through August 8, 2016.

<sup>35</sup> The Harbor Bank Evaluation included full-scope evaluations of ten AAs, all located within Florida: the Port St. Lucie AA (composed of Martin and St. Lucie counties); the Orlando AA (composed of Lake, Orange, Osceola, and Seminole counties); the St. Johns AA (composed of St. Johns County); the North Port AA (composed of Manatee and Sarasota counties); the Gainesville AA (composed of Alachua and Gilchrist counties); the Highlands AA (composed of Highlands County); the Marion AA (composed of Marion County); the Indian River AA (composed of Indian River County); the Palm Beach AA (composed of portions of Palm Beach County); and an AA composed of Okeechobee and Putnam counties.

Examiners found that Harbor Bank demonstrated an adequate responsiveness to the community development needs of its AAs. Examiners noted that the institution met those needs through community development loans, qualified investments, and community development services, as appropriate.

*Additional Supervisory Views*

The Board has considered the results of the most recent consumer compliance examination of CenterState Bank conducted by the OCC, which included a review of the bank's compliance risk-management program and the bank's compliance with consumer protection laws and regulations. The Board also has considered the results of the most recent consumer compliance examination of Harbor Bank conducted by the FDIC, which included a review of the bank's consumer compliance function.

The Board has taken this information, as well as the CRA performance records of CenterState Bank and Harbor Bank, into account in evaluating the proposed transaction, including in considering whether CenterState has the experience and resources to ensure that it helps to meet the credit needs of the communities within its 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. CenterState represents that it has no plans to discontinue any significant product or service currently offered by CenterState Bank or Harbor Bank. CenterState also represents that, following the proposed transaction, customers of Harbor Bank would have access to a broader range of products and services than is currently available to them. CenterState asserts that, following the proposed transaction, CenterState Bank would continue to provide a level of service consistent with or exceeding CenterState Bank's current CRA performance.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the CRA records of the relevant depository institutions involved, the institutions' records of compliance with consumer protection laws, supervisory information from the OCC and the FDIC,

information provided by CenterState, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval.

### Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) amended section 3 of the BHC Act to require 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.”<sup>36</sup>

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.<sup>37</sup> 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.<sup>38</sup>

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<sup>36</sup> Dodd-Frank Act § 604(d), Pub. L. No. 111-203, 124 Stat. 1376, 1601 (2010), codified at 12 U.S.C. § 1842(c)(7).

<sup>37</sup> Many of the metrics considered by the Board measure an institution’s activities relative to the United States financial system.

<sup>38</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012).



The Board's experience has shown that proposals involving an acquisition of less than \$10 billion in 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.<sup>39</sup>

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 assets and a pro forma organization of less than \$100 billion in assets. Both the acquirer and the target are predominately engaged in a variety of consumer and commercial banking activities.<sup>40</sup> 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

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<sup>39</sup> 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.

<sup>40</sup> CenterState primarily offers consumer and business loan and deposit products, with a focus on commercial lending. HCBF primarily offers commercial, residential, and consumer loan and deposit products, with a focus on home mortgage lending. In each of the activities in which it engages, CenterState has, and as a result of the proposal would continue to have, a small market share on a nationwide basis, and numerous competitors would remain for these services.

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. 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 CenterState 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 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 Atlanta, acting under delegated authority.

By order of the Board of Governors,<sup>41</sup> effective December 6, 2017.

*Ann E. Misback (signed)*

Ann E. Misback  
Secretary of the Board

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<sup>41</sup> Voting for this action: Chair Yellen, Vice Chairman for Supervision Quarles, and Governors Powell and Brainard.

Appendix

<b>CenterState/HCBF Banking Markets                      Consistent with Board Precedent and DOJ Bank Merger Guidelines</b>						
Data and rankings are as of June 30, 2017. All rankings, market deposit shares, and HHIs are based on thrift deposits weighted at 50 percent. The remaining number of competitors noted for each market includes thrifts, where applicable.						
<b>Fort Pierce Area, Florida (“Fort Pierce”)</b> – includes St. Lucie County and Martin County minus the towns of Indiantown and Hobe Sound.						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>CenterState Pre-Consummation</i>	8	\$439.1M	5.07	1071	37	18
<i>HCBF</i>	10	\$316.6M	3.65			
<i>CenterState Post-Consummation</i>	5	\$755.7M	8.72			
<b>Gainesville Area, Florida (“Gainesville”)</b> – includes Alachua, Gilchrist, and Levy counties.						
	Rank	Amount of Deposits	Market Deposit Shares (%)	Resulting HHI	Change in HHI	Remaining Number of Competitors
<i>CenterState Pre-Consummation</i>	11	\$76.6M	1.64	1301	13	18
<i>HCBF</i>	8	\$187.6M	4.03			
<i>CenterState Post-Consummation</i>	8	\$264.2M	5.67			

<b>Indian River County, Florida (“Indian River”)</b> – includes Indian River County.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	14	\$68.0M	1.66	1035	3	15
<i>HCBF</i>	15	\$41.8M	1.02			
<i>CenterState Post-Consummation</i>	12	\$109.8M	2.68			
<b>Ocala Area, Florida (“Ocala”)</b> – includes Marion County and the town of Citrus Springs in Citrus County.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	7	\$360.4M	6.00	1145	12	21
<i>HCBF</i>	15	\$59.4M	0.99			
<i>CenterState Post-Consummation</i>	7	\$419.7M	6.99			

<b>Okeechobee County, Florida (“Okeechobee”)</b> – includes Okeechobee County.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	4	\$63.5M	12.44	2067	171	5
<i>HCBF</i>	6	\$35.0M	6.87			
<i>CenterState Post-Consummation</i>	3	\$98.5M	19.31			
<b>Orlando Area, Florida (“Orlando”)</b> – includes Orange, Osceola, and Seminole counties, the western half of Volusia County, and the towns of Clermont and Groveland in Lake County.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	14	\$598.6M	1.30	1346	1	42
<i>HCBF</i>	25	\$163.4M	0.35			
<i>CenterState Post-Consummation</i>	11	\$762.0M	1.65			

<b>Saint Augustine Area, Florida (“Saint Augustine”)</b> – includes St. Johns County minus the towns of Fruit Cove, Ponte Vedra, Ponte Vedra Beach, Jacksonville, St. Johns, Switzerland, and Hastings.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	15	\$20.2M	0.99	1148	21	14
<i>HCBF</i>	4	\$213.2M	10.47			
<i>CenterState Post-Consummation</i>	4	\$233.4M	11.47			
<b>Sarasota Area, Florida (“Sarasota”)</b> – includes Manatee County, Sarasota County less the portion that is both east of the Myakka River and south of Interstate 75 (including 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.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	17	\$292.1M	1.43	942	1	35
<i>HCBF</i>	20	\$235.8M	1.15			
<i>CenterState Post-Consummation</i>	10	\$527.9M	2.58			

<b>Tampa Bay Area, Florida (“Tampa Bay”)</b> – includes Hernando, Hillsborough, Pinellas, and Pasco counties.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	14	\$824.9M	1.02	1137	1	56
<i>HCBF</i>	30	\$238.1M	0.29			
<i>CenterState Post-Consummation</i>	11	\$1,062.9M	1.31			
<b>West Palm Beach Area, Florida (“West Palm Beach”)</b> – includes Palm Beach County east of Loxahatchee and the towns of Indiantown and Hobe Sound in Martin County.						
	<b>Rank</b>	<b>Amount of Deposits</b>	<b>Market Deposit Shares (%)</b>	<b>Resulting HHI</b>	<b>Change in HHI</b>	<b>Remaining Number of Competitors</b>
<i>CenterState Pre-Consummation</i>	19	\$377.5M	0.75	991	0	47
<i>HCBF</i>	36	\$67.0M	0.13			
<i>CenterState Post-Consummation</i>	18	\$444.5M	0.89			