FRB Order No. 2017-26
October 6, 2017

FEDERAL RESERVE SYSTEM

Columbia Banking System, Inc.
Tacoma, Washington

Order Approving the Merger of Bank Holding Companies

Columbia Banking System, Inc. ("Columbia"), Tacoma, Washington, a bank holding company within the meaning of the Bank Holding Company Act of 1956 ("BHC Act"),[1] has requested the Board's approval under section 3 of the BHC Act[2] to merge with Pacific Continental Corporation ("Pacific"), and thereby indirectly acquire Pacific Continental Bank ("Pacific Bank"), both of Eugene, Oregon. Following the proposed merger, Pacific Bank would be merged into Columbia's subsidiary bank, Columbia State Bank ("Columbia Bank"), Tacoma, Washington.[3]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the Board's rules (82 Federal Register 14728 (March 22, 2017)).[4] The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Columbia, with consolidated assets of approximately $9.5 billion, is the 132nd largest insured depository organization in the United States. Columbia controls approximately $8.1 billion in consolidated deposits, which represent less than 1 percent

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[1] 12 U.S.C. § 1841 et seq.

[2] 12 U.S.C. § 1842.

[3] The merger of Pacific Bank into Columbia Bank is subject to approval by the Federal Deposit Insurance Corporation ("FDIC"), pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c). The FDIC approved the bank merger on August 23, 2017.

[4] 12 CFR 262.3(b).

of the total amount of deposits of insured depository institutions in the United States.[5] Columbia controls Columbia Bank, which operates in Idaho, Oregon, and Washington. Columbia is the 7th largest insured depository organization in Oregon, controlling deposits of approximately $2.7 billion in Oregon, which represent approximately 4 percent of the total deposits of insured depository institutions in that state.[6] Columbia is the 8th largest insured depository organization in Washington, controlling deposits of approximately $4.4 billion in Washington, which represent approximately 3 percent of the total deposits of insured depository institutions in that state.

Pacific, with consolidated assets of approximately $2.6 billion, is the 332nd largest insured depository organization in the United States. Pacific controls approximately $2.1 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Pacific controls Pacific Bank, which operates in Oregon and Washington. Pacific is the 12th largest insured depository organization in Oregon, controlling deposits of approximately $1.3 billion in Oregon, which represent approximately 2 percent of the total deposits of insured depository institutions in that state. Pacific is the 28th largest insured depository organization in Washington, controlling deposits of approximately $686.1 million in Washington, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of the proposal, Columbia would become the 111th largest depository organization in the United States, with consolidated assets of approximately $12.1 billion, which represent less than 1 percent of the total assets of insured depository organizations in the United States. Columbia would control consolidated deposits of approximately $10.2 billion, which represent less than 1 percent of the total amount of deposits of insured depository organizations in the United States.

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[5] National asset and deposit data are as of March 31, 2017, unless otherwise noted.

[6] State deposit data are as of June 30, 2016. In this context, insured depository institutions include commercial banks, credit unions, savings associations, and savings banks.

In Oregon, Columbia would remain the 7th largest depository organization, controlling deposits of approximately $4.1 billion, which represent approximately 6 percent of the total deposits of insured depository institutions in that state. In Washington, Columbia would become the 7th largest depository organization, controlling deposits of approximately $5.1 billion, which represent approximately 4 percent of the total deposits of insured depository institutions in that state.

Interstate and Deposit Cap Analysis

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of the bank holding company without regard to whether the transaction is prohibited under state law.[7] Under this section, the Board may not approve an application that would permit an out-of-state bank holding company to acquire a bank in a host state if the bank has not been in existence for the lesser of the state statutory minimum period of time or five years.[8] In addition, the Board may not approve an interstate application if the bank holding company controls or, upon consummation of the proposed transaction, would control more than 10 percent of the total deposits of insured depository institutions in the United States or, in certain circumstances, if the bank holding company, upon consummation, would control 30 percent or more of the total deposits of insured depository institutions in any state in which the acquirer and target have overlapping banking operations.[9]

[7] 12 U.S.C. § 1842(d)(1)(A).

[8] 12 U.S.C. § 1842(d)(1)(B).

[9] 12 U.S.C. § 1842(d)(2)(A) and (B). The acquiring and target institutions have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or a branch. For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. § 1841(o)(4)–(7).

For purposes of the BHC Act, the home state of Columbia is Washington, and Pacific Bank is located in Oregon and Washington.[10] Columbia is well capitalized and well managed under applicable law, and Columbia Bank has a "Satisfactory" rating under the Community Reinvestment Act of 1977 ("CRA").[11] Oregon has no statutory minimum age requirement,[12] and Pacific Bank has been in existence for more than five years.

On consummation of the proposed transaction, Columbia would control less than 1 percent of the total amount of consolidated deposits in insured depository institutions in the United States. Washington imposes a 30 percent limit on the total amount of in-state deposits that a single banking organization may control.[13] The combined organization would control approximately 3.6 percent of the total amount of deposits of insured depository institutions in Washington and approximately 5.7 percent of the total amount of deposits of insured depository institutions in Oregon, the only states in which Columbia and Pacific have overlapping banking operations. The Board has considered all other requirements under section 3(d) of the BHC Act, including Columbia Bank's record of meeting the convenience and needs of the communities it serves. Accordingly, in light of all the facts of record, the Board may approve the proposal under section 3(d) of the BHC Act.

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

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

[11] 12 U.S.C. § 2901 et seq.

[12] Or. Rev. Stat. § 713.270.

[13] Wash. Rev. Code § 30A.49.125(6). Oregon does not impose a limit on the total amount of in-state deposits that a single banking organization may control.

the business of banking in any relevant market.[14] The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[15]

Columbia and Pacific have subsidiary depository institutions that compete directly in the Eugene, Oregon, banking market ("Eugene market"); the Portland, Oregon-Washington, banking market ("Portland market"); and the Seattle, Washington, banking market ("Seattle market").[16] 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 banking market; the relative share of total deposits in insured depository institutions in the market ("market deposits") that Columbia would control;[17] the concentration levels of market deposits and the increase in these levels, as measured by the Herfindahl-Hirschman Index ("HHI") under the

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[14] 12 U.S.C. § 1842(c)(1).

[15] 12 U.S.C. § 1842(c)(1)(B).

[16] The Eugene market is defined as the Eugene metropolitan area in Lane and Linn counties, both of Oregon. The Portland market is defined as the Portland metropolitan area in Clackamas, Columbia, Marion, Multnomah, Washington, and Yamhill counties, all of Oregon; and Clark County, Washington. The Seattle market is defined as the Seattle metropolitan area in King, Pierce, and Snohomish counties; the southeastern portion of Island County; and Bainbridge Island in Kitsap County, all of Washington.

[17] Local deposit and market share data are as of June 30, 2016, 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).

Department of Justice Bank Merger Competitive Review guidelines ("DOJ Bank Merger Guidelines");[18] and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Eugene, Portland, and Seattle markets. On consummation of the proposal, the Eugene, Portland, and Seattle markets would each remain moderately concentrated as measured by the HHI, according to the DOJ Bank Merger Guidelines. The change in the HHI in these markets would be small, and numerous competitors would remain in each banking market.[19]

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[18] Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice ("DOJ") has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

[19] Columbia operates the 13th largest depository institution in the Eugene market, controlling approximately $30.4 million in deposits, which represent 0.7 percent of market deposits. Pacific operates the largest depository institution in the same market, controlling deposits of approximately $855.2 million, which represent approximately 18.2 percent of market deposits. On consummation of the proposed transaction, Columbia would become the largest depository organization in the market, controlling deposits of approximately $885.6 million, which represent approximately 18.9 percent of market deposits. The HHI for the Eugene market would increase by 24 points to 1277, and 13 competitors would remain in the market.

Columbia operates the 8th largest depository institution in the Portland market, controlling approximately $1.2 billion in deposits, which represent 2.8 percent of market deposits. Pacific operates the 9th largest depository institution in the same market, controlling deposits of approximately $575.0 million, which represent approximately 1.3 percent of market deposits. On consummation of the proposed transaction, Columbia would become the 7th largest depository organization in the market, controlling deposits of approximately $1.8 billion, which represent

The DOJ also has conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

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

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.[20] In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information

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approximately 4 percent of market deposits. The HHI for the Portland market would increase by 7 points to 1491, and 35 competitors would remain in the market.

Columbia operates the 7th largest depository institution in the Seattle market, controlling approximately $3.0 billion in deposits, which represent 3 percent of market deposits. Pacific operates the 19th largest depository institution in the same market, controlling deposits of approximately $596.3 million, which represent approximately 0.6 percent of market deposits. On consummation of the proposed transaction, Columbia would become the 6th largest depository organization in the market, controlling deposits of approximately $3.6 billion, which represent approximately 3.6 percent of market deposits. The HHI for the Seattle market would increase by 3 points to 1272, and 53 competitors would remain in the market.

[20] 12 U.S.C. § 1842(c)(2), (5), and (6).

regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as public comments on the proposal. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to complete effectively the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

Columbia and Pacific are both well capitalized, and the combined entity would remain so on consummation of the proposed transaction. The proposed transaction is a bank holding company merger that is structured primarily as an exchange of shares.[21] The asset quality, earnings, and liquidity of Columbia Bank and Pacific Bank are consistent with approval, and Columbia appears to have adequate resources to absorb the related costs of the proposal and to complete integration of the institutions' operations. In addition, future prospects of the institutions under the proposal are considered consistent with approval.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Columbia, Pacific, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Columbia; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; the organizations' records of compliance with applicable banking,

[21] To effect the transaction, each share of Pacific common stock would be converted into a right to receive Columbia common stock, based on an exchange ratio.

consumer protection, and anti-money-laundering laws; and information provided by the commenter.

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

The Board also has considered Columbia's plans for implementing the proposal. Columbia 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. Columbia would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, Columbia's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and Columbia plans to integrate Pacific's existing management and personnel in a manner that augments Columbia's management.[22]

Based on all the facts of record, including Columbia'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 Columbia and Pacific in combating money-laundering activities, are consistent with approval.

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[22] Following consummation of the proposed transaction, a Pacific director will join the boards of directors of Columbia and Columbia Bank. Further, Columbia represents that additional key leaders from Pacific are expected to join Columbia.

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.[23] In its evaluation of the effects of the proposal on the convenience and needs 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 CRA. The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,[24] 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.[25]

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. 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.

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[23] 12 U.S.C. § 1842(c)(2).

[24] 12 U.S.C. § 2901(b).

[25] 12 U.S.C. § 2903.

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 Columbia Bank and Pacific Bank; the fair lending and compliance records of both banks; the supervisory views of the FDIC; confidential supervisory information; information provided by Columbia; and the public comment received on the proposal.

Public Comment on the Proposal

In this case, a commenter objected to the proposal on the basis of Columbia Bank's CRA performance. The commenter's concerns focus on alleged small business lending weaknesses in several counties in Oregon and Washington. Specifically, the commenter argued that the bank made a disproportionality small number of CRA-reportable small business loans from 2013 to 2015, as compared to other lenders, in four counties in Oregon and Washington. The commenter also commended Pacific Bank's practice of serving non-profit organizations, but questioned whether Columbia would continue this practice following consummation of the proposed transaction.[26] The commenter requested that the application include a forward-looking community benefits plan detailing how Columbia Bank would address the CRA-related concerns identified by the commenter.[27]

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[26] While recognizing that Columbia Bank is primarily a commercial lender, the commenter also encouraged the bank to consider initiatives and partnerships with community groups that would enable it to play a more active role in providing access to homeownership to LMI and minority individuals.

[27] The commenter noted Columbia Bank's "Low Satisfactory" ratings on the Lending and Service Tests for the state of Oregon and the Portland-Vancouver-Hillsboro Metropolitan Statistical Area ("MSA"), and on the Service Test for the state of Washington, in the bank's 2014 CRA examination, and asserted that the bank's community benefits plan should indicate how the bank would improve its performance in these areas. The Board has consistently found that neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into commitments or agreements with any organizations. See, e.g., United Bancshares, Inc., FRB Order No. 2017-10 at 12 n. 28 (April 6, 2017); Huntington

Businesses of the Involved Institutions and Response to the Public Comment

Columbia operates primarily through Columbia Bank and provides a broad range of financial products and services to consumers and businesses. Through its network of branches across Idaho, Oregon, and Washington, the bank offers a variety of products and services, including checking, savings, and certificate of deposit accounts; commercial, residential, agricultural, and consumer loans; business checking and savings accounts; credit card and merchant card services; wealth management services; and international banking.

Pacific operates primarily through Pacific Bank and offers a range of retail and commercial banking products and services through branches in Oregon and Washington. Its products and services include checking, savings, and certificate of deposit accounts; merchant card services; wealth management; and mobile banking. Pacific Bank focuses on commercial lending to community-based businesses, healthcare professionals, and non-profit organizations.

Columbia disputes the commenter's allegations regarding its small business lending record and asserts that Columbia Bank is fully committed to meeting its responsibilities under the CRA. Columbia challenges the methodology used by the commenter in reaching its conclusions about the bank's lending record and asserts that using a different methodology would result in a more meaningful measure of the community impact of the bank's lending in the communities it serves. Columbia represents that it offers a wide range of small business products, engages in outreach to small businesses, including through partnerships with community organizations, and is consistently seeking ways to improve its performance. Columbia notes that it offers a

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Bancshares Inc., FRB Order No. 2016-13 at 32 n.50 (July 29, 2016); CIT Group, Inc., FRB Order No. 2015-20 at 24 n.54 (July 19, 2015); Citigroup Inc., 88 Federal Reserve Bulletin 485 (2002); Fifth Third Bancorp, 80 Federal Reserve Bulletin 838, 841 (1994). In its evaluation, the Board reviews the existing CRA performance record of an applicant and the programs that the applicant has in place to serve the credit needs of its CRA Assessment Areas ("AAs").

large suite of secured and unsecured small business loan products, in amounts starting as low as $500 and going up to $1,000,000, and has a centralized small business lending team. The bank further notes that it engages in targeted marketing to small businesses through television, online, and branch location promotions and advertisements, as well as through numerous established community partnerships.

Columbia represents that the bank has migrated the majority of its small business lending to a centralized underwriting environment to ensure an objective, systematic, and consistent process across its footprint. According to Columbia, lending decisions are guided by Columbia Bank's credit policies with an overarching goal of increasing the bank's capacity to originate higher volumes of loans to businesses in its communities in a fair and consistent way. If a loan does not meet approval guidelines for Columbia Bank's standard loan products, Columbia represents that the application is reviewed for eligibility for a range of Small Business Administration programs.[28]

In response to the commenter's concerns about Columbia's commitment to continuing Pacific Bank's efforts in serving non-profit organizations, Columbia asserts that it plans to retain, and potentially expand across its footprint, the successful aspects of Pacific Bank's work with the non-profit community.

Records of Performance Under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board considers substantial information in addition to information provided by public commenters and the response to comments by the applicant. In particular, the Board evaluates an institution's performance record in light of examinations by the appropriate

[28] In response to the commenter's encouragement to Columbia Bank to consider initiatives and partnerships that would allow it to play a more active role in providing homeownership access to LMI and minority individuals, Columbia asserts that even though the bank primarily focuses on commercial banking, it offers residential loan products and a full range of secondary market-qualifying mortgage loan products in its AAs. Columbia represents that it will consider engaging in new initiatives and partnerships aimed at these goals.

federal supervisors of the CRA performance records of the relevant institutions, as well as information and views provided by the appropriate federal supervisors.[29] In this case, the Board considered the supervisory views of 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.[30] 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 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 ("HMDA"),[31] in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's AAs; (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the

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

[30] 12 U.S.C. § 2906.

[31] 12 U.S.C. § 2801 et seq.

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;[32] (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.

CRA Performance of Columbia Bank

Columbia Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of March 30, 2017 ("Columbia Bank Evaluation").[33] The bank received a "Low Satisfactory" rating for the Lending Test, an "Outstanding" rating for the Investment Test, and a "High Satisfactory" rating for the Service Test.[34] Although Columbia Bank's overall rating took into consideration

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[32] 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).

[33] The Columbia Bank Evaluation was conducted using Large Bank CRA Examination Procedures. The examiners reviewed residential mortgage, small business, and farm loans from January 1, 2014, through December 31, 2016. The evaluation period for community development lending, investments, and services was March 31, 2014, through March 30, 2017.

[34] The Columbia Bank Evaluation included full-scope evaluations of the Seattle-Tacoma, Washington, Combined Statistical Area ("CSA"); the Portland-Vancouver-Salem, Multi-State CSA ("Portland-Vancouver CSA"); Non-Metropolitan, Oregon Non-Metropolitan Statistical Area ("Non-MSA"), and Non-Metropolitan, Idaho Non-MSA. Limited-scope evaluations were performed in the Kennewick-Richland, Washington MSA; Spokane-Spokane Valley, Washington MSA; Bellingham, Washington MSA; Yakima, Washington MSA; Longview, Washington MSA; Lewiston, Idaho - Washington MSA; Walla-Walla, Washington MSA; Non-Metropolitan, Washington Non-MSA; Bend-

its performance in each of its state and multistate metropolitan AAs, examiners gave the greatest weight to Columbia Bank's performance in the states of Washington and Oregon, and the Portland-Vancouver CSA, given that Columbia Bank's loan production and branch infrastructure are concentrated in those areas.[35] Examiners noted that the scope of the CRA evaluation was influenced by a CRA-related comment that was received from a community group during the onsite examination.[36]

For the Lending Test, examiners found that Columbia Bank's overall lending activity reflected good responsiveness to the credit needs of its combined AA. Examiners found that the bank originated a substantial majority of small business, small farm, and home mortgage loans within its AAs and that the geographic distribution of loans reflected good penetration throughout its AAs.[37] Examiners also found that Columbia Bank utilized innovative and/or flexible lending practices to serve community credit needs, including those of small businesses.[38] Examiners found that Columbia Bank's overall distribution of borrowers reflected poor penetration among businesses of different sizes and retail customers of different income levels; however, the bank exhibited an adequate record of serving the credit needs of the most economically disadvantaged areas of its AAs, including low-income individuals and/or very small

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Redmond, Oregon, MSA; Salem, Oregon MSA; Eugene-Springfield, Oregon MSA; Boise City, Idaho MSA; and Coeur D'Alene, Idaho MSA.

[35] Columbia Bank received a "Satisfactory" overall rating in each of its state and multistate metropolitan AAs.

[36] That comment is identical to the comment that was submitted on this proposal.

[37] Examiners noted that the geographic distribution of loans was assessed by comparing the institution's lending performance in LMI geographies to aggregate data for the institution or the performance of other lenders, while considering relevant demographic information.

[38] Examiners noted that these programs included Small Business Administration loans, Washington State's Linked Deposit Program, and Business Oregon's Capital Access Program.

businesses, consistent with safe and sound banking practices. Further, examiners found that the bank originated a relatively high level of community development loans, the majority of which were directed toward affordable housing, which examiners cited as a credit need identified by community contacts within the bank's AAs.

For the states of Oregon and Washington and the Portland-Vancouver CSA,[39] all areas of concern to the commenter, examiners found that Columbia Bank's lending levels reflected good responsiveness to AA credit needs overall. Columbia Bank's small business market share exceeded its deposit share in Oregon, Washington, and the Portland-Vancouver CSA. Examiners found that the geographic distribution of small business loans reflected excellent dispersion in Washington and the Portland-Vancouver CSA, and adequate dispersion in Oregon. Further, examiners determined that the bank made a relatively high level of community development loans in its Oregon AAs, and an adequate level in its Washington AAs and the Portland-Vancouver CSA.

Examiners found that Columbia Bank used innovative and/or flexible lending practices in Oregon, Washington, and the Portland-Vancouver CSA. The distribution of loans reflected adequate penetration among businesses of different sizes and among customers of different income levels in Oregon, but poor penetration among businesses of different sizes and among customers of different income levels in Washington and the Portland-Vancouver CSA. In each of these geographic areas, examiners found that the distribution of small farm borrowers reflected excellent penetration among farm customers of different sizes. Examiners identified possible contributing factors for poor lending penetration among businesses of different sizes in certain AAs, including Columbia Bank's recent formation of a Small Business Lending Center, which led to more consistent underwriting for small business loans and increased consideration of affiliate income in credit decisions. Examiners also noted that Columbia Bank continued to interact with community groups in hopes of addressing, through a

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[39] For purposes of the Columbia Bank Evaluation, the Portland-Vancouver CSA was not included in either the State of Oregon or the State of Washington ratings.

cooperative working relationship, any small business lending concerns raised by the CRA-related comment.

Examiners found that, overall, the bank had an excellent level of qualified community development investments and grants, particularly those that were not routinely provided by private investors. Examiners noted that the bank's investments supported economic development and the provision of affordable housing. Examiners further observed that the bank's qualified investments and grants during the evaluation period represented a significant increase from the prior evaluation period. In the states of Washington and Oregon and the Portland-Vancouver CSA, examiners found that the bank had excellent levels of community development investments and grants and that the bank exhibited good responsiveness to credit and community development needs.

Examiners found that Columbia Bank's delivery systems were accessible to all portions of its AAs. To the extent changes had been made, examiners noted that the bank's opening and closing of branches generally had not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals. Examiners found that services did not vary in a way that inconvenienced portions of the AAs, particularly LMI geographies and/or LMI individuals. Examiners noted that Columbia Bank provided a relatively high level of community development services given its size and resources.

In the states of Washington and Oregon, examiners rated Columbia Bank "High Satisfactory" for the Service Test, while in the Portland-Vancouver CSA, examiners rated Columbia Bank "Low Satisfactory." In both states and the Portland-Vancouver CSA, examiners found that the opening and closing of branches generally had not adversely affected the accessibility of delivery systems in the bank's AAs, particularly in LMI geographies and/or to LMI individuals. Examiners also found that in the states of Oregon and Washington, Columbia Bank's business hours did not vary in a way that inconvenienced portions of the AAs, particularly LMI geographies and/or LMI individuals. For the Portland-Vancouver CSA, examiners noted that Columbia Bank's business hours and services were tailored to the convenience and needs of the AAs, particularly LMI geographies and/or LMI individuals. Examiners found that Columbia Bank provided a relatively high level of community development services in the states of Oregon and Washington, but a limited level of community development services in the Portland-Vancouver CSA.

CRA Performance of Pacific Bank

Pacific Bank received an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of February 24, 2014 ("Pacific Bank Evaluation").[40] The bank received a "High Satisfactory" rating for the Lending Test and a "Low Satisfactory" rating for the Investment Test and the Service Test.[41] Examiners noted that the bank's performance in the Eugene AA was weighted the most heavily in the overall rating.

Examiners concluded that Pacific Bank's lending activity reflected excellent responsiveness to the credit needs of its combined AAs and that the bank exhibited a good record of serving the credit needs of the most economically disadvantaged individuals and very small businesses. Examiners also found that the bank originated a majority of loans inside its AAs.

Examiners found that the geographic distribution of the bank's loans reflected excellent penetration throughout the combined AAs, particularly in LMI geographies. The distribution of the bank's borrowers reflected good penetration among

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[40] The Pacific Bank Evaluation was conducted using the Large Bank Examination Procedures. Examiners reviewed small business loans from 2011 through 2013. Examiners did not review home mortgage loans reported pursuant to HMDA data-collection requirements or small farm loans. The evaluation period for community development loans, investments, and services was from January 25, 2011, through February 23, 2014.

[41] The Pacific Bank Evaluation included full-scope evaluations of three AAs: the Eugene AA (composed of Lane County in Oregon); the Portland-Vancouver-Beaverton AA (composed of Multnomah, Clackamas, and Washington counties in Oregon, and Clark County in Washington); and the Seattle AA (composed of King County, Washington).

businesses of different sizes. Further, examiners found that the bank made an adequate level of community development loans.

Examiners determined that the bank made an adequate level of qualified community development investments and grants, although rarely in a leadership position. Further, examiners concluded that Pacific Bank's branch locations, banking hours, and alternative delivery systems were readily accessible to all portions of its AAs, including LMI geographies and individuals, and that services did not vary in a way that inconvenienced portions of its AAs. Moreover, examiners concluded that the bank provided an adequate level of qualified community development services during the review period.

Views of the FDIC

In its review of the proposal, the Board consulted with the FDIC regarding Columbia Bank's CRA, consumer compliance, and fair lending records. The Board has considered the results of a recent consumer compliance examination of Columbia Bank conducted by FDIC examiners, which included a review of Columbia Bank's policies and procedures for complying with fair lending and other consumer compliance laws. The Board also considered and consulted with the FDIC regarding the recently conducted CRA evaluation of Columbia Bank, the scope of which was impacted by the comment on this proposal. The FDIC considered the same comment that was submitted to the Board in connection with its review of the merger of Columbia Bank and Pacific Bank, and, after a complete review of the record, the FDIC determined that the proposal met the standards of the Bank Merger Act and approved the bank merger without conditions.

The Board has taken the results of the FDIC's examinations and its consultations with the FDIC into account in evaluating this proposal, including in considering whether Columbia Bank has the experience and resources to ensure that policies and programs are implemented in a manner that would allow the combined organization to effectively serve the credit needs of all the communities within the firm's 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. Columbia represents that, following consummation of the proposed transaction, the combined organization would have an enhanced ability to meet the convenience and needs of the community, which would benefit customers of Columbia Bank and legacy customers of Pacific Bank. Columbia represents that the current suite of products and services offered by each bank would continue to be available, and Pacific Bank's customers would benefit from an expanded suite of business and consumer products and services, including import and export letters of credit and documentary collections, same-day ACH origination, mobile wallet debit card functions, consumer credit cards, foundation accounts, and home equity lines of credit that include a fixed-rate conversion option. Further, Columbia represents that existing and future customers of both banks would benefit from a larger branch network.

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 fair lending and other consumer protection laws, consultations with the FDIC, confidential supervisory information, information provided by Columbia, the public comment on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval.

<u>Financial Stability</u>

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."[42]

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.[43] 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.[44]

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

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[42] Dodd-Frank Act § 604(d), Pub. L. No. 111-203, 124 Stat. 1376, 1601 (2010), codified at 12 U.S.C. § 1842(c)(7).

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

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

result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.[45]

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 is 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 predominantly engaged in a variety of consumer and commercial banking activities.[46] The pro forma organization would have minimal cross-border activities and would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. In addition, the organization would not be a critical services provider or so interconnected with other firms or the markets that it would pose a significant risk to the financial system in the event of financial distress.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the United States banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

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[45] 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.

[46] Columbia primarily offers commercial and consumer banking services, mortgage banking services, commercial real estate lending, wealth management, private banking, investment advisory and management services, trust services and operations, and treasury management. Pacific offers commercial and consumer banking services, commercial real estate lending, and treasury management. In each of the activities in which it engages, Columbia 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.

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

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

By order of the Board of Governors,[47] effective October 6, 2017.

Ann E. Misback (signed)

Ann E. Misback
Secretary of the Board

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