

FEDERAL RESERVE SYSTEM

Stock Yards Bancorp, Inc.
Louisville, Kentucky

Order Approving the Acquisition of a Bank Holding Company

Stock Yards Bancorp, Inc. (“Stock Yards”), Louisville, Kentucky, a financial holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to acquire Commonwealth Bancshares, Inc. (“Commonwealth”), a bank holding company, and thereby indirectly acquire Commonwealth’s subsidiary state nonmember bank, Commonwealth Bank & Trust Company (“Commonwealth Bank”), both of Louisville, Kentucky. Following the proposed acquisition and merger of Commonwealth with and into Stock Yards, Commonwealth Bank would be merged with and into Stock Yards’ subsidiary state nonmember bank, Stock Yards Bank & Trust Company (“Stock Yards Bank”), also of Louisville, Kentucky.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (86 Federal Register 52471 (September 21, 2021)).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.

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ The merger of Commonwealth Bank into Stock Yards Bank was approved by the Federal Deposit Insurance Corporation (“FDIC”) on November 30, 2021, pursuant to section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”). 12 U.S.C. § 1828(c).

⁴ 12 CFR 262.3(b).

Stock Yards, with consolidated assets of approximately \$6.2 billion, is the 224th largest insured depository organization in the United States. Stock Yards controls approximately \$5.3 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁵ Stock Yards controls Stock Yards Bank, which operates branches in Kentucky, Indiana, and Ohio. Stock Yards Bank is the 6th largest insured depository institution in Kentucky, controlling deposits of approximately \$4.5 billion, which represent approximately 4 percent of the total deposits of insured depository institutions in that state.⁶

Commonwealth, with consolidated assets of approximately \$1.3 billion, is the 820th largest insured depository organization in the United States. Commonwealth controls approximately \$1.0 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. Commonwealth Bank operates branches in Kentucky.⁷ Commonwealth Bank is the 24th largest insured depository organization in Kentucky, controlling deposits of approximately \$1.0 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, Stock Yards would become the 196th largest insured depository organization in the United States, with consolidated assets of approximately \$7.5 billion, which would represent less than 1 percent of the total assets of insured depository organizations in the United States. Stock Yards would control total consolidated deposits of approximately \$6.3 billion, which would represent less than 1 percent of the total amount of deposits of insured depository institutions in the United

⁵ Consolidated asset and national deposit, ranking, and market share data are as of September 30, 2021. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

⁶ State deposit ranking and deposit data are as of June 30, 2021.

⁷ The proposal does not raise interstate issues under section 3(d) of the BHC Act because Kentucky is the home state of both Stock Yards and Commonwealth Bank, and Commonwealth Bank operates only in Kentucky. See 12 U.S.C. §§ 1841(o)(4)-(7) and 1842(d).

States. In Kentucky, Stock Yards would remain the 6th largest insured depository organization, controlling deposits of approximately \$5.5 billion, which would represent approximately 5 percent of the total deposits of insured depository institutions in that state.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market.⁸ The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the communities to be served.⁹

Stock Yards and Commonwealth have subsidiary banks that compete directly in the Louisville, Kentucky, banking market (“Louisville market”)¹⁰ and Cincinnati, Ohio, banking market (“Cincinnati market”).¹¹ The Board has considered the competitive effects of the proposal in these banking markets. In particular, the Board has considered the relative share of total deposits in insured depository institutions in the

⁸ 12 U.S.C. § 1842(c)(1)(A).

⁹ 12 U.S.C. § 1842(c)(1)(B).

¹⁰ The Louisville market is defined, in Kentucky, as Breckinridge, Bullitt, Henry, Jefferson, Meade, Nelson, Oldham, Shelby, and Spencer counties, as well as the Bedford Census County Division (“CCD”) in Trimble County, the Fort Knox and West Point CCDs, and the cities of Vine Grove and Radcliff in Hardin County, and, in Indiana, as Clark, Floyd, Harrison, Scott, and Washington counties, as well as the townships of Boone, Jennings, Liberty, Ohio, and Whiskey Run in Crawford County.

¹¹ The Cincinnati market is defined, in Ohio, as Brown, Butler, Clermont, Hamilton, and Warren counties; in Indiana, as Dearborn County; and, in Kentucky, as Boone, Bracken, Campbell, Gallatin, Grant, Kenton and Pendleton counties, as well as the New Liberty and Owenton CCDs in Owen County.

market (“market deposits”) that Stock Yards would control;¹² the concentration level of market deposits and the increase in this level, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice (“DOJ”) Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);¹³ the number of competitors that would remain in the market; and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in both the Louisville market and Cincinnati market. On consummation, the Louisville market would remain moderately concentrated and the Cincinnati market would remain highly concentrated, as measured by the HHI, according to the DOJ Bank Merger Guidelines. In the Louisville

¹² Local deposit and market share data are as of June 30, 2021, 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., Hancock Whitney Corporation, FRB Order No. 2019-12 at 6 (September 5, 2019); First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

¹³ In applying the DOJ Bank Merger Guidelines issued in 1995 (see <https://www.justice.gov/atr/bank-merger-competitive-review-introduction-and-overview-1995>), the Board looks to the DOJ’s Horizontal Merger Guidelines, issued in 1992 and amended in 1997, for the characterization of a market’s concentration. See <https://www.justice.gov/atr/horizontal-merger-guidelines-0>. Under these Horizontal Merger Guidelines, which were in effect prior to 2010, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The DOJ has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), <https://www.justice.gov/opa/pr/department-justice-and-federal-trade-commission-issue-revised-horizontal-merger-guidelines>.

market, the HHI would increase by 38 points, and in the Cincinnati market, the HHI would not change.¹⁴ Moreover, 47 competitors would remain in the Louisville market, and 58 competitors would remain in the Cincinnati market.

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 the Louisville market, in the Cincinnati market, or in any other relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

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

¹⁴ Stock Yards is the 5th largest depository organization in the Louisville market, controlling approximately \$3.6 billion in deposits, which represent 8.8 percent of market deposits. Commonwealth is the 11th largest depository organization in the market, controlling deposits of approximately \$901 million, which represent 2.2 percent of market deposits. On consummation of the proposed transaction, Stock Yards would become the 3rd largest depository organization in the market, controlling deposits of approximately \$4.5 billion, which would represent 10.9 percent of market deposits. The HHI for the Louisville market would increase by 38 points to 1120.

Stock Yards is the 18th largest depository organization in the Cincinnati market, controlling deposits of approximately \$381 million in deposits, which represent 0.24 percent of market deposits. Commonwealth is the 38th largest depository organization in the market, controlling deposits of approximately \$102 million in deposits, which represent approximately 0.07 percent of market deposits. On consummation of the proposed transaction, Stock Yards would become the 16th largest depository organization in the market, controlling deposits of approximately \$483 million, which would represent 0.31 percent of market deposits. The HHI of 3127 for the Cincinnati market would not increase as a result of the proposed transaction.

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, the effectiveness of the institutions in combatting money laundering, and any public comments on the proposal.¹⁵ 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 public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as any 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.

Stock Yards, Commonwealth, and their subsidiary depository institutions are well capitalized, and the combined organization would remain so upon consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a cash and stock purchase, with a subsequent merger of the subsidiary banks.¹⁶ The capital, asset quality, earnings, and liquidity of Stock Yards and

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

¹⁶ Stock Yards would merge Commonwealth with and into H. Troutman Merger Subsidiary, Inc., a Kentucky corporation and wholly owned subsidiary of Stock Yards ("Merger Sub"), with Commonwealth surviving the merger as a direct, wholly owned

Commonwealth are consistent with approval, and Stock Yards and Commonwealth appear to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, future prospects are considered consistent with approval.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Stock Yards, Commonwealth, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Stock Yards; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws; and a public comment on the proposal.

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

The Board also has considered Stock Yards' plans for implementing the proposal. Stock Yards has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. In addition, Stock Yards' management has the experience and resources to operate the resulting organization in a safe and sound manner.

subsidiary of Stock Yards. Thereafter, Merger Sub would merge with and into Stock Yards, with Stock Yards surviving as the parent of Commonwealth Bank. Immediately following the merger of Commonwealth into Stock Yards, Commonwealth Bank would merge with and into Stock Yards Bank, with Stock Yards Bank as the surviving entity. Stock Yards has the financial resources to effect the proposed acquisition and mergers.

Based on all the facts of record, including Stock Yards’ supervisory record, managerial and operational resources, and plans for operating the combined organization after consummation, the Board determines that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Stock Yards and Commonwealth 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.¹⁷ In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of these communities. The Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act of 1977 (“CRA”).¹⁸ 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,¹⁹ 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.²⁰

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

¹⁷ 12 U.S.C. § 1842(c)(2).

¹⁸ 12 U.S.C. § 2901 *et seq.*

¹⁹ 12 U.S.C. § 2901(b).

²⁰ 12 U.S.C. § 2903.

certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and public comments on the proposal. The Board also may consider the acquiring institution's business model, its marketing and outreach plans, its 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 Stock Yards Bank and Commonwealth Bank, the fair lending and compliance records of both banks, the supervisory views of the Kentucky Department of Financial Institutions ("KDFI"), and the FDIC, confidential supervisory information, information provided by Stock Yards, and the public comment received on the proposal.

Public Comment on the Proposal

The Board received one adverse comment on the proposal. The commenter objected to the proposal, alleging that in 2020, both Stock Yards Bank and Commonwealth Bank made fewer home loans in Kentucky to African American individuals as compared to white individuals.²¹ In addition, the commenter asserted that the proposal has no public benefit.

Businesses of the Involved Institutions and Response to the Public Comment

Stock Yards offers a variety financial products and services, including checking and savings accounts, mortgage and business loans, and asset management services, through Stock Yards Bank's network of branches in Kentucky, Ohio, and Indiana. Through its branches in Kentucky, Commonwealth Bank offers commercial, consumer, business, and agricultural loan products; a variety of deposit products; and investment advisory and trust services.

²¹ The data cited by the commenter appears to correspond to publicly available 2020 data reported by Stock Yards Bank and Commonwealth Bank under the Home Mortgage Disclosure Act of 1975 ("HMDA"). 12 U.S.C. § 2801 et seq.

In response to the comment, Stock Yards represents that Stock Yards Bank and Commonwealth Bank each have a history of supporting and servicing their entire market areas, including minority communities. Stock Yards represents that the limited HMDA data referenced by the commenter are not inconsistent with approval of its application and do not reflect the CRA records or performance of either Stock Yards Bank or Commonwealth Bank in meeting the credit needs of their communities, including LMI areas and majority-minority census tracts. In addition, Stock Yards notes that CRA examiners did not find any evidence of discriminatory or other illegal credit practices at Stock Yards Bank.

According to Stock Yards, Stock Yards Bank recently expanded its fair lending and outreach initiatives designed to enhance Stock Yards Bank's fair lending program, including increased marketing and outreach activities, the provision of homeownership education and free credit screening events in LMI and majority-minority areas, and the offer of a special mortgage product for LMI borrowers. Stock Yards represents that Stock Yards Bank has expanded its CRA and fair lending compliance program, adding a new Lending Compliance Analyst, HMDA Analyst, and Training Manager positions, and created a new "Community Development/Community Reinvestment Officer" role to facilitate outreach efforts focused on minority lending, home ownership, and financial literacy. According to Stock Yards, Commonwealth Bank initiated a new marketing program in 2021, which is expected to be continued by the combined bank, targeting mortgage lending advertisements in majority-minority neighborhoods.

Records of Performance under the CRA

In evaluating the convenience and needs factor and CRA performance of an institution, the Board generally considers the institution's most recent CRA evaluation, as well as information provided by and the supervisory views of appropriate federal

supervisors,²² which in this case is the FDIC with respect to both Stock Yards Bank and Commonwealth Bank. In addition, the Board considers information provided by the applicant and any public commenters.

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.²³ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test ("Lending Test"), an investment test ("Investment Test"), and a service test ("Service Test") to evaluate the performance of large insured depository institutions, such as Stock Yards Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an institution's lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the Lending Test, examiners review and analyze an institution's data reported under HMDA, in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is evaluated based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's CRA assessment areas ("AAs"); (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the

²² See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48,506, 48,548 (July 25, 2016).

²³ 12 U.S.C. § 2906.

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;²⁴ (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.²⁵ The Investment Test evaluates the number and amounts of qualified investments that benefit the institution's AAs, and the Service Test evaluates the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of the institution's community development services.²⁶

Federal financial supervisors apply a Lending Test and a community development test ("Community Development Test") to evaluate the performance of an intermediate small bank, such as Commonwealth Bank, in helping to meet the credit needs of the communities it serves. The Community Development Test evaluates the number and amounts of the institution's community development loans and qualified investments; the extent to which the institution provides community development services; and the institution's responsiveness through such activities to community development lending, investment, and service needs.²⁷

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial, ethnic, or

²⁴ Examiners also consider the number and amounts of small business and small farm loans made to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

²⁵ See 12 CFR 228.22(b).

²⁶ See 12 CFR 228.21 et seq.

²⁷ See 12 CFR 228.26(c).

gender groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution's lending decisions may not be available solely from public HMDA data.²⁸ Consequently, the Board requests additional information not available to the public that may be needed from the institution and evaluates disparities in the context of the additional information obtained regarding the lending and compliance record of an institution.

CRA Performance of Stock Yards Bank

Stock Yards Bank was assigned an overall rating of "Outstanding" at its most recent CRA performance evaluation by the FDIC, as of April 28, 2021 ("Stock Yards Bank Evaluation").²⁹ Stock Yards Bank received an "Outstanding" rating for the Lending Test and a "High Satisfactory" rating for both the Investment Test and Service Test.³⁰

With respect to the Lending Test, examiners found that Stock Yards Bank's lending levels reflected excellent responsiveness to AA credit needs. Examiners noted

²⁸ Importantly, credit scores are not available in the public HMDA data. Accordingly, when conducting fair lending examinations, examiners analyze additional information not available to the public before reaching a determination regarding an institution's compliance with fair lending laws.

²⁹ The Stock Yards Bank Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners reviewed home mortgage loan products reported under the HMDA; small business loans reported under the CRA; community development loans; qualified investments; and community development and retail services from June 5, 2018, through April 28, 2021. Examiners did not review small farm loans, as farm lending represented a nominal portion of the loan portfolio and originations during the review period.

³⁰ The Stock Yards Bank Evaluation included a full-scope review of Stock Yards Bank's five AAs: Louisville-Jefferson County, Kentucky-Indiana Multistate Metropolitan Statistical Area ("Louisville Multistate MSA AA"); Cincinnati, Kentucky-Ohio-Indiana Multistate MSA; Indianapolis-Carmel-Anderson, Indiana MSA; Scott County Non-MSA of Indiana; and Nelson County Non-MSA of Kentucky. Stock Yard Bank's performance in the Louisville Multistate MSA AA carried the most weight in the evaluation, as this

that Stock Yards Bank had been a significant small business and home mortgage lender throughout its AAs, particularly within the Louisville Multistate MSA AA. Examiners found that the geographic distribution of loans reflected excellent penetration throughout the bank's AAs and that the distribution of borrowers reflected good penetration among businesses of different sizes and retail customers of different income levels. Examiners also found that Stock Yards Bank had a good record of serving the credit needs of the most economically disadvantaged areas of its AAs, very small businesses, and low-income individuals. Examiners noted that Stock Yards Bank was a leader in making community development loans and made extensive use of innovative and flexible lending practices in serving credit needs in its AAs.

With respect to the Investment Test, examiners found that Stock Yards Bank made a significant level of qualified community development investments and grants, including some that were not routinely provided by private investors. Examiners characterized Stock Yards Bank as having exhibited good responsiveness to credit and community development needs, including through significant use of innovative or complex qualified investments to support community development initiatives.

With respect to the Service Test, examiners found that Stock Yards Bank's delivery systems were accessible to essentially all portions of the bank's AAs. Examiners determined that, to the extent that changes were made, Stock Yards Bank's record of opening and closing branches improved the accessibility of the bank's delivery systems, particularly in LMI geographies. Examiners noted that Stock Yards Bank's services did not vary in a way that inconvenienced certain portions of the bank's AAs,

AA represented the bank's most significant market in terms of deposit concentration, branch distribution, and reportable loans.

particularly LMI geographies. Examiners characterized Stock Yards Bank as providing a relatively high level of community development services.

CRA Performance of Commonwealth Bank

Commonwealth Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the FDIC, as of June 25, 2018 (“Commonwealth Bank Evaluation”).³¹ Commonwealth Bank received a “Satisfactory” rating for both the Lending Test and Community Development Test.³²

With respect to the Lending Test, examiners found that Commonwealth Bank’s loan-to-deposit ratio was reasonable given the bank’s size and financial condition and the credit needs in the bank’s AAs. Examiners noted that Commonwealth Bank made a majority of its home mortgage and small business loans in its AAs and that the geographic distribution of Commonwealth Bank’s loans reflected reasonable dispersion throughout the AAs. Examiners found that the distribution of borrowers reflected reasonable penetration of loans among individuals of different income levels and businesses of different sizes. Further, examiners noted that Commonwealth Bank had not received any CRA-related complaints since the previous evaluation.

With respect to the Community Development Test, examiners determined that Commonwealth Bank had demonstrated overall adequate responsiveness to the needs of its AAs through community development loans, qualified investments, and services.

³¹ The Commonwealth Bank Evaluation was conducted using Intermediate Small Institution CRA Examination Procedures. Examiners reviewed all home mortgage loans for 2016 and 2017; a sample of small business loans for January 1, 2016, to December 31, 2016; loan-to-deposit ratio data from September 30, 2015, to March 31, 2018; and community development activities from July 29, 2015, to June 25, 2018.

³² The Commonwealth Bank Evaluation included a full-scope review of Jefferson County, Kentucky and Shelby County, Kentucky, both within the Louisville MSA AA and a limited-scope review of Boone County, Kentucky and Kenton County, Kentucky, both within the Cincinnati, Ohio-Kentucky-Indiana MSA (“Cincinnati MSA”) AA. The bank’s performance within the Louisville MSA AA received significantly more weight in the evaluation, as it was the locus of a majority of Commonwealth Bank’s loans and a significant majority of Commonwealth Bank’s deposits.

In reaching this conclusion, examiners considered the bank's capacity and the need and availability of such opportunities for community development in the bank's AAs.

Branch Closures

Stock Yards represents it would close or consolidate a total of six Stock Yards Bank and Commonwealth Bank branches in connection with the proposed transaction, partly because of the proximity of those branches to other branches of the combined bank. The federal banking supervisory agencies evaluate a bank's record of opening and closing branches, particularly branches located in LMI geographies or primarily serving LMI individuals, as part of the CRA examination process.³³ As noted, examiners found, in connection with the Stock Yards Bank Evaluation, that the bank's opening and closing of branches had improved the accessibility of the bank's delivery systems. The Board also has considered that federal banking law provides a specific mechanism for addressing branch closings, including requiring that a bank provide notice to the public and the appropriate federal supervisory agency before a branch is closed. Stock Yards represents that Stock Yards Bank would comply with the requirements of section 42 of the Federal Deposit Insurance Act³⁴ and interagency guidance applicable to branch closures in connection with and following the proposed transaction.³⁵

Additional Supervisory Views

In its review of the proposal, the Board consulted with the FDIC regarding the CRA, consumer compliance, and fair lending records of Stock Yards Bank and Commonwealth Bank. The Board also considered the results of the most recent consumer compliance examinations of Stock Yards Bank and Commonwealth Bank, which included reviews of the banks' compliance management programs and compliance

³³ See, e.g., 12 CFR 228.24(d)(2). In addition, the Board notes that the FDIC, as the primary federal supervisor of Stock Yards Bank, would continue to evaluate the bank's branch closures in the course of conducting CRA performance evaluations of the bank.

³⁴ 12 U.S.C. § 1831r-1.

³⁵ See Joint Policy Statement on Branch Closings by Insured Depository Institutions, <https://www.federalreserve.gov/boarddocs/press/BoardActs/1999/19990707/r-1036.pdf>.

with consumer protection laws and regulations. In addition, the Board consulted with the FDIC, which approved the related bank merger application and, in doing so, considered the convenience and needs of the communities served by Stock Yards Bank and Commonwealth Bank, including with respect to the anticipated branch closures, as well as the institutions' records of performance under the CRA.

The Board has taken this information, as well as the CRA performance records of Stock Yards Bank and Commonwealth Bank, into account in evaluating the proposal, including in considering whether Stock Yards has the experience and resources to ensure that Stock Yards Bank and Commonwealth Bank would help meet the credit needs of the communities to be served following consummation of the proposed transaction.

Additional Convenience and Needs Considerations

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. Stock Yards represents that Stock Yards Bank and Commonwealth Bank would work closely with members of their respective communities to offer products and services tailored to the needs of these communities. Stock Yards represents that consummation of the proposal would provide customers of Commonwealth Bank access to expanded product and service offerings, as well as the convenience of a more extensive branch network, extending across Kentucky, Indiana, and Ohio. Stock Yards also represents that consummation of the proposal would provide Stock Yards Bank with additional resources to carry out its community outreach and lending initiatives. In addition, Stock Yards represents that Stock Yards Bank does not anticipate significant changes in its product offerings or branch network following consummation of the proposal.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the records of Stock Yards Bank and Commonwealth Bank under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, supervisory

information provided by the FDIC, confidential supervisory information, information provided by Stock Yards, the public comment on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board determines that convenience and needs considerations are consistent with approval.

Financial Stability Considerations

Section 3 of the BHC Act requires the Board to consider “the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system.”³⁶

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.³⁷ These categories are not exhaustive, and additional categories could inform the Board’s decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opacity and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage on the broader economy.³⁸

³⁶ 12 U.S.C. § 1842(c)(7).

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

³⁸ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

The Board's experience has shown that proposals involving an acquisition of less than \$10 billion in total assets, or that result in a firm with less than \$100 billion in total assets, generally are 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.³⁹

In this case, the Board has considered information relevant to risks to the stability of the United States banking or financial system. The proposal involves a target that has less than \$10 billion in total assets and a pro forma organization of less than \$100 billion in total assets. Both the acquirer and the target are predominantly engaged in retail and commercial banking activities.⁴⁰ The pro forma organization 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

³⁹ 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.

⁴⁰ Stock Yards Bank and Commonwealth Bank offer a range of retail and commercial banking products and services. Stock Yards Bank has, and as a result of the proposal would continue to have, a small market share in these products and services on a nationwide basis.

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.⁴¹ 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 Stock Yards with all the conditions imposed in this order and on any commitments made to the Board in connection with the proposal. The Board's approval also is conditioned on receipt by Stock Yards of all required regulatory approvals. For purposes of this action, the conditions and commitments are

⁴¹ The commenter requested that the Board hold public hearings on the proposal. Under section 3(b) of the BHC Act, the Board must hold a public hearing on a proposal if the appropriate supervisory authorities for the acquiring bank or the bank to be acquired make a timely written recommendation of disapproval of the proposal. 12 U.S.C. § 1842(b); see also 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also, in its discretion, may hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present their views. The Board has considered the commenter's request in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted a written comment that the Board has considered in acting on the proposal. The commenter's request does not identify disputed issues of fact that are material to the Board's decision and would be clarified by a public hearing. In addition, the request does not demonstrate why written comments do not present the commenter's views adequately or why a hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing is not required or warranted in this case. Accordingly, the request for public hearings on the proposal is denied.

The commenter also requested an extension of the comment period for the application. The commenter's request for additional time to comment did not identify circumstances that would warrant an extension of the public comment period for this proposal. Accordingly, the Board has determined not to extend the comment period.

deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

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

By order of the Board of Governors,⁴² effective February 17, 2022.

Michele Taylor Fennell (signed)

Michele Taylor Fennell
Deputy Associate Secretary of the Board

⁴² Voting for this action: Chair Pro Tempore Powell and Governors Bowman, Brainard, and Waller.