

FEDERAL RESERVE SYSTEM

TriCo Bancshares  
Chico, California

Order Approving the Merger of Bank Holding Companies

TriCo Bancshares (“TriCo”), Chico, California, a bank holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),<sup>1</sup> has requested the Board’s approval under section 3 of the BHC Act to merge with FNB Bancorp and thereby indirectly acquire FNB Bancorp’s subsidiary bank, First National Bank of Northern California (“FN Bank”), both of South San Francisco, California. Following the proposed acquisition, FN Bank would be merged into TriCo’s subsidiary bank, Tri Counties Bank (“TriCo Bank”), Chico, California.<sup>2</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (83 Federal Register 8,084 (February 23, 2018)).<sup>3</sup> The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

TriCo, with consolidated assets of approximately \$4.8 billion, is the 214th largest insured depository organization in the United States. TriCo controls approximately \$4.0 billion in consolidated deposits, which represent less than 1 percent

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<sup>1</sup> 12 U.S.C. § 1841 et seq.

<sup>2</sup> The merger of FN Bank into TriCo Bank, which is expected to occur immediately after TriCo’s acquisition of FNB Bancorp, is subject to the approval of 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 May 29, 2018.

<sup>3</sup> 12 CFR 262.3(b).

of the total amount of deposits of insured depository institutions in the United States.<sup>4</sup> TriCo controls TriCo Bank, which operates only in California.<sup>5</sup> TriCo is the 31st largest insured depository organization in California, controlling deposits of approximately \$3.9 billion, which represent 0.3 percent of the total deposits of insured depository institutions in that state.<sup>6</sup>

FNB Bancorp, with consolidated assets of approximately \$1.3 billion, is the 582nd largest insured depository organization in the United States. FNB Bancorp controls approximately \$1.1 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. FNB Bancorp controls FN Bank, which operates only in California. FN Bank is the 68th largest insured depository organization in California, controlling deposits of approximately \$1 billion, which represent less than 0.1 percent of the total deposits of insured depository institutions in that state.

On consummation of the proposal, TriCo would become the 183rd largest depository organization in the United States, with consolidated assets of approximately \$6.2 billion, which represent less than 1 percent of the total assets of insured depository organizations in the United States. TriCo would control consolidated deposits of approximately \$5.1 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In California, TriCo would become the 28th largest depository organization, controlling deposits of

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<sup>4</sup> National deposit, market share, and ranking data are as of December 31, 2017, and asset data is as of March 31, 2018, unless otherwise noted.

<sup>5</sup> The proposal does not raise interstate issues under section 3(d) of the BHC Act because California is the home state of TriCo, and FN Bank is located only in California. See 12 U.S.C. § 1842(d).

<sup>6</sup> State deposit, market share, and ranking data are as of June 30, 2017. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

approximately \$4.9 billion, which represent 0.4 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.<sup>7</sup> The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.<sup>8</sup>

TriCo and FNB Bancorp have subsidiary depository institutions that compete directly in the San Francisco-Oakland-San Jose combined statistical area market (“shared market”).<sup>9</sup> The Board has considered the competitive effects of the proposal in this banking market. In particular, the Board has considered the number of competitors that would remain in the market; the relative share of total deposits in insured depository institutions in the market (“market deposits”) that TriCo would control;<sup>10</sup> the

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<sup>7</sup> 12 U.S.C. § 1842(c)(1).

<sup>8</sup> 12 U.S.C. § 1842(c)(1)(B).

<sup>9</sup> The shared market is defined as the San Francisco-Oakland-San Jose combined statistical area in Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Santa Clara Counties; the southern portions of Sonoma and Solano Counties; the northern portion of San Benito County; and the southern edge of Napa County; all of California.

<sup>10</sup> Local deposit and market share data are as of June 30, 2017, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

concentration levels of market deposits and the increase in these levels, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);<sup>11</sup> 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 for the shared market. On consummation of the proposal, the shared market would remain moderately concentrated as measured by the HHI, according to the DOJ Bank Merger Guidelines, and there would be only a small change in the HHI. In addition, numerous competitors would remain in the shared market.<sup>12</sup>

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.

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<sup>11</sup> Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that 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](http://www.justice.gov/opa/pr/2010/August/10-at-938.html).

<sup>12</sup> TriCo operates the 70th largest depository institution in the shared market, controlling approximately \$19.8 million in deposits, which represent less than 0.05 percent of market deposits. FNB Bancorp operates the 23rd largest depository institution in the same market, controlling approximately \$1.04 billion in deposits, which represent approximately 0.21 percent of market deposits. On consummation of the proposal, TriCo would become the 23rd largest depository organization in the market, controlling deposits of approximately \$1.04 billion, which represent approximately 0.26 percent of market deposits. Seventy-eight banking organizations would remain in the 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 shared market or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

#### Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.<sup>13</sup> 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 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.

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<sup>13</sup> 12 U.S.C. § 1842(c)(2), (5), & (6).

TriCo and TriCo Bank are both well capitalized, and the combined organization would remain so on consummation of the proposal. The proposal is a bank holding company merger that is funded primarily through an exchange of shares, with a subsequent merger of the subsidiary depository institutions.<sup>14</sup> The asset quality, earnings, and liquidity of both TriCo Bank and FN Bank are consistent with approval, and TriCo appears to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, the 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 TriCo, FNB Bancorp, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by TriCo; 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 information provided by the commenters.

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

The Board also has considered TriCo's plans for implementing the proposal. TriCo has conducted comprehensive due diligence and is devoting significant

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<sup>14</sup> To effect the transaction, each share of FNB Bancorp common stock would be converted into a right to receive TriCo common stock, based on an exchange ratio. Certain stock options granted by FNB Bancorp would be canceled and converted into the right to receive a cash amount. TriCo has the financial resources to effect the proposal.

financial and other resources to address all aspects of the post-acquisition integration process for this proposal. TriCo would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, TriCo's management has the experience and resources to operate the combined organization in a safe and sound manner, and TriCo plans to integrate FNB Bancorp's existing management and personnel in a manner that augments TriCo's management.<sup>15</sup>

Based on all the facts of record, including TriCo'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 the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of TriCo and FNB Bancorp in combating money-laundering activities, are consistent with approval.

#### Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.<sup>16</sup> 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 these communities, as well as other potential effects of the proposal on the convenience and needs of these communities. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions

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<sup>15</sup> Following consummation of the proposal, TriCo's board of directors would consist of thirteen directors, including eleven members that are currently on TriCo's board of directors and two members chosen by TriCo that are currently on FNB Bancorp's board of directors. TriCo also would hire three executive officers of FNB Bancorp as employees.

<sup>16</sup> 12 U.S.C. § 1842(c)(2).

under the Community Reinvestment Act (“CRA”).<sup>17</sup> The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,<sup>18</sup> and requires the appropriate federal financial supervisory agency to assess a depository institution’s record of helping to meet the credit needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods, in evaluating bank expansionary proposals.<sup>19</sup>

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 the 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.

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 TriCo Bank and FN Bank, the fair lending and compliance records of both banks, the supervisory views of the FDIC and Office of the Comptroller of the Currency (“OCC”), confidential supervisory information, information provided by TriCo, and the public comments received on the proposal.

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<sup>17</sup> 12 U.S.C. § 2901 et seq.

<sup>18</sup> 12 U.S.C. § 2901(b).

<sup>19</sup> 12 U.S.C. § 2903.



### *Public Comments on the Proposal*

The Board received seven letters objecting to the proposal. All seven commenters requested that approval of the proposal be conditioned on TriCo Bank adopting a revised CRA plan developed in collaboration with community organizations representing minority and LMI borrowers. The commenters requested that the CRA plan include commitments to increase lending to minority and LMI borrowers and small businesses, increase the number of TriCo Bank employees and directors that are minorities, disclose demographic information about the bank's workforce, partner with community organizations to identify and provide loans and technical assistance to minority-owned small businesses, develop a supplier diversity program, market bank products in multiple languages and in partnership with minority-owned media outlets, and accept tax identification numbers from customers to open accounts.<sup>20</sup> These commenters stated that, without a revised CRA plan, the proposal would not provide public benefits. One commenter also alleged that TriCo Bank has a poor record of lending to minority borrowers compared to its peer institutions, including in Butte County and Shasta County, both of California. Another commenter suggested that TriCo Bank should offer services designed specifically for minority and LMI borrowers, including participating in the California Small Business Loan Guarantee Program and

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<sup>20</sup> 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., Howard Bancorp, Inc., FRB Order No. 2018-05 at 9 fn. 21 (February 12, 2018); Sandy Spring Bancorp, Inc., FRB Order No. 2017-32 at 12 fn 31 (November 22, 2017); United Bancshares, Inc., FRB Order No. 2017-10 at 12 fn. 28 (April 6, 2017); Huntington Bancshares Inc., FRB Order No. 2016-13 at 32 fn. 50 (July 29, 2016); CIT Group, Inc., FRB Order No. 2015-20 at 24 fn. 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.

offering more consumer lending products that compete with but are more affordable than payday loans.

*Businesses of the Involved Institutions and Response to the Public Comment*

TriCo operates primarily through TriCo Bank and the bank's network of branches in California. TriCo Bank offers a broad range of financial products and services to consumers and businesses, including checking, savings, money market, individual retirement, education savings, health savings, and certificate of deposit accounts; commercial, residential, small business, and consumer loans; credit card and merchant card services, treasury management, and simplified employee pension plans; and investment advisory services.

FNB Bancorp operates primarily through FN Bank and the bank's network of branches in California. FN Bank offers a broad range of financial products to consumers and businesses, including checking, savings, money market, health savings, and certificate of deposit accounts; commercial, residential, small business, and consumer loans; merchant card services and treasury management; and investment advisory services.

TriCo asserts that approval of the proposal is warranted based on the banks' CRA performance evaluations and compliance with statutory and regulatory requirements related to CRA and fair lending and on TriCo Bank's history of engaging members of the community about their banking needs. TriCo asserts that TriCo Bank and FN Bank have consistently met the requirements of the CRA and that TriCo Bank is committed to continuing to meet its obligations under the CRA after consummation of the transaction.

With respect to the commenters' request for a CRA plan and related assertions, TriCo notes that TriCo Bank has a public CRA plan that was created in consultation with community organizations and includes goals for the bank related to lending to LMI borrowers. TriCo states that TriCo Bank has a strong history of lending to small businesses and would continue to prioritize lending to small businesses upon

consummation of the proposal. TriCo maintains that TriCo Bank has complied with all legal requirements concerning hiring, reporting workforce demographic information, and collaborating with diversity suppliers. TriCo asserts that it employs multilingual employees and has collaborated with nonprofit organizations in its existing banking markets. TriCo also states that it is forming an advisory panel of community leaders in the market currently served by FN Bank to learn about and address the market's banking needs.

TriCo disputes the allegation of one commenter that TriCo Bank's record of lending to minority borrowers is poor. TriCo states that the commenter's analysis is flawed because the analysis relied on a small sample, and TriCo notes that the commenter did not fully disclose the methodology for the analysis.

TriCo also maintains that it currently offers the products and services requested by some of the commenters. For example, TriCo states that TriCo Bank has invested in community development financial institutions that provide small dollar loans to consumers as an alternative to payday loans and opens bank accounts using individual tax identification numbers. TriCo also states that it has existing programs to assist small business borrowers in obtaining loans, including programs that involve loans guaranteed by the Small Business Administration.

#### *Records of Performance under the CRA*

In evaluating the convenience and needs factor and CRA performance, the Board considers a substantial amount of information in addition to information provided by public commenters and the response to comments by the applicant. In particular, the Board considers examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions, as well as information and views provided by the appropriate federal supervisors.<sup>21</sup> In this case, the Board considered the

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<sup>21</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48506, 48548 (July 25, 2016).

supervisory views of the FDIC with respect to TriCo Bank and of the OCC with respect to FN Bank.

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.<sup>22</sup> An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. This 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"),<sup>23</sup> in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's CRA Assessment Areas ("AAs"); (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-,

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<sup>22</sup> 12 U.S.C. § 2906.

<sup>23</sup> 12 U.S.C. § 2801 et seq.

middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;<sup>24</sup> (4) the institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.<sup>25</sup> Large institutions, such as TriCo Bank, are also subject to an investment test that evaluates the number and amounts of qualified investments that benefit their AAs and to a service test that evaluates the availability and effectiveness of their systems for delivering retail banking services and the extent and innovativeness of their community development services.<sup>26</sup> Intermediate small banks, such as FN Bank, are subject to the lending test, as well as a community development test that evaluates the number and amounts of their community development loans and qualified investments; the extent to which they provide community development services; and their responsiveness to community development lending, investment, and service needs.<sup>27</sup>

#### *CRA Performance of TriCo Bank*

TriCo Bank was assigned an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of April 20, 2015 ("TriCo Bank Evaluation").<sup>28</sup> The bank received a "High Satisfactory" rating for the Investment Test

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

<sup>25</sup> See 12 CFR 228.22(b).

<sup>26</sup> See 12 CFR 228.21 et seq.

<sup>27</sup> 12 CFR 228.26(c).

<sup>28</sup> The TriCo Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed mortgage loans reported pursuant to

and “Low Satisfactory” ratings for the Lending Test and Service Test.<sup>29</sup> TriCo Bank’s performance in the Chico MSA was weighted most heavily by examiners due to the bank’s volume of lending and deposit activity in this area.

Examiners found that the bank made a majority of its loans within its 23 AAs and that the bank’s lending levels reflected adequate responsiveness to the credit needs of the AAs. Examiners found that the distribution of borrowers reflected adequate penetration among retail customers of different income levels and businesses and farm customers of various revenue sizes. Examiners found that the geographic distribution of loans reflected good penetration throughout the bank’s AAs. Examiners also found that the bank exhibited a good record of serving the credit needs of the most economically disadvantaged areas of its AAs, low-income individuals, and very small businesses.

In the Chico MSA, which includes an area of concern to one commenter, examiners found that TriCo Bank’s lending levels reflected adequate responsiveness to credit needs. Examiners found that TriCo Bank had the highest market share of small business and small farm originations of all lenders reporting CRA lending data in the Chico MSA during the examination review period. Examiners found that the geographic distribution of loans reflected good penetration throughout the Chico MSA, noting good penetration for small business loans, adequate penetration for home mortgage loans, and poor penetration for small farm loans. Examiners found that the distribution of borrowers reflected overall adequate penetration among retail customers of different income levels and among business and farm borrowers of different revenue sizes, including adequate

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HMDA, and small loans made to businesses and farms as reported under CRA data collection requirements, from 2013 and 2014. The evaluation period for community development loans, investments, and services was January 7, 2013, through April 20, 2015.

<sup>29</sup> The TriCo Bank Evaluation included full-scope evaluations of the Chico Metropolitan Statistical Area (“MSA”), Redding MSA, and Yuba City MSA, all in California. Limited-scope evaluations were performed for the bank’s other AAs.

penetration for small business loans and home mortgage loans and good penetration for small farm loans.

In the Redding MSA, which includes another area of concern to the same commenter, examiners found that TriCo Bank's lending levels reflected adequate responsiveness to credit needs. Examiners found that TriCo Bank had the highest market share of small business and small farm originations of all lenders reporting CRA lending data in the Redding MSA during the examination review period. Examiners found that the geographic distribution of loans reflected good penetration throughout the Redding MSA, including overall good penetration for small business loans, good penetration for mortgage loans, and excellent penetration for small farm loans. Examiners found that the distribution of borrowers reflected overall good penetration among retail customers of different income levels and business and among farm borrowers of different revenue sizes, including adequate penetration for small business loans and good penetration for home mortgage and small farm loans.

In all of its AAs, examiners found that TriCo Bank had a significant level of community development investments that reflected good responsiveness to credit and community economic development needs. Examiners found that the bank made significant use of innovative and complex investments to support community development initiatives, including for affordable housing and economic development.

Examiners found that TriCo Bank's delivery systems were accessible to all portions of the bank's AAs. Examiners found that the bank's branches were reasonably distributed and that the bank's services and hours of operation did not vary in a way that inconvenienced any portion of the bank's AAs, including in LMI geographies. Examiners found that TriCo Bank provided an adequate level of community development services.

#### *TriCo Bank's Efforts Since the TriCo Bank Evaluation*

TriCo states that, since the TriCo Bank Evaluation, TriCo Bank has engaged in significant activities to continue and improve its CRA performance.

Specifically, TriCo Bank has made commercial loans to develop affordable housing and continued to invest in projects receiving Federal Low Income Housing Tax Credits. TriCo Bank has invested in community development financial institutions that invest in affordable housing and small businesses. TriCo Bank has also assisted various nonprofit organizations in obtaining grants from the Federal Home Loan Bank of San Francisco to develop affordable housing. TriCo Bank's employees also have provided technical support to nonprofit organizations that focus on developing affordable housing and to small businesses and teaching financial literacy. TriCo further states that TriCo Bank has entered into a public CRA plan to, among other things, obtain an overall "Outstanding" CRA rating; meet or exceed lending by its competitors to LMI borrowers, small businesses, and small farms; and achieve specific levels of community development lending and CRA investments.

*CRA Performance of FN Bank*

FN Bank received an overall rating of "Satisfactory" at its most recent CRA performance evaluation by the OCC, as of March 14, 2016 ("FN Bank Evaluation").<sup>30</sup> The bank received "Satisfactory" ratings for the Lending Test and Community Development Test.<sup>31</sup>

Examiners found that FN Bank achieved reasonable penetration in its lending to borrowers of different income levels and that the geographic distribution of the bank's loans throughout census tracts represented excellent dispersion. Examiners found

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<sup>30</sup> The FN Bank Evaluation was conducted using the Intermediate Small Institution Examination Procedures. Examiners reviewed home mortgage and small business loans originated or purchased from January 1, 2013, through December 31, 2015. The evaluation period for community development lending, investments, and services was from January 7, 2013, to March 14, 2016.

<sup>31</sup> The FN Bank Evaluation included a full-scope evaluation of the San Francisco-Redwood City-South San Francisco Metropolitan District. A limited-scope evaluation was conducted in the bank's other AA.



that FN Bank's loan-to-deposit ratio was reasonable and that the majority of the bank's loans are made within its AAs.

Examiners found that FN Bank's community development activities demonstrated adequate responsiveness to the community development needs of its AAs. Examiners found that FN Bank's community development lending and investments demonstrated adequate and excellent responsiveness, respectively, to community development needs in the bank's AAs.

#### *Additional Supervisory Views*

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

The Board has taken this information, as well as the CRA performance records of TriCo Bank and FN Bank, into account in evaluating the proposal, including in considering whether TriCo has the experience and resources to ensure that TriCo Bank helps to meet the credit needs of the communities within its AAs.

#### *Additional Convenience and Needs Considerations*

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. TriCo represents that, following consummation of the proposal, existing customers of TriCo Bank and FN Bank would benefit from an expanded branch and ATM network and a broader range of financial products and services. TriCo maintains that existing customers of FN Bank would benefit from participation in TriCo Bank's program that offers customers access to a large network of ATMs for no fee. TriCo represents that the combined organization would achieve greater economies of scale that would result in expanded services at more

affordable prices. TriCo also notes that the combined organization would have additional capital to support a larger legal lending limit.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the records of the relevant depository institutions under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, supervisory views of the FDIC and OCC, confidential supervisory information, information provided by TriCo, the public comments on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 3 of the BHC Act and the Bank Merger Act to require the Board to consider "the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system."<sup>32</sup>

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic "footprint" of the 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

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<sup>32</sup> Dodd-Frank Act § 604(d), Pub. L. No. 111-203, 124 Stat. 1376, 1601-1602 (2010), codified at 12 U.S.C. § 1842(c)(7).

resulting firm.<sup>33</sup> These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.<sup>34</sup>

The Board's experience has shown that proposals involving an acquisition of less than \$10 billion in assets, or that result in a firm with less than \$100 billion in total assets, are generally not likely to pose systemic risks. Accordingly, the Board presumes that a proposal does not raise material financial stability concerns if the assets involved fall below either of these size thresholds, absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.<sup>35</sup>

In this case, the Board has considered information relevant to risks to the stability of the U.S. banking or financial system. The proposal involves a target that has less than \$10 billion in assets and a pro forma organization of less than \$100 billion in assets. Both the acquirer and the target are predominantly engaged in retail and commercial banking activities.<sup>36</sup> The pro forma organization would have minimal cross-

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<sup>33</sup> Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

<sup>34</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (February 14, 2012).

<sup>35</sup> See People's United Financial, Inc., FRB Order No. 2017-08 at 25-26 (March 16, 2017). Notwithstanding this presumption, the Board has the authority to review the financial stability implications of any proposal. For example, an acquisition involving a global systemically important bank could warrant a financial stability review by the Board, regardless of the size of the acquisition.

<sup>36</sup> As noted, TriCo and FNB Bancorp offer a range of retail and commercial banking products and services. TriCo 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.

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 U.S. banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

### Conclusion

Based on the foregoing and all the facts of record, the Board determines that the proposal should be, and hereby is, approved.<sup>37</sup> In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to

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<sup>37</sup> The Board construes the comments received on the proposal to include requests that the Board hold public hearings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on any proposal unless 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); 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 commenters' requests in light of all of the facts of record. In the Board's view, the commenters have had ample opportunity to submit comments on the proposal and, in fact, submitted written comments that the Board has considered in acting on the proposal. The commenters' requests do not identify disputed issues of fact that are material to the Board's decision and that would be clarified by a public hearing. In addition, the requests do not demonstrate why the written comments do not present the commenters' 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 requests for public hearing on the proposal are denied.

consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by TriCo with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on any commitments made to the Board in connection with the proposal. 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 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 San Francisco, acting under delegated authority.

By order of the Board of Governors,<sup>38</sup> effective June 6, 2018.

*Ann E. Misback (signed)*

Ann E. Misback  
Secretary of the Board

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<sup>38</sup> Voting for this action: Chairman Powell, Vice Chairman for Supervision Quarles, and Governor Brainard.