FEDERAL RESERVE SYSTEM

Banco Bilbao Vizcaya Argentaria, S.A.
Bilbao, Spain

Order Approving the Acquisition of a Bank Holding Company

Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act[1] to acquire Laredo National Bancshares, Inc. ("Laredo"), Laredo, Texas; Laredo National Bancshares of Delaware, Inc., Wilmington, Delaware; and The Laredo National Bank ("LNB") and South Texas National Bank of Laredo ("STNB"), both of Laredo.

Notice of the proposal, affording interested persons an opportunity to comment, has been published (69 Federal Register 65,196 (2004)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

BBVA, with total consolidated assets of approximately $363 billion, is the 34th largest banking organization in the world. BBVA is the 110th largest depository organization in the United States, with total assets in the United States of $5.5 billion.[2] It controls approximately $2.7 billion in deposits, which represents less than 1 percent of the total amount of deposits of insured depository institutions in the United States. BBVA's U.S. subsidiary banks

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[1] 12 U.S.C. § 1842.

[2] Worldwide asset data are as of December 31, 2003, and worldwide ranking is as of November 12, 2004. United States asset and deposit data are as of September 30, 2004, and national ranking is as of June 30, 2004. The data and rankings are adjusted to reflect mergers and acquisitions completed as of June 30, 2004.

include Banco Bilbao Vizcaya Argentaria Puerto Rico ("BBVA Puerto Rico"), San Juan, Puerto Rico, a bank chartered in Puerto Rico; and Valley Bank, Moreno Valley, California, a state-chartered bank. BBVA also operates a branch in New York, New York, and an agency in Miami, Florida. BBVA's subsidiary bank in Mexico, BBVA Bancomer, S.A., operates a state-licensed agency in Houston, Texas. BBVA has no retail depository institution offices in Texas.

Laredo, with total consolidated assets of approximately $3.4 billion, is the 17th largest depository organization in Texas. It controls deposits of approximately $2.8 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.[3] Laredo's subsidiary banks have branches only in Texas.

On consummation of this proposal, BBVA would become the 82nd largest depository organization in the United States, with total consolidated U.S. assets of $8.9 billion. BBVA would control deposits of $5.4 billion, representing less than 1 percent of the total amount of deposits of insured depository institutions in the United States.[4]

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to 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 if certain conditions are met. For purposes of the BHC Act, the home state of BBVA is Puerto Rico and Laredo is located in Texas. Based on a review of all the facts of record,

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3 Asset data for Laredo are as of September 30, 2004. Deposit and ranking data are as of June 30, 2004, and are adjusted to reflect mergers and acquisitions completed as of that date.

4 In this context, the term "insured depository institutions" includes insured commercial banks, savings banks, and savings associations.

including a review of the relevant state statutes, the Board finds that all the conditions for an interstate acquisition enumerated in section 3(d) of the BHC Act are met in this case.[5] The Board is therefore permitted to 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 the business of banking. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant 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.[6]

Applicant does not currently compete with Laredo in any relevant banking market. Accordingly, the Board concludes, based on all the facts of record, that consummation of the proposal would not have a significant adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The

[5] 12 U.S.C. §§ 1842(d)(1)(A) & (B), 1842(d)(2)(A) & (B). BBVA is currently adequately capitalized and adequately managed, as defined by applicable law, and would remain so on consummation of this proposal. BBVA and its affiliates would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States. All other requirements of section 3(d) would also be met on consummation of the proposal.

[6] 12 U.S.C. § 1842(c)(1).

Board has carefully considered these factors in light of all the facts of record, including information provided by BBVA, confidential reports of examination and other supervisory information received from the federal and state banking supervisors of the organizations involved, publicly reported and other financial information, and public comments received on the proposal.[7] The Board also has consulted with the Bank of Spain, which is responsible for the supervision and regulation of Spanish financial institutions.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. In this evaluation, the Board considers a variety of areas, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the effect of the transaction on the financial condition of the combined organization on consummation, including its capital position, asset quality, and earnings prospects and the impact of the proposed funding of the transaction.

Based on its review of these factors, the Board believes financial factors are consistent with approval of this proposal. Laredo currently is well capitalized, and the capital levels of BBVA would continue to exceed the minimum levels that would be required under the Basel Capital Accord. Furthermore, BBVA's capital levels are considered equivalent to the capital

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[7] A commenter quoted a Spanish newspaper article that suggested that a construction group in Spain intended to acquire less than 5 percent of the voting stock of BBVA. The commenter provided no information, and no other information is in the record, that indicates that this potential future acquisition is in any way related to the proposal currently under review.

levels that would be required of a U.S. banking organization and would remain so after consummation of this proposal. In addition, BBVA has sufficient financial resources to effect the proposal. The proposed transaction is structured as a share purchase, and the consideration to be received by Laredo's shareholders would be provided from BBVA's available funds.

The Board also has considered the managerial resources of BBVA, Laredo, and their subsidiary banks, particularly the supervisory experience of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking laws. The Board has reviewed the assessments of the organizations' management and risk management systems by the relevant federal and state banking supervisory agencies. In addition, the Board has considered the anti-money laundering programs at BBVA and the assessment of these programs by the relevant federal supervisory agencies, state banking agencies, and the Bank of Spain.[8] The Board also has considered BBVA's plans to implement the proposal, including its proposed management after consummation and the proposed integration of Laredo and its subsidiaries into BBVA.[9] Based on these and all other facts of record, the Board concludes that

[8] The commenter made general allegations about BBVA's ability to comply with U.S. anti-money laundering laws. In addition, the commenter expressed concern, citing media reports in 2002, that BBVA might be under investigation in Mexico, Columbia, and Peru in connection with its acquisitions of financial institutions in those countries. BBVA has provided information to the Board, the Bank of Spain, and other appropriate governmental authorities relating to these allegations and has publicly disclosed information on these matters in filings with the U.S. Securities and Exchange Commission. As part of its review of banking organizations, the Board seeks information on enforcement actions by government authorities in other countries. The Board notes that no enforcement action has been initiated against BBVA by government authorities in the countries mentioned in the media reports.

[9] The commenter criticized LNB's and STNB's lending relationships with unaffiliated pawn shops and Valley Bank's lending to a rent-to-own business,

the managerial resources and future prospects of the organizations involved in the proposal are consistent with approval.

Section 3 of the BHC Act also provides that the Board may not approve an application involving a foreign bank unless the bank is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country.[10] As previously noted, the home country supervisor of BBVA is the Bank of Spain.

In approving an application under the International Banking Act ("IBA"),[11] the Board previously determined that BBVA was subject to home country supervision on a consolidated basis by the Bank of Spain.[12] Based on all

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stating that BBVA was enabling high-cost, nontraditional providers of financial services. These businesses are licensed by the states where they operate and are subject to applicable state law. BBVA stated that neither Laredo nor any of its affiliates engages in the activities conducted by payday lenders, check cashers, or rent-to-own businesses. The only dealings that Laredo or any of its affiliates have with such businesses are in the ordinary course of extending credit and cashing checks for existing customers, to the extent consistent with regulations of the Office of the Comptroller of the Currency ("OCC"). BBVA further stated that neither Laredo nor any of its affiliates plays any role, formal or otherwise, in the lending practices or credit review processes of any unaffiliated subprime lender or provider of nontraditional financing products.

[10] 12 U.S.C. § 1842(c)(3)(B). Under Regulation Y, the Board uses the standards enumerated in Regulation K to determine whether a foreign bank is subject to consolidated home country supervision. See 12 C.F.R. 225.13(a)(4). Regulation K provides that a foreign bank will be considered subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including its relationship with any affiliates, to assess the bank's overall financial condition and its compliance with laws and regulations. See 12 C.F.R. 211.24(c)(1).

[11] 12 U.S.C. § 3101 et seq.

[12] See BBVA Bancomer, S.A., 89 Federal Reserve Bulletin 146 (2003).

the facts of record, the Board has concluded that BBVA continues to be subject to comprehensive supervision on a consolidated basis by its home country supervisor.

In addition, section 3 of the BHC Act requires the Board to determine that an applicant has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act.[13] The Board has reviewed the restrictions on disclosure in the relevant jurisdictions in which BBVA operates and has communicated with relevant government authorities concerning access to information. In addition, BBVA has previously committed to make available to the Board such information on the operations of BBVA and its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the IBA, and other applicable federal law. BBVA has also committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable BBVA and its affiliates to make such information available to the Board. In light of the Board's review of the restrictions on disclosure and these commitments, the Board concludes that BBVA has provided adequate assurances of access to any appropriate information the Board may request. Based on these and all other facts of record, the Board has concluded that the supervisory factors it is required to consider are consistent with approval.

Convenience and Needs Considerations

In acting on this proposal, the Board is required to consider the effects of the transaction on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[14] The CRA requires the federal

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[13] See 12 U.S.C. § 1842(c)(3)(A).

[14] 12 U.S.C. § 2901 et seq.

financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.

The Board has considered carefully the convenience and needs factor and the CRA performance records of the subsidiary banks of BBVA and Laredo in light of all the facts of record, including public comment on the proposal.[15] As provided in the CRA, the Board has evaluated the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. An

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[15] The commenter asserted, based on data reported under the Home Mortgage Disclosure Act ("HMDA") (12 U.S.C. § 2801 et seq.), that Homeowners Loan Corporation ("HLC"), a subprime lending subsidiary of LNB, originated a disproportionately large percentage of subprime loans to African Americans in possible violation of fair lending laws. Using 2003 HMDA data reported by HLC in several MSAs, the commenter compared the number of HLC's loan originations to white applicants with the number of its loan originations to African-American applicants. Based on these comparisons, the commenter asserted that HLC's ratio of originations to African-American applicants compared to white applicants significantly exceeded the ratio of aggregate lenders in those markets. The commenter alleged that HLC's disproportionately high ratio of originations to African-American applicants compared to white applicants was a possible indication of fair lending law violations. The Board has considered the limited HMDA data presented by the commenter; confidential supervisory information received from the OCC, the primary federal supervisor of HLC; and information provided by the applicant. BBVA has stated that HLC selects prospects for direct marketing using objective criteria, specifically, home ownership, home equity, and credit score, and uses no racial demographic or geographic criteria in any modeling for marketing purposes. The Board also has consulted with the OCC about HLC's subprime lending operations and its programs for compliance with fair lending laws and other consumer protection laws.

institution's most recent CRA performance evaluation is a particularly important consideration in the application process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.[16]

All the subsidiary insured depository institutions of BBVA and Laredo received "satisfactory" ratings at the most recent evaluations of their CRA performance. BBVA Puerto Rico received a "satisfactory" CRA performance rating by the Federal Deposit Insurance Corporation ("FDIC"), as of October 29, 2002, and Valley Bank received a "satisfactory" CRA performance rating by the FDIC, as of August 26, 2002.[17] The OCC gave a "satisfactory" rating to LNB, as of February 5, 2001, and to STNB, as of September 3, 2003.

BBVA represented that it is committed to maintaining the existing CRA programs at LNB and STNB and enhancing their CRA performance. In addition, BBVA represented that consummation of this proposal would further its goal of becoming a leading financial services provider to the Hispanic community in the United States.

In BBVA Puerto Rico's most recent CRA performance evaluation, examiners reported that the bank's lending levels reflected a "good responsive ness" to the credit needs of its assessment areas during the evaluation period.[18] Examiners noted that BBVA Puerto Rico maintained a "reasonable standard of lending" in its assessment areas by aggressively offering a variety of loan products at competitive rates. They commended BBVA Puerto Rico's distribution of small

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[16] See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

[17] The FDIC evaluated the CRA performance of Valley Bank before BBVA acquired it in early 2004.

[18] The evaluation period was from January 2000 through September 2002.

business loans and its efforts to meet the needs of businesses within its assessment areas.[19] In addition, examiners commended BBVA Puerto Rico for having a high level of community development lending directed towards areas where traditional bank products did not meet the needs of LMI families. They also noted that BBVA Puerto Rico had developed the "Global Commercial Package," a special product designed to satisfy the needs of small business owners in Puerto Rico by offering commercial accounts, credit facilities, and merchant services.

In LNB's most recent evaluation, the bank received "high satisfactory" ratings under both the lending and investment tests and an "outstanding" rating under the service test.[20] In particular, examiners described LNB's home mortgage lending, small loans to businesses, branch distribution, and community development services as "excellent."

Examiners commended LNB's record of making home purchase loans to borrowers of different income levels, including LMI individuals. They reported that the bank's market share of home purchase loans to LMI borrowers was almost twice its overall market share in the Laredo MSA.[21] In addition, examiners

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[19] For purposes of this order, a "small business loan" or a "small loan to business" is a loan in an original amount of $1 million or less that either is secured by nonfarm, nonresidential properties or is classified as a commercial and industrial loan.

[20] The evaluation period was January 1998 through February 2001. Full-scope reviews were performed on the following LNB assessment areas: the Laredo Metropolitan Statistical Area ("MSA"), the Harris County portion of the Houston MSA, and the Bexar County portion of the San Antonio MSA. More than 90 percent of LNB's small business, home purchase, home improvement, and refinance loans were originated or purchased within these assessment areas. LNB assessment areas receiving limited-scope reviews included the Brownsville, McAllen, and Corpus Christi MSAs and Willacy County.

[21] Examiners noted that the Laredo MSA was one of the least affordable areas in the country for home ownership because home prices were relatively high while a large percentage of the population lived below the poverty level.

commended Laredo for its distribution of home purchase loans to LMI borrowers in the Houston MSA. Examiners noted that LNB offered a special affordable housing product with flexible underwriting criteria for LMI borrowers. LNB offered this product directly to customers and indirectly through special programs of Neighborhood Housing Services, Inc., an organization that provides home-buyer education classes and offers grants for down payments and closing-cost assistance.

Examiners also commended LNB's participation in the Bank Enterprise Award program of the U.S. Department of the Treasury for loans in low-income, high-unemployment neighborhoods designated as "Distressed Communities." They noted that LNB had 13 full-service branches in Distressed Communities, representing 62 percent of its total branches. In addition, examiners commended LNB for providing affordable checking account products to LMI customers and offering check-cashing services to noncustomers with a fee structure that was more affordable than most check-cashing operations offered in the bank's assessment areas.

The Board has carefully considered all the facts of record, including reports of examination of the CRA performance records of the institutions involved, information provided by BBVA, comments on the proposal, confidential supervisory information, and BBVA's plans to enhance the CRA performance of STNB and LNB. The Board notes that the proposal would provide Laredo's customers with expanded banking opportunities and resources, including access to BBVA's expertise in and knowledge of Latin American banking markets. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant depository institutions, are consistent with approval.

Conclusion

Based on the foregoing and all facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record, including commitments and conditions imposed in this order, in light of the factors that it is required to consider under the BHC Act and other applicable statutes.[22]

The Board's approval is specifically conditioned on BBVA's compliance with the conditions imposed in this order, including receipt by BBVA of all appropriate regulatory approvals, and with the commitments made to the Board in connection with the application. For purposes of this transaction, these conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

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[22] The commenter requested that the Board hold a public hearing or meeting on the proposal. Section 3 of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authority. Under its regulations, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 C.F.R. 225.16(e). The Board has considered carefully the commenter's request in light of all the facts of record. In the Board's view, the commenter had ample opportunity to submit comments on the proposal, and, in fact, the commenter has submitted written comments that the Board has considered carefully in acting on the proposal. The commenter's request fails to demonstrate why its written comments do not adequately present its evidence and fails to identify disputed issues of fact that are material to the Board's decision that would be clarified by a public meeting or hearing. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the request for a public meeting or hearing on the proposal is denied.

The proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,[23] effective March 30, 2005.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

[23] Voting for this action: Chairman Greenspan and Governors Gramlich, Bies, Olson, Bernanke, and Kohn. Absent and not voting: Vice Chairman Ferguson.