

FEDERAL RESERVE SYSTEM

Zions Bancorporation
Salt Lake City, Utah

Order Approving the Acquisition of a Bank Holding Company

Zions Bancorporation (“Zions”), a financial 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 Act¹ to acquire Amegy Bancorporation, Inc. (“Amegy”) and its subsidiary bank, Amegy Bank, National Association (“Amegy Bank”), both of Houston, Texas.²

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (70 Federal Register 53,361 (2005)). 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.

Zions, with total consolidated assets of approximately \$32.9 billion, is the 44th largest depository organization in the United States, controlling deposits of approximately \$24.8 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.³ Zions

¹ 12 U.S.C. § 1842.

² Zions also would acquire Amegy Holding Delaware, Inc., Wilmington, Delaware, a bank holding company through which Amegy owns Amegy Bank. Zions intends to operate Amegy Bank as a subsidiary bank after consummation of the proposal.

³ Asset, deposit, and national ranking data are as of June 30, 2005. Asset and national ranking data are based on total assets reported by bank holding companies on Consolidated Financial Statements for Bank Holding Companies and by thrifts on Thrift Financial Reports. Deposit data reflect the total of the deposits reported

operates subsidiary depository institutions in Utah, California, Washington, Arizona, Nevada, New Mexico, and Oregon and engages in numerous nonbanking activities that are permissible under the BHC Act.

Amegy, with total consolidated assets of approximately \$7.7 billion, is the 11th largest depository organization in Texas, controlling deposits of approximately \$5.1 billion.⁴ On consummation of the proposal, Zions would become the 38th largest depository organization in the United States, with total consolidated assets of approximately \$41.7 billion, and would control deposits of approximately \$29.8 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.

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 such bank holding company if certain conditions are met. For purposes of the BHC Act, the home state of Zions is Utah⁵ and Amegy is located in Texas.⁶

by each organization's insured depository institutions in their Consolidated Reports of Condition and Income or Thrift Financial Reports.

⁴ State ranking is based on deposits, and deposit data are as of June 30, 2005. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

⁵ A bank holding company's home state is the state in which the total deposits of all subsidiary banks of the company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. 12 U.S.C. § 1841(o)(4)(C).

⁶ For purposes of section 3(d), the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. 12 U.S.C. §§ 1841(o)(4)-(7) and 1842(d)(1)(A) and (d)(2)(B).

Based on a review of all the facts of record, including a review of relevant state statutes, the Board finds that all conditions for an interstate acquisition enumerated in section 3(d) of the BHC Act are met in this case.⁷ In light of all the facts of record, the Board is 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 in any relevant banking market. 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 Board finds that the anticompetitive effects of the proposal clearly are outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.

Zions and Amegy do not compete directly in any relevant banking market.⁸ Based on all the facts of record, the Board has concluded that

⁷ 12 U.S.C. §§ 1842(d)(1)(A)-(B) and 1842(d)(2)(A)-(B). Zions is adequately capitalized and adequately managed, as defined by applicable law. Amegy Bank has been in existence and operated for the minimum period of time required by applicable state law (five years). On consummation of the proposal, Zions would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States and less than 30 percent of the total amount of deposits of insured depository institutions in Texas. All other requirements of section 3(d) of the BHC Act would be met on consummation of the proposal.

⁸ 12 U.S.C. § 1842(c)(1). One commenter asserted that the competitive factors the Board must consider should weigh against approval because consummation of the proposed transaction would not have demonstrable procompetitive effects. The applicable standard in section 3(c)(1) of the BHC Act bars the Board from approving a proposal that would result in or would further a monopoly and permits the Board to approve a proposal with substantial anticompetitive effects only if such effects are clearly outweighed by certain beneficial effects. Contrary

consummation of the proposal would have no significant adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive factors are consistent with approval.⁹

Financial, Managerial, and Supervisory Considerations

Section 3 of 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

to commenter's claim, section 3(c)(1) of the BHC Act does not make evidence of procompetitive effects a necessary condition for approval. As noted, because Zions and Amegy do not compete directly in the Houston, Texas banking market or in any other banking market, the proposal would not result in a monopoly or have a significant adverse effect on competition in any relevant market.

⁹ One commenter asserted that the Board should take into account the likely competitive effects of the proposal on credit unions. Even if the deposits of credit unions were expressly included in the analysis of competitive effects of this proposal, Zions currently is not located in the Houston, Texas banking market and, therefore, the proposal would not increase the concentration level of market deposits. Contrary to the assertion of the commenter, the Board does not view the initial entry of a competitor through an acquisition as per se anticompetitive.

Moreover, the Board has expressly factored credit unions into analyses of bank acquisition proposals only when the facts of record with respect to the specific proposal demonstrate that credit unions offer bank-like products to a broad segment of a geographic market. Wells Fargo, 86 Federal Reserve Bulletin 832, 834 (2000); WestStar Bank, 84 Federal Reserve Bulletin 294, 296 (1998). In reviewing the competitive effects of a proposal, the Board takes into consideration, among other factors, the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index under the Department of Justice Merger Guidelines ("DOJ Guidelines"), 49 Federal Register 26,823 (1984). The Department of Justice has stated that the higher than normal thresholds it uses for measuring market concentration for screening bank mergers for anticompetitive effects under the DOJ Guidelines implicitly recognize the competitive effects of limited-purpose lenders, including credit unions. See, e.g., J.P. Morgan Chase & Co., 90 Federal Reserve Bulletin 352, 354 n. 16 (2004).

Board has considered these factors in light of all the facts of record, including confidential reports of examination, other supervisory information from the primary federal supervisors of the organizations involved in the proposal, publicly reported and other financial information, information provided by Zions, and public comments received on the proposal.

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 measures, 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 financial condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.¹⁰

Based on its review of these factors, the Board finds that Zions has sufficient financial resources to effect the proposal. The proposed transaction is structured as a partial share exchange and partial cash purchase. Zions will fund the cash component of the consideration with proceeds from the issuance of

¹⁰ Two commenters questioned whether Zions would realize its projected cost savings from the proposal, and one of these commenters also asserted that the transaction could increase interest-rate risk for the companies involved and would be unlikely to generate cross-marketing efficiencies. The Board has evaluated the financial effects of this proposal under the assumption that no cost savings would be realized. In addition, as noted, the Board has considered a wide range of information in considering the financial resources and future prospects of the institutions involved in the proposal.

subordinated debt securities. Zions and each of its subsidiary banks and Amegy Bank are well capitalized and would remain so on consummation of the proposal.¹¹

The Board also has considered the managerial resources of the organizations involved and the proposed combined organization. The Board has reviewed the examination records of Zions, Amegy, and their subsidiary banks, including assessments of their management, risk-management systems, and operations.¹² In addition, the Board has considered its supervisory experiences and those of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking law. Zions, Amegy, and their subsidiary depository institutions are considered to be well managed. The Board also has considered Zions's plans for implementing the proposal, including the proposed management after consummation.

Based on all the facts of record, including a review of the comments received, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the

¹¹ A commenter objected to the levels of compensation provided by employment agreements between Zions and six executive officers of Amegy. The Board notes that information about these agreements was provided to Amegy shareholders before the October 11 special meeting at which the Amegy shareholders approved the organization's acquisition by Zions. As noted, Zions and Amegy would remain well capitalized on consummation of the proposal.

¹² A commenter criticized Zions's relationships with an unaffiliated pawnshop and other unaffiliated nontraditional providers of financial services. As a general matter, these businesses are licensed by the states where they operate and are subject to applicable state law. Zions stated that neither it nor Amegy focuses on marketing credit services to such nontraditional providers except as part of broader marketing to small businesses generally. Zions represented that neither it nor Amegy plays any role in the lending practices or credit-review processes of such firms.

proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).¹³ 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, and requires the appropriate federal financial supervisory agency to take into account a relevant depository institution’s record of meeting the credit needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods, in evaluating bank expansionary proposals.¹⁴

The Board has considered carefully all the facts of record, including evaluations of the CRA performance records of the subsidiary banks of Zions and Amegy, data reported by Zions and Amegy under the Home Mortgage Disclosure Act (“HMDA”),¹⁵ other information provided by Zions, confidential supervisory information, and public comment received on the proposal. A commenter opposed the proposal and alleged, based on data reported under HMDA, that Zions and Amegy engaged in discriminatory treatment of minority individuals in their respective home mortgage lending operations.

¹³ 12 U.S.C. § 2901 et seq.

¹⁴ 12 U.S.C. § 2903.

¹⁵ 12 U.S.C. § 2801 et seq.

A. CRA Performance Evaluations

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 institution's most recent CRA performance evaluation is a particularly important consideration in the applications 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

Zions's largest subsidiary bank, as measured by total deposits, is California Bank & Trust ("CB&T"), San Diego, California.¹⁷ The bank received an "outstanding" rating at its most recent CRA performance evaluation by the Federal Deposit Insurance Corporation ("FDIC"), as of January 3, 2005. Zions's other subsidiary banks all received either "outstanding" or "satisfactory" ratings at their most recent CRA performance evaluations.¹⁸ Amegy Bank received an "outstanding" rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency ("OCC"), as of May 5, 2003.¹⁹ Zions has represented that it intends to maintain Amegy Bank's CRA program on consummation of the proposal.

CRA Performance of Zions. As noted above, CB&T received an overall "outstanding" rating for CRA performance in the FDIC's most recent

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

¹⁷ As of June 30, 2005, CB&T accounted for 32.9 percent of the total deposits of Zions's six subsidiary insured depository institutions.

¹⁸ The appendix lists the most recent CRA ratings of Zions's other subsidiary banks.

¹⁹ At the time of the evaluation, Amegy Bank was named Southwest Bank of Texas, National Association.

CRA performance evaluation.²⁰ CB&T was rated “outstanding” under each of the lending, investment, and service tests.

Examiners reported that the distribution of CB&T’s loans by income level of geography was good and that CB&T’s mortgage lending demonstrated good distribution to LMI borrowers. In addition, they stated that CB&T had an excellent record of lending to small businesses.²¹ They also stated that CB&T was a leader in community development lending, with more than \$232 million in community development loans during the review period. Examiners commended the bank’s use of innovative and flexible lending programs to serve the credit needs of its assessment areas.

Examiners reported that CB&T’s qualified investments, grants, and donations, which totaled more than \$77 million, demonstrated excellent responsiveness to the credit and community economic development needs of the bank’s assessment areas. In addition, they commended CB&T’s leadership role in providing community development services and noted that CB&T’s service delivery systems were accessible to all geographies, including LMI areas, and to individuals of different incomes levels.

CRA Performance of Amegy. As noted above, Amegy Bank received an overall “outstanding” rating for CRA performance in its most recent CRA

²⁰ The evaluation period for the lending test was January 1, 2002, through September 30, 2004, except for community development loans. The evaluation period for community development loans and for the investment and service tests was September 17, 2001, through January 3, 2005. At the time of the evaluation, CB&T had six assessment areas in California, one of which received a full-scope review.

²¹ For purposes of the evaluations discussed in this order, small businesses are businesses with gross annual revenues of \$1 million or less.

performance evaluation by the OCC.²² Amegy Bank received “outstanding” ratings under the lending and investment tests and a “high satisfactory” rating under the service test.

Examiners reported that Amegy Bank’s overall lending performance was excellent. They found that the distribution of the bank’s loans by income level of geography was good and that its mortgage lending demonstrated adequate distribution to LMI borrowers. In addition, examiners stated that Amegy Bank’s distribution of loans to small businesses was good and that its community development lending, which totaled more than \$84 million, demonstrated excellent responsiveness to the credit and community development needs of the bank’s assessment area. Examiners also commended Amegy Bank for its excellent level of qualified investments, which totaled more than \$14 million during the evaluation period, and extensive use of innovative and complex investments. Examiners stated the bank made extensive use of innovative and flexible lending practices that supported small businesses and affordable housing.

Examiners noted that Amegy Bank’s service delivery systems were accessible to all geographies and to individuals of different incomes levels. They characterized the bank’s community development services as excellent and reported that the services primarily addressed identified needs for affordable housing, economic development, and community services.

B. HMDA and Fair Lending Record

The Board has carefully considered the lending records and HMDA data of Zions and Amegy in light of public comment about their respective records

²² The evaluation period for the lending test was January 1, 1999, through December 31, 2002, except for community development loans. The evaluation period for community development loans and for the investment and service tests was May 10, 1999, through May 5, 2003. At the time of the evaluation, the bank had one assessment area that encompassed the greater Houston metropolitan area.

of lending to minorities. A commenter alleged, based on 2004 HMDA data, that Zions and Amegy disproportionately denied applications by African-American and Hispanic applicants for HMDA-reportable loans. The commenter also asserted that Zions made higher-cost loans to African Americans and Hispanics more frequently than Zions did to nonminorities.²³ The Board reviewed the HMDA data for 2003 and 2004 reported by each subsidiary bank of Zions and by Amegy Bank in their assessment areas.²⁴

Although the HMDA data might reflect certain disparities in the rates of loan applications, originations, denials, or pricing among members of different racial or ethnic groups in certain local areas, they are insufficient by themselves to conclude whether or not Zions or Amegy is excluding any racial or ethnic group or imposing higher credit costs on those groups on a prohibited basis. The Board recognizes that HMDA data alone, even with the recent addition of pricing information, provide only limited information about the covered loans.²⁵ HMDA

²³ Beginning January 1, 2004, the HMDA data required to be reported by lenders were expanded to include pricing information for loans on which the annual percentage rate (APR) exceeds the yield for U.S. Treasury securities of comparable maturity by 3 percentage points for first-lien mortgages and by 5 percentage points for second-lien mortgages. 12 CFR 203.4.

²⁴ One Zions subsidiary, The Commerce Bank of Washington, National Association, Seattle, Washington, did not originate or purchase any HMDA-reportable loans in 2003 or 2004. In addition, The Commerce Bank of Oregon, Portland, Oregon, another Zions subsidiary, is a de novo bank established on October 31, 2005.

²⁵ The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. In addition, credit history problems, excessive debt levels relative to income, and high loan amounts relative to the value of the real estate collateral

data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has engaged in illegal lending discrimination.

The Board is nevertheless concerned when HMDA data for an institution indicate disparities in lending and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending but also equal access to credit by creditworthy applicants regardless of their race. Because of the limitations of HMDA data, the Board has considered these data carefully and taken into account other information, including examination reports that provide on-site evaluations of compliance by Zions and Amegy with fair lending laws. In the fair lending reviews conducted in conjunction with the most recent CRA evaluations of the subsidiary depository institutions of Zions and Amegy, examiners noted no substantive violations of applicable fair lending laws.

The record also indicates that Zions has taken steps to ensure compliance with fair lending laws and other consumer protection laws. Zions represented that it conducts regular compliance reviews of each business unit and that its fair lending reviews include statistical analyses of comparable files by loan product. Zions also stated that it maintains a second-review program for residential and small business lending. Zions has indicated that Amegy will adopt Zions's current fair lending policies and procedures.

The Board also has considered the HMDA data in light of other information, including the overall performance records of the subsidiary banks of Zions and Amegy under the CRA. These established efforts demonstrate that the

(reasons most frequently cited for a credit denial or higher credit cost) are not available from HMDA data.

institutions are active in helping to meet the credit needs of their entire communities.

C. Conclusion on Convenience and Needs and CRA Performance

The Board has carefully considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by Zions, comments received on the proposal, and confidential supervisory information. In addition, Zions has represented that the proposal would expand the availability and array of banking products and services to the customers of Amegy.²⁶ 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 and 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.²⁷ In reaching

²⁶ A commenter asserted that Zions did not provide sufficient information for the Board to conclude that considerations related to the convenience and needs of the community are consistent with approval of the proposal. As noted, however, the Board's consideration of this factor was based on a review of a broad range of information in addition to information provided by Zions, including the CRA performance records of the institutions involved in the proposal, HMDA data reported by Zions and Amegy, and confidential supervisory information.

²⁷ A commenter requested that the Board hold a public meeting or hearing 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

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.²⁸ The Board's approval is specifically conditioned on compliance by Zions with the conditions imposed in this order and the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than

testimony. 12 CFR 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 its views, 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 the written comments do not present its views adequately or why a meeting or 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 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.

²⁸ The commenter also requested that the Board extend the comment period on the proposal. As previously noted, the Board has accumulated a significant record in this case, including reports of examination, confidential supervisory information, public reports and information, and public comment. In the Board's view, for the reasons discussed above, the commenter has had ample opportunity to submit its views and, in fact, has provided written submissions that the Board has considered carefully in acting on the proposal. Moreover, the BHC Act and Regulation Y require the Board to act on proposals submitted under those provisions within certain time periods. Based on a review of all the facts of record, the Board has concluded that the record in this case is sufficient to warrant action at this time, and that extension of the comment period, or denial of the proposal on the basis of the comments discussed above or on informational insufficiency, is not warranted.

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 San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors,²⁹ effective November 18, 2005.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

²⁹ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Bies and Olson. Absent and not voting: Governor Kohn.

Appendix
CRA Performance Ratings of Zions's Other Subsidiary Banks³⁰

Bank	CRA Rating	Date	Supervisor
Zions First National Bank, Salt Lake City, Utah	Outstanding	December 2003	OCC
The Commerce Bank of Washington, National Association, Seattle, Washington	Satisfactory	April 2004	OCC
National Bank of Arizona, Tucson, Arizona	Satisfactory	October 2003	OCC
Nevada State Bank, Las Vegas, Nevada	Outstanding	July 2004	FDIC
Vectra Bank Colorado, National Association, Farmington, New Mexico	Outstanding	November 2001	OCC

³⁰ Zions's subsidiary bank, The Commerce Bank of Oregon ("CBO"), Portland, Oregon, is a de novo bank established on October 31, 2005. CBO was established to purchase and assume the assets and liabilities of First Consumers National Bank, Lake Oswego, Oregon, a credit card bank that had been in liquidation since June 2003. Accordingly, CBO does not have a CRA performance record.