

FEDERAL RESERVE SYSTEM

International Bancshares Corporation
Laredo, Texas

Order Approving the Acquisition of a Bank Holding Company

International Bancshares Corporation (“IBC”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 3(a)(3) of the BHC Act (12 U.S.C. § 1842(a)(3)) to acquire all the voting shares of National Bancshares Corporation of Texas, San Antonio (“NBC”), a bank holding company, and thereby acquire NBC’s subsidiary bank, NBC Bank, N.A., Eagle Pass, both in Texas (“Bank”).¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (66 Federal Register 44,637 (2001)). The time for filing 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.

IBC, with total consolidated assets of \$5.8 billion, is the seventh largest commercial banking organization in Texas, controlling four subsidiary

¹ IBC’s subsidiary, NBT Acquisition Corp. (“NBTAC”), has initiated a cash tender offer for all the issued and outstanding shares of NBC at \$24.75 per share. On consummation of the proposal, NBTAC would merge with and into NBC, with NBC as the surviving entity. All the nontendering shareholders would be cashed out at the same amount as offered in the tender offer and, subsequently, NBC would merge with and into IBC. NBC’s second-tier bank holding company, NBT of Delaware, either would be merged with IBC or dissolved, and Bank would be merged into IBC’s lead bank, International Bank of Commerce, Laredo, Texas (“IBOC-Laredo”). Some of Bank’s assets and liabilities would be transferred to another IBC subsidiary bank, Commerce Bank, also in Laredo. The merger of Bank and IBOC-Laredo is subject to approval by the Federal Deposit Insurance

banks with total deposits of \$3.6 billion, representing 2 percent of total deposits of insured depository institutions in the state (“state deposits”).² NBC, with total consolidated assets of \$595 million, is the 38th largest commercial banking organization in Texas, controlling one subsidiary bank with total deposits of \$510 million, representing less than 1 percent of state deposits. On consummation of the proposal, IBC would remain the seventh largest banking organization in Texas, controlling deposits of \$4.1 billion, representing 2.3 percent of total state deposits.

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 any attempt to monopolize the business of banking in any relevant banking market. Section 3 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 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.³

IBC and NBC have depository institutions that compete directly in three Texas banking markets, the San Antonio banking market, the Maverick County banking market, and the Laredo banking market.⁴ Consummation of the

Corporation (“FDIC”) under the Bank Merger Act, and IBC has applied to the FDIC for this approval.

² In this context, depository institutions include commercial banks, savings banks, and savings associations. Asset data are as of June 30, 2001, and deposit data are as of June 30, 2000.

³ 12 U.S.C. § 1842(c)(1).

⁴ The San Antonio banking market is defined as the San Antonio Metropolitan Statistical Area (“MSA”) and Kendall County. The Maverick County banking

proposal would be consistent with the Department of Justice Merger Guidelines (“DOJ Guidelines”)⁵ and Board precedent in the San Antonio banking market. IBC would remain the eighth largest banking organization on consummation of the proposal, and would control \$475 million in deposits, representing approximately 3.4 percent of total deposits in depository institutions in the market (“market deposits”). The HHI would increase 1 point to 1,357.⁶

In the Maverick County banking market, consummation of the proposal also would be consistent with the DOJ Guidelines and Board precedent, and result in little reduction in competition in Maverick County. NBC is the largest of five banking organizations in the Maverick County banking market, controlling 59.2 percent of market deposits. Deposit data provided by IBC as of

market is defined as Maverick County. The Laredo banking market is defined as Webb County, which is also designated as the Laredo MSA.

⁵ Under the revised Department of Justice Merger Guidelines, 49 Federal Register 26,823 (June 29, 1984), a market in which the post-merger Herfindahl-Hirschman Index (“HHI”) is above 1800 points is considered to be highly concentrated. The Department of Justice has informed the Board that a bank merger or acquisition generally will 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. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

⁶ Market share data are as of June 30, 2000, 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 of commercial banks. See BB&T Corporation, 87 Federal Reserve Bulletin 545 (2001); WM Bancorp, 76 Federal Reserve Bulletin 788 (1990); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market share on a 50-percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

July 31, 2001, indicate that IBC ranks fifth of five organizations in the banking market, controlling \$714,000 in deposits, representing less than 1 percent of market deposits.⁷ IBC has operated its office in this market for only four months, and its market share is substantially smaller than the next largest competitor, Del Rio National Bancshares, which controls \$15.5 million in deposits, representing 4.4 percent of market deposits. On consummation of the proposal, IBC would become the largest banking organization in the Maverick County banking market, controlling \$210 million in deposits, representing 59.4 percent of market deposits. The HHI would increase 23 points to 4,352.

In the Laredo banking market, consummation of the proposal would increase the level of market concentration, as measured by the HHI, to levels that exceed the DOJ Guidelines. IBC is the second largest of five banking organizations in the Laredo banking market and controls deposits of approximately \$1.4 billion, representing 38.8 percent of market deposits. NBC is the fifth largest banking organization in the market and controls deposits of \$99.2 million, representing approximately 2.8 percent of market deposits. On consummation of the proposal IBC would remain the second largest banking organization and control deposits of \$1.5 billion, representing 41.6 percent of market deposits. The HHI would increase 218 points to 4,003.

As the Board has indicated in previous cases, in a market in which the measures of the competitive effects of a proposal exceed the DOJ Guidelines, it will consider whether other factors tend to mitigate the competitive effects of the proposal. The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the level of market concentration and size of the increase in market concentration.

⁷ IBC's only office in Maverick County opened in June 2001 and, therefore, is

In this case, several factors appear to mitigate the potential for anticompetitive effects from the proposal in the Laredo banking market. As compared with Texas and other MSAs in the state, the Laredo banking market is attractive for new entry based on its size, population growth rate, deposits per banking office, and deposit growth rate. The Laredo MSA is the ninth fastest growing MSA in the United States, having experienced a growth rate of 45 percent since 1990, as compared with 23 percent for Texas and 25 percent for all Texas MSAs. It has the highest ratio of deposits per banking office of any MSA market in Texas,⁸ and its rate of deposit growth since 1995 has exceeded substantially the average deposit growth rate for all Texas MSAs.⁹

The competitive effect of the proposal on the Laredo banking market also is mitigated by the banking market's proximity to Nuevo Laredo, Mexico, which is directly across the Rio Grande, where numerous Mexican banking firms have offices.¹⁰ Because 90 percent of Laredo's population is of Mexican or other Hispanic origin, and many residents of Laredo commute daily to Nuevo Laredo to

not reflected in the June 30, 2000, market share data.

⁸ Deposits per banking office in Laredo, as of June 2000, totaled \$197 million, as compared with \$49 million in Texas and an average of \$55 million for all Texas MSAs.

⁹ Since 1995, the deposit growth rate in the Laredo banking market has increased 50 percent, as compared with 25 percent for Texas and 27 percent for other Texas MSAs.

¹⁰ In analyzing a proposal, the Board may consider the unique characteristics of banking markets. CNB Bancshares, 80 Federal Reserve Bulletin 538 (1994); Banco Popular de Puerto Rico, 79 Federal Reserve Bulletin 979 (1993); Hartford National Corporation, 73 Federal Reserve Bulletin 720 (1987). In Laredo National Bancshares, Inc., 78 Federal Reserve Bulletin 139 (1992), the Board considered various factors that make the Laredo banking market unique.

work in “maquiladora”¹¹ plants, the presence of additional banking alternatives in Nuevo Laredo indicates that the competitive effects of the proposal on the Laredo banking market are not as significant as suggested by the market’s HHI.¹²

The Department of Justice has advised the Board that consummation of the proposal would not likely have a significant adverse competitive effect in any relevant banking market. The Texas Department of Banking and the Office of the Comptroller of the Currency were provided the opportunity to comment and did not object to consummation of the proposal.

After carefully reviewing all the facts of record, and for the reasons discussed in the order, the Board concludes that consummation of the proposal is not likely to result in any significantly adverse effects on competition or on the concentration of banking resources in the Laredo, Maverick County, or San Antonio banking markets. On this basis, the Board has determined that the competitive factors are consistent with approval of the proposal.

Other Considerations

The BHC Act requires the Board, in acting on an application, to consider the financial and managerial resources and future prospects of the companies and banks involved, the convenience and needs of the communities to

¹¹ “Maquiladoras” are assembly plants in Mexico. Parts or raw materials are shipped from the United States duty-free to these plants, which complete the production process. Finished products are then shipped back to the United States and are charged a reduced duty.

¹² The six largest Mexican banking institutions maintain numerous branches in Nuevo Laredo, providing competition for Laredo financial institutions that is not accounted for in the standard HHI analysis. As a result of its recent acquisition of Grupo Financiero Banamex Accival, S.A. de C.V., Mexico City, Mexico, Citigroup Inc., New York, New York, has the most branches in Nuevo Laredo with a total of 11 branches. Citigroup Inc., 87 Federal Reserve Bulletin 613 (2001).

be served, and certain supervisory factors.¹³ The Board has reviewed these factors in light of the record, including supervisory reports of examination assessing the financial and managerial resources of the organizations, and financial information provided by IBC. Based on all the facts of record, the Board concludes that the financial and managerial resources and the future prospects of IBC, Bank, and IBC's subsidiary banks are consistent with approval, as are the other supervisory factors the Board must consider under the BHC Act. In addition, considerations related to the convenience and needs of the communities to be served, including the records of performance under the Community Reinvestment Act (12 U.S.C. § 2901 et seq.) of the institutions involved, are consistent with approval of the proposal.

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the application should be, and hereby is, approved. The Board's approval is specifically conditioned on compliance by IBC with all the commitments made in connection with the proposal. For the purpose of this action, the commitments and conditions relied on by the Board in reaching its decision are deemed to be conditions imposed in writing by the Board in

¹³ The Board received one comment on the application, which concerned the valuation of NBC and alleged that the stock solicitation materials distributed to NBC's shareholders were deficient. The Board has no authority to regulate the offering price for bank stock acquired under the BHC Act. Western Bancshares, Inc. v. Board of Governors of the Federal Reserve System, 480 F.2d 749 (10th Cir. 1973). Because the comment raised an issue about compliance with the securities laws, however, it was forwarded to the appropriate regulatory agency, the Securities and Exchange Commission. The commenter also alleged that a group of persons might have acquired control of NBC in violation of the BHC Act or the Change in Bank Control Act (12 U.S.C. § 1817(j)), but the commenter provided no evidence to support the allegation, and it was not supported by the facts of record.

connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Bank shall 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 Federal Reserve Bank of Dallas, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁴ effective October 26, 2001.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁴ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.