

## FEDERAL RESERVE SYSTEM

First National Bank Group, Inc.  
Edinburg, Texas

### Order Approving the Acquisition of Shares of a Bank Holding Company

First National Bank Group, Inc. (“First National”), 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<sup>1</sup> to acquire up to 14.99 percent of the voting shares and control of Alamo Corporation of Texas, Alamo, Texas (“Alamo”), and thereby acquire control of Alamo Corporation of Delaware, Wilmington, Delaware (“ACD”), and Alamo’s subsidiary bank, Alamo Bank of Texas, (“Alamo Bank”), also in Alamo.<sup>2</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (69 Federal Register 56,765 (2004)). 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.

First National, with total consolidated assets of \$2.6 billion, is the 22<sup>nd</sup> largest depository organization in Texas. It controls First National Bank of Edinburg (“First National Bank”), Edinburg, Texas, with deposits of \$2.2 billion, which represent less than 1 percent of total deposits of insured depository institutions in Texas (“state deposits”).<sup>3</sup> Alamo, with total consolidated assets of

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<sup>1</sup> 12 U.S.C. § 1842.

<sup>2</sup> ACD is a wholly owned subsidiary of Alamo that directly owns all the voting shares of Alamo Bank.

<sup>3</sup> Asset data and statewide deposit and ranking data are as of June 30, 2004.

\$284 million, is the 144<sup>th</sup> largest depository organization in Texas, controlling deposits of \$236 million. On consummation of the proposal, First National would become the 19<sup>th</sup> largest depository organization in Texas, controlling deposits of approximately \$2.47 billion, which would represent less than 1 percent of state deposits.

Although First National would be acquiring only 14.99 percent of the voting shares of Alamo, First National has requested approval to control Alamo for purposes of the BHC Act. In doing so, First National would be subject to certain obligations imposed by the BHC Act and other federal statutes, including obligations to serve as a source of financial and managerial strength to Alamo and to treat Alamo Bank as a subsidiary of First National.<sup>4</sup>

The Board received a comment from the management of Alamo objecting to the proposal and alleging that First National already owned or controlled, directly and indirectly, more than 5 percent of the voting shares of Alamo without having obtained prior Board approval.<sup>5</sup> Alamo also questioned

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<sup>4</sup> See 12 C.F.R. 225.4; 12 U.S.C. § 1815(e)(1).

<sup>5</sup> Alamo claimed that First National, its president, and a certain First National shareholder acted together to acquire more than 5 percent of the shares of Alamo. The Board has reviewed information provided by First National and Alamo and confidential supervisory information regarding the current ownership of both organizations, including information about the ownership of Alamo's shares by individuals associated with First National. Although the Board's rules would require aggregation of the shares held by First National's president with the shares owned by First National in determining First National's current ownership percentage, that total is less than the 5 percent of the shares of Alamo and, therefore, would not require prior Board approval. The record does not support a finding that First National or its president acted with or through the identified First National shareholder to acquire additional shares of Alamo. Based on all the facts of record, the Board has determined that First National did not acquire 5 percent or more of Alamo's shares without prior approval by the Board in violation of the BHC Act.

First National's financial ability to acquire additional shares of Alamo and asserted that future acquisitions by First National could negatively affect its financial condition and its ability to serve as a source of strength to its own subsidiary bank.<sup>6</sup> The Board has considered carefully Alamo's comment in light of the factors it must consider under section 3 of the BHC Act.

#### 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 banks involved in the proposal and certain other supervisory factors. The Board has considered carefully these factors in light of all the facts of record, including the comment submitted by the management of Alamo. The Board has considered, among other things, information provided by First National, confidential reports of examination and other supervisory information received from the primary federal supervisors of the organizations and institutions involved in the proposal, the Federal Reserve System's confidential supervisory information, publicly reported and other financial information, and public comment received on the proposal.<sup>7</sup>

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<sup>6</sup> Alamo also contended that certain information contained in First National's application is inaccurate. First National subsequently submitted to the Board information correcting the inaccuracies in its application.

<sup>7</sup> As noted above, Alamo contended that any future acquisitions of its shares by First National could negatively affect First National's financial condition and impede its ability to serve as a source of strength to its own subsidiary bank. First National has committed not to acquire any additional shares of Alamo without obtaining prior Board approval. The financial and managerial impact on First National of any future acquisition of Alamo's shares, along with all other factors the Board is required to consider under section 3 of the BHC Act, cannot be predicted at this time and would be evaluated if and when an acquisition is proposed in the future.

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 applicant, including its capital position, asset quality, earnings prospects, and the impact of the proposed funding of the transaction.<sup>8</sup>

Based on its review of these factors, the Board finds that First National has sufficient resources to effect the proposal. First National and its subsidiary bank are well capitalized and would remain so on consummation of this proposal. The proposed transaction is structured as a share purchase, and the consideration to be received by Alamo's shareholders would be funded from First National's existing liquid assets.

The Board also has considered the managerial resources of First National, Alamo, and Alamo Bank, 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 assessments by the relevant federal and state banking supervisory agencies of the organizations' management, the risk-management systems of First National, and

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<sup>8</sup> As previously noted, the current proposal provides that First National would acquire only up to 14.99 percent of Alamo. Under these circumstances, the financial statements of Alamo and First National would not be consolidated.

the operations of Alamo and Alamo Bank. First National, Alamo, and their subsidiary depository institutions are considered well managed overall.

Based on all the facts of record, the Board has concluded that the financial and managerial resources and the future prospects of First National, Alamo, and their subsidiaries are consistent with approval of this application, as are the other supervisory factors the Board must consider under section 3 of the BHC Act.

#### Competitive and Convenience and Needs 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 proposal 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.<sup>9</sup>

First National and Alamo compete directly in the Brownsville and McAllen, Texas banking markets.<sup>10</sup> The Board has reviewed carefully the competitive effects of the proposal in each of these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the markets, the relative shares of total deposits in depository institutions in the markets (“market deposits”) controlled by

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<sup>9</sup> 12 U.S.C. § 1842(c)(1).

<sup>10</sup> The Brownsville banking market is defined as Cameron County, and the McAllen banking market is defined as Hidalgo County, both in Texas. Market data for both of these markets is provided in the Appendix.

First National and Alamo,<sup>11</sup> the concentration levels of market deposits and the increases in these levels as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),<sup>12</sup> and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in each of these banking markets. The Brownsville and McAllen banking markets would remain moderately concentrated as measured by the HHI, and the increases in concentration would be small in both markets. In addition, numerous competitors would remain in these markets after consummation of the proposal.

The Department of Justice also has conducted a detailed review of the competitive effects of the proposal and has advised the Board that consummation would not have a significantly adverse effect on competition in either market or in

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<sup>11</sup> Deposit and market share data are as of June 30, 2004, adjusted to reflect subsequent mergers and acquisitions through October 29, 2004, 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, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386, 387 (1989); National City Corporation, 70 Federal Reserve Bulletin 743, 744 (1984).

<sup>12</sup> Under the revised DOJ Guidelines, 49 Federal Register 26,823 (June 29, 1984), a market in which the post-merger HHI is between 1000 and 1800 is considered moderately 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 thresholds for an increase in the HHI when screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

any relevant banking market. The appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

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

In addition, considerations relating to the convenience and needs of the communities to be served, including the records of performance of the institutions involved under the Community Reinvestment Act (“CRA”),<sup>13</sup> are consistent with approval of the application. First National Bank received an “outstanding” rating at its most recent examination for CRA performance by the Office of the Comptroller of the Currency, as of October 7, 2002. Alamo Bank received a “satisfactory” rating at its most recent examination for CRA performance by the Federal Deposit Insurance Corporation, as of February 3, 2003.

### Conclusion

Based on the foregoing and all the 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 in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board’s approval is specifically conditioned on compliance by First National with the condition imposed in this order and the commitment made to the Board in connection with the application. The condition and commitment 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.

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<sup>13</sup> 12 U.S.C. § 2901 et seq.

The acquisition of Alamo's voting shares 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 Dallas, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>14</sup> effective November 12, 2004.

(signed)

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Robert deV. Frierson  
Deputy Secretary of the Board

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<sup>14</sup> Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

## APPENDIX

### Banking Market Data

#### *Brownsville, Texas*

First National operates the fourth largest depository institution in the Brownsville banking market, controlling \$354.5 million in deposits, which represents 10.4 percent of market deposits. Alamo operates the 12<sup>th</sup> largest depository institution in the market, controlling \$44 million in deposits, which represents 1.3 percent of market deposits. On consummation of the proposal, First National would continue to operate the fourth largest depository institution in the market, controlling approximately \$399 million in deposits, which represents 11.7 percent of market deposits. The HHI would increase by 28 points to 1438. Fourteen depository institution competitors would remain in the market.

#### *McAllen, Texas*

First National operates the second largest depository institution in the McAllen banking market, controlling \$982 million in deposits, which represents 15.4 percent of market deposits. Alamo operates the seventh largest depository institution in the market, controlling \$175.5 million in deposits, which represents 2.8 percent of deposits in the market. On consummation of the proposal, First National would continue to operate the second largest depository institution in the market, controlling approximately \$1.2 billion in deposits, which represents approximately 18.2 percent of market deposits. The HHI would increase by 84 points to 1548. Sixteen depository institution competitors would remain in the market.