FRB Order No. 2015-10
February 27, 2015

FEDERAL RESERVE SYSTEM

Banco Popular de Puerto Rico
Hato Rey, Puerto Rico

Order Approving the Acquisition of Assets, Assumption of Liabilities, and the Establishment of Branches

Banco Popular de Puerto Rico ("Banco Popular")[1], Hato Rey, a state member bank, has requested the Board's approval under section 18(c) of the Federal Deposit Insurance Act[2] ("Bank Merger Act") to acquire assets and assume liabilities of Doral Bank ("Doral"), San Juan,[3] a state nonmember bank, both of Puerto Rico. In addition, Banco Popular has applied under section 9 of the Federal Reserve Act ("FRA")[4] to establish and operate branches at the locations of the branches acquired from Doral.

The Federal Deposit Insurance Corporation ("FDIC") has been appointed receiver of Doral and has scheduled the sale of certain assets and the transfer of certain liabilities of Doral for February 27, 2015. The FDIC, as receiver, has selected a consortium bid lead by Banco Popular as the least-cost proposal in accordance with the least-cost-resolution requirements in the Federal Deposit Insurance Act ("FDI Act")[5] and

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1 Banco Popular is a subsidiary of Popular, Inc. ("Popular"), San Juan, Puerto Rico.

2 12 U.S.C. § 1828(c).

3 Doral is a subsidiary of Doral Financial Corporation, San Juan, Puerto Rico.

4 12 U.S.C. § 321. These locations are listed in the appendix.

5 See 12 U.S.C. §§ 1821, 1822, and 1823(c)-(k). The least-cost procedures require the FDIC to choose the resolution method in which the total amount of the FDIC's expenditures and obligations incurred (including any immediate or long-term obligation and any direct or contingent liability) is the least costly to the Deposit Insurance Fund of all possible methods.

eliminated more costly proposals.[6] The FDIC has recommended immediate action by the Board on Banco Popular's consortium proposal to prevent the probable failure of Doral. On the basis of the information before the Board, the Board finds that it must act immediately pursuant to the Bank Merger Act[7] to safeguard the depositors of Doral. Accordingly, public notice of the application and opportunity for comment are not required by the Bank Merger Act.

Banco Popular, with total assets of approximately $26.2 billion, operates in Puerto Rico, the U.S. Virgin Islands, and New York.[8] Banco Popular is the largest insured depository institution in Puerto Rico, controlling deposits of approximately $20.1 billion, which represent 46.7 percent of the total amount of deposits of insured depository institutions in the Commonwealth ("total deposits").[9]

Doral, with total assets of approximately $6.4 billion, operates in Puerto Rico, New York, and Florida.[10] Doral is the sixth largest insured depository institution in

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[6] Banco Popular intends to sell Doral's branches in New York and Florida and certain of its branches in Puerto Rico to other members of its bidding consortium. Its affiliate, Banco Popular North America, New York, New York, has requested the Board's approval to acquire certain assets and assume certain liabilities of Doral in New York. See Banco Popular North America, FRB Order 2015-11 (Feb. 27, 2015) ("BPNA Order"). Centennial Bank, Conway, Arkansas, has requested the Board's approval to acquire certain assets and assume certain liabilities of Doral in Florida. See Centennial Bank, FRB Order 2015-09 (Feb. 27, 2015).

[7] 12 U.S.C. § 1828(c).

[8] Asset and nationwide deposit-ranking data are as of September 30, 2014. State deposit and ranking data are as of June 30, 2014. As of December 31, 2014, Banco Popular had total assets of approximately $27.1 billion. For purposes of this order, insured depository institutions include commercial banks. No savings associations operate in Puerto Rico.

[9] Puerto Rican market shares and rankings exclude corporate deposits booked in San Juan by Citigroup Inc.

[10] Asset and nationwide deposit-ranking data are as of September 30, 2014. State deposit and ranking data are as of June 30, 2014. As of December 31, 2014, Doral had total assets of approximately $5.9 billion.

Puerto Rico, controlling deposits of approximately $2.3 billion, which represent approximately 5.4 percent of the total deposits in the Commonwealth.

On consummation of the proposal, and accounting for the proposed divestitures, Banco Popular would remain the largest insured depository institution in Puerto Rico, controlling deposits of approximately $21.0 billion, which represent 49.4 percent of total deposits.

Competitive Considerations

The Board has considered the competitive effects of the proposal in light of all the facts of record. The Bank Merger 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.[11] The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of the communities to be served.[12]

Banco Popular and Doral compete directly in three banking markets in Puerto Rico and in one banking market in New York.[13] The Board has reviewed 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 financial condition of Doral and the fact that the Office of the Commissioner of Financial Institutions of Puerto Rico ("Puerto Rico OCFI") has placed the bank into FDIC receivership. In addition, the FDIC, as receiver for Doral, has selected Banco Popular's consortium bid for Doral in accordance with the least-cost-resolution requirements in the FDI Act. The Board also

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[11] 12 U.S.C. § 1828(c)(5)(A).

[12] 12 U.S.C. § 1828(c)(5)(B).

[13] The proposal would not result in substantially adverse competitive effects in the Metro New York City banking market, the banking market in New York in which Banco Popular and Doral compete. See BPNA Order.

has considered the resulting loss of Doral as an independent competitor in the banking markets if this transaction is not consummated, as well as various measures of competition and market concentration, and other characteristics of the markets.

Under the proposal, Banco Popular would purchase assets and assume liabilities of Doral and thereby merge Doral's businesses into a viable ongoing concern with demonstrated capital strength and management capability. Banco Popular's proposal would continue the availability of credit opportunities and banking services for the customers and communities that Doral served and avoid serious economic disruption in Puerto Rico. The FDIC actively solicited bids for Doral and, after considering Banco Popular's proposal in light of competing proposals submitted by other bidders, determined that Banco Popular's bid represented the lowest cost to the Deposit Insurance Fund. On this basis, Banco Popular's, proposal is the only means before the Board of achieving the public benefits discussed above.

In addition, the Board has considered the number of competitors that would remain in the banking markets; the relative shares of total deposits in insured depository institutions in the markets ("market deposits") controlled by Banco Popular; the 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");[14] other characteristics

[14] 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. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

of the markets; and, as discussed below, commitments made by Banco Popular to divest branches in two banking markets in Puerto Rico.

In the San Juan, Puerto Rico, banking market (the "San Juan banking market"),[15] Banco Popular is the largest depository institution, controlling approximately $17.1 billion in deposits, which represent approximately 44.1 percent of deposits in that market.[16] Doral is the sixth largest depository institution, controlling approximately $1.4 billion in deposits, which represent approximately 3.7 percent of deposits in that market. In the Aguadilla-Mayaguez, Puerto Rico, banking market (the "Aguadilla-Mayaguez banking market"),[17] Banco Popular is the largest depository institution, controlling approximately $1.8 billion in deposits, which represent approximately

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15 The San Juan banking market is defined to include the following municipalities in Puerto Rico: Aguas Buenas, Aibonito, Arecibo, Barceloneta, Barranquitas, Bayamon, Caguas, Camuy, Canovanas, Carolina, Catano, Cayey, Ceiba, Ciales, Cidra, Comerio, Corozal, Dorado, Fajardo, Florida, Guaynabo, Gurabo, Hatillo, Humacao, Juncos, Lares, Las Piedras, Loiza, Luquillo, Manati, Maunabo, Morovis, Naguabo, Naranjito, Orocovis, Quebradillas, Rio Grande, San Juan, San Lorenzo, Toa Alta, Toa Baja, Trujillo Alto, Utuado, Vega Alta, Vega Baja, and Yabucoa.

16 In addition to the exclusion of Citigroup Inc.'s corporate deposits booked in San Juan, calculations for the Puerto Rican banking markets also exclude approximately $700 million in brokered deposits booked in San Juan that will not be acquired by any party to the transaction and include deposits of cooperative lending societies ("cooperativas") weighted at 50 percent. Cooperativas are Commonwealth-insured depository institutions unique to Puerto Rico. Although cooperativas are membership organizations, few impose membership restrictions, and they are authorized to provide a full range of products and services to nonmembers, including transaction accounts for personal and business purposes. For a detailed discussion of the activities of cooperativas, see BanPonce Corporation, 77 Federal Reserve Bulletin 43, 45 (1991); Statement by the Board of Governors of the Federal Reserve System Regarding the Application by Banco Santander, S.A., 82 Federal Reserve Bulletin 833, 834-835 (1996) ("Statement"). The Board previously has recognized and continues to believe that cooperativas are at least as significant as thrift institutions as competitors of commercial banks and should be weighted at 50 percent. See Statement at 835 n.13.

17 The Aguadilla-Mayaguez banking market is defined to include the following municipalities in Puerto Rico: Aguada, Aguadilla, Anasco, Cabo Rojo, Hormigueros, Isabela, Lajas, Las Marias, Maricao, Mayaguez, Moca, Rincon, Sabana Grande, San German, and San Sebastian.

50 percent of the deposits in that market. Doral is the sixth largest depository institution, controlling approximately $103 million in deposits, which represent approximately 2.8 percent of the deposits in that market. To mitigate the potentially adverse competitive effects of the proposal in the San Juan and Aguadilla-Mayaguez banking markets, Banco Popular has committed to divest eight branches in the San Juan banking market and both of the Doral branches in the Aguadilla-Mayaguez banking market, which account for approximately $736 million in deposits in these two markets.[18]

After the divestiture, the proposal would be consistent with Board precedent in the San Juan and Aguadilla-Mayaguez banking markets. Banco Popular would remain the largest depository institution in the Aguadilla-Mayaguez market, and its market share would remain unchanged.

After the divestiture, Banco Popular would remain the largest depository institution in the San Juan banking market, controlling approximately $18.0 billion in deposits, which represent approximately 46.2 percent of deposits in that market. The HHI would increase 232 points, from 2548 to 2780. Five other commercial banking organizations would remain in that market.

In the Ponce, Puerto Rico, banking market (the "Ponce banking market"),[19] Banco Popular is the largest depository institution, controlling approximately

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[18] As a condition to consummation of the proposed merger, Banco Popular has committed that it will execute an agreement to sell within 180 days of consummating the proposed merger the Doral branches in the San Juan and Aguadilla-Mayaguez banking markets to a purchaser determined by the Board to be competitively suitable. If the proposed divestiture is not completed within the 180-day period, Banco Popular commits to transfer the unsold branches to an independent trustee who will be instructed to sell them to an alternate purchaser or purchasers in accordance with the terms of this order and without regard to price. Both the trustee and any alternate purchaser must be deemed acceptable to the Board. See BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991). Banco Popular has provided a similar commitment to the DOJ.

[19] The Ponce banking market is defined to include the following municipalities in Puerto Rico: Adjuntas, Coamo, Guanica, Guayanilla, Jayuya, Juana Diaz, Penuelas, Ponce, Salinas, Santa Isabel, Villalba, and Yauco.

$944 million in deposits, which represent approximately 39.4 percent of the deposits in that market. Doral is the sixth largest depository institution, controlling approximately $67 million in deposits, which represent approximately 2.8 percent of the deposits in that market. Upon consummation of the transaction, Banco Popular would remain the largest depository institution in the Ponce banking market, controlling approximately $1.0 billion in deposits, which represent approximately 42.2 percent of deposits in that market. The HHI would increase by 221 points to 2431. Four other commercial banking organizations would remain in that market.

The DOJ also has conducted a detailed review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal, with the proposed divestiture of branches as discussed above, would not likely have a significantly adverse effect on competition in any relevant banking market.

Under these circumstances, and after careful consideration of all the facts of record, the Board concludes that the anticompetitve effects of this proposal in the relevant markets are clearly outweighed in the public interest by the probable effect of the Banco Popular proposal in meeting the convenience and needs of the communities to be served in Puerto Rico.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under the Bank Merger Act, the Board considers the financial and managerial resources and future prospects of the institutions involved and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential supervisory and examination information from the Puerto Rico OCFI and the U.S. banking supervisors of the institutions involved, and publicly reported and other financial information, including information provided by Banco Popular.

In evaluating financial factors in expansionary 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 depository institutions and significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial resources, the Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction.

Banco Popular is well capitalized and would remain so on consummation of the proposal. Based on its review of the record in this case, the Board finds that Banco Popular has sufficient financial resources to effect the proposal. As noted, the proposed transaction is structured as a purchase of assets and assumption of liabilities from the FDIC as receiver, and the transaction will be funded by cash.

The Board also has considered the managerial resources of Banco Popular and has reviewed the examination records of Banco Popular, including assessments of its management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant banking supervisory agencies, including the FDIC, with the organizations and their records of compliance with applicable banking and anti-money-laundering laws. The Board also has considered Banco Popular's plans for implementing the proposal, including its plans for managing the integration of the acquired assets and operations into the bank.

Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of Banco Popular are consistent with approval under the Bank Merger Act, as are the other statutory factors.

Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board must consider the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").[20] The CRA requires the federal financial supervisory

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[20] 12 U.S.C. § 2901 et seq.

agencies to encourage financial 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 an institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in evaluating bank acquisition proposals. Banco Popular received an overall rating of "outstanding" at its most recent CRA performance examination by the Federal Reserve Bank of New York, as of January 22, 2013.[21] After consummation of the proposal, Banco Popular plans to implement its CRA policies at the branches and consumer lending operations acquired from Doral.

As noted, the Board believes that the proposal will result in substantial benefits to the convenience and needs of the communities to be served by maintaining the availability of credit and deposit services to customers of Doral. Banco Popular has represented that consummation of the proposal would allow it to provide a broader range of financial products and services to the customers of Doral. Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs of the communities to be served and the CRA performance records of the relevant depository institutions are consistent with approval.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended the Bank Merger Act to require the Board to consider a merger proposal's "risk to the stability of the United States banking or financial system."[22]

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

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[21] Banco Popular's CRA evaluation was conducted using Large Bank CRA Examination Procedures, and examiners reviewed the bank's lending activity from January 1, 2010, through December 31, 2012.

[22] Section 604(f) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 1828(c)(5).

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 resulting firm.[23] 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.[24]

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation of the proposed transaction, Popular would have approximately $36 billion in total consolidated assets and would not be likely to pose systemic risks. Evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors is not present in this transaction. Banco Popular would continue to engage in traditional commercial banking activities. The resulting organization would only experience very small increases in the metrics that the Board considers to measure an institution's complexity and interconnectedness, with the resulting firm ranking outside of the top 100 U.S. financial institutions in terms of those metrics. For example, Banco Popular's intrafinancial assets and liabilities would comprise a negligible share of the systemwide total, both before and after the transaction, and the resulting firm would control less than 0.2 percent of the assets of all U.S. depository institutions. The resulting

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[23] Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

[24] For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

organization would not engage in complex activities, nor would it provide critical services in such volume that disruption in those services would have a significant impact on the macroeconomic condition of the United States by disrupting trade or resulting in increased resolution difficulties.

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 has determined that considerations relating to financial stability are consistent with approval.

Establishment of Branches

Banco Popular has applied under section 9 of the FRA to establish and operate branches at the locations of the branches acquired from Doral, and the Board has considered the factors it is required to consider when reviewing an application under that section.[25] Specifically, the Board has considered Banco Popular's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises. For the reasons discussed in this order, the Board finds those factors to be consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the applications should be, and hereby are, 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 Bank Merger Act and the FRA. Approval of the applications is specifically conditioned on compliance by Banco Popular with all of the commitments made in connection with this proposal and the conditions set forth in this order. The commitments and conditions are deemed to be conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

Because the Board has found that it must act immediately to prevent the probable failure of Doral, the transaction may be consummated immediately. In no

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[25] 12 U.S.C. § 322; 12 CFR 208.6.

event, however, should the transaction be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York acting pursuant to delegated authority.

By order of the Board of Governors,[26] effective February 27, 2015.

Robert deV. Frierson (signed)

Robert deV. Frierson
Secretary of the Board

[26] Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.

Appendix

Branches to be Established by Banco Popular de Puerto Rico

1. Rexville Town Center, Carr Pr-167, Esquina Pr-199, Barrio Pajaros, Bayamon, Puerto Rico

2. 65th Infanteria Km 6.9 San Anton, Carolina, Puerto Rico

3. Plaza Dorado Road #693 Km 8.5 Higuillar, Dorado, Puerto Rico

4. Road #20 Km 3.4, Guaynabo, Puerto Rico

5. 1451 F.D. Roosevelt Avenue, San Juan, Puerto Rico

6. Pr Road Number 2 Corner La Fuente Avenue, Candelaria Ward, Toa Baja, Puerto Rico

7. Carr #181 Barrio Las Cueveas, Trujillo Alto, Puerto Rico