

FEDERAL RESERVE SYSTEM

Banco Popular de Puerto Rico
Hato Rey, Puerto Rico

Order Approving the Merger of Banks 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 Act² (“Bank Merger Act”) to acquire assets and assume liabilities of Westernbank Puerto Rico (“Westernbank”), Mayagüez, both of Puerto Rico. Banco Popular also proposes to establish and operate branches at the locations of the acquired branches of Westernbank.

The Federal Deposit Insurance Corporation (“FDIC”) has been appointed receiver of Westernbank and has scheduled the sale of certain assets and the transfer of certain liabilities, of Westernbank for April 30, 2010. The FDIC has recommended immediate action by the Board to prevent the probable failure of Westernbank. On the basis of the information before the Board, the Board finds that it must act immediately pursuant to the Bank Merger Act³ to safeguard the depositors of Westernbank. Accordingly, public notice of the application and opportunity for comment is not required by the Bank Merger Act.

Banco Popular, with total assets of approximately \$23.3 billion, operates in Puerto Rico, the U.S. Virgin Islands, and New York.⁴ Banco Popular is the largest insured depository institution in Puerto Rico, controlling deposits of approximately

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

² 12 U.S.C. § 1828(c).

³ 12 U.S.C. § 1828(c)(3).

⁴ Asset data are as of December 31, 2009, and deposit and ranking data are as of June 30, 2009. For purposes of this order, insured depository institutions include commercial banks. No savings associations operate in Puerto Rico.

\$17 billion, which represent 27.4 percent of the total amount of deposits of insured depository institutions in the Commonwealth (“total deposits”).

Westernbank operates only in Puerto Rico where it is the third largest insured depository institution, controlling deposits of approximately \$10.2 billion. On consummation of the proposal, Banco Popular would remain the largest insured depository institution in Puerto Rico, controlling deposits of approximately \$19.5 billion, which represent 31.4 percent of total deposits.⁵

Competitive Considerations

The Board has considered carefully the competitive effects of the proposal in light of 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 an attempt to monopolize the business of banking in any relevant banking market. The Bank Merger Act also prohibits the Board from approving a 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 transaction in meeting the convenience and needs of the community served.⁶

Banco Popular and Westernbank directly compete in all four banking markets in Puerto Rico. 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 financial condition of Westernbank and the fact that the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (“Puerto Rico OCFI”) has placed the bank into FDIC receivership. In addition, the FDIC, as receiver for Westernbank, has selected Banco Popular’s bid for Westernbank in accordance with the least-cost resolution requirements in the Federal

⁵ In the proposed transaction, Banco Popular would assume only \$2.5 billion of Westernbank’s deposits.

⁶ 12 U.S.C. § 1828(c)(5).

Deposit Insurance Act⁷ and eliminated more costly proposals. The Board also has considered the resulting loss of Westernbank 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 Westernbank and thereby merge Westernbank'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 Westernbank served and avoid serious economic disruption in Puerto Rico. The FDIC actively solicited bids for Westernbank and selected Banco Popular's proposal under the procedures specified by Congress in the Federal Deposit Insurance Act for resolving failed banks.⁸ The FDIC considered this proposal in light of competing proposals submitted by other bidders and determined that Banco Popular's bid represented the lowest cost to the Deposit Insurance Fund. On this basis, the Banco Popular proposal is the only means before the Board of achieving the public benefits discussed above.

Under these circumstances, and after careful consideration of all the facts of record, the Board concludes that the anticompetitive 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 and Managerial Resources and Future Prospects

The Bank Merger Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions

⁷ 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. See 12 U.S.C. §§ 1821, 1822, and 1823(c)-(k).

⁸ See 12 U.S.C. §§ 1821, 1822, and 1823(c)-(k).

involved in the proposal 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 substantial information provided by Banco Popular.

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 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, earnings prospects, and the impact of the proposed funding of the transaction.

The Board has carefully considered the financial resources of the organizations involved in the proposal. Banco Popular is well capitalized and would remain so on consummation of the proposal. In addition, the parent holding company of Banco Popular, Popular Inc., recently raised in a public offering approximately \$1.1 billion in additional capital, of which a sufficient portion will be downstreamed to Banco Popular to effect this transaction. 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. The Board 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 law 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 is required to 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").⁹ Banco Popular received an "outstanding" rating at its most recent CRA performance evaluation by the Federal Reserve Bank of New York, as of September 15, 2008. Westernbank received a "satisfactory" rating at its most recent CRA performance evaluations by the FDIC, as of July 1, 2007. After consummation of the proposal, Banco Popular plans to implement its CRA policies at the branches and acquired consumer lending operations of Westernbank.

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 Westernbank. 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 Westernbank. 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.

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

⁹ 12 U.S.C. §§ 2901 et seq.

Board has considered all the facts of record in light of the factors that it is required to consider under the Bank Merger Act. The Board's approval is specifically conditioned on compliance by Banco Popular with the commitments made to the Board in connection with the application and the conditions imposed in this order. These commitments and conditions 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 transaction may be consummated immediately but in no event 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,¹⁰ effective April 30, 2010.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁰ Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.