



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 2010

Jeffrey D. Haas, Esq.
Patton Boggs LLP
2000 McKinney Avenue
Suite 1700
Dallas, Texas 75201-1858

Dear Mr. Haas:

This is in response to the request by R&G Financial Corporation ("R&G Financial"), San Juan, on behalf of its subsidiary bank, R-G Premier Bank of Puerto Rico ("Bank"), Hato Rey, both of Puerto Rico, for an exemption from section 23A of the Federal Reserve Act and the Board's Regulation W that would permit Bank to acquire all the shares of its affiliate, R&G Mortgage Corporation ("R&G Mortgage") also in San Juan.¹

R&G Mortgage is primarily engaged in the business of servicing first and second mortgage loans on single-family residential properties secured by real estate primarily located in Puerto Rico. More than 65 percent of the servicing portfolio of R&G Mortgage is comprised of mortgage loans owned by Bank. R&G Financial proposes to undertake a one-time internal corporate reorganization pursuant to which it would transfer R&G Mortgage to Bank in consideration for

[] Upon consummation of the transaction, R&G Mortgage will become a wholly owned subsidiary of Bank.

Section 23A and Regulation W limit the amount of "covered transactions" between a bank and any single affiliate to 10 percent of the bank's capital stock and surplus and limit the amount of covered transactions between a bank and all its affiliates to 20 percent of the bank's capital stock and surplus.

¹ 12 U.S.C. § 371c; 12 CFR Part 223.

“Covered transactions” include a bank’s purchase of assets from an affiliate and a bank’s extension of credit to an affiliate. The statute and regulation also require a bank to secure its extensions of credit to, and certain other covered transactions with, affiliates with prescribed amounts of collateral. In addition, section 23A and Regulation W prohibit a bank from purchasing low-quality assets from an affiliate.

Regulation W provides that a bank’s acquisition of a security issued by a company that was an affiliate of the bank before the acquisition is treated as a purchase of assets by the bank from an affiliate if (i) the company becomes an operating subsidiary of the bank as a result of the transaction and (ii) the company has liabilities at the time of the acquisition.² R&G Mortgage is currently an affiliate of Bank and would become an operating subsidiary of Bank immediately after the reorganization. R&G Mortgage will have outstanding liabilities at the time of the reorganization. Accordingly, the transfer of all the capital stock of R&G Mortgage to Bank would be an asset purchase subject to the quantitative and qualitative limitations of section 23A and Regulation W. The Regulation W value of the covered transaction would be approximately [] – the total liabilities of R&G Mortgage at the time of the reorganization.³ Because the capital stock and surplus of Bank at the time of the contribution would be approximately \$387 million, the proposed covered transaction would exceed Bank’s quantitative limits under section 23A and Regulation W. Accordingly, R&G Financial, on behalf of Bank, has requested an exemption to permit it to accomplish the reorganization.

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² See 12 CFR 223.31(a).

³ See 12 CFR 223.31(b).

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Section 23A and Regulation W specifically authorize the Board to exempt, in its discretion, transactions or relationships from the requirements of the statute and rule if the Board finds such exemptions to be in the public interest and consistent with the purposes of section 23A.⁵ Bank is in weak financial condition, and the FDIC anticipates placing the bank into receivership. [

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The Board has approved exemptions under section 23A for one-time asset transfers that are part of a corporate reorganization where certain conditions are met to protect the bank. In similar section 23A exemption requests involving the transfer of an affiliate to a bank, the Board usually limits the purchase of low-quality assets by the bank and obtains commitments from a parent holding company to protect the bank from any significant deterioration of the transferred assets. The FDIC, which is the primary federal supervisor for Bank as well as responsible for the bank's resolution, has informed the Board that the FDIC supports Bank's purchase of the mortgage subsidiary without those conditions.⁶ Because this proposal is intended to aid in the resolution of a failing bank and would be accomplished as part of a receivership and sale of Bank by the FDIC, the standard commitments relating to the transfer of low-quality assets or guarantee by a parent holding company against loss on the transferred assets are not necessary or feasible.

[

](“FDIC Letter”).

⁵ 12 U.S.C. § 371c(f)(2); 12 CFR 223.43(a).

⁶ The FDIC has requested an opportunity to comment on any future changes to the nature and structure of the proposal to determine if there is any unanticipated risk to the Deposit Insurance Fund.

Given the unusual circumstances of the proposed transaction, including the important contribution it may make to the least-cost resolution of the bank, and in light of the foregoing discussion, the granting of an exemption to permit the proposed transaction appears to be in the public interest and consistent with the purposes of section 23A. Accordingly, the Director of the Division of Banking Supervision and Regulation, pursuant to authority delegated by the Board, and with the concurrence of the General Counsel, hereby grants the requested exemption.

This determination is specifically conditioned on compliance by R&G Financial and Bank with all the commitments and representations made to the Board in connection with the exemption request. These commitments and representations are deemed to be conditions imposed in writing in connection with granting the request and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific facts and circumstances surrounding the proposed transaction and may be revoked in the event of a material change in those facts and circumstances or failure by R&G Financial or Bank observe its commitments and representations. Granting this exemption does not represent a determination concerning the permissibility of any other transaction under section 23A or Regulation W.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Robert deV. Frierson", with a long, sweeping horizontal line extending to the right.

Robert deV. Frierson
Deputy Secretary of the Board

cc: Federal Reserve Bank of New York
Federal Deposit Insurance Corporation