

FEDERAL RESERVE SYSTEM

Banco Popular North America
New York, New York

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

Banco Popular North America (“BPNA”),¹ New York, New York, 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 certain assets and assume certain liabilities of Doral Bank (“Doral”), San Juan, Puerto Rico,³ a state nonmember bank, from its affiliate, Banco Popular, San Juan. In addition, BPNA 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 led by Banco Popular de Puerto Rico (“Banco Popular”), San Juan, Puerto Rico, as the least-cost proposal in accordance with the least-cost-resolution requirements in the Federal Deposit Insurance Act (“FDI Act”)⁵ and eliminated more

¹ BPNA and Banco Popular de Puerto Rico (“Banco Popular”) are subsidiaries 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.

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 by 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.

costly proposals. The FDIC has recommended immediate action by the Board on Banco Popular's consortium proposal to prevent the probable failure of Doral.

BPNA is a member of the Banco Popular consortium. Banco Popular will acquire Doral's assets and assume its liabilities from the FDIC.⁶ BPNA will then acquire the New York branches of Doral directly from Banco Popular.

On the basis of the information before the Board, the Board finds that it must act immediately pursuant to the Bank Merger Act⁷ to safeguard the depositors of Doral. Accordingly, public notice of the application and opportunity for comment are not required by the Bank Merger Act.

BPNA, with total assets of approximately \$7.1 billion, operates in Florida, New Jersey, and New York.⁸ BPNA is the 42nd largest insured depository institution in New York, controlling deposits of approximately \$2.4 billion, which represent 0.2 percent of the total amount of deposits of insured depository institutions in the state ("total deposits").

Doral, with total assets of approximately \$6.4 billion, operates in Puerto Rico, New York, and Florida.⁹ Doral is the 53rd largest insured depository institution in New York, controlling deposits of approximately \$1.6 billion, which represent 0.1 percent of the total deposits in the state.

On consummation of the proposal, BPNA would become the 31st largest depository institution in New York, controlling deposits of approximately \$3.9 billion, which represent 0.3 percent of total deposits.

⁶ See Banco Popular de Puerto Rico, FRB Order 2015-10 (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, BPNA had total assets of approximately \$7.4 billion. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

⁹ 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 \$6.4 billion.

Competitive Considerations

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.¹⁰ 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.¹¹

BPNA and Doral compete directly in the Metro New York City, NY-NJ-CT-PA banking market (“Metro New York market”). The Board has reviewed the competitive effects of the proposal in this banking market 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 has placed the bank into FDIC receivership. In addition, the FDIC, as receiver for Doral, has selected BPNA’s consortium bid with Banco Popular in accordance with the least-cost-resolution requirements in the FDI Act. The Board also has considered the resulting loss of Doral as an independent competitor in all the banking markets where it operates if this transaction is not consummated, as well as various measures of competition and market concentration, and other characteristics of the market.

Under the proposal, BPNA would purchase certain assets and assume certain liabilities of Doral in New York and thereby merge the branches into a viable ongoing concern with demonstrated capital strength and management capability. BPNA’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 New York.

¹⁰ 12 U.S.C. § 1828(c)(5)(A).

¹¹ 12 U.S.C. § 1828(c)(5)(B).

In addition, the Board has considered the competitive effects of the proposal in the Metro New York market in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking market; the relative share of total deposits in insured depository institutions in the market (“market deposits”) that BPNA would control;¹² 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”);¹³ and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines for the Metro New York market. On consummation of the proposal, the Metro New York market would remain unconcentrated as measured by the HHI. The HHI change would be minimal, and numerous competitors would remain in the market.¹⁴

¹² Deposit and market share data are as of June 30, 2014, 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 to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

¹³ 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. See Press Release, Department of Justice (August 19, 2010), www.justice.gov/opa/pr/2010/August/10-at-938.html.

¹⁴ BPNA operates the 38th largest depository institution in the Metro New York market, controlling approximately \$2.6 billion in deposits, which represent less than 1 percent of market deposits. Doral operates the 52nd largest depository institution in the same

The DOJ has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in the Metro New York market.

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

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 U.S. banking supervisors of the institutions involved, and publicly reported and other financial information, including information provided by BPNA.

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 the organizations' 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.

market, controlling deposits of approximately \$1.6 billion, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, BPNA would become the 32nd largest depository institution in the market, controlling deposits of approximately \$4.2 billion, which represent less than 1 percent of market deposits. The HHI for the Metro New York market would remain unchanged at 1308, and 252 competitors would remain in the market.

BPNA 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 BPNA has sufficient financial resources to effect the proposal. As noted, the proposed transaction is structured as a purchase of certain assets and assumption of certain liabilities from Banco Popular, which will purchase the assets and assume the liabilities from the FDIC as receiver, and the transaction will be funded by cash.

The Board also has considered the managerial resources of BPNA and has reviewed the examination records of BPNA, 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 BPNA'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 BPNA 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").¹⁵ The CRA requires the federal financial supervisory 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 ("LMI") neighborhoods, in evaluating bank acquisition proposals.

¹⁵ 12 U.S.C. § 2901 et seq.

The Board has considered all the facts of record, including reports of examination of the CRA performance of BPNA, information provided by BPNA, and confidential supervisory information.

A. Record of Performance under the CRA

As provided in the CRA, the Board evaluates an institution's performance based on the CRA evaluation completed by that institution's primary regulator.¹⁶ The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI neighborhoods.¹⁷ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.

CRA Performance of BPNA

BPNA received an overall rating of "satisfactory" at its most recent CRA performance examination by the Federal Reserve Bank of New York, as of July 15, 2013.¹⁸ BPNA received a "low satisfactory" rating for the Lending Test, a "high satisfactory" rating for the Investment Test, and an "outstanding" rating for the Service Test.

In evaluating the Service Test, examiners noted that BPNA's delivery systems were readily accessible to the bank's assessment areas and to individuals of different income levels and that alternate delivery systems provided improved accessibility to bank services throughout its assessment areas. The examiners concluded

¹⁶ See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642,11665 (March 11, 2010).

¹⁷ 12 U.S.C. § 2906.

¹⁸ BPNA's CRA evaluation was conducted using Large Bank CRA Examination Procedures, and examiners reviewed the bank's lending activity from January 1, 2011, through December 31, 2013.

that BPNA could be considered a leader in the provision of community development services.

In evaluating the Investment Test, examiners found that BPNA demonstrated adequate responsiveness to credit and community development needs and rarely used complex investments to support community development initiatives. The examiners also noted that BPNA had a significant level of qualified community development investments in its assessment areas.

In evaluating the Lending Test, examiners found that BPNA's overall lending activity reflected adequate responsiveness to the credit needs of its assessment areas and that BPNA originated a high percentage of its loans in its assessment areas during the period reviewed. In addition, examiners noted that the geographic distribution of loans demonstrated excellent penetration throughout LMI geographies and adequate penetration among customers of different income levels and among business customers of different sizes.

After consummation of the proposal, BPNA plans to implement its CRA policies at the acquired branches of Doral.

B. Additional Information on Convenience and Needs of Communities to be Served by the Combined Organization

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits. 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. BPNA notes that without its purchase and assumption of certain assets and liabilities of Doral, Doral's operations would likely cease to exist. In addition, BPNA represents that it will be better positioned to meet the credit needs of the communities currently served by Doral's New York branches. BPNA's customers will continue to receive the full range of products and services to which they are accustomed. In addition, BPNA represents that the proposal will result in an overall enhancement in banking products and financial

services available to members of the communities in which Doral's New York branches are located. BPNA anticipates that it will be able to expand and strengthen the services already provided to current customers of both Doral's New York branches and BPNA.

C. Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by BPNA, and confidential supervisory information. Based on the Board's assessment of the CRA performance and consumer compliance programs of BPNA, its review of examination reports, and its consultations with other agencies, the Board concludes that the convenience and needs factor, including the CRA records of the insured depository institutions involved in this transaction, is consistent with approval of the application.

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."¹⁹

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 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.²⁰ These categories are not exhaustive, and additional categories could

¹⁹ 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).

²⁰ Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

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.²¹

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. BPNA 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, BPNA'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 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.

²¹ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

Establishment of Branches

BPNA 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.²² Specifically, the Board has considered BPNA'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 BPNA 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 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,²³ effective February 27, 2015.

Robert deV. Frierson (signed)

Robert deV. Frierson
Secretary of the Board

²² 12 U.S.C. § 322; 12 CFR 208.6.

²³ Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.

Appendix

Branches to be Established by Banco Popular North America

1. 623 Fifth Avenue, New York, New York 10022
2. 875 Third Avenue, New York, New York 10022
3. 345 Park Avenue South, New York, New York 10010