

FEDERAL RESERVE SYSTEM

Westamerica Bancorporation
San Rafael, California

Order Approving the Acquisition of a Bank

Westamerica Bancorporation (“Westamerica”), 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 (12 U.S.C. § 1842) to acquire all the common stock of First Counties Bank, Clearlake, California (“Bank”).

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (65 Federal Register 30,410 (2000)). 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.

Westamerica, with total consolidated assets of \$3.9 billion, is the 17th largest commercial banking organization in California, controlling deposits of \$3.1 billion, representing less than 1 percent of total deposits in depository institutions in the state (“state deposits”).¹ Bank, with total consolidated assets of \$90.7 million, is the 255th largest banking organization in California, controlling deposits of \$80 million, representing less than 1 percent of state deposits. On consummation of the proposal, Westamerica would remain the 17th largest banking organization in California, controlling deposits of \$3.2 billion.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly in any relevant banking market. That section also prohibits the Board from approving a proposal that may substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the

¹ In this context, depository institutions include commercial banks, savings banks, and savings associations. Asset data are as of December 31, 1999, and deposit and ranking data are as of June 30, 1999.

public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.²

Westamerica and Bank compete directly in two California banking markets, the Napa banking market and the Lake County banking market.³ Consummation of the proposal would be consistent with the Department of Justice Merger Guidelines (“DOJ Guidelines”)⁴ and Board precedent in the Napa banking market. On consummation of the proposal, Westamerica would remain the second largest banking organization in the Napa banking market and control \$220 million in deposits, representing 15.4 percent of total deposits in depository institutions in the market (“market deposits”). The HHI would increase 19 points to 1154.⁵

In the Lake County banking market, consummation of the proposal would increase the level of market concentration, as measured by the HHI, to levels that exceed the DOJ Guidelines. Westamerica is the largest of 10 banking organizations in the Lake County

² 12 U.S.C. § 1842(c)(1).

³ The Napa banking market is defined as the Napa Ranally Metropolitan Area and the towns of St. Helena and Calistoga, and the Lake County banking market is defined as Lake County.

⁴ Under the revised Department of Justice Merger Guidelines, 49 Federal Register 26,823 (June 29, 1984), a market in which the post-merger Herfindahl-Hirschman Index (“HHI”) is above 1800 points is considered to be highly 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 HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial entities.

⁵ Market share data are as of June 30, 1999, 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 WM Bancorp, 76 Federal Reserve Bulletin 788 (1990); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market share on a 50-percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

banking market and controls deposits of \$79.3 million, representing approximately 17.4 percent of market deposits. Bank is the third largest banking organization in the market and controls deposits of \$67.5 million, representing approximately 14.8 percent of market deposits. On consummation of the proposal Westamerica would control deposits of \$146.9 million, representing approximately 32.2 percent of market deposits, and the HHI would increase 516 points to 1808.

As the Board has indicated in previous cases, in a market in which the competitive effects of a proposal exceed the DOJ Guidelines, the Board will consider whether other factors tend to mitigate the competitive effects of the proposal. The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the level of market concentration and size of the increase in market concentration.

In this case, several factors indicate that the likely effect of the proposal on competition in the Lake County banking market would not be significantly adverse. Nine depository institutions, including Westamerica, would operate in the market after consummation of the proposal. Although Westamerica would control approximately 32.2 percent of the market deposits, three other institutions, including one large multistate banking organization that is the largest depository organization in California measured by deposits, would each control over 12 percent of market deposits. In addition, three other depository institutions would each control between 5 and 10 percent of market deposits. The Lake County banking market also has characteristics that indicate that it is attractive for entry. The number of employees living in the market increased 18 percent from 1990 to 1999, a rate of increase substantially greater than that for the rest of California, where the number of employees grew less than 10 percent over the same period. Wells Fargo & Company, the second largest depository organization in California measured by deposits, entered the market de novo in 1995.

The Department of Justice has advised the Board that consummation of the proposal would not likely have any significant adverse competitive effects in the Lake County banking market or any other relevant banking market.

After carefully reviewing all the facts of record, and for the reasons discussed in this order, the Board concludes that consummation of the proposal is not likely to result in any significantly adverse effects on competition or on the concentration of banking resources in the Lake County banking market or any

other relevant market. On this basis, the Board has determined that the competitive factors are consistent with approval of the proposal.

Other Considerations

The BHC Act requires the Board, in acting on an application, to consider the financial and managerial resources and future prospects of the companies and banks involved, the convenience and needs of the communities to be served, and certain supervisory factors. The Board has reviewed these factors in light of the record, including supervisory reports of examination assessing the financial and managerial resources of the organizations and financial information provided by Westamerica. Based on all the facts of record, the Board concludes that the financial and managerial resources and the future prospects of Westamerica, Bank, and Westamerica's subsidiary banks are consistent with approval, as are the other supervisory factors the Board must consider under the BHC Act. In addition, considerations related 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 (12 U.S.C. § 2901 *et seq.*), are consistent with approval of the proposal.

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the application should be, and hereby is, approved. The Board's approval is specifically conditioned on compliance by Westamerica with all the commitments made in connection with the proposal. For the purpose of this action, the commitments and conditions relied on by the Board in reaching its decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Bank shall not be consummated before the fifteenth calendar day following 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 Federal Reserve Bank of San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors,⁶ effective August 2, 2000.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

⁶ This action was taken pursuant to the Board's Rules Regarding Delegation of Authority (12 C.F.R. 265.4(b)(1)) by a committee of Board members. Voting for this action: Chairman Greenspan and Governors Kelley and Gramlich. Absent and not voting: Vice Chairman Ferguson and Governor Meyer.

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Competitive Considerations

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Westamerica and Bank compete directly in two California banking markets, the Napa banking market and the Lake County banking market.⁹ Consummation of the proposal would be consistent with the Department of Justice Merger Guidelines (“DOJ Guidelines”)¹⁰ and Board precedent in the Napa banking market. On consummation of the proposal, Westamerica would remain the second largest banking organization in the Napa banking market and control \$220 million

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As the Board has indicated in previous cases, in a market in which the competitive effects of a proposal exceed the DOJ Guidelines, the Board will consider whether other factors tend to mitigate the competitive effects of the proposal. The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the level of market concentration and size of the increase in market concentration.

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The Department of Justice has advised the Board that consummation of the proposal would not likely have any significant adverse competitive effects in the Lake County banking market or any other relevant banking market.

After carefully reviewing all the facts of record, and for the reasons discussed in this order, the Board concludes that consummation of the proposal is not likely to result in any significantly adverse effects on competition or on the concentration of banking resources in the Lake County banking market or any other relevant market. On this basis, the Board has determined that the competitive factors are consistent with approval of the proposal.

Other Considerations

The BHC Act requires the Board, in acting on an application, to consider the financial and managerial resources and future prospects of the companies and banks involved, the convenience and needs of the communities to

deposits in the calculation of market share on a 50-percent weighted basis.

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Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the application should be, and hereby is, approved. The Board's approval is specifically conditioned on compliance by Westamerica with all the commitments made in connection with the proposal. For the purpose of this action, the commitments and conditions relied on by the Board in reaching its decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Bank shall not be consummated before the fifteenth calendar day following 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

See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

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By order of the Board of Governors,¹² effective August 2, 2000.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

¹² This action was taken pursuant to the Board's Rules Regarding Delegation of Authority (12 C.F.R. 265.4(b)(1)) by a committee of Board members. Voting for this action: Chairman Greenspan and Governors Kelley and Gramlich. Absent and not voting: Vice Chairman Ferguson and Governor Meyer.