

# Semiannual Report on Banking Applications Activity: January 1–June 30, 2016

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Board of Governors of the Federal Reserve System

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*This report provides information regarding the applications filed by banking organizations and reviewed by the Federal Reserve as of the most recent reporting period ending on June 30 and December 31 of each calendar year.*

The Federal Reserve, in its role as a primary federal regulator, reviews applications submitted by bank holding companies (BHCs), state member banks, savings and loan holding companies (SLHCs), foreign banking organizations, and other entities and individuals for approval to undertake various transactions, including mergers and acquisitions, and to engage in new activities.

The Federal Reserve reviews and acts on proposals filed under the Bank Holding Company Act; the Bank Merger Act; the Change in Bank Control Act (CIBCA); the Federal Reserve Act; section 914 of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA); section 10 of the Home Owners' Loan Act (HOLA); the International Banking Act; and other provisions of law.<sup>1</sup>

## Overview of Activity

The Federal Reserve reviewed 635 proposals in the first half of 2016, of which 588 were approved, 42 were withdrawn, 3 were mooted, and 2 were returned (table 1). Total dispositions in the first half of 2016 declined from 654 in the first half of 2015. The composition of proposals was consistent with prior periods. The majority of proposals were merger and acquisition (M&A) proposals, FIRREA notices, branch applications, and CIBCA notices.

**Table 1. Dispositions and processing times of approved proposals, 2012–15 and 2015:H1 and 2016:H1**

All proposals	2012	2013	2014	2015	2015:H1	2016:H1
<b>Dispositions</b>						
Approved	1,361	1,305	1,218	1,186	582	588
Withdrawn	157	124	101	100	60	42
Denied	0	1	1	0	0	0
Mooted	20	10	11	10	4	3
Returned	18	6	11	12	8	2
Total	1,556	1,446	1,342	1,308	654	635
Percent withdrawn of total	10%	9%	8%	8%	9%	7%
<b>Processing time (days)</b>						
Average	49	37	44	47	43	49
Median	30	28	30	30	30	30

Table 1 illustrates that the average number of days to approve a proposal was 49 days in the first half of 2016, compared with 43 days in the first half of 2015. The median processing time

<sup>1</sup> For the purpose of this report, the term “proposal” is defined as one filing, which may have been submitted pursuant to multiple statutes. For example, an applicant BHC with a subsidiary state member bank could file to acquire another BHC and merge the target’s subsidiary bank with its own state member bank and thereby establish branches. This one proposal would include filings under the Bank Holding Company Act, the Bank Merger Act, and the Federal Reserve Act. Further information on banking applications and regulation is available on the Federal Reserve Board’s website at [www.federalreserve.gov/bankinfo/default.htm](http://www.federalreserve.gov/bankinfo/default.htm).

Table 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2012–15 and 2015:H1 and 2016:H1						
Mergers and acquisitions	2012	2013	2014	2015	2015:H1	2016:H1
<b>Dispositions</b>						
Approved	226	190	248	279	136	127
Withdrawn	43	40	25	21	16	17
<i>Percent M&amp;A of total approved proposals</i>	17%	15%	20%	23%	23%	22%
<b>Processing time (days)</b>						
Average	67	56	60	71	63	59
Median	41	40	41	41	41	42

was unchanged from the first half of 2015. The average number of days was slightly elevated in this period in part because of the approval of four unusually delayed transactions.<sup>2</sup>

Seven percent of total dispositions in the first half of 2016 were withdrawn. Proposals are withdrawn most often at the initiative of the applicant. However, proposals also may be withdrawn after the Federal Reserve informs the applicant that a significant issue exists that precludes an approval recommendation by staff based on staff’s review of the statutory standards for approval.<sup>3</sup> For example, the applicant or resulting banking organization’s financial or managerial condition may be less than satisfactory; the Community Reinvestment Act (CRA) or consumer compliance record, including fair lending (see the section on *Consumer Compliance and CRA*), may be less than satisfactory or there may be other significant consumer compliance issues; or there may be significant competitive issues.<sup>4</sup>

Of the 42 proposals withdrawn in the first half of 2016, 20 proposals were withdrawn at the initiative of the applicant. The remainder were withdrawn after consultation with staff for technical or procedural reasons or because the proposals raised significant issues regarding the statutory factors that must be considered by the Federal Reserve. Specifically, 13 of these proposals raised financial and managerial issues as well as regulatory compliance and CRA and fair lending issues.

## Applications

### Mergers and Acquisitions

In the first half of 2016, 127 M&A proposals were approved, compared with 136 approved in the first half of 2015 (table 2).<sup>5</sup> These types of proposals accounted for 22 percent of total approved proposals in the first half of 2016, generally in line with prior periods. In reviewing

<sup>2</sup> Excluding these transactions from the calculation results in an average processing time of 44 days.

<sup>3</sup> Supervision and Regulation Letter SR 14-2/CA 14-1 “Enhancing Transparency in the Federal Reserve’s Applications Process” provides the general public with a better understanding of the Federal Reserve’s approach to applications and notices that may not satisfy statutory requirements for approval of the proposal or otherwise raise supervisory or regulatory concerns. This guidance applies to all financial institutions supervised by the Federal Reserve, including those with \$10 billion or less in consolidated assets and is available on the Federal Reserve Board’s website at [www.federalreserve.gov/bankinforeg/srletters/srletters.htm](http://www.federalreserve.gov/bankinforeg/srletters/srletters.htm).

<sup>4</sup> Under section 3 of the Bank Holding Company Act, for example, the Federal Reserve must assess whether the following statutory factors are consistent with approval: financial, managerial, future prospects, financial stability, competition, convenience, and needs (including CRA performance).

<sup>5</sup> M&A proposals are defined as those filed by BHCs, SLHCs, or state member banks that seek approval to acquire additional ownership interest or to merge with another banking organization. These proposals also include BHC and SLHC formations.

**Table 3. Merger and acquisition approved proposals, volume and processing times by proposals that did not receive adverse public comments and those that received adverse public comments, 2012–15 and 2015:H1 and 2016:H1**

Mergers and acquisitions	2012	2013	2014	2015	2015:H1	2016:H1
<b>Proposals not receiving adverse public comments</b>						
Approved	219	184	237	262	128	122
<b>Processing time (days)</b>						
Average	60	52	53	56	53	54
Median	41	39	40	41	41	41
<b>Proposals receiving adverse public comments</b>						
Approved	7	6	11	17	8	5
<i>Percent M&amp;A receiving adverse public comments of total M&amp;A proposals</i>	3%	3%	4%	6%	6%	3%
<b>Processing time (days)</b>						
Average	283	203	209	297	208	213
Median	219	191	188	211	211	210

M&A proposals, the Federal Reserve considers the applicant's current and pro forma financial condition and future prospects, managerial resources, record of meeting the convenience and needs of the communities to be served (including consumer compliance record and performance under the CRA), record of compliance with the Bank Secrecy Act/anti-money-laundering requirements, public benefits, and the competitive and financial stability effects of the proposal. Other considerations may include a review of ownership changes of the resultant banking organization or policy questions.

M&A proposals generally are more complex than other proposals because they typically require review of several organizations under multiple statutory factors. As table 2 illustrates, the average and median number of days to approve an M&A proposal in the first half of 2016 were 59 and 42 days, respectively. In comparison, for the same period, the average and median number of days to approve all proposals were 49 and 30 days, respectively (table 1).

The Federal Reserve may receive adverse comments on a proposal from the public.<sup>6</sup> Such proposals typically require additional time to allow the applicant the opportunity to respond to the comments and for the Federal Reserve to evaluate the comments. The majority of public comments received by the Federal Reserve are based upon the CRA and fair lending records of the applicant. Comments also may be directed at other aspects of a proposal. Proposals that receive a substantive adverse public comment are required to be acted on by the Board as opposed to the Reserve Banks.<sup>7</sup>

Table 3 breaks down M&A processing times for proposals that did and did not receive adverse public comments. Although M&A proposals receiving adverse public comments represent a small proportion of total M&A proposals approved by the Federal Reserve, processing times for these proposals are considerably greater than those M&A proposals not receiving such comments. In the first half of 2016, the average number of days to approve M&A proposals

<sup>6</sup> The applicant is required to publish notice of its proposal, typically in newspapers serving certain communities in which the applicant or target has operations. The Federal Reserve also publishes notice in the *Federal Register*. The notices inform the public of the opportunity to submit written comments on any proposal.

<sup>7</sup> Generally, Reserve Banks can act under delegated authority with respect to proposals that do not receive adverse public comments; do not present significant concerns relative to the statutory factors; do not raise a policy issue; or are not novel, complex, or otherwise required to be acted upon by the Board.

that did not receive adverse public comments was 54, compared with an average of 213 days for the four M&A proposals that received adverse public comments.<sup>8</sup>

### Pre-filing Process

The Federal Reserve has established a pre-filing process to provide potential applicants with information about the procedural requirements, such as timing and the applicable forms associated with a proposal. This process also helps to identify information that may be needed in connection with issues that the Board typically considers in connection with a particular type of application or notice, such as competition or financial stability. The pre-filing process is not used to resolve or predetermine the outcome of any substantive issues. Processing delays can be avoided by using the pre-filing process. The pre-filing process is described in the Federal Reserve's Supervisory and Regulation Letter SR 12-12/CA 12-11 titled "Implementation of a New Process for Requesting Guidance from the Federal Reserve Regarding Bank and Non-bank Acquisitions and Other Proposals."

The Federal Reserve reviewed 72 pre-filings in 2014 and 69 in 2015. Fifteen pre-filings were reviewed in the first half of 2016, down significantly from 40 pre-filings reviewed in the first half of 2015 and 36 in the first half of 2014. The majority of pre-filings were related to potential M&A proposals and CIBCA notices. Pre-filings may or may not result in a formal filing.

### Consumer Compliance and CRA

In evaluating M&A proposals, the Federal Reserve reviews the consumer compliance and CRA records of the acquiring and target organizations as part of its assessment of the managerial resources factor and the convenience and needs factor. An organization's strong consumer compliance and CRA records can facilitate the review process. Conversely, unaddressed consumer compliance and CRA weaknesses in an organization can cause significant delays in the review process and may pose barriers to approval. With respect to M&A proposals, an applicant should ensure that its consumer compliance program, policies, and procedures are adequate to ensure successful integration of the target and that the combined organization would maintain satisfactory consumer compliance and CRA programs following consummation.

### Other Analysis

#### Community Banking Organizations

Table 4 provides the volume and processing times of proposals most commonly submitted by community banking organizations (CBOs) according to their asset size. Small CBOs are those under \$1 billion in assets, and large CBOs are those with \$1 billion to \$10 billion in assets. Changes in average processing times from the prior year period were mixed for both small and large CBOs.<sup>9</sup> However, the volume of filings by both small and large CBOs declined in most categories.

<sup>8</sup> As noted previously, the average number of days for all filings was elevated in this period because of the approval of four transactions that had unusually long processing delays. Generally, delays in the processing of M&A proposals with adverse comments may also be caused by other significant policy or supervisory issues raised in the application.

<sup>9</sup> The average days processing for CIBCA notices made by large CBOs was skewed in the first half of 2016 because of (1) the small number of filings (only four in the period) and (2) the resolution of a single notice that had been pending for several years.

**Table 4. Proposals from CBOs, volume and processing times (days) of approved proposals, for the full year 2015 as well as 2015:H1 and 2016:H1**

Proposals by applicant asset size	2015			2015:H1			2016:H1		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
<b>Under \$1 billion</b>									
Change in control	136	58	57	63	63	56	84	75	59
Federal Reserve membership	20	17	14	10	14	14	7	29	29
FIRREA	127	8	6	82	8	6	65	8	3
Mergers and acquisitions	111	47	40	75	59	40	57	46	41
Branch establishment	70	24	22	44	26	22	35	22	24
<b>\$1 billion–\$10 billion</b>									
Change in control	16	99	59	9	97	55	4	393	99
Federal Reserve membership	9	34	28	5	38	30	2	17	17
FIRREA	15	12	8	6	15	12	6	4	2
Mergers and acquisitions	90	62	41	49	63	42	33	59	42
Branch establishment	50	31	20	19	23	19	39	33	25

For further reference, please consult the following:

[www.federalreserve.gov/bankinforeg/afi/afi.htm](http://www.federalreserve.gov/bankinforeg/afi/afi.htm)

[www.federalreserve.gov/bankinforeg/semiannual-reports-banking-applications-activity.htm](http://www.federalreserve.gov/bankinforeg/semiannual-reports-banking-applications-activity.htm)

[www.federalreserve.gov/bankinforeg/srletters/sr1402.htm](http://www.federalreserve.gov/bankinforeg/srletters/sr1402.htm)

[www.federalreserve.gov/bankinforeg/srletters/sr1307.htm](http://www.federalreserve.gov/bankinforeg/srletters/sr1307.htm)

[www.federalreserve.gov/bankinforeg/srletters/sr1212.htm](http://www.federalreserve.gov/bankinforeg/srletters/sr1212.htm)

## Errata

The Federal Reserve revised this report on November 22, 2016, to reflect the following correction:

On p. 3, table 3 under “Proposals receiving adverse public comments, Approved” the number in the furthest right column under “2016:H1” has been revised from 4 to 5.