August 29, 2014

Robert E. Feldman, Executive Secretary
Attention: Comments, Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Re: The Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA)

Dear Mr. Feldman:

The Louisiana Office of Financial Institutions (LOFI) appreciates the opportunity to comment on The Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA), which requires the federal banking agencies (the Federal Reserve, FDIC, and OCC – along with the FFIEC) to review their respective regulations every 10 years in order to identify outdated, unnecessary, or overly burdensome regulations and to explore ways to reduce regulatory burden on insured depository institutions. LOFI believes that the EGRPRA review process provides the industry with a unique opportunity to advocate for regulatory relief in areas that may be of particular concern in different parts of the country. At this time, comments are being sought regarding applications and reporting, powers and activities, and international operations. LOFI’s comments pertain to powers and activities governed by Part 362 of the FDIC’s Rules and Regulations and relate specifically to the holding of mineral interest (MI).

Since Louisiana is located in the “oil belt,” for many years a substantial number of the financial institutions regulated by the LOFI have been impacted by the FDIC’s position on the holding of MI acquired in connection with debts previously contracted (DPC). While MI acquired in such a manner may be held without notification or application to the FDIC as long as the property is being passively held (not for active use) for less than ten years from the date of acquisition, the signing of a mineral lease triggers the requirement that you file a notification or application with the FDIC pursuant to Part 362. Once the ten-year state divestiture period has expired, the property with the MI intact (or just the mineral interest if severed from the property) must be moved to a single-purpose subsidiary. You must also file an application with the LOFI to establish the single-purpose subsidiary.

Arguably, the holding of a passive ownership in a MI interest neither constitutes a safety and soundness concern nor creates a risk to the FDIC’s insurance fund as envisioned by §24. Basically, we do not believe that the act of entering into a mineral lease rises to the level of an
active involvement in a business endeavor and is more closely aligned with that of a passive interest. The potential for liability to the entity granting the lease should an event occur, such as a well blowing out or other forms of contamination, is minimal. With all of the oil and gas production that has occurred in Louisiana during the past 100 years or so, the potential for liability for the grantor of a lease is so small and remote that this should not be the reason to require state-chartered financial institutions to submit the extensive amount of documentation which is required to adequately comply with the notification or application request to the FDIC.

Some of the information may not be available because, when a mineral lease is signed, it is not always signed with the entity which will be doing the drilling. It could be signed with a company which will partner later with another oil company in order to spread the risks, or it could even be signed with an independent landman who has heard about the drilling unit being put together and will later sell his rights in the mineral lease to the entity conducting the drilling activity.

Another perspective that should be considered in looking at this activity is that financial institutions that have repossessed real estate are not required to get permission to rent/lease out such facilities. In fact, we encourage them to do so in order to generate additional income, as well as to avoid the neglect that occurs in vacant properties. Since there are no restrictions in place, they are free to rent to any type of company they deem prudent. These companies could include such things as paint and body shops, dry cleaners, automotive service stations, etc. Banks would do sufficient due diligence on these entities before they enter into leases with them, as well as ensuring that they maintain sufficient liability insurance to address potential exposure. If we do not have any restrictions on these types of leases, surely, based on the limited potential for liability for the grantor of a mineral lease, the FDIC should not, in our opinion, treat the signing of a mineral lease as a triggering event for the ownership interest to shift from a passive interest to an active interest, thereby requiring either an application or a notification.

While we agree that the holder of a MI involved in a working interest should request approval pursuant to §24/Part 362, the mere granting of a mineral lease, in our opinion, should not trigger applications or notices pursuant to §24/Part 362. We appreciate the ability of State banks to hold this interest pursuant to §24/Part 362. We just ask that the activity described above be reconsidered as a triggering event. Thank you in advance for your consideration of these comments.

Sincerely,

John Ducrest, CPA
Commissioner
Louisiana Office of Financial Institutions

c: Conference of State Bank Supervisors