

Semiannual Report on Banking Applications Activity: July 1–December 31, 2014

Vol. 2, No. 1
April 2015

Board of Governors of the Federal Reserve System

www.federalreserve.gov



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 engaging 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.¹

Overview of Activity

The Federal Reserve reviewed 681 proposals in the second half of 2014, of which 629 were approved and 52 were withdrawn (table 1). Total dispositions declined to 681 in the second half of 2014 compared with 718 in the second half of 2013 mainly because of a continued decline in FIRREA notices as the health of the banking industry continues to improve.² Despite an overall decline in volume in the second half of 2014, the number of nonbank and public welfare investment proposals doubled from levels in the second half of 2013. Table 1 also illustrates that the average number of days to approve a proposal was 41 days in the second half of 2014, compared with 38 days in the second half of 2013.

Eight percent of the proposals disposed of in the second half of 2014 were withdrawn, which is similar to the percentage in recent years. Proposals are withdrawn most often at the initiative of the applicant. However, proposals also may be withdrawn after the Federal Reserve informs the applicant that a significant issue exists that precludes an approval recommendation by staff

¹ 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 their 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 website at www.federalreserve.gov/bankinfo/reg/default.htm.

² A regulated institution is required to give the Board 30 days written notice, as specified in §225.73 of Regulation Y, before adding or replacing any member of its board of directors, employing any person as a senior executive officer of the institution, or changing the responsibilities of any senior executive officer so that the person would assume a different senior executive officer position if (1) the regulated institution is not in compliance with all minimum capital requirements applicable to the institution as determined on the basis of the institution’s most recent report of condition or report of examination or inspection; (2) the regulated institution is in troubled condition; or (3) the Board determines, in connection with its review of a capital restoration plan required under section 38 of the Federal Deposit Insurance Act or subpart B of the Board’s Regulation H, or otherwise, that such notice is appropriate.

Table 1. Dispositions and processing time of approved proposals, 2010–14 and 2013:H2 and 2014:H2							
All proposals	2010	2011	2012	2013	2014	2013:H2	2014:H2
Dispositions							
Approved	1,260	1,265	1,361	1,304	1,217	670	629
Withdrawn	206	169	157	123	97	47	52
Denied	0	0	0	1	1	1	0
Total	1,466	1,434	1,518	1,428	1,315	718	681
Percent withdrawn of total	14%	12%	10%	9%	7%	7%	8%
Processing time of approved proposals (days)							
Average	49	50	49	37	43	38	41
Median	30	30	30	28	30	28	30

based on staff’s review of the statutory standards for approval.³ 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 section on *Consumer Compliance and CRA*), may be less than satisfactory, or there may be significant competitive issues.⁴

Of the 52 proposals withdrawn in the second half of 2014, 35 proposals were withdrawn at the initiative of the applicant without input by the Federal Reserve. Seventeen proposals raised significant issues regarding the statutory factors that must be considered by the Federal Reserve and were withdrawn after consultation with staff. Specifically, these proposals raised managerial issues at the applicant (including three proposals raising Bank Secrecy Act/anti-money-laundering compliance program issues), control issues, financial issues at the applicant, or competitive concerns.

Applications

Mergers and Acquisitions

Merger and acquisition (M&A) proposals have accounted for 15 to 20 percent of total approved proposals over the past four years (table 2).⁵ These types of proposals generally are more complex than other proposals, as they involve the integration of systems and operations. In reviewing M&A proposals, the Federal Reserve considers the applicant’s current and pro forma financial condition and future prospects, managerial resources, consumer compliance record and performance under the CRA and the Bank Secrecy Act/anti-money-laundering compliance programs, 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 the proposal may raise Federal Reserve policy questions.

³ 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 website at www.federalreserve.gov/bankinforeg/srletters/srletters.htm.

⁴ 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), and public benefits.

⁵ 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.

Mergers and acquisitions	2011	2012	2013	2014	2013:H2	2014:H2
Dispositions						
Approved	194	226	190	248	118	133
Withdrawn	43	43	40	25	18	17
<i>M&A as a percentage of total approved proposals</i>	<i>15%</i>	<i>17%</i>	<i>15%</i>	<i>20%</i>	<i>18%</i>	<i>21%</i>
Processing time of approved proposals (days)						
Average	71	66	56	60	59	62
Median	41	41	40	41	39	41

As table 2 illustrates, the average and median number of days to approve an M&A proposal in 2014 was 60 and 41 days, respectively. In comparison, for the same period, the average and median number of days to approve all proposals was 43 and 30 days, respectively (table 1).

In reviewing M&A proposals, the Federal Reserve may receive adverse comments on the proposal from the public.⁶ 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 on the CRA and the fair lending records of the applicant. Comments also may be directed at other considerations of a proposal. Proposals that involve an adverse public comment are required to be acted on by the Board as opposed to the Reserve Banks.⁷

Table 3 illustrates M&A processing times according to proposals that did not receive adverse public comments and those that did 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 second half of 2014, the average number of days to approve M&A proposals not receiving adverse public comments was 56 days, whereas the average was 206 days for the five M&A proposals receiving adverse public comments.

Pre-filing Process

Processing delays can be avoided by using the pre-filing process, which provides applicants the opportunity to work with Federal Reserve staff to receive critical feedback on potential issues related to acquisitions or other proposals before filing a formal application. The pre-filing process is described in the Federal Reserve's Supervisory Letter titled "Implementation of a New Process for Requesting Guidance from the Federal Reserve Regarding Bank and Nonbank Acquisitions and Other Proposals."⁸

⁶ 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.

⁷ 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.

⁸ Supervisory and Regulation Letter SR 12-12/CA 12-11.

Table 3. Merger and acquisition approved proposals, volume and processing times by proposals not receiving adverse public comments and those receiving adverse public comments, 2011–14 and 2013:H2 and 2014:H2

Mergers and acquisitions	2011	2012	2013	2014	2013:H2	2014:H2
Proposals not receiving adverse public comments						
Approved	182	219	184	237	114	128
Processing time (days)						
Average	62	60	52	53	54	56
Median	41	41	39	40	39	41
Proposals receiving adverse public comments						
Approved	12	7	6	11	4	5
<i>M&A receiving adverse public comments as a percentage of total approved M&A proposals</i>	6%	3%	3%	4%	3%	4%
Processing time (days)						
Average	212	283	203	209	215	206
Median	144	219	191	188	193	164

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 factor and convenience and needs factors. 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. The data reflect a sharp increase in the number of bank mergers among large CBOs, with 82 M&A proposals approved in 2014 compared with 44 M&A proposals approved in 2013. While the volume of M&A proposals almost doubled for large CBOs over the two-year period, the processing times shortened.

Table 4. Proposals from CBOs, volume and processing times of approved proposals, 2013 and 2014

Proposals by applicant asset size	2013			2014		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
Under \$1 billion						
Change in control	128	65	56	122	65	56
Federal Reserve membership	36	17	15	40	18	15
FIRREA	291	12	7	168	11	6
Mergers and acquisitions	128	51	39	131	52	40
Branch establishment	63	23	22	65	26	23
\$1 billion–\$10 billion						
Change in control	13	63	60	7	89	58
Federal Reserve membership	3	13	9	6	24	21
FIRREA	72	6	4	36	7	5
Mergers and acquisitions	44	75	43	82	68	40
Branch establishment	48	21	20	55	22	22

