

Semiannual Report on Banking Applications Activity

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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 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

Reporting Period Ending June 30, 2014

The Federal Reserve reviewed 630 proposals in the first half of 2014 (table 1), of which 587 were approved, 42 were withdrawn, and 1 was denied. In the first half of 2014, total dispositions declined to 630 compared with 708 in the first half of 2013, primarily because of a smaller number of FIRREA notices, which is characteristic of an improving banking system.²

Table 1. Dispositions and processing time of proposals, 2009–13 and 2013:H1 and 2014:H1

All proposals	2009	2010	2011	2012	2013	2013:H1	2014:H1
Dispositions							
Approved	896	1,226	1,254	1,352	1,304	635	587
Withdrawn	180	179	154	148	120	73	42
Denied	0	0	0	0	1	0	1
Total	1,076	1,405	1,408	1,500	1,425	708	630
Percent withdrawn of total	17%	13%	11%	10%	8%	10%	7%
Processing time (days)							
Average	46	49	50	47	36	34	44
Median	30	30	30	30	28	27	30

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/defreg/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

The number of proposals withdrawn as a percentage of total dispositions declined in recent years from a high of 17 percent in 2009 to 7 percent in the first half of 2014. 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.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, may be less than satisfactory, or there may be significant competitive issues.⁴ Of the 42 withdrawn proposals in the first half of 2014, 30 proposals were withdrawn at the initiative of the applicant without input from the Federal Reserve. Twelve proposals raised significant issues regarding the statutory factors that must be considered by the Federal Reserve and were withdrawn after consultation with staff. Specifically, 4 proposals were withdrawn because of CRA/fair lending issues at the applicant, 3 were withdrawn because of financial issues, 2 were withdrawn because of managerial issues, and the remaining 3 proposals that were withdrawn presented both managerial and legal issues.

Table 1 also illustrates that the average number of days to act on a proposal was 44 days in the first half of 2014, compared with 34 days in the first half of 2013. The higher average for the first half of 2014 primarily resulted from a larger volume of more complex proposals. In addition, the processing time for a number of merger and acquisition (M&A) proposals by BHCs was significantly extended because of the receipt of adverse public comments that required extensive investigations. For foreign banking organizations, processing time frames often were longer due to the complexity of the proposal and required consultation and coordination with other agencies, including foreign supervisors. Annual average processing days for all proposals from 2009 through 2013 peaked at 50 days in 2011 and declined to 36 days for all of 2013.

Applications

Mergers and Acquisitions

The Federal Reserve, in reviewing M&A proposals, 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, and the competitive and financial stability effects of the proposal.⁵ 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 pub-

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.

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.

Table 2. Merger and acquisition proposals, dispositions and processing times, 2011–13 and 2013:H1 and 2014:H1

Mergers and acquisitions	2011	2012	2013	2013:H1	2014:H1
Dispositions					
Approved	183	217	189	72	114
Withdrawn	29	34	37	19	5
Percent M&A of total approved proposals	15%	16%	14%	11%	19%
Processing time (days)					
Average	69	67	57	52	58
Median	41	41	40	40	40

lishes notice in the *Federal Register*. The notices inform the public of the opportunity to submit written comments on any proposal.

As table 2 illustrates, M&A proposals have represented approximately 15 percent of approvals over the past three years. During 2013, the average and median number of days to process M&A proposals was 57 and 40 days, respectively, compared with 36 and 28 days, respectively, for all proposals (table 1).

M&A proposals generally are more complex than other types of proposals and require extensive review. As they involve the integration of multiple operations, the Federal Reserve considers the impact on the pro forma consolidated entity's financial condition, its proposed business and capital plans, and its pro forma risk-management infrastructure. M&A proposals also can require a review of ownership changes, raise competitive concerns, or raise policy questions.

The Federal Reserve may receive adverse comments on M&A proposals from the public. Such proposals typically require additional time to allow the applicant the opportunity to respond to the comments, for the commenter to address the applicant's response, and for the Federal Reserve to evaluate the merits, including conducting internal analyses and investigations of the assertions. The majority of public comments received by the Federal Reserve are based on the convenience and needs factor, which includes the CRA and the fair lending record of the applicant. Proposals that involve an adverse public comment are required to be acted on by the Board as opposed to the Reserve Banks.⁶

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 are considerably greater than for M&A proposals not receiving such comments. In the first half of 2014, the average number of days to approve an M&A proposal not receiving an adverse public comment was 50 days, whereas the average was 212 days for M&A proposals receiving an adverse public comment.

Other Analysis

Community Banking Organizations

Table 4 shows the processing time for most proposals reviewed and acted on by the Federal Reserve for community banking organizations (CBOs) according to the asset size of the appli-

⁶ 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, or are not novel, complex, or otherwise required to be acted upon by the Board.

Table 3. Merger and acquisition approved proposals, volume and processing times by proposals not receiving adverse public comments and those receiving adverse public comments, 2011–13 and 2013:H1 and 2014:H1

Mergers and acquisitions	2011	2012	2013	2013:H1	2014:H1
Proposals not receiving adverse public comments					
Approved	171	210	183	70	108
Processing time (days)					
Average	61	59	52	48	50
Median	41	41	39	40	40
Proposals receiving adverse public comments					
Approved	12	7	6	2	6
<i>Percent M&A receiving adverse public comments of total M&A proposals</i>	7%	3%	3%	3%	5%
Processing time (days)					
Average	182	283	203	179	212
Median	144	219	191	179	210

Table 4. Proposals from CBOs, volume and processing times of approvals, 2013 and 2014:H1

Proposals by applicant asset size	2013			2014:H1		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
Under \$1 billion						
Change in control	128	59	56	66	60	51
Federal Reserve membership	36	18	15	25	16	15
FIRREA	290	12	7	83	12	6
Mergers and acquisitions	128	51	39	61	47	39
Branch establishment	63	24	22	37	24	27
\$1 billion–\$10 billion						
Change in control	13	63	60	4	78	58
Federal Reserve membership	3	13	9	0	-	-
FIRREA	73	7	4	17	8	6
Mergers and acquisitions	43	77	43	35	67	40
Branch establishment	48	21	21	22	20	21

cant. Small CBOs are those under \$1 billion in assets and large CBOs are those with \$1 billion to \$10 billion in assets. The majority of proposals submitted by CBOs, in aggregate, are FIRREA notices and M&A applications followed by CIBCA notices, for 2013 and the first half of 2014.

A review of processing times for 2013 and the first half of 2014 by bank asset size reveals that M&A proposals submitted by large CBOs generally took more time to process compared with small CBOs. For instance, in 2013, the average and median number of days to process M&A proposals for large CBOs was 77 and 43 days, respectively, compared with 51 and 39 days for small CBOs. Adverse public comments were received with respect to proposals involving large CBOs, which extended processing times. M&A proposals receiving adverse public comments accounted for approximately 12 percent of the M&A proposals involving large CBOs during 2013.

