

# Semiannual Report on Banking Applications Activity: July 1–December 31, 2015

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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The Federal Reserve reviewed 653 proposals in the second half of 2015, of which 603 were approved, 40 were withdrawn, 6 were mooted, and 4 were returned (table 1).<sup>2</sup> Total dispositions in the second half of 2015 declined from 697 in the second half of 2014. 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, 2011–15 and 2014:H2 and 2015:H2**

All proposals	2011	2012	2013	2014	2015	2014:H2	2015:H2
<b>Dispositions</b>							
Approved	1,265	1,361	1,305	1,218	1,186	630	603
Withdrawn	169	157	123	101	100	56	40
Denied	0	0	1	1	0	0	0
Mooted	19	20	10	11	10	6	6
Returned	12	18	6	11	12	5	4
Total	1,465	1,556	1,445	1,342	1,308	697	653
Percent withdrawn of total	12%	10%	9%	8%	8%	8%	6%
<b>Processing time of approved proposals (days)</b>							
Average	51	49	37	44	47	41	50
Median	30	30	28	30	33	30	35

<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/bankinforeg/default.htm](http://www.federalreserve.gov/bankinforeg/default.htm).

<sup>2</sup> Historical total dispositions may not match with prior reports, as they do not include those that were mooted or returned. A mooted proposal generally is one that no longer requires Federal Reserve action because of a change in circumstances that renders the filing unnecessary. A returned proposal is one in which the Federal Reserve determines that the filing documentation is significantly insufficient and cannot be processed as presented.

Table 1 illustrates that the average number of days to approve a proposal was 50 days in the second half of 2015, compared with 41 days in the second half of 2014. The median processing time increased to 35 days from 30 days a year earlier. The average number of days was elevated in this period in part because of the approval of two unusually delayed transactions.

Six percent of total dispositions in the second half of 2015 were withdrawn, which is a decline from the pattern 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 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 40 proposals withdrawn in the second half of 2015, 24 proposals were withdrawn at the initiative of the applicant without input by the Federal Reserve. Sixteen 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 financial and managerial issues at the applicant (including one proposal that raised Bank Secrecy Act/anti-money-laundering compliance program issues), legal regulatory conformance issues, and CRA and fair lending issues.

## Applications

### Mergers and Acquisitions

In the second half of 2015, the volume of approved M&A proposals increased to 143, compared with 133 approved in the prior period (table 2).<sup>5</sup> These types of proposals accounted for 24 percent of total approved proposals in the second half of 2015. 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 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 second half of

<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), and public benefits.

<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 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2012–15 and 2014:H2 and 2015:H2**

Mergers and acquisitions	2012	2013	2014	2015	2014:H2	2015:H2
<b>Dispositions</b>						
Approved	226	190	248	279	133	143
Withdrawn	43	40	25	21	17	5
<i>M&amp;A as a percentage of total approved proposals</i>	17%	15%	20%	23%	21%	24%
<b>Processing time of approved proposals (days)</b>						
Average	67	56	60	71	63	79
Median	41	40	41	41	41	41

**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 2014:H2 and 2015:H2**

Mergers and acquisitions	2012	2013	2014	2015	2014:H2	2015:H2
<b>Proposals not receiving adverse public comments</b>						
Approved	219	184	237	262	128	134
<b>Processing time (days)</b>						
Average	60	52	53	56	56	59
Median	41	39	40	41	41	40
<b>Proposals receiving adverse public comments</b>						
Approved	7	6	11	17	5	9
<i>M&amp;A receiving adverse public comments as a percentage of total approved M&amp;A proposals</i>	3%	3%	4%	6%	4%	6%
<b>Processing time (days)</b>						
Average	283	203	209	297	206	375
Median	219	191	188	211	164	203

2015 were 79 and 41 days, respectively. In comparison, for the same period, the average and median number of days to approve all proposals were 50 and 35 days, respectively (table 1). As noted above, the average processing days for the period was skewed by the approval of two proposals that had been pending for an unusually long time.

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 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.<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

<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.

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 2015, the average number of days to approve M&A proposals that did not receive adverse public comments was 59 days, compared with an average of 375 days for the nine 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 77 pre-filings in 2013, 72 in 2014, and 69 in 2015. 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 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. Noteworthy is that average processing times declined for all types of proposals filed by small CBOs. The number of M&A proposals submitted by both small and large CBOs increased slightly in 2015 from the prior year.

<sup>8</sup> As noted previously, the average number of days was elevated in this period because of the approval of two transactions that had unusually long processing delays. The delays were not due to the receipt of adverse comments on the two proposals. 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.

**Table 4. Proposals from CBOs, volume and processing times (days) of approved proposals, 2014 and 2015**

Proposals by applicant asset size	2014			2015		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
<b>Under \$1 billion</b>						
Change in control	122	65	56	136	58	57
Federal Reserve membership	40	18	15	20	17	14
FIRREA	168	11	6	127	8	6
Mergers and acquisitions	106	51	40	111	47	40
Branch establishment	65	26	23	70	24	22
<b>\$1 billion–\$10 billion</b>						
Change in control	7	89	58	16	99	59
Federal Reserve membership	6	24	21	9	34	28
FIRREA	36	7	5	15	12	8
Mergers and acquisitions	82	67	40	90	62	41
Branch establishment	55	22	22	50	31	20

For further reference, please consult the following:

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

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

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

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

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

