

**DEPARTMENT OF THE TREASURY**  
**Office of the Comptroller of the Currency**  
**12 CFR Part 25**  
**[Docket No. 02-XX]**  
**RIN 1557-AB95**

**FEDERAL RESERVE SYSTEM**  
**12 CFR Part 208**  
**[Regulation H; Docket No. R-1099]**

**FEDERAL DEPOSIT INSURANCE CORPORATION**  
**12 CFR Part 369**  
**RIN 3064-AC36**

**Prohibition Against Use of Interstate Branches Primarily for Deposit Production**

**AGENCIES:** Office of the Comptroller of the Currency, Treasury (OCC); Board of Governors of the Federal Reserve System (Board); and Federal Deposit Insurance Corporation (FDIC).

**ACTION:** Joint final rule.

**SUMMARY:** The OCC, the Board, and the FDIC (collectively, the "Agencies") are amending their uniform regulations implementing section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act) to effectuate the amendment contained in section 106 of the Gramm-Leach-Bliley Act of 1999. Section 109 prohibits any bank from establishing or acquiring a branch or branches outside of its home State under the Interstate Act primarily for the purpose of deposit production, and provides guidelines for determining whether such bank is reasonably helping to meet the credit needs of the communities served by these branches. Section 106 of the Gramm-Leach-Bliley Act of 1999 expanded the coverage of section 109 of the Interstate Act to include any branch of a bank controlled by an out-of-State bank holding company. This final rule amends the regulatory prohibition against branches being used as deposit production offices to include any bank or branch of a bank controlled by an out-of-State bank holding company, including a bank consisting only of a main office.

**EFFECTIVE DATE:** October 1, 2002.

**FOR FURTHER INFORMATION CONTACT:**

*OCC:* Karen Tucker, National Bank Examiner, Compliance Division, (202) 874-4428; Kathryn Ray, Counsel, Community and Consumer Law Division, (202) 874-5750; Patrick T. Tierney, Attorney, Legislative and Regulatory Activities Division, (202) 874-5090; or with respect to foreign banks, Martha Clarke, Acting Assistant Director, Legislative and Regulatory Activities Division, (202) 874-5090.

*Board:* Michael J. O'Rourke, Counsel, Legal Division, (202) 452-3288; Shawn McNulty, Assistant Director, Division of Consumer and Community Affairs, (202) 452-3946; or with respect to foreign banks, Ann E. Misback, Assistant General Counsel, Legal Division, (202) 452-3788.

*FDIC:* Louise Kotoshirodo Kramer, Policy Analyst, Division of Compliance and Consumer Affairs, (202) 942-3599; or Mark Mellon, Counsel, Supervision and Legislation Section, (202) 898-3884.

## **SUPPLEMENTARY INFORMATION:**

The contents of this preamble are listed in the following outline:

- I. Background
- II. Overview of the Comments Received
- III. Analysis of the Joint Final Rule
  - A. Bank Locations Subject to Section 109 as Amended
    - 1. Coverage of Banks' Main Offices
    - 2. Coverage of Interstate and Intrastate Branches
  - B. Multi-Tier Bank Holding Companies
  - C. Definition of "Home State" for a Bank Holding Company
  - D. Foreign Banks and Branches
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- IV. Regulatory Analysis
  - A. Paperwork Reduction Act
  - B. Regulatory Flexibility Act
  - C. OCC Executive Order 12866
  - D. OCC Unfunded Mandates Reform Act of 1995
  - E. The Treasury and General Government Appropriations Act, 1999 -- Assessment of Impact of Federal Regulation on Families
  - F. Plain Language

### **I. Background**

The Interstate Act<sup>1</sup> provides expanded authority for a domestic or foreign bank to establish or acquire a branch in a State other than the bank's home State. Section 109 of the Interstate Act requires the Agencies to prescribe uniform rules that prohibit the use of the Act's interstate branching authority primarily for the purpose of deposit production.<sup>2</sup> Congress enacted section 109 to ensure that the new interstate branching authority provided by the Interstate Act would not result in the taking of deposits from a

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<sup>1</sup> Pub. L. 103-328, 108 Stat. 2338.

<sup>2</sup> 12 U.S.C. 1835a.

community without banks reasonably helping to meet the credit needs of that community. See H.R. Conf. Rep. No. 103-651, at 62 (1994).

As required by section 109, the Agencies issued a joint final rule implementing section 109. 62 FR 47728 (September 10, 1997). This rule provides that, beginning no earlier than one year after a bank establishes or acquires a covered interstate branch, the appropriate agency will determine whether the bank satisfies a loan-to-deposit ratio screen<sup>3</sup> that has been established by section 109.

If the bank's statewide loan-to-deposit ratio is at least 50 percent of the host State loan-to-deposit ratio, no further analysis is required. If, however, the appropriate agency determines that the bank's statewide loan-to-deposit ratio is less than 50 percent of the host State loan-to-deposit ratio, then the agency must perform a credit needs determination.<sup>4</sup> Under the credit needs determination, the appropriate agency reviews the activities of the bank, such as its lending activity and its performance under the Community Reinvestment Act (CRA), and determines whether the bank is reasonably helping to meet the credit needs of the communities served by the bank in the host State.

A bank that fails the loan-to-deposit ratio screen and that receives a determination that it is not reasonably helping to meet the credit needs of the communities served by the bank's interstate branches could be subject to sanctions under section 109.

Section 106 of the Gramm-Leach-Bliley Act of 1999 (GLBA), Pub. L. 106-102, 113 Stat. 1338 (November 12, 1999), amends section 109 by changing the definition of an "interstate branch" to include any branch of a bank controlled by an out-of-State bank holding company (as defined in section 2(o)(7) of the Bank Holding Company Act of 1956 (BHC Act)). This joint final rule conforms the Agencies' uniform regulations to the GLBA amendment.

## **II. Overview of the Comments Received**

On April 9, 2001, the Agencies published a notice of proposed rulemaking in the Federal Register (66 FR 18411). The Agencies received four comments on the proposal. Two of the comments were from trade associations and two were from banks.

There were no objections to the proposed rule and three of the comments generally supported it. One commenter noted that the rule simply effectuates the amendments required by the GLBA. Another commenter stated that the amendment

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<sup>3</sup> The loan-to-deposit ratio screen compares a bank's loan-to-deposit ratio within the State where the bank's covered interstate branches are located (statewide loan-to-deposit ratio) with the loan-to-deposit ratio of all banks chartered or headquartered in that State (host State loan-to-deposit ratio). Host State loan-to-deposit ratios, based on reasonably available data, are jointly published by the Agencies every year.

<sup>4</sup> A credit needs determination also would be performed if the appropriate agency determines that there is no reasonably available data that permits the agency to determine the bank's statewide loan-to-deposit ratio.

supports the efforts of community banks and the needs of businesses and consumers they serve.

One commenter believed that the proposal should cover institutions that use brokers to market their certificates of deposit in communities where the institution has no intention of lending. The Agencies believe that such coverage goes beyond the scope of section 109 of the Interstate Act as amended. Thus, the Agencies have not made any changes from the proposal in response to this comment.

While not objecting to the rule, one commenter raised a question about the definition of a bank holding company's "home State." Section 106 of the GLBA incorporated by reference the BHC Act definition of "out-of-State bank holding company." The proposed rule therefore tracked the BHC Act definition. It provided that the home State of a bank holding company is the State where the total deposits of all the banking subsidiaries were the largest as of the later of July 1, 1966 or the date on which the company becomes a bank holding company. The commenter noted that because deposit levels change over time, using this definition to determine the home State of a bank holding company would lead to distortions that would become more and more pronounced. However, as the commenter recognized, the Agencies are obligated to use the Bank Holding Company Act's definition due to its incorporation into section 106 of the GLBA.<sup>5</sup>

### **III. Analysis of the Joint Final Rule**

As discussed in the Background section, section 109 prohibits the use of the interstate banking and branching authority granted by the Interstate Act to engage in interstate branching primarily for the purpose of deposit production. Prior to the GLBA, this prohibition applied to any bank that established or acquired, directly or indirectly, a branch under the authority of the Interstate Act or amendments to any other provision of law made by the Interstate Act. In accordance with the amendment to section 109 adopted by the GLBA, the final rule broadens this prohibition to apply not only to branches established pursuant to the Interstate Act, but also to any bank or branch of a bank controlled by an out-of-State bank holding company. Thus, the final rule amends the definition of the term "covered interstate branch" to include any bank or branch of a bank controlled by an out-of-State bank holding company. We also have made

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<sup>5</sup> The same commenter reiterated certain comments it previously made in the original rulemaking implementing section 109. 62 FR 47728 (September 10, 1997). The commenter noted that the Agencies use Summary of Deposit Reports and Call Reports to produce the annual host State loan-to-deposit ratios. The commenter does not believe that the method used to calculate the host State loan-to-deposit ratios is accurate. The commenter suggested that the Agencies should require banks to report deposits and loans by State and that many banks would already have this information available. Additionally, the commenter stated that use of the June 30<sup>th</sup> Call Reports to calculate ratios may understate agricultural loan volume, which peaks in the September 30<sup>th</sup> Call Report. The commenter recommended that the Agencies take the cyclical nature of agricultural lending into consideration when calculating these ratios. Both of these comments are beyond the scope of the current rulemaking.

conforming changes to our respective regulations<sup>6</sup> to revise the definition of “host State” and to clarify that the loan-to-deposit ratio screen will be applied to a bank, or branch of a bank, controlled by an out-of-State bank holding company in the same manner as the screen is applied to a covered interstate branch. The final rule is substantively identical to the proposed rule. We have made only technical changes to each agency’s proposed regulations.

A. *Bank Locations Subject to Section 109 as Amended*

Prior to the GLBA, section 109’s deposit production office prohibition applied only to an interstate branch in a host State that is acquired or established by an out-of-State bank pursuant to the Interstate Act or any amendment made by the Interstate Act. As amended, the prohibition also applies to any branch of a bank controlled by an out-of-State bank holding company. The legislative history of this amendment indicates that Congress intended that this amendment would expand the scope of section 109 to cover any bank or branch of a bank controlled by an out-of-State bank holding company, as discussed below.

1. *Coverage of Banks’ Main Offices*

Coverage of the final rule extends to banks controlled by out-of-State bank holding companies, including banks consisting only of a main office. The Agencies determined that extension of the regulation to cover a bank’s main office, whether or not the bank also has branches, is appropriate because the purpose of the legislation is to prevent out-of-State bank holding companies from taking deposits out of a community without helping to meet the credit needs of that community. See 145 Cong. Rec. H11529 (daily ed. Nov. 4, 1999); 145 Cong. Rec. H5217 (daily ed. July 1, 1999); 144 Cong. Rec. H3133 (daily ed. May 13, 1998). This purpose would be negated if banks consisting only of a main office were excluded. For example, out-of-State bank holding companies could take deposits from a host State simply by establishing separately chartered, single-office banks in a host State. Therefore, banks consisting only of a main office and controlled by an out-of-State bank holding company are subject to the joint final rule.

2. *Coverage of Interstate and Intrastate Branches*

The amendment to section 109 expands the scope of the rule to include all branches of a bank that is controlled by an out-of-State bank holding company. Indeed, Congress intended to apply the section 109 rule to "all branches of a bank owned by an out-of-State holding company," not just to previously exempt branches owned by such banks. See H.R. Rep. No. 106-74, pt. 1 at 128 (1999) (emphasis added). Thus, the final rule applies to all branches of a bank when the bank and its controlling bank holding company have different home States.

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<sup>6</sup> See 12 CFR 25.62(e) and 25.63(a) (OCC); 12 CFR 208.7(b)(4) and 208.7(c)(1) (Federal Reserve); 12 CFR 369.2(d) and 369.3(a) (FDIC).

*B. Multi-Tier Bank Holding Companies*

Section 106 of the GLBA expands the definition of “interstate branch” to any branch of a bank controlled by an out-of-State bank holding company and incorporates by reference the BHC Act definition of an “out-of-State bank holding company.” 12 U.S.C. 1841(o)(7). We have used the BHC Act definition of “control” to determine the controlling bank holding company. This is the top tier bank holding company in a multi-tier bank holding company structure.

*C. Definition of “Home State” for a Bank Holding Company*

The BHC Act defines “home State” with respect to a bank holding company as the State where total deposits of all banking subsidiaries of each bank holding company are the largest on the later of July 1, 1966 or the date on which a company becomes a bank holding company. 12 U.S.C. 1841(o)(4). To determine the home State of a bank holding company, the Agencies will determine, from sources available at the Agencies, the State where the total deposits of all the banking subsidiaries were the largest as of the later of July 1, 1966, or the date the bank holding company was formed. We recognize that, in certain cases, the State where the total deposits of all of a bank holding company's subsidiary banks were largest on July 1, 1966, or at the date of formation of the bank holding company, may not be the same State in which the bank holding company's subsidiary banks hold the largest amount of deposits now or at a future date. However, the amendment to section 109 made by the GLBA adopts the BHC Act definition of “out-of-State bank holding company,” and the BHC Act definition of “home State” is incorporated into that definition.

*D. Foreign Banks and Branches*

Section 106 of the GLBA also necessitates an amendment to the definition of “home State” for foreign banks with banking operations in the United States. Under U.S. banking law and regulation, foreign banks may be treated as banking institutions, bank holding companies, or both, depending on the nature of their operations in the United States. For purposes of determining whether a U.S. branch of a foreign bank is a covered interstate branch, a foreign bank's home State is determined under section 5 of the International Banking Act of 1978 (12 U.S.C. 3103), § 211.22 of the Federal Reserve's Regulation K (12 CFR 211.22), § 28.11(o) of the OCC regulations, and § 347.202(j) of the FDIC regulations. For purposes of determining whether a branch of a U.S. bank controlled by a foreign bank is a covered interstate branch, a foreign bank's home State is determined in accordance with 12 U.S.C. 1841(o)(4) as discussed above in section III. C. of this preamble regarding U.S. bank holding companies. A foreign bank may have different home States with respect to direct offices and subsidiary banks.

*E. Impact of the Rule*

The final rule is unlikely to have any impact on the vast majority of banks. Consistent with section 109 when it was first enacted, the final rule does not impose any new recordkeeping requirements on affected institutions. We use existing data to determine the loan-to-deposit ratio screen.

Moreover, there is no additional burden imposed as a result of the credit needs determination. In order to make that determination, the appropriate agency will review the activities of the bank, such as its lending activity and its performance under the CRA,<sup>7</sup> and evaluate whether the bank is reasonably helping to meet the credit needs of the communities served by the bank in the host State.

The only circumstance in which the final rule would impose a burden on a bank is if the bank fails both the loan-to-deposit ratio screen and the credit needs determination. Accordingly, while the statutory amendment and this final rule extend the scope of the DPO rule, this extended scope is unlikely to affect most institutions.

#### **IV. Regulatory Analysis**

*A. Paperwork Reduction Act*

The Agencies have determined that this final rule does not involve a collection of information pursuant to the provisions of the Paperwork Reduction Act, 44 U.S.C. 3501 *et seq.*

*B. Regulatory Flexibility Act*

*OCC:* Pursuant to section 605(b) of the Regulatory Flexibility Act, the OCC certifies that this final rule will not have a significant economic impact on a substantial number of small entities. The rule would extend coverage of section 109 to some additional institutions, including small entities. However, based on previous examination experience, we expect very few institutions will experience any cost in connection with complying with the rule. Review for compliance with section 109 is conducted at the

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<sup>7</sup> Some entities that could be subject to section 109, including certain special purpose banks and uninsured branches of foreign banks, are not evaluated for CRA performance by the Agencies. For such entities, we will continue to use the CRA regulations as a guideline in making a credit needs determination. The CRA regulations provide only guidance to assess whether activities identified by these institutions help to meet the community's credit needs, and do not obligate these institutions to have a record of performance under the CRA or require that these institutions pass any performance tests in the CRA regulations. We also will continue to give substantial weight to the factor relating to specialized activities in making a credit needs determination for institutions not evaluated under the CRA. For example, most branches of foreign banks derive substantially all their deposits from wholesale deposit markets, which are generally national or international in scope. This approach is consistent with section 109's overall purpose of preventing banks from using the Interstate Act to establish branches primarily to gather deposits in their host State without reasonably helping to meet the credit needs of the communities served by the bank in the host State. See *Prohibition Against Use of Interstate Branches Primarily for Deposit Production*, 62 FR 47728, 47732-33 (September 10, 1997) (codified at 12 CFR parts 25, 208, 211, 369).

same time that the Community Reinvestment Act review is performed. Section 109 requires that the Agencies use only available information to conduct their analyses. Consistent with this requirement, this final rule does not impose any additional paperwork or regulatory reporting requirements. Accordingly, we have concluded that the final rule would not have a significant economic impact on a substantial number of small entities.

*BOARD:* Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), the Board certifies that the final rule will not have a significant economic impact on a substantial number of small entities. The rule would extend coverage of section 109 to some additional institutions, including small entities. Review for compliance with section 109 is conducted at the same time that the Community Reinvestment Act review is performed. Consistent with the requirement that the Agencies use only available information to conduct a section 109 review, the final rule does not impose any additional regulatory burden on banks beyond what is required by statute. The burden to conduct the review and use only available data is on the banking regulatory Agencies. Thus, the final rule will not have a significant economic impact on a substantial number of small entities.

*FDIC:* Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), the FDIC certifies that the final rule will not have a significant economic impact on a substantial number of small entities. The rule would extend coverage of section 109 to some additional institutions, including small entities. However, based on previous examination experience, we estimate that one or fewer institutions per year will experience any cost in connection with complying with the rule. Thus, the final rule will not have a significant economic impact on a substantial number of small entities.

C. *OCC Executive Order 12866*

The OCC has determined that its portion of the final rule is not a significant regulatory action under Executive Order 12866.

D. *OCC Unfunded Mandates Reform Act of 1995*

Section 202 of the Unfunded Mandates Reform Act of 1995, Pub. L. 104-4 (Unfunded Mandates Act) requires that an agency prepare a budgetary impact statement before promulgating a rule that includes a Federal mandate that may result in expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of \$100 million or more in any one year. If a budgetary impact statement is required, section 205 of the Unfunded Mandates Act also requires an agency to identify and consider a reasonable number of regulatory alternatives before promulgating a rule. The OCC has determined that this final rule will not result in expenditures by State, local, and tribal governments, or by the private sector, of \$100 million or more. Accordingly, the OCC has not prepared a budgetary impact statement or specifically addressed the regulatory alternatives considered.

*E. The Treasury and General Government Appropriations Act, 1999 -- Assessment of Impact of Federal Regulation on Families*

The FDIC has determined that this final rule will not affect family well-being within the meaning of section 654 of the Treasury and General Government Appropriations Act, 1999, Pub. L. 105-277, 112 Stat. 2681.

*F. Plain Language*

Section 722 of the GLBA (12 U.S.C. 4809) requires each federal banking agency to use plain language in all proposed and final rules published after January 1, 2000. Toward this end we have used a variety of “plain language” techniques such as topical headings, a table of contents, and the use of pronouns as appropriate. We specifically invited comments on how to make the changes proposed by this rulemaking easier to understand. No commenters addressed this issue. Accordingly, we made no changes to the proposed style or format.

**List of Subjects**

*12 CFR Part 25*

Community development, Credit, Investments, National banks, Reporting and recordkeeping requirements.

*12 CFR Part 208*

Accounting, Agriculture, Banks, banking, Confidential business information, Crime, Currency, Federal Reserve System, Investments, Mortgages, Reporting and recordkeeping requirements, Securities.

*12 CFR Part 369*

Banks, banking, Community development.

**DEPARTMENT OF THE TREASURY**

**Office of the Comptroller of the Currency**

**12 CFR Chapter I**

**Authority and Issuance**

For the reasons set forth in the joint preamble, the Office of the Comptroller of the Currency amends part 25 of chapter I of title 12 of the Code of Federal Regulations as follows:

**PART 25—COMMUNITY REINVESTMENT ACT AND INTERSTATE DEPOSIT PRODUCTION REGULATIONS**

1. The authority citation for part 25 continues to read as follows:

**Authority:** 12 U.S.C. 21, 22, 26, 27, 30, 36, 93a, 161, 215, 215a, 481, 1814, 1816, 1828(c), 1835a, 2901 through 2907, and 3101 through 3111.

2. In § 25.62:

A. Paragraphs (b), (d), and (e) are revised;

B. Paragraphs (g) and (h) are redesignated as paragraphs (h) and (i), respectively;

and

C. A new paragraph (g) is added to read as follows:

**§ 25.62 Definitions.**

\* \* \* \* \*

(b) *Covered interstate branch* means:

(1) Any branch of a national bank, and any Federal branch of a foreign bank, that:

(i) Is established or acquired outside the bank’s home State pursuant to the interstate branching authority granted by the Interstate Act or by any amendment made by the Interstate Act to any other provision of law; or

(ii) Could not have been established or acquired outside of the bank's home State but for the establishment or acquisition of a branch described in paragraph (b)(1)(i) of this section; and

(2) Any bank or branch of a bank controlled by an out-of-State bank holding company.

\* \* \* \* \*

(d) *Home State* means:

(1) With respect to a State bank, the State that chartered the bank,

(2) With respect to a national bank, the State in which the main office of the bank is located;

(3) With respect to a bank holding company, the State in which the total deposits of all banking subsidiaries of such company are the largest on the later of:

(i) July 1, 1966; or

(ii) The date on which the company becomes a bank holding company under the Bank Holding Company Act;

(4) With respect to a foreign bank:

(i) For purposes of determining whether a U.S. branch of a foreign bank is a covered interstate branch, the home State of the foreign bank as determined in accordance with 12 U.S.C. 3103(c) and 12 CFR 28.11(o); and

(ii) For purposes of determining whether a branch of a U.S. bank controlled by a foreign bank is a covered interstate branch, the State in which the total deposits of all banking subsidiaries of such foreign bank are the largest on the later of:

(A) July 1, 1966; or

(B) The date on which the foreign bank becomes a bank holding company under the Bank Holding Company Act.

(e) *Host State* means a State in which a covered interstate branch is established or acquired.

\* \* \* \* \*

(g) *Out-of-State bank holding company* means, with respect to any State, a bank holding company whose home State is another State.

\* \* \* \* \*

3. In § 25.63, paragraph (a) is revised to read as follows:

**§ 25.63 Loan-to-deposit ratio screen.**

(a) Application of screen. Beginning no earlier than one year after a covered interstate branch is acquired or established, the OCC will consider whether the bank's statewide loan-to-deposit ratio is less than 50 percent of the relevant host State loan-to-deposit ratio.

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Dated: April 23, 2002.

(signed) John D. Hawke, Jr.

John D. Hawke, Jr.,  
*Comptroller of the Currency*

## Federal Reserve System

### 12 CFR Chapter II

#### Authority and Issuance

For the reasons set forth in the joint preamble, the Board of Governors of the Federal Reserve System amends part 208 of chapter II of title 12 of the Code of Federal Regulations as follows:

#### **PART 208—MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM (REGULATION H)**

1. The authority citation for part 208 continues to read as follows:

Authority: 12 U.S.C. 24, 36, 92a, 93a, 248(a), 248(c), 321-338a, 371d, 461, 481-486, 601, 611, 1814, 1816, 1818, 1820(d)(9), 1823(j), 1828(o), 1831, 1831o, 1831p-1, 1831r-1, 1831w, 1835a, 1882, 2901-2907, 3105, 3310, 3331-3351, and 3906-3909; 15 U.S.C. 78b, 781(b), 781(g), 781(i), 78o-4(c)(5), 78q, 78q-1, and 78w; 31 U.S.C. 5318, 42 U.S.C. 4012a, 4104a, 4104b, 4106 and 4128.

2. In § 208.7, redesignate existing paragraphs (b)(6) and (b)(7) as (b)(7) and (b)(8), respectively, revise paragraphs (b)(2), (b)(3), (b)(4) and (c)(1), and add new paragraph (b)(6) to read as follows:

#### **§ 208.7 Prohibition against use of interstate branches primarily for deposit production.**

\* \* \* \* \*

(b) \* \* \*

(2) *Covered interstate branch* means:

(i) Any branch of a State member bank, and any uninsured branch of a foreign bank licensed by a State, that:

(A) Is established or acquired outside the bank's home State pursuant to the interstate branching authority granted by the Interstate Act or by any amendment made by the Interstate Act to any other provision of law; or

(B) Could not have been established or acquired outside of the bank's home State but for the establishment or acquisition of a branch described in paragraph (b)(2)(i) of this section; and

(ii) Any bank or branch of a bank controlled by an out-of-State bank holding company.

(3) *Home State* means:

(i) With respect to a State bank, the State that chartered the bank;

(ii) With respect to a national bank, the State in which the main office of the bank is located;

(iii) With respect to a bank holding company, the State in which the total deposits of all banking subsidiaries of such company are the largest on the later of:

(A) July 1, 1966; or

(B) The date on which the company becomes a bank holding company under the Bank Holding Company Act.

(iv) With respect to a foreign bank:

(A) For purposes of determining whether a U.S. branch of a foreign bank is a covered interstate branch, the home State of the foreign bank as determined in accordance with 12 U.S.C. 3103(c) and 12 CFR 211.22; and

(B) For purposes of determining whether a branch of a U.S. bank controlled by a foreign bank is a covered interstate branch, the State in which the total deposits of all banking subsidiaries of such foreign bank are the largest on the later of:

(1) July 1, 1966; or

(2) The date on which the foreign bank becomes a bank holding company under the Bank Holding Company Act.

(4) *Host State* means a State in which a covered interstate branch is established or acquired.

\* \* \* \* \*

(6) *Out-of-State bank holding company* means, with respect to any State, a bank holding company whose home State is another State.

\* \* \* \* \*

(c)(1) Application of screen. Beginning no earlier than one year after a covered interstate branch is acquired or established, the Board will consider whether the bank's statewide loan-to-deposit ratio is less than 50 percent of the relevant host State loan-to-deposit ratio.

By order of the Board of Governors of the Federal Reserve System, May 30, 2002.

(signed) Jennifer J. Johnson

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**Jennifer J. Johnson,**  
*Secretary of the Board.*

## Federal Deposit Insurance Corporation

### 12 CFR Chapter III

#### Authority and Issuance

For the reasons set forth in the joint preamble, the Board of Directors of the Federal Deposit Insurance Corporation amends part 369 of chapter III of title 12 of the Code of Federal Regulations to read as follows:

#### **PART 369--PROHIBITION AGAINST USE OF INTERSTATE BRANCHES PRIMARILY FOR DEPOSIT PRODUCTION**

1. The authority citation for part 369 continues to read as follows:

Authority: 12 U.S.C. 1819 (Tenth) and 1835a.

2. In § 369.2, redesignate paragraphs (f) and (g) as (g) and (h), respectively; revise paragraphs (b), (c) and (d); and add new paragraph (f) to read as follows.

#### **§ 369.2 Definitions.**

\* \* \* \* \*

(b) *Covered interstate branch* means:

(1) Any branch of a State nonmember bank, and any insured branch of a foreign bank licensed by a State, that:

(i) Is established or acquired outside the bank's home State pursuant to the interstate branching authority granted by the Interstate Act or by any amendment made by the Interstate Act to any other provision of law; or

(ii) Could not have been established or acquired outside of the bank's home State but for the establishment or acquisition of a branch described in paragraph (b)(1)(i) of this section; and

(2) Any bank or branch of a bank controlled by an out-of-State bank holding company.

(c) *Home State* means:

(1) With respect to a State bank, the State that chartered the bank;

(2) With respect to a national bank, the State in which the main office of the bank is located;

(3) With respect to a bank holding company, the State in which the total deposits of all banking subsidiaries of such company are the largest on the later of:

(i) July 1, 1966; or

(ii) The date on which the company becomes a bank holding company under the Bank Holding Company Act;

(4) With respect to a foreign bank:

(i) For purposes of determining whether a U.S. branch of a foreign bank is a covered interstate branch, the home State of the foreign bank as determined in accordance with 12 U.S.C. 3103(c) and 12 CFR 347.202(j); and

(ii) For purposes of determining whether a branch of a U.S. bank controlled by a foreign bank is a covered interstate branch, the State in which the total deposits of all banking subsidiaries of such foreign bank are the largest on the later of:

(A) July 1, 1966; or

(B) The date on which the foreign bank becomes a bank holding company under the Bank Holding Company Act.

(d) *Host State* means a State in which a covered interstate branch is established or acquired.

\* \* \* \* \*

(f) *Out-of-State bank holding company* means, with respect to any State, a bank holding company whose home State is another State.

\* \* \* \* \*

3. In § 369.3, revise paragraph (a) to read as follows:

**§ 369.3 Loan-to-deposit ratio screen.**

(a) Application of screen. Beginning no earlier than one year after a covered interstate branch is acquired or established, the FDIC will consider whether the bank's statewide loan-to-deposit ratio is less than 50 percent of the relevant host State loan-to-deposit ratio.

\* \* \* \* \*

By order of the Board of Directors.

Dated at Washington, D.C., this 1st day of March, 2002.

FEDERAL DEPOSIT INSURANCE CORPORATION

(signed) Robert E. Feldman

**Robert E. Feldman**  
*Executive Secretary*

(SEAL)