

Semiannual Report on Banking Applications Activity: July 1–December 31, 2016

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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.¹

Overview of Activity

The Federal Reserve reviewed 588 proposals in the second half of 2016, of which 550 were approved, 33 were withdrawn, 2 were mooted, and 3 were returned (table 1). Total dispositions in 2016 declined to 1,223 from 1,308 in 2015. As 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, 2013–16 and 2015:H2 and 2016:H2

All proposals	2013	2014	2015	2016	2015:H2	2016:H2
Dispositions						
Approved	1,305	1,218	1,186	1,138	603	550
Withdrawn	123	101	100	75	40	33
Denied	1	1	0	0	0	0
Mooted	10	11	10	5	6	2
Returned	6	11	12	5	4	3
Total	1,445	1,342	1,308	1,223	653	588
Percent withdrawn of total	9%	8%	8%	6%	6%	6%
Processing time (days)						
Average	37	44	46	46	50	45
Median	28	30	33	30	35	35

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 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/bankinfo/default.htm.

Table 1 illustrates that the average number of days to approve a proposal was 45 days in the second half of 2016, compared with 50 days in the second half of 2015.² The median processing time was unchanged from the second half of 2015.

Six percent of total dispositions in the second half of 2016 were withdrawn. 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 (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.⁴

Of the 33 proposals withdrawn in the second half of 2016, 17 proposals were withdrawn at the initiative of the applicant. The remainder were withdrawn after consultation with staff for technical or procedural reasons or because the proposals raised significant issues regarding the statutory factors that must be considered by the Federal Reserve. Specifically, 12 of these proposals raised financial and managerial issues as well as regulatory compliance and CRA and fair lending issues. This reflects, in part, the Board's expectation that an application will not be allowed to pend if a supervisory issue arises during processing.

Applications

Mergers and Acquisitions

In the second half of 2016, 118 M&A proposals were approved, compared with 143 approved in the second half of 2015 (table 2).⁵ These types of proposals accounted for 21 percent of total approved proposals in the first half of 2016, generally in line with prior periods. In reviewing M&A proposals, the Federal Reserve considers the applicant's current and pro forma financial condition and future prospects, managerial resources, record of meeting the convenience and needs of the communities to be served (including consumer compliance record and performance under the CRA), and record of compliance with the Bank Secrecy Act/anti-money-laundering requirements, as well as the public benefits, competitive, and financial stability effects of the proposal.⁶ Other considerations may include a review of ownership changes of the resultant banking organization or policy questions.

² Excluding from the calculation four unusually delayed transactions included in the second half of 2015 results in an average processing time of 44 days.

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 an explanation 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.

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).

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.

⁶ As of March 2017, the Federal Reserve's delegation criteria with respect to the financial stability factor have been updated. These changes reflect the Board's view that only those proposals involving an acquisition of less than \$10 billion in assets, or that result in a firm with less than \$100 billion in total assets, generally are not likely to create institutions that pose systemic risks. See *People's United Financial, Inc.*, FRB Order No. 2017-08 (March 16, 2017).

Table 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2013–16 and 2015:H2 and 2016:H2

Mergers and acquisitions	2013	2014	2015	2016	2015:H2	2016:H2
Dispositions						
Approved	190	248	279	245	143	118
Withdrawn	40	25	21	28	5	11
<i>Percent M&A of total approved proposals</i>	<i>15%</i>	<i>20%</i>	<i>23%</i>	<i>22%</i>	<i>24%</i>	<i>21%</i>
Processing time (days)						
Average	56	60	71	59	79	58
Median	40	41	41	42	41	41

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 2016 were 58 and 41 days, respectively. In comparison, for the same period, the average and median number of days to approve all proposals were 45 and 35 days, respectively (table 1).

The Federal Reserve may receive adverse comments on a proposal from the public.⁷ 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 upon the CRA and fair lending records of the applicant. Comments also may be directed at other aspects of a proposal. Proposals that receive a substantive adverse public comment are required to be acted on by the Board as opposed to the Reserve Banks.⁸

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 small proportion of total M&A proposals approved by the Federal Reserve, processing times for these proposals are considerably longer than for those M&A proposals not receiving such comments. In the second half of 2016, the average number of days to approve M&A proposals that did not receive adverse public comments was 53, compared with an average of 141 days for the seven M&A proposals that received adverse public comments.⁹

Pre-filing Process

The Federal Reserve has established an optional 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 a particular type of application or notice, such as the structure of the transaction, control considerations, or to address novel aspects of a particular proposal. 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

⁷ 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.

⁸ 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.

⁹ 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 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, 2013–16 and 2015:H2 and 2016:H2

Mergers and acquisitions	2013	2014	2015	2016	2015:H2	2016:H2
Proposals not receiving adverse public comments						
Approved	184	237	262	233	134	111
Processing time (days)						
Average	52	53	56	53	59	53
Median	39	40	41	41	40	41
Proposals receiving adverse public comments						
Approved	6	11	17	12	9	7
<i>Percent M&A receiving adverse public comments of total M&A proposals</i>	3%	4%	6%	5%	6%	6%
Processing time (days)						
Average	203	209	297	159	375	141
Median	191	188	211	162	203	123

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 Nonbank Acquisitions and Other Proposals.”

The Federal Reserve reviewed 72 pre-filings in 2014, 69 in 2015, and 38 in 2016. 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 resources factor and the convenience and needs factor. 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. Changes in average processing times from the prior year period were mixed for both small and large CBOs.¹⁰ Similarly, the volume of filings by both small and large CBOs was mixed with a noted increase in large CBO branch filings and declines in FIRREA notices among both small

¹⁰ The average days processing for CIBCA notices filed by large CBOs was skewed in 2016 because of the resolution of a single notice that had been pending for several years.

Table 4. Proposals from CBOs, volume and processing times (days) of approved proposals, for the full year 2015 and 2016

Proposals by applicant asset size	2015			2016		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
Under \$1 billion						
Change in control	136	58	57	146	70	59
Federal Reserve membership	20	17	14	20	25	20
FIRREA	127	8	6	97	8	4
Mergers and acquisitions	111	47	40	114	46	41
Branch establishment	70	24	22	68	21	22
\$1 billion–\$10 billion						
Change in control	16	99	59	14	162	59
Federal Reserve membership	9	34	28	5	18	21
FIRREA	15	12	8	9	7	3
Mergers and acquisitions	90	62	41	61	61	42
Branch establishment	50	31	20	70	28	25

and large CBOs, reflecting a decline in the number of institutions in troubled condition. M&A among large CBOs declined, consistent with the decline reflected in tables 2 and 3.

For further reference, please consult the following:

www.federalreserve.gov/bankinfo/reg/afi/afi.htm

www.federalreserve.gov/bankinfo/reg/semiannual-reports-banking-applications-activity.htm

www.federalreserve.gov/bankinfo/reg/srletters/sr1402.htm

www.federalreserve.gov/bankinfo/reg/srletters/sr1307.htm

www.federalreserve.gov/bankinfo/reg/srletters/sr1212.htm

