

Semiannual Report on Banking Applications Activity: January 1–June 30, 2017

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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The Federal Reserve reviewed 554 proposals in the first half of 2017, of which 522 were approved, 28 were withdrawn, 2 were mooted, and 2 were returned (table 1). Total dispositions in the first half of 2017 declined from 635 in the first half of 2016. 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, 2013–16 and 2016:H1 and 2017:H1

All proposals	2013	2014	2015	2016	2016:H1	2017:H1
Dispositions						
Approved	1,305	1,218	1,186	1,138	588	522
Withdrawn	123	101	100	75	42	28
Denied	1	1	0	0	0	0
Mooted	10	11	10	5	3	2
Returned	6	11	12	5	2	2
Total	1,445	1,342	1,308	1,223	635	554
Percent withdrawn of total	9%	8%	8%	6%	7%	5%
Processing time (days)						
Average	37	44	46	46	49	43
Median	28	30	33	30	30	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/bankinforeg/default.htm.

Table 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2013–16 and 2016:H1 and 2017:H1						
Mergers and acquisitions	2013	2014	2015	2016	2016:H1	2017:H1
Dispositions						
Approved	190	248	279	245	127	117
Withdrawn	40	25	21	28	17	6
<i>Percent M&A of total approved proposals</i>	<i>15%</i>	<i>20%</i>	<i>23%</i>	<i>22%</i>	<i>22%</i>	<i>22%</i>
Processing time (days)						
Average	56	60	71	59	59	68
Median	40	41	41	42	42	43

Table 1 illustrates that the average number of days to approve a proposal was 43 days in the first half of 2017, compared with 49 days in the first half of 2016. The median processing time increased to 35 days in the first half of 2017 from 30 days in the prior period.

Five percent of total dispositions in the first half of 2017 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.² 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.³

Of the 28 proposals withdrawn in the first half of 2017, nine 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 issues regarding the statutory factors that must be considered by the Federal Reserve. Specifically, eight of these proposals raised financial, managerial, control, or competitive 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 first half of 2017, 117 M&A proposals were approved, compared with 127 approved in the first half of 2016 (table 2).⁴ These types of proposals accounted for 22 percent of total approved proposals in the first half of 2017, in line with prior periods. In reviewing M&A proposals, the Federal Reserve considers the applicant’s current and pro forma financial condition

² 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.

³ 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).

⁴ M&A proposals include proposals filed by BHCs, SLHCs, or state member banks that seek approval to acquire an ownership interest in or to merge with another banking organization and BHC and SLHC formations.

and future prospects, managerial resources, the convenience and needs of the communities to be served (including consumer compliance and fair lending records and the record of performance under the CRA), record of compliance with the Bank Secrecy Act/anti-money-laundering requirements, 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 first half of 2017 were 68 and 43 days, respectively. In comparison, for the same period, the average and median number of days to approve all proposals were 43 and 35 days, respectively (table 1).

The Federal Reserve may receive adverse comments on a proposal from the public.⁵ 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.⁶ Applicants are encouraged to respond in the event that public comments are received.

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 those M&A proposals not receiving such comments. In the first half of 2017, the average number of days to approve M&A proposals that did not receive adverse public comments was 54, compared with an average of 190 days for the 12 M&A proposals that received adverse public comments.⁷

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."

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

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; do not raise a policy issue; or are not novel, complex, or otherwise required to be acted upon by the Board.

⁷ 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 2016:H1 and 2017:H1

Mergers and acquisitions	2013	2014	2015	2016	2016:H1	2017:H1
Proposals not receiving adverse public comments						
Approved	184	237	262	233	122	105
Processing time (days)						
Average	52	53	56	53	54	54
Median	39	40	41	41	41	42
Proposals receiving adverse public comments						
Approved	6	11	17	12	4	12
<i>Percent M&A receiving adverse public comments of total M&A proposals</i>	3%	4%	6%	5%	3%	10%
Processing time (days)						
Average	203	209	297	159	213	190
Median	191	188	211	162	210	168

The Federal Reserve reviewed 69 pre-filings in 2015 and 38 in 2016. Eighteen pre-filings were reviewed in the first half of 2017, up slightly from 15 pre-filings reviewed in the first half of 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, fair lending, 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, fair lending, and CRA records can facilitate the review process. Conversely, unaddressed consumer compliance, fair lending, or 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 small and large community banking organizations (CBOs).⁸ Small CBOs are those under \$1 billion in assets, and large CBOs are those with \$1 billion to \$10 billion in assets. Processing times for M&A applications by small and large CBOs were 56 days and 63 days, respectively, comparing favorably to the overall average of 68 days for all M&A transactions. While the overall volume of filings was generally unchanged in most categories, FIRREA notices submitted by small CBOs, in particular, continued to decline reflecting a general improvement in the banking environment.

⁸ The average processing days for CIBCA notices filed by large CBOs was skewed in the first half of 2016 because of the small number of filings and the resolution of a single filing 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	2016			2016:H1			2017:H1		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
Under \$1 billion									
Change in control	147	70	59	84	75	59	62	63	58
Federal Reserve membership	20	25	20	7	29	29	7	14	12
FIRREA	97	8	4	65	8	3	31	11	7
Mergers and acquisitions	167	52	41	86	54	41	69	56	42
Branch establishment	68	21	22	35	22	24	41	23	24
\$1 billion–\$10 billion									
Change in control	14	162	59	4	393	99	4	99	57
Federal Reserve membership	5	18	21	2	17	17	1	29	29
FIRREA	9	7	3	6	4	2	12	10	3
Mergers and acquisitions	64	61	41	35	59	42	33	63	43
Branch establishment	70	28	25	39	33	25	31	34	28

Note: M&A proposals include proposals filed by BHCs, SLHCs, or state member banks that seek approval to acquire an ownership interest in or to merge with another banking organization and BHC and SLHC formations.

For further reference, please consult the following:

www.federalreserve.gov/bankinforeg/afi/afi.htm

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

www.federalreserve.gov/bankinforeg/srletters/sr1402.htm

www.federalreserve.gov/bankinforeg/srletters/sr1307.htm

www.federalreserve.gov/bankinforeg/srletters/sr1212.htm