

Semiannual Report on Banking Applications Activity: July 1–December 31, 2017

Vol. 5, No. 1
March 2018

Board of Governors of the Federal Reserve System

www.federalreserve.gov



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The Federal Reserve reviewed 567 proposals in the second half of 2017, of which 533 were approved, 28 were withdrawn, 6 were mooted, and zero were returned (table 1). Total dispositions declined from 1,223 in 2016 to 1,121 in 2017. The composition of proposals was consistent with prior periods. The majority of proposals were merger and acquisition (M&A) proposals, branch applications, and CIBCA notices.

Table 1. Dispositions and processing times of approved proposals, 2014–17 and 2016:H2 and 2017:H2

All proposals	2014	2015	2016	2017	2016:H2	2017:H2
Dispositions						
Approved	1,218	1,186	1,138	1,055	550	533
Withdrawn	101	100	75	56	33	28
Denied	1	0	0	0	0	0
Mooted	11	10	5	8	2	6
Returned	11	12	5	2	3	0
Total	1,342	1,308	1,223	1,121	588	567
Percent withdrawn of total	8%	8%	6%	5%	6%	5%
Processing time (days)						
Average	44	46	46	46	45	49
Median	30	33	30	35	35	36

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 49 days in the second half of 2017, compared with 45 days in the second half of 2016.² The median processing time rose slightly to 36 days in the second half of 2017 from 35 days in the prior period. Despite the year-over-year increase, processing times for the second half of 2017 were broadly consistent with prior periods.

Five percent of total dispositions in the second 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.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.⁴

Of the 28 proposals withdrawn in the second half of 2017, 7 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, 16 of these proposals raised significant financial, managerial, control, or competitive issues. This reflects, in part, the Board's general 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 2017, 121 M&A proposals were approved, compared with 118 approved in the second half of 2016 (table 2).⁵ These types of proposals accounted for 23 percent of total approved proposals in the second 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 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,

² Excluding a single transaction that had been pending for some time, the average processing days for the second half of 2017 would have been 46.

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 general 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/bankinfo/reg/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, and convenience and needs (including CRA performance).

⁵ 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.

Table 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2014–17 and 2016:H2 and 2017:H2

Mergers and acquisitions	2014	2015	2016	2017	2016:H2	2017:H2
Dispositions						
Approved	248	279	245	238	118	121
Withdrawn	25	21	28	15	11	9
<i>Percent M&A of total approved proposals</i>	<i>20%</i>	<i>23%</i>	<i>22%</i>	<i>23%</i>	<i>21%</i>	<i>23%</i>
Processing time (days)						
Average	60	71	59	65	58	62
Median	41	41	42	42	41	42

the average and median number of days to approve an M&A proposal in the second half of 2017 were 62 and 42 days, respectively. In comparison, for the same period, the average and median number of days to approve all proposals were 49 and 36 days, respectively (table 1).

The Federal Reserve may receive adverse comments on a proposal from the public.⁶ 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, such as competition. Proposals that receive a substantive adverse public comment are required to be acted on by the Board.⁷ Applicants are encouraged to respond in the event that public comments are received.

Table 3 details or illustrates 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 second half of 2017, the average number of days to approve M&A proposals that did not receive adverse public comments was 57 days, compared with an average of 142 days for the seven M&A proposals that received adverse public comments.⁸

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 Supervision and Regulation Letter 12-12/CA 12-11 titled "Implementation of a New

⁶ 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 a proposal.

⁷ 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.

⁸ 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, 2014–17 and 2016:H2 and 2017:H2

Mergers and acquisitions	2014	2015	2016	2017	2016:H2	2017:H2
Proposals not receiving adverse public comments						
Approved	237	262	233	219	111	114
Processing time (days)						
Average	53	56	53	56	53	57
Median	40	41	41	42	41	42
Proposals receiving adverse public comments						
Approved	11	17	12	19	7	7
<i>Percent M&A receiving adverse public comments of total M&A proposals</i>	5%	6%	5%	9%	6%	6%
Processing time (days)						
Average	209	297	159	173	141	142
Median	188	211	162	164	123	143

Process for Requesting Guidance from the Federal Reserve Regarding Bank and Nonbank Acquisitions and Other Proposals.”

The Federal Reserve reviewed 39 pre-filings in 2017. 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, fair lending, 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).⁹ 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 54 days and 66 days, respectively. This is consistent with the overall average of 65 days for all M&A transactions. While the overall volume of filings was broadly unchanged in most categories, FIRREA and CIBCA notices and M&A applications submitted by small CBOs declined over the previous year while appli-

⁹ The average processing days for CIBCA notices filed by large CBOs was skewed in 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 years 2016 and 2017

Proposals by applicant asset size	2016			2017		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
Under \$1 billion						
Change in control	147	70	59	125	64	58
Federal Reserve membership	20	25	20	13	15	13
FIRREA	97	8	4	74	12	5
Mergers and acquisitions	167	52	41	131	54	42
Branch establishment	68	21	22	76	25	24
\$1 billion–\$10 billion						
Change in control	14	162	59	8	97	64
Federal Reserve membership	5	18	21	4	35	29
FIRREA	9	7	3	14	9	3
Mergers and acquisitions	64	61	41	81	66	43
Branch establishment	70	28	25	58	32	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.

cations for branch establishment grew. This reflects a general improvement in the banking environment for small CBOs. M&A activity among large CBOs also grew, reflecting further consolidation in the industry.

Current Initiatives to Enhance Efficiency in Applications Processing

In its review of all applications, the Federal Reserve is cognizant of the impact extended processing times may have on filers and target firms. Accordingly, the Federal Reserve makes every effort to act on applications in a timely manner. Notwithstanding, certain applications raise issues that require additional time for the Federal Reserve to complete its review and analysis. The Federal Reserve is pursuing several initiatives designed to improve the efficiency, effectiveness, and transparency of the applications process. These initiatives, which are expected to reduce processing times for certain types of proposals, broadly relate to various factors, including the processing of certain cases raising competitive issues, the public comment process, delays associated with other regulators, and past practices regarding presumptions of control.¹⁰ To the extent that any of these initiatives require a rulemaking, the Board will publish a proposed rule and seek public comment.

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

¹⁰ See Randal K. Quarles, “Early Observations on Improving the Effectiveness of Post-Crisis Regulation” (speech at the American Bar Association Banking Law Committee Annual Meeting, Washington, January 19, 2018), www.federalreserve.gov/newsevents/speech/quarles20180119a.htm.

