

Semiannual Report on Banking Applications Activity: January 1–June 30, 2018

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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 (SMBs), 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 (BHCA); the Bank Merger Act (BMA); the Change in Bank Control Act (CIBCA); the Federal Reserve Act (FRA); 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The Federal Reserve reviewed 491 proposals in the first half of 2018, of which 457 were approved, 28 were withdrawn, five were mooted, and one was returned (table 1). Total dispositions in the first half of 2018 decreased from 554 in the first half of 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 2017:H1 and 2018:H1

All proposals	2014	2015	2016	2017	2017:H1	2018:H1
Dispositions						
Approved	1,218	1,186	1,138	1,055	522	457
Withdrawn	101	100	75	56	28	28
Denied	1	0	0	0	0	0
Mooted	11	10	5	8	2	5
Returned	11	12	5	2	2	1
Total	1,342	1,308	1,223	1,121	554	491
Percent withdrawn of total	8%	8%	6%	5%	5%	6%
Processing time (days)						
Average	44	46	46	46	43	42
Median	30	33	30	35	35	30

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 SMB could file to acquire another BHC and merge the target’s subsidiary bank with its own SMB and thereby establish branches. This one proposal would include filings under the BHCA, the BMA, and the FRA. Further information on banking applications and regulation is available on the Federal Reserve Board’s website at www.federalreserve.gov/bankinfo/reg/default.htm.

Table 1 illustrates that the average number of days to approve a proposal was 42 days in the first half of 2018, compared with 43 days in the first half of 2017. The median processing time declined to 30 days in the first half of 2018 from 35 days in the prior period.

Six percent of total dispositions in the first half of 2018 were withdrawn, which is consistent with the prior period level. 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 2018, six 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 withdrawn proposals raised significant 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.

Mergers and Acquisitions

In the first half of 2018, 102 M&A proposals were approved, compared with 117 approved in the first half of 2017 (table 2).⁴ M&A proposals accounted for 22 percent of total approved proposals in the first half of 2018, 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 effects of the proposal on competition and the financial stability of the United States. 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.⁵ As table 2 illustrates, the average and median number of days to approve an M&A proposal in the first half of 2018 were 60 and 41 days, respectively. In comparison, for the same period, the average and median number of days to approve all proposals were 42 and 30 days, respectively (table 1).

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 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.

³ Under section 3 of the BHCA, 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).

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

⁵ See supra note 1.

Table 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2014–17 and 2017:H1 and 2018:H1

Mergers and acquisitions	2014	2015	2016	2017	2017:H1	2018:H1
Dispositions						
Approved	248	279	245	238	117	102
Withdrawn	25	21	28	15	6	6
<i>Percent M&A of total approved proposals</i>	20%	23%	22%	23%	22%	22%
Processing time (days)						
Average	60	71	59	65	68	60
Median	41	41	42	42	43	41

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.⁷ 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.⁸ Applicants are encouraged to respond to any substantive adverse comments received.

Table 3 details or illustrates processing times for M&A 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 for M&A proposals not receiving such comments. In the first half of 2018, the average number of days to approve M&A proposals that did not receive adverse public comments was 55 days, compared with an average of 117 days for the eight M&A proposals that received adverse public comments.⁹ Nevertheless, process changes implemented during this reporting period resulted in a marked reduction in time for processing the proposals receiving adverse public comments.

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. Delays in the processing of an application can be avoided when the filer uses the pre-filing process. The pre-filing

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. With respect to certain applications, 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 In addition, delays may result from consideration of other significant policy or supervisory issues.

⁸ Generally, Reserve Banks can act under delegated authority with respect to proposals that do not receive adverse public comments; do not raise significant legal, policy, or supervisory issues; or otherwise are not required to be acted upon by the Board, provided the proposals meet the statutory factors for approval.

⁹ Delay in the processing of M&A proposals with adverse comments was elevated in the first half of 2017 because of four proposals with processing times in excess of 200 days. Absent these proposals, the average processing time of M&A proposals with adverse comments declines from 190 to 159.

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 2017:H1 and 2018:H1

Mergers and acquisitions	2014	2015	2016	2017	2017:H1	2018:H1
Proposals not receiving adverse public comments						
Approved	237	262	233	219	105	94
Processing time (days)						
Average	53	56	53	56	54	55
Median	40	41	41	42	42	41
Proposals receiving adverse public comments						
Approved	11	17	12	19	12	8
<i>Percent M&A receiving adverse public comments of total M&A proposals</i>	<i>5%</i>	<i>6%</i>	<i>5%</i>	<i>9%</i>	<i>10%</i>	<i>8%</i>
Processing time (days)						
Average	209	297	159	173	190	117
Median	188	211	162	164	168	114

process is described in the Federal Reserve’s Supervision and Regulation Letter 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 38 pre-filings in 2016 and 39 pre-filings in 2017. Twenty-four pre-filings were reviewed in the first half of 2018, which represents a significant increase from 18 pre-filings reviewed in the first half of 2017. 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.

Community Banking Organizations

Table 4 provides the volume and processing times of proposals most commonly submitted by small and large community banking organizations (CBOs). Small CBOs are those under \$1 billion in assets, and large CBOs are those with \$1 billion to \$10 billion in assets. Average processing times for M&A applications by small and large CBOs were 56 days and 59 days, respectively.¹⁰ This is consistent with the overall average of 60 days for all M&A transactions. The overall volume of filings declined slightly year-over-year because of a reduction in the

¹⁰ Excluding a single transaction with a processing time in excess of 12 months, the average processing time for the first half of 2018 declined to 52 days.

Table 4. Proposals from CBOs, volume and processing times (days) of approved proposals, for the full year 2017, 2017:H1, and 2018:H1

Proposals by applicant asset size	2017			2017:H1			2018:H1		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
Under \$1 billion									
Change in control	125	64	58	62	63	58	41	83	58
Federal Reserve membership	13	15	13	7	14	12	7	31	14
FIRREA	74	12	5	31	11	7	31	15	6
Mergers and acquisitions	131	54	42	69	56	42	63	56	41
Branch establishment	76	25	24	41	23	24	34	25	26
\$1 billion–\$10 billion									
Change in control	8	97	64	4	99	57	5	234	57
Federal Reserve membership	4	35	29	1	29	29	1	27	27
FIRREA	14	9	3	12	10	3	1	3	3
Mergers and acquisitions	83	66	43	33	63	43	32	59	41
Branch establishment	58	32	28	31	34	28	29	23	27

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.

number of CIBCA notices and branch establishment applications by small CBOs.¹¹ In addition, FIRREA notices by large CBOs materially declined year-over-year.¹²

Current Initiatives to Enhance Efficiency in Applications Processing

The Federal Reserve is pursuing several initiatives designed to improve the efficiency, effectiveness, and transparency of the applications process. These initiatives broadly relate to additional delegations of authority to process certain cases, the public comment process, delays associated with other regulators, and the controlling influence standard under the BHCA and HOLA. Some of these initiatives would be implemented through the public notice and comment process.

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

¹¹ The average processing times for CIBCA notices and Federal Reserve membership applications during the first half of 2018 were impacted by four proposals with processing times in excess of 90 days. Excluding these proposals, the average processing times for CIBCA notices declines to 55 days and Federal Reserve membership applications declines to 15 days.

¹² Three institutions filed nine of 12 FIRREA notices during the first half of 2017 relative to a single filing during the first half of 2018.

