

Semiannual Report on Banking Applications Activity: July 1–December 31, 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The Federal Reserve reviewed 492 proposals in the second half of 2018, of which 471 were approved, 15 were withdrawn, three were mooted, and three were returned (table 1). Total dispositions declined from 1,121 in 2017 to 984 in 2018. 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, 2015–18 and 2017:H2 and 2018:H2

All proposals	2015	2016	2017	2018	2017:H2	2018:H2
Dispositions						
Approved	1,186	1,138	1,055	929	533	471
Withdrawn	100	75	56	43	28	15
Denied	0	0	0	0	0	0
Mooted	10	5	8	8	6	3
Returned	12	5	2	4	0	3
Total	1,308	1,223	1,121	984	567	492
Percent withdrawn of total	8%	6%	5%	4%	5%	3%
Processing time (days)						
Average	46	46	46	41	49	40
Median	33	30	35	30	36	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 <https://www.federalreserve.gov/supervisionreg.htm>.

Table 1 illustrates that the average number of days to approve a proposal was 40 days in the second half of 2018, compared with 49 days in the second half of 2017. The median processing time declined to 30 days in the second half of 2018 from 36 days in the prior period.

Three percent of total dispositions in the second half of 2018 were withdrawn, which is slightly lower than the prior period level. While many proposals are withdrawn due to considerations unrelated to the supervisory process, proposals may also 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 15 proposals withdrawn in the second half of 2018, 10 proposals 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. Six withdrawn proposals raised significant financial, managerial, control, or competitive issues.

Mergers and Acquisitions

In the second half of 2018, 88 M&A proposals were approved, compared with 121 approved in the second half of 2017 (table 2).⁴ M&A proposals accounted for 19 percent of total approved proposals in the second half of 2018. In reviewing M&A proposals, the Federal Reserve considers the applicant's current and pro forma financial condition and future prospects, managerial resources (including management's record of compliance with the Bank Secrecy Act/anti-money-laundering regulations), 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), 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 second half of 2018 were 52 and 42 days, respectively. In comparison, for the same period, the average and median number of days to approve all proposals were 40 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 <https://www.federalreserve.gov/supervisionreg/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, 2015–18 and 2017:H2 and 2018:H2

Mergers and acquisitions	2015	2016	2017	2018	2017:H2	2018:H2
Dispositions						
Approved	279	245	238	190	121	88
Withdrawn	21	28	15	10	9	4
<i>Percent M&A of total approved proposals</i>	23%	22%	23%	20%	23%	19%
Processing time (days)						
Average	71	59	65	57	62	52
Median	41	42	42	42	42	42

The Federal Reserve may receive adverse comments on a proposal from the public.⁶ Such proposals typically require additional time to provide 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. Generally, 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 shows 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 second half of 2018, the average number of days to approve M&A proposals that did not receive adverse public comments was 50 days, compared with an average of 106 days for the four M&A proposals that received adverse public comments. As illustrated below, there has been a marked reduction in processing time for proposals receiving adverse public comments in 2018 relative to prior periods.

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 process is described in the Federal Reserve's Supervision and Regulation Letter 12-12/CA

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* for certain types of proposals. The notices inform the public of the opportunity to submit written comments on the proposal.

⁷ In addition, delays may result from consideration of other significant policy or supervisory issues, or delays in the completion of background checks on certain proposed shareholders and policymakers.

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.

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, 2015–18 and 2017:H2 and 2018:H2

Mergers and acquisitions	2015	2016	2017	2018	2017:H2	2018:H2
Proposals not receiving adverse public comments						
Approved	262	233	219	178	114	84
Processing time (days)						
Average	56	53	56	53	57	50
Median	41	41	42	41	42	42
Proposals receiving adverse public comments						
Approved	17	12	19	12	7	4
<i>Percent M&A receiving adverse public comments of total M&A proposals</i>	6%	5%	8%	6%	6%	5%
Processing time (days)						
Average	297	159	173	113	142	106
Median	211	162	164	112	143	96

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 43 pre-filings in 2018, which represents a slight increase from 39 pre-filings in 2017. The majority of pre-filings were related to 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 protection (including 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.

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 53 days and 57 days, respectively, and aligns with the overall average of 57 days for all M&A transactions. The overall volume of CBO filings declined year-over-year, driven by a reduction in the number of M&A applications by all CBOs and CIBCA notices with respect to small CBOs.

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

Proposals by applicant asset size	2017			2018		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
Under \$1 billion						
Change in control	125	64	58	88	68	58
Federal Reserve membership	13	15	13	17	25	15
FIRREA	74	12	5	53	16	6
Mergers and acquisitions	131	54	42	119	53	41
Branch establishment	76	25	24	67	25	23
\$1 billion–\$10 billion						
Change in control	8	97	64	9	199*	59
Federal Reserve membership	4	35	29	1	27	27
FIRREA	14	9	3	5	10	3
Mergers and acquisitions	83	66	43	55	57	42
Branch establishment	58	32	28	63	24	24

* The average processing time for CIBCA notices during 2018 was impacted by two proposals with processing times in excess of one year. Excluding these proposals, the average processing time for CIBCA notices for institutions with total assets between \$1 billion and \$10 billion declines to 65 days.

Current Initiatives to Enhance Efficiency in Applications Processing

The Federal Reserve is pursuing initiatives broadly related to additional delegation authority to process certain cases, the public comment process, coordination with other regulators, and the controlling influence standard under the BHCA and HOLA. Several of these initiatives would be implemented through the public notice and comment process.

For further reference, please consult the following:

<https://www.federalreserve.gov/bankinforeg/afi/afi.htm>

<https://www.federalreserve.gov/bankinforeg/semiannual-reports-banking-applications-activity.htm>

<https://www.federalreserve.gov/bankinforeg/srletters/sr1402.htm>

<https://www.federalreserve.gov/bankinforeg/srletters/sr1307.htm>

<https://www.federalreserve.gov/bankinforeg/srletters/sr1212.htm>

