

Semiannual Report on Banking Applications Activity: January 1–June 30, 2019

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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The Federal Reserve reviewed 499 proposals in the first half of 2019, of which 454 were approved, 25 were withdrawn, 18 were mooted, and two were returned (table 1). Total dispositions for the first half of 2019 increased slightly from 491 in the first half of 2018. The composition of proposals was consistent with prior periods. The majority of proposals were branch applications, merger and acquisition (M&A) proposals, and CIBCA notices.

Table 1. Dispositions and processing times of approved proposals, 2015–18 and 2018:H1 and 2019:H1

All proposals	2015	2016	2017	2018	2018:H1	2019:H1
Dispositions						
Approved	1,186	1,138	1,055	929	457	454
Withdrawn	100	75	56	43	28	25
Denied	0	0	0	0	0	0
Mooted	10	5	8	8	5	18
Returned	12	5	2	4	1	2
Total	1,308	1,223	1,121	984	491	499
Percent withdrawn of total	8%	6%	5%	5%	6%	6%
Processing time (days)						
Average	46	46	46	41	42	44
Median	33	30	35	30	30	31

Table 1 illustrates that the average number of days to approve a proposal was 44 days in the first half of 2019, compared with 42 days in the first half of 2018. The median processing time was 31 days in the first half of 2019 compared to 30 days in the prior period.

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>.

Six percent of total dispositions in the first half of 2019 were withdrawals, which was down slightly from the prior period level. While many proposals are withdrawn by applicants because of considerations unrelated to the supervisory process, applicants also may choose to withdraw proposals after the Federal Reserve informs the applicant that, based on staff's review of the statutory factors applicable to the application, one or more significant issues exists that could preclude staff from recommending 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.

Of the 25 proposals withdrawn in the first half of 2019, 18 proposals were withdrawn after consultation with staff, either for technical or procedural reasons or because the proposals raised issues regarding the statutory factors that must be considered by the Federal Reserve. Twelve of the withdrawn proposals raised significant financial, managerial, control, or competitive issues.

Mergers and Acquisitions

In the first half of 2019, 85 M&A proposals were approved, compared with 102 approved in the first half of 2018 (table 2).³ M&A proposals accounted for 19 percent of total approved proposals in the first half of 2019, which reflects a decline from prior periods. In reviewing M&A proposals, the Federal Reserve is required to consider 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 and compliance with consumer laws, the convenience and needs of the communities to be served (including 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. As part of this review, the Federal Reserve also considers the structure and ownership of the resultant banking organization and any policy issues presented by the proposals.

M&A proposals generally are more complex than other proposals because they often require review of several organizations under multiple statutory factors.⁴ As table 2 illustrates, the average and median number of days to approve an M&A proposal in the first half of 2019 were 65 and 42 days, respectively.⁵ In comparison, for the same period, the average and median number of days to approve all proposals were 44 and 31 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 proposals that may not satisfy statutory requirements for approval 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 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.

⁴ See supra note 1.

⁵ Excluding a single M&A proposal with a processing time of 441 days, the average processing time declines to 61 days.

Table 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2015–18 and 2018:H1 and 2019:H1

Mergers and acquisitions	2015	2016	2017	2018	2018:H1	2019:H1
Dispositions						
Approved	279	245	238	190	102	85
Withdrawn	21	28	15	10	6	6
<i>Percent M&A of total approved proposals</i>	23%	22%	23%	20%	22%	19%
Processing time (days)						
Average	71	59	65	57	60	65
Median	41	42	42	42	41	42

The Federal Reserve may receive public comments objecting to a proposal.⁶ In cases where one or more adverse public comments are received that are considered substantive,⁷ the proposal will typically require additional time to provide the applicant the opportunity to respond to the comments and for the Federal Reserve to evaluate the comments and the applicant's response.⁸ The majority of adverse public comments received by the Federal Reserve are based upon convenience and needs concerns and fair lending records of the applicant. Comments also may be directed at any 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.⁹ Applicants are encouraged to respond to any substantive adverse comments received.

Table 3 compares processing times for M&A proposals that did and those that did not receive adverse public comments. Processing times for M&A proposals receiving adverse public comments are considerably longer than those for M&A proposals not receiving such comments. In the first half of 2019, M&A proposals that did not receive adverse public comments were approved on average in 60 days, compared with an average of 135 days for the six M&A proposals that received adverse public comments. The average processing time for M&A proposals receiving adverse public comments in the first half of 2019 increased compared with the same type of M&A proposals in the first half of 2018.¹⁰ Overall, processing times for protested proposals have declined materially between 2015 and 2017.

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 Section 225.16 of the Federal Reserve's Regulation Y provides that a comment will be considered substantive "unless it involves individual complaints, or raises frivolous, previously considered, or wholly unsubstantiated claims or irrelevant issues." Supervision and Regulation Letter 97-10, "Guidance on Protested Proposals," provides additional guidance regarding certain kinds of comments that the Federal Reserve does not consider substantive, available at <https://www.federalreserve.gov/supervisionreg/srletters/srletters.htm>.

⁸ 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.

⁹ Generally, the Federal Reserve Banks can approve proposals under delegated authority that do not receive 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.

¹⁰ Processing time of M&A proposals with adverse public comments was elevated in the first half of 2019 because of a single proposal with a processing time of 266 days. Excluding that proposal, the average processing time for the other protested M&A proposals in the first half of 2019 would have been 109 days, slightly shorter than in the first half of 2018.

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 2018:H1 and 2019:H1

Mergers and acquisitions	2015	2016	2017	2018	2018:H1	2019:H1
Proposals not receiving adverse public comments						
Approved	262	233	219	178	94	79
Processing time (days)						
Average	56	53	56	53	55	60
Median	41	41	42	41	41	42
Proposals receiving adverse public comments						
Approved	17	12	19	12	8	6
<i>Percent M&A receiving adverse public comments of total M&A proposals</i>	<i>6%</i>	<i>5%</i>	<i>8%</i>	<i>6%</i>	<i>8%</i>	<i>7%</i>
Processing time (days)						
Average	297	159	173	113	117	135
Median	211	162	164	112	114	118

Pre-filing Process

The Federal Reserve has established a pre-filing process through which applicants may receive information about filing requirements, timing, and 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 12-11 titled “Implementation of a New Process for Requesting Guidance from the Federal Reserve Regarding Bank and Nonbank Acquisitions and Other Proposals.”¹¹

The Federal Reserve reviewed 17 pre-filings in the first half of 2019, which represents a decrease from 24 pre-filings in the first half of 2018. Generally, pre-filings were related to CIBCA notices, branch applications, M&A proposals, and SLHC MHC dividend waiver requests. 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 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.

¹¹ Board of Governors of the Federal Reserve, Supervision and Regulation Letter 12-12/CA 12-11 “Implementation of a New Process for Requesting Guidance from the Federal Reserve Regarding Bank and Nonbank Acquisitions and Other Proposals,” <https://www.federalreserve.gov/supervisionreg/srletters/sr1212.htm>.

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. In the first half of 2019, average processing times for M&A proposals by small and large CBOs were 63 days and 59 days, respectively, slightly below the average of 65 days for all M&A transactions. The overall volume of approved CBO filings remained stable year-over-year. An increase in the volume of CIBCA notices for all CBOs offsets reductions in FIRREA notices by small CBOs and M&A applications by all CBOs.

Table 4. Proposals from CBOs, volume and processing times (days) of approved proposals, for the full year 2018, 2018:H1, and 2019:H1

Proposals by applicant asset size	2018			2018:H1			2019:H1		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
Under \$1 billion									
Change in control	88	68	58	41	83	58	68	64	59
Federal Reserve membership	17	25	15	7	31	14	8	7	5
FIRREA	53	16	6	31	15	6	15	33	16
Mergers and acquisitions	119	53	41	63	56	41	52	63	42
Branch establishment	67	25	23	34	25	26	46	21	22
\$1 billion–\$10 billion									
Change in control	9	199	59	5	234	57	8	59	60
Federal Reserve membership	1	27	27	1	27	27	0	0	0
FIRREA	5	10	3	1	3	3	3	4	7
Mergers and acquisitions	55	57	42	32	59	41	24	59	41
Branch establishment	63	24	24	29	23	27	23	30	29

Current Initiatives to Enhance Efficiency in Applications Processing

The Federal Reserve is pursuing initiatives broadly related to additional delegation of authority to process certain cases, the public comment process, and coordination with other regulators. Certain of these initiatives would be implemented through the public notice and comment process. In May 2019, the Federal Reserve published a notice of proposed rulemaking, with request for comment, to revise the Federal Reserve's rules with respect to determining whether a company exercises control over another company for purposes of the BHCA and HOLA.¹² In addition, in June 2019, the Board of Governors amended its Rules Regarding Delegation of Authority to delegate to the Federal Reserve Banks authority to approve certain types of applications, including applications and notices regarding mergers and acquisitions that are within competitive criteria described in the delegation rules.¹³

¹² 84 Fed. Reg. 21,634 (May 19, 2019), <https://www.federalregister.gov/documents/2019/05/14/2019-09415/control-and-divestiture-proceedings>.

¹³ 84 Fed. Reg. 31,701 (July 3, 2019), <https://www.govinfo.gov/content/pkg/FR-2019-07-03/pdf/2019-13970.pdf>.

For further reference, please consult the following:

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

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

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

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

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

