

# Semiannual Report on Banking Applications Activity

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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.<sup>1</sup>

## Overview of Activity

The Federal Reserve reviewed 510 proposals in the second half of 2019, of which 478 were approved, 24 were withdrawn, 6 were mooted, and 2 were returned (table 1). Total dispositions increased slightly from 984 in 2018 to 1,009 in 2019. 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, 2016–19 and 2018:H2 and 2019:H2**

| All proposals                 | 2016  | 2017  | 2018 | 2019  | 2018:H2 | 2019:H2 |
|-------------------------------|-------|-------|------|-------|---------|---------|
| <b>Dispositions</b>           |       |       |      |       |         |         |
| Approved                      | 1,138 | 1,055 | 929  | 932   | 471     | 478     |
| Withdrawn                     | 75    | 56    | 43   | 49    | 15      | 24      |
| Denied                        | 0     | 0     | 0    | 0     | 0       | 0       |
| Mooted                        | 5     | 8     | 8    | 24    | 3       | 6       |
| Returned                      | 5     | 2     | 4    | 4     | 3       | 2       |
| Total                         | 1,223 | 1,121 | 984  | 1,009 | 492     | 510     |
| Percent withdrawn of total    | 6%    | 5%    | 4%   | 5%    | 3%      | 5%      |
| <b>Processing time (days)</b> |       |       |      |       |         |         |
| Average                       | 46    | 46    | 41   | 42    | 40      | 41      |
| Median                        | 30    | 35    | 30   | 35    | 30      | 37      |

Table 1 illustrates that the average number of days to approve a proposal was 41 days in the second half of 2019, compared with 40 days in the second half of 2018. The median processing time increased to 37 days in the second half of 2019, compared to 30 days in the prior period.

<sup>1</sup> 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 regulations is available on the Federal Reserve Board's website at <https://www.federalreserve.gov/supervisionreg.htm>.

Five percent of total dispositions in the second half of 2019 were withdrawn. While proposals may be 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.<sup>2</sup> 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 with respect to 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 24 proposals withdrawn in the second half of 2019, 21 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. Fourteen of the withdrawn proposals raised significant financial, managerial, control, or competitive issues.

**Table 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2016–19 and 2018:H2 and 2019:H2**

| Mergers and acquisitions                           | 2016       | 2017       | 2018       | 2019       | 2018:H2    | 2019:H2    |
|--|------------|------------|------------|------------|------------|------------|
| <b>Dispositions</b>                                |            |            |            |            |            |            |
| Approved   | 245        | 238        | 190        | 190        | 88         | 105        |
| Withdrawn  | 28         | 15         | 10         | 16         | 4          | 10         |
| <i>Percent M&amp;A of total approved proposals</i> | <i>22%</i> | <i>23%</i> | <i>20%</i> | <i>20%</i> | <i>19%</i> | <i>22%</i> |
| <b>Processing time (days)</b>                      |            |            |            |            |            |            |
| Average  | 59         | 65         | 57         | 60         | 52         | 57         |
| Median   | 42         | 42         | 42         | 43         | 42         | 44         |

## Mergers and Acquisitions

In the second half of 2019, 105 M&A proposals were approved, compared with 88 approved in the second half of 2018 (table 2).<sup>3</sup> M&A proposals accounted for 22 percent of total approved proposals in the second half of 2019, which reflects a slight increase from the prior period. 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.

<sup>2</sup> 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>.

<sup>3</sup> 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, as well as BHC and SLHC formation proposals.

M&A proposals generally are more complex than other proposals because they often require review of several organizations under multiple statutory factors.<sup>4</sup> As table 2 illustrates, the average and median number of days to approve an M&A proposal in the second half of 2019 were 57 and 44 days, respectively.<sup>5</sup> In comparison, for the same period, the average and median number of days to approve all proposals were 41 and 37 days, respectively (table 1).

The Federal Reserve may receive public comments objecting to a proposal.<sup>6</sup> In cases where one or more adverse public comments are received that are considered substantive,<sup>7</sup> 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.<sup>8</sup> The majority of adverse public comments received by the Federal Reserve are based on 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 future prospects, competition, or financial stability. Generally, proposals that receive a substantive adverse public comment are required to be acted on by the Board.<sup>9</sup> Applicants are encouraged to respond to any substantive adverse comments received.

**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, 2016–19 and 2018:H2 and 2019:H2**

| Mergers and acquisitions   | 2016 | 2017 | 2018 | 2019 | 2018:H2 | 2019:H2 |
|--|------|------|------|------|---------|---------|
| <b>Proposals not receiving adverse public comments</b>               |      |      |      |      |         |         |
| Approved   | 233  | 219  | 178  | 181  | 84      | 102     |
| <b>Processing time (days)</b>  |      |      |      |      |         |         |
| Average  | 53   | 56   | 53   | 56   | 50      | 53      |
| Median   | 41   | 42   | 41   | 43   | 42      | 43      |
| <b>Proposals receiving adverse public comments</b>                   |      |      |      |      |         |         |
| Approved   | 12   | 19   | 12   | 9    | 4       | 3       |
| Percent M&A receiving adverse public comments of total M&A proposals | 5%   | 8%   | 6%   | 5%   | 5%      | 3%      |
| <b>Processing time (days)</b>  |      |      |      |      |         |         |
| Average  | 159  | 173  | 113  | 143  | 106     | 159     |
| Median   | 162  | 164  | 112  | 123  | 96      | 123     |

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 com-

<sup>4</sup> See supra note 1.

<sup>5</sup> Excluding three M&A proposals with a processing time greater than 180 days, the average processing time declines to 51 days, which compares favorably to the average processing time of 52 days for M&A proposals for the second half of 2018.

<sup>6</sup> 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.

<sup>7</sup> 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>.

<sup>8</sup> 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.

<sup>9</sup> 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 on by the Board, provided the proposals meet the statutory factors for approval.

ments are considerably longer than those for M&A proposals not receiving such comments. In the second half of 2019, M&A proposals that did not receive adverse public comments were approved on average in 53 days, compared with an average of 159 days for the three M&A proposals that received adverse public comments. The average processing time for M&A proposals receiving adverse public comments in the second half of 2019 increased compared with the same type of M&A proposals in the second half of 2018.<sup>10</sup>

### 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.”<sup>11</sup>

The Federal Reserve reviewed 38 pre-filings in 2019, which represents a decrease from 43 pre-filings in 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.

### 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 pro-

<sup>10</sup> Processing time of M&A proposals with adverse public comments was elevated in the second half of 2019 because of a single proposal with a processing time of 256 days. Excluding this proposal, the average processing time for the remaining protested M&A proposals would have been 110 days, which compares favorably with the average processing time of 106 days for protested M&A proposals for the second half of 2018.

<sup>11</sup> 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>.

cessing times for M&A proposals by small and large CBOs were 58 days and 54 days, respectively, slightly below the average of 60 days for all M&A transactions. The overall volume of approved CBO proposals rose slightly year-over-year from 477 in 2018 to 486 in 2019. An increase in the volume of CIBCA notices for all CBOs and M&A proposals for large CBOs' offset reductions in FIRREA notices by small CBOs and Federal Reserve membership applications by all CBOs.

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

| Proposals by applicant asset size | 2018     |                |               | 2019     |                |               |
|-----------------------------------|----------|----------------|---------------|----------|----------------|---------------|
|                                   | Approved | Average (days) | Median (days) | Approved | Average (days) | Median (days) |
| <b>Under \$1 billion</b>          |          |                |               |          |                |               |
| Change in control                 | 88       | 68             | 58            | 135      | 62             | 58            |
| Federal Reserve membership        | 17       | 25             | 15            | 10       | 9              | 9             |
| FIRREA                            | 53       | 16             | 6             | 35       | 9              | 3             |
| Mergers and acquisitions          | 119      | 53             | 41            | 108      | 58             | 43            |
| Branch establishment              | 67       | 25             | 23            | 74       | 22             | 20            |
| <b>\$1 billion–\$10 billion</b>   |          |                |               |          |                |               |
| Change in control                 | 9        | 199            | 59            | 17       | 67             | 60            |
| Federal Reserve membership        | 1        | 27             | 27            | 0        | 0              | 0             |
| FIRREA                            | 5        | 10             | 3             | 5        | 5              | 6             |
| Mergers and acquisitions          | 55       | 57             | 42            | 63       | 54             | 43            |
| Branch establishment              | 63       | 24             | 24            | 39       | 28             | 28            |

## 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 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.<sup>12</sup> In addition, in January 2020, the Federal Reserve issued a final rule to simplify the Board's rules for determining when a company controls a bank or a bank controls a company.<sup>13</sup>

<sup>12</sup> Fed. Reg. 31,701 (July 3, 2019), <https://www.govinfo.gov/content/pkg/FR-2019-07-03/pdf/2019-13970.pdf>.

<sup>13</sup> Board of Governors of the Federal Reserve, "Federal Reserve finalizes rule to simplify and increase the transparency of the Board's rules for determining control of a banking organization," press release, January 30, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200130a.htm>.

For further reference, please consult the following:

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

<https://www.federalreserve.gov/publications/semiannual-report-on-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>

