

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.¹

Overview of Activity

The Federal Reserve reviewed 396 proposals in the first half of 2020, of which 366 were approved, 21 were withdrawn, 6 were mooted, and 3 were returned (table 1). Total dispositions for the first half of 2020 decreased significantly from 499 in the first half of 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 2019:H1 and 2020:H1

All proposals	2016	2017	2018	2019	2019:H1	2020:H1
Dispositions						
Approved	1,138	1,055	929	932	454	366
Withdrawn	75	56	43	49	25	21
Denied	0	0	0	0	0	0
Mooted	5	8	8	24	18	6
Returned	5	2	4	4	2	3
Total	1,223	1,121	984	1,009	499	396
Percent withdrawn of total	6%	5%	4%	5%	5%	5%
Processing time (days)						
Average	46	46	41	42	44	39
Median	30	35	30	35	31	30

Table 1 illustrates that the average number of days to approve a proposal was 39 days in the first half of 2020, compared with 44 days in the first half of 2019. The median processing time of 30 days compares to the median processing time for 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, 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>.

Five percent of total dispositions in the first half of 2020 were withdrawn. Many proposals are withdrawn by applicants because of considerations unrelated to the Federal Reserve’s consideration of the proposals. 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 with respect to fair lending (see the section on Consumer Compliance and CRA), may be less than satisfactory; or there may be other significant supervisory issues.

Of the 21 proposals withdrawn in the first half of 2020, 15 proposals were withdrawn by the applicants after consultation with staff. These proposals presented technical or procedural issues or raised issues regarding the statutory factors that must be considered by the Federal Reserve. Eleven withdrawn proposals raised significant financial, managerial, control, or competitive issues. Five proposals were withdrawn by the applicant due to the uncertainty regarding future business prospects stemming from the COVID-19 pandemic.

Table 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2016–19 and 2019:H1 and 2020:H1

Mergers and acquisitions	2016	2017	2018	2019	2019:H1	2020:H1
Dispositions						
Approved	245	238	190	190	85	70
Withdrawn	28	15	10	16	6	9
<i>Percent M&A of total approved proposals</i>	<i>22%</i>	<i>23%</i>	<i>20%</i>	<i>20%</i>	<i>19%</i>	<i>19%</i>
Processing time (days)						
Average	59	65	57	60	65	62
Median	42	42	42	43	42	43

Mergers and Acquisitions

In the first half of 2020, 70 M&A proposals were approved, compared with 85 proposals approved in the first half of 2019 (table 2).³ M&A proposals accounted for 19 percent of total approved proposals in the first half of 2020. 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.

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.

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 2020 were 62 and 43 days, respectively. In comparison, for the same period in 2019, the average and median number of days to approve all proposals were 39 and 30 days, respectively (table 1).

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 2019:H1 and 2020:H1

Mergers and acquisitions	2016	2017	2018	2019	2019:H1	2020:H1
Proposals not receiving adverse public comments						
Approved	233	219	178	181	79	70
Processing time (days)						
Average	53	56	53	56	60	62
Median	41	42	41	43	42	43
Proposals receiving adverse public comments						
Approved	12	19	12	9	6	0
Percent M&A receiving adverse public comments of total M&A proposals	5%	8%	6%	5%	7%	0%
Processing time (days)						
Average	159	173	113	143	135	N/A
Median	162	164	112	123	118	N/A

The Federal Reserve may receive public comments on a proposal.⁵ In instances in which one or more adverse public comments are received that are considered substantive,⁶ additional time typically is needed 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.⁷ The majority of adverse public comments received by the Federal Reserve raise concerns regarding convenience and needs, including the fair lending record of the applicant. Comments also may concern any other aspect of a proposal, such as future prospects or the impact on competition or financial stability. Generally, proposals that become subject to 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 compares processing times for M&A proposals that were subject to and those that were not subject to adverse public comments. No M&A proposals subject to adverse public comments were approved during the first half of 2020.

⁴ See supra note 1.

⁵ 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.

⁶ 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 types of comments that the Federal Reserve does not consider substantive. See <https://www.federalreserve.gov/supervisionreg/srletters/srletters.htm>.

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

⁸ Generally, the Federal Reserve Banks can approve proposals under delegated authority that are not subject to substantive 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.

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.⁹ 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. Use of the pre-filing process can avoid or minimize delays in the processing of an application.

The Federal Reserve reviewed 15 pre-filings in the first half of 2020, which represents a decrease from 17 pre-filings in the first half of 2019. 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 managerial and convenience and needs factors. An organization's strong consumer compliance, fair lending, and CRA records can facilitate review of a proposal. 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. In the first half of 2020, average processing times for M&A proposals by small and large CBOs were 62 days and 50 days, respectively, compared to the average of 62 days for all M&A transactions. The overall volume of approved CBO filings declined significantly year-over-year, corresponding with decreases in CIBCA, M&A, and branch establishment proposals by small CBOs. The volume of approved proposals by large CBOs is similar to the prior period.

⁹ The pre-filing process is described in the Federal Reserve's Supervision and Regulation Letter 12-12/CA 12-11, "Implementation of a New Process for Requesting Guidance from the Federal Reserve Regarding Bank and Non-bank Acquisitions and Other Proposals," available at <https://www.federalreserve.gov/supervisionreg/srletters/sr1212.htm>.

Table 4. Proposals from CBOs, volume and processing times (days) of approved proposals, for the full year 2019, 2019:H1 and 2020:H1

Proposals by applicant asset size	2019			2019:H1			2020:H1		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
Under \$1 billion									
Change in control	135	62	58	68	64	59	43	61	58
Federal Reserve membership	10	9	9	8	7	5	3	35	28
FIRREA	35	9	3	15	33	16	15	22	21
Mergers and acquisitions	108	58	43	52	63	42	40	62	42
Branch establishment	74	22	20	46	21	22	28	24	27
\$1 billion–\$10 billion									
Change in control	17	67	60	8	59	60	10	56	58
Federal Reserve membership	0	0	0	0	0	0	0	0	0
FIRREA	5	5	6	3	4	7	0	0	0
Mergers and acquisitions	63	54	43	24	59	41	19	50	43
Branch establishment	39	28	28	23	30	29	26	29	29

Current Initiatives to Enhance Efficiency in Applications Processing

The Federal Reserve is pursuing initiatives broadly related to additional delegations 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 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.¹⁰ The rule becomes effective on September 30, 2020.¹¹

¹⁰ 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>.

¹¹ Board of Governors of the Federal Reserve, "Federal Reserve Board announces it will delay by six months the effective date for its revised control framework," press release, March 31, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200331a.htm>.

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>

