

# Semiannual Report on Banking Applications Activity

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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The Federal Reserve reviewed 427 proposals in the second half of 2020, of which 408 were approved and 19 were withdrawn (table 1).

**Table 1. Dispositions and processing times of approved proposals, 2017–20 and 2019:H2 and 2020:H2**

All proposals	2017	2018	2019	2020	2019:H2	2020:H2
<b>Dispositions</b>						
Approved	1,055	929	932	774	478	408
Withdrawn	56	43	49	41	24	19
Denied	0	0	0	0	0	0
Mooted	8	8	24	6	6	0
Returned	2	4	4	3	2	0
Total	1,121	984	1,009	824	510	427
Percent withdrawn of total	5.0%	4.4%	4.9%	5.0%	4.7%	4.4%
<b>Processing time (days)</b>						
Average	46	41	42	43	41	46
Median	35	30	35	30	37	31

Total dispositions for 2020 decreased from 932 in 2019, to 774 in 2020. Most likely, the decrease was in part due to uncertainties faced by prospective applicants because of the COVID-19 pandemic. 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.

<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, 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 46 days in the second half of 2020, compared with 41 days in the second half of 2019. However, the second half of 2020 median processing time of 31 days is lower than the median processing time of 37 days for the second half of 2019.

Less than 5 percent of total dispositions in the second half of 2020 were withdrawn. 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 financial or managerial condition of the applicant or resulting banking organization 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 19 proposals withdrawn in the second half of 2020, 12 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. Seven withdrawn proposals raised significant financial, managerial, control, or competitive issues.

**Table 2. Merger and acquisition proposals, dispositions and processing times of approved proposals, 2017–20 and 2019:H2 and 2020:H2**

Mergers and acquisitions	2017	2018	2019	2020	2019:H2	2020:H2
<b>Dispositions</b>						
Approved	238	190	190	144	105	74
Withdrawn	15	10	16	14	10	5
<i>Percent M&amp;A of total approved proposals</i>	<i>23%</i>	<i>20%</i>	<i>20%</i>	<i>19%</i>	<i>22%</i>	<i>18%</i>
<b>Processing time (days)</b>						
Average	65	57	60	69	57	76
Median	42	42	43	45	44	47

## Mergers and Acquisitions

In the second half of 2020, 74 M&A proposals were approved, compared with 105 proposals approved in the second half of 2019 (table 2).<sup>3</sup>

M&A approved proposals accounted for 18 percent of total approved proposals in the second 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

<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 and BHC and SLHC formations.

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 resulting 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.<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 2020 were 76 and 47 days, respectively. In comparison to all proposals (see table 1) for the same period, the average and median number of days to approve for all proposals were 46 and 31 days, respectively.

The Federal Reserve may receive public comments on a proposal.<sup>5</sup> In instances in which one or more adverse public comments are received that are considered substantive,<sup>6</sup> 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.<sup>7</sup> 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 other statutory factors the Board must consider in connection with a proposal, such as future prospects or impact of the proposal on competition or financial stability. Generally, proposals that receive a substantive adverse public comment are required to be acted on by the Board.<sup>8</sup> Applicants are encouraged to respond to any substantive adverse comments received.

Table 3 compares processing times for M&A proposals that received and those that did not receive adverse public comments. Four M&A proposals received adverse public comments during the second half of 2020, and all were approved. In the second half of 2020, M&A proposals that did not receive adverse public comments were approved on average in 67 days, versus an average of 232 days for the four M&A proposals that received adverse comments, the latter being an increase from the same period in 2019.

## 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.<sup>9</sup> 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

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

<sup>5</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>6</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 types of comments that the Federal Reserve does not consider substantive. See <https://www.federalreserve.gov/supervisionreg/srletters/srletters.htm>.

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

<sup>8</sup> Generally, the Federal Reserve Banks can approve proposals under delegated authority that do not receive 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.

<sup>9</sup> 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-

**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, 2017–20 and 2019:H2 and 2020:H2**

Mergers and acquisitions	2017	2018	2019	2020	2019:H2	2020:H2
<b>Proposals not receiving adverse public comments</b>						
Approved	219	178	181	140	102	70
<b>Processing time (days)</b>						
Average	56	53	56	64	53	67
Median	42	41	43	45	43	46
<b>Proposals receiving adverse public comments</b>						
Approved	19	12	9	4	3	4
Percent M&A receiving adverse public comments of total M&A proposals	8%	6%	5%	3%	3%	6%
<b>Processing time (days)</b>						
Average	173	113	143	232	159	232
Median	164	112	123	193	123	193

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 39 pre-filings in 2020, compared to 38 in 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 compliance (including fair lending) and CRA records of the acquiring and target organizations as part of its assessment of managerial and convenience and needs statutory factors. An organization's strong consumer compliance, fair lending, and CRA records can facilitate timely review of a proposal. Unaddressed consumer compliance, fair lending, or CRA weaknesses in an organization may be associated with longer processing times 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 organizations with under \$1 billion in assets, and large CBOs are organizations with \$1 billion to \$10 billion in assets. For 2020, average processing times for M&A proposals by small and large CBOs were 63 days and 52 days, respectively, compared to the average of 69 days for all M&A proposals. The overall volume of approved CBO filings in 2020 declined significantly compared to 2019, primarily from decreases in CIBCA, M&A, and branch establishment proposals by small CBOs. The volume of approved proposals by large CBOs in 2020 is similar to 2019, though the

bank Acquisitions and Other Proposals,” available at <https://www.federalreserve.gov/supervisionreg/srletters/sr1212.htm>.

mix changed somewhat with a decrease in M&A proposals and an increase in branch establishment proposals.

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

Proposals by applicant asset size	2019			2020		
	Approved	Average (days)	Median (days)	Approved	Average (days)	Median (days)
<b>Under \$1 billion</b>						
Change in control	135	62	58	99	66	58
Federal Reserve membership	10	9	9	9	27	28
FIRREA	35	9	3	37	12	7
Mergers and acquisitions	108	58	43	88	63	45
Branch establishment	74	22	20	52	24	27
<b>Total</b>	<b>362</b>			<b>285</b>		
<b>\$1 billion–\$10 billion</b>						
Change in control	17	67	60	23	66	59
Federal Reserve membership	0	0	0	2	28	28
FIRREA	5	5	6	1	0	0
Mergers and acquisitions	63	54	43	35	52	43
Branch establishment	39	28	28	57	28	27
<b>Total</b>	<b>124</b>			<b>118</b>		

## Initiatives to Enhance Efficiency in Applications Processing

The Federal Reserve is pursuing initiatives broadly related to 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 Board adopted a final rule to simplify the Board's rules for determining when a company controls a bank or a bank controls a company. The final rule became effective on September 30, 2020.<sup>10</sup> The rule makes it easier for individuals and entities to anticipate filing requirements and helps to avoid delays that may result when control issues are identified during the processing of proposals.

<sup>10</sup> See 12 C.F.R. § 225.9; 12 C.F.R. pt. 225, subpt. E; 12 C.F.R. § 238.10; 12 C.F.R. pt. 238, subpt. C.

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>