

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

April 19, 2013

To State Member Banks, Bank
Holding Companies, and Financial Holding
Companies in the Twelfth Federal Reserve District

SR 13-7 / CA 13-4 State Member Bank Branching Considerations

Applicability to Community Banking Organizations: This guidance applies to all state member banks and their parent bank holding companies, including community banking organizations, which are defined as institutions supervised by the Federal Reserve with total consolidated assets of \$10 billion or less.

On April 5, 2013, the Federal Reserve issued [SR 13-7/CA 13-4](#), State Member Bank Branching Considerations. This letter clarifies the Federal Reserve's policy concerning the application process for a state member bank in less-than-satisfactory condition for the establishment of a de novo branch. The SR letter describes the circumstances under which a state member bank may be permitted to branch on a de novo basis if it or its parent bank holding company (collectively, a "banking organization") is in less-than-satisfactory condition. While the letter explains the criteria for the establishment of a de novo branch, a banking organization's proposal must be consistent with general safety-and-soundness standards and adhere to the Federal Reserve's application process.

A state member bank in less-than-satisfactory condition, or which has a less-than-satisfactory record of consumer compliance or performance under the Community Reinvestment Act ("CRA"), generally should not pursue expansionary proposals and should focus on remediating identified supervisory issues. Expansionary transactions such as mergers and acquisitions require a significant amount of management's time and can distract an organization from restoring a bank holding company or state member bank to a safe-and-sound condition or establishing an effective consumer compliance program in a timely manner. However, the establishment of a limited number of de novo branches generally should not require a significant amount of time or distract management from continuing to address the organization's supervisory issues. Accordingly, the Federal Reserve is clarifying its criteria for expansionary proposals and will consider proposals involving the establishment of a limited number of de novo branches by state member banks that are in less-than-satisfactory condition or have a less-than-satisfactory consumer compliance record. A state member bank should be able to demonstrate that it can effectively plan and execute branch expansions; absent a history of successful de novo branching, the branching proposal should include an execution plan.

Potential applicants should contact Reserve Bank applications staff prior to submitting an application. Any proposals will be reviewed in accordance with all applicable statutory factors and regulatory guidance, including those related to financial condition and future prospects, managerial resources, and convenience and needs of the community.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information regarding the Federal Reserve's supervisory expectations, please contact:

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