

# Community Investments Vol. 9, Issue 3

## Regulation Y Revised - Changes to the Federal Reserve Application Process

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The Federal Reserve Board recently adopted revisions to Regulation Y which implements the Bank Holding Company Act. Under Regulation Y, bank holding companies require Federal Reserve Bank (Fed) approval to purchase both bank and non-bank subsidiaries.

According to the Fed Vice Chairman Alice Rivlin, the new regulation represents a "difficult balancing act" that will allow the banking system to "operate better as a result." Effective April 21, 1997, the revised regulation includes a new streamlined application procedure for qualifying bank holding companies that reduces the time and paperwork required to receive approval for acquisitions or to engage in various other activities. At the same time, the revised regulation clarifies and preserves the role of public comments in the application process considered critical by the community.

### **The New Streamlined Procedure**

When developing the new streamlined approval procedure, the Board's top priority was to establish quantified criteria for each factor considered in the application process. Institutions that meet these criteria can now receive authorization to expand under the new simplified procedure with significantly reduced information requirements. Under the new regulation, the application

process for bank acquisitions has been reduced from the current maximum 62-day period to no more than 35 days.

The new procedure applies to bank and non-bank expansionary activities proposed by qualifying banking companies. To qualify for the streamlined procedure, the bank holding company, its lead bank, and at least 80 percent of its consolidated banking assets must be held in institutions that are:

- Well-capitalized
- Well-managed (To be well-managed, an institution must have an overall satisfactory or better composite rating at its last examination, a satisfactory or better management rating, and a satisfactory or better compliance rating); and
- Maintain a satisfactory CRA rating

The proposed acquisition must also meet criteria with respect to areas such as:

- Competition
- Interstate Banking Requirements
- Asset Size Limitations; and
- Public Comments

For non-bank subsidiary acquisitions, the application process has been shortened from 30 to 12 days. Qualifying bank holding companies will not have to give the Fed advance notice of their plans to start-up new non-banking lines of business but will have to notify the appropriate regulator of their actions within 10 days.

### **Community Concerns Remain A Priority**

When designing the streamlined application process, the Board focused on community concerns as a top priority. Under the revised regulation, an

institution's CRA record continues to play a prominent role. As noted above, bank holding companies can not qualify for the new streamlined procedure unless they have satisfactory or better CRA ratings.

The Board reaffirmed its belief in the importance of the CRA aspect of Regulation Y by preserving the public notice requirements for bank holding company acquisitions. Bank holding companies must place a notice seeking public comment on the pending merger in a local newspaper of general circulation in the effected areas prior to sending an application for a merger to the Fed for consideration. This newspaper notice may appear 15 days prior to the application with the Fed. Notice is also published in the Federal Register and may be submitted seven days before the application is filed. In addition to the newspaper and Federal Register notice requirements, the Board implemented several new methods of public disclosure to ensure that the public is adequately informed of pending applications and their respective comment periods. The Fed has developed a form known as the H-2A that lists all applications currently on file with the Fed and the ending dates for their respective comment periods. This list is updated at least every three days and is available on the Fed's homepage at [www.bog.frb.fed.us](http://www.bog.frb.fed.us) or from a 24-hour-day-fax-on demand service at (202) 452-3655.

To ensure quality community input, the Board retained a 30-day public comment period. All public comments must be substantive to be considered in the application process. The comments should relate directly to a factor that the Board is required to consider such as community needs or the character and quality of management. If the comment is adverse with respect to the specific proposal, support for the negative recommendations should also be submitted. Comments submitted after the public comment period may be considered only in extraordinary circumstances.

## About the Author:



**Michael Johnson** is the Applications Officer in Banking Supervision & Regulation at the Federal Reserve Bank of San Francisco. Mr. Johnson joined the San Francisco District of the Federal Reserve Bank in August 1995. Prior to his current position, Mr. Johnson was Applications Director for the Federal Reserve Bank of Dallas from May 1992 through August 1995 and has served a total of twelve years in the Federal Reserve System, working in various capacities. Mr Johnson hails from the University of Texas, with a Bachelor of Business Administration and a Bachelor of Arts in Economics.