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Federal Reserve now supervising savings and loan HCs

By Matthew D. Diette

On July 21, 2011, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Federal Reserve assumed responsibility for the supervision of more than 400 savings and loan holding companies (SLHCs). There are 24 SLHCs under supervision in the Ninth District: two with consolidated assets in excess of $50 billion, one with consolidated assets slightly over $1 billion, and the balance representing organizations whose primary asset is a savings association with total assets less than $1 billion (small shell companies). Although five of the six states within the Ninth District are represented in the SLHCs population, twenty of the companies are located in Minnesota.

The Federal Reserve plans to apply its supervisory program for bank holding companies to SLHCs to the fullest extent possible. The large and complex organizations will be supervised consistent with the Federal Reserve's current consolidated supervision program for large and regional holding companies. The small shell SLHCs will be supervised the same as small shell BHCs.1

Under this program, the Federal Reserve Bank of Minneapolis will conduct an off-site review of each small shell company upon receipt of the examination report of the lead savings association, using financial and other information provided to the Federal Reserve by the organization and other supervisory agencies. The off-site review process includes verbal communication with the SLHC's management. If the information obtained off site is not sufficient to determine the overall financial condition of the SLHC, the Reserve Bank will conduct an on-site review. To-date, the Reserve Bank has conducted five off-site reviews and no on-site reviews.

The Federal Reserve knows it will take time to acquaint SLHCs with its supervisory policies and approach. As such, the Federal Reserve is transitioning SLHCs to its rating system for BHCs.2 A

[1] See SR letter 02-1: Revisions to Bank Holding Company Supervision Procedures for Organizations with Total Consolidated Assets of $5 Billion or Less for a description of the shell program.

[2] The rating system focuses on Risk Management, Financial Condition, and Impact of nondepository entities on the subsidiary depository institutions and is often called an RFI rating. The RFI is described in SR letter 04-18: Bank Holding Company Rating System.

key part of the transition is assigning an “indicative rating” for the first off-site review, which indicates to the SLHC how it would be rated if the BHC rating system was formally applied.

For small shell BHCs, the Federal Reserve relies significantly on the rating of the primary bank supervisor in assigning a holding company rating when the underlying bank is in satisfactory financial condition. This same approach will govern the ratings of small shell SLHCs.

Another area of note for SLHC supervision concerns dividend payments by a savings association to its holding company. Any savings association that is a subsidiary of an SLHC must provide notice to the Federal Reserve at least 30 days before declaring a dividend.3 The 30-day prior notice is required by statute; there is not a similar statute for bank subsidiaries of BHCs. This Reserve Bank evaluates the savings association’s notice, working closely with its primary supervisor. To date, this Reserve Bank has processed 21 prior dividend notices.

On December 23, 2011, the Federal Reserve issued a final notice of its approval of Federal Reserve regulatory reporting requirements for most SLHCs. The Federal Reserve has approved a two-year phase-in period for all but a limited number of exempted SLHCs; reporting requirements will begin with the March 31, 2012, reporting period. Affected SLHCs will be required to submit the appropriate financial statements in the FR Y-9 series of reports in 2012, as well as the Annual Report of Bank Holding Companies—FR Y-6 report for fiscal year ends beginning December 31, 2012. Beginning in 2013, affected SLHCs will be required to submit all regulatory reports applicable to the SLHC, depending on the size, complexity, and nature of the holding company.

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Fed Notes is provided through a partnership the Bank Holding Company Association shares with the Federal Reserve Bank of Minneapolis.

[3] For more details see SR letter 11-13: Guidance Regarding Prior Notice with Respect to Dividend Declarations by Savings Association Subsidiaries of Savings and Loan Holding Companies.