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Information Fed Expects When Reviewing Requests

By Leanne R. Kelly

Reserve Bank staff members often are asked if there is a form that a holding company can use when making a request to the Reserve Bank. The holding company may be requesting approval, consultation, or the opinions of the Reserve Bank relating to regulation, supervisory guidance, an enforcement action, or another matter. For certain filings, such as Change in Bank Control Act applications, specific forms such as the Notice of Change in Control (FR 2081 a) and Biographical and Financial Report (FR 2081 c) may need to be filed. Forms like these and others are available on the Board of Governors website at www.federalreserve.gov under the Reporting Forms tab. However, for requests where there is no corresponding form on the board's website, what information should you send to the Reserve Bank? The simple answer is, it depends on the regulatory or supervisory guidance and the circumstances.

Most requests sent to the Reserve Bank by holding companies come as letters, with enclosures such as schedules, financial statements, and cash flow projections. Sending a letter is fine. Of course, a request sent to the Reserve Bank should contain a description of the situation and proposed transaction as appropriate, and other pertinent information to let us know why you are sending the request, as well as the facts and circumstances relevant to the situation. The Reserve Bank will review the information for technical compliance as well as the impact of the requested transaction or event on the condition of the holding company and its subsidiary banks, which could raise supervisory concerns.

We often receive such letters from holding companies requesting consultation with the Reserve Bank on the payment of dividends that exceed earnings, as described in SR letter 09-4 (Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies). The letter should discuss the funding source for the dividend, capital adequacy and strength of earnings, the company's ability to service debt and pay operating expenses without unduly burdening the subsidiary bank(s), and any outstanding enforcement actions at the holding company and subsidiary bank(s). Useful enclosures may include current financial statements, pro forma statements, cash flow projections, and expected capital ratios of the holding company and subsidiary bank, as applicable, in order to show that the payment of the dividend would not result in a material adverse change in the company's capital structure or raise a supervisory concern. In addition, if

the subsidiary bank requires approval from its bank regulator, include a copy of the approval letter.

As another example, if a bank holding company acquired assets or real estate in the collection of a debt previously contracted (DPC property) and has held the DPC property for nearly two years (the amount of time a bank holding company can hold DPC property without prior Reserve Bank approval), the bank holding company needs to request the Reserve Bank's approval to hold the DPC property beyond the two years. Regulation Y states that upon request the Reserve Bank may extend the two-year period for up to three additional years (and may permit additional extensions for up to five more years). Information important to the Reserve Bank's review is whether an extension can be given pursuant to Regulation Y, for how long it can legally be extended, and whether the company has demonstrated that it has made good faith attempts to dispose of the DPC property. Generally, we anticipate that the relevant information would include, at a minimum, a description of the property, the acquisition date (the start of the allowable holding period), the value of the DPC property (to understand its size relative to the organization and proper accounting and reporting), and comments on the company's efforts to divest the property as well as the length of extension being requested.

We suggest that companies provide at least 30 days advance notice to the Reserve Bank if possible. We will contact you with questions or comments to let you know if we need additional information.

We encourage firms to contact Safety and Soundness or Applications staff at your local Federal Reserve Bank for additional information if you have questions about information to be submitted in relation to a supervisory request.

Leanne R. Kelly is senior examiner, enforcements and holding company supervision for the Supervision, Regulation, and Credit Department at the Federal Reserve Bank of Minneapolis.

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