



Federal Reserve Issues Final Rule to Expand the Small BHC Policy Statement

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On April 9, 2015, the Federal Reserve Board issued a final rule to implement statutory changes to the Small Bank Holding Company Policy Statement (Small BHC Policy Statement) which will: (1) increase the asset threshold of the policy statement from \$500 million to \$1 billion in total consolidated assets; (2) expand the applicability of the Small BHC Policy Statement to savings and loan holding companies; and (3) retain the qualitative requirements embedded in the Small BHC Policy Statement without change.

The Small BHC Policy Statement has traditionally allowed smaller depository institution holding companies to operate with higher levels of debt than is otherwise permitted for larger banking organizations, which can expedite the transfer of ownership of these entities. Holding companies that meet certain qualitative standards are also excluded from consolidated capital requirements.

Holding companies that meet the qualitative requirements outlined in the Small BHC Policy Statement may generally use debt to finance up to 75 percent of the purchase price of an acquisition. This intended benefit will be a significant new tool for qualifying SLHCs looking to finance an acquisition. For small S&L holding companies they will be able to issue debt at the holding company level using the proceeds to downstream equity that qualifies as Tier 1 capital without netting the debt from capital which was required before the amendment. Small bank holding companies will be able to use more debt than they have previously been able to use in acquisition financing. This could also provide significant new flexibility for qualifying subchapter S banks looking to expand without losing subchapter S status. However, small banks and S&Ls are also subject to certain ongoing requirements, such as requirements that a qualifying holding company: (i) reduce its parent company debt in such a manner that all debt is retired within 25 years of being incurred; (ii) reduce its debt-to equity ratio to .3:1 or less within 12 years of the debt being incurred; (iii) ensure that each of its subsidiary insured depository institutions is well capitalized; and (iv) refrain from paying dividends until such time as it reduces its debt-to-equity ratio to 1:1 or less.

The Small BHC Policy Statement also specifically provides that a qualifying BHC may not: use the expedited procedures under the Board's Regulation Y for acquisition proposals (12 CFR 225.14 or 225.23); or obtain a waiver of the stock redemption filing requirements applicable to BHCs



under the Board's Regulation Y (12 CFR 225.4(b)) unless such qualifying BHC has a pro forma debt-to-equity ratio of 1:1 or less.

The Federal Reserve Board press release, including the Final Rule, can be found [here](#).

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