INDEPENDENT COMMUNITY BANKERS of AMERICA®

Questions and Answers Concerning the Enactment of H.R. 3329

(Small Bank Holding Company Policy Statement)

In general, what does the enactment of H.R. 3329 mean for community banks?

This legislation significantly expands the coverage of the Federal Reserve's Small Bank Holding Company Policy Statement so that approximately 600 more bank holding companies and savings and loan holding companies will be subject to the Policy Statement. With this expansion, the Policy Statement will now cover close to 90 percent of all bank holding companies and 75 percent of savings and loan holding companies, making it easier for these institutions to issue debt or equity. In turn, these holding companies will be able to downstream the proceeds of any debt or equity they issue to their banking subsidiaries, helping those institutions make loans and service local communities.

Which community bank institutions will be directly impact by the new law?

Currently, the Small Bank Holding Company Policy Statement only applies to bank holding companies with pro forma consolidated assets of less than $500 million and does not cover any savings and loan holding companies. With the enactment of H.R. 3329, all savings and loan holding companies with pro forma consolidated assets of less than $1 billion and those bank holding companies with pro forma consolidated assets of between $500 million and $1 billion will now be covered by the Policy Statement provided that (1) they are not engaged in any nonbanking activities either directly or through a nonbank subsidiary, (2) do not conduct significant off-balance sheet activities (including securitization and asset management or administration) either directly or through a nonbank subsidiary, and (3) do not have a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the Securities and Exchange Commission.

What are the benefits to a holding company of being covered by the Small Bank Holding Company Policy Statement?

Bank holding companies that are covered by the Small Bank Holding Company Policy Statement (but not their subsidiary banks) are exempt from the Basel III capital requirements and generally have more flexibility with the amount of debt they can issue. For instance, if a well capitalized small bank holding company has a pro forma debt-to-equity ratio of 1.0:1 or less, the Federal Reserve should approve transactions involving the issuance of holding company debt by that holding company on an expedited basis. The Federal Reserve does expect bank holding companies to reach a debt-to-equity ratio of .30:1 or less within 12 years of the incurrence of the debt and the debt to be retired within 25 years. Generally, debt issued by the subsidiary bank is not included in the holding company leverage ratio under the Policy Statement.

When will this revised Policy Statement take effect?

The Federal Reserve must propose a revised Policy Statement for comment within six months of the enactment of H.R. 3329.

What led to the enactment of H.R. 3329?

ICBA strongly supports tiered regulation and vigorously advocated for raising the asset threshold under the Small Bank Holding Company Policy Statement as part of its Plan for Prosperity platform. Because of ICBA's strong advocacy, H.R. 3329 passed the House and was approved by unanimous consent of the Senate. Federal Reserve Governor Daniel Tarullo also strongly endorsed it which was important since the Federal Reserve supervises bank holding companies.

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