



Alerts

Fed proposes rules to increase the asset limit under the Small Bank Holding Company Policy from \$500 million to \$1 billion

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Corporate / Financial Institutions Alert

On January 29th, the Fed proposed rules that would:

1. Increase the asset limit under the Small Bank Holding Company Policy from \$500 million to \$1 billion for qualifying bank holding companies.
2. Extend coverage of the Policy to include qualifying savings and loan holding companies with assets of less than \$1 billion.

Comments are due by March 4, 2015.

The Policy allows small banking organizations to incur more debt than larger banking organizations. This allows smaller banking organizations to use borrowed funds to make acquisitions rather than trying to raise capital in a private placement or a public offering.

Under the Policy, a qualifying bank holding company:

- (i) is exempt from the Fed's risk-based capital and leverage rules applicable to bank holding companies and, therefore, is exempt from Basel III (although its subsidiary banks are not exempt from Basel III); and
- (ii) may use debt to finance up to 75% of the purchase price or an acquisition.

A qualifying bank holding company incurring substantial debt must:

- (A) reduce the parent company debt so that it is retired within 25 years;
- (B) reduce its debt-to-equity ratio to .30:1 or less within 12 years;
- (C) ensure that each subsidiary bank is well capitalized; and
- (D) refrain from paying dividends until its debt-to-equity ratio is 1.0:1 or less.

In order to be a qualifying bank holding company, a bank holding company must not:

- (a) engage in significant nonbanking activities either directly or through a nonbank subsidiary;
- (b) conduct significant off-balance sheet activities either directly or indirectly through a nonbank subsidiary; and
- (c) have a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the SEC.

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The Fed is proposing these revisions to the Policy pursuant to legislation passed late last year directing the Fed to revise the asset limits set out in the Policy.

For further information on this issue, please contact [Tim Sullivan](#) or your regular [Hinshaw attorney](#).

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