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Client Alert: Community Bank and Thrift M&A and Capital Planning: Important Opportunities for Small Bank and Thrift Holding Companies Arising from Relief from Basel III

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Following its proposal early this year, on April 9 the Federal Reserve issued an important revision to its Small Bank Holding Company (SBHC) Policy Statement relieving bank and savings and loan holding companies with consolidated assets of less than \$1 billion from the requirements of Basel III so long as the SBHCs in question:

1. Do not engage in significant non-bank activities
2. Do not engage in significant off-balance sheet activities in non-bank activities
3. Do not have a significant amount of SEC-registered debt or equity securities outstanding other than TruPS

Bank subsidiaries of SBHCs with assets of less than \$1 billion will, however, remain subject to the Basel III capital requirements at the bank level.

The revised policy statement raises the exemption from \$500 million to \$1 billion, adding substantially to the number of holding companies that qualify for the SBHC exemption. The policy revision will take effect in May 2015.

Capital, M&A and other corporate strategies may be impacted by the revised policy statement for many SBHCs. Because of higher permissible debt ratios, there is an increased ability to use debt financing, subject to certain constraints, in M&A and for assisting with capital levels as well as share redemptions, replacement of SBLF and TruPS, and replacement of bank debt. Banks and thrifts without holding companies may wish to consider holding company formation to take advantage of the new opportunities.

The revised policy statement provides important expanded opportunities for small bank and thrift holding companies and is a very helpful move by the Federal Reserve at a very important time.

For more information about revised policy statement, please contact your Vorys lawyer or Jeff Smith at jesmith@vorys.com or 614.464.5436.