



Small Bank Holding Company Changes

by [Steve Brown](#) Topics: [capital](#), [regulatory](#)

Summary: The EGRRCPA has redefined what counts as a small bank holding company. It raises the asset threshold from \$1B to \$3B. Is this something to consider?

The US population will end this year at about 329mm. Of note, the age groups are: 74Ys+ (7%), 55 to 73Ys (22%), 39 to 54Ys (20%), 23 to 38Ys (23%) and <23Ys or (28%).

No matter where you fall into the above, we point out this morning that the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) has redefined what counts as a small bank holding company (HC). It raises the asset threshold from \$1B to \$3B and opens the possibility of a HC structure to many more banks.

To determine whether a HC structure is right for your bank, consider the following:

A HC structure lets a bank grow its capital incrementally through a line of credit. This is a big enough advantage that a community financial institution (CFI) might consider this option for this reason alone. Also, a small bank HC is not considered on a consolidated basis for capital purposes until assets exceed \$3B. Below that, regulators look to the bank's capital for adequacy testing.

The HC can borrow, using a debt instrument that may not qualify under Fed guidelines, and push that down to the bank in the form of capital. This can save money on a tax affected basis compared with the rate paid on subordinated debt, for instance.

A HC helps create liquidity for shareholders in some cases. Many CFIs don't have deep market liquidity that shareholders may require. So, it may need to be created and a HC adds flexibility. A stock repurchase at the bank level reduces bank capital, and it may need regulatory approval along with the okay of at least 67% of shareholders.

A bank HC, on the other hand, can usually repurchase shares without much approval needed. The bank HC does have to follow Fed rules around share redemptions, of course. But, in general, if the HC is well capitalized and well managed, the share redemption can occur with few headaches.

A HC structure can make it easier for a bank to buy another bank, or to purchase another bank and hold it separately, creating a multi-bank HC. If a CFI wants to buy branches from another bank that sometimes can also be leveraged using the HC structure.

The law change enhances the benefits of a small bank HC, but, of course it also costs money and legal work too. If your institution already has a HC, it is worth considering how you can fully make use of the change. If it does not have a HC structure, it may well be worth exploring whether you want to add one.

ECONOMY & RATES

Rates As Of: 12/17/2019 11:18AM (PST)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.55	-0.02	-0.81
6M	1.56	-0.04	-0.92
1Y	1.52	-0.06	-1.07
2Y	1.63	0.02	-0.86
5Y	1.71	0.09	-0.80
10Y	1.89	0.11	-0.79
30Y	2.32	0.11	-0.69
FF Market	FF Target	Fed Disc	
1.56	1.75	2.25	
SOFR	Prime	Unemp	
1.62	4.75	3.50	

[More Market Rates](#)

BANK NEWS

Branch Traffic

Fifth Third Bank (\$170B, OH), with over 1,200 branches in 10 states, reports foot traffic at its branches has declined 30% over the past 5Ys as customer behaviors have shifted.

Regulatory Risks

Community bankers should note the latest [OCC semiannual risk report](#) finds: bank financial performance is sound; credit environment is favorable; asset quality is strong and stable; lower market rates are compressing net interest margins and profitability; leverage and risk-based capital are at record levels; operational risk is elevated as banks seek to adapt and evolve technology systems and deal with cybersecurity threats, along with the risk of third-party service providers and fraud; banks should prepare for a cyclical change in credit, actively manage credit risk and ID vulnerable borrowers; market volatility has increased interest rate risk; banks should also prepare for the end of LIBOR in 2021; and they will need to manage strategic risks from non-depository financial institutions, the use of innovative technology and expanded data analysis capabilities.

Economic Growth

There is an old saying that goes, "When America sneezes, the rest of the world catches a cold." That is because US consumer spending accounts for 67% of US GDP and a whopping 17% of global GDP.

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