

Federal Reserve Bank of Atlanta
Bank Holding Companies: Benefits and Expertise

Utilizing the Flexibility of a Bank Holding Company Structure

A bank holding company (BHC) or savings and loan holding company (SLHC) is a company that controls one or more banks/thrifts but does not necessarily engage in banking itself. The purpose of a BHC is to serve as a source of strength and capital for a subsidiary bank, diversify activities, and provide liquidity and a market for BHC common stock.

All BHCs are required to register with Federal Reserve System's Board of Governors. No fees are involved with filing applications with the Federal Reserve for BHC formations. In some situations, an institution that meets certain criteria (such as ratings or capital) qualifies for expedited processing.

Federal Reserve Supervision: Efficient and Reduced Regulatory Burden

- **Offsite Supervision:** The Federal Reserve's supervision is offsite with minimal supervisory contact for noncomplex BHCs with less than \$3 billion in assets and offsite for noncomplex BHCs with between \$3 to \$10 billion in assets and in satisfactory condition. Examiners are extremely knowledgeable about all aspects of small and large BHCs.
- **Tailoring and Consistency:** The Federal Reserve takes a tailored, risk-focused view on BHC inspections. The reporting requirements and supervisory approach are based on the BHC's size, complexity, and risk profile, and the Federal Reserve coordinates extensively with the subsidiary depository institution's primary regulator to reduce burden and duplicative efforts.
- **2 to 1:** With a state member bank (SMB) charter, a bank and BHC structure reduces the number of federal supervisors from two to one, with the Federal Reserve conducting consolidated reviews of the SMB and BHC.

Structural and Financial Flexibility

- **Mergers and Acquisitions:** BHCs provide structural flexibility in structuring mergers and acquisitions of depository institutions or other types of financial entities, and the BHC structure provides organizational flexibility subsequent to an acquisition.
- **Asset Purchases:** Problem assets such as loans, securities, or other real estate can be purchased by a BHC from its subsidiary depository institution. Because BHCs are not subject to loan and derivatives limitations with respect to each borrower/counterparty, there are no loan-to-one borrower rules.
- **Capital Transactions:** BHCs may use debt to raise common equity tier 1 capital for their subsidiary banks, which avoids extra costs and dilution of issuing common stock. The interest payments on such debt can be a deductible expense on BHCs' consolidated income tax returns. BHCs generally receive more flexibility on the payment of dividends.
- **Regulation Y, Appendix C to Part 225—Small Bank Holding Company Policy Statement:** BHCs with less than \$3 billion in consolidated assets may incur greater amounts of various types of debt than banks or BHCs in general for mergers and acquisitions, the formation and expansion of holding companies, or stock repurchases. These BHCs are exempted from consolidated capital requirements.

Permissible Activities

- **Nonbanking Activities:** BHCs are extremely useful to organizations engaged in nonbanking activities. The BHC Act Section 4(c)(8) allows BHCs to enter into a number of approved activities closely related to banking, and BHC Act Section 4(k) allows a financial holding company to engage in an even broader range of income-producing activities that are incidental to banking or financial in nature.
- **Stock Purchases:** BHCs have the ability to repurchase their capital or make a market in their stock without regulatory approval, and BHCs may purchase up to 5 percent of any class of voting securities of any entity without prior regulatory approval, allowing diversification of income and risk.