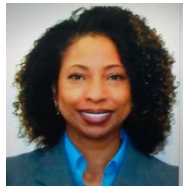




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INTRODUCTION

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Welcome to the 2026 edition of Beyond the Bank: The Bank Holding Company Newsletter from the Federal Reserve Bank of Atlanta. We are pleased to continue providing you with timely insights into bank holding company (BHC) regulations, supervisory guidance, regulatory reporting, applications, and supervisory matters. Our goal is to support holding company management by keeping you informed of the latest developments and offering practical guidance on compliance and operational matters that affect your institutions.

The Federal Reserve Bank of Atlanta's Community Banking Organization Holding Company Team is dedicated to supervising bank, thrift, and financial holding companies with total consolidated assets of less than \$10 billion across the Sixth District. Our supervisory responsibilities encompass conducting off-site reviews, full-scope inspections, and monitoring and surveillance of portfolio institutions. We also review regulatory applications, serving as a trusted resource for stakeholders on questions related to capital actions, intercompany transactions, and other BHC matters that affect your day-to-day operations.

We value our partnership with you and encourage open communication. Whether you have questions about regulatory requirements, need clarification on supervisory guidance, or would like to discuss specific BHC matters, please don't hesitate to reach out to us at bhcteam.requests@atl.frb.org. We also welcome your comments, suggestions, and recommendations for future newsletter topics that would most benefit you and your institutions.



More Than a Cookie: Understanding Other Real Estate Owned (OREO) in Banking

BY ROBERT CANOVA

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Other Real Estate Owned (OREO) is an acronym that shares its name with a popular cookie, but for bank holding companies (BHCs), these nonearning assets can sometimes present complex regulatory challenges rather than sweet rewards. Both [Section 4 of the Bank Holding Company Act](#) and [Regulation Y](#) address specific real estate activities permissible for BHCs. In particular, Section 4(c)(2) of the Act allows a BHC or its subsidiaries to acquire real property in satisfaction of debts previously contracted. In regulatory reporting, such property is termed Other Real Estate Owned (OREO), and it typically represents a nonearning asset on a BHC's balance sheet, with its value subject to market fluctuations.

Acquisition

Banks regularly acquire foreclosed real estate in full or partial satisfaction of a debt obligation. OREO property should be recognized at the time of foreclosure at its fair value less cost to sell. In most cases, BHCs acquire OREO when their subsidiary banks transfer foreclosed property to the holding company to remove nonearning assets from the bank's balance sheet, improve capital adequacy ratios, and afford the organization greater operational flexibility in managing and disposing of the property. These transfers are generally permissible, although they must comply with requirements outlined in Regulation W and appropriate accounting guidance, which requires the property to be recorded at fair value. Specifically, when real estate is transferred within the organization, the asset should be transferred at no more than fair market value in a manner consistent with an arm's-length transaction.

It's important to note that if a subsidiary bank transfers property to the holding company because the bank has exceeded its holding period, the Board uses the bank's original acquisition date as the BHC's acquisition date. Transfers within the organization do not extend the property's overall holding period. A subsidiary bank that has held property for the statutory period cannot transfer it to another subsidiary or the BHC to extend possession beyond the maximum 10-year limit.

Holding period

Under [Regulation Y](#), BHCs must dispose of OREO within two years from the acquisition date. The Federal Reserve's preferred policy is that holding companies make good-faith efforts to dispose of OREO properties at the earliest practicable date and maintain documentation reflecting these efforts. According to [SR Letter 12-5](#), Policy Statement on Rental of Residential Other Real Estate Owned (OREO) Properties, BHCs are expected to pursue a clear and credible approach to sell OREO within the holding-period limitations, which may include special transaction features such as seller-assisted financing or rent-to-own arrangements.

If a BHC is unable to sell the property within the two-year window, it can request an annual extension. The Board typically grants extensions of up to three additional years (five years total), and in special cases, might permit extensions up to a maximum of ten years. **CONTINUED ON PAGE 3**

Nonbank subsidiary

According to Section 4(c)(1)(d) of the Bank Holding Company Act, holding companies can establish nonbank subsidiaries to hold OREO while working toward its disposal. Permissible activities of these nonbank subsidiaries include completion of properties actively under development and other activities necessary to sell the property.

However, funding construction that substantially alters the nature of the property to increase its value is typically considered real estate development and is not permissible. For example, completing construction of a partially built multifamily property is acceptable, but developing an adjacent lot for phase two is not. Additionally, using property completion as a strategy to extend the BHC's ownership period is not permitted.

Strategic alternatives

Some OREO acquisitions require creative disposal strategies. In extreme cases where a BHC holds property beyond the statutory time limit and has already written the property down to a de minimis value, auctioning the property or donating it to a not-for-profit organization might be viable options. Another unusual scenario involves acquiring a property lease. A BHC can effectively dispose of such a lease by entering into a sublease that terminates simultaneously with the original lease. To constitute effective disposal, the sublease must cover the same amount of physical space as the lease acquired in OREO.

Conclusion

Transferring an OREO property from a bank to its BHC is a viable solution to help the bank remove the nonearning asset from its balance sheet. However, as a BHC approaches the end of the initial holding period for OREO, management should contact their regional Reserve Bank with sufficient time for an assessment of whether to grant an extension. Information required includes the acquisition date of the property, initial and current appraised values, and documentation of management's attempts to dispose of the property.





Section 4 Nonbank Activity Filings: Regulatory Considerations

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The banking industry has evolved significantly in the last 30 years, leading financial institutions to diversify and explore nonbank activities. Nonbank subsidiary assets have grown from 10 percent of total consolidated assets in 1995 to 20 percent in 2022, peaking at 25 percent during the Great Financial Crisis. Section 4 of the Bank Holding Company Act outlines permissible nonbank activities for bank holding companies (BHCs) outside of the subsidiary bank. Generally, BHCs cannot engage in nonfinancial activities except through limited merchant banking investments. The Bank Holding Company Act requires institutions file a notice with their respective Reserve Bank to engage in activities beyond traditional banking services, though numerous exceptions apply.

Assessing risk

Under section 4, BHCs must typically obtain Federal Reserve approval to either acquire or engage in nonbanking activities. Supervision oversight typically focuses on ensuring these nonbank activities do not pose substantial risks to the bank subsidiary. The application or notice requirement is designed to assist both management and the regulators in assessing the potential risks, helping to ensure the activities are not incompatible with safe and sound banking practices that protect the subsidiary bank.

When applications or notices are required, Reserve Bank staff evaluate factors regarding the proposed new activities.

These include the financial and managerial resources of the applicant and its subsidiaries, increased customer convenience, increased competition, or increased efficiency against potential risks from engaging in the activity such as asset concentrations or unsafe financial practices.

Initial assessment

To aid in the assessment of whether a notice might be necessary, management can discuss the following questions.

- *Has the BHC received a satisfactory or better rating in its most recent examination?*
- *Is the BHC in "troubled condition" as defined in regulations? (Note: This disqualifies the BHC from expedited procedures.)*
- *Is the proposed activity preapproved under Section 225.28(b) of Regulation Y?*
- *Has the activity been approved by prior Board order or regulation?*
- *Is this a completely new ("unlisted") activity requiring Board determination?*
- *Does the activity involve operating a nonbank insured depository institution? (Note: This requires more reviews under stringent requirements.)*

CONTINUED ON PAGE 5

No notice required

Despite the general rule, several important exceptions allow BHCs to proceed without filing formal applications. These exceptions account for a substantial portion of nonbanking activities conducted by BHCs. For example, BHCs can, either directly or through nonbank subsidiaries, engage in various servicing activities (such as accounting, data processing, and administrative services) for their subsidiary banks without prior approval.

Another example is Debts Previously Contracted. This exception frequently comes into play when subsidiary banks transfer foreclosed assets to their parent BHC to strengthen their balance sheets. BHCs can acquire nonbanking assets, such as loans or property, through foreclosure processes and hold these assets for up to two years without prior approval. In some cases, the Reserve Bank can extend this holding period to a total of 10 years. Although these transfers are generally permissible, they must comply with Sections [23A](#) and [23B](#) of the [Federal Reserve Act](#) and follow appropriate accounting principles.

Options for informing the Reserve Bank

Understanding which activities require applications, when to file, and how long approvals take are essential for effective strategic planning. BHCs seeking to engage in nonbanking activities face varying filing requirements and approval timelines depending on the nature of the activity and the BHC's financial condition. The most streamlined option requires no prior approval at all. Well-run BHCs can engage in de novo activities listed in section [Section 225.28\(b\) of Regulation Y](#) without obtaining prior approval. However, they must provide written notice to the appropriate Reserve Bank within 10 business days after commencing the activity.

Next, an expedited prior notice procedure allows well-run BHCs to begin activities after a brief waiting period, provided the Reserve Bank doesn't object. In these cases, the BHC must notify the appropriate Reserve Bank at least 12 business days before commencing the activity. The BHC can proceed with the activity unless the Reserve Bank or Board indicates within the 12-day period that a full application is required.

Finally, proposed activities that don't qualify for either of the previous procedures will require a full

notice as defined under [Section 225.24 of Regulation Y](#). Given the complexity of determining whether an exception applies, which often depends on specific facts and circumstances, the Reserve Bank strongly encourages BHCs to consult early in the decision-making process.

Inquiring whether filing is required before completing an acquisition or commencing an activity can prevent both unnecessary filings and inadvertent violations. For significant acquisitions or new activities, building 90–120 days into the activity timeline provides a realistic timeline in setting expectations when activities can begin. Keep in mind that all proposals filed under section 225.24 are published in the Federal Register with a public comment period of at least 15 calendar days. Notices are published upon receipt of the notification. Nevertheless, management can request publication up to 15 calendar days before filing, potentially accelerating the overall process.

Conclusion

Section 4 under the Bank Holding Company Act spells out a financial institution's permissible nonbank activities. Timing for BHC nonbanking activity notices or applications varies, ranging from post activity notification to 60-day Board reviews. Given the exceptions in the regulation, questions arise as to which activities require management to file an application with the Reserve Bank. The key is recognizing which activities require approval. Well-run companies enjoy significant advantages through expedited procedures, while complex proposals or troubled institutions face longer timelines and more scrutiny. Success depends on accurately categorizing proposed activities, meeting eligibility criteria for expedited treatment, and consulting Reserve Bank staff early in the planning process.

Related reading

[Federal Reserve Regulation Y—Bank Holding Companies and Change in Bank Control](#)

[Bank Holding Company Nonbanking Activities Filings Activities in Regulation Y—expedited processing \(FR Y-4\)](#)

[Commencement of an activity listed in Regulation Y that qualifies for expedited processing Activities in Regulation Y—nonexpedited processing \(FR Y-4\)](#)

[Commencement of an activity listed in Regulation Y that does not qualify for expedited processing Post Commencement Notice \(FR Y-10\)](#)

[Notification after starting a permissible nonbanking activity](#)

Beyond Traditional Banking: Should Your Institution Consider FHC Status?

BY STACEY SUAREZ

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Are you considering new revenue streams beyond traditional lending and deposits? A Financial Holding Company (FHC) structure might warrant serious consideration. Authorized under the Gramm-Leach-Bliley Act of 1999, FHCs allow qualifying bank holding companies (BHCs) to engage in significantly broader financial activities than standard BHC structures permit.

What makes FHCs different?

While standard BHCs face restrictions on permissible activities, FHCs can own subsidiaries engaged in:

- Securities underwriting and dealing,
- Insurance operations,
- Merchant banking investments,
- Investment advisory services, and
- Traditional banking activities and complementary financial services.



Qualifying for FHC status

The path to FHC election requires institutions to be "well capitalized" and "well managed." A written declaration must be filed with the respective Reserve Bank in accordance with [Regulation Y, Section 225.82\(b\)](#). Not only must the FHC meet and maintain "well capitalized" and "well managed status," but all



depository institutions it controls must also remain well-capitalized and demonstrate effective management. Failing to do so could ultimately result in restriction or divestiture of any FHC activities.

The benefits

BHC management might consider an FHC election to support their consolidated organization's strategic plan for several reasons:

- **Diversified revenue: Banking, securities, insurance, and advisory services can stabilize income during lending downturns.**
- **Cross-selling power: Banking clients become prospects for investments, insurance, and derivatives.**
- **Cost efficiency: Shared infrastructure and consolidated operations reduce expenses across all business lines.**

The challenges

Although FHC status opens doors to expanded revenue opportunities, it dramatically raises institutional risks and complexity. Organizations must maintain "well capitalized" and "well managed" status across all subsidiaries or face a strict 180-day cure period that, if unmet, can result in forced divestiture of lucrative operations and cessation of expanded activities. Leadership must possess sophisticated expertise across fundamentally different disciplines—securities markets, insurance underwriting, merchant banking, and investment advisory services—each with distinct regulatory frameworks and risk profiles, often requiring costly specialized talent. Most concerning is systemic contagion risk: compliance failures, investment **CONTINUED ON PAGE 7**

losses, or reputational damage in any single subsidiary can cascade throughout the entire organization, eroding depositor confidence, triggering broader regulatory scrutiny, and raising capital costs across all business lines. Additionally, less-than-satisfactory CRA ratings immediately prohibit new activities and generate substantial ongoing compliance infrastructure expenses. The FHC path demands not just capital strength but a fundamental shift in risk management philosophy and organizational culture.

Making the decision

Is FHC status right for your organization? Consider these questions:

- **Do we have the capital strength to meet enhanced requirements?**
- **Can our management team effectively oversee diverse financial operations?**
- **Do our strategic goals include meaningful expansion beyond traditional banking?**
- **Can we afford the compliance infrastructure?**
- **Does our risk appetite accommodate cross-subsidiary contagion risk?**

Conclusion

FHC status election offers opportunities for growth and competitive positioning. However, the decision requires careful consideration. Before filing the required declaration under Regulation Y (12 CFR Part 225, Subparts I and J), BHC management must candidly assess whether their institution possesses not just the capital ratios, but the strategic vision, operational capacity, and risk tolerance to thrive in securities, insurance, and merchant banking alongside traditional deposit and lending activities. For institutions that can answer "yes" to the critical questions posed above, FHC status can unlock transformational value and sustainable competitive advantages. For those that cannot, maintaining a traditional BHC structure may better serve long-term stability and strategic objectives while avoiding heightened regulatory standards.

Consult with legal and regulatory advisors to determine the path that aligns with your institution's unique strengths, market position, and strategic ambitions.



Resources

[The Gramm-Leach-Bliley Act \(GLBA\) of 1999](#)

[Regulation Y](#)

Understanding FR Y-8 Reporting Requirements for Holding Companies

BY SHANNON BOYT

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The Federal Reserve requires holding companies to file FR Y-8 reports (Y-8s), which track certain intercompany transactions between insured depository institutions and their affiliates. Y-8s must be filed only for “covered transactions” as defined in Section 23A of the Federal Reserve Act (12 U.S.C. 371c). The forms must be submitted on a quarterly basis by top-tier bank holding companies (BHCs), financial holding companies (FHCs), and savings and loan holding companies (SLHCs) only if there are reportable transactions outstanding during the quarterly reporting period. Covered transactions that were outstanding during the quarter but extinguished prior to quarter-end should still be included on the Y-8 for that quarter. Separate Y-8s are required for each insured depository institution in a multi-bank holding company structure.

Section 23A establishes strict quantitative limits on covered transactions to protect insured depository institutions from excessive exposure to affiliates. The aggregate amount of covered transactions by a depository institution with any single affiliate cannot exceed 10 percent of the insured depository institution's capital stock and surplus, while the aggregate amount of all covered transactions with all affiliates combined cannot exceed 20 percent.

Examples of reportable covered transactions include, but are not limited to, loans or extensions of credit to affiliates, asset purchases from affiliates, and acceptance of affiliate securities as collateral for loans.

The Y-8 has two parts. Part 1 distinguishes between covered transactions that require collateral and those that do not and further distinguishes between covered transactions with financial subsidiaries and nonfinancial subsidiaries.

Part 2 is for derivative transactions with affiliates. Certain affiliate transactions are exempt from Y-8 reporting, such as transactions between a depository



institution and a “sister bank”; that is, a depository institution that is owned or controlled at least 80 percent by the same holding company. Covered transactions that are fully secured by US government or agency securities or by an earmarked deposit account are also exempt from reporting.

Accurate and timely Y-8 reporting is critical for supervision and regulation of banking institutions. Instructions for the Y-8 forms are on the Federal Reserve’s website at [Federal Reserve Board - Reporting Forms](#). Banking organizations’ management is encouraged to review the definitions of covered transactions within Section 23A for more comprehensive details. Section 23A is implemented by Federal Reserve Regulation W, 12 CFR Part 223.

Supervision & Regulation

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FED RESOURCES

For your convenience, we've compiled key BHC supervision and regulation resources below. These manuals and regulations serve as essential references for maintaining compliance and understanding supervisory expectations:

- **[Bank Holding Company Supervision Manual](#)**
- **[Federal Reserve Regulation Y—Bank Holding Companies and Change in Bank Control](#)**
- **[Federal Reserve Regulation Q—Capital Adequacy of Bank Holding Companies, Savings and Loan Holding Companies, and State Member Banks](#)**
- **[Federal Reserve Regulation W—Transactions Between Member Banks and Their Affiliates](#)**

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