STATEMENT OF

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on

***DE NOVO* BANKS AND INDUSTRIAL LOAN COMPANIES**

before the

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
U.S. HOUSE OF REPRESENATATIVES

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Chairman Chaffetz, Ranking Member Cummings and members of the Committee, thank you for the opportunity to testify today on *de novo* banks and industrial loan companies (ILCs). My written testimony will begin with an overview of recent banking industry performance and condition. Next I will address trends in *de novo* and ILC formation and the process by which the FDIC reviews applications for deposit insurance. Finally, I will discuss the supervisory process for *de novo* institutions and steps the FDIC is taking to support *de novo* formations.

Banking Industry Performance

The post-crisis period has been marked by a gradual, consistent improvement in banking industry performance, even in the face of some significant headwinds. FDIC-insured institutions posted record earnings of nearly $164 billion in 2015. Almost two-thirds of all institutions reported higher earnings for the year than they did in 2014. Many banks have worked off significant volumes of noncurrent loans during the post-crisis period, and for most banks, this process is largely complete. Only eight institutions failed last year—the lowest number since 2007. By the end of the first quarter of 2016, the number of problem institutions declined to 165, the lowest level since mid-2008.

This recovery in their financial condition has put FDIC-insured institutions in a better position to support economic activity by extending credit to creditworthy borrowers. Loan balances at FDIC-insured institutions at the end of the first quarter were 6.9 percent higher than a year earlier, marking their highest 12-month growth rate since mid-2008.

Community banks have also posted a strong recovery in the post-crisis period that has, in several respects, outpaced the recovery at larger institutions. Loan balances at community banks grew by 8.9 percent in March from a year ago, exceeding the industry average by more than a

quarter. Loan growth at community banks was led by an 11.9 percent increase in commercial real estate loans, an 8.6 percent increase in commercial and industrial loans, and a 5 percent increase in 1-to-4 family residential mortgages.

In addition, net income at community banks grew by 7.4 percent in the first quarter of 2016 compared to a year earlier, while industry net income declined slightly. The decline in overall industry earnings was largely attributable to a drop in trading revenue and a sharp increase in reserves to recognize potential losses from noncurrent commercial and industrial loans related to the energy sector. However, neither of these factors had a material impact on community bank performance during the quarter.

While the current seven-year economic expansion has supported a broad-based improvement in bank financial performance, the prolonged period of low interest rates that has followed the financial crisis has narrowed industry net interest margins substantially from pre-crisis levels.

During the 10 years leading up to the crisis, the average net interest margin for community banks was 4.0 percent. By 2015, after seven years of exceptionally low interest rates, the average community bank margin had fallen to 3.57 percent—a decline of 43 basis points. Noncommunity banks saw their margins fall even further, to just 3.0 percent in 2015. Margin pressure is likely to remain a challenge until interest rates rise to levels more in line with historical norms.

Trends in *De Novo* Formation

The FDIC remains supportive of the formation of new financial institutions and welcomes applications for deposit insurance. The entry of new institutions helps to preserve the vitality of the community banking sector, fill important gaps in local banking markets, and provide credit services to communities that may be overlooked by other financial institutions.

Recent FDIC research on new bank formation since 2000 highlights both the economic benefits of *de novo* banks and their vulnerability to economic shocks.[1] Of the more than 1,000 new banks formed between 2000 and 2008, 634 institutions were still operating as of September 2015, holding $214 billion in total loans and leases. FDIC researchers also found that the failure rate of banks established between 2000 and 2008 was more than twice that of small established banks—consistent with previous research that found *de novo* banks to be susceptible to failure under adverse economic conditions. These findings underscore the importance of promoting the formation of new banks and establishing an effective application process and supervisory program that will ensure new banks adopt appropriate risk management practices and enhance their prospects for long-term success.

As shown in the Appendix, from 2000 through 2007—the seven years leading up to the recent financial crisis—the FDIC received more than 1,600 applications for deposit insurance.[2] Of those, 75 percent were approved, 12 percent were returned and 13 percent were withdrawn. Included were 57 applications for deposit insurance for ILCs, 53 of which were acted upon during this period. Just over half were approved, 23 percent were returned and 26 percent were withdrawn.

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[1] Lee, Yan and Chiwon Yom, "The Entry, Performance, and Risk Profile of *De Novo* Banks," FDIC Center for Financial Research Working Paper 2016-03, April 2016. https://www.fdic.gov/bank/analytical/CFR/2016/WP_2016/WP2016_03.pdf

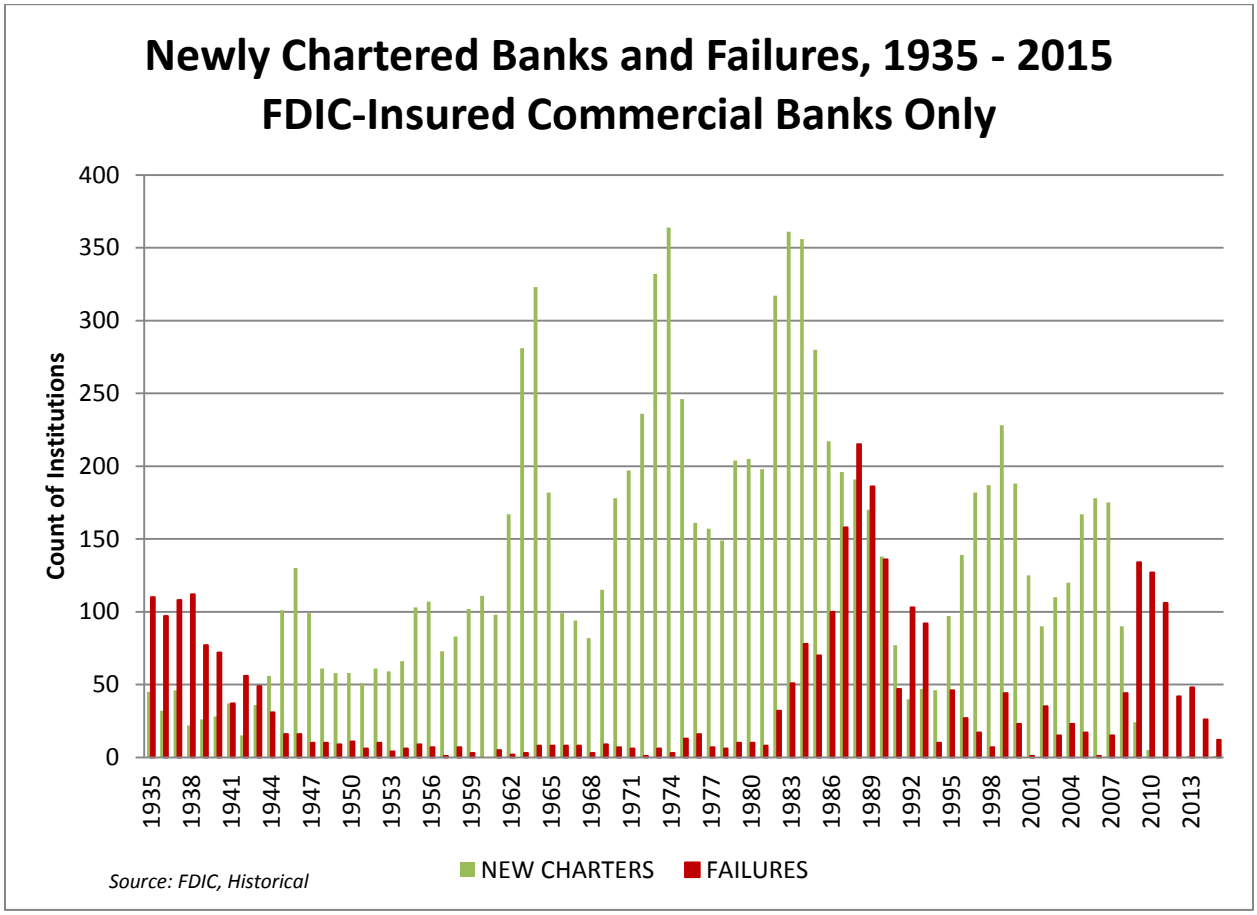
[2] The Appendix provides a chart of applications for deposit insurance for *de novo* institutions received for each year since 2000, along with the disposition of the applications received in that year.

During the crisis from January 2008 through December 2010, the FDIC received 140 applications for deposit insurance (excluding those for the acquisition of failed banks and for the conversion of credit unions), with the number received dropping significantly in each year. Of those applications, approximately 20 percent were approved, 32 percent were returned, 46 percent were withdrawn and one percent are still pending. Included were seven applications for deposit insurance for ILCs with one approved, two returned, two withdrawn and two pending.

The approval rate for applications received during the crisis was less than one-third of the rate of approval during the pre-crisis period. The primary reason for this difference was the challenging economic environment that made it difficult for applicants to demonstrate viable business plans.

De novo formation has always been cyclical as illustrated in Chart 1. De novo activity surged in the economic upswings, such as those of post-World War II, the mid-1990s, and the early 2000s. A significant share of pre-crisis chartering activity occurred in the Southeast and the West, as the economies in those areas rapidly expanded. Of the 899 new institutions chartered from 2002 through 2007, 275 (31 percent) were headquartered in the FDIC's Atlanta region, and 227 (25 percent) were headquartered in the FDIC's San Francisco region. These two regions also led the country in bank failures, as their economies experienced severe downturns during the recession.

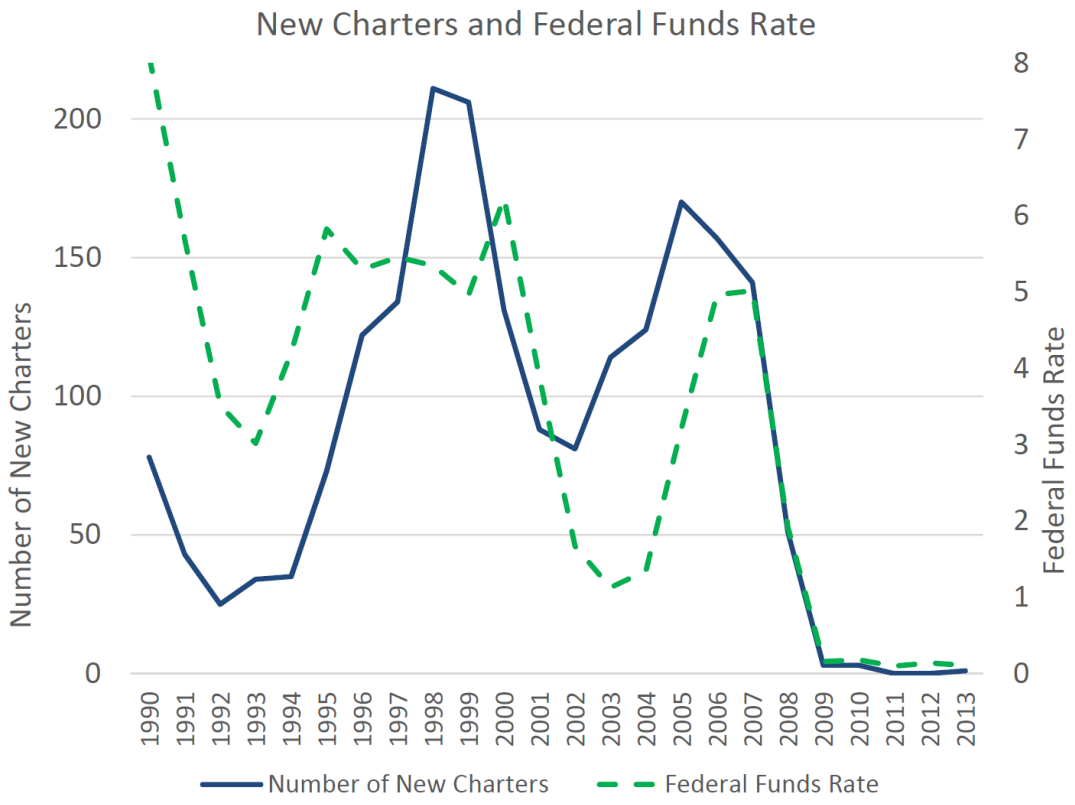
Chart 1



Since January 2011, the FDIC has received only 10 applications for deposit insurance for *de novo* institutions. Of those applications, three have been approved, five have been withdrawn and two remain in process. No new applications for ILCs were received in this period. A drop in *de novo* activity also occurred after the last financial crisis in the 1980s and early 1990s, when *de novo* bank formation declined to historically low levels before recovering as economic conditions improved.

Even with the recovery in community bank earnings following the recent financial crisis, low interest rates and narrow net interest margins have kept bank profitability ratios (return on assets and return on equity) well below pre-crisis levels, making it relatively unattractive to start new banks. Recent research by economists at the Federal Reserve suggests that economic factors alone—including a long period of zero interest rates—explain at least three-quarters of the post-crisis decline in new charters, as illustrated in Chart 2.[3] If this model is accurate, one would expect the rate of new charters to rise as interest rates normalize.

Chart 2



[3] Adams, Robert M. and Jacob P. Gramlich, "Where Are All the New Banks? The Role of Regulatory Burden in New Charter Creation," Finance and Economics Discussion Series 2014-113, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C. http://www.federalreserve.gov/econresdata/feds/2014/files/2014113pap.pdf

The rate of *de novo* formations can be affected by other factors as well. For example, a Federal Reserve Bank of Kansas City study found that markets with more merger activity experienced higher rates of new bank formation, and that the mergers with the strongest link to new bank formation were those in which small banks were taken over by large banks or local banks taken over by distant banks.[4] These mergers can create gaps in service to small businesses and customers with a strong preference for personal contact and contribute to new bank formation. As a Federal Reserve Bank of Philadelphia study observed, in these markets, *de novos* are also more likely to find a ready supply of skilled, experienced bankers displaced from the merger and acquisition activity.[5]

De novo ILC formations have additionally been affected at various times by moratoria. For example, the state of Utah placed a moratorium on new ILC charters between 1986 and 1997, after several ILCs had experienced significant financial difficulties in the early 1980s.[6] During this period, existing charters could be acquired, but new charters were not issued. Also, in response to requests from Congress amid concerns about the applications filed by WalMart and Home Depot to respectively form and acquire an ILC, the FDIC's Board of Directors imposed a six-month moratorium on deposit insurance applications and change-in-control notices with respect to ILCs beginning July 28, 2006. The FDIC's Board of Directors extended the moratorium for one year on January 31, 2007, with respect to ILCs that would become

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[4] Keeton, William R. "Are Mergers Responsible for the Surge in New Bank Charters?" Federal Reserve Bank of Kansas City. *Economic Review*. First Quarter 2000. https://www.kansascityfed.org/publicat/econrev/PDF/1q00keet.pdf

[5] Collins, Michael E. "Trends in De Novo Formation." Federal Reserve Bank of Philadelphia. *SRC Insights.* Third Quarter 2007. https://www.philadelphiafed.org/bank-resources/publications/src-insights/2007/third-quarter/q3si2_07

[6] Johnson, Christian and George S. Kaufman, "A Bank by Any Other Name." Federal Reserve Bank of Chicago *Economic Perspectives*. 4Q2007. https://www.chicagofed.org/publications/economic-perspectives/2007/4qtr2007-part3-johnson-etal

subsidiaries of companies engaged in nonfinancial activities. Finally, Section 603 of the Dodd-Frank Wall Street Reform and Consumer Protection Act imposed a three-year moratorium on ILCs controlled by commercial firms and prohibited the FDIC from acting favorably on applications for deposit insurance filed by such institutions after November 23, 2009.

De novo activity, however, represents only a portion of total new investment in the banking industry. In many cases, interested applicants have opted to buy a failed bank or problem bank rather than start a *de novo* institution. Acquiring an existing institution, instead of pursuing a *de novo* strategy, has the advantage of providing a core deposit and loan base on which the new investors can build a sustainable franchise.

As the economy continues to improve, we anticipate that interest in new charters will increase. Over the past several quarters, the FDIC has seen indications of increased interest from prospective organizing groups in filing applications for new insured depository institutions.

Application Process for Deposit Insurance

Section 5 of the Federal Deposit Insurance Act (FDI Act) requires any proposed depository institution seeking Federal deposit insurance to file an application with the FDIC. Before filing an application, the FDIC encourages organizing groups for proposed new depository institutions to participate in a pre-filing meeting. This meeting frequently occurs with staff in the FDIC regional office that will receive the application. During a pre-filing meeting, FDIC staff explains the application process, including general timelines for application processing as well as any special information needs and other matters unique to the proposal. The goal is to inform applicants about the necessary information for their filing to facilitate the review process.

Application Requirements

FDIC rules and regulations describe the application requirements in detail.[7] Proposed new depository institutions apply for Federal deposit insurance by filing an *Interagency Charter and Federal Deposit Insurance Application* form (Application) with the appropriate FDIC regional office.[8] The Application collects information that the chartering authority and the FDIC will need to evaluate the charter and insurance applications respectively. The Application requests information on seven main topics: an overview of the proposed institution's operations; its business plan and proposed policies; details on its management team, including its board of directors; a description of the type and amount of capital to be raised, including any plans for employee stock ownership plans or stock incentives; how the institution will meet the convenience and needs of the community to be served; a description of the premises and fixed assets at inception; a description of the information systems to be used by the institution; and any other relevant information.

Applicants must answer all questions in the form and provide supporting information setting forth the basis for the applicant's conclusions. In cases where information is not available at filing time, the FDIC will determine whether the information is necessary to begin the evaluation of the application. If additional information is needed, the FDIC will send the applicant a written request identifying the items needed. If not, the FDIC will deem the application substantially complete and begin its review and evaluation of the proposal.

[7] The procedures governing the administrative processing of an application for deposit insurance are contained in part 303, subpart B, of the FDIC's rules and regulations (12 CFR part 303).
[8] www.fdic.gov/formsdocuments/InteragencyCharter-InsuranceApplication.doc

Statutory Conditions

Since 1935, governing statutes have required that the FDIC consider specific factors when evaluating applications for deposit insurance. The current statutory factors, set forth in Section 6 of the FDI Act, include:

- The institution's financial history and condition;
- The adequacy of its capital structure;
- Its future earnings prospects;
- The general character and fitness of its management;
- The risk presented by the institution to the Deposit Insurance Fund;
- The convenience and needs of the community to be served by the institution; and
- Whether the institution's corporate powers are consistent with the purposes of the FDI Act.[9]

Evaluation of the Application

While these statutory factors serve as the foundation of the Application, the *FDIC Statement of Policy on Applications for Deposit Insurance* provides guidance to FDIC staff and the industry about the FDIC Board's expectations for staff's evaluation of the statutory factors.[10] Evaluation of the Application is carried out at both the field office level and regional office level, and is coordinated by a regional office case manager, who is assigned responsibility for the ongoing supervision and monitoring of the institution once it opens for business.

At the field office level, an examiner from the local area will review the Application and then meet with the organizers and proposed directors to ascertain their understanding of the

[9] 12 U.S.C. § 1816.
[10] *63 Fed. Reg. 44756, August 20, 1998, effective October 1, 1998; amended at 67 Fed. Reg. 79278, December 27, 2002.*

responsibilities they are taking on as directors, their abilities to execute the business plan, and their commitment to the proposed bank. The examiner documents the findings relative to each of the statutory factors and opines as to whether the criteria under each area has been met. The examiner submits this report to the assigned case manager.

At the regional office level, the case manager reviews the examiner's report for accuracy and consistency with FDIC policy. The case manager prepares a summary of the major findings of the examiner's report as it relates to each of the statutory factors, and concludes with a recommendation for action: conditional approval or denial. The recommendation is considered by regional management in consultation with division management, and it is acted upon by the region, the division or the FDIC Board of Directors, depending upon the application characteristics.[11]

Conditions of Approval

The FDIC imposes certain standard conditions on all institutions that are granted Federal deposit insurance.[12] These conditions include such items as minimum initial capital, minimum ongoing capital requirements for the three-year *de novo* period, minimum fidelity bond insurance coverage, and financial statement audit requirements during the *de novo* period.

The FDIC may also impose non-standard or prudential conditions on a case-by-case basis. Typically, nonstandard conditions are used when the FDIC determines, through the examiner's review and the case manager's summary, that additional controls are appropriate or

[11] For example, authority to act is retained by the FDIC Board of Directors on applications for institutions that are more than 25 percent foreign-owned or controlled, institutions that share common ownership with a foreign institution without a common parent company, institutions organized as industrial loan companies, and institutions that would raise unique or unprecedented policy matters.

[12] These standard conditions are contained in a Resolution of the FDIC Board of Directors dated December 2, 2002, delegating authority for action on certain application matters, including applications for Federal deposit insurance. See https://www.fdic.gov/regulations/laws/matrix/

necessary to either mitigate risks that are unique to the proposal or to ensure that actions or activities in process at the time of approval are completed before insurance becomes effective. The most common nonstandard conditions require FDIC approval of business plan changes, employment agreements and stock options plans, bank policies, and additional directors or officers. In the case of ILCs, additional nonstandard conditions are commonly used to address corporate relationships, management authority and independence, and corporate and operating records.

The majority of nonstandard conditions do not exceed the three-year *de novo* period. However, nonstandard conditions may be imposed for any length of time that is deemed necessary to mitigate the relevant risk. For example, certain monoline institutions are subject to heightened supervisory expectations to mitigate risks associated with engaging in a single line of business.

Supervisory Approach to *De Novos*

The FDIC's *Risk Management Manual of Examination Policies* describes the supervision program for *de novo* institutions. The Manual states that newly chartered and insured institutions are to have a limited scope examination (visitation) within the first six months of operation and a full scope examination within the first twelve months of operation. Subsequent to the first examination and through the third year of operation, at least one examination is to be performed each year. The goal of the close supervisory attention in an institution's formative years is to help ensure its success.

In August 2009, the FDIC imposed nonstandard conditions in extending from three to seven years the period during which *de novo* state nonmember banks were subject to higher

capital maintenance requirements and more frequent examinations. The FDIC also required *de novo* state nonmember banks to obtain prior approval from the FDIC for material changes in business plans (FIL 50-2009). These nonstandard conditions were put into place at that time because institutions insured less than seven years were overrepresented among the bank failures that began in 2008, with many of the failures occurring during the fourth through seventh years. Out of 1,042 *de novo* institutions chartered between 2000 and 2008, 133 (12.8 percent) failed, representing more than double the failure rate of 4.9 percent for established small banks.[13] Moreover, a number of *de novo* institutions pursued business plan changes during the first few years that led to increased risk and financial problems while failing to have adequate controls and risk management practices. Given the ongoing improvement in post-crisis industry performance, the FDIC recently rescinded this policy, returning to a three-year *de novo* period in April 2016.

Supervision of ILCs

As state-chartered federally insured institutions, ILCs are supervised by their chartering states and the FDIC, and they must meet the same standards as any FDIC-insured bank.[14] Parent companies of ILCs are subject to regulation or oversight by the state banking agency under which the ILC is chartered. However, parent companies of ILCs are not generally subject to Federal banking supervision and therefore are not generally required to meet regulatory requirements imposed by the Bank Holding Company Act of 1956 (BHCA).[15] Although the FDIC does not have the statutory authority to directly supervise the parent companies of ILCs,,

[13] Lee and Yom. April 2016
[14] ILCs currently operate in California, Hawaii, Minnesota, Nevada and Utah.
[15] Congress enacted the Competitive Equality Banking Act of 1987, which broadened the definition of the term "bank" in the BHCA while specifically excluding ILCs from the new definition of "bank." A parent of an ILC may be subject to Federal banking supervision if it also owns a bank or a savings and loan.

the FDIC does have authority under Section 10(b)(4) of the FDI Act, in examining any insured depository institution, including an ILC, to examine the affairs of any affiliate, including the parent holding company, as may be necessary to disclose fully the relationship between the institution and the affiliate, and to determine the effect of such relationship on the depository institution.

In the early 1990s, the FDIC and the Utah Department of Financial Institutions (DFI) discovered that some ILCs were operated with minimal physical presence, books, records, and on-site management in Utah. The FDIC and the DFI held meetings with ILC industry representatives and developed conditions for state charters and Federal deposit insurance orders to address these concerns. Since that time, the FDIC has included prudential considerations in its supervisory approach, in informal and formal enforcement actions, and in conditions in orders granting Federal deposit insurance to ILCs. This approach is designed to ensure the independence and survival of the insured ILC separate and apart from a parent that may not be subject to the scope of consolidated supervision, consolidated capital requirements, or enforcement actions imposed on parent organizations subject to the provisions of the BHCA.

In 2004, the FDIC took steps to reiterate its supervisory expectations to FDIC examiners and the banking industry. In March 2004, the FDIC issued a memorandum to FDIC regional directors regarding prudential conditions that might be imposed in approving applications for deposit insurance involving insured depository institutions to be owned by or significantly involved in transactions with commercial or financial companies, should the risk characteristics of a given proposal warrant such action. The memorandum included examples of prudential conditions drawn from prior approvals to address the risks associated with the absence of consolidated supervision of the parent organization. The examples address matters such as

corporate relationships, management authority and independence, and corporate and operating records. In June 2004, the FDIC published a detailed description of its supervisory approach and possible prudential conditions in its inaugural issue of *Supervisory Insights*, a professional journal to promote sound principles and best practices for bank supervision. The lead article in this issue of *Supervisory Insights* puts ILC supervision strategies in historical context and includes a brief chronology of ILC failures. Subsequent to issuing the 2004 memorandum, the FDIC approved 15 deposit insurance applications proposing to establish an ILC, subject to various standard and nonstandard (prudential) conditions.[16]

Beginning in 2004, the FDIC Office of Inspector General (OIG) conducted two evaluations and the Government Accountability Office (GAO) conducted two studies regarding the FDIC's supervision of ILCs, including its use of prudential conditions.[17] The 2004 OIG evaluation focused on whether ILCs posed greater risk to the deposit insurance fund than other financial institutions and reviewed FDIC's supervisory approach in determining and mitigating material risks posed to those institutions by their parents. A September 2005 GAO study cited several risks posed to banks operating in a holding company structure, including adverse intercompany transactions, operations, and reputation risk. The study also raised concerns about the FDIC's ability to protect an ILC from those risks as effectively as the consolidated supervision approach under the BHCA.

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[16] See FDIC Office of Inspector General Evaluation 06-014, *The FDIC's Industrial Loan Company Deposit Insurance Application Process*, https://www.fdicig.gov/reports06/06-014.pdf, dated July 20, 2006. This report provides several charts identifying the standard and non-standard (prudential) conditions imposed on a sample of ILC applications approved after the implementation of the 2004 memorandum.

[17] See OIG Evaluation 04-048, *The Division of Supervision and Consumer Protection's Approach for Supervising Limited-Charter Depository Institutions*, https://www.fdicig.gov/reports04/04-048.pdf; OIG Evaluation 06-014, *The FDIC's Industrial Loan Company Deposit Insurance Application Process,* https://www.fdicig.gov/reports06/06-014.pdf; Industrial Loan Corporations: Recent Asset Growth and Commercial Interest Highlight Differences in Regulatory Authority. GAO-05-621. September 2005.

The reports acknowledged the FDIC's actions to ensure the independence and safety and soundness of commercially owned ILCs. The reports further acknowledged authorities the FDIC possessed and exercised to protect an ILC from the risks posed by the parent and affiliates, including its examination authority; ability to impose conditions on or enter into agreements with an ILC holding company in connection with an application for Federal deposit insurance; ability to terminate an ILC's deposit insurance; ability to enter into agreements during the acquisition of an insured entity; and ability to take enforcement measures. However, these reports reiterated the concern about the risks of the ILC model and the ability of the FDIC to adequately supervise them. In response, the FDIC continued to address capital, liquidity and other matters as appropriate, through the use of written agreements with an ILC and its parent.

The FDIC's approach to ILC supervision was ultimately tested during the recent financial crisis. Despite the failure and bankruptcy of a number of commercial and financial parents of ILCs, as detailed below, only two ILCs failed during the recent crisis, Security Savings Bank, Henderson, Nevada (Security), and Advanta Bank Corp, Draper, Utah (Advanta), a financially owned ILC. Security failed in February 2009 due to ineffective management and rapid growth in high-risk assets. Advanta, which was engaged exclusively in issuing credit cards to small businesses, failed in March 2010, as its clients suffered the effects of the recession.

Many other ILCs' parent companies or affiliates experienced severe stress, but their ILCs did not fail. ILC parents and affiliates that filed for bankruptcy included Lehman Brothers, General Motors, Flying J Inc., Capmark Financial Group Inc., CIT Group Inc., and Residential Capital, LLC.

In 2008, parents of a number of ILCs converted into bank holding companies through expedited conversions permitted by the Federal Reserve due to prevailing emergency conditions

in the financial markets. ILC parent companies that undertook expedited conversions to bank holding companies were Morgan Stanley, Morgan Stanley Capital Management LLC, and Morgan Stanley Domestic Holdings, Inc.; Goldman Sachs Group, Inc.; American Express Travel Related Services Company, Inc.; CIT Group Inc.; and GMAC LLC. Also, in 2008, Merrill Lynch, the parent company of an ILC, was sold to Bank of America.

Although the financial crisis was severe, the supervisory approach of the FDIC and chartering states proved to be effective. No ILCs failed during the recent financial crisis because of the failure of a parent, preventing significant additional losses to the Deposit Insurance Fund.

FDIC Actions To Support the Formation of New Institutions

The FDIC continues to monitor developments with respect to the formation of new banking institutions and recently announced a number of initiatives to support the efforts of viable organizing groups. These initiatives, which began in 2014, support the development, submission, and review of proposals to organize new institutions, including industrial loan companies.

In November 2014, the FDIC issued Deposit Insurance "Questions and Answers" (Q&As) to help applicants develop proposals to obtain Federal deposit insurance. In issuing the Q&As, the FDIC addressed concerns raised by commenters through the decennial regulatory review process required by the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA). The Q&As provide additional transparency to the application process and augment the FDIC's Statement of Policy on Applications for Deposit Insurance. Topics addressed in the Q&As include pre-filing meetings, processing timelines, capitalization, and initial business plans.

In March 2015, the FDIC provided an overview of the deposit insurance application process during a conference of state bank supervisory agencies. This session was followed by an interagency training conference hosted by the FDIC in September 2015 to promote coordination among state and Federal regulatory agencies in the review of charter and deposit insurance applications. Supervisory participants in the conference included the FDIC, state banking agencies, the Federal Reserve System, and the Office of the Comptroller of the Currency.

As mentioned earlier, on April 6, 2016, the FDIC reduced from seven years to three years the period of enhanced supervisory monitoring of newly insured depository institutions. The FDIC had established the seven-year period during the financial crisis in response to the disproportionate number of newly insured institutions that were experiencing difficulties or failing. In the current environment, and in light of strengthened, forward-looking supervision, the FDIC determined it was appropriate to return to the three-year period.

Also, in April 2016, the FDIC supplemented its previously issued Deposit Insurance Q&As to address multiple issues related to business plans. The FDIC intends to issue additional Q&As as needed to help organizing groups understand specific aspects of the deposit insurance application process.

The FDIC is preparing a publication designed to serve as a practical guide for organizing groups from the initial concept through the application process; it also will include post-approval considerations. The publication will focus on those issues that frequently have been identified as obstacles to the FDIC's ability to favorably resolve the statutory factors enumerated in Section 6 of the FDI Act that are applicable to the FDIC's approval of Federal deposit insurance. This resource will address topics such as developing a sound business plan, raising financial resources, and recruiting competent leadership, each of which helps to ensure that every new

institution is positioned to succeed. The FDIC plans to have this publication available later this year.

The FDIC has designated professional staff within each regional office to serve as subject matter experts for deposit insurance applications. These individuals are points of contact to FDIC staff, other banking agencies, industry professionals, and prospective organizing groups. They serve as an important industry resource to address the FDIC's processes, generally, and to respond to specific proposals.

Finally, we are planning outreach meetings in several regions around the country to ensure that industry participants are well informed about the FDIC's application review processes and the tools and resources available to assist organizing groups.

Conclusion

In conclusion, the current economic environment with narrow net interest margins and modest overall economic growth remains challenging for U.S. banks and the establishment of *de novo* institutions. The FDIC is committed to working with and providing support to groups with an interest in organizing a bank or an industrial loan company. As outlined earlier, the FDIC continues its efforts to provide interested organizing groups with a clear path to forming a new insured depository institution, regardless of the type of charter pursued by an organizing group.

APPENDIX

De Novo Applications Received by Year, and The Disposition of Those Applications By Number					
Applications Received January 1, 2000, through June 30, 2016*					
Year Received	**Total**	**Approve**	**Return**	**Withdrawn**	**Pending**
2000	205	161	22	22	
2001	156	116	22	18	
2002	147	111	17	19	
2003	161	112	20	29	
2004	214	148	39	27	
2005	299	237	39	23	
2006	232	184	16	32	
2007	223	161	19	43	
2008	101	28	27	45	1
2009	33		17	15	1
2010	6		1	5	
2011	1			1	
2012					
2013	4	1		3	
2014	1	1			
2015	2	1		1	
2016	2				2
Total	**1,787**	**1,261**	**239**	**283**	**4**

De Novo Applications Received by Year, and The Disposition of Those Applications By Percentage					
Applications Received January 1, 2000, through June 30, 2016*					
Year Received	**Count**	**Approve**	**Return**	**Withdrawn**	**Pending**
Total	1,787	70.6	13.4	15.8	0.2
Pre-2008	1,637	75.1	11.9	13.0	0.0
2008-2010	140	20.0	32.1	46.4	1.4
2011-2016	10	30.0	0.0	50.0	20.0

* The above tables do not include: 1) applications filed for the purpose of acquiring failing institutions, or 2) applications filed by existing non-FDIC financial services companies seeking to convert to an FDIC-insured depository institution.

De Novo ILC Applications Received by Year, and The Disposition of Those Applications By Number					
Applications Received January 1, 2000, through June 30, 2016					
Year Received	**Total**	**Approve**	**Return**	**Withdrawn**	**Pending**
2000	5	4		1	
2001	4	2	1	1	
2002	8	6		2	
2003	9	2	2	5	
2004	10	6	2	2	
2005	12	4	5	3	
2006	7	2	3	2	
2007	2	1		1	
2008	4	1		2	1
2009	3		2		1
2010					
2011					
2012					
2013					
2014					
2015					
2016					
Total	**64**	**28**	**15**	**19**	**2**

De Novo ILC Applications Received by Year, and The Disposition of Those Applications By Percentage					
Applications Received January 1, 2000, through June 30, 2016					
Year Received	**Count**	**Approve**	**Return**	**Withdrawn**	**Pending**
Total	64	43.8	23.4	29.7	3.1
Pre-2008	57	47.4	22.8	29.8	0
2008-2010	7	14.3	28.6	28.6	28.6
2011-2016	0	0	0	0	0

Note: Moratoria related to ILCs were in effect during parts of the period. Please see pp. 7-8 of the testimony for details.