

FFIEC STATEMENT ON REGULATORY CONVERSIONS

Financial institutions choose to operate under the state or federal charter that best accommodates their business and strategic needs. Regulatory guidelines allow institutions to change their chartering authority or primary federal regulator through an application process with a prospective supervisory agency. Given the current stressed environment, rating downgrades and supervisory actions have become more frequent. To maintain the integrity of the regulatory system and the safety of financial institutions, it is essential that the opportunity for charter conversions does not undermine current or prospective supervisory actions.

The members of the Federal Financial Institutions Examination Council (FFIEC), which include the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the National Credit Union Administration (NCUA), collectively “the agencies,” and the State Liaison Committee which represents the State Banking Authorities, have issued this statement to re-affirm that charter conversions or changes in primary federal regulator should only be conducted for legitimate business and strategic reasons. This furthers the FFIEC’s responsibilities of maintaining uniform supervisory principles and standards for all regulated entities, regardless of chartering authority. Conversion requests submitted while serious or material enforcement actions are pending with the current chartering authority or primary federal regulator should not be entertained. Such requests could serve to delay or undermine appropriate supervisory actions that if left unresolved, could place the institution at greater risk of failure. With respect to any outstanding corrective program, a conversion request will be evaluated on the specific facts and circumstances, but at a minimum, it is expected that the corrective program’s requirements will be maintained and compliance overseen by the successor supervisor.

Institutions that intend to change their charter or banking supervisor, through either a direct conversion or a conversion by merger, will continue to seek approval through an application process with the prospective chartering authority and primary federal regulator, in consultation with the appropriate state regulatory authorities. The prospective chartering authority agrees to consult with the FDIC (NCUA when appropriate), in its role as deposit insurer and receiver, and the Board, as the consolidated holding company supervisor, on any application involving an institution for which its current supervisor has either rated or proposes to rate that institution a 3, 4, or 5 (or “Needs to Improve” or “Substantial Noncompliance” with respect to CRA performance), or has instituted or plans to institute a serious or material corrective program with respect to that institution.

It is expected that ratings assigned under the agencies’ uniform rating systems and outstanding corrective programs will remain in place following a charter conversion and/or supervisory agency change. Before acting on any conversion request, the prospective supervisor should consult with the current supervisor to obtain information on any pending or outstanding supervisory actions. To facilitate this process, the current supervisor should provide the prospective supervisor with a summary of the existing examination program, including plans for ratings downgrades and enforcement actions. It is anticipated that the prospective supervisor’s initial examination and enforcement action program will follow the work of the existing supervisor. If the existing supervisor’s examination is not recent, or if other circumstances warrant, the prospective supervisor may choose to conduct an eligibility examination and may, depending on the circumstances, invite the current supervisor to participate to help ensure continuity in the bank’s supervision. In any case, the prospective supervisor should factor proposed ratings and enforcement actions into its examination planning process and fully assess the appropriateness of current or in-process ratings downgrades only after the completion of an appropriately-scoped on-site examination.