



## Small Bank Holding Company Changes

regulatory capital

**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.

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