Financial Institution Letter
FIL-24-2016
April 6, 2016

Supplemental Guidance Related to the FDIC Statement of Policy on Applications for Deposit Insurance

This Financial Institution Letter (FIL) provides supplemental guidance related to the FDIC Statement of Policy on Applications for Deposit Insurance (SOP). Part 303 (Subpart B) of the FDIC Rules and Regulations (12 U.S.C. § 1815) sets forth the administrative procedures for applying for deposit insurance. The SOP was issued on August 20, 1998, and provides guidance to proposed depository institutions applying for Federal deposit insurance.

In order to aid applicants in developing proposals for deposit insurance, and to provide transparency to the application process, the FDIC is supplementing questions and answers (Q&As) regarding the SOP that were issued in 2014 through FIL-56-2014, entitled *Guidance Related to the FDIC Statement of Policy on Applications for Deposit Insurance*. The supplemental Q&As (attached) address business plan content with respect to initial submissions, weaknesses identified in submitted plans, and changes in business plans. The Q&As issued in 2014 addressed pre-filing meetings, processing timelines, initial capitalization, and initial business plans of de novo institutions.

As circumstances warrant, the FDIC will consider additional Q&As to aid applicants in the development and submission of applications for deposit insurance and the application process. It is the FDIC's intent that the Q&As will be a valuable resource for applicants and other interested parties.

Questions regarding the SOP or the Q&As may be directed to Associate Director Lisa D. Arquette at larquette@fdic.gov or Donald R. Hamm at dhamm@fdic.gov.

Questions and Answers (Q&A) Posted April 2016

Business Plan Content

Q. The Interagency Charter and Federal Deposit Insurance Application (Interagency Application) states in the Overview section that the applicant should provide a copy of the business plan, which should address, at a minimum, the topics contained in the appropriate regulatory agency's Business Plan Guidelines. What are the FDIC's Business Plan Guidelines? (April) 2016)

A. The FDIC's Business Plan Guidelines are those contained on pages 18-39 of the Interagency Application accessible at https://www.fdic.gov/regulations/laws/FORMS/applications.html. The instructions in the Interagency Application provide guidelines for business plan content in 10 main areas: table of contents; executive summary; description of business; marketing plan; management plan (directors and officers); records, systems, and controls; financial management plan; monitoring and revising the plan; alternative business strategy; and financial projections.

The FDIC does not require a specific format for the business plan, and while each area should be addressed, some may require more depth or emphasis depending on the proposed institution's unique facts and circumstances.

The FDIC also believes the following items are critical to effective business planning:

- The business plan should be tailored to the institution's size, complexity and risk profile. For example, smaller, non-complex community institutions may require a less extensive plan.
- The business plan should present a sustainable franchise.
- The business plan should be consistent with other management planning tools; for example, budgets, strategic plans and profit plans.
- The business plan should be routinely referenced by the board of directors and management when considering significant decisions or developments affecting the institution's business.
- Discussions around these considerations, including proposals to deviate from the business plan, should be reflected in board minutes.
- The board of directors should establish procedures to monitor adherence with the plan on a quarterly basis, at a minimum.

Q. What weaknesses has the FDIC identified in submitted business plans? (April 2016)

A. The FDIC has identified the following weaknesses in business plans:

- Insufficient details regarding mission, business strategies, business lines, products, services, competitive aspects or geographic markets, particularly when business plans are submitted in an outline or high-level format rather than the requested descriptive narrative format.

- Strategies that are lacking, overly broad or undefined; for example, establishing a strategy focused on serving commercial customers without identifying the products and services to be offered.
- Weak underlying analyses or inadequate/unsupported assumptions.
- Insufficient disclosure regarding business history, transactions, relationships or strategies with respect to operating uninsured entities seeking deposit insurance.
- Inadequate details with respect to management or particular roles.
- Errors in financial projections, unexplained adjustments, or large "catch all" or "other" categories.
- The lack of adequate execution strategies, such as assuming the proposed institution will become a market leader in particular loan or deposit products without providing sufficient details as to how the objective is to be achieved.

Q. In general, deposit insurance approval orders have included conditions that require the institution to operate within the parameters of its original business plan during the first three years and obtain FDIC approval for any proposed material deviation or change. Does the FDIC have different expectations with respect to business plan content for business plan changes? (April 2016)

A. No, the FDIC expects the same content (as detailed in the Interagency Application instructions) and an appropriate degree of sound planning for any proposed business plan changes. Aspects of the original plan that are affected by the proposed changes may require further development or expansion to demonstrate that the necessary staffing resources, policies, and procedures are in place to support the sound implementation of the change. De novo institutions that are contemplating business plan changes are encouraged to contact their Regional Office Case Manager early in the consideration process and before filing an application for a business plan change.

Major Changes to or Material Deviations From a Business Plan

Q. What constitutes a material change to or major deviation from a business plan? (April 2016)

A. Business planning is a means to set the future direction of an institution and should be a fundamental component of each institution's management processes. The board of directors and management should devote sufficient time and attention to business planning in order to adequately and periodically assess the institution's internal and external environments and, as appropriate, consider whether the established business plan should be updated.

Changes, depending on their significance as described below, may result from a number of management decisions or changes in circumstances that affect the institution. The following items have generally been determined to be material changes to, or major deviations from, established business plans:

- Growth, including overall and within balance sheet subcategories;
- Changes in asset mix, including within subcategories of assets;

- Changes in liability mix, including within subcategories of deposits or other funding sources;
- Changes in revenue mix, including within subcategories of revenue;
- Changes in product or service offerings, including the introduction or discontinuation of products or services that would lead to a concentration in the remaining offerings;
- Changes in target markets, including customer, product, service or geographic markets;
- Changes in off-balance sheet activities, including funding commitments, hedging or other derivative activities, or trust activities;
- Capital-raising activities not reflected in the existing business plan;
- Acquisitions or assumptions, including assets, deposits or operating entities, that are not reflected in the existing business plan;
- Development of organizational dependencies with respect to banking activities or operations, including dependencies with affiliates, subsidiaries or other third-parties;
- Changes in business development methodologies, including the use of third-party relationships and loan- or deposit-production offices to solicit banking relationships, originate or settle transactions, or process transactions;
- The establishment or extension of transactional delivery channels, including the use of branch or production offices (loan or deposit), electronic platforms or social media with transaction-making capabilities not reflected in the existing business plan; or
- Changes in operations or processing, including with respect to transaction or funds flow.

Generally, "material" or "major" business plan changes or deviations include those that would:

- Increase assets or balance sheet subcategories (such as types of loans or deposits, other funding or capital) or overall revenue or revenue subcategories by 25 percent or more;
- Present a distinctly new or different business strategy or objective not reflected in the existing business plan;
- Introduce a distinctly new or different target market, delivery channel, or method of business development that is not reflected in the existing business plan;
- Change the institution's financial strategies or its performance, condition, risk profile, or prospects such that the changes are considered consequential;
- Result in the acquisition of assets, an operating entity, or the assumption of deposits;
- Introduce, alter, or expand organizational relationships, dependencies, or interdependencies, whether through affiliates, subsidiaries, or other third parties, such that the manner in which the institution implements or carries out its business strategies or objectives is impacted; or
- Require distinctly new or different knowledge, skills, or abilities to implement the new strategy or achieve the proposed goals and objectives.

To the extent an institution is subject to a condition requiring the FDIC's prior approval or notification with respect to material changes to or deviations from an established business plan, the FDIC will review the matter under the framework of the statutory factors in Section 6 of the FDI Act. Questions regarding business plan changes or deviations should be directed to the appropriate FDIC Regional Office.