

# Charter Conversion

Indiana Department of Financial Institutions  
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Indianapolis, IN 46204  
[www.in.gov/dfi](http://www.in.gov/dfi)

# Agenda

DFI introductions and background

The Charter Conversion Process

State Regulation Overview

# Department of Financial Institutions

## DFI

- Formed in 1933
- Regulates Banks, Credit Unions, and Non-Depositories.

## Members

- Bi-partisan seven-member board represents Industry and general public
- Appointed by Governor

## Staff

- Director is appointed by Governor and is CEO
- Total Staff of 48 with 17 years average tenure

# Indiana Domiciled Institutions

## By the Numbers\*

	State Banks & Thrifts	Federal Thrifts	National Banks
Total Assets	\$44 Billion	\$4 Billion	\$26 Billion
Number	91	20	13
Median Size	\$205 Million	\$191 Million	\$453 Million

\*as of December 31, 2014

# Conversion Process

Board and  
Management

- Adopt Board Resolution to Convert
- Adopt Plan of Conversion
- Notify OCC of intent to convert and File DFI Application (Form 50276)

DFI

- Consult with FDIC/FRB and OCC (File Appropriate Federal Applications)
- Conduct Conversion Examination and Compliance Review
- Submit application to DFI Board for consideration

Board and  
Management

- Submit Conversion for approval of “voting parties”
- File Articles of Conversion with DFI and Secretary of State
- File approved Articles of Conversion with County Recorder

# Compliance with Federal Law

- Section 612 of the Dodd-Frank Act restricts Charter Conversions of Troubled Banks
- Converting Institution must send a copy of the conversion application to OCC when the application is filed with the DFI (Section 612(e)(1))
  - Review Interagency Statement on Section 612 of the Dodd-Frank Act adopted November 26, 2012
  - CAMELS Rating and Compliance Rating are 1 or 2
  - Satisfactory CRA Rating
  - Meet Minimum Capital Requirements (12CFR Part 567)
  - No Formal or Informal Regulatory Agreements

# Conversion Examination by DFI

- DFI Examination Scope depends on:
  - The results of most recent OCC examination
  - Current operating ratios and trends
  - Risk profile of the institution
  - Strength of the parent company
- DFI will request that the FDIC/FRB participate in the conversion examination
- DFI will conduct a compliance examination under the Uniform Consumer Credit Code
- Conversion Examination time is billed on actual expenses of \$80 per hour.
  - Conversion fees are capped at \$30M

# Non-Conforming Assets

- Real estate development projects
- Bank-owned Life Insurance
  - In excess of 15% (of capital) per company or 25% (of capital) in aggregate.
- Equity investments or Limited Partnerships in Community Development Projects, New Markets Tax Credits Projects or other projects of a predominantly civic, community or public nature
  - May not exceed 5% of capital and surplus without written prior approval of the Director
    - Director shall consider whether:
      - (1) the aggregate of all equity investments poses a significant risk to the deposit insurance fund; and
      - (2) institution is adequately capitalized.
  - May not exceed 15% of capital and surplus under any circumstance

# Disposition of Non-Conforming Assets

- Statute allows a ten-year maximum transitional period to dispose of non-conforming assets
  - Wind up any activities legally engaged in by the converting savings association.
  - Retain any asset legally held by the savings association that is not authorized for a Bank.
- Submit a plan to be approved by DFI that addresses the disposition of non-conforming assets.

# DFI Conversion Finding

- The Department may not approve the Plan of Conversion unless the following criteria are met:
  - The bank will operate in a safe, sound, and prudent manner.
  - There will not be inadequate capital, unsatisfactory management, or poor earnings prospects.
  - That management or other principals of the savings association are qualified by character and financial responsibility.
  - The interests of the depositors, the creditors, and the public generally will not be jeopardized.
- The board will be requested to adopt a resolution committing to correct examination issues upon conversion.

# DFI Assessment Process

- Fees are established annually by the seven-member board of the DFI.
- IC 28-11-3-5 requires fees to be based on the proportionate expenses incurred by DFI.
- Fees are based on Total Banking Assets plus a separate schedule based on Total Trust Assets.
- Volume Fee are based on “consumer credit” originations at \$6 per \$100,000 of loans.

# DFI Fee Comparison with OCC

Asset Size	Indiana Fee*	OCC Fee**	% DFI Fee to OCC Fee
\$50 MILLION	\$9,759	\$32,387	30.13%
\$100 MILLION	\$13,812	\$51,626	26.75%
\$500 MILLION	\$44,852	\$140,132	32.01%
\$1 BILLION	\$82,682	\$245,952	33.62%
\$10 BILLION	\$488,290	\$1,558,674	31.33%

\*Does not include trust assets or potential surcharge of 12.5% to 25% based on regulatory rating.

\*\*Does not include trust assets or potential surcharge of 50% to 100% based on regulatory rating.

# Central Point of Contact Program

A field examiner is assigned to each institution as a Central Point of Contact (CPC).

CPC will direct supervisory strategy

- Develop strategy based on prior ratings, off-site analysis, and emerging trends

CPC will communicate with and respond to Senior Bank Management.

- Refer issues to appropriate DFI personnel
- Maintain a dialogue with FDIC /FRB representatives

# Examination and Supervision

- Banks less than \$500 million - (1 or 2 rated)
  - Alternate with FDIC/FRB every 18 months
- Banks over \$500 million – (1 or 2 rated)
  - Alternate with FDIC/FRB every 12 months or
  - Joint examination with FDIC/FRB every 12 months
- Banks rated 3 or worse
  - Joint examination every 12 months
  - Visitation during intervening 6 months

# Examination and Supervision

- Trust, BSA/AML and Information Technology are all conducted with regular examination
- DFI conducts a periodic compliance examination for Reg. Z and UCCC compliance
- FDIC/FRB conducts a separate compliance examination for Federal Compliance and CRA
  - Schedule is based on institution size and ratings

# Asset Liability Management

- Board Oversight and Policy Review
  - Committee Structure, Policy Deviations, and Board Reporting
    - Board Reporting at least quarterly with appropriate minutes
  - Risk Assessment, Risk Limits, and Contingency Plans
- ALM Model Review
  - Cover up to 24 Months with Rate Shocks up to +/- 400bp
  - Independent review of model and back-testing required
  - Providers: ProfitStar, Fiserv, Bancware, Risk Analytics, Baker Group
- Review FDIC FILs: 46-2013; 2-2012; 2-2010; and, 52-96

# Other Considerations

- State Banks have parity with National Banks
- Lending limit is the same as a National bank.
- Limitations are consistent with Federal law
  - Insider transactions (Regulation O)
  - Affiliated entities (23a and 23b)
- Other Real Estate holding period is 10 years
- Dodd-Frank
  - Authorized Interstate branching
  - Scaled back federal preemption
  - The word “Federal” may be retained in the converted bank name. National or NA may not be used.

# Application Links

- Application to Convert
  - [http://www.in.gov/dfi/files/50276 Application to convert .pdf](http://www.in.gov/dfi/files/50276)
- Financial and Biographical Report
  - <http://www.in.gov/dfi/files/Bio-FinReport.pdf>
- Articles of Conversion
  - [http://www.in.gov/dfi/files/50280 Articles of Conversion .pdf](http://www.in.gov/dfi/files/50280)

# DFI Contact Information

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