

# Charter Conversion

## The Indiana Alternative

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 CEO and appointed by Governor
- Professional Staff of 60 with 17 years average tenure

# Indiana Domiciled Institutions

## By the Numbers\*

	State Banks & Thrifts	Federal Thrifts	National Banks
Total Assets	\$35 Billion	\$9 Billion	\$21 Billion
Number	93	37	16
Median Size	\$181 Million	\$151 Million	\$314 Million

\*as of December 31, 2010

# Conversion Process

Board and  
Management

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

DFI

- Consult with FDIC and OTS/OCC
- Conduct Conversion Examination and Compliance Review
- Submit application to DFI Board for consideration

Board and  
Management

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

# Notification to OTS/OCC

- Dodd-Frank restricts Charter Conversions when an enforcement action exists
- Notification to OTS/OCC is expedited if:
  - 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

# DFI Conversion Application

- Board Resolution to Authorize Conversion
- Adoption of Plan and Articles of Conversion
- Notification to OTS/OCC is expedited if:
  - 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
- Application is filed with the DFI

# Conversion Examination by DFI

- DFI Examination Scope depends on:
  - The results and recency of OTS examination
  - Current operating ratios and trends
  - Risk profile of the institution
  - Strength of the parent company
- DFI will request that the FDIC participate in the conversion examination
- DFI will conduct a compliance examination under the Uniform Consumer Credit Code

# 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 based on “consumer credit” originations at \$12 per \$100,000 of loans.
- Conversion Examination time is billed on actual expenses of \$80 per hour.

# DFI Fee Comparison with OCC/OTS

Asset Size	Indiana Fee*	OCC Fee**	% DFI Fee to OCC Fee	OTS Fee	% DFI Fee to OCC Fee
\$50 MILLION	\$10,061	\$30,309	33.19%	\$24,094	41.76%
\$100 MILLION	\$14,239	\$48,312	29.47%	\$39,205	36.32%
\$500 MILLION	\$46,239	\$131,129	35.26%	\$127,822	36.17%
\$1 BILLION	\$85,239	\$230,148	37.04%	\$231,162	36.87%
\$10 BILLION	\$503,392	\$1,458,528	34.51%	\$1,625,747	30.96%

\*Does not include trust assets or potential surcharge of 25% to 50% based on regulatory rating.

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

# Examination and Supervision

- Banks less than \$500 million - (1 or 2 rated)
  - Alternate with FDIC every 18 months
- Banks over \$500 million – (1 or 2 rated)
  - Alternate with FDIC every 12 months or
  - Joint examination with FDIC 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 conducts a separate compliance examination for Federal Compliance and CRA
  - Schedule is based on institution size and ratings

# 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 representatives

# 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 +/- 300bp
  - Independent review of model and back-testing required
  - Providers: ProfitStar, Sendero, Bankware, Risk Analytics
- Review FDIC FIL 2-2010 and FIL 52-96 for guidance.

# Disposition of Non-Conforming Assets

- Statute allow 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.

# 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
  - For projects of predominantly civic or community or nature
    - Limited to 2% of capital and surplus per project
      - 5% of capital and surplus in aggregate
      - Up to 10% of capital and surplus with approval of DFI
    - Projects involving New Markets Tax Credits have an allowed investment of 5% of capital and surplus.
    - All together - investments are limited to 15% with approval

# Financial Reporting

Thrift Financial Report will be discontinued after December 31, 2011.

- Call Reports will be submitted through the FFIEC Central Data Repository on March 31, 2012.
- OTS Branch Office Survey will be replaced by the FDIC Summary of Deposits as of June 30, 2011.

Uniform Thrift Performance Report (UTPR) will be replaced by the Uniform Bank Performance Report (UBPR)

SLHC reporting scheme phased out after 2011.

- BHC Consolidated and Parent Company Only reports will likely be required going forward.
- Semi- annual under \$500 Million Y9-C and Y9-SP (small Parent)
- Quarterly Reporting over \$500 Million Y9-C and Y9-LP (Large Parent)

# 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

# Application Links

- Application to Convert
  - <http://www.in.gov/dfi/50276> Application to convert.pdf
- Financial and biographical report
  - <http://www.in.gov/dfi/Bio-FinReport.pdf>
- Articles of Conversion
  - <http://www.in.gov/dfi/50280> Articles of Conversion.pdf

# Contact Information

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