


**MEMORANDUM**

**TO:** Chief Executive Officers of All Alabama State-Chartered Banks

**FROM:** John D. Harrison  
Superintendent of Banks 

**SUBJECT:** **Property Acquired for Future Expansion and Branch Applications**

**DATE:** January 1, 2016

This memorandum supersedes the Memorandum of February 2, 2010 which addressed property acquired for future expansion and branch applications. This memorandum is issued to update and provide further clarification of department policy regarding acquisition and holding of property acquired for future expansion as well as branch applications.

**Property Acquired for Future Expansion**

Effective January 1, 2016, letter notification is required within 10 days after the acquisition of property to be held for future expansion. Property acquired for future expansion includes property where construction on bank premises will not begin for an indeterminate time or where the bank has purchased the property as a site for possible future bank premises. Purchases of real estate for purposes other than bank premises must be approved in advance by the Superintendent.

The letter notification should state the street address (or best location description if no street address available) of the property, the purchase price, and full details of any insider<sup>1</sup> involvement in or benefit received or to be received from the acquisition of the property. Also, the bank should provide the Superintendent with full details on the acquired property

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<sup>1</sup> Insiders include: Anyone employed by the bank or an affiliate of the bank; any director of the bank or an affiliate of the bank; any individual, firm, or company providing professional services including audit, legal, loan review, or appraisal services to the bank or an affiliate of the bank; and any relative or related interest of the bank's or affiliate's director, employee, or professional service provider.

including: the size of the acquired property (in feet or acreage), the planned use for the property (such as main office, operations center, branch, ATM, etc.), the reasons for the bank's selection of the specific property, and the estimated date by which construction of bank premises will begin. While notice only is required for acquisitions of property for future expansion, the Superintendent reserves the right to object to such acquisitions and demand divestiture in the event of earnings problems resulting in a troubled condition or in the event of improper insider involvement in the acquisition.

Also, while notice only is required for such acquisitions, written approval of the Superintendent must be obtained for a bank to hold such property on its books as property for future expansion for a period of longer than five years from the date of the property's acquisition. A bank making such request should provide the Superintendent with the current book value of the property, the acquisition date of the property, the reasons for not having started construction of bank premises on the property, and its expectations for using the property for future expansion. If the bank abandons its plans to use the property for bank premises, it should immediately move the book value of the property to Other Real Estate. If construction of bank premises on the property has not begun within the five years and the approval of the Superintendent for an extension to allow the property to be held in property for future expansion has not been obtained, the bank will be required to move the book value of the property to Other Real Estate on its books.

### **Branch Applications**

A letter application is required for all Alabama, State-chartered banks wishing to establish a new branch office. This letter application should state the street address, city, county, and state where the proposed branch will be located, and full details of any insider involvement in or benefit received or to be received from the establishment of the branch including its acquisition, construction, equipping, furnishing, leasing, or ownership. The required branch application fee should also be enclosed with the letter application. Alabama, State non-member banks may choose to submit full application details electronically using FDICconnect. Banks choosing to submit the full branch applications using FDICconnect, should put a notation in the letter application to the Department referencing the full application details having been submitted electronically.

The application should be made to the Superintendent and approval received before construction begins on the new branch location. The Superintendent may require additional information before approving or denying a branch application. As appropriate to the individual bank, the following (or any other) additional information may be requested:

- 1) Projections for branch and whole-bank deposits, assets, and loans as of the end of the first, second, and third years of branch operations;
- 2) Complete information (including a résumé showing complete past job history and education) on the experience/qualifications of each officer, manager, and loan officer to be employed at the branch;
- 3) Complete information on the scope of internal and external audit activities to be performed at the branch or on branch activities/transactions;
- 4) Complete information on the staffing, qualifications (including résumés as required in 2 above), and independence (with a complete description of reporting and all duties performed) of the bank's internal audit function;
- 5) Complete information on the scope of loan review to be performed at the branch or on branch activities/transactions;
- 6) Complete information on the staffing, qualifications (including résumés as required in 2 above), and independence (with a complete description of reporting and all duties performed) of those performing the loan review function;
- 7) Complete details on any insider involvement associated with the purchase of branch property or construction;
- 8) Information on the bidding process for branch construction including the name of the firm to do construction and copies of all bids received; and
- 9) Cost estimates for the branch including a breakdown for land, building, furniture, fixtures, and equipment.

The Superintendent may also issue a conditional approval of the branch application. If a conditional approval is issued, the Bank's board of directors may be required to officially accept the required conditions. Typical conditions may include one or more of the following:

- 1) Minimum tier-one leverage capital ratio to be maintained (minimum 8% - generally in perpetuity).
- 2) Immediate capital injection needed. If application or review examiner projections show that the bank's tier-one leverage capital ratio will fall below expected minimums, with no consideration for any earnings, as of the end of the third year of branch operations, a capital injection may be required.

- 3) Requirement to establish adequate loan review program/system (may require outside loan review).
- 4) Requirement that adequate internal audit program be established.
- 5) Requirement that adequate internal control program be established.
- 6) Requirement that adequate management be provided.
- 7) Requirement that certain problems noted in last examination report be satisfactorily addressed and corrected.

Within 30 days of the branch opening for business, the bank must provide a letter notifying the Superintendent of the exact date on which the branch opened.