

**STATE OF LOUISIANA
OFFICE OF FINANCIAL INSTITUTIONS
BATON ROUGE, LOUISIANA**

INSTRUCTIONS FOR COMPLETING APPLICATIONS

I. FACTORS TO BE CONSIDERED

A. FINANCIAL HISTORY AND CONDITION

1. **General** - Proposed new financial institutions have no financial history to serve as a basis for determining qualification. Some consideration may be given to the history of financial institutions presently and formerly operating in the area of the proposed financial institution.

A branch system must be measured in terms of the whole and not in terms of a part. Consequently, the emphasis is placed upon the financial history and condition of the applicant financial institution, rather than upon the projected financial condition of the subject branch alone.

General quality of an applicant's assets must be satisfactory and at least on par with that of average similar state financial institutions. This will, however, have only limited application in the case of a proposed or newly organized financial institution, since the assets will consist largely of cash, balances due from financial institutions, and fixed assets.

2. **Premises to be Occupied by the Financial Institutions**
(This Section will not be required for applications of "Phantom" financial institutions.)

Applicant's aggregate direct and indirect fixed asset investment, including lease obligations, must be reasonable in relation to its projected earnings capacity, capital, and other pertinent basis for consideration. Investment in fixed assets shall not exceed 45 percent of equity capital and reserves for a new financial institution or 50 percent of equity capital and reserves for an existing financial institution, except with the prior written approval of the commissioner.

- a. **Description of Premises** - Fixed assets are of primary concern in analyzing the asset condition of a proposed or newly organized financial institution. These assets should be listed and described in detail.
- b. **Premises Leased** - If the leasing of premises is contemplated either through a real estate subsidiary of the proposed financial institution or otherwise, the terms of the lease are to be outlined and subject to the approval of the commissioner. A copy of the proposed lease must accompany the application, along with a statement from a Certified Public Accountant stating whether the lease is to be considered an operating lease or a capitalized lease according to the provisions of the Statement of Financial Accounting Standards #13 - Accounting For Leases.

- c. **Premises Owned** - If the premises is to be owned, the following information is required, if applicable: the original cost of the premises at time of construction with a breakdown between land and building; original cost to applicant; date of construction; reasonableness of purchase price; from whom purchased; insurance to be carried; assessed value; prospective or immediate repairs or alterations; estimated useful life of the building as of the beginning of business.
- d. **Temporary Quarters** - In applications anticipating the use of temporary quarters pending construction or renovation of permanent facilities, details should be provided regarding the location of the site in relation to the EXACT address of the permanent location.
- e. **Proposed Investment In and Rental of Furniture, Fixtures, and Equipment** - A listing of investment in furniture, fixtures, and equipment should include cost, if owned, or annual rental, if leased; total property and casualty insurance to be carried; and total annual depreciation. If leased, copies of proposed contracts and leases should be submitted for the confidential use of the Office of Financial Institutions.

The new financial institution will provide procedures, security devices, and safeguards which are in compliance with state and federal laws and regulations.

- f. **Relationships and Associations with Financial Institution** - Any sellers or lessors of land, building, or equipment directly or indirectly associated with applicant must be disclosed and the nature of the association identified.
3. **Organizational/Application Expenses** - Legal fees, professional assistance fees, and other organizational expenses are to be supported by a detailed account of the services rendered and subject to approval of the commissioner. Organizational expenses shall be accounted for as outlined in the Instructions for Reports of Condition and Income.
 4. **Predecessor Financial Institution** - If the proposed institution is to assume, in whole or in part, the operations of any other financial institution, give a brief history of that financial institution and the assets and liabilities to be assumed.

B. DISTRIBUTION AND ADEQUACY OF THE CAPITAL

1. **General** - Adequacy of the capital shall be determined by the commissioner in light of the location of the proposed financial institution, the projected nature of its business, future growth potential, projected future earnings, and the quality of management.
2. **New Financial Institution** - It is recommended that the distribution of stock be broad based; however, ownership by a limited number of individuals will be allowed subject to the approval of the commissioner. A paid-in surplus of 50 percent of the capital stock is recommended and deemed advisable.
 - a. **Proposed Paid-in Capital** - The number of shares of stock and its par value are to be scheduled. The actual price per share of the stock should be stated; and, in cases where an additional amount per share is assessed to

cover organizational and pre-opening expenses, that amount shall also be identified.

b. **Stockholders** - Applicant shall attach, and make part of the confidential section of the application, a copy of the stock subscription form and prospectus, if any, which will be used in connection with the issuance of capital stock. In addition, a substantially complete list of stock subscribers must be submitted.

c. **Authorized but Unissued Shares of Stock** - Plans for distribution of any authorized but unissued shares of stock must be included in the application.

3. **New Branch** - Distribution and adequacy of capital structure should be considered in terms of the financial institution and all of its branches. An existing financial institution should have capital sufficient to support the volume, type and character of the business conducted and projected, as well as, permit the institution to continue to meet the reasonable credit requirements of the community served. If an increase in capital of applicant is proposed prior to the establishment of the branch, details should be included in the application.

4. **Estimated Deposits** - Adequacy of capital structure and future earnings prospects to support projected growth must be considered. Data and assumptions used to arrive at the estimated deposit growth must be included in the application. In the case of a proposed branch, any deposits to be transferred from the main office or existing branches must be excluded.

C. FUTURE EARNINGS PROSPECTS

(This Section will not be required for applications of "Phantom" financial institutions.)

1. **New Financial Institution** - Allowing a new financial institution to commence operation without some indication that it can be operated profitably not only creates a potentially unsatisfactory situation but could also have a detrimental effect on other competing financial institutions. A new financial institution may not be profitable for at least the first year. Applications, therefore, should make estimates of operating income and expenses for the first three years of operation, using among other things, the projection of deposit volume made in connection with the "Distribution and Adequacy of the Capital" factor [B.4.].

In determining future earnings prospects, applicants must estimate the probable income from loans and discounts, bonds and securities, service charges and commissions, and other sources of income. Assistance in this task may be obtained from evaluating proposed lending policies and interest rates; the demand for loans in the area and types thereof; the probable nature of the financial institution's investment policy; the amount of the time and demand deposits likely to be acquired; the probable competitive reaction from existing financial institutions; the economic conditions in the community; the possibility of future development or retrogression in the area, and the apparent business expertise of the financial institution's management. In addition, estimates must be made for expenses such as salaries and other employee benefits; interest; occupancy and equipment outlays; electronic data processing service costs; cost of fidelity bond coverage; establishment of an adequate loan loss reserve; deposit insurance premiums; state assessments, and other current operating expenses. Assumptions used to calculate income and expenses should be included in the comment section.

2. **New Branch** - When considering an application for a new branch, the future earnings prospects evaluation is based on income and expenses of the branch, as well as, its influence on the financial institution as a whole.
3. **Acquisition of Failed or Failing Financial Institution** - When an existing financial institution is making application based on the acquisition of a failed financial institution, applicant must provide pro forma financial statements which include current financial information; proposed assets and liabilities to be acquired, and three years of projected financial data (balance sheet and income statement) resulting from the acquisition. Pro forma should include any assumptions made to arrive at projected financial data.

D. GENERAL CHARACTER OF MANAGEMENT

The quality of a financial institution's management is vital and is perhaps the single most important element in determining the applicant's acceptability. The successful operation of a financial institution requires management's real interest in its welfare, as well as their ability and willingness to devote a substantial amount of time to the affairs of the financial institution.

1. **New Financial Institution**

- a. The management of a proposed or newly organized financial institution may not have an operating record as a functioning unit. The application should, therefore, contain a schedule giving the name, address, date of birth, total assets, liabilities, and net worth of each director, officer, and five percent stockholder, including, with respect to each, the following information:
 - i. **Financial Institution and Business Experience** - Comments should detail present occupation or profession and past experience with financial institutions, business, farming, or other experience. Indicate all firms, companies, corporations, and organizations for which a given director, officer, or five percent stockholder is deemed to have control as defined by Federal Reserve Board's Regulation O and/or §23A of the Federal Reserve Act.
 - ii. **Proposed Duties and Responsibilities in a Financial Institution** - Outline the duties and responsibilities, as well as the proposed title of each officer and director. Copies of any proposed or current employment contracts with any director, officer, or five percent stockholder must be attached to the confidential section of the application.
 - iii. **Financial Responsibility** - Current financial statements must be furnished for each proposed officer, director, five percent stockholder, and any firms, companies, corporations, and organizations in which a given director, officer, or five percent stockholder is deemed to have control as defined by Federal Reserve Board's Regulation O and/or §23A of the Federal Reserve Act.
- b. **Business Plan** - Long-term, as well as short-term, planning is critical to the success of a new bank. A sound Business Plan is considered a critical part

of the application. The Plan should determine the feasibility of a new institution in the trade area as well as outline the goals, objectives, and strategies of the proposed directorate. At a minimum, the Business Plan should:

- i. Set goals and objectives for performance of Management and the proposed bank;
 - ii. Provide for a method of monitoring and evaluating performance;
 - iii. Communicate to Management and other employees their duties and responsibilities, and
 - iv. Include proforma financial statements (balance sheet and income statements) for a minimum three-year period which reflect implementation of the strategies outlined within the Plan.
- c. **Integrity of Management** - No person shall serve as a director, officer, or employee of a financial institution, or be a five percent or greater stockholder, who has been convicted, or who is hereafter convicted, of any felony or criminal offense involving dishonesty or a breach of trust. If it is found that criminal proceedings have at any time been instituted or fidelity insurance canceled with respect to any officer or director, or if there is any doubt concerning the integrity of any director or officer, a thorough investigation of all surrounding circumstances shall be conducted and may result in the disapproval of said officer or director.
- d. **Ownership** - Control by several individuals or a group of stockholders, as well as any contemplated or existing buy-sell, voting trust, or proxy agreements between various individuals or other entities, such as holding companies, shall be reported. Copies of any such agreements shall be furnished by the applicant or proponents involved.

A list of stock subscribers shall be submitted including therein at least the following: name; address; occupation; the number of shares per individual subscriber; the par value and the purchase price of the stock, and any arrangements including the source of financing and the collateral pledged on any loans, the proceeds of which are to be used for the capitalization of the proposed financial institution. Financing arrangements of stock purchased must be approved by the commissioner. Generally, for a new institution, direct or indirect financing by any director, officer or five percent shareholder is limited to 75 percent of the purchase price of the stock subscribed by any one individual or aggregate financing of 50 percent of total capital.

A written statement shall be submitted by proponents that no commissions have been or will be paid in connection with the sale of stock (applicable to bank or bank holding company issuances). However, with the prior approval of the commissioner, commissions may be allowed in certain circumstances. Also required is a detailed listing of estimated fees to be paid in connection with organization of the new financial institution, including a breakdown of the names of people or companies to whom said fees are to be paid.

e. **Changes in Management or Ownership** - The commissioner has found that on occasion, subsequent to the approval of an application and prior to the actual opening of a proposed new financial institution, changes have occurred in the management or ownership. The commissioner must approve any such changes in management/ownership. Accordingly, in order to monitor such changes, the commissioner requires that the prospective incorporators advise, in writing, if changes in the directorate, active management, or in the ownership of stock of five percent of the total subscribed capital be made prior to opening. In addition, any employment contracts or other contracts involving directors, officers, or five percent shareholders entered into subsequent to filing of the application must be approved by the commissioner.

2. **New Branch** - The management of a new branch should be fully reported as to qualifications and experience. Describe the lending or other authority to be exercised by branch officials and supervision to be maintained over branch activities by the main office.

3. **"Phantom" Financial Institution** - Applicant must provide a list of all proposed directors, officers, and five percent shareholders, including name, address, occupation, and title. Any changes in the proposed directorate or active management contemplated or occurring after approval and prior to effective date of the merger with the existing institution must be disclosed and approved by the commissioner.

4. Financial institutions are required to maintain sufficient fidelity bond coverage. A binder or commitment letter from an issuer will facilitate processing of the application; however, proof of coverage must be provided prior to opening for business.

E. **CONVENIENCE AND NEEDS OF THE COMMUNITY TO BE SERVED**

(This Section will not be required for applications of "Phantom" financial institutions or in the acquisition of failed or failing financial institution, or to relocate a main office or branch office.)

Consideration shall be given to the adequacy of existing financial institutions in the community and in nearby communities. A financial institution is unlikely to fulfill a need if it is unable to command sufficient volume to maintain profitable operations.

Consideration will be given to the most recent Community Reinvestment Act (CRA) and compliance examination ratings of applicant, if applicable.

A clear definition of the proposed financial institution's trade area is essential in determining convenience and needs. A brief description of the general area in which the proposed financial institution is to be situated and its location in relation to other nearby communities, developments, or other important landmarks should be initially presented. While it is not required, it would be very helpful to have a professional economic survey made to support the need of a new financial institution. Once the trade area has been defined, information regarding the following shall be set forth:

1. **Economic Data** - The principal industrial, trade, or agricultural activities shall be described and annual values of principal products indicated. The presence and source of large payrolls in the area may also be an important consideration. The number and value of residential and commercial building permits can often be of

considerable value in determining the vitality of the area. Figures regarding retail sales from public sources or trade organizations are useful. Information regarding medical facilities and other professional services can be a useful indicator of the self-sufficiency of the community or trade area. Statistical information on governmental units - such as assessed valuations, tax levies, bonded indebtedness, and tax delinquencies, and data on the educational environment of the area are also valuable indicators. The survey, however, should not be filled with pages of statistics unless the figures are relevant to the area and to the application.

2. **Demographic Data** - Population figures within the trade area, as well as the general surrounding areas, are significant determinants in considering convenience and needs. While the population as of the date of application is important, the survey should also present data which establishes population trends and projections for the future.

In some cases it is difficult to obtain accurate population data for a particular trade area, as statistics combine portions of several census tracts. In some instances, data showing the number of household units in the area may be a more appropriate basis for assessing reasonable population estimates.

3. **Competition** - The survey should include a schedule of all financial institutions likely to be affected by the proposed financial institution, including the name, location, total deposits, and the distance and direction from the proposed financial institution site.

While the number of depository financial institutions operating in the city or area to be served are important in determining whether the addition of a new financial institution can be supported by the market, consideration will also be given to possible competitive consequences flowing from the new financial institution proposal, such as increased customer services and financial options to residents of the area.

4. **Other Supporting Data** - The extent of new or proposed residential, commercial and industrial development, and construction is a significant secondary consideration in resolving the convenience and needs factor. Plans for the development of shopping centers, apartment complexes and other residential subdivisions, factories, or other major facilities near the proposed site, therefore, should be scheduled. In certain instances, the inclusion of maps may be desirable to clarify comments, showing by appropriate identification the name and location of each competing financial institution and the locations of other important buildings, offices, shopping centers, industrial parks, and the like in relation to the financial institution site.

F. CORPORATE POWERS

1. **New Financial Institutions** - The application shall include a copy of the proposed financial institution's articles of incorporation as required by Title 6, §213 of the Louisiana Revised Statutes. Careful attention should be given to see that these articles of incorporation conform to the restrictions contained in Title 6, §213.

LSA-R.S. 6:411 provides that financial institutions may only engage in the business of banking to the extent expressly permitted by the laws under which they are organized.

Other restrictions may be imposed through the requirement that the directors pass certain resolutions. These restrictions shall be enumerated in the conditional letter of approval of the application.

2. **New Branch** - This factor will usually have only limited application in connection with branches.
3. **"Phantom" Financial Institutions** - Shall have only such corporate powers as are necessary to effectuate a merger as provided by LSA-R.S. 6:351, et seq.

II. OTHER MATTERS

A. The following information is required by the commissioner as part of all applications filed for the organization of a new financial institution:

1. A certified copy of a resolution of the board of directors of the proposed financial institution in organization stating:
 - a. That the financial institution shall not pay cash dividends for the first two years of operation without prior written approval from the commissioner.
 - b. That the financial institution shall not exercise Trust Powers without prior written approval from the commissioner.
 - c. The institution shall not apply for a branch office prior to the first regulatory examination without prior written approval by the commissioner.
 - d. No director shall draw any remuneration other than so stated in the application without prior written approval from the commissioner.
 - e. That the financial institution will at all times maintain sufficient fidelity bond coverage on its active officers and employees and will at all times maintain an excess employee dishonesty bond in the amount of \$1,000,000 or more.
 - f. If the sellers or lessors of land, building or equipment are directly or indirectly associated with the proposed financial institution, upon organization, the proposed financial institution will not refinance, directly or indirectly, any loan, advance, or credit extension originally made by any existing financial institution, or others, to any of those individuals for the purpose of obtaining funds to purchase the fixed assets.
2. Any additional requirements that the commissioner deems necessary or desirable to impose.

B. The conditional letter of approval may include, but is not limited to, the following requirements which must be met prior to the issuance of the certificate of authority for a new financial institution:

1. Appropriate certification from financial institution(s) certifying that the new institution has on deposit to its credit a sum equal to the capital funds.
2. The plan for disposition of the authorized, but unissued stock must be submitted to and approved by the commissioner prior to issuance.

3. Appropriate sworn statement by the president and/or cashier that each stock subscription has been paid in full, in cash.
4. Certified copy of resolution of board of directors showing election of principal officers. (If officers are named in the Articles, not necessary.)
5. Evidence that all officers and employees are bonded, name of bonding company, form and amount of bond.
6. Executed Director's Oath of Office. (Forms to be furnished by the Office of Financial Institutions).
7. The Office of Financial Institutions must be notified in advance of opening, the EXACT date of opening, and evidence must be furnished that FDIC insurance coverage will be in effect on the first day of operation.
8. The financial institution or branch will be open within 12 months from the date of the conditional approval. If said financial institution cannot be established within the time specified, the organizers shall submit to the Office of Financial Institutions, in writing, a request for an extension of time or a notice that plans have been abandoned. Otherwise the approval will expire and the file marked closed.
9. Until the conditional approval becomes effective, the commissioner shall have the right to alter, suspend or withdraw said conditional approval should any interim development be deemed to warrant such action.

C. POST CERTIFICATE OF AUTHORITY

LSA-R.S. 6:217 and 6:706 requires filing articles of incorporation and certificate of authority with the Secretary of State of Louisiana and the Recorder of Mortgages of the parish of domicile within 30 days after this Office's final approval of the Bank's application. Certified copies of these filings must be furnished to the Office of Financial Institutions.

December 10, 1998/JPD/DJD:mfa