FEDERAL RESERVE BANK OF DALLAS

2200 N. PEARL ST.

DALLAS, TX 75201-2272

June 13, 2006

Notice 06-27

TO: The Chief Executive Officer of each financial institution and others concerned in the Eleventh Federal Reserve District

SUBJECT

Banking Agencies Issue Host State Loan-to-Deposit Ratios

DETAILS

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency have issued the host state loan-to-deposit ratios that the banking agencies will use to determine compliance with Section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. These ratios update data released on July 7, 2005.

In general, Section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 109 also prohibits branches of banks controlled by out-of-state bank holding companies from operating primarily for the purpose of deposit production.

Section 109 provides a process to test compliance with the statutory requirements. The first step in the process involves a loan-to-deposit ratio screen that compares a bank's statewide loan-to-deposit ratio with the host state loan-to-deposit ratio for banks in a particular state.

A second step is conducted if a bank's statewide loan-to-deposit ratio is less than one-half of the published ratio for that state or if data are not available at the bank to conduct the first step. The second step requires the appropriate banking agency to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank's interstate branches.

For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

A bank that fails both steps is in violation of Section 109 and is subject to sanctions by the appropriate banking agency.

ATTACHMENTS

The updated host state loan-to-deposit ratios are attached.

MORE INFORMATION

For more information, please contact Diane van Gelder, (214) 922-6282, Banking Supervision Department. Paper copies of this notice or previous Federal Reserve Bank notices can be printed from our web site at **www.dallasfed.org/banking/notices/index.html**.

SECTION 109 HOST STATE LOAN-TO-DEPOSIT RATIOS

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the agencies) today are making public the host state loan-to-deposit ratios[1] that the agencies will use to determine compliance with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act). In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 106 of the Gramm-Leach-Bliley Act of 1999 amended coverage of section 109 of the Interstate Act to include any branch of a bank controlled by an out-of-state bank holding company.

To determine compliance with section 109, the appropriate agency first compares a bank's statewide loan-to-deposit ratio[2] to the host state loan-to-deposit ratio for a particular state. If the bank's statewide loan-to-deposit ratio is at least one-half of the published host state loan-to-deposit ratio, the bank has complied with section 109. A second step is conducted if a bank's statewide loan-to-deposit ratio is less than one-half of the published ratio for that state or if data are not available at the bank to conduct the first step. The second step requires the appropriate banking agency to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank's interstate branches. A bank that fails both steps is in violation of section 109 and subject to sanctions by the appropriate agency.

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[1] The host state loan-to-deposit ratio is the ratio of total loans in a state to total deposits from the state for all banks that have that state as their home state. For state-chartered banks and FDIC-supervised savings banks, the home state is the state where the bank was chartered. For national banks, the home state is the state where the bank's main office is located. The home state of a foreign bank is determined by 12 USC 3103(c) and applicable agency regulations at 12 CFR 28.11(o) (OCC), 12 CFR 211.22 (Board), and 12 CFR 346.1(j) (FDIC).

[2] The statewide loan-to-deposit ratio relates to an individual bank and is the ratio of a bank's loans to its deposits in a particular state where the bank has interstate branches.

Section 109 of the Interstate Banking and Branching Efficiency Act

2006 Host State Loan-to-Deposit Ratios
Using Data as of June 30, 2005
(Excludes wholesale or limited purpose CRA-designated banks, credit card banks, and special purpose banks)

State or U.S. Territory	Host State Loan-to-Deposit Ratio
Alabama	89%
Alaska	79%
Arizona	95%
Arkansas	82%
California	82%
Colorado	74%
Connecticut	91%
Delaware	111%
District of Columbia	84%
Florida	84%
Georgia	95%
Hawaii	71%
Idaho	88%
Illinois	90%
Indiana	117%
Iowa	88%
Kansas	82%
Kentucky	99%
Louisiana	81%
Maine	103%
Maryland	92%
Massachusetts	78%
Michigan	104%
Minnesota	94%
Mississippi	83%

Section 109 of the Interstate Banking and Branching Efficiency Act

2006 Host State Loan-to-Deposit Ratios
Using Data as of June 30, 2005
(Excludes wholesale or limited purpose CRA-designated banks, credit card banks, and special purpose banks)

State or U.S. Territory	Host State Loan-to-Deposit Ratio
Missouri	89%
Montana	91%
Nebraska	86%
Nevada	68%
New Hampshire	89%
New Jersey	60%
New Mexico	73%
New York	92%
North Carolina	81%
North Dakota	132%
Ohio	110%
Oklahoma	83%
Oregon	94%
Pennsylvania	85%
Rhode Island	95%
South Carolina	92%
South Dakota	94%
Tennessee	96%
Texas	74%
Utah	83%
Vermont	82%
Virginia	78%
Washington	99%
West Virginia	90%
Wisconsin	105%

Section 109 of the Interstate Banking and Branching Efficiency Act 2006 Host State Loan-to-Deposit Ratios Using Data as of June 30, 2005 (Excludes wholesale or limited purpose CRA-designated banks, credit card banks, and special purpose banks)	
State or U.S. Territory	**Host State Loan-to-Deposit Ratio**
Wyoming	74%
American Samoa	97%
Federated States of Micronesia	28%
Guam	57%
Puerto Rico	93%
Virgin Islands	47%

Due to the legislative intent against imposing regulatory burden, no additional data were collected from institutions to implement section 109. However, since insufficient lending data were available on a geographic basis to calculate the host state loan-to-deposit ratios directly, the agencies used a proxy to estimate the ratios. Accordingly, the agencies calculated the host state loan-to-deposit ratios using data obtained from the call reports and summary of deposits reports, as of June 30, 2005. For each home state bank, the agencies calculated the percentage of the bank's total deposits attributable to branches located in its home state (determined from the summary of deposits), and applied this percentage to the bank's total domestic loans (determined from the call reports) to estimate the amount of loans attributable to the home state. The host state loan-to-deposit ratio was then calculated by separately totaling the loans and deposits for the home state banks, and then dividing the sum of the loans by the sum of the deposits.

Section 109 of the Interstate Act directs the agencies to determine, from relevant sources, the host state loan-to-deposit ratios. As discussed in the preamble to the joint final rule,

Prohibition Against Use of Interstate Branches Primarily for Deposit Production (62 FR 47728, 47731, September 10, 1997), implementing section 109, banks designated as limited purpose or wholesale banks under the Community Reinvestment Act (CRA) were excluded from the host state loan-to-deposit calculation, recognizing that these banks could have very large loan portfolios, but few, if any, deposits. Likewise, credit card banks, which typically have large loan portfolios but few deposits, were also excluded, regardless of whether they had a limited purpose designation for CRA purposes. Beginning in 2001, special purpose banks, including bankers' banks, were excluded because these banks do not engage in traditional deposit taking or lending.

The host state loan-to-deposit ratios, and any changes in the way the ratios are calculated, will be publicized on an annual basis.