

For release on delivery  
Expected 10:00 a.m. E.D.T.

Statement by

J. Charles Partee

Member, Board of Governors of the Federal Reserve System

before the

Subcommittee on Financial Institutions  
Supervision, Regulation and Insurance

of the

Committee on Banking, Finance and Urban Affairs

U. S. House of Representatives

October 17, 1979

I am pleased to appear on behalf of the Federal Reserve Board to testify on several proposed bills before the Committee pertaining to bank holding companies. Because of the broad scope of these bills and the many diverse provisions they contain, it is not possible in my brief prepared remarks to cover all the comments the Board wishes to make. Instead, I will submit for the record an appendix stating the Board's positions on specific sections in the bills, many of which have been covered in previous Board testimony.

By way of background, the nation has experienced rapid changes during the past decade in technology, industry structure and competition in the provision of financial services. To a large extent the proposed bills being considered today represent responses to the changes that are occurring. Some, such as the proposal to permit revenue bond underwriting, are responsive to a perceived need to clarify and update the traditional separation between banking and the securities business. Others, such as the property and casualty insurance prohibitions, represent efforts to protect insurance agents from prospective competition in their business. Proposals to relax regulatory limits on the debt structure of bank holding companies would afford investors greater opportunity to take advantage, through the bank holding company structure, of tax savings and leverage possibilities. Finally, provisions limiting bank mergers and bank holding company acquisitions are intended by their sponsors to maintain a competitive banking system. The common thread of these legislative initiatives is that we are asked to choose among the changes taking place in the market place, encouraging those that are clearly in the public interest and resisting those that appear to have counterproductive or anticompetitive implications.

I would like now to comment on three substantive issues that seem to have generated the most public interest. These are the proposals that would permit banks and bank holding companies to underwrite municipal revenue bonds, that would prohibit the sale of property and casualty insurance by most such companies, and that would prohibit the Board from denying a one-bank holding company formation solely because it involved a bank stock loan with a maturity of up to 25 years.

An aspect of the changing financial landscape which is the focus of H.R. 1539 has been the rapid growth of revenue bond financing by state and local governments. Last year, revenue issues accounted for 60 per cent of all tax-exempt bond offerings--up from 30 per cent in 1960 and less than 10 per cent in the early 1930's when the Glass-Steagall Act became law. That Act confined banks to general obligation bonds and prohibited them from underwriting and dealing in municipal revenue bonds. It did not, however, prohibit them from investing in such bonds for their own accounts.

The Board has frequently considered, and supported, legislation that would permit bank entry into the revenue bond field. After reviewing the issues once again, the Board continues to support extension of bank underwriting and dealer activities to what are essentially investment grade revenue bonds, but wishes to note two concerns. The first is the possibility that certain dealers may have a competitive advantage over others because of differences in tax laws. The second is the need to strengthen those provisions of the bill intended to guard against unsound banking practices.

Arguments in favor of bank underwriting of revenue bonds hinge primarily on the prospect that increased competition would lower borrowing costs of state and local governments. The most noticeable effects of this increased competition would be for those issues now receiving only one or two bids in competitive auctions and for negotiated offerings in which the choice of underwriters is limited. In addition, many banks have extensive

knowledge about the investment needs of their correspondents and customers-- derived in part from their current underwriting activity of general obligation bonds. Finally, secondary market activities by dealer banks would tend to enhance the attractiveness of revenue bonds by increasing their liquidity.

Thus, it is reasonable to conclude that the entrance of banks into the revenue bond market would improve and broaden the market for such issues. Potential savings to issuers, while impossible to quantify, could come from both a reduction in re-offering yields and in average underwriting spreads. Nearly all empirical studies support the contention that there would be at least modest issuer cost reductions.

Opponents argue that the small potential savings are not sufficient to offset the added risk of abuses. The Board believes that these contentions are of doubtful merit. The tenets of sound financial practice and the forces of competition, along with existing regulatory oversight authority, have prevented abuses in the general obligation markets--where banks have long been active--and would be equally applicable in the revenue bond sector. Several provisions in H.R. 1539 are intended to safeguard against conflicts of interest or unsound banking practices, as well as to ensure a monitoring of the competitive effects within the securities industry. The Board believes that these provisions should be tightened somewhat and extended to bank activities in the general obligation market as well.

As indicated, we are concerned that banks might have an unwarranted competitive edge from being able to deduct for tax purposes the interest expense incurred from carrying municipal securities in their dealer positions. We understand that the Treasury is exploring possible methods for reducing this advantage, and we support the effort in this regard.

The proposed limitations on the property, casualty and life insurance agency activities of bank holding companies and their subsidiaries reflect another dimension of the changing competitive environment. They represent attempts to protect independent agencies from prospective competition and as such threaten an adverse impact on the public interest. The Board believes that the benefits of greater competition outweigh the adverse effects, and thus it feels that banking organizations should be allowed to sell credit-related insurance, including property and casualty insurance. In addition to bringing an extra competitive dimension to the industry, the sale of insurance by banks and bank holding companies provides a useful and convenient service to the public, including sales at places that may be poorly served by others.

Part of the rationale for the bill is to prevent potential abuses that may arise when the supplier of credit also has the capability of providing credit-related insurance. But if there is such a problem, surely it is a general one that applies to all types of lenders. To single out bank holding companies and their bank subsidiaries addresses only a portion of the problem. For example, previous congressional testimony suggests that tying and other abuses occur more frequently in the credit life area among non-bank lenders, such as finance companies and auto dealers. Yet these lenders would be permitted to continue to sell all types of insurance.

It is also our view that the various exemptions, such as the \$50 million size exception and the exemption for sales by affiliated finance companies on transactions under \$3,500, would increase rather than decrease bank holding company insurance agency activities by broadening the product lines of smaller companies beyond those now permitted by Board regulation.

With respect to the grandfather provisions, the Board would urge elimination of the prohibition on any expansion in the volume of business done by affected holding companies. Over a relatively short time such a provision would simply eliminate grandfathered companies as effective competitors in this market.

In recent years, investors have used the one-bank holding company form of organization with increasing frequency as a device to facilitate the purchase and sale of small banks. Accommodating provisions in the federal tax law encourage the formation of one-bank holding companies and the issuance of debt as part of the transaction. Excessive leverage may pose a threat to the safety and soundness of the bank being acquired, however, so that the Board has generally denied one-bank holding company applications involving debt financing in excess of twelve years. H.R. 4004 would force a liberalization in that policy by prohibiting the Board from denying a one-bank holding company formation because it involved a loan on bank stock of up to 25 years.

The Board believes that if the permissible maturity of such bank-stock loans is lengthened substantially, there would be a danger that one-bank holding companies would incur excessive acquisition debt and thus reduce or eliminate their capacity to provide financial support to their banks in times of need. Large and extended debt burdens also might induce holding companies to extract sizable dividends from their banks in order to service that debt. If so, this would tend to depress bank capital ratios, perhaps to unsafe levels in some instances.

More lenient debt standards also would broaden the number of potential buyers and tend to drive up the price of banks. Should the price for small

banks become too steep, buyers--in an effort to recover their investment--would be under pressure to maximize bank earnings by moving the bank into riskier loans and investments.

In sum, the Board recognizes that many buyers of small banks need to incur debt in order to make the purchase. Moreover, we support efforts to facilitate the transfer of ownership of small banks. But we believe that debt issued in connection with a bank acquisition must be held within prudent limits and must not place undue strain on either the bank or the holding company's capacity to service that debt. I might note that the Board has ample regulatory authority to alter the financing terms on which bank ownership is transferred through organization of bank holding companies and will research the price, tax and safety and soundness impacts of liberalizing the maturity structure of acquisition debt.

The Board believes developments in the financial sector, and in banking in particular, have been such that there is little or no need for most of the other provisions in the bills under consideration. For example, as Governor Coldwell testified last year on similar competitive proposals, the Board sees no need to impose rigid structural limits on bank or bank holding company expansion. We do, however, continue to favor the proposed clarification of existing law permitting denial of acquisitions, even when the possible anticompetitive effects do not violate the antitrust laws, if the responsible agency believes that the proposed acquisition would not be in the public interest and the anticompetitive effects are not clearly outweighed by probable community convenience and needs factors.

With respect to bank holding company expansion into the nonbanking area, the Board submits that this growth has been strictly controlled and

limited to activities closely related to banking. For example, we have authorized only two minor activities under the 1970 Act that were not already permissible for national banks. Moreover, nonbanking assets still account for less than four per cent of total consolidated bank holding company assets. Further, despite some sizable acquisitions in certain industries such as mortgage banking, consumer finance and leasing, the major thrust of bank holding company expansion to date has taken the form of new undertakings. Such de novo expansion seems to us procompetitive on balance and thus contains sizable potential public benefits.

I can assure you the Board intends to proceed extremely cautiously in permitting new activities, and that we will continue to look very closely at proposals involving significant acquisitions of nonbank activities to assure that they satisfy the net public benefits criteria in the statute. Therefore, we see little need to tighten legislative requirements or for new regulatory constraints. In the Board's judgment, the financial sector will continue to face a rapidly changing competitive environment in the years to come. The present flexibility of the regulatory framework seems to us to provide the best system for responding to the nation's evolving needs.

# # # # # # # # # # # #

**FOR RELEASE ON DELIVERY**

**APPENDIX**

to

**STATEMENT**

by

**J. Charles Partee**

**MEMBER**

of the

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

before the

**Subcommittee on Financial Institutions  
Supervision, Regulation and Insurance**

of the

**Committee on Banking, Finance and Urban Affairs**

**U.S. House of Representatives**

on

**H.R. 1539, 2255, 2747, 2856, 4004**

**October 17, 1979**

Analysis of Those Sections of H.R. 1539, 2255, 2747, 2856, 4004  
of Major Concern to the Federal Reserve System

---

Relevant Sections of H.R.1539, 2255,  
2747, 2856, 3548 and 4004

Subject Matter

Board Position

---

Standards for Bank Holding Company  
Entry Into Bank Related Activities

H.R.2747 - Section 3(a)  
H.R.2856 - Section 6(a)

1. Amends Section 4(c)(8) of the Bank Holding Company Act to provide that non-bank companies may be acquired only after the Board has determined the activity:

a. "to be so closely and directly related to banking or managing or controlling banks as to be a proper and necessary incident thereto, and,"

b. "is likely to produce substantial benefits to the public which clearly and significantly outweigh possible adverse effects."

The tightening of the closely related and public benefits standards in Section 4(c)(8) is opposed by the Board as it appears that it would restrict activities to banking activities rather than bank-related activities. In terms of public benefits, under the proposed test the Board would have to deny nonbanking applications if the benefits were less than substantial or if substantial benefits would only slightly outweigh adverse effects. There is no reason to deny the public the opportunity to derive benefits when there is a reasonable probability that these benefits on balance will outweigh adverse effects. The language deletes the provision of present law that permits the Board to differentiate between activities undertaken de novo and activities commenced by acquisition of a going concern.

Same

2. Adds to the "adverse effects" criteria of 4(c)(8):

a. "interfere with the primary responsibility of a bank holding company or its banking subsidiaries to provide effective banking services to the public."

Expansion under Section 4(c)(8) has primarily taken place to provide more effective financial services to the public. Most of the activities approved by the Board are specialized lending functions which could be performed within the bank,

b. "risk to the financial soundness of a bank holding company or its banking subsidiaries."

but may be carried out more efficiently through a specialized nonbank subsidiary. The few activities approved which are other than specialized lending functions such as data processing or credit life and disability insurance underwriting are complementary to lending and would enhance rather than interfere adversely with the provision of effective banking services to the public. On balance, the addition of these two other considerations to the list of adverse factors to be considered is not necessary and would not improve the regulatory process. Moreover, these factors are already considered by the Board under current criteria.

Same

3. In passing upon specific applications under Section 4(c)(8), the Board is to consider the relative economic size and market power of the bank holding company and the competitors of the proposed affiliate.

The Board feels that in any factual situation where predatory economic behavior would be likely to occur, the application could and should be denied under the present "unfair competition" or "undue concentration of resources" criteria. The Board in applying section 4(c)(8) already considers the proposed factors and, accordingly, feels this proposal is unnecessary.

H.R.2747 -Section 3(a), contains a negative laundry list comprised of (a) - (f) in column two. Coverage by other bills is noted opposite each specific activity.

4. Negative laundry list  
Provides that a list of activities shall by statute be determined not closely related to banking and thus not permissible for bank holding companies:

The Board in principle opposes a negative laundry list.

a. Underwriting of state and local revenue bonds.

H.R.1539

H.R.1539 would authorize banks to underwrite certain State and local revenue bonds subject to certain limitations.

While this activity is currently prohibited by Glass-Steagall, the Board has previously proposed an amendment to Glass-Steagall and supports this legislation. It is expected that slightly lower borrowing costs could result due to a new class of competitors in this market. The legislation contains specific provisions intended to protect against conflicts of interest or unsound banking practices. The Board supports these provisions and feels they should be made applicable to dealing and underwriting of both revenue bonds and general obligations; however, the Board feels it is critical that the liability of an individual association dealer or underwriter in an undivided syndicate reflect only its proportionate interest in that syndicate for the purpose of determining its 10 per cent capital and unimpaired surplus limitation. Finally, as an additional safeguard, the Board urges that after an underwriting syndicate is terminated 30 days elapse before covered securities may be purchased by an association dealer or underwriter for its investment account.

b. Selling or distributing any securities except securities of the bank holding company, of the U.S., or deposit-like securities of a subsidiary bank.

The proposal would impose on bank holding companies standards stricter than Glass-Steagall which prohibits a bank affiliate from being engaged principally in sale or distribution of securities. This item prohibits bank holding companies from underwriting general obligation bonds which is clearly permissible for banks under Glass-Steagall. The Board opposes such a prohibition as the activity has been permissible and was legal in the past.

**c. Serving as investment adviser to collective investment funds, investment companies, and other collective investment vehicles except the traditional commingled investment fund.**

**This legislation would invalidate investment advisory services already determined by the Board to be closely related, such as (1) advising an REIT; (2) sponsoring a closed-end investment company; and (3) providing investment advice only to investment companies and other collective investment vehicles. The Board opposes the prohibition of this activity as**

d. Prohibits engaging in the business of small denomination debt obligations sold directly to the public at interest rates greater than Regulation Q.

- e. Other prohibited activities:
- (1) real estate brokerage
  - (2) real property management
  - (3) land development
  - (4) real estate syndication
  - (5) underwriting of mortgage guarantee insurance

it is an activity which banks were traditionally and historically permitted to perform. The Board considers the activity to be a bank related activity and potentially in the public interest.

The Board has recently considered possible regulatory action with respect to the small denomination debt obligations of bank holding companies and their nonbank affiliates when such obligations are sold directly to the public and bear interest at rates in excess of Regulation Q ceilings established for similar obligations issued by member banks. The Board feels that regulations constraining the issuance of such obligations are unnecessary at this time. However, the Board has advised all bank holding companies that it will be monitoring debt issues registered with the Securities and Exchange Commission by bank holding companies and nonbank affiliates with a view to determining whether the issuance of such obligations is likely to have a disproportionate impact on the deposit flows of other financial institutions or adversely affect the bank holding company itself. Finally, the Board does have the authority to regulate such issues and feels that prohibition by legislation would be the wrong policy.

The Board has found the activities of real estate brokerage, land development, real estate syndication, mortgage guarantee insurance underwriting, general auto leasing, real estate appraisal, and property management not to be closely

- (6) real estate appraisal
- (7) leasing motor vehicles from companies or individuals other than subsidiaries, except incidental leasing of motor vehicles, which is leasing upon the specific request of a bank customer or prospective bank customer for a lease form of financing to suit the customer's tax or other purpose and without prior solicitation, advice, or advertisement by the bank holding company or its subsidiary.

Also in H.R.2856

f. Prohibits a bank holding company from providing insurance as a principal, agent, or broker except:

- (1) credit life and disability insurance, or
- (2) insurance sold in a community (a) of under 5,000 population, or (b) which had inadequate insurance agency facilities, or
- (3) the activity is engaged in by a bank holding company or its subsidiaries pursuant to an application approved prior to June 6, 1978, or
- (4) the activity is engaged in by a bank holding company of less than \$50 million in assets.

related to banking and impermissible, except mortgage guarantee insurance underwriting where the Board's denial was modified in such a way that reapplication in the future is possible. Motor vehicle leasing (within the Board's leasing regulation requiring that the lease be functionally similar to a loan) would appear closely related to banking and potentially yielding net public benefits.

The Board feels that to prohibit this activity to bank holding companies would have an adverse impact on the public interest. The Board's view continues to be that banking organizations should be allowed to sell credit related insurance, including property and casualty insurance. The Board believes that the benefits of such an activity outweigh any adverse effects. In the first place, the permitted activity of banks and bank holding companies in providing this service is pro-competitive. This is an industry where additional competition seems desirable and productive of public welfare. Second, sales of insurance by banking organizations provided useful and convenient service to the public in the past, including sale at locations which are poorly served by others. In addition, on the basis of equity, banking organizations should not be singled out among financial institutions and nonregulated lenders. Prohibiting this activity for banks and banking organizations would adversely affect at least some part of the public, namely those borrowers who would prefer to

purchase their credit related insurance from the lender and under the proposed legislation could not do so.

The proposed exemptions for firms with "less than \$50 million in assets" or for affiliated finance company transactions less than \$3,500 would compound the inequities further. If the concern of Congress is possible abuse of market power, it is not only the overall size of the organization that is significant but also its market presence. A relatively small organization in a small market can exert significant market power while a large organization in a large metropolitan market may have little. Moreover, any market power of banking organizations probably derives from their banking activities; and in markets where their banking activities are either small or non-existent, market power is also likely to be insignificant. The provision would in fact exempt a section of the country--the Midwest--where most of the existing insurance activities take place and where the potential market power problems appear relatively great.

H.R.2255

Same as (f) above, but also would permit;

(1) property and casualty insurance sold in connection with a finance company loan of not more than \$3,500, and

(2) insurance agency activity engaged in by a bank holding company or its subsidiaries on June 6, 1978.

Same.

Standards for Bank Mergers and Bank Holding Company  
Acquisitions of Banks

H.R.2747 - Section 1  
H.R.2856 - Sections 2 and 4

1. Amends Section 3(c) of the Bank Holding Company Act and 18(c) of the Bank Merger Act to prohibit a bank acquisition if the acquiring company would control over 20 percent of the total banking assets held by all banks and bank holding companies located in the State in which the company is located; however, this prohibition shall not apply if the Board finds that immediate action is necessary to prevent the probable failure of a bank and that a less anticompetitive alternative is not available.

The Board has opposed in the past and continues to oppose a rigid overall constraint as interfering with the rights of States to decide what type of banking structure best meets their particular needs. Also, it would prevent the Board from handling cases with the needed flexibility to take into account the unique competitive, structural and other local factors associated with a given State, including the extent and strengths of nonbank competition in the financial sector. This provision would protect existing organizations in some states from actual or potential internal growth through the de novo route, which the Board believes is almost always procompetitive. The provision discriminates against institutions deriving a substantial portion of their business from outside their home state, such as in national or international markets.

H.R.2856 - Sections 2 and 4

2. Authorizes the Board to deny a bank acquisition not amounting to a violation of the antitrust laws if the anticompetitive effects are not clearly outweighed by public benefits in meeting the convenience and needs considerations of the community to be served.

While the Board feels it already possesses such authority, it is on record as favoring this proposal as a desirable clarification of the law.

H.R.2747 - Section 1  
H.R.4004

3. Prohibits the Board from denying a one-bank holding company formation whether the bank's primary supervisor has approved the transaction.

This provision seems to represent a reaction to the "First Lincolnwood" decision of the Supreme Court, which upheld the Board's denial of a one-bank holding company formation. It would shift authority to approve or deny one-bank holding company formations from the Board to the primary supervisor of the bank and would needlessly complicate an already complex regulatory and supervisory framework. It would introduce different standards in different parts of the country, all of which would have to be faced by the Board when an application for the acquisition of a second bank would be filed. The Board would be faced with the problem of either treating similar applicants unequally or possibly causing significant hardships for those holding companies which may have been favored by more lenient standards of its primary regulator.

Financial Considerations

- |                         |  |   |
|-------------------------|--|---|
| H.R. 4004               | 1. Provide that one-bank holding company formations cannot be denied because of a bank stock loan of less than 25 years.   | The Board recognizes the need for a flexible policy, but believes that the determination of an appropriate period should not be legislatively mandated, but rather determined on the basis of actual experience and consideration of the safety and soundness of the institution(s) involved.   |
| H.R. 2747 - Section 1   | 2. One-bank holding company formations cannot be denied if financing is substantially on the same terms, including interest rate and collateral, as commercial loans.  | The Board already has a policy against preferential bank stock loans which seems to work quite well. The provision would raise some difficult questions as to the proper standards.   |
| H.R. 2856- Section 8(a) | 3. Adds to standards in Section 4 of the Bank Holding Company Act that "bank holding companies and their subsidiaries be capitalized and otherwise financed in a safe and sound manner."   | This proposed additional criterion is not needed as under the present criterion of "unsafe banking practices" the Board already takes these considerations into account.  |
| Same                    | 4. Amends Section 4 of the Bank Holding Company Act to provide standards for sound and competitive financing of nonbanking activities, and to prohibit bank subsidiaries from discriminating in favor of their parent holding company or affiliated subsidiaries in making loans or establishing terms and conditions of credit. | The Board feels these provisions are generally consistent with existing Board authority and practices under the Bank Holding Company Act. Bank examiners closely review bank loans to affiliates. Also, bank loans to holding company affiliates are covered by Section 23A of the Federal Reserve Act, and the Board has transmitted a new proposal to Congress to strengthen Section 23A. The provision would also negate some of the public benefits associated with a freer flow of funds within the organizations. |

**H.R.2856 - Section 8(b)**

5. Amends Section 5(c) of the Bank Holding Company Act so that the Board is required to obtain an annual report detailing the terms and conditions of all intercompany loans and investments between the bank holding company and its subsidiaries and between any such subsidiaries. These reports are to be made available to the public.

The Board does not believe these provisions are necessary since it already receives such reports on a quarterly basis from medium and large size bank holding companies. Examiners already carefully review such transactions and the potential reporting burden would be substantial, since intercompany transactions individually would not be material.

Legal and Procedural Considerations

**H.R.2747 - Section 3(a)**  
**H.R.2856 - Section 6**

1. Provides that all Board determinations under Section 4(c)(8) should be on the record, that is, subject to formal administrative hearings.

The Board is on record as strongly opposing this requirement as a step backward in its efforts to speed up the administration of the Act from the time-consuming procedures before the 1970 Amendments. The Board has sought to accelerate the decision-making process in this area in light of the 91-day rule in Section 4(c)(8). Furthermore, this provision would require a formal hearing in rulemaking proceedings even when there are no factual disputes, for instance, where courts and the Administrative Procedures Act recognize the benefits of not requiring an adversary type proceeding. In considering rulemaking proceedings, the Board has indicated that it believes the public interest is best served by having an informal hearing that avoids the cumbersome procedures of a formal adversary proceeding.

H.R.2856 - Sections 3 and 5  
H.R.2747 - Section 2

2. Amends section 11 of the Bank Holding Company Act and Section 18(c) of the Bank Merger Act to provide that U.S. District courts, not Courts of Appeals, are to have jurisdiction over bank acquisitions by holding companies and bank mergers where the resulting organization would control more than 20 percent of total Statewide banking assets.

The Board opposes this provision. The Board's action could be challenged at any time as the District court would not be required to give deference to the Board's opinion and these would be de novo proceedings. In the case of a failing bank the benefits to be derived from immediate action could be lost. The current judicial review procedures, review at the Court of Appeals, have proven satisfactory.

H.R.2747 - Section 1

3. If the Board denies a one-bank holding company formation, the applicant may request a mandatory formal hearing. The Board's final decision shall be made upon a clear preponderance of the evidence in the record at such hearing.

The Board opposes this provision as it would add another step in the process without resolving anything, as most challenges to denials would eventually be brought to court in any event. Moreover, the standard for judicial review of this proceeding, i.e., "clear preponderance of the evidence" is much stricter than is the current standard under the Bank Holding Company Act of "substantial evidence," and would encourage frivolous requests for such hearings.

H.R.2747 - Section 4

4. Amends section 3(a)(4) of the Bank Holding Company Act by providing that acquisition of the assets of a bank by a holding company's banking subsidiary requires the Board's prior approval.

The Board has previously supported legislation that would subject mergers involving bank subsidiaries of bank holding companies to the Bank Holding Company Act. Such an amendment would prevent avoidance of the interstate banking provisions of the International Banking Act by certain foreign bank holding companies. Congress should be aware, however, that such an amendment would effectively prohibit grandfathered domestic multi-State bank holding companies from expanding by merger outside their home States.

Uniform Application of Standards Governing Entry Into  
Related Fields

**H.R.2747- Section 6**

1. Amends section 2(a) of the Bank Holding Company Act to provide that a national bank acting for itself or through an affiliate or subsidiary shall be treated as a bank holding company for the limited purpose of enforcement of the 4(c)(8) negative laundry list of activities, with the exception of insurance.

The Board has opposed, and continues to oppose this provision on the basis that it would lead to an inflexible regulatory structure which would not recognize the fundamental differences between the regulatory concerns relevant to national banks, on the one hand, and nonbanking subsidiaries of bank holding companies on the other. Insofar as the legislation provides that a national bank may not engage, directly or indirectly, in any activity on the negative laundry list, its enactment at the very least would curtail the kinds of activities engaged in by national banks under the incidental powers clause of the National Bank Act.

**H.R.2856- Section 7**

2. Provides that no national bank or subsidiary shall engage in any activity found by the Board to be improper for bank holding companies under Section 4(c)(8) or an improper activity for the bank holding company of which the national bank is a subsidiary.

Same.

Grandfather Provisions

**H.R.2747 - Section 3(b)**

1. This provision grandfathers nonbanking activities lawfully engaged in directly or indirectly on June 6, 1978, but permits the Board, after opportunity for hearing, to terminate such activities for cause. In addition, the holding company is not to permit the size of the nonbanking activities to expand to any significant degree.

The Board objects to the provision preventing a holding company from increasing to any significant degree the volume of business of a grandfathered nonbanking subsidiary. Such a provision would tend to discourage the holding company subsidiary from competing aggressively and meeting the needs of the public. Furthermore, continued inflation and

changing demand for financial services  
would tend to reduce the market shares  
of grandfathered operations to a minimum.

H.R.2856 - Section 6

2. Same as above, but uses grandfather date  
of March 12, 1979.

Same.