

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 71-246
October 15, 1971

To the Chief Executive Officer of the State Member Bank Addressed
in the Eleventh Federal Reserve District:

Quoted below is the text of a letter dated September 29, 1971, to the Urban Affairs Committee of the American Bankers Association with respect to the purchase of stock of Minbanc Capital Corporation by State member banks.

"This is in response to your request for a ruling from the Board of Governors on the question whether State member banks may purchase the shares of Minbanc Capital Corporation, a closed-end investment company which has been formed by the American Bankers Association for the purpose of providing capital to minority-owned banks which do not have ready access to the usual sources of capital funds.

"You indicate that the plan to organize Minbanc was developed by the Urban Affairs Committee of the ABA as part of ABA's attempt to provide an industry-sponsored, privately financed program of assistance to minority-owned banks. The Executive Committee of the ABA's Urban Affairs Committee will constitute an advisory board to Minbanc and the chief administrative officer of Minbanc will be a staff member of the ABA. Minbanc's officers, directors and the members of its advisory board will serve without compensation.

"The stock of Minbanc is to be offered only to ABA member banks or, where State-chartered banks are not permitted to make such investment, to their parent holding companies. The shares will not be freely transferrable but will be subject to an assignable right of first refusal in Minbanc before they may be disposed of for value. It is not contemplated that the right of first refusal will be exercised, except to prevent a transfer to a person other than a bank or a parent bank holding company. Furthermore, it is proposed that Minbanc's shares will be sold to as many ABA member banks as possible; no stockholder will be permitted to hold more than 5 per cent of the outstanding shares of Minbanc. It further appears that a bank's investment in Minbanc shares will be nominal in relation to its capital and surplus.

"It is expected that Minbanc will invest its capital funds in nonvoting securities of minority-owned banks, although its investments may take other forms. The primary criteria to be followed in making investment decisions will be (i) the extent

to which eligible minority-owned banks are unable to avail themselves of traditional forms of capital; (ii) the operating handicaps resulting from lack of sufficient capital; and (iii) the bank's ability to put such capital funds to prompt and productive use; safety and profit on investments will only be secondary considerations. Accordingly, although there may be some income from the ownership of Minbanc shares, it would appear purchasers of such shares will be motivated principally by a civic, rather than an investment purpose.

"As you are aware, section 5136 of the Revised Statutes (12 U.S.C. section 24) which is made applicable to State member banks by the 20th paragraph of Section 9 of the Federal Reserve Act (12 U.S.C. section 335), provides 'Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the Association for its own account of any shares of stock of any corporation'. After a comprehensive review of the legislative history of that provision, the Board has concluded that the purchase by State member banks of Minbanc stock is not within the legislative purpose to which it was directed. Accordingly, the Board is of the view that State member banks may purchase shares of Minbanc stock, to the extent permitted by State law.

"However, in view of the special nature of Minbanc's securities, the Board indicated that examiners for the Federal Reserve Banks would require State member banks to write-off any amount invested in Minbanc's securities in excess of 2 per cent of the investing bank's capital stock and surplus."

Yours very truly,

P. E. Coldwell

President