

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 74-216
August 7, 1974

AMENDMENT TO THE RULES REGARDING
DELEGATION OF AUTHORITY

To All Banks, Bank Holding Companies, and Others
Concerned in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System has amended its Rules Regarding Delegation of Authority, effective July 31, 1974, to authorize the Reserve Banks to approve acquisitions by bank holding companies of (1) certain existing finance companies, and (2) certain existing insurance companies in towns of 5,000 or less.

The press release outlining this amendment in greater detail is printed on the following pages. The text of the amendment is enclosed in slip sheet form for insertion into the Regulations binder.

Yours very truly,

P. E. Coldwell,

President

Enclosure



FEDERAL RESERVE

press release

For Immediate Release

July 31, 1974

The Board of Governors of the Federal Reserve System today announced it is delegating to the Federal Reserve Banks authority to approve, under Board guidelines, acquisitions by bank holding companies of existing small finance companies and industrial banks, and existing insurance agencies in small towns.

The Reserve Banks presently have authority to approve, under Board guidelines, certain formations and mergers of bank holding companies, bank mergers, and acquisitions by bank holding companies of banks and of certain de novo companies.

The new delegation expands this authority to permit the Reserve Banks also to approve acquisitions, meeting Board criteria, of existing concerns in the finance company, industrial bank and insurance agency fields only. Where a case does not meet the criteria for Reserve Bank action it must be forwarded to the Board.

Industrial banks, and Morris Plan banks -- which are also included in the new delegation -- provide consumer credit and receive special types of deposits.

Under the new rules, Reserve Banks may approve applications, filed under standard procedures, for the acquisition of finance companies with assets no greater than \$5 million. An exception permits Reserve Bank approval of acquisitions of finance companies or industrial banks with assets no greater than \$15 million if this will not bring the holding company's total of such holdings to more than \$50 million.

The total assets of all finance companies and industrial banks approved under delegated authority may not exceed \$15 million for any given holding company during any calendar year. Acquisitions approved directly by the Board do not count in this \$15 million.

The new rules also permit Reserve Banks to approve the acquisition or retention by holding companies of existing insurance agencies in or adjacent to offices of the holding company or its subsidiaries in towns with a population of 5,000 or less.

Reserve Banks now have authority to approve acquisition of such de novo insurance agencies.

A copy of the Board's Order in these matters, effective July 31, 1974, is attached.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RULES REGARDING DELEGATION OF AUTHORITY

BANK ACQUISITIONS BY HOLDING COMPANIES

Effective July 31, 1974, § 265.2(f) is amended by adding subparagraphs (31) and (32) as follows:

SECTION 265.2 SPECIFIC FUNCTIONS DELEGATED TO BOARD EMPLOYEES AND FEDERAL RESERVE BANKS.

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(f) Each Federal Reserve Bank is authorized, as to member banks or other indicated organizations headquartered in its district, or under subparagraph (25) of this paragraph as to its officers:

* * * * *

(31) Under the provisions of § 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1843(c)(8)) and §§ 225.4(a)(1), (2), (3) and (9)(ii) of Regulation Y (12 CFR 225.4(a)(1), (2), (3) and (9)(ii)) to approve the acquisition by a bank holding company of an interest in a finance company¹ or an industrial bank,² whether by acquisition of shares or assets, provided that the following conditions are met:

(i) No member of the Board has indicated an objection prior to the Reserve Bank's action.

(ii) Applicant does not hold shares of a subsidiary finance company or subsidiary industrial bank or directly engage in such activities itself pursuant to § 4(a)(2) of the Act which may not be retained or engaged in beyond December 31, 1980 without Board approval.

¹ A finance company is defined, for purposes of this regulation, as a concern which engages in consumer finance, sales finance and/or second mortgage activities. The acquisition of more than one separately incorporated company when such companies are part of an identifiable unit should be processed under a single acquisition application.

² An industrial bank is a State-chartered institution which provides consumer credit and accepts limited types of deposits; it does not both accept demand deposits and make commercial loans. The term "industrial bank" also encompasses Morris Plan banks for purposes of this regulation.

(iii) All relevant departments of the Reserve Bank recommend approval.

(iv) No substantive objection to the proposal has been made by a bank supervisory authority, the United States Department of Justice, or a member of the public.

(v) No significant policy issue is raised by the proposal as to which the Board has not expressed its view.

(vi) Each office of applicant's existing³ and proposed⁴ subsidiary banks, subsidiary industrial banks and subsidiary finance companies and of applicant (if applicant directly engages in such activities) is 25 miles or more distant (in a straight line) from each office of the finance company or industrial bank to be acquired.

(vii) (a) The maximum in assets of finance companies and industrial banks acquired under delegated authority in any calendar year⁵ does not exceed \$15 million; and (vii) (b) The maximum size in assets of the finance company or industrial bank to be acquired does not exceed \$5 million. (Exception: The maximum size in assets of the finance company or industrial bank to be acquired is \$15 million if the aggregate assets of applicant's existing subsidiary finance companies and industrial banks⁶ and of the finance company or industrial bank to be acquired do not exceed \$50 million.)

(viii) Total assets of the finance company or industrial bank to be acquired will not exceed 10 per cent of the total consolidated assets of applicant after consummation.

³ The definition of an existing subsidiary also includes, for purposes of this regulation, a bank or company for which the acquisition has been approved by the Federal Reserve System but not yet consummated.

⁴ A proposed subsidiary is defined, for purposes of this regulation, as a bank or company for which an application for acquisition has been submitted to the Federal Reserve System.

⁵ For the year 1974, the maximum figure is \$8 million.

⁶ If applicant itself directly engages in finance company or industrial bank activities, the assets related to such activities should be included in a determination of aggregate assets.

(ix) The sale of credit-related insurance by the finance company or industrial bank to be acquired is limited to the sale, under individual or group policies, of credit life insurance,⁷ credit accident and health insurance, and property damage insurance protecting collateral.⁸

(x) The activities of the firm to be acquired are clearly permissible under § 4(c)(8) of the Act and §§ 225.4(a)(1), (2), (3) and (9)(ii) of Regulation Y.

(xi) Neither applicant, applicant's subsidiaries, nor the finance company or industrial bank to be acquired has entered into, or proposes to enter into, any agreement with any director, officer, employee or shareholder of the finance company or industrial bank that contains any condition limiting or restricting in any manner the right of such person to compete with applicant or any of applicant's existing or proposed subsidiaries.

(xii) The Reserve Bank determines that consummation of the proposal can reasonably be expected to result in benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.

* * * * *

(32) Under the provisions of § 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1843(c)(8)) and § 225.4(a)(9)(iii)(a) of Regulation Y

(12 CFR 225.4(a)(9)(iii)(a)) to approve the acquisition or, as an incident to a bank holding company formation pursuant to § 3(a)(1) of the Act, the retention by a bank holding company of shares or assets of a company that acts as insurance agent or broker in offices at which the holding company or its subsidiaries are otherwise engaged in business (or in an office adjacent thereto) with respect to any insurance sold in a community that has a population not exceeding 5,000, provided that the following conditions are met:

(i) No member of the Board has indicated an objection prior to the Reserve Bank's action.

(ii) All relevant departments of the Reserve Bank recommend approval.

(iii) No substantive objection to the proposal has been made by a bank supervisory authority, the United States Department of Justice, or a member of the public.

(iv) No significant policy issue is raised by the proposal as to which the Board has not expressed its view.

(v) Neither applicant, applicant's subsidiaries, nor the company to be acquired has entered into or proposes to enter into any agreement with any director, officer, employee or shareholder of the company that contains any condition that limits or restricts in any manner the right of such person to compete with applicant or any of applicant's existing or proposed subsidiaries.

(vi) The Reserve Bank determines that consummation of the proposal can reasonably be expected to result in benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.

⁷ Applications involving level term credit life insurance may not be acted upon by the Reserve Bank under delegated authority.

⁸ If a finance company or industrial bank otherwise falling within these guidelines has a subsidiary engaged in the underwriting, as reinsurer, of credit life and credit accident and health insurance in connection with extensions of credit by the finance company or industrial bank or if a finance company or industrial bank acts as agent for the sale of types of credit-related insurance other than designated herein, the application may not be acted upon by the Reserve Bank under delegated authority.