American Revolution Bicentennial

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-175
November 20, 1975

REGULATION Y -- BANK HOLDING COMPANIES

Notice of Proposed Rulemaking To Consider
Whether Automobile Leasing Should Continue
To Be a Permissible Activity for Bank Holding Companies

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 invited public comment on the question of whether automobile leasing should continue to be a permissible activity for bank holding companies under its Regulation Y, "Bank Holding Companies," and, if so, under what conditions and limitations.

The Board's notice in this matter is printed on the following pages. Interested persons are invited to submit relevant data, views, or arguments on this matter. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than December 22, 1975.

Additional copies of this circular will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,

T. W. Plant

First Vice President

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS

[Reg. Y]

PART 225--BANK HOLDING COMPANIES NOTICE OF PROPOSED RULEMAKING TO CONSIDER WHETHER AUTOMOBILE LEASING SHOULD CONTINUE TO BE A PERMISSIBLE ACTIVITY FOR BANK HOLDING COMPANIES

In May, 1974, the Board issued an amendment to its Regulation Y, 12 CFR 225.4(a)(6)(a), to permit bank holding companies to engage in certain leasing activities with respect to personal property where the lease was on a full payout basis and served as the functional equivalent to an extension of credit. In June, 1974, the National Automobile Dealers Association ("NADA") sought judicial review of this leasing regulation insofar as it permitted bank holding companies to engage in automobile leasing. NADA objected, in particular, to the provision in the regulation allowing lessors to deduct 20 percent of the acquisition cost of the leased property as residual value that need not be recovered by rentals or tax benefits in computing a full payout lease (12 CFR 225.4(a)(6)(a)(iv)(3)) and the provision permitting a lessor to deduct up to 60 percent of the acquisition cost of the leased property when such amount was guaranteed by a financially qualified lessee, manufacturer or third

party (12 CFR 225.4(a)(6)(a)(iv)(4)). In addition, NADA argued that the activity of automobile leasing is not closely related to banking in that it is merchandising and dealing in used cars and does not serve as the "functional equivalent of an extension of credit" as required by the Board's regulation (12 CFR 225.4(a)(6)(a)(i)).

After briefing and oral argument of the case before the U.S. Court of Appeals for the D.C. Circuit, the Board sought and the Court granted a remand of the matter so that the Board might consider these issues raised by NADA and such other issues as are relevant to bank holding companies engaging in automobile leasing. Accordingly, the Board proposes to determine whether automobile leasing ought to continue to be included within the scope of the Board's personal property leasing regulation (12 CFR 225.4(a)(6)(a)) and, if it should be, under what conditions and limitations.

Interested persons are invited to submit relevant data, views, or arguments on this matter. Upon request, interested parties will be afforded an opportunity for an oral presentation of their views. Any such material and requests should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than December 22, 1975. Such material will be made available for inspection and copying upon reqest, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

(Signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board