

# FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-235  
December 16, 1980

## REGULATION Y BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL

Notice of Final Rulemaking Relating  
to Real Estate Advisory and Appraisal Services

Notice of Comment Period Relating to a Portion of the New Rule

TO ALL MEMBER BANKS,  
BANK HOLDING COMPANIES,  
AND OTHERS CONCERNED IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has issued a final amendment to Regulation Y, which would allow bank holding companies to perform real estate advisory and appraisal services. This new rule was made in connection with the application by First Chicago Corporation, Chicago, Illinois, to retain shares of its nonbank subsidiary, Real Estate Research Corporation, Chicago, Illinois. The amendment was issued for public comment by Circular No. 80-132 dated July 7, 1980.

In its action adopting the amendment in final form, the Board modified somewhat the proposal, as it was originally structured, by including appraisals of single-family residences. The Board has invited public comment on the modified portion of the new rule.

Printed on the following pages is a copy of the Board's press release and notice as published in the Federal Register. Comments or views on the modification should be sent in writing to Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551. All material submitted should be received no later than January 15, 1981 and should refer to Docket No. R-0310.

Enclosed are all amendments, in slipsheet form, making Regulation Y current as of December 31, 1980, the effective date of the new rule. Please insert this slipsheet in your Regulations Binder and destroy the one dated November 1979.

Any questions concerning the contents of this circular can be directed to the Attorney's Section of our Holding Company Supervision Department, Ext. 6182. Copies of the Board's Order approving the application by First Chicago Corporation will be made available upon request to the Holding Company Supervision Department, Ext. 6488.

Sincerely yours,  
Robert H. Boykin  
First Vice President

### Enclosure

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Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

# FEDERAL RESERVE press release



November 26, 1980

For immediate release

The Federal Reserve Board today announced that it has added the performance of real estate appraisals to the list of activities permissible for bank holding companies.

The Board confirmed, in connection with an application by First Chicago Corporation, Chicago, Illinois, that it regards two further activities as falling within the scope of nonbanking activities already approved for bank holding companies. These are "advising State and local governments about methods available to finance real estate development projects," and "evaluation of projected income to determine for State and local governments whether debt resulting from proposed development projects can be adequately serviced."

The Board concurrently approved the application of First Chicago Corporation to retain the shares of its subsidiary, Real Estate Research Corporation, subject to provisions of the Board's order of June 26, 1980, requiring Real Estate Research Corporation to cease by December 31, 1980, engaging in six of 13 activities listed in the attached Order.

Attached is a copy of the Board's Order and Federal Register notice relating to these matters.

Attachments

**12 CFR Part 225****[Regulation Y; Docket No. R-0310]****Proposal To Permit Bank Holding Companies To Engage In Real Estate Advisory Services and Real Estate Appraisal Services****AGENCY:** Board of Governors of the Federal Reserve System.**ACTION:** Final rule.

**SUMMARY:** The Board has adopted a final rule that adds the performance of appraisals of real estate to the list of those activities permissible for bank holding companies. The Board modified the proposed rule by including appraisals of single-family residences in the final rule and invited public comment on this modification.

The Board also determined that the activities of "advising State and local governments about methods available to finance real estate development projects," and "evaluating projected income to determine for State and local governments whether debt resulting from proposed development projects can be adequately serviced," are authorized by the provision of Regulation Y (12 CFR § 225.4(a)(5)(v)) that permits bank holding companies to provide financial advice to State and local governments.

**EFFECTIVE DATE:** December 31, 1980. Comments will be accepted on the modification made to the proposal until January 15, 1981.

**ADDRESS:** Comments, which should refer to Docket No. R-0310, may be mailed to Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

**FOR FURTHER INFORMATION CONTACT:** Michael E. Bleier, Senior Counsel (202-452-3721), or Michael L. Kadish, Attorney (202-452-3428), Legal Division, Board of Governors of the Federal Reserve System.

**SUPPLEMENTARY INFORMATION:** In conjunction with an application by First Chicago Corporation, Chicago, Illinois, the Board in June 1980, published notice of a proposed amendment to its Regulation Y that would add the performance of appraisals of real estate other than single-family residences to the list of activities permissible for bank holding companies and their nonbank subsidiaries. (45 FR 44963 (1980)). In the

published notice, the Board also requested comments as to whether the activities of "advising State and local governments about methods available to finance real estate development projects," and "evaluating projected income to determine for State and local governments whether debt resulting from proposed development projects can be adequately serviced," are closely related to banking.

In the case of performing appraisals of real estate other than single-family residences, the record reflected that banks have performed this service either in connection with extensions of credit involving real estate lending or as a discrete activity. In addition, it appears that the proposed appraisal activity calls upon the necessary skills and resources often possessed by banking organizations. The record indicated that banks also perform appraisals of single-family residences. On the basis of the record, the Board determined that the activity of performing appraisals of real estate, including single-family residences, is closely related to banking and that its performance by bank holding companies is likely, in general, to yield net benefits to the public. The Board requests interested persons to comment on the rule as modified.

The Board also determined that the proposed real estate advisory services are currently authorized by § 225.4(a)(5)(v) of Regulation Y (12 CFR 225.4(a)(5)(v)), which provides that a bank holding company may engage in the nonbanking activity of "acting as investment adviser to the extent of . . . (v) providing financial advice to State and local governments, such as with respect to the issuance of their securities."

Certain comments received by the Board noted that aspects of these advisory services may be within the scope of the activity of "management consulting," as defined in footnote two to § 225.4(a)(5) of Regulation Y (12 CFR 225.4(a)(5)(n.2)). The Board has previously found that it is not permissible for bank holding companies to offer management consulting services to nonaffiliated companies, with the exception of banks. The Board's action does not authorize bank holding companies to engage in such management consulting activities; however, the Board indicated that in view of the relationship that has traditionally existed between banks and State and local governments, and the net public benefits that would result from provision of advice to these governments by bank holding companies, the Board would be more

flexible in determining that particular services constitute "providing financial advice" rather than "management consulting" when the services are provided solely to State and local governments rather than other nonbank organizations.

A fuller discussion of the Board's consideration of these activities is included in its Order regarding the associated application by First Chicago Corporation to retain its subsidiary, Real Estate Research Corporation, which has been published in the notice section of this issue of the **Federal Register** for the information of interested persons. This action is taken pursuant to the Board's authority under sections 4(c)(8) and 5(b) of the Bank Holding Company Act, 12 U.S.C. §§ 1843(c)(8) and 1844(b).

Effective December 31, 1980, § 225.4(a) of Part 225 of 12 CFR Chapter II is amended by adding the following new paragraph (14) immediately following § 225.4(a)(13):

**§ 225.4 Nonbanking Activities**

- (a) \* \* \*
- (14) Performing appraisals of real estate.

Board of Governors of the Federal Reserve System, November 26, 1980.

**Theodore E. Allison,**  
*Secretary of the Board.*

[FR Doc. 80-37366 Filed 12-1-80; 8 45 am]  
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**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL**

**AMENDMENTS TO REGULATION Y †**

As amended effective December 31, 1980

1. Effective January 1, 1979, as to applications accepted by any Federal Reserve Bank on or after that date, section 225.4 is amended by revising subparagraphs (b)(1) and (b)(2) to read as follows:

**SECTION 225.4—NONBANKING ACTIVITIES**

\* \* \* \* \*

(b)(1) **De novo entry.** A bank holding company may engage *de novo* (or continue to engage in an activity earlier commenced *de novo*), directly or indirectly, solely in activities described in paragraph (a) of this section, 45 days after the company has furnished its Reserve Bank a notice of the proposal (in substantially the same form as F.R. Y-4A), unless the company is notified to the contrary within that time or unless it is permitted to consummate the transaction at an earlier date on the basis of exigent circumstances of a particular case. The Board will publish in the *Federal Register* notice of any such proposal and will give interested persons an opportunity to express their views on the proposal to the Reserve Bank. If adverse comments of a substantive nature are received within the time specified in the notice,<sup>11</sup> or if it otherwise appears appropriate in a particular case, the Reserve Bank may inform the company that (i) the proposal shall not be consummated until specifically authorized by the Reserve Bank or by the Board or (ii) the proposal should be processed in accordance with the procedures of subparagraph (2) of this paragraph. With respect to activities to be engaged in outside the United States, the procedures of this sub-

paragraph apply solely to activities to be engaged in directly by a domestic bank holding company or by domestic nonbank subsidiaries of any bank holding company. Paragraphs (f) and (g) of this section govern other international operations of bank holding companies.

(2) **Acquisition of going concern.** A bank holding company may apply to the Board to acquire or retain the assets of or shares in a company engaged solely in activities described in paragraph (a) of this section by filing an application with its Reserve Bank (Form F.R. Y-4). The Board will publish in the *Federal Register* a notice of any such application and will give interested persons an opportunity to express their views (including, where appropriate, by means of a hearing) on the question whether performance of the activity proposed by the holding company can reasonably be expected to produce 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.

\* \* \* \* \*

2. Effective March 10, 1979, the title to Regulation Y is revised to read "Part 225-Bank Holding Companies and Change in Bank Control" and section 225.1 is revised to read as follows:

**SECTION 225.1—AUTHORITY, SCOPE,  
AND DEFINITIONS**

(a) **Authority and scope.** This Part is issued by the Board of Governors of the Federal Reserve System under section 5(b) of the Bank Holding Company Act of 1956 ("the Act") (12 U.S.C. § 1844(b)) and section 7(j)(13) of the Federal Deposit Insurance Act, as amended by the Change in Bank Control Act of 1978 ("the Control Act"), (12 U.S.C. § 1817(j)(13)). Sections 225.2 through

<sup>11</sup> If a Reserve Bank decides that adverse comments are not of a substantive nature, the person submitting the comments may request review by the Board of that decision in accordance with the provisions of § 265.3 of the Board's Rules Regarding Delegation of Authority (12 CFR 265.3) by filing a petition for review with the Secretary of the Board.

†For this Regulation to be complete as amended December 31, 1980, retain:

1) Printed Regulation pamphlet dated April 5, 1978.

2) This slip sheet. (Destroy slip sheet dated November 1979.)

225.6 of this Part implement the Act, and section 225.7 of this Part implements the Control Act.

(b) **Terms used in the Act.** As used in this Part, the terms "bank holding company," "company," "bank," "subsidiary," and "Board" have the same meanings as those given such terms in the Act. As used in section 225.7 of this Part, the term "person" has the meaning given it in the Control Act.

(c) **Federal Reserve Bank.** The term "Federal Reserve Bank" as used in this Part with respect to action by, on behalf of, or directed to be taken by a bank holding company or other organization shall mean either the Federal Reserve Bank of the Federal Reserve district in which the operations of the bank holding company or other organization are principally conducted, as measured by total deposits held or controlled by it on the date on which it became, or is to become, a bank holding company, or such Reserve Bank as the Board may designate. With respect to notices filed and other actions taken under the Control Act, the term refers to the Federal Reserve Bank for institution to be acquired, as determined by the preceding sentence in the case of bank holding companies and by section 9 of the Federal Reserve Act in the case of State member banks.

3. Effective March 10, 1979, Regulation Y is amended by adding a new section, § 225.7, as follows:

#### SECTION 225.7—CHANGE IN BANK CONTROL

(a) **Acquisitions of Control.**<sup>14</sup> Under the Control Act, acquisitions by a person or persons acting in concert of the power to vote 25 per cent or more of a class of voting securities of a bank holding company or State member bank, unless exempted, require prior notice to the Board. In addition, a purchase, assignment, transfer, pledge, or other disposition of voting stock through which any person will acquire ownership, control, or the power to vote ten per cent or more of a class of voting securities of a bank holding company or State member bank will be deemed to be an acquisition by such person of the power to direct that institution's management or policies if:

(1) the institution has issued any class of securities subject to registration under section 12 of the Securities Exchange Act of 1934 (15 U.S.C. § 781); or

(2) immediately after the transaction no

other person will own a greater proportion of that class of voting securities.

Other transactions resulting in a person's control of less than 25 per cent of a class of voting shares of a bank holding company or State member bank would not result in control for purposes of the Act. An acquiring person may request an opportunity to contest the presumption established by this paragraph with respect to a proposed transaction. The Board will afford the person an opportunity to present views in writing or, where appropriate, orally before its designated representatives either at informal conference discussions or at informal presentations of evidence.

(b) **Notices.** Section 265.3 of the Board's Rules of Procedure governs the submission of notices required by the Control Act, except that notices should be sent to the Federal Reserve Bank of the district in which the affected bank or bank holding company is located. Notice shall not be considered given unless information provided is responsive to every item specified in paragraph 6 of the Control Act (12 U.S.C. § 1817(j)(6)), or every item prescribed in the appropriate Board forms. With respect to personal financial statements required by paragraph 6(B) of the Control Act, an individual acquirer may include a current statement of assets and liabilities, as of a date within 90 days of the notice, a brief income summary, and a statement of material changes since the date thereof, subject to the authority of the Federal Reserve Bank or the Board to require additional information.

(c) **Exempt transactions.** The following transactions are not subject to the prior notice requirements of the Control Act:

(1) the acquisition of additional shares of a bank holding company or State member bank by a person who continuously since March 9, 1979, held power to vote 25 per cent or more of the voting shares of that institution, or by a person who has acquired and maintained control of that institution after complying with the Control Act's procedures;

(2) the acquisition of additional shares of a bank holding company or State member bank by a person who under paragraph (a) of this section would be deemed to have controlled that institution continuously since March 9, 1979, if:

(i) the transaction will not result in that person's direct or indirect ownership or power to vote 25 per cent or more of any class of voting securities of the institution; or

(ii) in other cases, the Board determines that the person has controlled the institution continuously since March 9, 1979;

<sup>14</sup> Control is defined in the Control Act as the power, directly or indirectly, to direct the management or policies, or to vote 25 per cent or more of any class of voting securities, of an institution. 12 U.S.C. § 1817(j)(8)(B).



(3) the acquisition of shares in satisfaction of a debt previously contracted in good faith or through testate or intestate succession or bona fide gift, provided the acquirer advises the Federal Reserve Bank within thirty days after the acquisition and provides any information specified in paragraph 6 of the Control Act that the Reserve Bank requests;

(4) a transaction subject to approval under section 3 of the Bank Holding Company Act or section 18 of the Federal Deposit Insurance Act;

(5) a transaction described in sections 2(a)(5) or 3(a)(A) or (B) of the Bank Holding Company Act by a person there described;

(6) a customary one-time proxy solicitation and receipt of pro-rata stock dividends; and

(7) the acquisition of shares of a foreign bank holding company, as defined in section 225.4(g) of this Part, provided this exemption does not extend to the reports and information required under paragraphs 9, 10, and 12 of the Control Act (12 U.S.C. § 1817(j)(9), (10), and (12)).

4. Effective April 2, 1979, section 225.4(a) is amended by adding the following new paragraph (13) immediately following § 225.4(a) (12):

#### SECTION 225.4—NONBANKING ACTIVITIES

(13) The sale at retail of money orders having a face value of not more than \$1,000 and travelers checks and the sale of U.S. savings bonds.

5. Effective October 24, 1979, section 225.1 is amended by revising subparagraph (c). Section 225.4 is amended by revising subparagraph (g) (3). The amendments read as follows:

#### SECTION 225.1—AUTHORITY, SCOPE, AND DEFINITIONS

(c) **Federal Reserve Bank.** The term "Federal Reserve Bank" as used in this Part with respect to action by, on behalf of, or directed to be taken by a bank holding company or other organization shall mean either the Federal Reserve Bank of the Federal Reserve district in which the operations of the bank holding company or other organization are principally conducted, as measured by total deposits held or controlled by it in subsidiary banks on the date on which it became, or is to become, a bank holding company, or such Reserve Bank as the Board may designate. In the case of a foreign banking organization that is not a bank holding company but which has one or more branches, agencies, or commercial lending companies located in any State

of the United States or the District of Columbia, "Federal Reserve Bank" shall mean, unless otherwise determined by the Board, the Reserve Bank of the district in which its banking assets are the largest as of the later of January 1, 1980, or the date that it establishes its first branch, agency, or commercial lending company. With respect to notices filed and other actions taken under the Control Act, the term refers to the Federal Reserve Bank for institution to be acquired, as determined by the preceding sentence in the case of bank holding companies and by section 9 of the Federal Reserve Act in the case of State member banks.

#### SECTION 225.4 — NONBANKING ACTIVITIES

##### (g) Foreign bank holding companies.

(3) A foreign bank holding company that is of the opinion that other activities or investments may, in particular circumstances, meet the conditions for an exemption under section 4(c)(9) of the Act may apply to the Board for such determination by submitting to its Reserve Bank a letter setting forth the basis for that opinion.

6. Effective December 5, 1979, section 225.4(a) is amended by revising subparagraph (9) (iii) to read as follows:

#### SECTION 225.4 — NONBANKING ACTIVITIES

##### (a) Activities closely related to banking or managing or controlling banks.

(9) acting 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 the following types of insurance:

(iii) any insurance sold by a bank holding company or a nonbanking subsidiary in a community that has a population not exceeding 5,000 (as shown by the last preceeding decennial census) provided the principal place of banking business of the bank holding company is located in a community having a population not exceeding 5,000.

Effective December 31, 1980, section 225.4(a) is amended by adding the following new paragraph (14) immediately following § 225.4(a)(13):

**SECTION 225.4—NONBANKING ACTIVITIES**

\* \* \* \* \*

(a) \* \* \*

(14) Performing appraisals of real estate.