



FEDERAL RESERVE BANK  
OF DALLAS

ROBERT D. McTEER, JR.  
PRESIDENT  
AND CHIEF EXECUTIVE OFFICER

May 29, 1992

DALLAS, TEXAS 75222

Notice 92-45

**TO:** The Chief Executive Officer of each  
member bank and others concerned in  
the Eleventh Federal Reserve District

**SUBJECT**

Final Amendments to Regulation Y  
(Bank Holding Companies and Change in Bank Control)

**DETAILS**

The Federal Reserve Board has adopted final amendments to Regulation Y (Bank Holding Companies and Change in Bank Control) to expand the leasing activities that are generally permissible for bank holding companies to include non-full-payout leasing.

The amendments raise the maximum estimated residual value of leased personal property on which bank holding companies may rely for their compensation in leasing transactions to up to 100 percent of the acquisition cost of the leased property, subject to certain conditions, including volume limitations. These transactions remain subject to the prudential limitations previously set forth in Regulation Y.

**ATTACHMENT**

A copy of the Board's notice as it appears on pages 20958-62, Vol. 57, No. 96, of the Federal Register dated May 18, 1992, attached.

**MORE INFORMATION**

For more information, please contact Mike Johnson, Director, Applications Processing, at (214) 744-7306. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

*Robert D. McTeer, Jr.*

**FEDERAL RESERVE SYSTEM  
12 CFR Part 225**

[Regulation Y; Docket No. R-0694]

RIN 7100-AB12

**Bank Holding Companies and Change  
in Bank Control Leasing Personal  
Property**

**AGENCY:** Board of Governors of the  
Federal Reserve System.

**ACTION:** Final rule.

**SUMMARY:** The Board is amending Regulation Y to expand the leasing activities that are generally permissible for bank holding companies. The rule allows bank holding companies to enter into leasing transactions in which the companies may rely for compensation of their full leasing costs, at the inception of the initial lease, on estimated residual values for the leased property of up to 100 percent of the acquisition cost of the property, subject to certain conditions (so-called "higher residual value leasing"). The Board has by order previously permitted bank holding companies to engage in higher residual value leasing. The final rule requires that higher residual value leasing transactions conform to the current leasing provision in Regulation Y except with respect to the residual value reliance limitation. The final rule contains additional requirements applicable only to the expanded leasing activity. These requirements include a limit on the volume of such leasing transactions similar to the limitation placed on the leasing activities of national banks under section 108 of the Competitive Equality Banking Act (CEBA), amending the National Bank Act.

The final rule also alters the existing authority for a bank holding company to engage in full-payout leasing transactions by permitting bank holding companies to engage in these transactions and rely for compensation of their full leasing costs, at the inception of the initial lease, on estimated residual values for the leased property of up to 25 percent of the acquisition cost of the property.

**EFFECTIVE DATE:** May 14, 1992.

**FOR FURTHER INFORMATION CONTACT:**

Scott G. Alvarez, Associate General Counsel (202/452-3583), Thomas M. Corsi, Senior Attorney (202/452-3275), Donna R. Nordenberg, Attorney (202/452-3281), Legal Division; Molly S. Wassom, Manager, Applications Issues (202/452-2305), or Theresa A. Claffey, Supervisory Financial Analyst (202/452-2964), Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System. For the

hearing impaired only, Telecommunication Device for the Deaf (TDD), Dorothea Thompson (202/452-3544).

**SUPPLEMENTARY INFORMATION:**

**Background**

Since 1971, bank holding companies have been permitted to engage in leasing personal or real property where the lease is the functional equivalent of an extension of credit (so-called "full-payout leasing"). Under Regulation Y, full-payout leases must be on a nonoperating basis and only upon the order of customers.<sup>1</sup> In addition, at the inception of the initial lease, the effect of the transaction must yield a return that will compensate the bank holding company for its full leasing costs (including the total cost of financing the property) through rentals, estimated tax benefits, and the estimated residual value of the property at the expiration of the initial term of the lease. In calculating this yield, the existing regulation limits reliance on estimated residual values to a maximum of 20 percent of the acquisition cost of the property. In the case of a personal property lease of no more than seven years in duration, bank holding companies may rely on an additional amount, up to 60 percent of the property's acquisition cost, if the residual value is guaranteed by the lessee or a third party.

In 1987, section 108 of CEBA amended the National Bank Act to authorize national banks specifically to lease tangible personal property so long as the leases are on a "net lease basis" and represent, in the aggregate, no more than 10 percent of the bank's assets.<sup>2</sup> The legislative history indicates that this amendment was intended to permit the Office of the Comptroller of the Currency (OCC) to relax or eliminate, in a manner consistent with sound banking practices, the residual value limitation in the OCC's existing regulations authorizing personal property leasing activities by national banks.<sup>3</sup> The legislative history of section 108 also indicates that the section is not intended to allow national banks to engage in the

<sup>1</sup> 12 CFR 225.25(b)(5). The nonoperating condition places the responsibilities for the leased property's care and maintenance upon the customer. In such lease arrangements, the lessor may not provide or pay for operational services such as repair and insurance.

<sup>2</sup> See 12 U.S.C. 24 (Tenth). The OCC has interpreted the term "net lease basis" to mean that the lease must be on a nonoperating basis.

<sup>3</sup> S. Rep. No. 19, 100th Cong., 1st Sess. 43 (1987).

daily or short-term equipment or automobile rental business.<sup>4</sup>

Based on this statutory authorization, a number of national banks currently engage in leasing personal property with reliance on residual values as high as 100 percent of the cost of the leased property.<sup>5</sup> A number of states also have permitted state-chartered banks to conduct leasing activities without limit on the amount of residual value that may be relied on by the lessor bank.<sup>6</sup>

The Board previously has determined by order that the activity of higher residual value leasing of tangible personal property is closely related to banking and a proper incident to banking for purposes of section 4(c)(8) of the Bank Holding Company Act.<sup>7</sup> In that case, Security Pacific committed that it would limit the volume of its higher residual value leasing transactions, and that the higher residual value leases would have a minimum term of one year.<sup>8</sup> Security Pacific also committed to conform its higher residual value leasing activities to the existing restrictions imposed by the Board on full-payout leasing. Since the Security Pacific decision, several other bank holding companies have received approval from the Board to engage in the same leasing activity subject to identical conditions.<sup>9</sup>

#### Rule Adopted by the Board

The Board has sought public comment on a proposal to add higher residual value leasing activities to its regulatory list of activities permissible for bank holding companies. 55 FR 22348, June 1, 1990; 55 FR 23446, June 8, 1990. This amendment would permit bank holding companies seeking to conduct this activity to take advantage of the

streamlined procedures contained in Regulation Y for obtaining review of these proposals. Following review of the comments received, the Board has determined to adopt its amendment substantially as proposed.

Several modifications, discussed below, have been made to the proposal to address matters raised by the comments. The final rule adopted by the Board adds the activity of conducting higher residual value leasing of tangible personal property to the regulatory list of permissible nonbanking activities for bank holding companies. This activity will be permitted within certain prudential limitations. In particular, the rule provides that higher residual value lease transactions will remain subject to the current provisions of Regulation Y applicable to full-payout leasing activities (other than the residual value limitations applicable to full-payout leasing), including that: (1) Bank holding companies may acquire property to be leased only in connection with a specific leasing transaction under consideration, (2) bank holding companies must either sell or release the leased property within two years of the expiration of the initial lease, and (3) the leases must be on a non-operating basis.

The Board also has determined to adopt certain restrictions that would apply only to the expanded leasing activities. First, the higher residual value leases arranged by bank holding companies must have a minimum lease term of at least 90 days. Second, consistent with the limit imposed by CEBA on national banks, the total volume of bank holding company investments in higher residual value leases must be limited to no more than 10 percent of the bank holding company's total consolidated assets. Third, bank holding companies must capitalize their leasing subsidiaries commensurate with industry standards and to an extent necessary to support fully the expanded leasing activity. Fourth, bank holding companies must maintain records regarding their higher residual value leasing activities that are separate from their records for full-payout leasing transactions. These limitations are consistent with the limitations adopted by the OCC for higher residual value leasing activities of national banks.

#### Public Comments

The Board received 22 public comments regarding this proposal. All except one of the commenters supported the Board's proposal allowing bank holding companies to engage in higher residual value leasing of tangible

personal property. Several commenters recommended certain modifications to the restrictions proposed by the Board.

#### Authority for Activity

Commenters in favor of the proposal supported the Board's determination in Security Pacific that the activity of higher residual value leasing is closely related to banking for purposes of section 4(c)(8) of the Bank Holding Company Act. Commenters stated that the activity is permissible for national banks under the National Bank Act and is permissible for state banks under various state laws. Commenters also argued that higher residual value leasing activities are functionally similar to other leasing activities conducted by banking organizations.<sup>10</sup>

Most of the commenters also argued that these activities are a proper incident to banking for purposes of section 4(c)(8) of the Bank Holding Company Act. In particular, commenters maintained that the expanded leasing authority is necessary in order for bank holding companies to compete effectively with other lessors and to better serve the needs of their customers.

#### Risk of Activity

The commenter opposing the proposal contended that financial institutions have shown a willingness to rely on unrealistic and excessive residual value forecasts and that it would be prudent to retain existing limitations on residual value reliance. This commenter argued that a relaxation of residual value limitations will increase the riskiness of financial institutions' leasing activities.

This comment suggested that leasing activities that rely on limited residual values are less risky than leasing activities with a greater reliance on residual values because of uncertainties in predicting residual values. A study by Board staff, however, suggests that limitations on the ability of bank holding companies to rely on residual value may not reduce the riskiness of the leasing activities of bank holding companies.<sup>11</sup> The leasing activities of bank holding company leasing subsidiaries appear to be less profitable and have higher charge-off and past due rates than leases made by companies and banks that have greater flexibility to rely on residual values. This might result from the fact that, while bank holding

<sup>4</sup> H.R. Conf. Rep. No. 261, 100th Cong. 1st Sess. 143 (1987).

<sup>5</sup> Prompted by the expanded authority of section 108, the OCC recently amended its regulation on lease financing transactions of national banks. 58 FR 28314, June 20, 1991 (to be codified at 12 CFR part 23).

<sup>6</sup> These states include California, Florida, Maryland, Michigan, Illinois, and Indiana.

<sup>7</sup> Security Pacific Corporation. 76 Federal Reserve Bulletin 462 (1990) ("Security Pacific").

<sup>8</sup> Security Pacific committed to limit the total amount of its investment in leases with estimated residual values in excess of 25 percent of the acquisition cost of the leased property to no more than 10 percent of the holding company's total consolidated assets. In addition, Security Pacific committed to limit the total amount of its investment in leases with estimated residual values in excess of 70 percent of the acquisition cost of the leased property to the lesser of: 0.5 percent of the holding company's total consolidated assets or 10 percent of the holding company's total consolidated shareholders' equity.

<sup>9</sup> The Fuji Bank, Limited, 77 Federal Reserve Bulletin 490 (1991); The Sanwa Bank, Limited, 77 Federal Reserve Bulletin 187 (1991); Dai-ichi Kangyo Bank, Limited, 76 Federal Reserve Bulletin 960 (1990).

<sup>10</sup> See *National Courier Ass'n v. Board of Governors*, 516 F.2d 1229 (D.C. Cir. 1975).

<sup>11</sup> See *Residual Value Regulation and the Performance of Bank Holding Company Leasing Subsidiaries*, Jim Burke and Nellie Liang.



company leases currently are not subject to significant risk from miscalculation of residual values, leases by bank holding companies are subject to a greater degree of credit risk.

Permitting greater reliance on residual values increases the possibility that bank holding companies may miscalculate residual values. However, companies not associated with bank holding companies appear to be able to estimate residual values reasonably successfully and there is no indication that bank holding companies do not have, or could not develop, the same expertise. In addition, generally accepted accounting principles require that assumed residual values be reviewed and adjusted annually. These values and compliance with GAAP would be subject to annual review by the external auditors for the holding company, and in bank holding company examinations. A lease could be subject to criticism or classification to the extent that the holding company relies on over-estimated residual values to achieve full compensation for the costs of the lease. Finally, the Board's proposal includes an aggregate limit on the amount of higher residual value leasing transactions that a bank holding company may conduct.

#### *Minimum Lease Term Requirement*

Five public commenters argued that the Board should not impose a requirement that the initial lease term be for a minimum of 90 days. The Board's current rule for full-payout leasing transactions does not contain a minimum duration requirement. However, the combination of the existing limitations on residual value and the requirement that the bank holding company project full compensation for the transaction based on the initial lease effectively eliminate the possibility of very short-term leases. Short-term and daily leases became a possibility once the limitation on residual value is relaxed.

The legislative history of CEBA indicates that Congress intended not to permit national banks to engage in short-term leasing transactions. For that reason, the OCC has restricted national banks from engaging in higher residual value leasing transactions with a duration of less than 90 days. Commenters have not suggested an alternative method for implementing a duration requirement other than to leave a determination regarding duration to the discretion of each bank holding company. Accordingly, in this final rule the Board is adopting a minimum lease term requirement similar to that adopted by the OCC. In response to several

comments, the Board has also amended its final rule to permit bank holding companies to hold originally conforming leases acquired from other lessors where the term remaining on the lease is less than 90 days.<sup>12</sup>

#### *Volume Limitation*

The Board's original proposal limited the aggregate volume of a bank holding company's higher residual value leasing activity to a maximum of 10 percent of the bank holding company's consolidated assets. This limitation is analogous to the 10 percent of assets limitation contained in CEBA and adopted by the OCC for national banks. Several commenters suggested that the Board not impose any limit on the level of this activity. Other commenters, however, suggested that, in light of the risks associated with this activity, the Board consider imposing a lower aggregate limit based on the capital level of the bank holding company.

The Board believes that adopting an asset-based limit analogous to the statutory limit in CEBA and the limit adopted by the OCC is an appropriate way to limit the potential risks associated with higher residual value leasing until such time as holding companies and the Board have gained additional experience with the activity. On the other hand, the Board has determined not to adopt a lower limit at this time because establishing a lower limit for bank holding companies, either in relation to assets or capital, could encourage banks to conduct this activity directly in order to avoid a lower limit on the holding company's activity.<sup>13</sup>

<sup>12</sup> Several commenters requested that the Board not apply the 90-day minimum lease term requirement to leases that are entered into at the conclusion of the initial lease term and prior to the disposition of the leased property by the bank holding company or to leases that have been terminated prior to maturity by the lessee. The Board's current rules regarding leasing transactions require that a bank holding company either dispose of leased property or re-lease the property in an authorized leasing transaction within two years of the termination of the initial lease (subject to possible extensions of this time by the Board). 12 CFR 225.25(b)(5) n.6. It has been the Board's policy to permit bank holding companies to maximize the value of this off-lease property during this divestiture period, including by permitting short-term leases of the property, provided that the bank holding company conforms with the requirement that the property either be liquidated or re-leased in a conforming lease within the two-year period. The Board's final rule has been amended to state this policy expressly.

<sup>13</sup> The OCC applies the lending limits applicable to national bank lending to leases arranged by national banks because these leases are viewed as the functional equivalent of an extension of credit. Bank holding companies are not subject to similar limits on their lending activities and the Board has not imposed a similar limit on the full-payout leasing activities of bank holding companies.

Three commenters requested that the Board clarify the proposed volume limitation for higher residual value leases as it applies to domestic banks with foreign assets and to foreign banks. In particular, these commenters requested clarification that the volume limitation is tied to a banking organization's total worldwide assets. The final rule clarifies that the aggregate limit is based on total domestic and foreign assets of the organization. This clarification is consistent with the Board's orders approving higher residual value leasing activities for foreign banking organizations, and with the instructions on the periodic Reports of Condition.

In calculating whether an organization has reached its aggregate limit, the proposal also clarifies that all higher residual value leasing transactions conducted within domestic bank subsidiaries of the bank holding company as well as within certain nonbank subsidiaries must be included within the aggregate amount of higher residual value leasing activities conducted by the bank holding company. This method of calculation takes into account the possibility that banks owned by a holding company may engage in higher residual value leasing transactions up to a percentage of the bank's assets, and avoids the possibility of double counting the bank's assets in the holding company limit without taking account of its leasing transactions. This method of calculation does not impose any limit on the amount of higher residual value leasing conducted directly by banks owned by a bank holding company. It does, however, have the effect of limiting the amount of higher residual value leasing transactions that a bank holding company or its nonbank subsidiary may conduct if these activities are simultaneously conducted within a bank affiliate. The final rule also clarifies that traditional full-payout leasing transactions, and leasing transactions conducted by domestic and foreign bank holding companies under other leasing authority, including leasing activities outside the United States, are not subject to the aggregate limit.<sup>14</sup>

Accordingly, this proposal does not establish such limits on individual leases made by bank holding companies.

<sup>14</sup> The volume limitation would not apply to companies advised by leasing subsidiaries of bank holding companies, nor would it apply to lease brokerage transactions entered into by these leasing subsidiaries.

### Capital Level of Leasing Affiliate

Two commenters objected to the proposed requirement that a company that conducts higher residual value leasing activities be capitalized in accordance with industry levels. These commenters maintained that the only relevant capital requirements in connection with this activity should be the capital standards for the subsidiary banks or the bank holding company on a consolidated basis.

The Board's capital adequacy guidelines provide that all nonbanking subsidiaries of a bank holding company "should maintain levels of capital consistent with levels that have been established by industry norms or standards" unless the Board establishes a different standard.<sup>15</sup> The industry norms for equipment leasing appear to be generally higher than the capital levels for bank holding companies.<sup>16</sup> The Board believes that it is appropriate to expect holding company affiliates engaged in higher residual value leasing to maintain capital levels that reflect the higher risk of this activity as reflected in the market.

Finally, two commenters contended that the Board should not require bank holding companies that already have authority to engage in full-payout leasing to seek additional Board approval to engage in higher residual value leasing. On the other hand, one commenter suggested that the Board should require formal and separate applications to conduct this activity because of the added risk of this activity.

Because higher residual value leasing transactions involve more risk than other leasing transactions, the Board believes it is appropriate to require bank holding companies to seek approval to engage in these transactions in order to assess properly each company's ability to assume this additional risk. Because this activity is being added to the Board's regulatory list of permissible activities, bank holding companies seeking to conduct this activity would be able to take advantage of the streamlined notice procedures in the regulation.

### Comments Regarding Board's Current Full-Payout Leasing Provisions

Five commenters recommended that the Board conform its provisions governing more traditional full-payout leasing activities to the OCC's residual value limitation for full-payout leases.

The OCC permits reliance on up to 25 percent of the property's acquisition cost for traditional leasing transactions rather than the 20 percent residual value limit established under the Board's current provision.<sup>17</sup> The commenters argued that modifying this provision to match the OCC's rules will increase the competitiveness of bank holding company lessors and will avoid the burden that results from imposing different requirements on national banks and their nonbank affiliates.

In light of the benefits of reduced burden, the increased competitiveness from adopting a uniform rule for leasing transactions, and the fact that the OCC has not identified any significant increased risk from permitting reliance on this somewhat higher level of residual values, the Board has adopted this suggestion. This amendment applies to full-payout leasing activities involving personal property as well as full-payout leasing of real estate, as otherwise permitted under the Board's Regulation Y. Bank holding companies that are currently authorized to conduct full-payout leasing activities pursuant to section 4(c)(8) of the Bank Holding Company Act are not required to seek additional Board approval to conduct full-payout leasing transactions that rely on residual values up to 25 percent of the acquisition cost of the property, provided that these activities are conducted within the other limitations in the Board's Regulation Y and any other conditions imposed on the individual bank holding company by order.

### Final Regulatory Flexibility Act Analysis

Pursuant to section 605(b) of the Regulatory Flexibility Act (Pub. L. 96-354; 5 U.S.C. 601 *et seq.*), the Board of Governors of the Federal Reserve System certifies that the amendment will not have a significant economic impact on a substantial number of small entities that would be subject to the regulation.

This amendment will add to the list of permissible bank holding company activities in the Board's Regulation Y, an activity that has been previously approved for bank holding companies by Board order. This addition will have the effect of reducing the burden on bank holding companies, including small bank holding companies, that wish to conduct these activities by simplifying and streamlining the regulatory review process. The amendment does not impose more burdensome requirements

on bank holding companies than are currently applicable.

### Effective Date

The provisions of 5 U.S.C. 553(d) generally prescribing 30 days' prior notice of the effective date of a rule have not been followed in connection with the adoption of this amendment because adoption of the rule reduces a regulatory burden. Section 553(d) grants a specific exemption from its deferred effective date requirements in these instances.

### List of Subjects in 12 CFR Part 225

Administrative practice and procedure, Appraisals, Banks, Banking, Capital adequacy, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities, State member banks.

For the reasons set forth in the preamble, and pursuant to the Board's authority under section 5(b) of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1844(b)), the Board amends 12 CFR part 225 as follows:

### PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL

1. The authority citation for part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1831i, 1843(c)(8), 1844(b), 1972(l), 3106, 3108, 3907, 3909, 3310, and 3331-3351.

2. In § 225.25, footnotes 7 through 14 are redesignated as 8 through 15, respectively. Paragraphs (b)(5) heading and introductory text, (b)(5)(i) through (iii), (b)(5)(iv) introductory text, (b)(5)(iv)(A) through (D), and (b)(5)(v) and (vi) are redesignated as (b)(5)(i) heading and introductory text, (b)(5)(i)(A) through (C), (b)(5)(i)(D), (b)(5)(i)(D)(1) through (4), and (b)(5)(E) and (F), respectively. The heading for paragraph (b)(5) is added. Newly designated paragraphs (b)(5)(i) introductory text, (b)(5)(i)(D) introductory text, (b)(5)(i)(D)(3), and (b)(5)(i)(F) are revised, and paragraph (b)(5)(ii) is added to read as follows:

### § 225.25 List of permissible nonbanking activities.

\* \* \* \* \*

(b) \* \* \*

(5) *Leasing*—(i) *Leasing personal or real property.* Leasing personal or real property or acting as agent, broker, or adviser in leasing such property if—

(A) \* \* \*

(B) \* \* \*

(C) \* \* \*

(D) At the inception of the initial lease the effect of the transaction (and, with

<sup>15</sup> 12 CFR part 225 appendix B (1991).

<sup>16</sup> See American Association of Equipment Lessors, *The Annual Survey of Industry Activity* (1991).

<sup>17</sup> Compare 12 CFR 225.25(b)(5) with 12 CFR part 23 (1991).

respect to governmental entities only, reasonably anticipated future transactions <sup>4</sup>) will yield a return that will compensate the lessor for not less than the lessor's full investment in the property plus the estimated total cost of financing the property over the term of the lease, <sup>5</sup> from—

(3) The estimated residual value of the property at the expiration of the initial term of the lease, which in no case shall exceed 25 percent of the acquisition cost of the property to the lessor; and

(F) At the expiration of the lease (including any renewals or extensions with the same lessee), all interest in the property shall be either liquidated or released on a nonoperating basis as soon as practicable but in no event later than two years from the expiration of the lease; <sup>6</sup> however, in no case shall the lessor retain any interest in the property beyond 50 years after its acquisition of the property.

(ii) *Certain higher residual value leasing.* Leasing tangible personal property or acting as agent, broker, or adviser in leasing such property, in which the lessor relies on an estimated residual value of the property in excess of the 25 percent limitation described in

paragraph (b)(5)(i)(D)(3) of this section, if—

(A) The activity otherwise meets the requirements of paragraph (b)(5)(i) of this section;

(B) The lessor in no case relies on an estimated residual value of the property in excess of 100 percent of the acquisition cost of the property to the lessor;

(C)(1) The aggregate book value of all personal property described in paragraph (b)(5)(ii)(C)(2) of this section does not exceed 10 percent of the bank holding company's consolidated domestic and foreign assets;

(2) For purposes of calculating the limit provided in paragraph (b)(5)(ii)(C) subclause (1) of this section, the bank holding company shall include all tangible personal property held for lease in transactions in which the bank holding company or any of its nonbank subsidiaries acting under authority of this paragraph, or any domestic subsidiary bank of such holding company, relies on an estimated residual value in excess of 25 percent of the acquisition cost of the property;

(D) The initial term of the lease is at least 90 days; <sup>7</sup>

(E) Each company that conducts leasing transactions under paragraph (b)(5)(ii) of this section maintains capitalization fully adequate to meet its obligations and support its activities, and commensurate with industry standards for companies engaged in comparable leasing activities; and

(F) The bank holding company maintains separately identifiable records of the leasing activities conducted under paragraphs (b)(5) (i) and (ii) of this section, where it conducts leasing activities under the authority of both paragraphs (b)(5) (i) and (ii) of this section.

<sup>4</sup> The Board understands that some federal, state, and local governmental entities may not enter into a lease for a period in excess of one year. Such an impediment does not prohibit a company authorized to conduct leasing activities under this paragraph from entering into a lease with such governmental entities if the company reasonably anticipates that the governmental entities will renew the lease annually until such time as the company is fully compensated for its investment in the leased property plus its costs of financing the property. Further, a company authorized to conduct personal property leasing activities under this paragraph may also engage in so-called "bridge" lease financing of personal property, but not real property, if the lease is short-term pending completion of long-term financing, by the same or another lender.

<sup>5</sup> The estimate by the lessor of the total cost of financing the property over the term of the lease should reflect, among other factors, the term of the lease, the modes of financing available to the lessor, the credit rating of the lessor and/or the lessee, if a factor in the financing, and prevailing rates in the money and capital markets.

<sup>6</sup> In the event of a default on, or early termination of, a lease agreement prior to the expiration of the lease term, the lessor shall either re-lease the property, subject to all the conditions of this paragraph, or liquidate the property as soon as practicable but in no event later than two years from the date of default on the lease agreement (in the event of a default) or termination of the lease (in the event of termination), or such additional time as the Board may permit under § 225.22(c)(1) of this part, as if the property were DPC property. During the period following default on, or expiration or termination of a lease, the lessor may lease the property on a short-term basis in a lease that does not conform to the requirements of this paragraph provided that the property is liquidated or re-leased in a conforming lease prior to the expiration of this period.

Board of Governors of the Federal Reserve System, May 8, 1992.

Jennifer J. Johnson,

Associate Secretary of the Board.

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<sup>7</sup> This minimum lease term requirement is not intended to prohibit a bank holding company from acquiring personal property subject to an existing lease with a remaining maturity of less than 90 days, provided that, at the inception of the lease, such lease conformed with all of the requirements of this paragraph.