



**FEDERAL RESERVE BANK
OF DALLAS**

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

DALLAS, TEXAS
75265-5906

November 21, 1996

Notice 96-118

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

SUBJECT

**Approval of the Use of Certain
Cumulative Preferred Stock Instruments
in Tier 1 Capital**

DETAILS

The Board of Governors of the Federal Reserve System approved the use of certain cumulative preferred stock instruments in Tier 1 capital for bank holding companies. These instruments, which are marketed under a variety of proprietary names such as MIPS and TORRS, are issued out of a special purpose subsidiary that is wholly owned by the parent company. The proceeds are lent to the parent in the form of a very long-term, deeply subordinated note.

Bank holding companies seeking to issue such securities should consult with their District Federal Reserve Bank. Such arrangements normally will be accorded Tier 1 capital status. Minority interest in consolidated subsidiaries generally qualifies as Tier 1 capital under the Board's current capital adequacy guidelines for bank holding companies.

To be eligible as Tier 1 capital, such instruments must provide for a minimum five-year consecutive deferral period on distributions to preferred shareholders. In addition, the intercompany loan must be subordinated to all subordinated debt and have the longest feasible maturity. The amount of these instruments, together with other cumulative preferred stock a bank holding company may include in Tier 1 capital, is limited to 25 percent of Tier 1. Like other preferred stock includable in capital, these instruments require Federal Reserve approval before they may be redeemed.

MORE INFORMATION

For more information, please contact Dorsey Davis at (214) 922-6051. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.