FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6873
December 30, 1971

BANK HOLDING COMPANIES

— Proposed Revision of Procedures for Engaging in Certain Nonbanking Activities

— Suspension of Procedures Under §225.4(3) of Regulation Y

To All Banks, and Others Concerned,
in the Second Federal Reserve District:

The following statement was issued December 22 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today proposed further revisions of its rules permitting bank holding companies to make de novo entry into activities closely related to banking and to acquire small finance companies.

Under the proposal, the Board would determine that, with respect to activities it has designated as closely related to banking, entry by a bank holding company through a new subsidiary — rather than by acquiring companies already engaged in those activities — is likely to produce benefits to the public that outweigh possible adverse effects. Consequently, there would be no necessity for a hearing in such cases except when the Board, in its discretion, determined the need for one.

The only bank-related activity to which the proposed procedure for de novo entry would not be applicable is the sale of insurance in a community that the holding company demonstrates has inadequate insurance agency facilities at the present time.

A bank holding company may now acquire a finance company with assets of less than $10 million without prior notification to its Reserve Bank. Such notification is required within 30 days after the transaction. The proposal would require the holding company also to publish in a newspaper in the communities to be served notice of such an acquisition within 30 days of the transaction. Under the proposal, bank holding companies may acquire small finance companies that make credit life or credit disability insurance available to their borrowers through a group insurance policy issued to the finance company.

The Board also suspended its existing simplified procedures pending consideration of the proposed changes in its regulation. Comments on the proposal should be submitted to the Board by February 1, 1972.

Printed on the following pages is an excerpt from the Federal Register of December 28, containing the text of the proposed amendments. Comments thereon should be submitted by February 1, 1972 and may be sent to our Bank Applications Department.

Alfred Hayes,
President.

FEDERAL RESERVE SYSTEM

[12 CFR Part 225]

[Reg. Y]

BANK HOLDING COMPANIES

Procedures for Engaging in Certain Nonbanking Activities

Section 4(c)(8) of the Bank Holding Company Act provides, among other things, that determinations that activities are closely related to banking may be made "by order or regulation" and that the Board may differentiate between activities commenced de novo and activities commenced by the acquisition of a going concern.

Pursuant to these provisions and the provisions of section 5 of the Act, the Board initiated a rule making proceeding. Notice of the proposed rule making was published in the FEDERAL REGISTER on January 29, 1971, and public hearings on the proposals were held before members of the Board on April 14, April 16, and May 12, 1971. After full consideration of all comments and views presented by interested persons, the Board adopted amendments to Regulation Y on May 20, June 10, August 5, and August 19, 1971.

By the May 20 amendments, the Board adopted procedures under which holding companies may engage in activities that the Board has determined to be closely related to banking. With respect to an activity to be engaged in de novo, a holding company (1) must publish notice of a proposed activity in a local newspaper, (2) within 30 days of publication, must furnish the appropriate Reserve Bank with copies of said notice, and (3) 45 days after furnishing said information to said Reserve Bank, may engage in the proposed de novo activity unless the holding company is notified to the contrary within that time or unless permitted to consummate at an earlier date. Where an acquisition of a going concern is involved, the holding company must file a formal application and await Board consideration of the public interest aspects of the transaction, namely, a Board determination whether the proposed acquisition 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.

On August 19, 1971, the Board adopted simplified procedures with respect to (1) operating a finance company with assets of less than $10 million; (2) engaging in activities that are shifted from a bank to its holding company or an affiliated subsidiary in the holding company system; and (3) engaging in certain insurance agency activities.

As a result of its continuing review of Regulation Y, the Board proposes to amend its procedures regarding activities authorized under section 4(c)(8) of the Act. The proposals herein are based on the oral and written presentations made in connection with the Board's rule making proceeding (including the hearings on April 14, April 16, and May 12) and the Board's experience under the regulatory provisions that resulted from that rule making proceeding.

In view of the extensive consideration given to the public interest factors of holding companies engaging in bank related activities, the Board believes that, with respect to the designated activities, de novo entry by a bank holding company can reasonably be expected to produce benefits to the public and that such benefits can reasonably be expected to outweigh possible adverse effects within the meaning of section 4(c)(8) of the Act. Accordingly, the Board believes that a regulation providing procedures for de novo entry by a holding company into such activities, without the necessity for further opportunity for hearing, is warranted. Adoption of the proposal herein would mean that de novo entry into any of the activities specified in § 225.4(a) (except § 225.4(a)(9)(iii)(*b*)) may be consummated under the proposed procedures without any further opportunity for hearing. However, the Board in its discretion, may afford interested persons a hearing, whenever the Board finds that the circumstances of a particular matter so warrant.

In connection with finance companies, the proposal incorporates the simplified procedures which the Board adopted on August 19, but with the following modifications:

(a) The holding company must publish notice of the acquisition within 30 days after consummation of the transaction, and

(b) A finance company whose insurance involvement is limited to making available to its borrowers (at each borrower's option) credit life and/or credit disability insurance covering the balance on the borrower's debt, through a group insurance policy in which the finance company is the assured policyholder, may be acquired under the proposed simplified procedures.

With respect to the shifting of activities to a collateral affiliate or a parent holding company, the proposal makes no substantial change in the current provisions of § 225.4(b)(3)(i)(*b*).

Pending consideration of the proposals herein, the Board has suspended the operation of § 225.4(b)(3) of Regulation Y until further notice.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. 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 February 1, 1972. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's rules regarding availability of information.

Under the proposal, § 225.4 of Regulation Y would be amended as follows:

The fourth sentence of the opening portion of § 225.4(a), starting with the words "The following activities" and ending with the first colon, would be replaced by the following sentences; and paragraph (b) (1) and (3) would be amended to read as follows:

§ 225.4 Nonbanking activities.

(a) *Activities closely related to banking or managing or controlling banks.* * * * With respect to the activities designated below, the Board has determined that de novo entry by a bank holding company can reasonably be expected to produce benefits to the public and that such benefits can reasonably be expected to outweight possible adverse effects within the meaning of section 4(c)(8) of the Act except that, with respect to the activities in subparagraph (9)(iii)(*b*) of this paragraph, the Board has determined only that the activities are closely related to banking. Accordingly, the procedures of paragraph (b)(1) of this section are prescribed for de novo entry into the designated activities. With respect to the acquisition of a going concern, the Board has concluded that the activities designated below are closely related to banking but the bank holding company must await a Board determination whether the proposed acquisition can reasonably be expected to produce benefits to the public that outweigh possible adverse effects within the meaning of section 4(c)(8) of the Act. Accordingly, the procedures of § 225.4(b)(2) are prescribed for the acquisition of a going concern.

(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 (except insurance agency activities under paragraph (a)(9)(iii)(*b*) of this section) 45 days after the holding company has informed its Reserve Bank of its proposal to engage in such activity, unless the company is notified to the contrary within that time or is permitted to consummate the transaction at an earlier date. Every such notification shall be accompanied by a copy of a publication (in substantially the same form as F.R. Y–4A) of the proposal to engage in the activities published within the preceding 30 days in a newspaper(s) of general circulation in the communities to be served. Such notification to the Reserve Bank shall provide information as to the general nature and extent of the activities to be engaged in. Whenever necessary to effectuate the purposes of the Act, the Board may require suspension or discontinuation of any action taken, or divestiture of any interest acquired, on the authority of this provision, and may withdraw such authority with respect to any particular holding company. The Board has determined that (with the exception noted above) the activities described in paragraph (a) of this section are so closely related to banking as to be a proper incident thereto and that de novo entry into said activities can reasonably be expected to produce benefits to the public that outweigh possible adverse effects within the meaning of

section 4(c)(8) of the Act. Accordingly, unless the Board at its discretion affords interested persons an opportunity to present further oral or written views or data or orders a hearing, a transaction may be consummated under this subparagraph without any further notice or opportunity for hearing. If adverse comments of a substantive nature are received by the Reserve Bank within 30 days after the company has published its proposal [1] 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 shall be processed in accordance with the procedures of subparagraph (2) of this paragraph (b). A bank holding company may engage de novo in insurance agency activities under paragraph (a)(9)(iii)(*b*) of this section only in accordance with the procedures of subparagraph (2) of this paragraph (b).

* * * * *

(3) *Simplified procedures.* The procedures of subparagraphs (1) and (2) of this paragraph (b) shall not apply with respect to a holding company or a subsidiary thereof engaging in the following:

(i) Making, acquiring, or servicing loans or other extensions of credit for personal, family, or household purposes: *Provided,* That the commencement or expansion of such activity does not involve an acquisition of assets of $10 million or more (or the acquisition of shares of a company having such assets) and incidental insurance activities are limited to the making available to a borrower, at the borrower's option, credit life insurance [2] and/or credit disability insurance [3] on a group basis under which the creditor is issued a group master policy as a policyholder and the borrower receives a certificate of insurance evidencing his coverage and stating the principal provisions of the group policy; except that (*a*) no holding company may acquire more than $50 million in assets in any calendar year under the provisions of this subdivision, (*b*) within 30 days after the consummation of such an acquisition, the holding company shall inform its Reserve Bank of the acquisition, and every such notification shall be accompanied by a copy of a notice of the acquisition published within the preceding 30 days in a newspaper(s) of general circulation in the communities to be served, and (*c*) whenever necessary to effectuate the purposes of the Act, the Board may require suspension or discontinuation of any action taken, or divestiture of any acquisition made, on authority of this provision, and may withdraw such authority with respect to any particular holding company;

(ii) Engaging in activities described in paragraph (a) of this section that are shifted from a bank in the holding company system and were engaged in by the bank either de novo or as a result of a merger transaction described in and approved by a Federal supervisory agency pursuant to section 18(c) of the Federal Insurance Act (12 U.S.C. 1828(c)), 45 days after the holding company has informed its Reserve Bank of its proposal to shift such activity, unless the company is notified to the contrary within that time or is permitted to consummate the transaction at an earlier date. Such notification shall provide information as to the general nature and extent of the activities to be shifted and the locations involved. Whenever necessary to effectuate the purposes of the act, the Board may require suspension or discontinuation of any action taken, or divestiture of any interest acquired, on authority of this provision, and may withdraw such authority with respect to any particular holding company.

By order of the Board of Governors, December 21, 1971.

[SEAL] TYNAN SMITH,
Secretary of the Board.

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[1] 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.

[2] Credit life insurance insures the creditor against loss in case of death of a borrower. The amount of insurance may be constant or decreasing depending upon whether the loan is to be repaid in one payment or, as in an installment contract, in a series of payments.

[3] Credit disability insurance insures the creditor against loss resulting from a borrower's inability to make installment payments when he is disabled. This type of insurance is sometimes called "accident and health".