

FEDERAL RESERVE BANK  
OF NEW YORK

Circular No. 6903  
February 24, 1972

PROPOSED AMENDMENT TO REGULATION Y

To Permit Bank Holding Companies to Lease Real Property Under Certain Conditions

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

Following is the text of a statement issued February 18 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today invited comment on a proposal to permit bank holding companies to lease real property under certain conditions. Comments should be received not later than March 17.

Under the proposal to amend the Board's regulation governing the activities of bank holding companies (Regulation Y), the following activity would be regarded as so closely related to banking or managing or controlling banks as to be a proper incident thereto:

"Leasing real property where:

- "(i) the property to be leased is acquired specifically for the leasing transaction under consideration;
- "(ii) the lease is on a net lease basis and the effect of the transaction will be to compensate the lessor for not less than the lessor's full investment in the property;
- "(iii) the lessee has an option to purchase the property at the expiration of the lease;
- "(iv) in the event the lessee fails to exercise the aforesaid option, the real property assets shall be liquidated as soon as practicable and, in no event, later than one year from the expiration of the lease;
- "(v) the aggregate investment in such real property by the bank holding company and its subsidiaries shall at no time exceed five per cent of the equity capital of the bank holding company."

This proposal is part of a series the Board has made concerning activities regarded as closely related to banking under the 1970 amendments to the Bank Holding Company Act and thus permissible activities for bank holding companies, subject to Board approval in individual cases.

Printed on the reverse side is the text of the notice of proposed rule making. Comments thereon should be submitted by March 17 and may be sent to our Bank Applications Department. Additional copies of this circular will be furnished upon request.

Alfred Hayes,  
President.

(Over)

(Reg. Y)  
**BANK HOLDING COMPANIES**  
Nonbanking Activities of Bank Holding Companies

The Board of Governors is considering further implementation of its regulatory authority under section 4(c)(8) of the Bank Holding Company Act to permit bank holding companies to lease real property under certain conditions. In this connection, the Board noted that it has received an application from First Chicago Corporation, Chicago, Illinois, to engage, through its subsidiary, First Chicago Leasing Corporation, in the leasing of real property in a manner somewhat similar to that which would be authorized by the following proposed regulation for bank holding companies generally, subject to the procedures of section 225.4(b) of Regulation Y.

Accordingly, the Board proposes to amend section 225.4(a) of Regulation Y to permit bank holding companies, subject to the procedures of section 225.4(b), to engage in the leasing of real property under certain conditions. The text of the proposed amendment reads as follows:

§ 225.4 - Nonbanking Activities.

(a) Activities closely related to banking or managing or controlling banks. \* \* \* The following activities have been determined by the Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto:

\* \* \*

(12) leasing real property where:

(i) the property to be leased is acquired specifically for the leasing transaction under consideration;

(ii) the lease is on a net lease basis and the effect of the transaction will be to compensate the lessor for not less than the lessor's full investment in the property;

(iii) the lessee has an option to purchase the property at the expiration of the lease;

(iv) in the event the lessee fails to exercise the aforesaid option, the real property assets shall be liquidated as soon as practicable and, in no event, later than one year from the expiration of the lease;

(v) the aggregate investment in such real property by the bank holding company and its subsidiaries shall at no time exceed five per cent of the equity capital of the bank holding company.

\* \* \* \* \*

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 March 17, 1972. Such material will be made available for inspection and copying upon request, except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors,  
February 18, 1972.