

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6950]
June 5, 1972

INTERPRETATION OF REGULATION Y

Investments by Bank Holding Companies in Projects
Designed To Promote Community Welfare

To All Bank Holding Companies, and Others Concerned,
in the Second Federal Reserve District:

Following is the text of a statement issued May 31 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today issued the attached interpretation outlining the types of investments bank holding companies may make in projects designed primarily to promote community welfare. This is one of the activities determined by the Board to be closely related to banking and therefore a permissible investment for bank holding companies.

The interpretation indicates the Board's intent to enable bank holding companies to take an active role in helping to promote community welfare. Within the category of permissible investments indicated by the Board are (1) low and moderate-income housing projects and (2) projects designed explicitly to create improved job opportunities for low or moderate-income groups.

Printed below is the text of the interpretation; additional copies will be furnished upon request.

ALFRED HAYES,
President.

[Reg. Y]

12 CFR PART 225—BANK HOLDING COMPANIES

Nonbanking Activities of Bank Holding Companies

Section 225.123(e) is revoked and section 225.127 is added to read as follows:

§ 225.127 **Investment in Corporations or Projects Designed Primarily to Promote Community Welfare**

(a) Under § 225.4(a)(7) of Regulation Y, a bank holding company may, in accordance with the provisions of § 225.4(b), engage in "making equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas." The Board included that activity among those the Board has determined to be so closely related to banking or manag-

ing or controlling banks as to be a proper incident thereto, in order to permit bank holding companies to fulfill their civic responsibilities. As indicated hereinafter in this interpretation, the Board intends § 225.4(a)(7) to enable bank holding companies to take an active role in the quest for solutions to the nation's social problems. Although the interpretation primarily focuses on low and moderate-income housing, it is not intended to limit projects under § 225.4(a)(7) to that area. Other investments primarily designed to promote community welfare are considered permissible, but have not been defined in order to provide bank holding companies flexibility in approaching community problems. For example, bank holding companies may utilize this flexi-

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bility to provide new and creative approaches to the promotion of employment opportunities for low-income persons. Bank holding companies possess a unique combination of financial and managerial resources making them particularly suited for a meaningful and substantial role in remedying our social ills. Section 225.4(a)(7) is intended to provide an opportunity for them to assume such a role.

(b) Under the authority of section 225.4(a)(7), a bank holding company may invest in community development corporations established pursuant to Federal or State law. A bank holding company may also participate in other civic projects, such as a municipal parking facility sponsored by a local civic organization as a means to promote greater public use of the community's facilities.

(c) Within the category of permissible investments under section 225.4(a)(7) are investments in projects to construct or rehabilitate multi-family low or moderate-income housing with respect to which a mortgage is insured under sections 221(d)(3), 221(d)(4), or 236 of the National Housing Act (12 U.S.C. 1701) and investments in projects to construct or rehabilitate low or moderate-income housing which is financed or assisted by direct loan, tax abatement, or insurance under provisions of State or local law, similar to the aforementioned federal programs, provided that, with respect to all such projects the owner is, by statute, regulation, or regulatory authority, limited as to the rate of return on his investment in the project, as to rentals or occupancy charges for units in the project, and in such other respects as would be a "limited dividend corpora-

tion" (as defined by the Secretary of Housing and Urban Development).

(d) Investments in other projects that may be considered to be designed primarily to promote community welfare include but are not limited to (1) projects for the construction or rehabilitation of housing for the benefit of persons of low or moderate-income, (2) projects for the construction or rehabilitation of ancillary local commercial facilities necessary to provide goods or services principally to persons residing in low or moderate-income housing, and (3) projects designed explicitly to create improved job opportunities for low or moderate-income groups (for example, minority equity investments, on a temporary basis, in small or medium-sized locally-controlled businesses in low-income urban or other economically depressed areas). In the case of *de novo* projects, the copy of the notice with respect to such other projects which is to be furnished to Reserve Banks in accordance with the provisions of section 225.4(b)(1) should be accompanied by a memorandum which demonstrates that such projects meet the objectives of section 225.4(a)(7).

(e) Investments in corporations or projects organized to build or rehabilitate high-income housing, or commercial, office, or industrial facilities that are not designed explicitly to create improved job opportunities for low-income persons shall be presumed not to be designed primarily to promote community welfare, unless there is substantial evidence to the contrary, even though to some extent the investment may benefit the community.

(Interprets and applies 12 U.S.C. 1843(c)(8).)