FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 7133
April 30, 1973

APPROVAL OF CERTAIN BANK HOLDING COMPANY AND MERGER APPLICATIONS

Amendments to Rules Regarding Delegation of Authority

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

The following statement was issued April 25 by the Board of Governors of the Federal Reserve System:

> The Board of Governors of the Federal Reserve System today announced additional steps—in the form of expanded authority to the Federal Reserve Banks—to expedite the processing of applications received by the System under the Bank Holding Company Act.
>
> The Board had previously delegated to the Reserve Banks the authority to approve certain formations of one-bank holding companies and acquisitions by bank holding companies of newly formed (de novo) banks. The Board is now expanding this authority by delegating to the Reserve Banks the authority to approve certain formations of holding companies involving more than one bank, acquisitions by bank holding companies of existing banks and certain types of bank mergers.
>
> Standards for the exercise of this delegation are set forth in the attached Board order. Applications that fall outside these standards must be forwarded to the Board for consideration. The Board retains authority to deny an application.
>
> Last year, the System processed 769 holding company and merger applications, compared with 235 during 1971. Of the applications acted upon last year, 447 were handled by the Board while 322 were handled by the Federal Reserve Banks.

Enclosed is a copy of amendments to the Board of Governors' Rules Regarding Delegation of Authority, giving effect to the delegation referred to in the above statement. Additional copies of the enclosure will be furnished upon request.

Alfred Hayes,
President.

Board of Governors of the Federal Reserve System

RULES REGARDING DELEGATION OF AUTHORITY

AMENDMENTS

Effective with respect to applications accepted by the Reserve Banks after April 23, 1973, subparagraphs (22) and (24) of §265.2 (f) are amended, and a new subparagraph (28) is added to that section, to read as follows:

SECTION 265.2—SPECIFIC FUNCTIONS DELEGATED TO BOARD EMPLOYEES AND FEDERAL RESERVE BANKS

* * *

(f) **Each Federal Reserve Bank** is authorized, as to member banks or other indicated organizations headquartered in its district, or under subparagraph (25) of this paragraph as to its officers:

* * *

(22) Under the provisions of section 3(a)(1) of the Bank Holding Company Act (12 U.S.C. 1842), to approve the formation of a bank holding company through the acquisition by a company of a controlling interest in the voting shares of one or more banks, if all of the following conditions are met:

(i) No member of the Board has indicated an objection prior to the Reserve Bank's action.

(ii) All relevant departments of the Reserve Bank recommend approval.

(iii) No substantive objection to the proposal has been made by a bank supervisory authority, the United States Department of Justice, or a member of the public.

(iv) No significant policy issue is raised by the proposal as to which the Board has not expressed its view.

(v) Any offer to acquire shares of the bank or banks involved will be extended to all shareholders of the same class on a substantially equal basis.[2]

(vi) Considerations relating to the convenience and needs of the communities to be served are consistent with or lend weight toward approval of the application.

(vii) In the event any debt is incurred by the holding company to purchase shares of any bank involved in the proposal:

(a) an agreed plan for amortization of the debt within a reasonable time exists, such period normally not exceeding 12 years;

(b) the interest rate on any loan to purchase the bank shares will be comparable with other stock collateral loans by the lender to persons of comparable credit standing; and

(c) no compensating balances, specifically attributable to the loan, will be deposited in the lending institution and the amount of any correspondent account which the proposed subsidiary bank will maintain with the lending institution should not exceed the amount necessary to compensate the lending bank for correspondent services rendered by it to the proposed subsidiary bank.

(viii) The Reserve Bank determines that the managerial and financial resources, including the equity to debt relationships, of Applicant, its existing subsidiaries, and any proposed subsidiary bank, are adequate, or will be adequate within a reasonable period of time after consummation of the proposal, and any debt service requirements to which the holding company may be subject are such as to enable it to maintain the capital adequacy of any proposed subsidiary bank in the foreseeable future.

(ix) If Applicant or any of Applicant's existing or proposed nonbanking subsidiaries compete in the same geographic and product market as any proposed subsidiary bank, the resulting organization will control no more than 10 per cent of that product or service line after consummation of the proposal.

(x) Total nonbank gross revenues of Applicant and its subsidiaries do not exceed 10

[2] Less than all of the oustanding shares of the bank may be acquired provided that where a greater number of shares are tendered than are proposed to be purchased, the offeror will purchase the shares tendered on a *pro rata* basis (except for fractional interests) according to the number of shares tendered by each shareholder. Where an offer is not identical to all shareholders, the burden is on the applicant to demonstrate the substantial equivalence of the offers extended.

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per cent of total operating income of the proposed banking subsidiaries.

(xi) If Applicant engages, or is to engage, in nonbanking activities requiring the Board's approval under section 4(c)(8) of the Act, the Reserve Bank must also have delegated authority to approve the section 4(c)(8) activities.

(xii) If the proposal involves the acquisition of the controlling stock of only one bank, and any debt is incurred by the holding company to purchase shares of the bank, the amount of the loan does not exceed 75 per cent of the purchase price of the shares of the proposed subsidiary bank.

(xiii) If the proposal involves the acquisition of the controlling stock of more than one bank, the following additional conditions must be met:

(a) In the event any debt is incurred by the holding company to purchase shares of any proposed subsidiary banks, the total amount of the debt does not exceed 10 per cent of the equity capital accounts of the holding company.

(b) The Applicant will control no more than 15 per cent of total deposits in commercial banks in the State.

* * *

(24) Under the provisions of section 3(a)(3) of the Bank Holding Company Act (12 U.S.C. 1842), to approve the acquisition by a bank holding company of a controlling interest in the voting shares of an additional bank, if all of the following conditions are met:

(i) No member of the Board has indicated an objection prior to the Reserve Bank's action.

(ii) All relevant departments of the Reserve Bank recommend approval.

(iii) No substantive objection to the proposal has been made by a bank supervisory authority, the United States Department of Justice, or a member of the public.

(iv) No significant policy issue is raised by the proposal as to which the Board has not expressed its view.

(v) Any offer to acquire shares of the bank or banks involved will be extended to all shareholders of the same class on a substantially equal basis.[3]

[3] Less than all of the outstanding shares of the bank may be acquired provided that where a greater number of shares are tendered than are proposed to be purchased, the offeror will purchase the shares tendered on a *pro rata* basis (except for fractional interests) according to the number of shares tendered by each shareholder. Where an offer is not identical to all shareholders, the burden is on the applicant to demonstrate the substantial equivalence of the offers extended.

(vi) Considerations relating to the convenience and needs of the communities to be served are consistent with or lend weight toward approval of the application.

(vii) In the event any debt is incurred by the holding company to purchase shares of any bank involved in the proposal:

(a) an agreed plan for amortization of the debt within a reasonable time exists, such period normally not exceeding 12 years;

(b) the interest rate on any loan to purchase the bank shares will be comparable with other stock collateral loans by the lender to persons of comparable credit standing; and

(c) no compensating balances, specifically attributable to the loan, will be deposited in the lending institution and the amount of any correspondent account which the proposed subsidiary bank will maintain with the lending institution should not exceed the amount necessary to compensate the lending bank for correspondent services rendered by it to the proposed subsidiary bank.

(viii) The Reserve Bank determines that the managerial and financial resources, including the equity to debt relationships, of Applicant, its existing subsidiaries, and any proposed subsidiary bank, are adequate, or will be adequate within a reasonable period of time after consummation of the proposal, and any debt service requirements to which the holding company may be subject are such as to enable it to maintain the capital adequacy of any existing or proposed subsidiary bank in the foreseeable future.

(ix) If Applicant or any of Applicant's existing or proposed nonbanking subsidiaries compete in the same geographic and product market as any proposed subsidiary, the resulting organization will not control more than 10 per cent of that product or service line after consummation of the proposal.

(x) Total nonbank gross revenues of the Applicant and its subsidiaries do not exceed 10 per cent of total operating income of the company's existing or proposed bank subsidiaries.

(xi) If Applicant engages, or is to engage, in nonbanking activities requiring the Board's approval under section 4(c)(8) of the Act, the Reserve Bank must also have delegated authority to approve the section 4(c)(8) activities.

(xii) In the event any debt is incurred by Applicant to purchase shares of the bank, the resulting total acquisition debt of the holding

company will not exceed 10 per cent of the company's equity capital accounts after consummation of the proposal.

(xiii) Unless the proposed subsidiary is a proposed new bank, Applicant will control no more than 15 per cent of deposits in the State after consummation of the proposal.

(xiv) If the bank to be acquired is an existing bank and if no banking offices of Applicant's existing subsidiary banks are located in the same market as the proposed subsidiary, the proposed subsidiary has no more than $25 million in deposits or controls no more than 15 per cent of market deposits.

(xv) If the bank to be acquired is an existing bank and if any of Applicant's existing subsidiary banks compete in the same market as the proposed subsidiary, Applicant will control no more than 10 per cent of market deposits after consummation.

(xvi) If the bank to be acquired is a proposed new bank, bank subsidiaries of Applicant will not hold in the aggregate more than 20 per cent of the commercial bank deposits in the relevant market area and Applicant will not be one of the dominant banking organizations in the State.

(xvii) Applicant has a proven record of furnishing to its subsidiaries, when needed, special services, management, capital funds and general guidance.

* * *

(28) Under the provisions of section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)), to approve a merger, consolidation, acquisition of assets or assumption of liabilities, where the resulting bank is a State member bank, if all of the following conditions are met:

(i) No member of the Board has indicated an objection prior to the Reserve Bank's action.

(ii) All relevant departments of the Reserve Bank recommend approval.

(iii) No substantive objection to the proposal has been made by a bank supervisory authority, the United States Department of Justice, or a member of the public.

(iv) No significant policy issue is raised by the proposal as to which the Board has not expressed its view.

(v) If the banks do not have offices in the same market, the bank to be acquired has no more than $25 million in deposits or controls no more than 15 per cent of market deposits.[4]

(vi) If the banks compete in the same banking market, the resulting bank will control no more than 10 per cent of market deposits.[5]

(vii) If a parent holding company or any of its subsidiaries competes in the same geographic and product market as the bank to be acquired, or any of its subsidiaries, the holding company will control no more than 10 per cent of that product or service line after consummation of the proposal.

(viii) The Reserve Bank determines that the managerial and financial resources, including the equity capital accounts of the resulting bank, are adequate, or will be adequate within a reasonable period of time after the proposal is consummated.

(ix) Considerations relating to the convenience and needs of the communities to be served are consistent with, or lend weight toward, approval of the application.

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[4] If either of the proponent banks is a subsidiary of a holding company, and the parent company has another bank subsidiary operating in the market of the bank to be acquired, deposits of such offices should be included in the computation of market shares.

[5] See footnote 4, above.