

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7257]
[October 23, 1973]

BANK HOLDING COMPANIES
Underwriting of Mortgage Guaranty Insurance

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

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

The Board of Governors of the Federal Reserve System today announced it will conduct an oral presentation, on November 28, into the question whether the underwriting of mortgage guaranty insurance should be added to the list of activities that are considered closely related to banking and permissible to bank holding companies.

The Board proposed this as an activity permissible to bank holding companies on May 23, 1973. Many of the comments received since that time suggested a hearing on the issue.

In addition to considering the question whether underwriting mortgage guaranty insurance is so closely related to banking or managing or controlling banks as to be a permissible activity for bank holding companies, the Board's order listed a number of possible restrictions and requirements on the performance of the activity that will also be considered at the oral presentation.

Those wishing to participate in the proceeding should file a written request with the Secretary of the Board stating the nature of their interest, and other particulars set out in the Board's order, on or before November 14. Written comment will be received through the close of business on December 12. Previously received written comment is available for inspection at the Board's offices.

Printed on the reverse side is the text of the Board's notice regarding the hearing. Written comments thereon should be submitted by December 12, and may be sent to our Bank Applications Department.

ALFRED HAYES,
President.

(OVER)

(Reg. Y)
BANK HOLDING COMPANIES

Notice of Hearing Regarding the Underwriting of Real
Estate Mortgage Guaranty Insurance

The Board of Governors has proposed, by notice published in the Federal Register on May 23, 1973 (38 F.R. 13572), to add to the list of activities that it has determined to be closely related to banking or managing or controlling banks (Section 225.4(a) of Regulation Y) the following: "Engaging in the underwriting of real estate mortgage guaranty insurance".

The comment period has expired and numerous comments have been received; many of those commenting requested that the Board hold a hearing on the proposal, some requested a formal hearing, and some requested that the Board defer any action on the proposal pending completion of the study of the private mortgage insurance industry by the Federal National Mortgage Association.

After consideration of the comments submitted, the Board has decided not to defer action on the proposal and to conduct an oral presentation on the matter, to be held before available members of the Board in the Board Room of its building on 20th Street and Constitution Avenue, N.W., Washington, D. C. on November 28, 1973, beginning at 10:00 a.m. The proceeding will consist of presentations of statements in oral or written form, which are to be addressed to the question of whether the proposed activity is so closely related to banking as to be a proper incident thereto; and to the desirability of the following restrictions and requirements on the performance of the activity:

(a) The proposed subsidiary may not underwrite real estate mortgage guaranty insurance on mortgages originated by the holding company system;

(b) The proposed subsidiary must, prior to underwriting any insurance, become an insurer qualified by the Federal Home Loan Mortgage Corporation;

(c) The bank holding company system may not make demand deposits in or reduce correspondent

service charges for any financial institution as an indirect means of compensating that financial institution for utilizing the holding company's proposed underwriting subsidiary;

(d) The name of the proposed subsidiary may not resemble that of the holding company or any subsidiary bank; and

(e) The proposal that, with respect to any proposed mortgage guaranty subsidiary, due to its status as a nonbanking subsidiary, in no event may the resources of any banking subsidiary of the holding company be used to support such company if it encounters financial difficulties.

Any person desiring to give testimony, present evidence, or otherwise participate in these proceedings should file with the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, on or before November 14, 1973, a written request containing a statement of the nature of the petitioner's interest in the proceedings, the extent of participation desired, a summary of the matters concerning which petitioner wishes to give testimony or submit evidence, and the names and identity of witnesses who propose to appear.

Interested persons need not participate in the proceedings through oral presentation in order to have their views considered. All views previously expressed in written comments on the pending proposal are under consideration by the Board and are available for inspection and copying in Room 1020 of the Board's building. Anyone wishing to submit written comments on the issues to be considered at the hearing may do so at any time before the close of business on December 12, 1973.

By order of the Board of Governors, effective October 23, 1973.