

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 7399]
May 23, 1974]

REGULATIONS L AND Y

Interlocking Relationships With Banks in Low Income or Economically Depressed Areas

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

Following is the text of a statement issued May 20 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced two regulatory changes designed to aid the development of banks in low income or other economically depressed areas.

One of the regulatory amendments makes an exception under Regulation L to permit interlocking personnel relationships, under certain conditions, in low income or depressed areas. Generally, directors, officers and employees of member banks are prohibited from holding similar positions in another bank, savings institution or trust company in the same, or adjacent, communities.

The second makes an exception under Regulation Y to permit a bank holding company which provides bank management consulting advice to an unaffiliated bank in a depressed or low income area to have interlocking personnel relationships with the nonaffiliated bank. In general, Regulation Y does not permit a bank holding company to give management consulting advice to a nonaffiliated bank if there are interlocking personnel relationships.

The amendments are to be effective June 20, 1974.

Interlocking personnel will be permitted only upon the following conditions:

- Any director, officer or employee of a member bank may be a director, officer or employee of not more than one other bank, located or to be located in a low income or economically depressed area;
- The interlocking relationship is necessary to provide management or operating expertise;
- There are no more than three interlocking relationships between any two banks, and interlocking personnel do not constitute a majority of the board of directors of the bank being assisted;
- Interlocking relationships are not to last more than five years; and
- The Board may determine other terms and conditions in specific cases in addition to, or in lieu of, the above.

The Board also adopted an interpretation of its amendment to Regulation L setting forth criteria that may be used in designating a "low income or other economically depressed area." The Board said such an area is one, without regard to political or other subdivisions or boundaries, that has some or all of the following characteristics:

- A rate of unemployment substantially above the national average.
- A median level of family income significantly below the national median.
- The economy of the area has traditionally been dominated by one or two industries and these are in a state of long-term decline.
- Labor and capital are leaving the area to a substantial degree.
- The area is adversely affected by changing industrial technology.
- The area is adversely affected by changes in national defense production or facilities.

(OVER)

In submitting the amendments for publication in the *Federal Register*, the Board of Governors made the following additional statements:

By notice of proposed rulemaking, published in the *Federal Register* on February 19, 1974 (29 *Federal Register* 6132), the Board of Governors proposed to permit under certain circumstances interlocking service by a director, officer or employee of a member bank with another bank, banking association, savings bank or trust company located in a low income or other economically depressed area, by amending section 212.3 of the Board's Regulation L.

Following consideration of the comments received, the Board has amended section 212.3, effective June 20, 1974, to permit certain interlocking relationships with minor modifications in language from that originally proposed.

An accompanying interpretation sets forth illustrative criteria that may be used in determining whether a certain area is a "low income or other economically depressed area."

* * *

Section 225.4(a)(12) of Regulation Y permits bank holding companies to offer management consulting advice to nonaffiliated banks subject to certain conditions. One of those conditions is that there be no interlocking personnel relationships between the bank holding company or any of its subsidiaries and the unaffiliated bank.

By action effective June 20, 1974, the Board has amended section 212.3 of the Board's Regulation L ("Interlocking Relationships Under the Clayton Act" (12 CFR 212)) so as to permit interlocking personnel relationships between a member bank and a bank located in a low income or other economically depressed area. The public interest which the amendment to Regulation L serves would similarly be served by a relaxation of the restriction found in section 225.4(a)(12)(ii). Thus, the purpose of the present amendment is to permit a bank holding company to extend management consulting advice to an unaffiliated bank with which the bank holding company or any of its subsidiaries has established interlocking relationships pursuant to section 212.3(g) of Regulation L.

Enclosed are copies of the amendment to, and interpretation of, Regulation L and the amendment to Regulation Y, referred to in the above statements. Additional copies of the enclosures will be furnished upon request.

ALFRED HAYES,
President.

Board of Governors of the Federal Reserve System

INTERLOCKING BANK RELATIONSHIPS UNDER THE CLAYTON ACT

AMENDMENT TO REGULATION L

Effective June 20, 1974, section 212.3 is amended by adding a new subparagraph (g) thereto, to read as follows:

SECTION 212.3—RELATIONSHIPS PERMITTED BY BOARD

In addition to any relationships covered by the foregoing exception, not more than one of the following relationships is hereby permitted by the Board of Governors of the Federal Reserve System in the case of any one individual.

(g) **Bank in low income area.** Any director, officer or employee of a member bank of the Federal Reserve System may be at the same time a director, officer or employee of not more than one other bank located, or to be located, in a low income or other economically depressed area, subject to the following conditions: (1) such relationship is determined by the Board to be necessary to provide management or operating expertise to such other bank; (2) not more than three interlocking relationships between any two banks shall be permitted by this paragraph, except that persons serving in interlocking relationships pursuant to this paragraph shall in no instance constitute a majority of the board of directors of the other bank; (3) no interlocking relationship permitted by this paragraph shall continue for more than a five-year period, and (4) upon such other terms and conditions in addition to or in lieu of the foregoing, as may be determined by the Board in any specific case.

Board of Governors of the Federal Reserve System

INTERLOCKING BANK RELATIONSHIPS UNDER THE CLAYTON ACT

INTERPRETATION OF REGULATION L

§212.103 — Exemption from section 8 of the Clayton Act for bank in low in- come area.

(a) Effective June 20, 1974, the Board of Governors amended section 212.3 of Regulation L to exempt under certain circumstances from the prohibitions of section 8 of the Clayton Act (15 U.S.C. 19) interlocking relationships between a member bank and a bank in a "low income or other economically depressed area." (12 CFR 212.3(g)). This interpretation is intended to set forth some of the criteria that may be used in the designation of such an area.

(b) A "low income or other economically depressed area" is any area, without regard to political or other subdivisions or boundaries, which have some or all of the following characteristics:

(1) the rate of unemployment is substantially above the national rate;

(2) the median level of family income is significantly below the national median;

(3) the economy of the area has traditionally been dominated by only one or two industries, which are in a state of long-term decline;

(4) the rate of outmigration of labor or capital is substantial;

(5) the area is adversely affected by changing industrial technology;

(6) the area is adversely affected by changes in national defense facilities or production.

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Board of Governors of the Federal Reserve System

BANK HOLDING COMPANIES

AMENDMENT TO REGULATION Y

Effective June 20, 1974, section 225.4(a)
(12)(ii) is amended to read as follows:

SECTION 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) providing management consulting advice* to nonaffiliated banks *Provided that*, * * *
(ii) no officer, director or employee of the bank holding company or any of its subsidiaries serves as an officer, director or employee of the client bank, except where such interlocking relationships are or would be permitted by section 212.3(g) of Regulation L; . . .

* In performing this activity bank holding companies are not authorized to perform tasks or operations or provide services to client banks either on a daily or continuing basis, except as shall be necessary to instruct the client bank on how to perform such services for itself. See also the Board's interpretation of bank management consulting advice (12 CFR 225.131).