

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 8829]
May 16, 1980

**Policy on Divestitures
Under the 1970 Amendments to the Bank Holding Company Act**

*To All Commercial Banks and Bank Holding Companies
in the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System has issued a policy statement setting forth a program to ensure compliance with the law by those bank holding companies that have divestiture obligations to meet by December 31, 1980 under the terms of the 1970 amendments to the Bank Holding Company Act.

The following is quoted from the Board's announcement of the policy:

The 1970 amendments to the Bank Holding Company Act provided that companies that became bank holding companies by virtue of those amendments (i.e., one-bank holding companies) and which had acquired non-bank activities between June 30, 1968 and December 30, 1970 had until December 31, 1980 to (1) divest such non-bank activities or (2) get Board approval to keep them or (3) cease to be a bank holding company by divesting their bank holdings.

The Board has twice earlier (in December 1978 and December 1979) warned bank holding companies that had not filed plans for complying with the 1980 divestiture requirements that, to avoid forced liquidation resulting from last-minute efforts to comply, they should file compliance plans with the Board well in advance of the deadline. The Board's policy statement issued today, which affects some 200 bank holding companies, provides that:

1. Applications to retain non-banking subsidiaries or activities subject to the 1980 divestiture requirements should be submitted to the appropriate Federal Reserve Bank by July 1, 1980. Failure to meet this deadline will be considered by the Board to be a declaration by the company that it does not intend to retain the subsidiary or activity. Further, the Board expects affected companies to be actively engaged in divestiture or discontinuance of impermissible activities or subsidiaries that it does not intend to retain, including those it has not applied to retain.

2. The Congress has recently provided a special exemption for bank holding companies with real estate holdings. This permits the Board to extend the 1980 deadline to December 31, 1982 for divestiture of such interests where

—The Board finds the company has made continuing good faith efforts to divest, and

—The extension is necessary to avert substantial loss to the company.

Bank holding companies wishing to take advantage of this special provision must submit a request to the Board to do so by July 1, 1980, together with information to enable the Board to evaluate the request.

3. Bank holding companies with non-banking subsidiaries or activities subject to the 1980 divestiture requirements, but that have not filed applications or requests to retain by July 1, 1980 must begin to file monthly progress reports on August 1, 1980. The reports, to be filed in letter form with the appropriate Reserve Bank, should describe actions of the company undertaken to divest either the non-banking activity or the bank. Letters are to be filed with the Reserve Banks on the first day of each month.

A copy of the Board's policy statement is enclosed. Questions thereon may be directed to our Domestic Banking Applications Department (Tel. No. 212-791-5861).

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

Compliance With the 1980 Requirements
of the Bank Holding Company Act

Policy Statement

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Statement of Policy.

SUMMARY: This Policy Statement sets forth the program adopted by the Board to ensure compliance with the law by those remaining bank holding companies having 1980 divestiture obligations as a result of the 1970 Amendments to the Bank Holding Company Act.

FOR FURTHER INFORMATION CONTACT: Bronwen Mason, Senior Attorney (202/452-3564), Legal Division, Board of Governors of the Federal Reserve System.

SUPPLEMENTARY INFORMATION: The Board has issued the following statement:

Policy Statement Regarding
Compliance With the 1980 Requirements
of the Bank Holding Company Act

Pursuant to the provisions of section 4(a)(2) of the Bank Holding Company Act ("BHCA"), a bank holding company that became subject to the BHCA as a result of the 1970 Amendments to the BHCA generally may not retain nonbanking subsidiaries or activities beyond December 31, 1980, if it also wishes to remain a bank holding company beyond that date. In its December 12, 1979, Policy Statement the Board stated that it will regard as an extremely serious matter a violation of section 4 of the BHCA resulting from a bank holding company's failure to divest or obtain approval for retention prior to December 31, 1980, and that with respect to such violations, it intends to enforce the provisions of the BHCA through appropriate actions, including initiation of cease-and-desist proceedings and assessment of civil money penalties or referral for criminal prosecution. In previous statements the Board has urged bank holding companies to file a plan of divestiture with respect to each subsidiary or activity that is subject to the divestiture requirements of section 4(a)(2) of the BHCA.

While bank holding companies have met these voluntary deadlines, a number of companies must take action on or before December 31, 1980, in order to avoid violation of the 1980 requirements. The purpose of this statement is to set forth a program the Board intends to follow for the final six months of the ten-year divestiture period to guide the remaining companies with 1980 obligations toward orderly compliance

and to enable the Board to monitor their progress. Accordingly, bank holding companies with 1980 obligations should observe the following program:

1. Applications to Retain Under Section 4(c)(8). Any application for Board approval to retain a nonbanking subsidiary or activity subject to the 1980 divestiture requirements should be submitted to the appropriate Federal Reserve Bank no later than July 1, 1980. Failure to file retention applications by July 1, 1980, will be considered by the Board to be a declaration by the company that it does not intend to retain such nonbank subsidiary or activity. Moreover, the Board expects an affected company to be actively engaged in steps to divest or discontinue all impermissible nonbanking subsidiaries and activities that it does not intend to retain (including those it has not applied to retain).

2. Requests for Special Extension. Section 701(b) of the Monetary Control Act of 1980 (P.L. 96-221) contains a provision amending section 4(a)(2) of the BHCA to provide that the Board may extend the 1980 divestiture date to December 31, 1982, for the divestiture by a bank holding company of interests in real estate. The amendment specifies that the Board may grant the extension where it finds the company has made continuing good faith efforts to divest, and that the extension is necessary to avert substantial loss to the company. Any bank holding company wishing to take advantage of this special provision must submit its request to the Board no later than July 1, 1980. Each such request should provide information to enable the Board to evaluate the financial impact of immediate divestiture, as well as the company's prior efforts to divest. The appropriate Federal Reserve Bank may be contacted for more information on how to file requests for this extension.

3. Monthly Reports. A bank holding company that has not filed an application or request to retain any nonbanking subsidiary or activity under paragraphs 1 and 2 above by July 1, 1980, is required to file with the Board a monthly progress report concerning its actions either to divest or discontinue such nonbank subsidiaries or activities, or to divest its bank. These reports should be in letter form and must be filed with the appropriate Reserve Bank on the first day of each month, with the initial report due on August 1, 1980.

By Order of the Board of Governors of the Federal Reserve System, effective May 9, 1980.

Theodore E. Allison
Secretary of the Board

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