

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 8966
December 8, 1980

AMENDMENT TO REGULATION Y
Real Estate Advisory and Appraisal Services by Bank Holding Companies

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

The Board of Governors of the Federal Reserve System has issued an amendment, effective December 31, 1980, to its Regulation Y, "Bank Holding Companies and Change in Bank Control," in order to add the performance of real estate appraisal services to the list of activities permissible for bank holding companies.

The following is quoted from the text of the Board's statement announcing the amendment:

The Board confirmed, in connection with an application by First Chicago Corporation, Chicago, Illinois, that it regards two further activities as falling within the scope of nonbanking activities already approved for bank holding companies. These are "advising State and local governments about methods available to finance real estate development projects," and "evaluation of projected income to determine for State and local governments whether debt resulting from proposed development projects can be adequately serviced."

The Board concurrently approved the application of First Chicago Corporation to retain the shares of its subsidiary, Real Estate Research Corporation, subject to provisions of the Board's order of June 26, 1980, requiring Real Estate Research Corporation to cease by December 31, 1980, engaging in six of 13 activities listed in the [Board's] Order.

Enclosed is a copy of the text of the amendment to Regulation Y.

In connection with the amendment to Regulation Y, the Board also issued an Order approving an application by First Chicago Corporation to retain its subsidiary, Real Estate Research Corporation, the text of which is enclosed for bank holding companies. The Order, which is published in the notice section (p. 79909) of the December 2, 1980 issue of the *Federal Register*, will be furnished to others upon request directed to the Circulars Division of this Bank.

Questions regarding this matter may be directed to our Domestic Banking Applications Department (Tel. No. 212-791-5861).

ANTHONY M. SOLOMON,
President.

Board of Governors of the Federal Reserve System

BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL

AMENDMENT TO REGULATION Y

(effective December 31, 1980)

Proposal to Permit Bank Holding Companies to Engage in Real Estate Advisory Services and Real Estate Appraisal Services

AGENCY: Board of Governors of the Federal Reserve system.

ACTION: Final rule.

SUMMARY: The Board has adopted a final rule that adds the performance of appraisals of real estate to the list of those activities permissible for bank holding companies. The Board modified the proposed rule by including appraisals of single-family residences in the final rule and invited public comment on this modification.

The Board also determined that the activities of "advising State and local governments about methods available to finance real estate development projects," and "evaluating projected income to determine for State and local governments whether debt resulting from proposed development projects can be adequately serviced," are authorized by the provision of Regulation Y (12 C.F.R. §225.4(a)(5)(v)) that permits bank holding companies to provide financial advice to State and local governments.

EFFECTIVE DATE: December 31, 1980. Comments will be accepted on the modification made to the proposal until January 15, 1981.

ADDRESS: Comments, which should refer to Docket No. R-0310, may be mailed to Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Com-

ments received may be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 C.F.R. §261.6(a)).

FOR FURTHER INFORMATION CONTACT: Michael E. Bleier, Senior Counsel (202-452-3721), or Michael L. Kadish, Attorney (202-452-3428), Legal Division, Board of Governors of the Federal Reserve System.

SUPPLEMENTAL INFORMATION: In conjunction with an application by First Chicago Corporation, Chicago, Illinois, the Board in June 1980, published notice of a proposed amendment to its Regulation Y that would add the performance of appraisals of real estate other than single-family residences to the list of activities permissible for bank holding companies and their nonbank subsidiaries. 45 *Fed. Reg.* 44963 (1980). In the published notice, the Board also requested comments as to whether the activities of "advising State and local governments about methods available to finance real estate development projects," and "evaluating projected income to determine for State and local governments whether debt resulting from proposed development projects can be adequately serviced," are closely related to banking.

In the case of performing appraisals of real estate other than single-family residences, the record reflected that banks have performed this service either in connection with extensions of credit involving real estate lending or as a discrete activity. In addition, it appears that the proposed appraisal activity calls upon the necessary skills and resources often possessed by banking organizations. The record indicated

For this Regulation to be complete, retain:

- 1) Regulation Y pamphlet, as amended effective April 5, 1978.
- 2) Amendments effective January 1, 1979, March 10, 1979, April 2, 1979, October 24, 1979, and December 5, 1979.
- 3) This slip sheet.

that banks also perform appraisals of single-family residences. On the basis of the record, the Board determined that the activity of performing appraisals of real estate, including single-family residences, is closely related to banking and that its performance by bank holding companies is likely, in general, to yield net benefits to the public. The Board requests interested persons to comment on the rule as modified.

The Board also determined that the proposed real estate advisory services are currently authorized by section 225.4(a)(5)(v) of Regulation Y (12 C.F.R. §225.4(a)(5)(v)), which provides that a bank holding company may engage in the nonbanking activity of "acting as investment adviser to the extent of . . . (v) providing financial advice to State and local governments, such as with respect to the issuance of their securities."

Certain comments received by the Board noted that aspects of these advisory services may be within the scope of the activity of "management consulting," as defined in footnote two to section 225.4(a)(5) of Regulation Y (12 C.F.R. §225.4(a)(5)(n.2)). The Board has previously found that it is not permissible for bank holding companies to offer management consulting services to nonaffiliated companies, with the exception of banks. The Board's action does not authorize bank holding companies to engage in such management consulting activities; however, the Board indicated that in view of the relationship that has tradi-

tionally existed between banks and State and local governments, and the net public benefits that would result from provision of advice to these governments by bank holding companies, the Board would be more flexible in determining that particular services constitute "providing financial advice" rather than "management consulting" when the services are provided solely to State and local governments rather than other nonbank organizations.

A fuller discussion of the Board's consideration of these activities is included in its Order regarding the associated application by First Chicago Corporation to retain its subsidiary, Real Estate Research Corporation, which has been published in the *Federal Register* for the information of interested persons. This action is taken pursuant to the Board's authority under section 4(c)(8) and 5(b) of the Bank Holding Company Act, 12 U.S.C. §§1843(c)(8) and 1844(b).

Effective December 31, 1980, section 225.4(a) of Part 225 of 12 CFR Chapter II is amended by adding the following new paragraph (14) immediately following §225.4(a)(13):

SECTION 225.4
NONBANKING ACTIVITIES

* * *

(a) * * *

(14) Performing appraisals of real estate.