

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **10296**
April 19, 1989]

TANDEM OPERATIONS RESTRICTIONS
Comment Invited by May 19 on Certain Conditions
on Acquisition of Thrift Institutions

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

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

The Federal Reserve Board has requested public comment on whether certain conditions restricting transactions between thrift institutions acquired by bank holding companies and other holding company subsidiaries, commonly referred to as the "tandem operations restrictions," should be retained, modified, or removed.

Comment should be received by the Board no later than May 19, 1989.

The Board has, since 1982, imposed these conditions by order on the acquisition and operation of thrift institutions by bank holding companies.

The Board has recently received a request for relief from the tandem operations restrictions from Citicorp, a bank holding company which operates several thrift institution subsidiaries.

Enclosed is the text of the Board's official notice on this matter. Comments thereon may be sent to the Board of Governors, as specified in the notice, or to our Domestic Banking Applications Division, by May 19.

E. GERALD CORRIGAN,
President.

FEDERAL RESERVE SYSTEM

CITICORP
New York, New York

Notice Requesting Relief from Conditions Imposed on the
Acquisition of Thrift Institutions by Bank Holding Companies

Citicorp, New York, New York ("Citicorp"), has filed a notice requesting relief from the restrictions imposed by the Board by order, pursuant to section 4(c)(8) of the Bank Holding Company Act (12 U.S.C. § 1843(c)(8)) ("BHC Act") and section 225.23(a)(3) of the Board's Regulation Y (12 C.F.R. 225.23(a)(3)), on joint marketing operations between, and transactions among, thrift institution subsidiaries of Citicorp and their holding company affiliates. These conditions, commonly referred to as the "tandem operations restrictions," provide that:

(1) the thrift institutions would be operated as separate, independent, profit-oriented corporate entities and would not be operated in tandem with any other subsidiary of the bank holding company. In order to carry out this condition, the bank holding company and thrift institutions would limit their operations so that:

(a) no banking or other subsidiary of the bank holding company would link its deposit-taking activities to accounts at the thrift institutions in a sweeping arrangement or similar arrangement; and,

(b) the thrift institutions would not directly or indirectly solicit deposits or loans for any other subsidiary of the bank holding company and the bank holding company and its subsidiaries would not solicit deposits or loans for the thrift institutions; and,

(2) to the extent necessary to insure independent operation of the thrift institution and prevent the improper diversion of funds, the thrift institutions would not engage in any transactions with the bank holding company or its other subsidiaries without prior approval of the appropriate Federal Reserve Bank.

Citicorp contends that these conditions prohibit normal and lawful business behavior, impose unnecessary costs

and burdensome inefficiencies, limit services to consumers, and frustrate efforts to restore failed or failing thrift institutions to financial viability. Citicorp also argues that the tandem operations restrictions have worked as a significant deterrent to thrift acquisitions by bank holding companies, at a time when bank holding companies could help to fulfill the thrift industry's critical need for outside financial and managerial resources. In addition, Citicorp points to the provisions of the proposed Financial Institutions Reform, Recovery and Enforcement Act of 1989, which would authorize bank holding companies to acquire thrift institutions without restrictions on transactions between the thrift and its holding company affiliates except as required under sections 23A and 23B of the Federal Reserve Act, or as otherwise required by law.

The Board believes that, in considering action in this area, it is appropriate to seek public comment, in light of the significant public participation that surrounded the original development of the conditions. Accordingly, the Board seeks public comment on whether the restrictions should be retained, modified or removed.

Comments regarding this notice, which should refer to Docket No. R-0663, must be received at the offices of the Board of Governors no later than May 19, 1989. All comments should be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or delivered to the courtyard entrance, Eccles Building, 20th Street, N.W., between "C" Street and Constitution Avenue, N.W., Washington, D.C., between 8:45 a.m. and 5:15 p.m. weekdays. Citicorp's request for relief is available for inspection at the offices of the Board of Governors.

Board of Governors of the Federal Reserve System,
April 12, 1989.

(signed) Jennifer J. Johnson

Jennifer J. Johnson
Associate Secretary of the Board