FEDERAL RESERVE BANK OF NEW YORK

[Circular No. **10310**
September 14, 1989]

AMENDMENTS TO REGULATION Y

Acquisition of Savings Associations by Bank Holding Companies

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

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

> The Federal Reserve Board has announced that it has amended Regulation Y (Bank Holding Companies and Change in Bank Control) to allow bank holding companies to acquire savings associations in accordance with provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989.
>
> The amendment contains the following provisions:
>
> - permits acquisitions of healthy as well as failed or failing savings associations;
> - allows bank holding companies to acquire savings associations in any State, without regard to whether the holding company can operate a bank in that State; and
> - does not impose operational or branching conditions on the operations of savings associations except for the requirement of the Bank Holding Company Act that they conform their activities to those permissible for bank holding companies.
>
> The amendment is effective October 10, 1989.

Enclosed is the text of the amendments to Regulation Y, which has been reprinted from the *Federal Register* of September 8. Questions regarding this regulation may be directed to our Domestic Banking Applications Division (Tel. No. 212-720-5861).

E. GERALD CORRIGAN,
President.

Board of Governors of the Federal Reserve System

BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL

AMENDMENTS TO REGULATION Y

(Effective October 10, 1989)

FEDERAL RESERVE SYSTEM

12 CFR Part 225

[Regulation Y; Docket No. R-0614]

RIN: 7100-AA89

Bank Holding Companies and Change in Bank Control; Acquisition and Operation of Savings Associations by Bank Holding Companies

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: In light of changed economic and regulatory circumstances, and pursuant to discretionary authority granted under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (Pub. L. No. 101-73), the Board is amending Regulation Y to reflect its determination that the acquisition and operation of savings associations by bank holding companies is, as a general matter, so closely related to banking as to be a proper incident thereto for purposes of section 4(c)(8) of the Bank Holding Company Act ("BHC Act") (12 USC 1843(c)(8)). The Board's determination is subject to the condition that the savings association engage only in activities that bank holding companies are otherwise permitted to conduct under section 4 of the BHC Act. Specific proposals by bank holding companies to acquire savings associations would require prior Board approval under section 4(c)(8) of the Act.

EFFECTIVE DATE: October 10, 1989.

FOR FURTHER INFORMATION CONTACT: Scott G. Alvarez, Assistant General Counsel (202/452-3583), Michael J. O'Rourke, Senior Attorney (202/452-3288), Thomas M. Corsi, Attorney (202/452-3275), Legal Division; Molly S. Wassom, Manager (202/452-2305), or Beverly Smith, Senior Financial Analyst (202/452-2965), Board of Governors of the Federal Reserve System, Washington, D.C. 20551. For the hearing impaired *only*, Telecommunications Services for the Deaf, Earnestine Hill or Dorothea Thompson, (202/452-3544).

SUPPLEMENTARY INFORMATION:

1. Background

Under the BHC Act, a savings association is expressly excluded from the definition of "bank" and is treated as a nonbank company. Its acquisition by a bank holding company is therefore governed by the nonbanking provisions of section 4(c)(8) of the Act. Section 4(c)(8) permits bank holding companies to acquire a nonbank company if it is engaged only in activities the Board has determined to be "so closely related to banking . . . as to be a proper incident thereto." In order to meet the standards of section 4(c)(8), the Board must make two findings. First, the Board must find that the activity is closely related to banking. Second, the Board must find that the proposed activity is a proper incident to banking, that is, that the expected public benefits outweigh the potential adverse effects associated with the proposed activity.[1]

In 1977, in *D.H. Baldwin & Company* ("*Baldwin*"), the Board determined that the operation of a savings association by a bank holding company is closely related to banking, but, as a general matter, is not a proper incident to banking.[2] The Board stated at that time that the public benefits associated with the affiliation of a bank and a thrift were not sufficient to outweigh the adverse effects of such an affiliation. In particular, the Board expressed concern regarding:

(1) The conflicting regulatory framework created by Congress for thrifts and banks;

(2) The possibility that cross-industry acquisitions would undermine the perceived rivalry between the two industries; and

(3) The perception that such acquisitions would undermine the interstate banking restrictions of the Douglas Amendment to the BHC Act.

In view of these adverse considerations, the Board declined to add the operation of a savings association to the Regulation Y list of

[1] Section 4(c)(8) provides that in determining whether a particular activity is a proper incident to banking, the Board shall consider: whether its performance by an affiliate of a holding company can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. 12 U.S.C. 1843(c)(8).

[2] 63 Federal Reserve Bulletin 280 (1977).

For this Regulation to be complete, retain:
1) Regulation Y pamphlet, effective March 15, 1989.
2) Capital Adequacy Guidelines, effective March 15, 1989.
3) This slip sheet.

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permissible activities, stating that "the judgment to permit [the affiliation of a bank and a savings association] on a broad scale should be left to Congress." [3]

In 1982, Congress passed the Garn-St Germain Act, which authorized the acquisition by bank holding companies of failed or failing savings associations under the BHC Act. Since 1982, the Board has approved a number of such acquisitions.[4]

On September 21, 1987, in light of the significant changes in the financial services industry since the *Baldwin* decision, the Board invited public comment on whether it should add to the list of permissible activities in Regulation Y the acquisition and operation of savings associations in general regardless of their financial condition.[5] The Board also requested comment on what terms or conditions, if any, should be imposed in connection with such acquisitions. The Board refrained from acting on this rulemaking pending completion of Congressional consideration of banking and thrift reform legislation.

On August 9, 1989, Congress enacted the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the "FIRREA"). Section 601 of that Act amends the Bank Holding Company Act specifically to authorize the Board to permit a bank holding company to acquire any savings association under section 4(c)(8) of the BHC Act.[6] The legislative history of FIRREA indicates that, in enacting this specific authorization, Congress intended to authorize the Board to permit acquisitions of healthy as well as failed or failing thrifts.

2. Public comments

The Board received 214 public comments in response to its request for comments regarding this proposal. Over 70 percent of these comments favored allowing bank holding companies to acquire any savings association, including non-troubled savings associations.

Commenters in favor of the proposal argued that a number of circumstances have changed since 1977 that justify revision of the Board of its decision in *Baldwin* that the adverse effects of the acquisition of a thrift by a bank holding company outweigh the public benefits. In particular, these commenters stated that thrift subsidiaries could derive numerous strengths from parent bank holding companies, such as: access to bank holding company management; increased sources of capital; the ability to offer more services and branches; and better protection for depositors. Some of these commenters also argued that once a bank holding company is able to become familiar with the operation of a thrift by acquiring a healthy one, it would be more likely to acquire a failing institution.

Virtually all of the commenters who favored allowing bank holding companies to acquire healthy thrifts opposed limiting the acquired thrifts' powers to those permissible for bank holding companies. These commenters contended that limiting acquired thrifts' powers would reduce their attractiveness as acquisition targets and would unnecessarily interject the Board into thrift regulation.

Other commenters favored limiting the activities of savings associations acquired by bank holding companies to those permissible for bank holding companies in order to prevent bank holding companies from circumventing the activities restrictions of the BHC Act through the acquisition of savings associations. These commenters also contended that allowing bank holding companies to engage in otherwise impermissible activities through a savings association could compromise the financial integrity of the holding companies.

Commenters who opposed allowing bank holding companies to acquire healthy thrift institutions contended that the acquisition of thrifts continues to raise the concerns expressed by the Board in *Baldwin*, as well as safety and soundness concerns for bank holding companies. These commenters argued that bank holding companies would be able to circumvent the interstate banking prohibitions of the Douglas Amendment as well as state branching laws through the acquisition of savings associations. A number of commenters also argued that permitting savings associations to be acquired by bank holding companies would lead to a de-emphasis of housing finance by these savings associations, undue concentration of the financial services industry by bank holding companies, and unfair competition. Many commenters argued that the decision as to whether bank holding companies should be able to acquire healthy thrifts should be left to Congress.

3. Acquisition of savings associations as a general matter

A. FIRREA

As noted, section 601 of FIRREA amends section 4 of the BHC Act specifically to authorize the Board to approve applications by bank holding companies to acquire any savings association. The legislative history of FIRREA suggests that Congress expected the Board to exercise this authority and did not intend the Board to restrict its approval to proposals involving the acquisition of failed or failing savings associations, as the Board has in the past.

For example, FIRREA as originally adopted by the Senate contained provisions that would have limited for two years the Board's authority to authorize the acquisition of thrifts only to those that were under-capitalized. This provision was not adopted in the final legislation in favor of a general and immediate authorization to permit the acquisition of any savings association.

FIRREA requires the Board to apply the standards of section 4(c)(8) of the BHC Act to proposals by bank holding companies to acquire savings associations. The Board has already determined in *Baldwin* that the ownership and operation of a savings association is closely related to banking for purposes of section 4(c)(8) of the Act.[7]

B. Proper Incident to Banking

With respect to the proper incident to banking test, there have been a number of significant changes in the regulatory framework governing banks and thrifts since the *Baldwin* decision, including the expansion of the powers of thrifts and the emergence of interstate banking.

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[3] 33 Federal Reserve Bulletin 280, 284 (1977).

[4] *See, e.g., Barnett Banks, Inc. (First Federal Savings and Loan Association of Columbus)*, 75 Federal Reserve Bulletin 80 (1989); *Citicorp (National Permanent Bank, FSB)*, 72 Federal Reserve Bulletin 724 (1986); *Citicorp (Fidelity Federal Savings & Loan Association)*, 68 Federal Reserve Bulletin 656 (1982).

[5] 52 FR 36,041 (1987).

[6] Pub. L. No. 101-73, section 601, 103 Stat. 183, 408 (1989). This section amends section 4 of the BHC to state that, "Beginning on the date of the enactment of [FIRREA], the Board may approve an application by any bank holding company under subsection (c)(8) to acquire any savings association in accordance with the requirements and limitations of this section." FIRREA defines "savings association" to include: any federally-chartered savings and loan association or savings bank; any building and loan, savings and loan, or homestead association, or cooperative bank which is a member of the Savings Association Insurance Fund; and any savings bank or cooperative bank that has been certified by the Director of the Office of Thrift Supervision as having met the requirements of the Qualified Thrift Lender test. *Id.* at section 320.

[7] In reaching this conclusion, the Board noted that banks and savings associations are both financial intermediaries whose liability structures are dominated by deposits and whose asset structures are dominated by loans. The Board also noted that the trend toward convergence of the powers authorized for banks and savings associations, particularly in the areas of commercial and consumer lending, and deposit-taking. *See American Fletcher Corporation*, 60 Federal Reserve Bulletin 868, 869 (1974); *Baldwin*, 63 Federal Reserve Bulletin 280, 281 (1977).

As the Board suggested in its request for public comment, and for the reasons discussed below, these developments have diminished the concerns about the affiliation of banks and savings associations noted by the Board in *Baldwin*. Ther authorization in FIRREA to permit affiliation of banks and healthy thrifts indicates Congressional support for this view.

Interstate Banking

A major concern expressed by the Board in *Baldwin* was that the acquisition of thrifts by bank holding companies might undermine the interstate banking restrictions of the Douglas Amendment. Since the Board's decision in *Baldwin*, however, Congress has specifically excluded savings associations from the definition of "bank" in the BHC Act, and, as a result, from the restrictions on interstate banking contained in the Douglas Amendment.[8] Thus, the BHC Act contains no express provision limiting holding company acquisitions of thrifts to those states in which the holding company may own a bank.

In FIRREA, Congress focused again on the acquisition of savings associations by bank holding companies, and, in authorizing such acquisitions, did not impose any geographic limitations. In addition, nothing in the legislative history of this provision indicates that Congress intended the Board to impose geographic restrictions on these acquisitions. On the contrary, the only geographic restriction imposed by FIRREA on affiliations of savings associations and banks applies in the event the savings association seeks to merge or convert into a bank. In that situation only, the transaction must be consistent with the Douglas Amendment.[9]

Concern regarding the erosion of interstate banking restrictions has also been reduced by the significant increase in state initiatives permitting interstate banking. In this regard, twenty-two states already authorize bank acquisitions on a nationwide basis, and an additional eight states will permit nationwide entry by January 1, 1991. In addition, a total of forty-six states and the District of Columbia have enacted some type of interstate banking statutes,[10] with most of these statutes being enacted during the past 5 years.

In seeking public comment regarding this proposal, the Board asked for comment on an option to permit the acquisition of savings associations by bank holding companies only in those states where the holding company could operate a bank. For the reasons explained above, the Board has not adopted this option.

Institutional Rivalry

The Board's concern that authorizing the acquisition of savings associations by bank holding companies would undermine the institutional rivalry between banks and thrifts has also been reduced. Since 1977, the statutory interest-rate has also been reduced. Since 1977, the statutory interest-rate differential on deposits taken by savings associations have been expanded to include deposit-taking and commercial lending powers previously reserved for commercial banks. These actions have reduced the institutional differences between savings associations and banks.

To the extent that Congress was concerned about preserving this institutional distinction, it has done so by requiring savings associations to continue to meet a statutory qualified thrift lender ("QTL") test. Under this test, the thrift is required to devote a substantial amount of its resources to activities related to the provision of residential housing credit. These statutory provisions are applicable to savings associations regardless of whether or not the savings association is acquired by a bank holding company, and would not appear to be undermined by the affiliation of a savings association with a bank.

Regulatory Conflict

The Board's experience with the acquisition of failed and failing thrifts by bank holding companies also indicates that the potential for conflicts arising from the different regulatory framework for banks and savings associations does not present insurmountable problems for bank holding companies. In this regard, various provisions of FIRREA further take account of, and reduce, this potential regulatory overlap.[11]

Conclusion

For the foregoing reasons, and in light of the changed circumstances in the financial services industry since the *Baldwin* decision, the Board finds that the operation of a savings association by a bank holding company would not result in adverse effects that would, as a general matter, require prohibiting their affiliation under the proper incident to banking standard of section 4(c)(8) of the BHC Act. On this basis and in view of the Board's earlier finding that the ownership, control and operation of a savings association by a bank holding company is closely related to banking, the Board has determined to amend Regulation Y to add this activity to the Board's list of permissible nonbanking activities for bank holding companies. As required by the BHC Act and the Board's regulations, each specific proposal by a bank holding company to acquire a savings association would require prior review by the Board to determine whether the particular acquisition would result in public benefits that outweigh adverse effects.

4. Conditions on the Operation of Savings Associations by Bank Holding Companies

In its notice of rulemaking, the Board requested comments regarding what, if any, conditions or restrictions should be imposed if affiliations of banks and savings associations were to be allowed as a general matter. In its previous decisions involving the acquisition of failed and failing thrifts, the Board had imposed a number of conditions, including a requirement that the savings association continue to operate primarily as a residential housing lender, not change its name to one suggesting it is a bank, not convert to a bank without prior approval, limit its activities to those permissible for bank holding companies, and establish new branches only at locations permissible for national banks in that state. The Board also required that the savings association not be operated in tandem with any holding company affiliate and limited transactions between the savings association and its bank affiliates (the so-called "tandem operations conditions"). These conditions were imposed in order to address concerns that the acquisition by a bank holding company of a savings association might potentially result in unfair competition, conflicts of interest, or other adverse effects.

For the reasons discussed below, the Board has not adopted these conditions as part of the amendment to Regulation Y except for the requirement that the savings association conform its activities to those permissible for a bank holding company under section 4(c)(8) of

[8] *See* 12 U.S.C. § 1842(d); and 12 U.S.C. §§ 1841(c) and (i).

[9] Pub. L. No. 101–73, § 206, 103 Stat. 183 (1989).

[10] To date, only Iowa, Kansas, Montana, and North Dakota have not authorized any form of interstate banking (other than for existing grandfathered institutions). Hawaii provides for the acquisition of failing institutions in that state by any out-of-state organization.

[11] *See, e.g.*, Pub. L. No. 101–73, 103 Stat. 183 § 301 (1989). (This section exempts bank holding companies that acquire savings associations from certain requirements contained in the Savings and Loan Holding Company Act).

the BHC Act.

Activities of savings associations

The Board has required bank holding companies that acquire failed or failing savings associations to conform their activities to those permissible under section 4(c)(8) of the BHC Act.[12] A number of commenters have urged the Board to remove this condition and to consider that a savings association is engaged in a cluster of activities, all of which should be authorized when the bank holding company acquires the savings association.

In its prior thrift decisions, the Board noted that the nonbanking provisions of the BHC Act require that all nonbank subsidiaries of a bank holding company engage only in activities that are permissible under the provisions of section 4 of the BHC Act. The Board stated that an activity that is otherwise impermissible for a bank holding company is not rendered permissible simply because that activity is performed by a direct or an indirect nonbanking subsidiary of a holding company.[13]

The legislative history of FIRREA indicates that this is the correct interpretation of the BHC Act and should be continued. For example, the Senate Report states that the section of FIRREA authorizing the acquisition of savings associations by bank holding companies "does not authorize a thrift institution acquired by a bank holding company to engage in any activity that would otherwise be impermissible under section 4(c)(8)." [14] Similarly, the Conference Report states that "all nonbanking restrictions and other criteria under [Section 4] will continue to apply [to thrifts acquired by bank holding companies]." [15] For these reasons, the Board continues to believe that bank holding companies that acquire savings associations must conform the activities of the savings association to those permissible for bank holding companies under the provisions of section 4 of the BHC Act, including the provisions of section 4(c)(8) of the Act.

The Board has also required that the savings association continue to have as its primary purpose the provision of residential housing credit. FIRREA has modified the provisions of current law to require all savings associations to devote at least 70 percent of their assets to housing related financing and consumer lending activities. A savings association that fails to meet these so-called Qualified Thrift Lender requirements must, within certain periods, become a bank or conform its operations to those of a bank. Any company that owns such a savings association must conform to the requirements of the BHC Act, including the Douglas Amendment. In light of these statutory requirements, the Board has not adopted a condition to its regulation requiring savings associations acquired by bank holding companies to operate with the primary purpose of providing housing related credit.

Restrictions on Tandem Operations

FIRREA specifically provides that, in approving acquisitions of savings associations, the Board shall not impose any restrictions on transactions between the savings association and its bank holding company affiliates except as required under sections 23A and 23B of the Federal Reserve Act or any other applicable law.[16] The legislative history of FIRREA indicates that this provision was directed specifically at the tandem limitations in the Board's prior decisions.

On August 21, 1989, in accordance with the new statute, the Board removed the tandem conditions as they applied to bank holding companies that currently own savings associations.

Consistent with the provisions of FIRREA and its legislative history, and in light of the continued applicability of sections 23A and 23B and the anti-tying provisions of the BHC Act, the Board has determined not to include the tandem operations conditions in the regulation.[17]

Restrictions on Branching

In approving thrift acquisition under the Garn-St Germain Act, the Board provided, in accordance with the Act, that the thrift could establish new branches only at locations at which a national bank located in the same state was permitted to establish branches.[18] Section 217 of FIRREA amends the Garn-St Germain Act to provide that a failed or failing savings association acquired by a bank holding company may, so long as it remains a savings association, establish and operate new branches in its home state to the same extent as any other savings association that maintains its home office in that state.[19]

In FIRREA's general authorization for bank/thrift affiliations, Congress did not restrict the branching authority of savings associations acquired by bank holding companies so long as the association meets the QTL test.[20] Moreover, the legislative history of this provision does not indicate any intent by Congress that the Board limit the branching rights of acquired thrifts.

In light of this, the Board has not adopted in the regulation the branching limit contained in its previous orders. Accordingly, savings associations acquired by bank holding companies will be permitted to branch to the extent permitted other savings associations located in the same home state.[21] This approach permits both troubled and healthy savings associations acquired by bank holding companies the same branching rights.

Use of "bank" in Acquired Thrift's Name

The Board's previous orders authorizing bank holding companies to acquire savings associations prohibited the savings association from changing its name to include the term "bank." This condition was intended to prevent public confusion regarding the association's status as a nonbank thrift

[12] The Board has generally granted a two-year period for thrifts to conform their activities.

[13] *Central Pacific Corporation*, 68 Federal Reserve Bulletin 382 (1982).

[14] S. Rep. No. 19, 101st Cong., 1st Sess. 44 (1989).

[15] H.R. Conf. Rep. No. 209, 101st Cong., 1st Sess. 627 (1989).

[16] *See also* H.R. Conf. Rep. No. 209, 101st Cong., 1st Sess. 427 (1989).

[17] Previous Board orders have included a requirement that a savings association acquired by a bank holding company not convert its charter to a bank charter without the Board's prior approval. This requirement is a restatement of existing law, which would require the bank holding company to seek authority under section 3 of the BHC Act and comply with the interstate banking provisions of the Douglas Amendment before converting its savings association to a bank. Under the provisions of FIRREA, bank holding companies that seek to merge an existing savings association subsidiary into a bank subsidiary must also seek Board approval and comply with the requirements of the Douglas Amendment. Pub. L. No. 101-73, § 206, 103 Stat. 183 (1989). Because this condition restates existing law, the Board has not included this requirement as an express condition in the regulation.

[18] 12 U.S.C. § 1730a(m)(5).

[19] Pub. L. No. 101-73, § 217, 103 Stat. 183 (1989). Troubled savings associations acquired by bank holding companies in a state in which the bank holding company does not own a bank lose the ability to retain, operate, and establish branches beyond locations at which a national bank may branch if the savings association fails to meet certain asset tests contained in the Internal Revenue Code. This asset test is substantially the same as the current Qualified Thrift Lender test.

[20] Under FIRREA, any savings association that fails to meet the Qualified Thrift Lender test must, among other things, limit its branching to locations at which a national bank located in that state may branch so long as it remains a savings association.

[21] The provisions of FIRREA do not contain a restriction on establishing or operating remote service units. Accordingly, this condition of previous Board orders has not been adopted.

institution.[22] While the provisions of FIRREA do not address this issue, the legislative history of that Act suggests that savings associations acquired by bank holding companies should be permitted to use the term "bank" in their name so long as the name is not misleading to the public.[23] In this regard, the regulations applicable to federally chartered savings associations permit these institutions to use the term "bank" in their name under certain conditions, and provided that the name does not misrepresent the nature of the institution or the services that it offers.[24]

In view of these existing regulatory requirements, and the Congressional direction that the Board eliminate the restrictions on tandem operations between banks and their affiliate thrifts, the Board has not included in the regulation a specific condition governing the use of the word "bank" in the name of savings associations acquired by bank holding companies.

Definition of Savings Association

The Board is also amending the definition of savings association in Regulation Y to conform to certain technical changes to that definition made by FIRREA. FIRREA amended the BHC Act to list specifically the types of institutions that would qualify as savings associations. Prior to FIRREA, the BHC Act referred to the definition of that term in the Home Owners Loan Act.

Final Regulatory Flexibility Act Analysis

Pursuant to section 605(b) of the Regulatory Flexibility Act (Pub. L. 96–354; 5 U.S.C. 601 *et seq.*), the Board of Governors of the Federal Reserve System certifies that the amendment will not have a significant economic impact on a substantial number of small entities that would be subject to the regulation.

This amendment will permit bank holding companies to acquire and operate healthy savings associations—an activity bank holding companies are not now permitted to conduct. The amendment does not impose more burdensome requirements on bank holding companies than are currently applicable, and these provisions provide no barrier to meaningful participation by small bank holding companies in the activity.

The Board notes that there are not a significant number of small bank holding companies engaged in the operation of savings associations at this time. As noted, bank holding companies have not previously been permitted to acquire healthy savings associations; the amendment will expand the powers of bank holding companies by authorizing bank holding companies to acquire healthy, in addition to failing, savings associations.

List of Subjects in 12 CFR Part 225

Banks, Banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, and Securities.

For the reasons set out in this notice, and pursuant to the Board's authority under section 5(b) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844), the Board amends 12 CFR part 225 as follows:

PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL

1. The authority citation for part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1843(c)(8), 1844(b), 3106, 3108, 3907, and 3909.

2. In § 225.25 new paragraph (b)(9) is added to read as follows:

§ 225.25 List of Permissible nonbanking activities.

* * * * *

(b) * * *

(9) *Operating savings association.* Owning, controlling or operating a savings association, if the savings association engages only in deposit taking activities and lending and other activities that are permissible for bank holding companies under this subpart C.

3. In section 225.2, redesignate paragraphs (l) through (n) as paragraphs (m) through (o) respectively, and add the following as new paragraph (l):

§ 225.2 Definitions.

* * * * *

(l) "Savings association" means:

(1) any Federal savings association or Federal savings bank;

(2) any building and loan association, savings and loan association, homestead association, or cooperative bank if such association or cooperative bank is a member of the Savings Association Insurance Fund; and

(3) any savings bank or cooperative which is deemed by the Director of the Office of Thrift Supervision to be a savings association under section 10(1) of the Home Owners Loan Act.

* * * * *

§ 225.126 [Amended]

4. In § 225.126, paragraph (h) is removed.

By order of the Board of Governors of the Federal Reserve System, September 1, 1989.

Jennifer J. Johnson,

Associate Secretary of the Board.

[FR Doc. 89-21122 Filed 9-7-89; 8:45 am]

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[22] *See, eg., Barnett Banks, Inc.*, 75 Federal Reserve Bulletin 83 (1988), in which the Board determined that the applicant could call the thrift Barnett Savings Bank, but not Barnett Bank, F.S.B.

[23] *See* 135 Cong. Rec. H2571 (daily ed. June 14, 1989) (statement of Rep. Barnard).

[24] *See* 12 CFR 543.1.