



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

October 30, 1987

ALAN GREENSPAN
CHAIRMAN

The Honorable William Proxmire
Chairman
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your letter regarding the status of certain applications submitted to the Board under the Bank Holding Company Act ("BHC Act") by state-chartered savings banks to form bank holding companies. These applications involve the acquisition by bank holding companies of state-chartered savings banks that engage, either directly or through subsidiaries, in real estate investment and development activities permitted under relevant state law.

The Board today announced its decision to approve the application under section 3 of the BHC Act of Wake Bancorp to acquire Wakefield Savings Bank, Wakefield, Massachusetts. I have enclosed a copy of the Board's Order in this case.

In acting on this application and evaluating the capital and financial resources of the Applicant and Wakefield Savings Bank, the Board has considered the risk to the Applicant and Bank of the real estate investment and development activities conducted by the Bank through its subsidiaries. As you are aware, the Board has on several occasions expressed its concern that real estate investment and development activities involve substantial risks beyond those associated with other activities conducted by banks and bank holding companies, and has sought public comment on a proposal that would establish a prudential framework designed to insulate banks within a holding company system from the risks of real estate activities conducted by an affiliate of the bank.

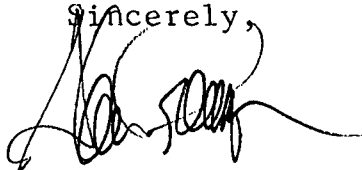
In acting on the Wake application, the Board noted that the provisions of the Competitive Equality Banking Act ("CEBA") permit state-chartered savings banks owned by bank holding companies to continue to conduct, either directly or indirectly, nonbanking activities authorized under state law, even where those activities are not permissible nonbanking activities for bank holding companies and their subsidiaries under the BHC Act.

The Honorable William Proxmire
Page Two

As your letter indicates, however, the Board continues to be responsible under the BHC Act for evaluating the financial and managerial resources and future prospects of the applicants and banks involved in a particular application and the effect that activities conducted by these companies may have on the financial condition, capital and future prospects of the applicant and banks involved. The Board's action in this case reflects this consideration.

Pending resolution of its currently outstanding rulemaking regarding real estate investment and development activities and subject to the expiration of the real estate moratorium imposed under Title II of CEBA, the Board has determined to evaluate bank holding company applications involving savings banks engaged in real estate activities on a case-by-case basis. The Board also believes that it is appropriate to address the concerns raised by these applications and possible methods of addressing these concerns in a public rulemaking in which all interested and potentially affected parties--including similarly situated savings banks--may participate. Accordingly, the Board has today requested public comment on several measures to address the safety and soundness concerns raised in these cases within the framework of the BHC Act and CEBA. I have enclosed a copy of the Board's notice of rulemaking in this area.

Sincerely,

A handwritten signature in black ink, appearing to be "W. Proxmire", written in a cursive style. The signature is positioned below the word "Sincerely," and extends to the right with a long, sweeping tail.

Enclosures