

backed securities in the body of Schedule RC-B, "Securities," so that item 4 of Schedule RC-B will include all mortgage-backed securities. In addition, the Call Report instructions will be clarified in response to questions about the reporting of lines of credit extended to bank insiders, participations in pools of residential mortgages, refundable loan commitment fees, and stock subscription payments.

Dated: March 1, 1995.

Federal Deposit Insurance Corporation.

Robert E. Feldman,

*Acting Executive Secretary.*

[FR Doc. 95-5438 Filed 3-6-95; 8:45 am]

BILLING CODE 6714-01-M

## FEDERAL RESERVE SYSTEM

[Docket No. R-0806]

### Policy Statement on Payments System Risk; Daylight Overdraft Pricing

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Policy statement.

**SUMMARY:** The Board has approved a modification of the increase in the fee charged to depository institutions for daylight overdrafts incurred in their accounts at the Reserve Banks that had been scheduled to take effect on April 13, 1995. As a result of the sizeable reductions in daylight overdrafts already achieved, as well as concerns about the possible effects of further rapid fee increases, the Board has approved an increase in the daylight overdraft fee to an effective daily rate of 15 basis points rather than 20 basis points. (The 15-basis-point fee equals an annual rate of 36 basis points, quoted on the basis of a 360-day year and a 24-hour day.) The Board will evaluate the desirability of any further increases in the daylight overdraft fee, based on the objectives of the payments system risk program, two years after the implementation of the 15-basis-point fee. Any changes in the fee resulting from that review will be announced with a reasonable lead-time for implementation.

**EFFECTIVE DATE:** April 13, 1995.

**FOR FURTHER INFORMATION CONTACT:**

Jeffrey C. Marquardt, Assistant Director (202/452-2360) or Paul Bettge, Manager (202/452-3174), Division of Reserve Bank Operations and Payment Systems, Board of Governors of the Federal Reserve System. For the hearing impaired only: Telecommunications Device for the Deaf, Dorothea Thompson (202/452-3544).

**SUPPLEMENTARY INFORMATION:**

**I. Background on the Daylight Overdraft Fee Policy**

The Board's initial policy statement aimed at controlling daylight overdrafts, which became effective in 1986 (50 FR 21120, May 22, 1985), encouraged depository institutions to establish voluntary daylight overdraft limits, or caps, across all large-value payment systems. The cap levels were subsequently reduced by the Board, effective in 1988, in an effort to reduce further the level of overdrafts (52 FR 29255, August 6, 1987).

While daylight overdrafts associated with funds transfers appeared to stabilize somewhat after the introduction of caps, daylight overdrafts associated with securities transfers, which were exempt from the original caps, continued to grow strongly. The Board became concerned, however, that further reductions in cap levels might seriously disrupt long-established market practices for settling financial transactions. Thus, in 1987, the Board commissioned two studies of the fundamental issues concerning payments system risk by a staff task force and an industry advisory group. Both groups agreed that the Federal Reserve's provision of free daylight overdraft credit was a subsidy that encouraged the overuse of such credit by private institutions. The advisory group emphasized the flexibility of daylight overdraft fees as a market-oriented means of allocating daylight credit to depository institutions that valued it most highly, while allowing them to determine the least costly means of reducing these overdrafts.

The task force identified the following set of public policy objectives for the Board's daylight overdraft program:

- Low direct credit risk to the Federal Reserve,
- Low direct credit risk to the private sector,
- Low systemic risk,
- Rapid final payments,
- Low operating expense of making payments,
- Equitable treatment of all service providers and users in the payments system,
- Effective tools for implementing monetary policy, and
- Low transaction costs in the Treasury securities market.

The task force recognized that the pursuit of these objectives might, at times, result in competing policy goals, and that policy options would need to be evaluated on the basis of whether they achieved an appropriate balance of the objectives. In particular, a policy

might need to balance considerations of direct risks to the Federal Reserve, on the one hand, and systemic risks on the other.

After completion of the two studies, the Board sought public comment on the issues associated with charging fees for daylight overdrafts, along with a number of other issues relating to its payments system risk program. The Board abolished cross-system net debit caps, but retained caps on overdrafts in Federal Reserve accounts, effective in 1991 (55 FR 22087, May 31, 1990). In 1992, the Board announced its intention to charge fees for daylight overdrafts (57 FR 47084, October 14, 1992). The Board also announced that the fee would be phased in so the Board could monitor the impact of the fee and make adjustments, if necessary.

The current effective daily fee of 10 basis points was implemented on April 14, 1994. Under the policy adopted in 1992, the fee is scheduled to increase to 20 basis points on April 13, 1995, and to 25 basis points on April 11, 1996. (The annual rate charged for daylight overdrafts is quoted on the basis of a 360-day year and a 24-hour day. The annual rates are officially quoted as 24, 48, and 60 basis points. The annual rate is converted to an effective daily rate by multiplying it by the fraction of the day that the Fedwire funds transfer system operates, currently 10 hours out of 24. This document will refer to the effective daily rates, because they are commonly used in public discussions of the daylight overdraft fee.)

### II. Impact of the Initial Daylight Overdraft Fee

In the aggregate, daylight overdrafts in Federal Reserve accounts have fallen by roughly 40 percent in response to the initial 10-basis-point fee. Significant reductions in overdrafts occurred immediately upon implementation of fees, and the resulting levels of overdrafts have remained fairly constant since that time. Peak overdrafts, defined as the maximum aggregate daylight overdraft at the end of each minute during an operating day, have fallen from \$124 billion, on average, during the six months before implementation of fees, to \$70 billion, on average, from April 14 through the last reserve maintenance period in 1994. Over the same period, aggregate per-minute average overdrafts, the base measure upon which fees are assessed, dropped from \$70 billion to \$43 billion. These figures represent reductions of 43 percent and 39 percent respectively, in aggregate peak and per-minute average overdrafts.

The reduction in overdrafts has been concentrated among a few institutions. For the six institutions with the largest daylight overdrafts (per-minute average overdrafts since April 14, 1994, of at least \$1 billion), average overdrafts have fallen by \$25 billion overall, or 48 percent. This decline represents 97 percent of the total reduction in per-minute average overdrafts. In contrast, 44 institutions with overdrafts between \$100 million and \$1 billion had increased overdrafts, on average, with the implementation of fees. Thus, daylight overdraft fees appear to have resulted in a reduction in daylight overdrafts in the aggregate, as well as a reallocation of daylight overdrafts among institutions.

A large portion of the reduction in overdraft levels observed since April has been related to securities-transfer activity on Fedwire. Average securities-related daylight overdrafts in Federal Reserve accounts have decreased by 47 percent since implementation of daylight overdraft fees. By contrast, average Fedwire-funds-related and non-Fedwire-related daylight overdrafts combined have decreased by 26 percent.

### III. Impact on the Financial Markets

#### *Government Securities Market*

The significant reduction in overdrafts related to securities-transfer activity is due primarily to changes in settlement patterns in the government securities market, in particular the overnight repurchase agreement (RP) market, and to the concentration of government securities clearing services among a few institutions—the securities clearing banks. Typically, securities dealers finance their inventories of government securities through overnight RPs with institutional investors, who exchange cash for securities and hold the securities overnight in accounts at custodian depository institutions. These securities are usually returned on Fedwire to the dealers' clearing banks by the custodian banks at the opening of business. Because funds are simultaneously debited from the clearing banks' accounts when the securities are transferred on Fedwire, substantial overdrafts are created in the clearing banks' accounts at the Federal Reserve. Overdrafts persist until new RPs are arranged and settled by deliveries of securities out of accounts at the securities clearing banks later in the day. Before implementation of daylight overdraft fees, these overdrafts typically reached a peak at around 11:00 a.m. ET.

The concentration of RP clearing activity at the securities clearing banks,

along with the substantial associated daylight overdrafts, led these institutions to expect sizeable daylight overdraft charges. As a result, they developed automated systems to allocate daylight overdraft charges to the customers whose RP activity generated the overdrafts. Thus, strong incentives were created for securities dealers to modify RP trading and settlement practices in order to minimize charges assessed by the clearing banks.

Since the implementation of daylight overdraft fees, securities dealers have accelerated the morning practice of arranging RPs, as well as the identification and pricing of the related RP securities. This practice has significantly improved the speed with which securities are delivered to RP counterparties, thereby shifting funds back to the clearing banks earlier in the day and reducing their average overdrafts at the Reserve Banks. In the aggregate, securities-related overdrafts now reach their maximum much earlier in the morning, at roughly 9:30 a.m. ET, and the largest overdrafts persist for a shorter time.

The decrease in securities-related daylight overdrafts may also be attributable, in part, to an increase in tri-party repurchase agreement activity. In a tri-party RP, both parties hold securities through a common securities custodian, and the transfer of RP securities is executed on the books of the custodian rather than on Fedwire. Tri-party RPs may reduce daylight overdrafts if funds are also maintained at the custodian institution and not returned to investors on Fedwire during the day. Although no statistics are available on tri-party RP volume, major institutions have reported a large increase in tri-party RPs as a result of daylight overdraft fees. It should be noted, however, that steady growth in tri-party volume had been reported even before implementation of fees.

#### *Other Markets and Transactions*

Daylight overdrafts related to Fedwire funds transfers are more widely dispersed across depository institutions, are generated by settlement practices associated with a variety of market activities, and are characterized by a much different intraday pattern than those related to securities transfers. The largest aggregate funds-related overdrafts occur between the hours of 12:30 p.m. and 4:30 p.m. ET, with the intraday peak generally occurring at around 2:30 p.m. This period corresponds to the current settlement timing conventions, or "window," for federal funds contracts in which overnight borrowings are repaid in the

morning and the proceeds from new contracts are received in the afternoon. In addition, it is during the mid-afternoon period that other payment systems, such as securities depositories, impose the greatest settlement funding requirements on their members, further contributing to funds-related overdrafts in accounts at Reserve Banks.

Because funds-related overdrafts and associated daylight overdraft charges are widely dispersed among institutions, the incentives to change market conventions or risk disrupting customer relationships are much smaller in the funds markets than in the securities markets.<sup>1</sup> As a result, the intraday patterns of settlements that use the Fedwire funds transfer service as well as funds-related overdrafts have remained largely unchanged. Further, the aggregate level of funds-related overdrafts has been reduced only moderately.

When the Board adopted the daylight overdraft fee policy in 1992, it identified a number of measures that institutions might take to reduce funds-related overdrafts. These included delays of less time-critical funds transfers, a shift of funds transfer activity from Fedwire to CHIPS, increased netting of funding contracts, the development of an intraday funds market, and the use of time-specific deliveries of funds.

So far, these potential responses appear to have been implemented only to a limited degree. First, only four to five percent of daily Fedwire funds transfer value has shifted from before noon to later in the day, with a negligible impact on transfer volume. Second, discussions with market participants indicate that few institutions have shifted payments from Fedwire to CHIPS. Third, anecdotal evidence suggests that institutions have increased somewhat their use of netting for overnight federal funds contracts, yet it is unclear whether the increase is the result of daylight overdraft fees or other developments in the funds markets. Anecdotal evidence also suggests that institutions have increased their use of term federal funds contracts, although market participants suggest this increase may be related more to interest rate developments than to daylight overdraft fees. Finally, neither an intraday market nor a significant increase in the time-specific delivery of funds has materialized since the implementation of daylight overdraft fees.

<sup>1</sup> One exception is a procedural change implemented in response to daylight overdraft fees by the Participants Trust Company to permit partial disbursement of principal and interest payments on securities held at the depository to its participants earlier in the day.

#### IV. Fee Options Considered by the Board

In keeping with its policy of monitoring the impact of the fee during the phase-in period and adjusting it, if necessary, the Board considered three options for the next phase of the daylight overdraft fee: increase the fee to 20 basis points as scheduled, leave the fee at 10 basis points, or increase the fee to an intermediate level of 15 basis points for at least two years.

##### *Increase the Fee to 20 Basis Points as Announced*

By most accounts, the implementation of the initial daylight overdraft fee has been a success. The 10-basis-point fee dramatically reduced the aggregate amount of daylight credit provided by the Federal Reserve, along with the associated direct credit risk, with little disruption in the financial sector. The fact that such a large reduction in overdrafts was possible as a result of a small fee suggests that the economic inefficiencies created by the provision of free daylight credit were substantial. The Board believes that a further increase in the fee will tend to reduce or eliminate any remaining subsidies associated with Federal Reserve daylight credit and reduce inefficiencies in the use of such credit.

The Board considered that implementation of the previously announced increase in the fee to 20 basis points might prompt institutions to take additional steps to improve payment practices and reduce the use of daylight credit along with associated credit risks. The Board also believes, however, that an increase in the fee to 20 basis points at this time could increase the probability of undesirable market effects contrary to the objectives of the Board's risk-control program.

Perhaps the overriding concern is the potential for increases in systemic risk. The Board believes that systemic risk could increase if the higher fee were to induce a significant shift of payment activity from Fedwire, where transfers are immediately final and credit risk is absorbed and controlled by the central bank, to private systems, where payments are often provisional, risks are less transparent, and, in some cases, risks may not be fully controlled.

A significant shift in transfer volume from Fedwire to CHIPS, for example, would be more likely to occur with a higher fee. Such a shift could increase systemic risk somewhat even though elaborate risk controls have been installed on CHIPS. The extent to which funds transfer volume would shift from Fedwire to CHIPS, however, is

uncertain. CHIPS has historically been used primarily to settle international transactions, yet CHIPS participants might begin to use CHIPS routinely for domestic as well as international funds transfers. In the longer term, CHIPS potentially could attract additional members and significantly increase the scale of its domestic funds transfer activities.

Industry participants have also suggested that the automated clearing house (ACH) system, typically associated with small-dollar transfers, could be used to make large-dollar payments traditionally made on Fedwire. Such a shift could increase systemic risk, because credit transfers made through ACH systems are provisional payments and real-time risk controls may be difficult to implement. Anecdotal evidence suggests that, so far, there has been a small increase in the use of the ACH system for large-dollar payments.

There is also an increased likelihood that a higher daylight overdraft fee could prompt a shift in securities transfer activity from Fedwire to private securities depositories and the securities clearing banks. For example, in 1994 the Participants Trust Company (PTC) announced an initiative to make certain mortgage-backed federal agency securities eligible for its system. Also in 1994, the Depository Trust Company (DTC) issued a study of the feasibility of expanding its services to include U.S. government and federal agency securities, including mortgage-backed securities, in its same-day funds settlement securities system. In addition, the securities clearing banks might seek the custodial business of large institutional investors, who tend to hold large intraday funds balances, in order to increase tri-party RP volume and reduce daylight overdraft charges. The result of these potential developments could be an increased concentration of collateral, clearing, and deposit risks at private securities depositories and the clearing banks.

The probability that funds and securities transfer activity would move off Fedwire is influenced by both cost and risk considerations. CHIPS, PTC and DTC incorporate net debit caps and collateralization requirements as part of their risk management systems. As a result, participants in these systems would have to weigh the costs of posting additional collateral to support additional payment activity against the costs of incurring daylight overdrafts in Federal Reserve accounts, as well as other factors such as settlement speed and finality. In the case of tri-party RPs, the large institutional RP counterparties

are likely to be aware of the custodial risks in tri-party RPs and might demand a higher return for tri-party RPs as a result. If so, the premium for these tri-party RPs might be more costly to dealers than daylight overdraft charges.

In addition to possible increases in systemic risk, a higher daylight overdraft fee could cause further delays in Fedwire funds transfers.<sup>2</sup> Furthermore, if payment volume moves to later in the day, there is less time available for institutions to recover from unforeseen operational problems and meet settlement obligations by the end of the banking day. As noted earlier, however, there has been only a modest shift in payments to later in the day with the 10-basis-point fee, and it remains unclear at what level the fee might cause excessive payment delays or disruptions in the financial sector.

The Board also considered the potential for detrimental effects on the government securities market from a 20-basis-point fee. The Public Securities Association (PSA) has stated publicly that all possible low-cost behavioral changes in the government securities markets to reduce overdrafts have already been made. The PSA expects that increases in costs to securities dealers from a higher daylight overdraft fee would ultimately be passed on to the Treasury in the form of higher borrowing costs, without any further reduction in overdrafts.

It should be recognized, however, that the costs incurred so far by the securities dealers have largely been fixed costs to upgrade systems that will not be incurred again. Furthermore, the incremental impact of increased costs that might result from a higher daylight overdraft fee is quite small relative to the tick size in the auctions or secondary market for U.S. Government and federal agency securities. Also, Federal Reserve daylight overdraft charges passed through by the clearing banks to the dealers would ultimately be recouped by the Treasury through the Federal Reserve's payment to the Treasury of its net earnings.

##### *Maintain the Fee at 10 Basis Points*

The Board considered maintaining the fee at 10 basis points based on the significant reductions in daylight overdrafts that have already occurred and concerns about undesirable systemic risks that might result from a higher fee. The Board decided that if the fee were not increased, there would be

<sup>2</sup>In the extreme, delays could ultimately result in payment "gridlock" as each institution, in order to avoid daylight overdraft fees, awaits incoming payments before initiating its own payments.

very limited incentives for additional reductions in daylight overdrafts and credit risk. Furthermore, the Board was concerned that the momentum in the financial markets for the serious review and improvement of payment and settlement conventions might be lost if the fee were not increased.

#### *Increase the Fee to 15 Basis Points for at Least Two Years*

The Board's decision to increase the fee to 15 rather than 20 basis points was based on three primary considerations. First, as noted above, the response by depository institutions and securities dealers to the 10-basis-point fee has improved RP settlement practices and has reduced significantly the use of Federal Reserve securities-related daylight credit, which before implementation of daylight overdraft fees constituted a large and growing portion of total daylight credit. The strong response in securities markets eases the need for sizeable increases in daylight overdraft fees over the next two years. Instead, a more limited increase to 15 basis points would provide incentives for additional improvements in securities settlements, while limiting increases in daylight overdraft charges borne by securities market participants. The improvements in settlement practices might include the use of time-specific deliveries of RP securities and the greater use of netting contracts between counterparties, where appropriate. Allowing two years before considering additional fee increases will permit sufficient time for the study of other potential changes in market conventions that could help reduce securities-related daylight overdrafts.

Second, the Board believes that an increase in the daylight overdraft fee to 15 basis points will provide additional incentives for participants in funds markets to evaluate and modify payment practices that create daylight overdrafts. As discussed earlier, the responses in funds markets that the Board anticipated when it originally adopted the fee policy have not occurred to a significant degree. The uncertainty about the strength of the market response to daylight overdraft fees at various fee levels was one of the reasons that the Board announced that fees would be phased-in beginning at 10 basis points. The lack of significant response in the funds markets suggests that there is still room for improvements in funding and settlement practices and reductions in daylight overdrafts.

Improvements in funding practices might include the greater use of "rollovers," "continuing contracts," or "term contracts" for federal funds

transactions, where appropriate. Further, the Payments Risk Committee, a committee of representatives from a selection of large U.S. depository institutions, has suggested that a higher fee may prompt the market to study changes in federal funds and other settlement timing conventions that contribute to a large portion of the aggregate level of daylight overdrafts. Also, a higher fee may prompt institutions to take measures to reduce daylight overdrafts related to customer payment activity.

Third, the Board believes that concerns about systemic risk argue for a more gradual approach to raising daylight overdraft fees. It is important to note that the Board has taken a number of steps to limit systemic risks in the payments system, including adopting policies that apply to private-sector payment networks.<sup>3</sup> Most recently, the Board adopted a revised policy statement on risks in large-dollar multilateral netting systems (59 FR 67534, December 29, 1994). This policy statement applied the Lamfalussy minimum standards for netting arrangements to domestic as well as off-shore multilateral netting systems that clear U.S. dollar payments. At the same time, the Board announced that the staff would continue to study systemic risks in small-dollar payment systems, such as check and ACH clearing systems, as well as the need for any public policy changes in this area.

Thus, at this time, a limited increase in the daylight overdraft fee, particularly an increase to 15 basis points instead of 20 basis points, is likely to create very little incremental systemic risk in private-sector payment systems. In case greater concerns develop regarding systemic risks, the Board retains the option of reducing daylight overdraft fees and taking other appropriate measures to help limit such risks.

The Board believes that the daylight overdraft fee program has been an important part of efforts by both the Board and the private sector over a number of years to reduce risk in the payments system. The fundamental theory of charging fees has been that cost-effective behavioral changes to reduce risks would be taken by depository institutions and their customers if modest fees were charged

<sup>3</sup> These policies include those for private large-dollar multilateral netting systems and private delivery-against-payment securities systems (54 FR 26092, 26104, June 21, 1989). In addition, in 1991, the New York Clearing House adopted changes to the CHIPS rules designed to enhance the assurances of settlement through the use of loss sharing and collateral requirements.

for daylight credit. Some changes in payment practices have already taken place, and additional changes appear to be possible. Thus, the Board believes a modest increase in the daylight overdraft fee at this time will continue to encourage private-sector efforts to reduce risks and to improve efficiency in the nation's payment and settlement systems.

#### V. Competitive Impact Analysis

The Board has established procedures for assessing the competitive impact of rule or policy changes that have a substantial impact on payments system participants.<sup>4</sup> Under these procedures, the Board will assess whether a change would have a direct and material adverse effect on the ability of other service providers to compete efficiently with the Federal Reserve in providing similar services due to differing legal powers or constraints, or due to a dominant market position of the Federal Reserve deriving from such differences. If no reasonable modifications would mitigate the adverse competitive effects, the Board will determine whether the anticipated benefits are significant enough to proceed with the change despite the adverse effects.

As noted in the Board's 1992 announcement of the daylight overdraft fee policy, the Board does not believe that imposition of daylight overdraft fees adversely affects the ability of private-sector payments system participants to compete with the Reserve Banks in providing payments services. Private-sector correspondent banks have the ability to charge for intraday credit extended to their customers, either explicitly (as do the Reserve Banks) or implicitly as part of overall service fees. The Board stated in 1992 that private-sector payment systems might benefit from daylight overdraft fees, if the fee caused institutions to shift payments from the Federal Reserve to private systems in order to avoid daylight overdraft fees. Although the shift to private systems might not be as large under a 15-basis-point fee as under a 20-basis-point fee, the Board believes that the lower fee might still produce payment shifts, as discussed in the supplementary information above, as well as a reduced cost burden for private-sector payments system participants.

#### VI. Administrative Procedure Act

The notice and comment requirements of the Administrative

<sup>4</sup> These procedures are described in the Board's policy statement "The Federal Reserve in the Payments System," as revised in March 1990. (55 FR 11648, March 29, 1990).

Procedure Act ("APA") do not apply to matters relating to "public property, loans, grants, or contracts." (5 U.S.C. 553(a)(2)) The daylight overdraft fee relates to "loans," in that the fee is for an extension of intraday credit by Federal Reserve Banks, and "contracts," in that the fee is part of an agreement between institutions and the Federal Reserve Banks for the provision of Reserve Bank payment services. Therefore, the APA does not require the Board to seek notice and comment on the fee revision.

Additionally, the Board finds for good cause that notice and comment on the fee revision is unnecessary, in accordance with 5 U.S.C. 553(b)(B). The Board originally adopted a policy, after notice and comment, to implement an annual fee of 48 basis points (equivalent to 20 basis points for a 10-hour Fedwire day) on April 13, 1995. The Board's action today will reduce the previously announced 1995 fee to an annual rate of 36 basis points (equivalent to 15 basis points for a 10-hour Fedwire day.) Because the Board's action reduces burden on affected institutions compared to the previously announced policy, the Board believes that seeking additional comment on this action is unnecessary.

#### VII. Policy Statement

The Board has adopted the following change in its policy statement that will replace paragraphs two and three of part (I)(B) in its "Federal Reserve Policy Statement on Payments System Risk" under headings "I. Federal Reserve Policy" and "B. Pricing":

The overdraft fee is 36 basis points (annual rate), quoted on the basis of a 24-hour day. To obtain the daily overdraft fee (annual rate) for the standard Fedwire operating day, the quoted 36-basis-point fee is multiplied by the fraction of a 24-hour day during which Fedwire is scheduled to operate. For example, under a 10-hour scheduled Fedwire operating day, the overdraft fee equals 15 basis points (36 basis points multiplied by 10/24). The 36-basis-point fee is effective April 13, 1995.

The 36-basis-point fee (times an operating hour fraction) will be in effect for at least two years. A change in the length of the scheduled Fedwire operating day would not change the effective fee because the fee is applied to average overdrafts which, in turn, would be deflated by the change in the operating day. The Board will evaluate the desirability of an increase in the daylight overdraft fee, based on the objectives of the payments system risk program, two years after the implementation of the 36-basis-point

fee. Any changes in the fee resulting from that review will be announced with a reasonable lead-time for implementation.

By order of the Board of Governors of the Federal Reserve System, March 2, 1995.

William W. Wiles,

*Secretary of the Board.*

[FR Doc. 95-5530 Filed 3-6-95; 8:45 am]

BILLING CODE 6210-01-P

#### **Brill Bancshares, Inc., et al.; Formations of; Acquisitions by; and Mergers of Bank Holding Companies**

The companies listed in this notice have applied for the Board's approval under section 3 of the Bank Holding Company Act (12 U.S.C. 1842) and § 225.14 of the Board's Regulation Y (12 CFR 225.14) to become a bank holding company or to acquire a bank or bank holding company. The factors that are considered in acting on the applications are set forth in section 3(c) of the Act (12 U.S.C. 1842(c)).

Each application is available for immediate inspection at the Federal Reserve Bank indicated. Once the application has been accepted for processing, it will also be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing to the Reserve Bank or to the offices of the Board of Governors. Any comment on an application that requests a hearing must include a statement of why a written presentation would not suffice in lieu of a hearing, identifying specifically any questions of fact that are in dispute and summarizing the evidence that would be presented at a hearing.

Unless otherwise noted, comments regarding each of these applications must be received not later than March 31, 1995.

A. Federal Reserve Bank of Minneapolis (James M. Lyon, Vice President) 250 Marquette Avenue, Minneapolis, Minnesota 55480:

1. *Brill Bancshares, Inc.*, Brill, Wisconsin; to become a bank holding company by acquiring 80.11 percent of the voting shares of Brill State Bank, Brill, Wisconsin.

2. *First Community Bank Group, Inc.*, and *Todd County Agency, Inc.*, both of Hopkins, Minnesota; to acquire a total of 100 percent of the voting shares of Citizens State Bank of Barrett, Barrett, Minnesota.

Board of Governors of the Federal Reserve System, March 1, 1995.

Jennifer J. Johnson,

*Deputy Secretary of the Board.*

[FR Doc. 95-5488 Filed 3-6-95; 8:45 am]

BILLING CODE 6210-01-F

#### **First Farmers Bancshares, Inc.; Notice of Application to Engage de novo in Permissible Nonbanking Activities**

The company listed in this notice has filed an application under § 225.23(a)(1) of the Board's Regulation Y (12 CFR 225.23(a)(1)) for the Board's approval under section 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1843(c)(8)) and § 225.21(a) of Regulation Y (12 CFR 225.21(a)) to commence or to engage *de novo*, either directly or through a subsidiary, in a nonbanking activity that is listed in § 225.25 of Regulation Y as closely related to banking and permissible for bank holding companies. Unless otherwise noted, such activities will be conducted throughout the United States.

The application is available for immediate inspection at the Federal Reserve Bank indicated. Once the application has been accepted for processing, it will also be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing on the question whether consummation of the proposal 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." Any request for a hearing on this question must be accompanied by a statement of the reasons a written presentation would not suffice in lieu of a hearing, identifying specifically any questions of fact that are in dispute, summarizing the evidence that would be presented at a hearing, and indicating how the party commenting would be aggrieved by approval of the proposal.

Comments regarding the application must be received at the Reserve Bank indicated or the offices of the Board of Governors not later than March 21, 1995.

A. Federal Reserve Bank of Atlanta (Zane R. Kelley, Vice President) 104 Marietta Street, N.W., Atlanta, Georgia 30303:

1. *First Farmers Bancshares, Inc.*, Portland, Tennessee; to engage *de novo* through its subsidiary Tennessee Business and Industrial Development