

President's FY 2004 budget baseline is an imperfect baseline for this analysis because it already incorporates the impacts of this provision and subsequent legislation, it is preferable to the alternatives because it reflects the most recent economic and participation trends. Based on a January 1999 FNS report, *Relaxing the FSP Vehicle Asset Test: Findings from the North Carolina Demonstration*, an additional adjustment was made. The report indicates that the participation effects of this type of policy reform are about half of what our model predicts on the basis of the characteristics of current participants, so the estimates were adjusted by half for all years. Given that this provision was effective on July 1, 2001, we considered it to be fully implemented in FY 2004 and no further adjustments were made. Cost estimates were rounded to the nearest million dollars.

Participation Impacts: We estimate that this provision will increase average participation in the Food Stamp Program by 243,000 persons in FY 2004 and that their average monthly food stamp benefit will be \$74.11. These impacts are already incorporated into the President's FY 2004 budget baseline.

Participation impacts were estimated using the same method as the cost impacts. The adjusted participation impact was calculated as a 2.25 percent expected increase in participation. This impact was multiplied by expected participation for each fiscal year, based on the President's FY 2004 budget baseline of December 2002. As with the cost estimate, participation estimates were adjusted by half to reflect the finding in the 1999 FNS vehicle report. Participation estimates were rounded to the nearest thousand persons.

While this regulatory impact analysis details the expected impacts on Food Stamp Program costs and the number of participants likely to be affected by the food stamp provisions of the Agricultural Appropriation Act of 2001, it does not provide an estimate of the overall social costs of the provisions, nor does it include a monetized estimate of the benefits they bring to society. We anticipate that the provisions will improve program operations by providing States with the ability to coordinate food stamp and TANF vehicle rules. In addition, by increasing food stamp benefits to low-income families, we believe that these statutory changes will increase food expenditures, which may strengthen food security.

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FEDERAL RESERVE SYSTEM

12 CFR Part 225

[Regulation Y; Docket No. R-1159]

Bank Holding Companies and Change in Bank Control: Exception to Anti-Tying Restrictions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule with request for public comment.

SUMMARY: The Board proposes to adopt an exception to the anti-tying restrictions of section 106 of the Bank Holding Company Act Amendments of 1970 in order to equalize the treatment of financial subsidiaries of banks under section 106. The proposed exception provides that a financial subsidiary of a state nonmember bank shall be treated as an affiliate of the bank, and not as a subsidiary of the bank, for purposes of section 106. The anti-tying restrictions of section 106 generally apply to subsidiaries, but not affiliates, of banks. Financial subsidiaries of national and state member banks already are treated as affiliates (and not subsidiaries) of the parent bank for purposes of section 106.

DATES: Comments must be received on or before September 30, 2003.

ADDRESSES: Comments should refer to Docket No. R-1159 and may be mailed to Ms. Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551. However, because paper mail in the Washington area and at the Board of Governors is subject to delay, please consider submitting your comments by e-mail to regs.comments@federalreserve.gov or faxing them to the Office of the Secretary at 202-452-3819 or 202-452-3102. Members of the public may inspect comments in Room MP-500 of the Martin Building between 9 a.m. and 5 p.m. on weekdays pursuant to § 261.12, except as provided in § 261.14, of the Board's Rules Regarding Availability of Information (12 CFR 261.12 and 261.14).

FOR FURTHER INFORMATION CONTACT: Kieran J. Fallon, Senior Counsel (202-452-5270), Mark E. Van Der Weide, Counsel (202-452-2263), or Andrew S. Baer, Counsel (202-452-2246), Legal Division, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551. For users of Telecommunications Device for the Deaf (TDD) only, contact 202-263-4869.

SUPPLEMENTARY INFORMATION:

Background

Section 106 of the Bank Holding Company Act Amendments of 1970 (section 106) generally prohibits a bank from conditioning the availability or price of one product or service (the "desired product") on a requirement that the customer obtain another product or service (the "tied product") from the bank or an affiliate of the

bank.¹ For example, the statute prohibits a bank from requiring that a prospective borrower purchase homeowners insurance from the bank or an affiliate of the bank in order to obtain a mortgage loan from the bank. Section 106 also contains several exceptions to its general prohibitions and authorizes the Board to grant any additional exception from the statute's prohibitions, by regulation or order, that the Board determines "will not be contrary to the purposes" of the statute.²

Section 106 applies only to tying arrangements imposed by a bank, and generally does not apply to tying arrangements imposed by a nonbank affiliate of a bank. Because a subsidiary of a bank is considered to be part of the bank for most supervisory and regulatory purposes under the Federal banking laws, the restrictions in section 106 generally apply to tying arrangements imposed by a subsidiary of a bank in the same manner that the statute applies to the parent bank itself. Thus, a subsidiary of a bank generally is prohibited from conditioning the availability or price of a product on the customer's purchase of another product from the subsidiary, its parent bank, or any affiliate of its parent bank.

The Board is publishing elsewhere in today's **Federal Register** a proposed interpretation of section 106 and related supervisory guidance with a request for public comment. The interpretation includes an extensive discussion of the scope and restrictions of section 106, as well as the statutory and regulatory exceptions to the statute's prohibitions.

Proposed Rule

Federal law authorizes national and state member banks that meet certain conditions to own or control a financial subsidiary.³ A financial subsidiary of a national or state member bank may engage in certain activities—such as underwriting and dealing in corporate debt and equity securities—that the parent bank is not permitted to conduct directly. Unlike other subsidiaries, a financial subsidiary of a national or state member bank is treated as an

¹ 12 U.S.C. 1972(1)(A) and (B). Section 106 also prohibits a bank from conditioning the availability or price of one product on a requirement that the customer (i) *provide* another product to the bank or an affiliate of the bank; or (ii) *not* obtain another product from a competitor of the bank or from a competitor of an affiliate of the bank. 12 U.S.C. 1972(1)(C), (D), and (E).

² 12 U.S.C. 1972(1).

³ See 12 U.S.C. 24a, 335. In order to be eligible to own or control a financial subsidiary, the national or state member bank and its depository institution affiliates must satisfy certain capital, managerial, Community Reinvestment Act (12 U.S.C. 2901 *et seq.*), and other requirements.