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OCC Approves Zions Application to Underwrite Municipal Revenue  
Bonds

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency has approved the application of Zions First National Bank, Salt Lake City, Utah, to underwrite municipal revenue bonds through an operating subsidiary of the bank. The decision is the first under the OCC's revised regulations governing operating subsidiaries.

Comptroller of the Currency Eugene A. Ludwig said the agency's decision would make it easier for banks to provide essential financial services to communities that are remote from the nation's financial centers.

"In reviewing this application, what impressed me most were comments of officials from the small towns of Utah who feel that their bond issues are too small to be of much interest to Wall Street," Mr. Ludwig said. "Those bond issues may be small in the eyes of some, but they represent hospitals and clean water and better roads -- the hopes and dreams of a community.

"In addition, expanding the financing options available for our nation's communities, municipalities, and cities means lower funding costs -- which translates into lower taxes.

"Today, we have taken a step toward ensuring that the dreams of Pleasant Grove, Utah -- and towns just like it in every corner of the country -- are not forgotten when it comes to financing," Mr. Ludwig added. "After all, who better understands Pleasant Grove than a bank that serves that community, and who has a stronger incentive to make sure it finds a way to finance the infrastructure necessary to keep its economy alive and well?"

In reaching its decision, the OCC concluded that underwriting and dealing in revenue bonds is part of the business of banking, both because of the financial nature of the activity and because of its similarity to other banking functions. In addition, Section 20 of the Glass-Steagall Act allows affiliates of national banks, including subsidiaries, to underwrite and deal in all types of securities, so long as they are not "principally engaged" in that activity.

The bank's municipal revenue bond activities are expected to have substantial benefits for the communities it serves and for taxpayers. Bank participation in revenue bond underwriting can be expected to result in increased competition, expanded access to municipal bond markets and lower interest rates and underwriting expenses.

The Zions approval is an incremental step that gives banking companies more flexibility in deciding how to organize their own businesses. National banks themselves already underwrite and deal in some types of revenue bonds directly, including those issued to finance housing, universities and dormitories.

Moreover, bank holding companies underwrite municipal revenue bonds through their subsidiaries. National banks will now be able to choose whether to locate municipal revenue bond underwriting in a subsidiary of the bank or the holding company.

A number of safeguards have been put in place to ensure that the activities of Zion's operating subsidiary will not jeopardize the insured bank. The bank will be insulated, structurally and operationally, from the subsidiary. For example, the subsidiary must maintain separate accounting and corporate records; conduct its operations under independent policies and procedures; have a name that is distinguishable from the parent bank; and maintain adequate capital, among other requirements.

In addition, the safeguards limit the bank's investment in, and credit extensions to the subsidiary. All transactions must be made "at arm's length," or on the same terms as to any other customer, and the bank's investment in, and extensions of credit to the subsidiary cannot exceed 10 percent of the bank's capital.

The subsidiary's revenue bond activities will be limited, so that no more than 25 percent of its income can come from that activity -- the same percentage the Federal Reserve applies to holding company units engaged in activities that are not permissible for banks.

Moreover, the subsidiary will be subject to functional regulation. Zions' operating subsidiary is registered with the Securities and Exchange Commission as a broker-dealer and is subject to the same financial reporting, anti-fraud and financial responsibility rules as any other broker-dealer. It will be required to comply with the SEC's net capital rule and will be subject to the rules and regulations of the National Association of Securities Dealers and Municipal Securities Rulemaking Board.

The approval is consistent with -- and even more conservative than -- legislation under consideration in Congress. HR 10, the financial modernization legislation that passed the House Banking Committee, would permit national bank subsidiaries to conduct many more activities -- including the underwriting of corporate debt and equity -- with fewer limitations than is the case with Zions' subsidiary.

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The OCC charters, regulates and supervises more than 2,600 national banks and 66 federal branches and agencies of foreign banks in the U.S., accounting for 56 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.

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