

**DATE:** April 5, 2002

**SUBJECT:** Guidance Regarding Significant Changes in the General Character of a State Member Bank's Business and Compliance with Regulation H

**HIGHLIGHTS:** Regulation H sets forth the requirements for state chartered banks' membership in the Federal Reserve System and imposes certain conditions of membership on applicant banks. Under the regulation, a member bank must "at all times conduct its business and exercise its powers with due regard to safety and soundness" and "may not, without the permission of the Board, cause or permit any change in the general character of its business or in the scope of the corporate powers it exercises at the time of admission to membership."

The Board of Governors has issued a Supervision and Regulation policy letter (SR 02-9), dated March 20, 2002. The purpose of the letter is to remind both Reserve Bank examiners and state member banks of the requirement in Regulation H that state member banks must receive the prior approval of the Board before making any significant change in business plans. In view of the trend toward more diverse, complex and, at times, riskier activities of some banks, the prior approval requirements of Regulation H have become more important.

Federal Reserve supervisors will be monitoring changes in the general character of the business of state member banks as part of the normal supervisory process to ensure compliance with the requirements of Regulation H and with safe and sound banking practices. This review should be conducted on at least an annual basis by the Reserve Bank. A significant change in a bank's business plan without the Board's prior approval would be considered a violation of Regulation H and would be addressed through follow-up supervisory action.

**DOCUMENT LOCATION:** The SR letter is available under the "SR Letters" section of the Board of Governors' web site, as follows:

<http://www.federalreserve.gov/boarddocs/SRLETTERS/2002>

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