§ 225.111

Limit on investment by bank holding company system in stock of small business investment companies.

(a) Under the provisions of section 4(c)(5) of the Bank Holding Company Act, as amended (12 U.S.C. 1843), a bank holding company may acquire shares of nonbank companies "which are of the kinds and amounts eligible for investment" by national banks. Pursuant to section 302(b) of the Small Business Investment Act of 1958 (15 U.S.C. 682(b)), as amended by Title II of the Small Business Act Amendments of 1967 (Pub. L. 90–104, 81 Stat. 268, 270), a national bank may invest in stock of small business investment companies (SBICs) subject to certain restrictions.

(b) On the basis of the foregoing statutory provisions, it is the position of the Board that a bank holding company may acquire direct or indirect ownership or control of stock of an SBIC subject to the following limits:

(1) The total direct and indirect investments of a bank holding company in stock of SBICs may not exceed:

(i) With respect to all stock of SBICs owned or controlled directly or indirectly by a subsidiary bank, 5 percent of that bank's capital and surplus;

(ii) With respect to all stock of SBICs owned directly by a bank holding company that is a bank, 5 percent of that bank's capital and surplus; and

(iii) With respect to all stock of SBICs otherwise owned or controlled directly or indirectly by a bank holding company, 5 percent of its proportionate interest in the capital and surplus of each subsidiary bank (that is, the holding company's percentage of that bank's stock times that bank's capital and surplus) less that bank's investment in stock of SBICs; and

(2) A bank holding company may not acquire direct or indirect ownership or control of 50 percent or more of the shares of any class of equity securities of an SBIC that have actual or potential voting rights.

\[23 FR 9017, Nov. 20, 1958. Redesignated at 36 FR 21666, Nov. 12, 1971\]
(c) A bank holding company or a bank subsidiary that acquired direct or indirect ownership or control of 50 percent or more of any such class of equity securities prior to January 9, 1968, is not required to divest to a level below 50 percent. A bank that acquired 50 percent or more prior to January 9, 1968, may become a subsidiary in a holding company system without any necessity for divesting to a level below 50 percent: Provided, That such action does not result in the bank holding company acquiring control of a percentage greater than that controlled by such bank.

(d) The Small Business Investment Act clearly contemplates that one of the primary purposes of that Act was to enable SBICs to provide needed equity capital to small business concerns through the purchase of debentures convertible into stock. Thus, to the extent that a stockholder in an SBIC might acquire indirect control of stock of a small business concern, such control appears to be a natural and contemplated incident of ownership of stock of the SBIC. The Office of the Comptroller of the Currency has informally indicated concurrence with this interpretation insofar as it affects investments by national banks in stock of an SBIC.

(e) Since the exception as to stock eligible for investment by national banks contained in section 4(c)(4) of the Holding Company Act was apparently intended to permit a bank holding company to acquire any stock that would be eligible for purchase by a national bank, it is the Board's view that section 4(a)(1) of the Act does not prohibit a bank holding company from acquiring stock of an SBIC, even though ownership of such stock may result in the acquisition of indirect ownership or control of stock of a small business concern which would not itself be eligible for purchase directly by a national bank or a bank holding company.