



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

J. VIRGIL MATTINGLY, JR.  
GENERAL COUNSEL

April 14, 1989

John A. Franco  
Vice Chairman and  
President - Accumulation and Investment Group  
Capital Holding Corporation  
680 Fourth Avenue  
P.O. Box 32830  
Louisville, Kentucky 40232

Dear Mr. Franco:

This will respond to your request that the Board of Governors not disapprove a notice, filed pursuant to section 5 of the Management Interlocks Revision Act of 1988 ("Interlocks Revision Act") (Pub. L. No. 100-650 § 5 (to be codified at 12 U.S.C. § 3204(8))), on behalf of Capital Holding Corporation, Louisville, Kentucky ("Capital"). Capital is a diversified savings and loan holding company and the parent company of Peoples Security Life Insurance Company, Durham, North Carolina ("Peoples"). Under your proposal, Mr. Richard W. Wright, who serves as the chairman, president and chief executive officer of Peoples, would also serve on the board of directors of C.C.B. Financial Corporation, Durham, North Carolina ("C.C.B."), a bank holding company registered under the Bank Holding Company Act.

Before the enactment of the Interlocks Revision Act, the Depository Institution Management Interlocks Act ("Interlocks Act") (12 U.S.C. § 3201 et seq.) generally prohibited director, officer, and other management interlocks between unaffiliated depository organizations, or the affiliates of these unaffiliated organizations, if one of the organizations has total assets in excess of \$1 billion and the other organization has total assets in excess of \$500 million. Section 5 of the Interlocks Revision Act amended this prohibition by authorizing a limited exception to permit directors of diversified savings and loan holding companies to serve as directors of depository organizations under certain circumstances.

The express language of this exception applies only to directors of a diversified savings and loan holding company who propose to serve also as directors of another unaffiliated depository organization. The exception does not by its terms permit interlocks involving officers or other management

officials of a diversified savings and loan holding company. The legislative history of the Interlocks Revision Act supports a strict reading of the terms of the statute and states that the diversified savings and loan holding company exception is a "very limited exception." 134 Cong. Rec. H9796 (daily ed. October 6, 1988) (statement of Rep. St Germain). Accordingly, it is my view that the exception provided in the Interlocks Revision Act does not extend to directors who are also officers or employees of a depository organization or its subsidiaries.

In addition, the language of section 5 of the Interlocks Revision Act states that it applies only to "[a] diversified savings and loan holding company . . . with respect to the service of a director of such company. . . ." (emphasis added). Based upon the legislative history of the Interlocks Revision Act and a strict reading of the language of the exception, it is also my view that the exception applies only to a director of the parent diversified savings and loan holding company, and not to a director of a subsidiary of the diversified savings and loan holding company.

Under the facts of your proposal, the general prohibition against interlocks would apply to management officials of Capital and C.C.B. because Capital's financial institution subsidiaries have assets in excess of \$500 million, and C.C.B. has assets in excess of \$1 billion. Since Mr. Wright is an officer and director of a subsidiary of Capital, he does not, in my opinion, qualify for the exception provided in the Interlocks Revision Act for directors of a parent diversified savings and loan holding company. Accordingly, his proposed service as a director of C.C.B. would be prohibited by the Interlocks Act.

Should you have additional questions regarding this matter, please contact Thomas Corsi (202/452-3275) of my staff.

Very truly yours,

(signed)

W. Virgil Mattingly, Jr.  
General Counsel

cc: Federal Reserve Bank of Richmond  
William J. Bosies, Jr., Esq.  
William Laythan, Esq.