



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

GEORGE W. MITCHELL
VICE CHAIRMAN

July 2, 1974

The Honorable Ray Garrett, Jr.
Chairman
Securities and Exchange Commission
500 North Capitol Street
Washington, D. C. 20549

Dear Mr. Garrett:

This is in reply to the request of your Division of Corporation Finance dated June 24, 1974 for Board comment on the preliminary prospectus of Citicorp covering its proposed issue of \$250 million (since raised to \$850 million) of Floating Rate Notes due 1989. Citicorp, as a registered bank holding company, is subject to the rules and regulations issued by the Board under the Bank Holding Company Act of 1956; First National City Bank, a wholly owned subsidiary of Citicorp, is directly supervised by the Comptroller of the Currency but for certain matters is subject to the rules and regulations applicable to member institutions of the Federal Reserve System.

Due to the specific characteristics of the proposed note issue, which include an interest rate that varies over time with the yield on 90 day Treasury bills and the option given to the holder to present the notes for redemption semi-annually on 30 days notice, it seems highly probable that the securities in question will appeal to relatively small investors, such as individuals. We understand that Citicorp proposes to limit subscriptions to not less than \$5,000 or more than \$50,000. Thus, it seems clear that the proposed issue will compete directly for funds that might otherwise be invested in time or savings deposits at commercial banks and other thrift institutions. Savings flows to these institutions have already fallen off in recent months, and the additional diversion of funds into the Citicorp issue may further worsen the experience of these institutions.

Photocopy from Gerald R. Ford Library

Competition for the funds of the saving public ought to be encouraged, as a general principle, because it increases the returns available to savers and normally tends to encourage efficient use of the nation's financial resources. Given the present sensitive state of financial markets and the extent to which savings institutions are already under heavy pressure, however, the result of the present large offerings--and any other offerings like it, whether issued by bank holding companies or other corporations--can well be to divert the flow of savings from the residential mortgage market and to deprive homebuyers of needed mortgage financing. It is not clear, therefore, that an offering of this type is in the public interest at this time.

The Board's present statutory powers do not authorize it either to prevent or to regulate the terms of the Citicorp issue. The legislative history of the 1969 amendments to the Federal Reserve Act, which authorized the Board to determine what types of obligations issued by affiliates of member banks may be deemed to be deposits for purposes of the Board's regulations, makes it clear that such authority applies only to the extent that the proceeds of such affiliate obligations are used for the purpose of supplying funds to a member bank. To the extent that the proceeds of the Citicorp Notes may be used for supplying funds to member banks, they would be subject to reserve requirements, but not otherwise. Further, the Board has no grounds for objecting, under the authority of the Bank Holding Company Act, to the terms of the proposed security issue. Indeed, the financing would appear to improve the financial condition of Citicorp.

Nevertheless, in the interest of full and fair disclosure, the Board urges that all necessary steps be taken to make investors aware that the Citicorp Notes are not obligations of a bank and are not insured by the Federal Deposit Insurance Corporation. We would suggest that the SEC require the facing page of the prospectus be amended to include, in a prominent position in 10-point bold face type, a statement along the following lines:

"THESE NOTES ARE UNSECURED DEBT OBLIGATIONS OF CITICORP, ARE NOT LEGALLY ENFORCEABLE OBLIGATIONS OF ANY BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION."

It is further suggested that the underwriters of the issue be required to include a similar legend in any advertisement of the

The Honorable Ray Garrett, Jr.

-3-

Note issue, and that Citicorp include the same qualification on the face of any notes that may be issued subsequently.

The Board's staff is currently reviewing the prospectus and will communicate separately with your staff in the next few days regarding any additional comments that it may have.

Very truly yours,


George W. Mitchell

Photocopy from Gerald R. Ford Library