A fundamental and long-standing principle underlying the Federal Reserve's supervision and regulation of bank holding companies is that bank holding companies should serve as sources of financial and managerial strength to their subsidiary banks. It is the policy of the Board that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks in a manner consistent with the provisions of this policy statement.

Since the enactment of the Bank Holding Company Act in 1956, the Board has formally stated on numerous occasions that a bank holding company should act as a source of financial and managerial strength to its subsidiary banks. As the Supreme Court recognized in the 1978 First Lincolnwood decision, Congress has expressly endorsed the Board's long-standing view that a holding company must serve as a "source of strength to subsidiary financial institutions. In addition to frequent pronouncements over the years and the 1978 Supreme Court decision, this principle has been incorporated explicitly in Regulation Y since 1983. In particular, section 225.4(a)(1) of Regulation Y provides that:

A bank holding company shall serve as a source of financial and managerial strength to its subsidiary banks and shall not conduct its operations in an unsafe or unsound manner.

The important public policy interest in the support provided by a bank holding company to its subsidiary banks is based upon the fact that, in acquiring a commercial bank, a bank holding company derives certain benefits at the corporate level that result, in part, from the ownership of an institution that can issue federally insured deposits and has access to Federal Reserve credit. The existence of the federal "safety net" reflects important governmental concerns regarding the critical fiduciary responsibilities of depository institutions as custodians of depositors' funds and their strategic role within our economy as operators of the payments system and impartial providers of credit. Thus, in seeking the advantages flowing from the ownership of a commercial bank, bank holding companies have an obligation to serve as sources of strength and support to their subsidiary banks.

An important determinant of a bank's financial strength is the adequacy of its capital base. Capital provides a buffer for individual banking organizations to absorb losses in times of financial strain, promotes the safety of depositors' funds, helps to maintain confidence in the banking system, and supports the reasonable expansion of banking organizations as an essential

element of a strong and growing economy. A strong capital cushion also limits the exposure of
the federal deposit insurance fund to losses experienced by banking institutions. For these
reasons, the Board has long considered adequate capital to be critical to the soundness of
individual banking organizations and to the safety and stability of the banking and financial
system. Accordingly, it is the Board's policy that a bank holding company should not withhold
financial support from a subsidiary bank in a weakened or failing condition when the holding
company is in a position to provide the support. A bank holding company's failure to assist a
troubled or failing subsidiary bank under these circumstances would generally be viewed as an
unsafe and unsound banking practice or a violation of Regulation Y or both. Where necessary,
the Board is prepared to take supervisory action to require such assistance. Finally, the Board
recognizes that there may be unusual and limited circumstances where flexible application of the
principles set forth in this policy statement might be necessary, and the Board may from time to
time identify situations that may justify exceptions to the policy.

This statement is not meant to establish new principles of supervision and regulation;
rather, as already noted, it builds on public policy considerations as reflected in banking laws and
regulations and long-standing Federal Reserve supervisory policies and practices. A bank
holding company's failure to meet its obligation to serve as a source of strength to its subsidiary
bank(s), including an unwillingness to provide appropriate assistance to a troubled or failing
bank, will generally be considered an unsafe and unsound banking practice or a violation of
Regulation Y, or both, particularly if appropriate resources are on hand or are available to the
bank holding company on a reasonable basis. Consequently, such a failure will generally result
in the issuance of a cease-and-desist order or other enforcement action as authorized under
banking law and as deemed appropriate under the circumstances.