FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, July 24, 1951

To the Financing Institution Addressed:

The texts of Bulletins Nos. 5 and 6 of the national Voluntary Credit Restraint Committee, which follow, are being forwarded to you at its request.

Yours very truly,

R. R. GILBERT
President

BULLETIN NUMBER 5 OF THE NATIONAL VOLUNTARY CREDIT RESTRAINT COMMITTEE

INTERNATIONAL FINANCING

As a result of inquiries from regional committees about the status of foreign borrowings in United States markets, the national Voluntary Credit Restraint Committee has discussed the status of such borrowings under the voluntary credit restraint program.

The Committee concluded that all such credit applications on behalf of foreign borrowers should be screened to the same extent, and with the same purpose tests, as comparable American credits.

It may be difficult in some cases for financing institutions or regional committees to determine whether a proposed foreign credit would indirectly contribute to defense or other objectives of the U. S. Government. It will be particularly desirable, therefore, when foreign cases are submitted for review, that financing institutions submit full facts to enable a judgment as to purpose. In exceptional cases when a regional committee finds the facts available to it are inadequate to judge an application, the national committee, if requested, will endeavor to obtain supplementary information from government agencies.

(Over)

BULLETIN NUMBER 6 OF THE NATIONAL VOLUNTARY CREDIT RESTRAINT COMMITTEE

LOANS SECURED BY STOCKS AND BONDS

The original statement of principles of the program for voluntary credit restraint provided that "the foregoing principles (the anti-speculative provisions) should be applied in screening as to purpose on all loans on securities whether or not covered by Regulations U or T."* The first amendment to the statement of principles deleted the phrase "whether or" from the statement. This provision has been the subject for a number of inquiries. For example, the question has been raised as to whether a loan on securities not covered by Regulations U or T must be screened as to purpose even though the amount of credit advanced might be permissible under these regulations. Such an interpretation would appear to treat the loans secured by unlisted stocks more severely than those on listed (i.e., "registered") securities. In order to cure this ambiguity, the following principles are recommended for your guidance by the national committee:

(1) Loans on securities covered by Regulations U or T are basically for the purpose of purchasing or carrying listed securities. It is recommended, therefore, that all loans on securities for purchasing or carrying unlisted securities be presumed to be for a proper purpose if the amount of credit extended is no greater than that permitted in the case of listed securities by Regulations U or T.

(2) Loans on securities, whether or not listed, but not for the purpose of purchasing or carrying securities should be made only for purposes consistent with the principles of voluntary credit restraint.

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*The Statement of Principles also provides that "loans to securities dealers in the normal conduct of their business or to them or others incidental to the flotation and distribution of securities where the money is being raised for any of the foregoing [proper] purposes" should be classified as "proper."