

**FEDERAL RESERVE BANK  
OF DALLAS**

Dallas, Texas, May 21, 1959

**AMENDMENTS TO REGULATIONS T AND U**

**To All Banks and Others Concerned  
in the Eleventh Federal Reserve District:**

The Board of Governors of the Federal Reserve System has adopted, effective June 15, 1959, amendments to its Regulations T and U, and is filing these amendments with the Federal Register. Regulation T and Regulation U relate respectively to "Credit by brokers, dealers and members of national securities exchanges" and "Loans by banks for the purpose of purchasing or carrying registered stocks."

A brief description of the amendments as filed with the Federal Register is printed on the following pages.

**TITLE 12 — BANKS AND BANKING  
CHAPTER II — FEDERAL RESERVE SYSTEM  
SUBCHAPTER A — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
[Reg. T]**

**Part 220. Credit by Brokers, Dealers and Members of National Securities Exchanges**

**Withdrawals of Cash or Securities**

1. Part 220 (Regulation T), issued by the Board of Governors of the Federal Reserve System pursuant to the authority cited therein, prescribes the conditions upon which credit may be extended and maintained by brokers, dealers and members of national securities exchanges.

Effective June 15, 1959, the Board has adopted certain amendments to Part 220 (Regulation T) in order more effectively to prevent the excessive use of credit for purchasing or carrying securities. Specifically, amendments to section 3(b) (2) and to section 8 (the second paragraph of section 3(b) of Regulation T and the Supplement to Regulation T) further restrict withdrawals of cash or securities from so-called "restricted" accounts (i.e., accounts in which more credit is outstanding on the securities in the account than would be permitted in a new purchase of those securities under current margin requirements).

Accounts can become "restricted" by declines in market value of the securities held in the account or by increases in margin requirements. (The margin requirement of a stock is the difference between its prescribed maximum loan value and its current market value.) Securities can be withdrawn from these "restricted" accounts through sale or otherwise if there is a specified reduction in the debt owing in the account.

Under the previous regulation, when a security was withdrawn from a "restricted" account, the amount by which the debt in the account had to be reduced worked out to be the same as the maximum loan value of the security at the time. This percentage automatically changed with each change in margin requirements.

The amendment to section 3(b) (2) (the second paragraph of section 3(b) of Regulation T) provides for a new method of limiting withdrawals from "restricted" accounts. The amendment provides for a separate figure which represents the "retention requirement" of a registered non-

exempted security (i.e., in the case of a withdrawal of securities, the percentage of market value that must be deposited in the account; or, in the case of a sale, the percentage of sale proceeds that must be left in the account). In a new paragraph (c) of section 8 (the Supplement to Regulation T) the "retention requirement" is set at 50 per cent of the market value of the securities involved. This "retention requirement" may be changed by the Board from time to time.

The effect of the amendment may be illustrated by an example in which \$1,000 of registered nonexempted securities held in a "restricted" account are sold or withdrawn. Under the previous regulation and current level of margin requirements, the debt in the account would have to be reduced by only \$100. Under the amendment, so long as the account remains "restricted", the debt would have to be reduced by \$500.

The amendment does not alter existing provisions that allow a purchase of registered non-exempted securities to be made in a "restricted" account without additional margin if the purchase is made on the same day that an equal or greater market value of such securities is sold in the account and the proceeds applied to the purchase.

Conforming amendments have been made to paragraphs (e) and (g) of section 3.

TITLE 12 — BANKS AND BANKING  
CHAPTER II — FEDERAL RESERVE SYSTEM  
SUBCHAPTER A — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
[Reg. U]

Part 221. Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks

Withdrawals of Collateral; Statement of Purpose of Loan; "Carrying" of Registered Stocks; Reports  
from Unregulated Lenders; Loans Relying on Collateral Which Has Served to Permit  
a Purpose Loan; Exemption Discontinued for Certain Unsecured Loans;  
Loans to Purchase Convertible Bonds

1. Part 221 (Regulation U), issued by the Board of Governors of the Federal Reserve System pursuant to the authority cited therein, prescribes requirements for the making and maintenance of loans by a bank for the purpose of purchasing or carrying any stock registered on a national securities exchange ("purpose loans").

Effective June 15, 1959, the Board has adopted certain amendments to Part 221 (Regulation U) in order more effectively to prevent the excessive use of credit for purchasing or carrying securities. Specifically these amendments will: (1) amend the third paragraph of section 1 in order further to restrict withdrawals of collateral against so-called "restricted" loans (i.e., stock-collateralized loans which are larger than would be permitted in the case of a new loan to purchase registered stocks under current margin requirements); (2) strengthen the provisions of section 3(a) regarding statements accepted by a bank as to the purpose of a loan; (3) broaden the provision relating to "carrying" in section 3(b) (1); (4) provide for reports from certain nonbank lenders by amending section 3(j); (5) prohibit, in section 3(n), the weakening of collateral behind a "purpose" loan which occurs when that same collateral is also used as the basis of a "non-purpose" loan; (6) add a new section 3(q) to require that bank loans to borrowers importantly engaged in re lending for stock market purposes shall comply with this part (Regulation U) even though the bank loans are not secured by any stock; and (7) add a new section 3(r) to require loans originally for the purchase of convertible securities to be brought into conformity with the margin requirements within 30 days after conversion into a registered stock takes place. The amendments also make conforming changes at several places in the regulation.

**Withdrawals of collateral** — Loans can become "restricted" by declines in market value of the stocks securing the loan or by increases in margin requirements. (The margin requirement of a stock is the difference between its prescribed maximum loan value and its current market value.) Stock securing a "restricted" loan can be withdrawn through sale or otherwise if there is a specified reduction in the loan.

Under the former rule, if a stock securing a "restricted" loan was withdrawn, the amount by which the loan had to be reduced worked out to be the same as the maximum loan value of the stock at the time. This percentage automatically changed with each change in margin requirements.

The amendment to the third paragraph of section 1 provides for a new method of limiting withdrawals of collateral securing "restricted" loans. The amendment provides for a separate figure which represents the "retention requirement" of a stock (i.e., in the case of a sale or other withdrawal of collateral, the amount, stated as a percentage of the market value of the collateral, by

which the loan must be reduced). In a new paragraph (b) of section 4 (the Supplement to Regulation U) the "retention requirement" is set at 50 per cent of the market value of the stocks involved. This "retention requirement" may be changed by the Board from time to time.

The effect of the amendment may be illustrated by an example in which \$1,000 of registered stocks securing a "restricted" loan are withdrawn. Under the previous regulation and the current level of margin requirements, the loan would have to be reduced by only \$100. Under the amendment, so long as the loan remains "restricted", the loan would have to be reduced by \$500.

**Statement of purpose of loan** — The former section 3(a) provided that a bank could rely upon a statement signed by an officer of the bank or by the borrower as to the purpose of a loan, if the statement was accepted by the bank in good faith. Under that section, a bank could accept a statement that a loan was not for the purpose of purchasing or carrying a registered stock without ascertaining affirmatively the purpose for which the loan was to be used. The amendment requires that the statement be signed by both borrower and lending officer. If the statement merely states what is not the purpose of the loan, the lending officer must provide a memorandum or notation describing the purpose of the loan. The amendment also emphasizes the alertness and diligence required of the bank before a statement can be said to be accepted in good faith.

**"Carrying" of registered stocks** — The former section 3(b) (1) excluded from loans for the purpose of "carrying" registered stocks all loans except a limited group specified in that section, principally loans to enable the borrower to reduce or retire indebtedness originally incurred to purchase such stock. The net effect was to exclude from regulation a large number of loans which were closely related to the financing of positions in stocks. The amendment strikes this earlier, narrower approach and instead describes affirmatively certain situations in which a loan will not be deemed to be for the purpose of "carrying" registered stocks.

**Reports from unregulated lenders** — The former section 3(j) required banks to make such reports as the Board of Governors may require. The amendment expands this requirement to include, in addition, "every person engaged in the business of extending credit who, in the ordinary course of business, extends credit for the purpose of purchasing or carrying" registered stocks.

**Loans relying on collateral which has served to permit a purpose loan** — Part 221 (Regulation U) allows a bank to lend a specified portion, currently 10 per cent, of the market value of a stock used as collateral where the loan is to purchase or carry registered stocks. However, after the bank made such a loan, unless the borrower was a broker or dealer, the regulation previously allowed the bank to lend as much more as it pleased on the same collateral for any other purpose. The former section 3(n) forbade such double use of collateral when the borrower was a broker or dealer. The amendment expands this prohibition to forbid such double use in the case of loans to all borrowers under Part 221 (Regulation U), just as it is already forbidden in all cases under Part 220 (Regulation T). The amendment does not, however, require the bank to forego or to waive any lien, nor does it apply to loans to meet emergency expenses not reasonably foreseeable provided the circumstances are suitably documented.

**Exemption discontinued for certain unsecured loans** — The regulation previously exempted all loans that were not secured, directly or indirectly, by at least some stock. The new section 3(q) discontinues this exemption as to loans made to companies engaged principally, or as one of the company's important activities, in making loans on an exempt basis to finance the purchase of registered stocks. Conforming amendments have been made to section 1 and section 3(m).

**Loans to purchase convertible securities** — The regulation previously did not apply to loans for purchasing or carrying convertible bonds. The new section 3(r) requires the entire transaction to be brought into conformity with margin requirements prevailing at the time when conversion into a registered stock occurs, allowing, however, 30 days for this to be done. A conforming amendment has been made to section 3(d).

Regulations T and U, revised to include the outstanding amendments, will be sent to you early in June.

Yours very truly,

WATROUS H. IRONS,

President