

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

April 19, 1961

REPRINT OF REGULATION O

To All Member Banks in the
Eleventh Federal Reserve District :

Enclosed is a copy of Regulation O, issued by the Board of Governors of the Federal Reserve System, which has been reprinted to conform with the style of the Code of the Federal Regulations.

Member banks are requested to insert this reprint of the Regulation in their ring binders containing the Regulations of the Board of Governors and the Bulletins of this bank.

Yours very truly,

Watrous H. Irons
President

**BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM**

**LOANS TO EXECUTIVE OFFICERS
OF MEMBER BANKS**



**REGULATION O
(12 CFR 215)**

As amended effective July 1, 1939



Print of October 1960

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.

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REGULATION O

(12 CFR 215)

As amended effective July 1, 1939

LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS*

SECTION 215.1—DEFINITIONS

For the purpose of this part:

(a) **“Member bank.”**—The term “member bank” means any national bank, State bank, savings bank, trust company, Morris Plan bank, mutual savings bank, or other banking institution which is a member of the Federal Reserve System.

(b) **Executive officer.**—The term “executive officer” means every officer of a member bank who participates or has authority to participate in the operating management of the bank or any branch thereof otherwise than in the capacity of a director of the bank, regardless of whether he has an official title or whether his title contains a designation of assistant and regardless of whether he is serving without salary or other compensation. It will be assumed that the chairman of the board, the president, every vice president, the cashier, secretary, treasurer and trust officer of a member bank are executive officers, unless it is provided by resolution of the board of directors or the bank's by-laws that any such officer is not authorized to participate in the operating management of the bank and he does not actually participate therein.

(c) **“Loan”, “loaning”, “extension of credit”, and “extend credit.”**—The terms “loan”, “loaning”, “extension of credit”, and “extend credit” mean the making of a loan or the extending of credit in any manner whatsoever, and include:

(1) Any advance by means of an overdraft, cash item, or otherwise;

(2) The acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, indorser, guarantor, or surety;

(3) The increase of an existing indebtedness, except on account

*The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 215: cited as 12 CFR 215.

of accrued interest or on account of taxes, insurance, or other expenses incidental to the existing indebtedness and advanced by the bank for its own protection;

(4) Any advance of unearned salary or other unearned compensation for periods in excess of 30 days; and

(5) Any other transaction as a result of which an executive officer becomes obligated to a bank, directly or indirectly by any means whatsoever, by reason of an indorsement on an obligation or otherwise, to pay money or its equivalent.

Such terms, however, do not include (i) advances against accrued salary or other accrued compensation, or for the purpose of providing for the payment of authorized travel or other expenses incurred or to be incurred on behalf of the bank, (ii) the acquisition by a bank of any check deposited in or delivered to the bank in the usual course of business unless it results in the granting of an overdraft to or the carrying of a cash item for an executive officer, or (iii) the acquisition of any note, draft, bill of exchange, or other evidence of indebtedness, through a merger or consolidation of banks or a similar transaction by which a bank acquires assets and assumes liabilities of another bank or similar organization, or through foreclosure on collateral or similar proceeding for the protection of the bank.

(d) **“Borrow” and “become indebted.”**—The terms “borrow” and “become indebted” mean any transaction by which an executive officer, directly or indirectly by any means whatsoever, receives a loan or extension of credit as defined above.

SECTION 215.2—GENERAL PROVISIONS

(a) **Executive officers and partnerships prohibited from borrowing.**—Except as provided in §215.3, an executive officer of a member bank shall not borrow from or otherwise become indebted to the member bank of which he is an executive officer and a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in the partnership shall not borrow from or otherwise become indebted to such member bank.

(b) **Member banks prohibited from loaning to executive officers and partnerships.**—Except as provided in §215.3, no member bank shall make any loan or extend credit in any manner to any of its own executive officers and no member bank shall make any loan or extend credit in any manner to a partnership in which one or more executive officers of such member bank are partners having either individually or together a majority interest in the partnership.

SECTION 215.3—EXCEPTIONS

(a) The provisions of §215.2 shall not apply:

(1) To any loan or extension of credit by a member bank, provided that, as a result of such loan or extension of credit, an executive officer of the member bank does not become indebted to it in an amount in excess of \$2,500, *And provided further*, That a majority of the entire board of directors of the member bank has in each case given prior approval to such loan or extension of credit;¹

(2) To the indorsing or guaranteeing for the protection of a member bank of any loan or other asset which shall have been previously acquired by the member bank in good faith, regardless of the amount thereof; or

(3) To any loan, indebtedness, or extension of credit, regardless of the amount thereof, for the purpose of protecting a member bank against loss or giving financial assistance to it.

(b) The approval of any loan or extension of credit under the provisions of paragraph (a) (1) of this section shall be evidenced by a resolution of the board of directors spread upon the minute book of the bank; and any indorsement, guarantee, loan, indebtedness, or extension of credit under the provisions of paragraph (a) (2) or (a) (3) of this section shall be reported to the board of directors of the bank and a record thereof incorporated in the minute book of the bank.

SECTION 215.4—RENEWALS OR EXTENSIONS OF LOANS MADE
PRIOR TO JUNE 16, 1933

(a) **Loans may be renewed under certain conditions.**—Loans made to an executive officer prior to June 16, 1933, by the member bank of which he is an executive officer, may be renewed or extended with the prior approval of the board of directors of the member bank for periods expiring not later than June 16, 1944. Any such renewal or extension shall be made only where the board of directors of the member bank shall have satisfied itself that such renewal or extension is in the best interest of the member bank and that the executive officer indebted has made a reasonable effort to reduce his obligation. The findings of the board of directors with respect thereto shall be evidenced by a resolution spread upon the minute book of the bank. No such loan shall be renewed or extended, by conversion into a demand

¹It is not contemplated that a renewal or extension of a loan previously made and approved under the provisions of paragraph (a) (1) must be approved by the board of directors if such renewal or extension does not include an increase in the indebtedness of the executive officer involved.

loan or otherwise for periods expiring subsequent to June 16, 1944.

(b) **Limitations not applicable to excepted loans.**—The limitations prescribed in the foregoing paragraph shall not apply to any loan, indebtedness, extension of credit or to the indorsing or guaranteeing of any loan or other asset referred to in §215.3.

SECTION 215.5—REPORTS BY EXECUTIVE OFFICERS OF MEMBER BANKS OF THEIR INDEBTEDNESS TO OTHER BANKS

Any executive officer of any member bank who on the effective date of this part is or thereafter becomes indebted to any bank, banking association, or trust company (including a member bank) other than the member bank of which he is an executive officer shall, within 30 calendar days after the effective date of this part or within 10 calendar days after he becomes so indebted, as the case may be, make a written report thereof to the board of directors of the member bank of which he is an executive officer.² Each such report shall state the name of the bank to which he is indebted, the date such indebtedness was incurred and the date of maturity thereof, the amount of such indebtedness, the form of the indebtedness, the security therefor, if any, and the purpose for which the proceeds have been or are to be used. A record of the receipt of each such report shall be made in the minute book of the member bank receiving it and all such reports shall be retained by such member bank and made available, upon request, for inspection by duly authorized examiners.

SECTION 215.6—PENALTIES

(a) **Executive officer subject to removal from office.**—Any executive officer of a member bank who violates any provision of subsection (g) of section 22 of the Federal Reserve Act (49 Stat. 716; 12 U.S.C. 375a) will be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933 (48 Stat. 193; 12 U.S.C. 77).

(b) **Member banks subject to forfeiture of membership.**—Any member bank which violates any provision of subsection (g) of section 22 of the Federal Reserve Act (49 Stat. 716; 12 U.S.C. 375a) will, in the case of a national bank, be subject to the forfeiture of all rights, privileges, and franchises granted to it under the National Bank Act, in the manner prescribed in section 2 of the Federal Reserve Act (38 Stat. 252; 12 U.S.C. 501a) and, in the case of any State member bank, be subject to the forfeiture of all of its rights and privileges of membership in the Federal Reserve System, in the manner prescribed in section 9 of the Federal Reserve Act (46 Stat. 251; 12 U.S.C. 327).

² No report need be made in the case of renewals or extensions of an indebtedness which has been previously reported, provided the indebtedness is not increased.

APPENDIX

STATUTORY PROVISIONS

Subsection (g) of section 22 of the Federal Reserve Act (12 U.S.C. 375a) provides as follows:

SEC. 22 * * *

(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: *Provided*, That loans made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from June 16, 1939, where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank, and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank: *Provided further*, That with the prior approval of a majority of the entire board of directors, any member bank may extend credit to any executive officer thereof, and such officer may become indebted thereto, in an amount not exceeding \$2,500. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibition of this subsection. Nothing contained in this subsection shall prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of such bank any loan or other asset which shall have been previously acquired by such bank in good faith or from incurring any indebtedness to such bank for the purpose of protecting such bank against loss or giving financial assistance to it. The Board of Governors of the Federal Reserve System is authorized to define the term "executive officer", to determine what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit, for the purposes of this subsection, and to prescribe such rules and regulations as it may deem necessary to effectuate the

provisions of this subsection in accordance with its purposes and to prevent evasions of such provisions. Any executive officer of a member bank accepting a loan or extension of credit which is in violation of the provisions of this subsection shall be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933: *Provided*, That for each day that a loan or extension of credit made in violation of this subsection exists, it shall be deemed to be a continuation of such violation within the meaning of said section 30.

Section 30 of the Banking Act of 1933 (12 U.S.C. 77) provides as follows:

SEC. 30. Whenever, in the opinion of the Comptroller of the Currency, any director or officer of a national bank, or of a bank or trust company doing business in the District of Columbia, or whenever, in the opinion of a Federal reserve agent, any director or officer of a State member bank in his district shall have continued to violate any law relating to such bank or trust company or shall have continued unsafe or unsound practices in conducting the business of such bank or trust company, after having been warned by the Comptroller of the Currency or the Federal reserve agent, as the case may be, to discontinue such violations of law or such unsafe or unsound practices, the Comptroller of the Currency or the Federal reserve agent, as the case may be, may certify the facts to the Board of Governors of the Federal Reserve System. In any such case the Board of Governors of the Federal Reserve System may cause notice to be served upon such director or officer to appear before such Board to show cause why he should not be removed from office. A copy of such order shall be sent to each director of the bank affected, by registered mail. If after granting the accused director or officer a reasonable opportunity to be heard, the Board of Governors of the Federal Reserve System finds that he has continued to violate any law relating to such bank or trust company or has continued unsafe or unsound practices in conducting the business of such bank or trust company after having been warned by the Comptroller of the Currency or the Federal reserve agent to discontinue such violation of law or such unsafe or unsound practices, the Board of Governors of the Federal Reserve System, in its discretion, may order that such director or officer be removed from office. A copy of such order shall be served upon such director or officer. A copy of such order shall also be served upon the bank of which he is a director or officer, whereupon such director or officer shall cease

to be a director or officer of such bank: *Provided*, That such order and the findings of fact upon which it is based shall not be made public or disclosed to anyone except the director or officer involved and the directors of the bank involved, otherwise than in connection with proceedings for a violation of this section. Any such director or officer removed from office as herein provided who thereafter participates in any manner in the management of such bank shall be fined not more than \$5,000, or imprisoned for not more than five years, or both, in the discretion of the court.