

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 68-177
August 16, 1968

AMENDMENTS TO REGULATION G

**To Nonbank Lenders and Others Concerned
in the Eleventh Federal Reserve District:**

The Board of Governors of the Federal Reserve System has adopted amendments to its Regulation G, effective August 8, 1968. Attached is a copy of the press release regarding the amendments.

A copy of the amendments is enclosed.

Yours very truly,

P. E. Coldwell
President

Enclosures (2)

**CREDIT BY PERSONS OTHER THAN BANKS, BROKERS,
OR DEALERS FOR THE PURPOSE OF PURCHASING OR
CARRYING REGISTERED EQUITY SECURITIES**

AMENDMENTS TO REGULATION G

**MISCELLANEOUS AMENDMENTS RELAXING CERTAIN RESTRICTIONS
REGARDING CREDIT UNIONS AND OTHERS**

(12 CFR 207)

Effective August 8, 1968

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1. Section 207.1(a), (b), (e), (h) and (i) is amended to read as follows:

SECTION 207.1 — GENERAL RULE.

(a) **Registration.**—Every person who, in the ordinary course of his business, during any calendar quarter ended after October 20, 1967, extends or arranges for the extension of a total of fifty thousand dollars (\$50,000) or more or has outstanding at any time during the calendar quarter, a total of one hundred thousand dollars (\$100,000) or more, in credit, secured directly or indirectly, in whole or in part, by collateral that includes any registered equity securities, unless such person is subject to Part 220 (Regulation T) or Part 221 (Regulation U) of this Chapter, is subject to the registration requirements of this paragraph and shall, within 30 days following the end of the calendar quarter during which the person becomes subject to such registration requirements, register with the Board of Governors of the Federal Reserve System by filing a statement in conformity with the requirements of Federal Reserve Form G-1 with the Federal Reserve Bank of the district in which the principal office of such person is located: *Provided*, That no such statement need be filed with respect to credit extended in the calendar quarter that ended December 31, 1967, until April 10, 1968.

(b) **Termination of registration.**—Any person so registered who has not, during the preceding six calendar months, extended or maintained or arranged for the extension or maintenance of any credit secured directly or indirectly, in whole or in part, by collateral that includes any registered equity securities may apply for termination of such registration by filing Federal Reserve Form G-2 with the Federal Reserve Bank of the district in which the principal office of such person is located.

* * *

(e) **Statements as to purpose of credit.**—In connection with any extension of credit secured directly or indirectly, in whole or in part, by collateral that includes any registered equity security, every person who is subject to the registration requirement of paragraph (a) of this section shall, prior to such extension, obtain a statement in conformity with the requirements of

Federal Reserve Form G-3 executed by the customer and accepted and executed in good faith by such person. Such person shall retain such statement in his records for at least six years after such credit is extinguished. In determining whether credit is "purpose credit", such person may rely on the statement executed by the customer if accepted in good faith. To accept the customer's statement in good faith, such person must (1) be alert to the circumstances surrounding the credit and (2) if he has any further information which would cause a prudent man not to accept the statement without inquiry, have investigated and be satisfied that the customer's statement is truthful. Circumstances which could indicate that such person has not exercised reasonable diligence in so acquainting himself and so investigating would include, but are not limited to, facts such as that (1) the proceeds of the credit were paid to a broker or to a bank in connection with contemporaneous delivery of registered equity securities, whether or not payment was made against delivery, (2) there were frequent substitutions of registered equity securities serving as collateral for the credit, or (3) the amount of the credit was disproportionate, or the terms inappropriate, to the stated purpose.

* * *

(h) Purpose and nonpurpose credit extended to the same person.

— No lender shall after February 1, 1968, extend or arrange for the extension of any purpose credit, or maintain or arrange for the maintenance of any purpose credit extended after February 1, 1968, if the credit is secured directly or indirectly, in whole or in part, by collateral that includes any registered equity security which also secures, directly or indirectly, in whole or in part, any other credit in excess of \$5,000 extended to the same customer after February 1, 1968; and no lender shall have outstanding at the same time to the same customer both such purpose credit and any such other credit; *Provided*, That the prohibitions of this paragraph shall not apply to (i) credit extended for the purpose of purchasing, constructing, maintaining, or improving a dwelling which is occupied or to be occupied by the customer as his principal residence, and is secured by a first lien on such dwelling; or (ii) to credit secured by a share account or other claim acquired by the customer from the lender independently of the credit and payable (or entitling the holder to a loan thereon) in a dollar amount determined without regard to the market value of the assets supporting the claim.

* * *

(i) Purpose credit secured by both registered equity securities and by other collateral.

— In the case of any purpose credit extended or arranged after February 1, 1968, secured, directly or indirectly, in whole or in part, by any registered equity security, no other collateral shall have any loan value in respect to such credit for the purpose of this Part: *Provided*, however, that a share account or other claim acquired by the customer from the lender independently of the credit and payable (or entitling the holder to a loan thereon) in a dollar amount determined without regard to the market value of the assets supporting the claim shall have a maximum loan value as determined by the lender in good faith.

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2. Section 207.2(b), (c) and (d) is amended to read as follows:

SECTION 207.2—DEFINITIONS.

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(b) The term “*in the ordinary course of his business*” means occurring or reasonably expected to occur from time to time in the course of any activity of a person for profit or the management and preservation of property or in addition, in the case of a person other than an individual, carrying out or in furtherance of any business purpose.

(c) The “*purpose*” of a credit is determined by substance rather than form.

(1) Credit which is for the purpose, whether immediate, incidental, or ultimate, of purchasing or carrying a registered equity security is “purpose credit”, despite any temporary application of funds otherwise.

(2) Credit to enable the customer to reduce or retire indebtedness which was originally incurred to purchase a registered equity security is for the purpose of “carrying” such a security.

(d) **Registered equity security.** —

(1) The term “registered equity security” means any equity security⁴ which

(i) is registered on a national securities exchange; or (ii) has unlisted trading privileges on a national securities exchange, or (iii) is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Securities Exchange Act of 1934 (15 U.S.C. 78g (c) (2)) only to the extent necessary to render lawful any direct or indirect extension or maintenance of credit on such security.

(2) Credit for the purpose of purchasing or carrying (i) any security convertible with or without consideration into a registered equity security or carrying any warrant or right to subscribe to or purchase a registered equity security or any such warrant or right, or (ii) any security issued by an investment company registered pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8), whose assets customarily include registered equity securities, is for the purpose of purchasing or carrying registered equity securities, and such security, or such warrant or right, shall for purposes of this Part be treated as if it were a registered equity security.

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3. Section 207.4(a) and (b) is amended to read as follows:

SECTION 207.4—MISCELLANEOUS PROVISIONS.

(a) **Stock option and employee stock purchase plans.** — In respect to any credit extended and maintained by a corporation, by a lender wholly controlled by such corporation, or by a lender which is a membership thrift organization whose membership is limited to employees and former employees

⁴ As defined in 15 U.S.C. 78c (a) (11).

of such corporation, its subsidiaries, or affiliates (such corporations and such lenders are both sometimes referred to as “plan-lenders”), to an officer or employee of the corporation, subsidiary or affiliate thereof to finance the exercise of rights granted such officer or employee under a stock option plan or employee stock purchase plan adopted by the corporation and approved by a majority of its stockholders to purchase registered equity securities of such corporation, subsidiary or affiliates,

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(b) **List of securities.** — In determining whether a security is a registered equity security or a security convertible into such security, or a security of the kind described in section 207.2(d) (2), a lender may rely upon the latest list of equity securities registered on a national securities exchange and securities of the kind described in section 207.2(d) (2) issued by the Board of Governors of the Federal Reserve System.

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FEDERAL RESERVE

press release

For immediate release.

August 8, 1968.

The Board of Governors of the Federal Reserve System announced today approval of amendments relaxing some provisions of Regulation G, particularly as they pertain to credit unions. Regulation G applies to credit by persons other than banks, brokers and dealers for purchasing or carrying registered equity securities.

The major amendments would:

--Permit a lender subject to the regulation to lend up to \$5,000 in general credit along with credit for purchasing or carrying registered securities. At present, the regulation forbids a lender subject to its provisions to extend both types of credit to the same borrower at the same time. The restriction is said to work a hardship, for example, on borrowers who bought stock using a credit union loan and later want to borrow for such purpose as a family emergency or to buy a car.

--Permit credit unions whose membership is limited to employees and former employees of a corporation to make loans for the purchase of stock in the corporation under an employee stock purchase plan without regard to initial margin requirements. Such loans must be made under a plan embodying safeguards to discourage repayment of the loan with proceeds from sale of the purchased stock. Such credit can now be extended by a corporation itself under similar safeguards. The new amendment would extend this authority to company-related credit unions.

There are about 24,000 credit unions in the United States with total membership of about 12 million persons but the vast majority are in no way affected by Regulation G which applies only to a lender with \$50,000 in new loans or \$100,000 in loans outstanding against registered equity securities in a given calendar quarter.

Some 178 credit unions had registered with the Board of Governors under provisions of Regulation G as of last July 24. Many are connected with corporations having employe stock purchase plans.

The text of the amendments will be published shortly in the Federal Register.