FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 72-73
April 14, 1972

REGULATION G MAILINGS
(Securities Credit by Persons Other Than Banks, Brokers, or Dealers)

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

We are planning to decrease the number of lenders that we regularly circularize concerning changes in Federal Reserve Regulation G, "Securities Credit by Persons Other Than Banks, Brokers, or Dealers".

In the future, we will mail interpretations, amendments, and proposed amendments to Regulation G only to persons or firms that are registered under the regulation, except when the materials affect the registration requirements themselves.

In this latter event, we will circularize our entire mailing list of nonbank lenders in the Eleventh Federal Reserve District, and will make appropriate contacts with trade associations and news media as well.

In addition, we plan to circularize our entire mailing list annually with a reminder of the registration requirements, whether or not the requirements are changed. A copy of this reminder is included with this circular for your information.

Inquiries concerning Regulation G by any lender, whether registered or not, can be directed to the Regulations Department of this Bank at our Dallas office. The telephone is area code 214, 742-3271 (ext. 257).

Yours very truly,

P. E. Coldwell,

President

Enclosure

REGISTRATION AND OTHER REQUIREMENTS UNDER REGULATION G
Securities Credit by Persons other than Banks, Brokers or Dealers

Questions & Answers

These questions and answers concern the registration requirements of Regulation G and, to some extent, compliance with the regulation after registration. They are intended for the general guidance of lenders in the Eleventh Federal Reserve District; because they summarize some of the requirements of the regulation, the regulation itself should be consulted when specific questions arise.

The regulation may be found in Title 12 of the Code of Federal Regulations, Part 207, as well as in several commercially-published loose-leaf services dealing with securities regulations. Copies of the regulation, forms, and other information may be obtained from:

Regulations Department
Federal Reserve Bank of Dallas
Station K
Dallas, Texas 75222
Telephone: 214-742-3271 (ext. 257)

Question: What is Regulation G?

Answer: One of the credit regulations issued by the Board of Governors of the Federal Reserve System under the Securities Exchange Act of 1934 and intended to prevent excessive use of credit for the purchase or carrying of securities. These regulations are sometimes called the margin regulations.

Question: Who is covered by Regulation G?

Answer: Any person, firm, or other organization, other than a bank (covered by Regulation U) and a broker or dealer in securities (covered by Regulation T), that extends or arranges for credit in the ordinary course of business in excess of specified amounts, when such credit is secured by collateral that includes margin securities.

Question: Name the most common types of organizations that may be subject to Regulation G.

Answer: Insurance companies. Credit unions. Finance companies. Pension and retirement trusts. Mortgage companies. Individuals who regularly make loans including collateral lenders and factors. Production credit associations. Insurance premium funding companies. Corporations that extend credit in connection with executive and employee stock purchase plans.

Question: What does Regulation G require of a person, firm or other organization (referred to hereafter as a "creditor")?

Answer: Nothing until the creditor comes within the registration requirements of the regulation.

Question: When is that?

Answer: When, in any calendar quarter, the creditor either extends, arranges for, or has outstanding, the requisite amount of credit secured directly or indirectly, in whole or in part, by margin securities.

Question: What is the requisite amount?

Answer: For credit <u>extended</u> or <u>arranged</u> for during the quarter, $50,000. For credit <u>outstanding</u> at any time during the quarter, $100,000.

Question: What are margin securities?

Answer: In general, they are:

(a) Equity securities that are registered ("listed") on a national securities exchange.
(b) OTC margin stocks.
(c) Securities of any type which are convertible into either of the above (for example, warrants or convertible stocks and debentures).
(d) Shares of most mutual funds.

Question: What is OTC margin stock?

Answer: Stock traded over the counter (not "listed" on a national securities exchange) which appears on the list OTC margin stocks published periodically by the Board of Governors of the Federal Reserve System. Copies of the list or information as to the current status of particular stocks can be obtained from the Regulations Department of the Federal Reserve Bank of Dallas.

Question: When is a credit secured directly or indirectly by margin securities?

Answer: A credit is secured directly when margin securities are pledged to secure it. Existance of direct security is not always obvious. For example, in many cases margin securities which are pledged to secure one credit will actually secure later credits by the same lender under a so-called "all debts" clause in the original pledge agreement, even though the later credits may not be thought of as secured.

Indirect security is a more difficult concept; under section 207.2(i) of the regulation, it includes any arrangement under which the customer's right to sell, pledge, or otherwise dispose of margin securities is restricted in any way for the term of the credit, or under which the exercise of such rights may cause acceleration of the maturity of the credit. One example of indirect security is a specific negative pledge covenant, under which the borrower agrees not to pledge any margin securities he may own elsewhere during the term of the credit.

Question: What is required when a creditor first comes under the registration requirements of Regulation G?

Answer: In general, he must:

(1) Obtain an F. R. Form G-3 purpose statement with each credit extended or arranged which is secured directly or indirectly by margin securities. (This requirement applies to the transaction which brings the creditor under the registration requirements and all subsequent transactions of the same type.)

(2) In connection with purpose credit, obtain sufficient collateral to comply with the margin requirements of Regulation G, and comply with the substitution and withdrawal requirements when applicable. (These requirements apply to the transaction which brings the creditor under the registration requirements, if it is purpose credit, and all subsequent transactions of the same type.)

(3) Within 30 days following the end of the quarter, register by filing F. R. Form G-1 with the Regulations Department of the Federal Reserve Bank of Dallas.

(4) Within 30 days after the close of each succeeding quarter, file a quarterly report on F. R. Form G-4 with the Regulations Department of the Federal Reserve Bank of Dallas (forms are supplied to all registrants in advance of the time for filing).

(5) Except for home purchase, construction, maintenance, or improvement credits, and credits secured by share accounts, refrain from extending more than $5,000 of non-purpose credit to any customer if secured by the same margin securities which secure an extension of purpose credit.

Question: What is purpose credit?

Answer: Credit extended, arranged, or maintained in the ordinary course of business for the purpose of purchasing or carrying margin securities by a lender subject to the registration requirements.

Question: What about credit extended prior to coming under the registration requirements?

Answer: Purpose credit extended after February 1, 1968 and prior to the time a lender comes under the registration requirements becomes subject to Regulation G, but the lender is not required to bring the loan up to a fully margined status. Thus, no additional collateral is required at the time of registration. However, such credits become subject to the withdrawal and substitution requirements of Regulation G; before a borrower can withdraw or substitute collateral, if his credit is undermargined (that is, does not have sufficient collateral to meet the margin requirements at the time he seeks to withdraw or substitute), he generally will be required to supply additional collateral or reduce his credit balance. If any of these pre-existing purpose credits is increased after the lender comes under the registration requirements, the increase is subject to the requirement of a purpose statement and proper margin is required.

However, a renewal or extension of a pre-existing credit, with no increase in principal, requires no purpose statement or increase in collateral.

Question: Are there any other rules regarding compliance with the regulation of which a registrant should be aware?

Answer: Yes, there are a number of additional rules and exceptions not detailed in this release. For example, there is a requirement that purpose credit secured by margin securities which are convertible debt securities (as opposed to stocks) must be treated separately from stock-secured purpose credit for purposes of the margin, withdrawal, and substitution requirements. Also, there is a single credit rule, the effect of which, in general, prevents a borrower who has credit subject to the margin requirements from thereafter obtaining unsecured purpose credit from the same lender. Finally, there are several exceptions and special rules for particular lenders and types of credit.

Question: What are the penalties for violating Regulation G?

Answer: For a willful violation, upon conviction, a fine of not more than $10,000, or imprisonment of not more than five years, or both. Federal Reserve Regulation X imposes on the customer a duty to see that credit extended to him complies with Regulation G and imposes the same penalties on the customer for willful violations. Section 29 of the Securities Exchange Act provides, among other things, that contracts made in violation of Regulation G, with certain exceptions, are void.

Question: Can a registrant ever de-register?

Answer: Yes. If a registrant during a period of six calendar months has neither extended, arranged for, or had outstanding any credit secured directly or indirectly, in whole or in part, by margin securities, application for de-registration may be made on F. R. Form G-2 through the Regulations Department of the Federal Reserve Bank of Dallas.