

FEDERAL RESERVE BANK
OF NEW YORK

{ Circular No. 3806 }
January 7, 1952

INTERPRETATION OF REGULATION U

Loans to Brokers or Dealers

*To Banks, Brokers and Dealers in Securities, Members of National Securities
Exchanges, and Other Interested Persons, in the
Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System has issued the following interpretation of Regulation U:

Questions have arisen as to the adequacy of statements received by lending banks under section 3(a) of Regulation U in the case of loans to brokers or dealers secured by stock where the proceeds of the loans are to be used to finance customer transactions involving the purchasing or carrying of registered stocks.

While some such loans may qualify for exemption under section 2 of the regulation, unless they do qualify for such an exemption they are subject to the regulation. For example, if a loan so secured is made to a broker to furnish cash working capital for the conduct of his brokerage business (i.e. for purchasing and carrying securities for the account of customers), the maximum loan value prescribed in the Supplement to the regulation would be applicable unless the loan should be of a kind exempted by section 2. This result would not be affected by the fact that the stock given as security for the loan was or included stock owned by the brokerage firm.

In view of the foregoing, the statement referred to in section 3(a) which the lending bank may accept and rely upon in good faith in determining the purpose of the loan would be inadequate if the form of statement accepted or used by the bank failed to call for answers which would indicate whether or not the loan was of the kind discussed above.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.