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FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y. 10045

AREA CODE 212 RE 2-5700

August 2, 1967

To the Member Banks of the
Second Federal Reserve District:

Enclosed is a copy of Public Law 90-44, approved July 3, 1967, amending section 22(g) of the Federal Reserve Act, relating to loans to executive officers of member banks. The amended section supersedes those provisions of Regulation O of the Board of Governors of the Federal Reserve System that are inconsistent with it. Regulation O is being revised to conform with the amended section.

ALFRED HAYES
President



Public Law 90-44
90th Congress, S. 714
July 3, 1967

An Act

81 STAT. 109

To amend section 22(g) of the Federal Reserve Act relating to loans to executive officers by member banks of the Federal Reserve System, and to amend the Federal Credit Union Act to modify the loan provisions relating to directors, members of the supervisory committee, and members of the credit committee of Federal credit unions.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. Section 22(g) of the Federal Reserve Act (12 U.S.C. 375a) is amended to read:

“(g) (1) Except as authorized under this subsection, no member bank may extend credit in any manner to any of its own executive officers. No executive officer of any member bank may become indebted to that member bank except by means of an extension of credit which the bank is authorized to make under this subsection. Any extension of credit under this subsection shall be promptly reported to the board of directors of the bank, and may be made only if—

“(A) the bank would be authorized to make it to borrowers other than its officers;

“(B) it is on terms not more favorable than those afforded other borrowers;

“(C) the officer has submitted a detailed current financial statement; and

“(D) it is on condition that it shall become due and payable on demand of the bank at any time when the officer is indebted to any other bank or banks on account of extensions of credit of any one of the three categories respectively referred to in paragraphs (2), (3), and (4) in an aggregate amount greater than the amount of credit of the same category that could be extended to him by the bank of which he is an officer.

“(2) With the specific prior approval of its board of directors, a member bank may make a loan not exceeding \$30,000 to any executive officer of the bank if, at the time the loan is made—

“(A) it is secured by a first lien on a dwelling which is expected, after the making of the loan, to be owned by the officer and used by him as his residence, and

“(B) no other loan by the bank to the officer under authority of this paragraph is outstanding.

“(3) A member bank may make extensions of credit to any executive officer of the bank, not exceeding the aggregate amount of \$10,000 outstanding at any one time, to finance the education of the children of the officer.

“(4) A member bank may make extensions of credit not otherwise specifically authorized under this subsection to any executive officer of the bank, not exceeding the aggregate amount of \$5,000 outstanding at any one time.

“(5) Except to the extent permitted under paragraph (4), a member bank may not extend credit to a partnership in which one or more of its executive officers are partners having either individually or together a majority interest. For the purposes of paragraph (4), the full amount of any credit so extended shall be considered to have been extended to each officer of the bank who is a member of the partnership.

“(6) Whenever an executive officer of a member bank becomes indebted to any bank or banks (other than the one of which he is an officer) on account of extensions of credit of any one of the three categories respectively referred to in paragraphs (2), (3), and (4) in an aggregate amount greater than the aggregate amount of credit of the

Banks and Federal credit unions.
Loans to officers.
49 Stat. 716;
53 Stat. 842.
Conditions.

Mortgage loans.

Educational loans.

same category that could lawfully be extended to him by the bank, he shall make a written report to the board of directors of the bank, stating the date and amount of each such extension of credit, the security therefor, and the purposes for which the proceeds have been or are to be used.

“(7) This subsection does not prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of the bank any loan or other asset previously acquired by the bank in good faith or from incurring any indebtedness to the bank for the purpose of protecting the bank against loss or giving financial assistance to it.

“(8) Each day that any extension of credit in violation of this subsection exists is a continuation of the violation for the purposes of section 8 of the Federal Deposit Insurance Act.

“(9) Each member bank shall include with (but not as part of) each report of condition and copy thereof filed under section 7(a)(3) of the Federal Deposit Insurance Act a report of all loans under authority of this subsection made by the bank since its previous report of condition.

“(10) The Board of Governors of the Federal Reserve System may prescribe such rules and regulations, including definitions of terms, as it deems necessary to effectuate the purposes and to prevent evasions of this subsection.”

SEC. 2. Section 8 of the Federal Credit Union Act (12 U.S.C. 1757) is amended—

(1) by changing, in paragraph (5) thereof, “shall exceed the amount of his holdings in the Federal Credit Union as represented by shares thereof plus the total unencumbered and unpledged shareholdings in the Federal Credit Union of any member pledged as security for the obligation of such director or committee member” to read “may be made except as authorized under paragraph (6) of this section”;

(2) by redesignating paragraphs (6) through (13) of that section as paragraphs (7) through (14), respectively; and

(3) by inserting, immediately after paragraph (5), the following new paragraph:

“(6) to make loans to its own directors and to members of its own supervisory or credit committee, but all such loans shall be reported to the Director at least annually, and such a loan may be made only if—

“(A) the loan complies with all lawful requirements under this Act with respect to loans to other borrowers and is not on terms more favorable than those extended to other borrowers;

“(B) upon the making of the loan, the aggregate amount of loans outstanding to the borrower will not exceed the total amount of shareholdings in the credit union, not otherwise encumbered or pledged, which are pledged as security for loans to the borrower, or \$5,000, whichever is greater;

“(C) upon the making of the loan, the aggregate amount of loans outstanding under authority of this paragraph will not exceed 20 per centum of the unimpaired capital and surplus of the credit union;

“(D) the loan is approved by the credit committee and by the board of directors after the submission to them of a detailed current financial statement by the borrower; and

“(E) the borrower takes no part in the consideration of

64 Stat. 879;
80 Stat. 1046,
1054.
12 USC 1818.
74 Stat. 547.
12 USC 1817.
Rules and
regulations.

Federal Credit
Unions, powers.
73 Stat. 630.

Loans to offi-
cers, condi-
tions.

his application and does not attend any committee or board meeting while his application is under consideration;”.

SEC. 3. Paragraph (D) of section 8(8) of the Federal Credit Union Act is amended to read: “(D) in shares or accounts of savings and loan associations or mutual savings banks, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation;”.

80 Stat. 167;
Ante, p. 110.
12 USC 1757.

Approved July 3, 1967.

LEGISLATIVE HISTORY:

HOUSE REPORT No. 262 accompanying H. R. 9682 (Comm. on Banking & Currency).

SENATE REPORT No. 165 (Comm. on Banking & Currency).

CONGRESSIONAL RECORD, Vol. 113 (1967):

Apr. 14: Considered and passed Senate.

June 5: Considered and passed House, amended, in lieu of H. R. 9682.

June 26: Senate concurred in House amendment.