

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6133]
March 5, 1968]

LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS

Revision of Regulation O, Effective March 15, 1968

To the Member Banks of the Second Federal Reserve District:

The following statement was made public February 7 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today it had amended its Regulation O, governing conditions under which the executive officers of a member bank may borrow from their own bank, to bring the regulation into conformity with recent legislation by the Congress liberalizing the basis for such loans.

At the same time, the Board also redefined the term "executive officer," limiting its applicability to persons participating in the determination of major policies of a member bank. As a result, many bank officers with lesser responsibilities will have freer access to the credit facilities of their own institution.

Under the law and the new provisions of Regulation O, which will become effective March 15, 1968, executive officers of member banks may borrow up to \$30,000 for a home mortgage, \$10,000 for the education of children, and \$5,000 for any unspecified purpose. Previously, an executive officer could not borrow more than \$2,500 from his bank.

The new definition of executive officer excludes those persons who do not participate in the determination of major policies of a bank and whose decisions are limited by standards fixed by top management. As a result many persons who have official titles and may exercise some discretion in the performance of their duties, including the making of loans, would not be subject to the loan limitations of the law and regulation. For example, under the revised definition a manager or assistant manager of a branch bank would not be considered an "executive officer" unless that person participated in major policy decisions.

Enclosed is a copy of the revised regulation; additional copies will be furnished upon request.

ALFRED HAYES,
President.

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**LOANS TO EXECUTIVE OFFICERS
OF MEMBER BANKS**



REGULATION O
(12 CFR 215)

Revised effective March 15, 1968



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)

Revised effective March 15, 1968

LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS *

SECTION 215.1—BASIS AND SCOPE

This Part is issued pursuant to sections 11(i) and 22(g) of the Federal Reserve Act, as amended (12 U.S.C. 248(i) and 375a), and relates to extensions of credit by member banks to their executive officers and reports of such indebtedness.

SECTION 215.2—DEFINITIONS

(a) **“Member bank”**.—The term **“member bank”** means any banking institution that 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, otherwise than in the capacity of a director, in major policy-making functions 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.¹ The chairman of the board, the president, every vice president, the cashier, secretary, and treasurer of a member bank are assumed to be executive officers, unless, by resolution of the board of directors or by the bank's bylaws, any such officer is excluded from participation in major policy-making functions, otherwise than in the capacity of a director of the bank, and he does not actually participate therein.²

(c) **“Extension of credit”** and **“extend credit”**.—The terms **“extension of credit”** and **“extend credit”** mean the making of a

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

¹ The term is not intended to include persons who may have official titles and may exercise a certain measure of discretion in the performance of their duties, including discretion in the making of loans but who do not participate in the determination of major policies of the bank and whose decisions are circumscribed by policy standards fixed by the top management of the bank. For example, the term would not include a manager or assistant manager of a branch of a bank unless he participates or is authorized to participate in major policy-making functions.

² Such resolutions may be particularly appropriate with respect to some officers of banks with a large number of vice presidents.

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, endorser, guarantor, or surety;

(3) the increase of an existing indebtedness, except on account 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 endorsement 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 carrying of a cash item for or the granting of an overdraft (other than an inadvertent overdraft in a nominal amount that is promptly repaid) to an executive officer;

(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; or

(iv) indebtedness arising by reason of general arrangements under which a bank (A) acquires charge or time credit accounts or (B) makes payments to or on behalf of participants in a bank credit card plan, check credit plan, or similar plan, except that this subdivision (iv) shall not apply to indebtedness of an executive officer to his own bank to the extent that the aggregate amount thereof exceeds

\$1,000 or to any such indebtedness to his own bank that involves prior individual clearance or approval by the bank other than for the purpose of determining whether his participation in the arrangement is authorized or whether any dollar limit under the arrangement has been or would be exceeded.

SECTION 215.3—GENERAL PROHIBITIONS

(a) **Extensions of credit to executive officers.**—Except as provided in § 215.4, no member bank shall extend credit to any of its own executive officers and no executive officer of a member bank shall borrow from or otherwise become indebted to such bank.

(b) **Extensions of credit to partnerships.**—Except as provided in subparagraph (3) of § 215.4 (b), no member bank shall extend credit to a partnership in which one or more executive officers of such bank are partners having either individually or together a majority interest in the partnership and no such partnership shall borrow from or otherwise become indebted to such member bank.

SECTION 215.4—EXCEPTIONS

(a) **Protection of member bank against loss.**—This Part shall not apply to the endorsing or guaranteeing for the protection of a member bank of any loan or other asset previously acquired by such bank in good faith or to any indebtedness for the purpose of protecting a member bank against loss or of giving financial assistance to it.

(b) **Particular exceptions.**—Subject to the requirements of § 215.5, the provisions of this Part shall not apply:

(1) to any loan not exceeding \$30,000 made by a member bank, with the specific prior approval of its board of directors, to any executive officer of such bank if, at the time the loan is made:

(i) it is secured by a first lien on a dwelling which is owned, or after the making of the loan is to be owned, by the officer solely or jointly with his spouse and used by him as his residence;

(ii) it is made for the purpose of purchasing, constructing, maintaining, or improving such residence; and

(iii) no other such loan by the bank to the officer is outstanding;

(2) to extensions of credit made by a member bank 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 executive officer; or

(3) to extensions of credit made by a member bank to any executive officer of the bank which are not otherwise specifically authorized under this paragraph (b), not exceeding the aggregate amount of \$5,000 outstanding at any one time. For purposes of this subparagraph, the full amount of any extension of credit authorized hereunder that may be made to a partnership in which one or more of the member bank's executive officers are partners and have either individually or together a majority interest shall be considered to have been extended to each executive officer of the bank who is a member of the partnership.

SECTION 215.5—REQUIREMENTS FOR EXTENSIONS OF CREDIT

Every extension of credit to an executive officer:

(a) shall be promptly reported to the board of directors of the bank;³

(b) shall be one that the bank is authorized to make to borrowers other than its officers;

(c) shall be on terms not more favorable than those afforded other borrowers with similar credit standing who are not associated with the bank;

(d) shall be preceded by submission of a detailed current financial statement of the borrowing officer, which shall include, but not be limited to, all data customarily associated with a personal financial statement including any obligations for which the officer may be personally liable; and

(e) shall be made subject to the condition that it shall, at the option of the bank, become due and payable 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 described in subparagraphs (1), (2), and (3), of § 215.4(b), in an aggregate amount greater than the amount of credit of the same category that could be extended him by the bank of which he is an officer.

³ Prior approval by the board of directors of an extension of credit made under § 215.4(b) shall be regarded as compliance with this requirement.

SECTION 215.6—REPORTS BY EXECUTIVE OFFICERS OF THEIR INDEBTEDNESS TO OTHER BANKS

Any executive officer of a member bank who becomes indebted to any other bank or banks on or after July 3, 1967, on account of extensions of credit of any one of the three categories respectively described in subparagraphs (1), (2), and (3) of § 215.4 (b), in an aggregate amount greater than the amount of credit of the same category that could lawfully be extended to him by the bank of which he is an executive officer, shall within 10 days make a written report to the board of directors of the member bank, identifying the lender and stating the date and amount of each such extension of credit, the security therefor, if any, and the purposes for which the proceeds have been or are to be used.

SECTION 215.7—REPORTS OF MEMBER BANKS TO FEDERAL SUPERVISORS

Each member bank shall include with (but not as part of) each report of condition and copy thereof filed pursuant to section 7(a)(3) of the Federal Deposit Insurance Act (12 U.S.C. 1817(a)(3)) a report of all loans under authority of this Part made by the bank since the date of its previous report of condition.

APPENDIX

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

Sec. 22 * * *

(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 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.