

FEDERAL RESERVE BANK
OF NEW YORK

ATCR No. 7922
July 23, 1976

REGULATION U

Revised F.R. Form U-1

To All Banks, and Others Concerned,
in the Second Federal Reserve District:

The Board of Governors of the Federal Reserve System has adopted a revised Federal Reserve Form U-1 entitled, "Statement of Purpose of a Stock-Secured Extension of Credit by a Bank," effective September 1, 1976. In adopting the new form, the Board of Governors submitted the following statement for publication in the *Federal Register*:

Pursuant to the authority of Section 7 of the Securities Exchange Act of 1934 (15 U.S.C. 78g), the Board of Governors has adopted a revised Federal Reserve Form U-1, "Statement of Purpose of a Stock-Secured Extension of Credit by a Bank," effective September 1, 1976.¹ This form is for use by banks in fulfilling certain requirements of Part 221 of Title 12 (Regulation U).

On February 7, 1968 the Board published a notice in the Federal Register (33 F. R. 2702) announcing, *inter alia*, that, effective March 11, 1968, Section 221.3(a) of Regulation U is amended to add a requirement that a bank shall obtain and keep for a prescribed period in connection with any stock-secured loan, on a form prescribed by the Board, a statement relating to the purpose of the loan by (i) the customer and (ii) the officer extending the credit. The Board commented that the changes in Section 221.3(a) of Regulation U were designed to make uniform the evidentiary requirements of such section.

Pursuant to and simultaneously with the notice of amendment to Section 221.3(a), the Board published in the Federal Register on February 7, 1968 (33 F. R. 2721), a notice of adoption, effective March 11, 1968, of, *inter alia*, Federal Reserve Form U-1, "Statement of Purpose of the Proceeds of a Stock-Secured Extension of Credit by a Bank," for use by banks in implementing and fulfilling the requirements of that Section.

In 1969, the Board adopted an amendment to Section 221.3(a), effective July 8, 1969, to reduce the time required for retaining Federal Reserve Form U-1 (34 F. R. 9203, June 11, 1969) and adopted a revised Form U-1 to reflect such change (34 F. R. 12330).

Since the last revision of Federal Reserve Form U-1 in 1969, substantial experience has been gained by banks, law enforcement agencies and System staff in the use of the form. Such experience leads to the conclusion that certain revisions of Form U-1 are necessary and appropriate, if it is to continue to serve as a useful evidentiary tool in maintaining compliance with provisions of Regulation U.

Generally, the revised Form U-1 will embody the following changes:

- (1) The addition of caveats and definitional aids to prospective borrowers respecting their potential criminal liability under various statutes and the provisions of the Board's Regulation X. The purpose of Regulation X, which was adopted by the Board on November 1, 1971, is to prevent infusion into United States securities markets of unregulated credit obtained in circumvention of the provisions of the Board's margin regulations, or by borrowers falsely certifying the purpose of a loan, or otherwise willfully and intentionally evading the provisions of those regulations.

¹ A copy of the Federal Reserve Form U-1 is filed as a part of the original document. Copies are available on request to the Board of Governors of the Federal Reserve System or any Federal Reserve Bank.

(Over)

- (2) A revision of the format to provide increased assistance to law enforcement agencies and bank examiners by requiring, *inter alia*, a borrower to specifically state whether or not a proposed stock-secured extension of credit is for the purpose of purchasing or carrying margin stock.
- (3) Inclusion of a requirement for affirmative representation by borrowers respecting the integrity of the collateral offered as security for an extension of credit, and a requirement that a duly authorized officer of the lending bank shall undertake, in addition to other required procedures, an examination of the physical aspects of the securities offered as collateral and perform such validation procedures with respect thereto as are mandated by bank policy and governmental regulations.

Because the revisions to Form U-1 are designed to make uniform evidentiary requirements pursuant to Section 221.3(a) and are procedural in nature the Board concluded that the notice and public procedure contemplated by Section 553 of Title 5, United States Code, was unnecessary with respect to such changes.

Enclosed is a copy of the revised Form U-1, which should be reproduced as needed. A limited number of additional copies of the form are available upon request from our Securities Regulations Division. Any questions regarding the form may be directed to that Division.

Paul A. Volcker,
President.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
STATEMENT OF PURPOSE OF A STOCK-SECURED EXTENSION OF CREDIT BY

(Name of Bank)

(FEDERAL RESERVE FORM U-1)

A FALSE OR DISHONEST STATEMENT ON THIS FORM MAY BE PUNISHABLE BY FINE OR IMPRISONMENT (U.S. CODE, TITLE 15, SECTION 78ff AND TITLE 18, SECTIONS 1001, 1005 AND 1014). A BORROWER WHO FALSELY CERTIFIES THE PURPOSE OF A CREDIT ON THIS FORM OR OTHERWISE WILLFULLY OR INTENTIONALLY EVADES THE PROVISIONS OF REGULATION U WILL ALSO VIOLATE FEDERAL RESERVE REGULATION X, "RULES GOVERNING BORROWERS WHO OBTAIN SECURITIES CREDIT".

Instructions:

- (1) Section 221.3(a) of Regulation U requires that a statement of purpose must be obtained in connection with any extension of credit by a bank secured directly or indirectly by any stock. The term "stock" is defined in section 221.3(l) and includes any security commonly known as a stock; any voting trust certificate and any security convertible, with or without consideration, into such security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right.
- (2) Part I (3) and (4) need be filled in only if the purpose of the credit described in Part I (1) is other than to purchase or carry margin stock. The term "margin stock" is defined in section 221.3(v) and generally means (1) stocks that are registered on a national securities exchange and stocks that are on the Federal Reserve Board's List of OTC Margin Stocks, (2) debt securities (bonds) that are convertible into such stocks and (3) shares of most mutual funds.
- (3) Part II "Date and source of valuation" need be filled in only if such source is other than regularly published information in a journal of general circulation.
- (4) Part II, except for the certification by the officer of the bank, need not be completed in the case of a credit of \$5,000 or less which is not for the purpose of purchasing or carrying margin stock. However, in such cases, Part I must be completed.
- (5) Please print or type (if space is inadequate attach separate sheet).

PART I To be completed by borrower(s)

- (1) Is this credit in the amount of \$....., or any part thereof, for the purpose of purchasing or carrying margin stock? YES NO
If "no", describe the specific purpose.....
.....
.....
- (2) In addition to this credit, do you have any other outstanding credit that has been extended by this bank, or has this bank agreed to extend additional credit to you? ☐ ☐
- (3) Is any of the collateral listed in Part II to be delivered, or has any such collateral been delivered, from a bank, broker, dealer or person other than you? ☐ ☐
If "yes", from whom? Against payment to deliverer? ☐ ☐
- (4) Has any of the collateral listed in Part II been owned less than 30 days? ☐ ☐

I, the undersigned, has (have) read this form and any attachments thereto and hereby certifies and affirms that to the best of my (our) knowledge and belief the information contained therein is true, accurate and complete. Furthermore, to the best of my (our) knowledge, the securities listed as collateral in Part II are authentic, genuine, unaltered, and not stolen, forged or counterfeit.

SIGNED.....
(Borrower's signature) (Date)

.....
(Print or type name)

SIGNED.....
(Borrower's signature) (Date)

.....
(Print or type name)

THIS FORM SHOULD NOT BE SIGNED IN BLANK

PART II To be completed by bank

This form is in connection with note number.....dated.....

(1) Collateral consisting of stock, other than debt securities convertible into margin stock. The maximum loan value of such stock under the current Supplement to Regulation U is.....per cent of its current market value.

No. of shares	Issue	Market price per share	Date and source of valuation	Total market value per issue

(2) Collateral consisting of debt securities convertible into margin stock. The maximum loan value of such debt securities under the current Supplement to Regulation U is..... per cent of the current market value.

Principal amount	Issue	Market price	Date and source of valuation	Total market value per issue

(3) Other collateral.

Describe briefly	Market price	Source of valuation	Good faith loan value

The undersigned, a duly authorized officer of the bank, (i) is aware that this stock-secured credit may be subject to the credit restrictions of Regulation U, (ii) has read this form and any attachments thereto, (iii) has accepted the customer's statement in Part I in good faith as required by Regulation U*, (iv) has examined the physical aspects of the securities described above that directly secure the credit, performed such validation procedures as are required by bank policy and by government regulations promulgated under section 17(f) of the Securities Exchange Act of 1934, as amended, (v) has examined the written consent of the true owner to pledge or otherwise encumber the collateral described above, if the securities are not registered in the name of the borrower, and (vi) hereby certifies and affirms that to the best of the officer's knowledge and belief all the information contained herein is true, accurate and complete and that said securities are genuine and authentic and not stolen forged or counterfeit and that the face of the security has not been altered.

Date..... SIGNED.....
(Bank officer's signature)
.....
(Title) (Print or type name)

*To accept this statement in good faith, the officer of the bank (1) must be alert to the circumstances surrounding the credit and (2) if the officer has any information which would cause a prudent person not to accept the statement without inquiry, must have investigated and be satisfied that the statement is truthful. Among the facts which would require such investigation are receipt of the statement through the mail or from a third party.

**THIS FORM MUST BE RETAINED BY THE BANK FOR AT LEAST THREE YEARS
AFTER THE CREDIT IS EXTINGUISHED**