

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9396]
[November 8, 1982]

AMENDMENTS TO REGULATION O

Conforming the Regulation to the Depository Institutions Act of 1982

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

The following statement has been issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has announced amendments to its Regulation O — which deals with loans by member banks to its executive officers, directors and principal shareholders — to conform to provisions of the recently enacted Garn-St Germain Depository Institutions Act of 1982.

The amended regulation, in conformity to the new statute:

- Removes the dollar limit on the amount a member bank may lend to its executive officers for the education of their children and for home purchase, construction or improvement; and
- Reaffirms on a temporary basis:
 - The limit of \$10,000 that may be outstanding at any one time for loans by a member bank to executive officers for other purposes, and
 - The requirement for advance approval by a majority of the board of directors of the bank for loans amounting to \$25,000 or more in the aggregate made to the bank's executive officers, directors or principal shareholders and their related interests.

Enclosed is a copy of the text of the amendments, effective November 1, 1982. Questions thereon may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

Board of Governors of the Federal Reserve System

**LOANS TO EXECUTIVE OFFICERS, DIRECTORS, AND
PRINCIPAL SHAREHOLDERS OF MEMBER BANKS**

AMENDMENTS TO REGULATION O

(effective November 1, 1982)

FEDERAL RESERVE SYSTEM

12 CFR Part 215

[Docket No. R-0428]

**Regulation O; Loans to Executive
Officers, Directors, and Principal
Shareholders of Member Banks**

AGENCY: Board of Governors of the
Federal Reserve System.

ACTION: Final rule with clarification.

SUMMARY: The Board of Governors of the Federal Reserve System is amending its Regulation O (12 CFR Part 215), which governs loans by a member bank to its executive officers, directors and principal shareholders, to implement certain amendments to sections 22 (g) and (h) of the Federal Reserve Act (12 U.S.C. 375a and 375b), included in the Garn-St Germain Depository Institutions Act of 1982. The amendments to the Regulation relate to the limitations on loans by a member bank to its executive officers. In addition, the rule confirms the dollar amount above which the prior approval of the bank's board of directors is required for loans by a member bank to its executive officers, directors, and principal shareholders and their related interests.

EFFECTIVE DATE: November 1, 1982.

FOR FURTHER INFORMATION CONTACT: James V. Mattingly, Jr., Associate General Counsel (202/452-3430), or Jennifer J. Johnson, Senior Attorney (202/452-3584), Board of Governors of the Federal Reserve System.

SUPPLEMENTARY INFORMATION: Prior to enactment of the Garn-St Germain Depository Institutions Act of 1982 ("DIA"), section 22(g) of the Federal Reserve Act prescribed certain dollar limitations on loans by a member bank to its executive officers. These limits were \$60,000 for a home mortgage, \$20,000 for the education of the executive officer's children, and \$10,000 for all other purposes. Section 421(a) of the DIA eliminated the dollar limitations on home mortgage and education loans. Accordingly, the attached rule amends Regulation O to eliminate the \$60,000 and \$20,000 limits for such loans that are currently specified in the regulation.

Section 421(b) of the DIA eliminated the \$10,000 limitation on "other" loans and substituted therefor "an amount prescribed in a regulation of the member bank's appropriate Federal banking agency." The attached rule specifies that, until the Board adopts a new lending limit for loans by a State member bank to its executive officers under section 22(g) of the Federal Reserve Act, the \$10,000 limit currently found in section 215.5(c)(3) of Regulation O continues to be the limit for such loans by a State member bank to any of its executive officers.

Section 22(h)(2) of the Federal Reserve Act provides that no member bank shall make any loan to any executive officer, director or principal shareholder of the bank, or to any related interest of such a person, in an amount that, when aggregated with all other loans or extensions of credit of the bank to that person and person's related interests,

exceeds \$25,000 unless such loan or extension of credit is approved in advance by a majority of the bank's entire board of directors with the interested party abstaining from the vote. Section 422 of the DIA eliminates the \$25,000 amount in section 22(h)(2) and substitutes therefor "an amount prescribed in a regulation of the appropriate Federal banking agency." Accordingly, until the Board adopts a new dollar amount above which the prior board of director's approval for loans to executive officers, directors and principal shareholders and their related interests is required under section 22(h)(2) of the Federal Reserve Act, the current \$25,000 amount specified in section 215.4(b) of Regulation O continues in effect.

Pursuant to section 605(b) of the Regulatory Flexibility Act (Pub. L. 96-354; 5 U.S.C. 601 *et seq.*), the Board of Governors of the Federal Reserve System certifies that the amendment will not have a significant economic impact on a substantial number of small entities that would be subject to the regulation. The amendment would liberalize existing regulations and would not have any particular effect on small entities that would be subject thereto.

The provisions of section 553(b) of Title 5, United States Code, with respect to notice, public participation and deferred effective date, have not been followed because these amendments implement statutory changes. Moreover, because of the lack of a deferred effective date in sections 421 and 422 of the DIA, it is necessary for the Board to

For this Regulation to be complete, retain:

- 1) Regulation O pamphlet, amended effective December 31, 1979.
- 2) This slip sheet.

act immediately to reaffirm the continued effectiveness of the \$10,000 lending limit for State member bank loans to their executive officers and the \$25,000 prior board of directors' approval requirement currently specified in the Board's Regulation O. Without such action by the Board, every extension of credit by a State member bank to an executive officer, director or principal shareholder would require the prior approval of the board of directors of the bank and no State member bank could extend any credit to its executive officers for other than education or home mortgage purposes.

List of Subjects in 12 CFR Part 215

Banks, banking, Credit, Reporting and

recordkeeping requirements, Federal Reserve System.

PART 215—[AMENDED]

Accordingly, pursuant to its authority under sections 22(g) and 22(h) of the Federal Reserve Act (12 U.S.C. 375a and 375b), the Board of Governors amends Regulation O (12 CFR Part 215) by revising § 215.5(c) to read as follows:

§ 215.5 Additional restrictions on loans to executive officers.

(c) A member bank is authorized to extend credit to any executive officer of the bank:

(1) In any amount to finance the education of the executive officer's children;

(2) In any amount to finance the purchase, construction, maintenance, or improvement of a residence of the executive officer, if the extension of credit is secured by a first lien on the residence and the residence is owned (or expected to be owned after the extension of credit) by the executive officer; and

(3) In an aggregate amount not to exceed \$10,000 outstanding at any one time for a purpose not otherwise specifically authorized under this paragraph.

Board of Governors of the Federal Reserve System, October 26, 1982.

William W. Wiles,
Secretary of the Board.

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