

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9501]
[May 26, 1983]

REGULATION O
Proposed Rules on Loans to Insiders

*To All State Member Banks
in the Second Federal Reserve District:*

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

The Federal Reserve Board has proposed for public comment revisions of its rules regarding loans by state member banks to certain insiders, to implement recent legislative changes.

The Board asked for comment by June 20, 1983.

The Garn-St Germain Depository Institutions Act of 1982 amended Section 22 of the Federal Reserve Act, dealing with member bank credit to bank insiders, including executive officers, directors, principal shareholders and their related interests.

Before passage of the Garn-St Germain Act, the Federal Reserve Act and the Board's Regulation O limited loans by a state member bank to executive officers to specific dollar amounts for a home mortgage, education of an executive officer's children and for all other purposes. The new legislation eliminated these specific dollar limitations, and the Board in October 1982 conformed Regulation O with respect to home mortgage and education loans.

To further implement the provisions of the new legislation, the Board proposed:

— With respect to loans for purposes other than home mortgages or education a state member bank would be permitted to lend to an executive officer up to \$25,000 or 2.5 percent of its capital, whichever is greater, with an overall limit of \$100,000.

— Prior approval would be required of a state member bank's board of directors for a loan to an insider (including related interests of the insider) that, taken together with other such loans, exceeds \$25,000 or 5 percent of the bank's capital.

— Lending to an insider could not exceed, in the aggregate, the limit of credit that may be extended to any one borrower (15 percent of the bank's capital and surplus for loans not fully collateralized and an additional 10 percent of the bank's capital and surplus for loans that are fully collateralized).

— Prior approval of the bank's directors would be required for all loans exceeding \$500,000 in the aggregate.

Other Federal bank supervisors are similarly conforming their rules on insider lending to the new legislation.

The text of the Board's proposal will be published in the *Federal Register*; in addition, copies may be obtained from our Circulars Division (Tel. No. 212-791-5216). Comments thereon should be submitted by June 20, 1983, and may be sent to our Regulations Division.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

[12 C.F.R. Part 215]

Regulation O

[Docket Number R-0469]

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

Proposed Rule

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed Rule.

SUMMARY: The Board of Governors of the Federal Reserve System proposes to amend Regulation O (12 C.F.R. Part 215), which governs loans by a member bank to certain insiders, to implement certain amendments to 12 U.S.C. § 84, and sections 22(g) and 22(h) of the Federal Reserve Act (12 U.S.C. §§ 375a and 375b) that were included in Title IV of the Garn-St Germain Depository Institutions Act of 1982 (P. L. 97-320, 96 Stat. 1469). The amendments relate to the limitations on loans by a member bank to its executive officers, the aggregate dollar limitation on loans by a member bank to its insiders, and the dollar amount above which loans by a member bank to its insiders must be approved in advance by the board of directors of the member bank.

List of Subjects in 12 C.F.R. Part 215:

Banks, Banking; Credit, Reporting Requirements; Federal Reserve System.

DATE: Comments must be received by June 20, 1983.

FOR FURTHER INFORMATION CONTACT: Jennifer Johnson, Senior Counsel (202/452-3584), or Stephen Lovette, Supervisory Financial Analyst (202/452-3622), Board of Governors of the Federal Reserve System.

SUPPLEMENTARY INFORMATION: Prior to the enactment of the Garn-St Germain Depository Institutions Act of 1982 (P. L. 97-320, 96 Stat. 1469) (Garn Act), section 22(g) of the Federal Reserve Act prescribed the following limitations on loans by a member bank to its executive officers: \$60,000 for a home mortgage; \$20,000 to finance the education of the officer's children; and \$10,000 for all other purposes. Section 421(a) of the Garn Act eliminated the specific dollar limitation on home mortgage and educational loans and on October 28, 1982, the Board amended Regulation O to eliminate the limitations on such loans.

Section 421(b) of the Garn Act eliminated the dollar limitation for "other" loans and now provides that the member bank's appropriate federal regulatory agency shall prescribe a limitation for such loans. The proposed rule provides that, for other than home mortgage or educational purposes, a member bank may lend to any of its executive officers up to \$25,000 or 2.5 per cent of its capital, whichever amount is greater. However, at no time may the bank's outstanding loans to any executive officer exceed \$100,000.

Also prior to the enactment of the Garn Act, section 22(h)(2) of the Federal Reserve Act provided that no member bank shall lend to any executive officer, director or principal shareholder or to any related interest of such person if the amount of the loan, when aggregated with all other loans to such executive officer, director or principal shareholder, or

to any related interest of such person exceeds \$25,000, unless such loan 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 Garn Act eliminated the specific dollar limitation in section 22(h)(2) and now provides that the member bank's appropriate federal regulatory agency shall prescribe the amount above which the prior approval of the bank's board of directors is required.

The proposed rule provides that a member bank must obtain the prior approval of its board of directors for a loan to an executive officer, director or principal shareholder or to any related interest of such person if the amount of such loan, when aggregated with all other loans to such person or to any related interest of such person, exceeds \$25,000 or 5 per cent of the member bank's capital, whichever is higher. All loans that exceed \$500,000 in the aggregate require prior approval of the bank's board of directors.

Section 22 h(1) of the Federal Reserve Act provides that no member bank shall make any loan to any of its executive officers, principal shareholders or to any related interest of such persons in an amount that, when aggregated with all other loans made to such person or to any related interest of such person, exceeds the limit in section 5200 of the Revised Statutes (12 U.S.C. § 84) on loans to a single borrower by national banks. Section 401 of the Garn Act increased the limit in section 5200 of the Revised Statutes, effective April 15, 1983, and the proposed rule amends the definition of "lending limit" in Regulation O accordingly.

To aid the Board's consideration of this matter, interested persons are invited to submit relevant data, views or comments. Any such materials

should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received by June 20, 1983, and should include the docket number R-0469. Such material will be made available for inspection and copying upon request, except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 C.F.R. § 261.6(a)).

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

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 proposes to amend Regulation O (12 C.F.R. Part 215) as follows:

1. By revising section 215.2(f) to read as follows:

215.2 DEFINITIONS

* * * * *

(f) Lending limit. This section is amended by deleting the second sentence and replacing it with the following: This amount is 15 per cent of the bank's unimpaired capital and unimpaired surplus in the case of loans that are not fully secured by readily marketable collateral having a market value at least equal to the amount of the loan, and an additional 10 per cent of the bank's unimpaired capital and unimpaired surplus in the case of loans that are fully secured by readily marketable collateral having a market value, as determined by reliable and continuously available price quotations, at least equal to the amount of the loan.

2. By revising section 215.4(b)(1) to read as follows:

215.4 GENERAL PROHIBITIONS

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(b) Prior Approval. (1) No member bank may extend credit or grant a line of credit to any of its executive officers, directors, or principal shareholders or to any related interest of that person in an amount that, when aggregated with the amount of all other extensions of credit to that person and to all related interests of that person, exceeds \$25,000 or 5 per cent of the member bank's capital, whichever is higher, unless (i) the extension of credit or line of credit has been approved in advance by a majority of the entire board of directors of that bank, and (ii) the interested party has abstained from participating directly or indirectly in the voting. In no event may a member bank extend credit to any of its executive officers, directors or principal shareholders or to any related interest of such a person in an amount that, when aggregated with all other extensions of credit to such person and all related interests of that person, exceeds \$500,000, except upon compliance with the requirements in subparagraphs (i) and (ii) of this paragraph.

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3. By revising section 215.4(c)(3) to read as follows:

215.5 ADDITIONAL RESTRICTIONS
ON LOANS TO EXECUTIVE OFFICERS
OF MEMBER BANKS

* * * * *

(c) * * *

(3) for any other purpose not specified in section 215.5(c)(1) and (2), if the aggregate amount of loans to that officer under this paragraph does not exceed at any one time 2.5 per cent of the bank's capital or \$25,000, whichever is greater, but in no event more than \$100,000.

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Board of Governors of the Federal Reserve System,
May 17, 1983.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board