

At- Cir. No. 10354

June 29, 1990

To the Addressee:

Enclosed -- for those who maintain sets of the Board of Governors' regulations -- are the following documents:

1. The Official Staff Commentary on Regulation B, "Equal Credit Opportunity," as amended effective April 1, 1990. (This pamphlet supersedes the previous revision of the Commentary and all subsequent amendments thereto.)

2. Pamphlet entitled "Securities Credit Transactions" containing (a) Regulation G, "Securities Credit by Persons Other Than Banks, Brokers, or Dealers," as amended effective July 22, 1985; (b) Regulation T, "Credit by Brokers and Dealers," as amended effective April 30, 1990; (c) Regulation U, "Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks," as amended effective September 23, 1987; and Regulation X, "Borrowers of Securities Credit," as revised effective January 23, 1984. (This pamphlet supersedes the previous revisions of Regulations G, T, U, and X and all subsequent amendments thereto.)

Circulars Division
FEDERAL RESERVE BANK OF NEW YORK

At-Ord. No. 10354

Official Staff Commentary on Regulation B Equal Credit Opportunity

As amended effective April 1, 1990



Any inquiry relating to Regulation B should be addressed to the Federal Reserve Bank of the Federal Reserve District in which the inquiry arises.

May 1990

Contents

	<i>Page</i>		<i>Page</i>
Introduction	1	Section 202.8—Special-purpose credit programs	12
Section 202.1—Authority, scope, and purpose	1	Section 202.9—Notifications	13
Section 202.2—Definitions	2	Section 202.10—Furnishing of credit information	16
Section 202.3—Limited exceptions for certain classes of transactions	4	Section 202.11—Relation to state law ...	16
Section 202.4—General rule prohibiting discrimination	5	Section 202.12—Record retention	16
Section 202.5—Rules concerning taking of applications	5	Section 202.13—Information for monitoring purposes	17
Section 202.6—Rules concerning evaluation of applications	6	Section 202.14—Enforcement, penalties, and liabilities	18
Section 202.7—Rules concerning extensions of credit	9	Appendix B—Model application forms ..	18

Official Staff Commentary on Regulation B

As amended effective April 1, 1990

Following is an official staff interpretation of Regulation B issued under authority delegated by the Federal Reserve Board to officials in the Division of Consumer and Community Affairs. References are to sections of the regulation or the Equal Credit Opportunity Act (15 USC 1601 et seq.).

INTRODUCTION

1. *Official status.* Section 706(e) of the Equal Credit Opportunity Act protects a creditor from civil liability for any act done or omitted in good faith in conformity with an interpretation issued by a duly authorized official of the Federal Reserve Board. This commentary is the means by which the Division of Consumer and Community Affairs of the Federal Reserve Board issues official staff interpretations of Regulation B. Good faith compliance with this commentary affords a creditor protection under section 706(e) of the act.

2. *Issuance of interpretations.* Under appendix D to the regulation, any person may request an official staff interpretation. Interpretations will be issued at the discretion of designated officials and incorporated in this commentary following publication for comment in the *Federal Register*. Except in unusual circumstances, official staff interpretations will be issued only by means of this commentary.

3. *Status of previous interpretations.* Interpretations of Regulation B previously issued by the Federal Reserve Board and its staff have been incorporated into this commentary as appropriate. All other previous Board and staff interpretations, official and unofficial, are superseded by this commentary.

4. *Footnotes.* Footnotes in the regulation have the same legal effect as the text of the regulation, whether they are explanatory or illustrative in nature.

5. *Comment designations.* The comments are

designated with as much specificity as possible according to the particular regulatory provision addressed. Each comment in the commentary is identified by a number and the regulatory section or paragraph that it interprets. For example, comments to section 202.2(c) are further divided by subparagraph, such as comment 2(c)(1)(ii)-1 and comment 2(c)(2)(ii)-1.

SECTION 202.1—Authority, Scope, and Purpose

1(a) Authority and Scope

1. *Scope.* The Equal Credit Opportunity Act and Regulation B apply to all credit—commercial as well as personal—without regard to the nature or type of the credit or the creditor. If a transaction provides for the deferral of the payment of a debt, it is credit covered by Regulation B even though it may not be a credit transaction covered by Regulation Z (Truth in Lending). Further, the definition of creditor is not restricted to the party or person to whom the obligation is initially payable, as is the case under Regulation Z. Moreover, the act and regulation apply to all methods of credit evaluation, whether performed judgmentally or by use of a credit scoring system.

2. *Foreign applicability.* Regulation B generally does not apply to lending activities that occur outside the United States. The regulation does apply to lending activities that take place within the United States (as well as the Commonwealth of Puerto Rico and any territory or possession of the United States), whether or not the applicant is a citizen.

3. *Board.* The term “Board,” as used in this regulation, means the Board of Governors of the Federal Reserve System.

SECTION 202.2—Definitions

2(c) Adverse Action

Paragraph 2(c)(1)(ii)

1. *Move from service area.* If a credit card issuer terminates the open-end account of a customer because the customer has moved out of the card issuer's service area, the termination is "adverse action" for purposes of the regulation unless termination on this ground was explicitly provided for in the credit agreement between the parties. In cases where termination is adverse action, notification is required under section 202.9.

2. *Termination based on credit limit.* If a creditor terminates credit accounts that have low credit limits (for example, under \$400) but keeps open accounts with higher credit limits, the termination is adverse action and notification is required under section 202.9.

Paragraph 2(c)(2)(ii)

1. *Default—exercise of due-on-sale clause.* If a mortgagor sells or transfers mortgaged property without the consent of the mortgagee, and the mortgagee exercises its contractual right to accelerate the mortgage loan, the mortgagee may treat the mortgagor as being in default. An adverse-action notice need not be given to the mortgagor or the transferee. (See comment 2(e)-1 for treatment of a purchaser who requests to assume the loan.)

Paragraph 2(c)(2)(iii)

1. *Point-of-sale transactions.* Denial of credit at point of sale is not adverse action except under those circumstances specified in the regulation. For example, denial at point of sale is not adverse action in the following situations:

- A credit cardholder presents an expired card or a card that has been reported to the card issuer as lost or stolen.
- The amount of a transaction exceeds a cash advance or credit limit.
- The circumstances (such as excessive use of a credit card in a short period of time) suggest that fraud is involved.

- The authorization facilities are not functioning.
- Billing statements have been returned to the creditor for lack of a forwarding address.

Paragraph 2(c)(2)(v)

1. *Terms of credit versus type of credit offered.* When an applicant applies for credit and the creditor does not offer the credit terms requested by the applicant (for example, the interest rate, length of maturity, collateral, or amount of downpayment), a denial of the application for that reason is adverse action (unless the creditor makes a counteroffer that is accepted by the applicant) and the applicant is entitled to notification under section 202.9.

2(e) Applicant

1. *Request to assume loan.* If a mortgagor sells or transfers the mortgaged property and the buyer makes an application to the creditor to assume the mortgage loan, the mortgagee must treat the buyer as an applicant unless its policy is not to permit assumptions.

2(f) Application

1. *General.* A creditor has the latitude under the regulation to establish its own application process and to decide the type and amount of information it will require from credit applicants.

2. *"Procedures established."* The term refers to the actual practices followed by a creditor for making credit decisions as well as its stated application procedures. For example, if a creditor's stated policy is to require all applications to be in writing on the creditor's application form, but the creditor also makes credit decisions based on oral requests, the creditor's established procedures are to accept both oral and written applications.

3. *When an inquiry becomes an application.* A creditor is encouraged to provide consumers with information about loan terms. However, if in giving information to the consumer the creditor also evaluates information about the applicant, decides to decline the request, and communicates this to the applicant, the credi-

tor has treated the inquiry as an application and must then comply with the notification requirements under section 202.9. Whether the inquiry becomes an application depends on how the creditor responds to the applicant, not on what the applicant says or asks.

4. *Examples of inquiries that are not applications.* The following examples illustrate situations in which only an inquiry has taken place:

- When a consumer calls to ask about loan terms and an employee explains the creditor's basic loan terms, such as interest rates, loan-to-value ratio, and debt-to-income ratio.
- When a consumer calls to ask about interest rates for car loans, and, in order to quote the appropriate rate, the loan officer asks for the make and sales price of the car and the amount of the downpayment, then gives the consumer the rate.
- When a consumer asks about terms for a loan to purchase a home and tells the loan officer her income and intended downpayment, but the loan officer only explains the creditor's loan-to-value ratio policy and other basic lending policies, without telling the consumer whether she qualifies for the loan.
- When a consumer calls to ask about terms for a loan to purchase vacant land and states his income and the sale price of the property to be financed, and asks whether he qualifies for a loan, and the employee responds by describing the general lending policies, explaining that he would need to look at all of the applicant's qualifications before making a decision, and offering to send an application form to the consumer.

5. *Completed application—diligence requirement.* The regulation defines a completed application in terms that give a creditor the latitude to establish its own information requirements. Nevertheless, the creditor must act with reasonable diligence to collect information needed to complete the application. For example, the creditor should request information from third parties, such as a credit report, promptly after receiving the application. If additional information is needed from

the applicant, such as an address or telephone number needed to verify employment, the creditor should contact the applicant promptly. (But see comment 9(a)(1)–3, which discusses the creditor's option to deny an application on the basis of incompleteness.)

2(g) Business Credit

1. *Definition.* The test for deciding whether a transaction qualifies as business credit is one of primary purpose. For example, an open-end credit account used for both personal and business purposes is not business credit unless the primary purpose of the account is business-related. A creditor may rely on an applicant's statement of the purpose for the credit requested.

2(j) Credit

1. *General.* Regulation B covers a wider range of credit transactions than Regulation Z (Truth in Lending). For purposes of Regulation B, a transaction is credit if there is a right to defer payment of a debt—regardless of whether the credit is for personal or commercial purposes, the number of installments required for repayment, or whether the transaction is subject to a finance charge.

2(l) Creditor

1. *Assignees.* The term "creditor" includes all persons participating in the credit decision. This may include an assignee or a potential purchaser of the obligation who influences the credit decision by indicating whether or not it will purchase the obligation if the transaction is consummated.

2. *Referrals to creditors.* For certain purposes, the term "creditor" includes persons such as real estate brokers who do not participate in credit decisions but who regularly refer applicants to creditors or who select or offer to select creditors to whom credit requests can be made. These persons must comply with section 202.4, the general rule prohibiting discrimination, and with section 202.5(a), on discouraging applications.

2(p) Empirically Derived and Other Credit Systems

1. *Purpose of definition.* The definition under section 202.2(p)(1)(i) through (iv) sets the criteria that a credit system must meet in order for the system to use age as a predictive factor. Credit systems that do not meet these criteria are judgmental systems and may consider age only for the purpose of determining a “pertinent element of creditworthiness.” (Both types of systems may favor an elderly applicant. See section 202.6(b)(2).)

2. *Periodic revalidation.* The regulation does not specify how often credit scoring systems must be revalidated. To meet the requirements for statistical soundness, the credit scoring system must be revalidated frequently enough to ensure that it continues to meet recognized professional statistical standards.

2(w) Open-End Credit

1. *Open-end real estate mortgages.* The term “open-end credit” does not include negotiated advances under an open-end real estate mortgage or a letter of credit.

2(z) Prohibited Basis

1. *Persons associated with applicant.* “Prohibited basis” as used in this regulation refers not only to characteristics—the race, color, religion, national origin, sex, marital status, or age—of an applicant (or officers of an applicant in the case of a corporation) but also to the characteristics of individuals with whom an applicant is affiliated or with whom the applicant associates. This means, for example, that under the general rule stated in section 202.4, a creditor may not discriminate against an applicant because of that person’s personal or business dealings with members of a certain religion, because of the national origin of any persons associated with the extension of credit (such as the tenants in the apartment complex being financed), or because of the race of other residents in the neighborhood where the property offered as collateral is located.

2. *National origin.* A creditor may not refuse to grant credit because an applicant comes from a particular country but may take the

applicant’s immigration status into account. A creditor may also take into account any applicable law, regulation, or executive order restricting dealings with citizens (or the government) of a particular country or imposing limitations regarding credit extended for their use.

3. *Public assistance program.* Any federal, state, or local governmental assistance program that provides a continuing, periodic income supplement, whether premised on entitlement or need, is “public assistance” for purposes of the regulation. The term includes (but is not limited to) Aid to Families with Dependent Children, food stamps, rent and mortgage supplement or assistance programs, Social Security and Supplemental Security Income, and unemployment compensation. Only physicians, hospitals, and others to whom the benefits are payable need consider Medicare and Medicaid as public assistance.

SECTION 202.3—Limited Exceptions for Certain Classes of Transactions

1. *Scope.* This section relieves burdens with regard to certain types of credit for which full application of the procedural requirements of the regulation is not needed. All classes of transactions remain subject to the general rule given in section 202.4, barring discrimination on a prohibited basis, and to any other provision not specifically excepted.

3(a) Public-Utilities Credit

1. *Definition.* This definition applies only to credit for the purchase of a utility service, such as electricity, gas, or telephone service. Credit provided or offered by a public utility for some other purpose—such as for financing the purchase of a gas dryer, telephone equipment, or other durable goods, or for insulation or other home improvements—is not excepted.

2. *Security deposits.* A utility company is a creditor when it supplies utility service and bills the user after the service has been provided. Thus, any credit term (such as a requirement for a security deposit) is subject to the regulation.

3. *Telephone companies.* A telephone company's credit transactions qualify for the exceptions provided in section 202.3(a)(2) only if the company is regulated by a government unit or files the charges for service, delayed payment, or any discount for prompt payment with a government unit.

3(c) Incidental Credit

1. *Examples.* If a service provider (such as a hospital, doctor, lawyer or retailer) allows the client or customer to defer the payment of a bill, this deferral of a debt is credit for purposes of the regulation, even though there is no finance charge and no agreement for payment in installments. Because of the exceptions provided by this section, however, these particular credit extensions are exempted from compliance with certain procedural requirements as specified in the regulation.

3(d) Government Credit

1. *Credit to governments.* The exception relates to credit extended to (not by) governmental entities. For example, credit extended to a local government by a creditor in the private sector is covered by this exception, but credit extended to consumers by a federal or state housing agency does not qualify for special treatment under this category.

SECTION 202.4—General Rule Prohibiting Discrimination

1. *Scope of section.* The general rule stated in section 202.4 covers all dealings, without exception, between an applicant and a creditor, whether or not addressed by other provisions of the regulation. Other sections of the regulation identify specific practices that the Board has decided are impermissible because they could result in credit discrimination on a basis prohibited by the act. The general rule covers, for example, application procedures, criteria used to evaluate creditworthiness, administration of accounts, and treatment of delinquent or slow accounts. Thus, whether or not specifically prohibited elsewhere in the regulation, a credit practice that treats applicants differently on a prohibited basis violates the law because it violates the general rule.

SECTION 202.5—Rules Concerning Taking of Applications

5(a) Discouraging Applications

1. *Potential applicants.* Generally, the regulation's protections apply only to persons who have requested or received an extension of credit. In keeping with the purpose of the act—to promote the availability of credit on a nondiscriminatory basis—section 202.5(a) covers acts or practices directed at potential applicants. Practices prohibited by this section include—

- a statement that the applicant should not bother to apply, after the applicant states that he is retired
- use of words, symbols, models or other forms of communication in advertising that express, imply, or suggest a discriminatory preference or a policy of exclusion in violation of the act
- use of interview scripts that discourage applications on a prohibited basis.

2. *Affirmative advertising.* A creditor may affirmatively solicit or encourage members of traditionally disadvantaged groups to apply for credit, especially groups that might not normally seek credit from that creditor.

5(b) General Rules Concerning Requests for Information

1. *Requests for information.* This section governs the types of information that a creditor may gather. Section 202.6 governs how information may be used.

Paragraph 5(b)(2)

1. *Local laws.* Information that a creditor is allowed to collect pursuant to a "state" statute or regulation includes information required by a local statute, regulation, or ordinance.

2. *Information required by Regulation C.* Regulation C generally requires creditors covered by the Home Mortgage Disclosure Act (HMDA) to collect and report information about the race or national origin and sex of applicants for home-improvement loans and home-purchase loans, including some types of

loans not covered by section 202.13. Certain creditors with assets under \$30 million, though covered by HMDA, are not required to collect and report these data; but they may do so at their option under HMDA, without violating the ECOA or Regulation B.

5(d) Other Limitations on Information Requests

Paragraph 5(d)(1)

1. *Indirect disclosure of prohibited information.* The fact that certain credit-related information may indirectly disclose marital status does not bar a creditor from seeking such information. For example, the creditor may ask about—

- the applicant's obligation to pay alimony, child support, or separate maintenance
- the source of income to be used as the basis for repaying the credit requested, which could disclose that it is the income of a spouse
- whether any obligation disclosed by the applicant has a co-obligor, which could disclose that the co-obligor is a spouse or former spouse
- the ownership of assets, which could disclose the interest of a spouse

Paragraph 5(d)(2)

1. *Disclosure about income.* The sample application forms in appendix B to the regulation illustrate how a creditor may inform an applicant of the right not to disclose alimony, child support, or separate maintenance income.

2. *General inquiry about source of income.* Since a general inquiry about the source of income may lead an applicant to disclose alimony, child support, or separate maintenance, a creditor may not make such an inquiry on an application form without prefacing the request with the disclosure required by this paragraph.

3. *Specific inquiry about sources of income.* A creditor need not give the disclosure if the inquiry about income is specific and worded in a way that is unlikely to lead the applicant to

disclose the fact that income is derived from alimony, child support, or separate maintenance payments. For example, an application form that asks about specific types of income such as salary, wages, or investment income need not include the disclosure.

5(e) Written Applications

1. *Requirement for written applications.* The requirement of written applications for certain types of dwelling-related loans is intended to assist the federal supervisory agencies in monitoring compliance with the ECOA and the Fair Housing Act. Model application forms are provided in appendix B to the regulation, although use of a printed form of any kind is not required. A creditor will satisfy the requirement by writing down the information that it normally considers in making a credit decision. The creditor may complete the application on behalf of an applicant and need not require the applicant to sign the application.

2. *Telephone applications.* A creditor that accepts applications by telephone for dwelling-related credit covered by section 202.13 can meet the requirements for written applications by writing down pertinent information that is provided by the applicant(s).

3. *Computerized entry.* Information entered directly into and retained by a computerized system qualifies as a written application under this paragraph. (See the commentary to section 202.13(b).)

SECTION 202.6—Rules Concerning Evaluation of Applications

6(a) General Rule Concerning Use of Information

1. *General.* When evaluating an application for credit, a creditor generally may consider any information obtained. However, a creditor may not consider in its evaluation of creditworthiness any information that is barred by section 202.5 from obtaining.

2. *Effects test.* The effects test is a judicial

doctrine that was developed in a series of employment cases decided by the Supreme Court under title VII of the Civil Rights Act of 1964 (42 USC 2000e et seq.). Congressional intent that this doctrine apply to the credit area is documented in the Senate Report that accompanied H.R. 6516, No. 94-589, pp. 4-5; and in the House Report that accompanied H.R. 6516, No. 94-210, p. 5. The act and regulation may prohibit a creditor practice that is discriminatory in effect because it has a disproportionately negative impact on a prohibited basis, even though the creditor has no intent to discriminate and the practice appears neutral on its face, unless the creditor practice meets a legitimate business need that cannot reasonably be achieved as well by means that are less disparate in their impact. For example, requiring that applicants have incomes in excess of a certain amount to qualify for an overdraft line of credit could mean that women and minority applicants will be rejected at a higher rate than men and nonminority applicants. If there is a demonstrable relationship between the income requirement and creditworthiness for the level of credit involved, however, use of the income standard would likely be permissible.

6(b) Specific Rules Concerning Use of Information

Paragraph 6(b)(1)

1. *Prohibited basis—marital status.* A creditor may not use marital status as a basis for determining the applicant's creditworthiness. However, a creditor may consider an applicant's marital status for the purpose of ascertaining the creditor's rights and remedies applicable to the particular extension of credit. For example, in a secured transaction involving real property, a creditor could take into account whether state law gives the applicant's spouse an interest in the property being offered as collateral.

2. *Prohibited basis—special-purpose credit.* In a special-purpose credit program, a creditor may consider a prohibited basis to determine whether the applicant possesses a characteristic needed for eligibility. (See section 202.8.)

Paragraph 6(b)(2)

1. *Favoring the elderly.* Any system of evaluating creditworthiness may favor a credit applicant who is age 62 or older. A credit program that offers more favorable credit terms to applicants age 62 or older is also permissible; a program that offers more favorable credit terms to applicants at an age lower than 62 is permissible only if it meets the special-purpose credit requirements of section 202.8.

2. *Consideration of age in a credit scoring system.* Age may be taken directly into account in a credit scoring system that is "demonstrably and statistically sound," as defined in section 202.2(p), with one limitation: an applicant who is 62 years old or older must be treated at least as favorably as anyone who is under age 62.

3. *Consideration of age in a judgmental system.* In a judgmental system, defined in section 202.2(t), a creditor may not take age directly into account in any aspect of the credit transaction. For example, the creditor may not reject an application or terminate an account because the applicant is 60 years old. But a creditor that uses a judgmental system may relate the applicant's age to other information about the applicant that the creditor considers in evaluating creditworthiness. For example:

- A creditor may consider the applicant's occupation and length of time to retirement to ascertain whether the applicant's income (including retirement income) will support the extension of credit to its maturity.
- A creditor may consider the adequacy of any security offered when the term of the credit extension exceeds the life expectancy of the applicant and the cost of realizing on the collateral could exceed the applicant's equity. (An elderly applicant might not qualify for a 5 percent down, 30-year mortgage loan but might qualify with a larger downpayment or a shorter loan maturity.)
- A creditor may consider the applicant's age to assess the significance of the length of the applicant's employment (a young applicant may have just entered the job

market) or length of time at an address (an elderly applicant may recently have retired and moved from a long-term residence).

As the examples above illustrate, the evaluation must be made in an individualized, case-by-case manner; and it is impermissible for a creditor, in deciding whether to extend credit or in setting the terms and conditions, to base its decision on age or information related exclusively to age. Age or age-related information may be considered only in evaluating other "pertinent elements of creditworthiness" that are drawn from the particular facts and circumstances concerning the applicant.

4. *Consideration of age in a combined system.* A creditor using a credit scoring system that qualifies as "empirically derived" under section 202.2(p) may consider other factors (such as a credit report or the applicant's cash flow) on a judgmental basis. Doing so will not negate the classification of the credit scoring component of the combined system as "demonstrably and statistically sound." While age could be used in the credit scoring portion, however, in the judgmental portion age may not be considered directly. It may be used only for the purpose of determining a "pertinent element of creditworthiness." (See comment 6(b)(2)–3.)

5. *Consideration of public assistance.* When considering income derived from a public assistance program, a creditor may take into account, for example—

- the length of time an applicant will likely remain eligible to receive such income
- whether the applicant will continue to qualify for benefits based on the status of the applicant's dependents (such as Aid to Families with Dependent Children or Social Security payments to a minor)
- whether the creditor can attach or garnish the income to assure payment of the debt in the event of default

Paragraph 6(b)(5)

1. *Consideration of an individual applicant.* A creditor must evaluate income derived from part-time employment, alimony, child support, separate maintenance, retirement bene-

fits, or public assistance (all referred to as "protected income") on an individual basis, not on the basis of aggregate statistics, and must assess its reliability or unreliability by analyzing the applicant's actual circumstances, not by analyzing statistical measures derived from a group.

2. *Payments consistently made.* In determining the likelihood of consistent payments of alimony, child support, or separate maintenance, a creditor may consider factors such as whether payments are received pursuant to a written agreement or court decree; the length of time that the payments have been received; whether the payments are regularly received by the applicant; the availability of court or other procedures to compel payment; and the creditworthiness of the payor, including the credit history of the payor when it is available to the creditor.

3. *Consideration of income.* A creditor need not consider income at all in evaluating creditworthiness. If a creditor does consider income, there are several acceptable methods, whether in a credit scoring or a judgmental system:

- A creditor may score or take into account the total sum of all income stated by the applicant without taking steps to evaluate the income.
- A creditor may evaluate each component of the applicant's income, and then score or take into account reliable income separately from income that is not reliable, or the creditor may disregard that portion of income that is not reliable before aggregating it with reliable income.
- A creditor that does not evaluate all income components for reliability must treat as reliable any component of protected income that is not evaluated.

In considering the separate components of an applicant's income, the creditor may not automatically discount or exclude from consideration any protected income. Any discounting or exclusion must be based on the applicant's actual circumstances.

4. *Part-time employment, sources of income.* A creditor may score or take into account the fact that an individual applicant has more

than one source of earned income—a full-time and a part-time job or two part-time jobs. A creditor may also score or treat earned income from a secondary source differently than earned income from a primary source. However, the creditor may not score or otherwise take into account the number of sources for protected income—for example, retirement income, Social Security, alimony. Nor may the creditor treat negatively the fact that an applicant's only earned income is derived from a part-time job.

Paragraph 6(b)(6)

1. *Types of credit references.* A creditor may restrict the types of credit history and credit references that it will consider, provided that the restrictions are applied to all credit applicants without regard to sex, marital status, or any other prohibited basis. However, on the applicant's request, a creditor must consider credit information not reported through a credit bureau when the information relates to the same types of credit references and history that the creditor would consider if reported through a credit bureau.

Paragraph 6(b)(7)

1. *National origin—immigration status.* The applicant's immigration status and ties to the community (such as employment and continued residence in the area) could have a bearing on a creditor's ability to obtain repayment.

Accordingly, the creditor may consider and differentiate, for example, between a noncitizen who is a long-time resident with permanent resident status and a noncitizen who is temporarily in this country on a student visa.

2. *National origin—citizenship.* Under the regulation, a denial of credit on the ground that an applicant is not a United States citizen is not per se discrimination based on national origin.

SECTION 202.7—Rules Concerning Extensions of Credit

7(a) Individual Accounts

1. *Open-end credit—authorized user.* A credi-

tor may not require a creditworthy applicant seeking an individual credit account to provide additional signatures. However, the creditor may condition the designation of an authorized user by the account holder on the authorized user's becoming contractually liable for the account, as long as the creditor does not differentiate on any prohibited basis in imposing this requirement.

2. *Open-end credit—choice of authorized user.* A creditor that permits an account holder to designate an authorized user may not restrict this designation on a prohibited basis. For example, if the creditor allows the designation of spouses as authorized users, the creditor may not refuse to accept a nonspouse as an authorized user.

3. *Overdraft authority on transaction accounts.* If a transaction account (such as a checking account or NOW account) includes an overdraft line of credit, the creditor may require that all persons authorized to draw on the transaction account assume liability for any overdraft.

7(b) Designation of Name

1. *Single name on account.* A creditor may require that joint applicants on an account designate a single name for purposes of administering the account and that a single name be embossed on any credit card(s) issued on the account. But the creditor may not require that the name be the husband's name. (See section 202.10 for rules governing the furnishing of credit history on accounts held by spouses.)

7(c) Action Concerning Existing Open-end Accounts

Paragraph 7(c)(1)

1. *Termination coincidental with marital status change.* When an account holder's marital status changes, a creditor generally may not terminate the account unless it has evidence that the account holder is unable or unwilling to repay. But the creditor may terminate an account on which both spouses are jointly liable, even if the action coincides with

a change in marital status, when one or both spouses—

- repudiate responsibility for future charges on the joint account
- request separate accounts in their own names
- request that the joint account be closed

2. *Updating information.* A creditor may periodically request updated information from applicants but may not use events related to a prohibited basis—such as an applicant's retirement, reaching a particular age, or change in name or marital status—to trigger such a request.

Paragraph 7(c)(2)

1. *Procedure pending reapplication.* A creditor may require a reapplication from a contractually liable party, even when there is no evidence of unwillingness or inability to repay, if (1) the credit was based on the qualifications of a person who is no longer available to support the credit and (2) the creditor has information indicating that the account holder's income by itself may be insufficient to support the credit. While a reapplication is pending, the creditor must allow the account holder full access to the account under the existing contract terms. The creditor may specify a reasonable time period within which the account holder must submit the required information.

7(d) Signature of Spouse or Other Person

1. *Qualified applicant.* The signature rules ensure that qualified applicants are able to obtain credit in their own names. Thus, when an applicant requests individual credit, a creditor generally may not require the signature of another person unless the creditor has first determined that the applicant alone does not qualify for the credit requested.

2. *Unqualified applicant.* When an applicant applies for individual credit but does not alone meet a creditor's standards, the creditor may require a cosigner, guarantor or the like—but cannot require that it be the spouse. (See 10

commentary to section 202.7(d)(5) and (6).)

Paragraph 7(d)(1)

1. *Joint applicant.* The term "joint applicant" refers to someone who applies contemporaneously with the applicant for shared or joint credit. It does not refer to someone whose signature is required by the creditor as a condition for granting the credit requested.

Paragraph 7(d)(2)

1. *Jointly owned property.* In determining the value of the applicant's interest in jointly owned property, a creditor may consider factors such as the form of ownership and the property's susceptibility to attachment, execution, severance, or partition and the cost of such action. If the applicant's interest in the property does not support the amount and terms of credit sought, the creditor may give the applicant some other option of providing additional support for the extension of credit, for example—

- requiring an additional party under section 202.7(d)(5)
- offering to grant the applicant's request on a secured credit basis
- asking for the signature of the co-owner of the property on an instrument that ensures access to the property but does not impose personal liability unless necessary under state law

2. *Need for signature—reasonable belief.* A creditor's reasonable belief as to what instruments need to be signed by a person other than the applicant should be supported by a thorough review of pertinent statutory and decisional law or an opinion of the state attorney general.

Paragraph 7(d)(3)

1. *Residency.* In assessing the creditworthiness of a person who applies for credit in a community property state, a creditor may assume that the applicant is a resident of the state unless the applicant indicates otherwise.

Paragraph 7(d)(4)

1. *Creation of enforceable lien.* Some state laws require that both spouses join in executing any instrument by which real property is encumbered. If an applicant offers such property as security for credit, a creditor may require the applicant's spouse to sign the instruments necessary to create a valid security interest in the property. The creditor may not require the spouse to sign the note evidencing the credit obligation if signing only the mortgage or other security agreement is sufficient to make the property available to satisfy the debt in the event of default. However, if under state law both spouses must sign the note to create an enforceable lien, the creditor may require them to do so.

2. *Need for signature—reasonable belief.* Generally, a signature to make the secured property available will only be needed on a security agreement. A creditor's reasonable belief that, to ensure access to the property, the spouse's signature is needed on an instrument that imposes personal liability should be supported by a thorough review of pertinent statutory and decisional law or an opinion of the state attorney general.

3. *Integrated instruments.* When a creditor uses an integrated instrument that combines the note and the security agreement, the spouse cannot be required to sign the integrated instrument if the signature is only needed to grant a security interest. But the spouse could be asked to sign an integrated instrument that makes clear—for example, by a legend placed next to the spouse's signature—that the spouse's signature is only to grant a security interest and that signing the instrument does not impose personal liability.

Paragraph 7(d)(5)

1. *Qualifications of additional parties.* In establishing guidelines for eligibility of guarantors, cosigners, or similar additional parties, a creditor may restrict the applicant's choice of additional parties but may not discriminate on the basis of sex, marital status or any other prohibited basis. For example, the creditor could require that the additional party live in the creditor's market area.

2. *Reliance on income of another person—individual credit.* An applicant who requests individual credit relying on the income of another person (including a spouse in a non-community property state) may be required to provide the signature of the other person to make the income available to pay the debt. In community property states, the signature of a spouse may be required if the applicant relies on the spouse's separate income. If the applicant relies on the spouse's future earnings that as a matter of state law cannot be characterized as community property until earned, the creditor may require the spouse's signature, but need not do so—even if it is the creditor's practice to require the signature when an applicant relies on the future earnings of a person other than a spouse. (See section 202.6(c) on consideration of state property laws.)

3. *Renewals.* If the borrower's creditworthiness is reevaluated when a credit obligation is renewed, the creditor must determine whether an additional party is still warranted and, if not, release the additional party.

Paragraph 7(d)(6)

1. *Guarantees.* A guarantee on an extension of credit is part of a credit transaction and therefore subject to the regulation. The rules in section 202.7(d) bar a creditor from requiring the signature of a *guarantor's spouse* just as they bar the creditor from requiring the signature of an *applicant's spouse*. For example, when all officers of a closely held corporation are required to personally guarantee a corporate loan, the creditor may not automatically require that spouses of married officers also sign. However, an evaluation of the financial circumstances of an officer may indicate that an additional signature is necessary, and this may be the signature of a spouse in appropriate circumstances.

7(e) Insurance

1. *Differences in terms.* Differences in the availability, rates, and other terms on which credit-related casualty insurance or credit life, health, accident, or disability insurance is offered or provided to an applicant does not violate Regulation B.

2. *Insurance information.* A creditor may obtain information about an applicant's age, sex, or marital status for insurance purposes. The information may only be used, however, for determining eligibility and premium rates for insurance, and not in making the credit decision.

SECTION 202.8—Special-Purpose Credit Programs

8(a) Standards for Programs

1. *Determining qualified programs.* The Board does not determine whether individual programs qualify for special-purpose credit status, or whether a particular program benefits an "economically disadvantaged class of persons." The agency or creditor administering or offering the loan program must make these decisions regarding the status of its program.

2. *Compliance with a program authorized by federal or state law.* A creditor does not violate Regulation B when it complies in good faith with a regulation promulgated by a government agency implementing a special-purpose credit program under section 202.8(a)(1). It is the agency's responsibility to promulgate a regulation that is consistent with federal and state law.

3. *Expressly authorized.* Credit programs authorized by federal or state law include programs offered pursuant to federal, state, or local statute, regulation or ordinance, or by judicial or administrative order.

4. *Creditor liability.* A refusal to grant credit to an applicant is not a violation of the act or regulation if the applicant does not meet the eligibility requirements under a special-purpose credit program.

8(b) Rules in Other Sections

1. *Applicability of rules.* A creditor that rejects an application because the applicant does not meet the eligibility requirements (common characteristic or financial need, for example) must nevertheless notify the applicant of action taken as required by section 202.9.

12

8(c) Special Rule Concerning Requests and Use of Information

1. *Request of prohibited information.* This section permits a creditor to request and consider certain information that would otherwise be prohibited by sections 202.5 and 202.6 to determine an applicant's eligibility for a particular program.

2. *Examples.* Examples of programs under which the creditor can ask for and consider information related to a prohibited basis are—

- energy conservation programs to assist the elderly, for which the creditor must consider the applicant's age
- programs under a Minority Enterprise Small Business Investment Corporation, for which a creditor must consider the applicant's minority status

8(d) Special Rule in the Case of Financial Need

1. *Request of prohibited information.* This section permits a creditor to request and consider certain information that would otherwise be prohibited by sections 202.5 and 202.6, and to require signatures that would otherwise be prohibited by section 202.7(d).

2. *Examples.* Examples of programs in which financial need is a criterion are—

- subsidized housing programs for low- to moderate-income households, for which a creditor may have to consider the applicant's receipt of alimony or child support, the spouse's or parents' income, etc.
- student loan programs based on the family's financial need, for which a creditor may have to consider the spouse's or parents' financial resources

3. *Student loans.* In a guaranteed student loan program, a creditor may obtain the signature of a parent as a guarantor when required by federal or state law or agency regulation, or when the student does not meet the creditor's standards of creditworthiness. (See sections 202.7(d)(1) and (5).) The creditor may not require an additional signature when a student has a work or credit history that satisfies the creditor's standards.

SECTION 202.9—Notifications

1. *Use of the term “adverse action.”* The regulation does not require that a creditor use the term “adverse action” in communicating to an applicant that a request for an extension of credit has not been approved. In notifying an applicant of adverse action as defined by section 202.2(c)(1), a creditor may use any words or phrases that describe the action taken on the application.

2. *Expressly withdrawn applications.* When an applicant expressly withdraws a credit application, the creditor is not required to comply with the notification requirements under section 202.9. (The creditor must, however, comply with the record-retention requirements of the regulation. See section 202.12(b)(3).)

3. *When notification occurs.* Notification occurs when a creditor delivers or mails a notice to the applicant’s last known address or, in the case of an oral notification, when the creditor communicates the credit decision to the applicant.

4. *Location of notice.* The notifications required under section 202.9 may appear on either or both sides of a form or letter.

9(a) Notification of Action Taken, ECOA Notice, and Statement of Specific Reasons*Paragraph 9(a)(1)*

1. *Timing of notice—when an application is complete.* Once a creditor has obtained all the information it normally considers in making a credit decision, the application is complete and the creditor has 30 days in which to notify the applicant of the credit decision. (See also comment 2(f)-5.)

2. *Notification of approval.* Notification of approval may be express or by implication. For example, the creditor will satisfy the notification requirement when it gives the applicant the credit card, money, property, or services requested.

3. *Incompletion application—denial for incompleteness.* When an application is incomplete regarding matters that the applicant can

complete and the creditor lacks sufficient data for a credit decision, the creditor may deny the application giving as the reason for denial that the application is incomplete. The creditor has the option, alternatively, of providing a notice of incompleteness under section 202.9(c).

4. *Incomplete application—denial for reasons other than incompleteness.* When an application is missing information but provides sufficient data for a credit decision, the creditor may evaluate the application and notify the applicant under this section as appropriate. If credit is denied, the applicant must be given the specific reasons for the credit denial (or notice of the right to receive the reasons); in this instance the incompleteness of the application cannot be given as the reason for the denial.

5. *Length of counteroffer.* Section 202.9(a)(1)(iv) does not require a creditor to hold a counteroffer open for 90 days or any other particular length of time.

6. *Counteroffer combined with adverse-action notice.* A creditor that gives the applicant a combined counteroffer and adverse-action notice that complies with section 202.9(a)(2) need not send a second adverse-action notice if the applicant does not accept the counteroffer. A sample of a combined notice is contained in form C-4 of appendix C to the regulation.

7. *Denial of a telephone application.* When an application is conveyed by means of telephone and adverse action is taken, the creditor must request the applicant’s name and address in order to provide written notification under this section. If the applicant declines to provide that information, then the creditor has no further notification responsibility.

Paragraph 9(a)(3)

1. *Coverage.* In determining the rules in this paragraph that apply to a given business-credit application, a creditor may rely on the applicant’s assertion about the revenue size of the business. (Applications to start a business are governed by the rules in section 202.9(a)(3)(i).) If an applicant applies for

credit as a sole proprietor, the revenues of the sole proprietorship will determine which rules in the paragraph govern the application. However, if an applicant applies for business-purpose credit as an individual, the rules in paragraph 9(a)(3)(i) apply unless the application is for trade or similar credit.

2. *Trade credit.* The term “trade credit” generally is limited to a financing arrangement that involves a buyer and a seller—such as a supplier who finances the sale of equipment, supplies, or inventory; it does not apply to an extension of credit by a bank or other financial institution for the financing of such items.

3. *Factoring.* Factoring refers to a purchase of accounts receivable and thus is not subject to the act or regulation. If there is a credit extension incident to the factoring arrangement, the notification rules in section 202.9(a)(3)(ii) apply, as do other relevant sections of the act and regulation.

4. *Manner of compliance.* In complying with the notice provisions of the act and regulation, creditors offering business credit may follow the rules governing consumer credit. Similarly, creditors may elect to treat all business credit the same (irrespective of revenue size) by providing notice in accordance with section 202.9(a)(3)(i).

5. *Timing of notification.* A creditor subject to section 202.9(a)(3)(ii)(A) is required to notify a business credit applicant, orally or in writing, of action taken on an application within a reasonable time of receiving a completed application. Notice provided in accordance with the timing requirements of section 202.9(a)(1) is deemed reasonable in all instances.

9(b) Form of ECOA Notice and Statement of Specific Reasons

Paragraph 9(b)(1)

1. *Substantially similar notice.* The ECOA notice sent with a notification of a credit denial or other adverse action will comply with the regulation if it is “substantially similar” to the notice contained in section 202.9(b)(1). For example, a creditor may add a reference

to the fact that the ECOA permits age to be considered in certain credit scoring systems, or add a reference to a similar state statute or regulation and to a state enforcement agency.

Paragraph 9(b)(2)

1. *Number of specific reasons.* A creditor must disclose the principal reasons for denying an application or taking other adverse action. The regulation does not mandate that a specific number of reasons be disclosed, but disclosure of more than four reasons is not likely to be helpful to the applicant.

2. *Source of specific reasons.* The specific reasons disclosed under section 202.9(a)(2) and (b)(2) must relate to and accurately describe the factors actually considered or scored by a creditor.

3. *Description of reasons.* A creditor need not describe how or why a factor adversely affected an applicant. For example, the notice may say “length of residence” rather than “too short a period of residence.”

4. *Credit scoring system.* If a creditor bases the denial or other adverse action on a credit scoring system, the reasons disclosed must relate only to those factors actually scored in the system. Moreover, no factor that was a principal reason for adverse action may be excluded from disclosure. The creditor must disclose the actual reasons for denial (for example, “age of automobile”) even if the relationship of that factor to predicting creditworthiness may not be clear to the applicant.

5. *Credit scoring—method for selecting reasons.* The regulation does not require that any one method be used for selecting reasons for a credit denial or other adverse action that is based on a credit scoring system. Various methods will meet the requirements of the regulation. One method is to identify the factors for which the applicant’s score fell furthest below the average score for each of those factors achieved by applicants whose total score was at or slightly above the minimum passing score. Another method is to identify the factors for which the applicant’s score fell furthest below the average score for each of those factors achieved by all applicants. These

average scores could be calculated during the development or use of the system. Any other method that produces results substantially similar to either of these methods is also acceptable under the regulation.

6. *Judgmental system.* If a creditor uses a judgmental system, the reasons for the denial or other adverse action must relate to those factors in the applicant's record actually reviewed by the person making the decision.

7. *Combined credit scoring and judgmental system.* If a creditor denies an application based on a credit evaluation system that employs both credit scoring and judgmental components, the reasons for the denial must come from the component of the system that the applicant failed. For example, if a creditor initially credit scores an application and denies the credit request as a result of that scoring, the reasons disclosed to the applicant must relate to the factors scored in the system. If the application passes the credit scoring stage but the creditor then denies the credit request based on a judgmental assessment of the applicant's record, the reasons disclosed must relate to the factors reviewed judgmentally, even if the factors were also considered in the credit scoring component.

8. *Automatic denial.* Some credit-decision methods contain features that call for automatic denial because of one or more negative factors in the applicant's record (such as the applicant's previous bad credit history with that creditor, the applicant's declaration of bankruptcy, or the fact that the applicant is a minor). When a creditor denies the credit request because of an automatic-denial factor, the creditor must disclose that specific factor.

9. *Combined ECOA-FCRA disclosures.* The ECOA requires disclosure of the principal reasons for denying or taking other adverse action on an application for an extension of credit. The Fair Credit Reporting Act requires a creditor to disclose when it has based its decision in whole or in part on information from a source other than the applicant or from its own files. Disclosing that a credit report was obtained and used to deny the application, as the FCRA requires, does not satisfy

the ECOA requirement to disclose specific reasons. For example, if the applicant's credit history reveals delinquent credit obligations and the application is denied for that reason, to satisfy section 202.9(b)(2) the creditor must disclose that the application was denied because of the applicant's delinquent credit obligations. To satisfy the FCRA requirement, the creditor must also disclose that a credit report was obtained and used to deny credit. Sample forms C-1 through C-5 of appendix C of the regulation provide for the two disclosures.

9(c) Incomplete Applications

Paragraph 9(c)(2)

1. *Reapplication.* If information requested by a creditor is submitted by an applicant after the expiration of the time period designated by the creditor, the creditor may require the applicant to make a new application.

Paragraph 9(c)(3)

1. *Oral inquiries for additional information.* If the applicant fails to provide the information in response to an oral request, a creditor must send a written notice to the applicant within the 30-day period specified in section 202.9(c)(1) and (c)(2). If the applicant does provide the information, the creditor shall take action on the application and notify the applicant in accordance with section 202.9(a).

9(g) Applications Submitted Through a Third Party

1. *Third parties.* The notification of adverse action may be given by one of the creditors to whom an application was submitted. Alternatively, the third party may be a noncreditor.

2. *Third-party notice—enforcement agency.* If a single adverse action notice is being provided to an applicant on behalf of several creditors and they are under the jurisdiction of different federal enforcement agencies, the notice need not name each agency; disclosure of any one of them will suffice.

3. *Third-party notice—liability.* When a no-

tice is to be provided through a third party, a creditor is not liable for an act or omission of the third party that constitutes a violation of the regulation if the creditor accurately and in a timely manner provided the third party with the information necessary for the notification and maintains reasonable procedures adapted to prevent such violations.

SECTION 202.10—Furnishing of Credit Information

1. *Scope.* The requirements of section 202.10 for designating and reporting credit information apply only to creditors that furnish credit information to credit bureaus or to other creditors. There is no requirement that a creditor furnish credit information on its accounts.

2. *Reporting on all accounts.* The requirements of section 202.10 apply only to accounts held or used by spouses. However, a creditor has the option to designate all joint accounts (or all accounts with an authorized user) to reflect the participation of both parties, whether or not the accounts are held by persons married to each other.

3. *Designating accounts.* In designating accounts and reporting credit information, a creditor need not distinguish between accounts on which the spouse is an authorized user and accounts on which the spouse is a contractually liable party.

4. *File and index systems.* The regulation does not require the creation or maintenance of separate files in the name of each participant on a joint or user account, or require any other particular system of recordkeeping or indexing. It requires only that a creditor be able to report information in the name of each spouse on accounts covered by section 202.10. Thus, if a creditor receives a credit inquiry about the wife, it should be able to locate her credit file without asking the husband's name.

10(a) Designation of Accounts

1. *New parties.* When new parties who are spouses undertake a legal obligation on an account, as in the case of a mortgage-loan assumption, the creditor should change the designation on the account to reflect the new

parties and should furnish subsequent credit information on the account in the new names.

2. *Request to change designation of account.* A request to change the manner in which information concerning an account is furnished does not alter the legal liability of either spouse upon the account and does not require a creditor to change the name in which the account is maintained.

SECTION 202.11—Relation to State Law

11(a) Inconsistent State Laws

1. *Preemption determination—New York.* Effective November 11, 1988, the Board has determined that the following provisions in the state law of New York are preempted by the federal law:

- Article 15, Section 296a(1)(b)—Unlawful discriminatory practices in relation to credit on the basis of race, creed, color, national origin, age, sex, marital status, or disability. This provision is preempted to the extent that it bars taking a prohibited basis into account when establishing eligibility for certain special-purpose credit programs.
- Article 15, Section 296a(1)(c)—Unlawful discriminatory practice to make any record or inquiry based on race, creed, color, national origin, age, sex, marital status, or disability. This provision is preempted to the extent that it bars a creditor from requesting and considering information regarding the particular characteristics (for example, race, national origin, or sex) required for eligibility for special-purpose credit programs.

SECTION 202.12—Record Retention

12(a) Retention of Prohibited Information

1. *Receipt of prohibited information.* Unless the creditor specifically requested such information, a creditor does not violate this section when it receives prohibited information from a consumer reporting agency.

2. *Use of retained information.* Although a creditor may keep in its files prohibited information as provided in section 202.12(a), the creditor may use the information in evaluating credit applications only if permitted to do so by section 202.6.

12(b) Preservation of Records

1. *Copies.* A copy of the original record includes carbon copies, photocopies, microfilm or microfiche copies, or copies produced by any other accurate retrieval system, such as documents stored and reproduced by computer. A creditor that uses a computerized or mechanized system need not keep a written copy of a document (for example, an adverse action notice) if it can regenerate all pertinent information in a timely manner for examination or other purposes.

2. *Computerized decisions.* A creditor that enters information items from a written application into a computerized or mechanized system and makes the credit decision mechanically, based only on the items of information entered into the system, may comply with section 202.12(b) by retaining the information actually entered. It is not required to store the complete written application, nor is it required to enter the remaining items of information into the system. If the transaction is subject to section 202.13, however, the creditor is required to enter and retain the data on personal characteristics in order to comply with the requirements of that section.

Paragraph 12(b)(3)

1. *Withdrawn and brokered applications.* In most cases, the 25-month retention period for applications runs from the date a notification is sent to the applicant granting or denying the credit requested. In certain transactions, a creditor is not obligated to provide a notice of the action taken. (See, for example, comment 9-2.) In such cases, the 25-month requirement runs from the date of application, as when—

- an application is withdrawn by the applicant
- an application is submitted to more than one creditor on behalf of the applicant,

and the application is approved by one of the other creditors

SECTION 202.13—Information for Monitoring Purposes

13(a) Information to Be Requested

1. *Natural person.* Section 202.13 applies only to applications from natural persons.

2. *Principal residence.* The requirements of section 202.13 apply only if an application relates to a dwelling that is or will be occupied by the applicant as the principal residence. A credit application related to a vacation home or a rental unit is not covered. In the case of a two- to four-unit dwelling, the application is covered if the applicant intends to occupy one of the units as a principal residence.

3. *Temporary financing.* An application for temporary financing to construct a dwelling is not subject to section 202.13. But an application for both a temporary loan to finance construction of a dwelling and a permanent mortgage loan to take effect upon the completion of construction is subject to section 202.13.

4. *New principal residence.* A person can have only one principal residence at a time. However, if a person buys or builds a new dwelling that will become that person's principal residence within a year or upon completion of construction, the new dwelling is considered the principal residence for purposes of section 202.13.

5. *Transactions not covered.* The information-collection requirements of this section apply to applications for credit primarily for the purchase or refinancing of a dwelling that is or will become the applicant's principal residence. Therefore, applications for credit secured by the applicant's principal residence but made primarily for a purpose other than the purchase or refinancing of the principal residence (such as loans for home improvement and debt consolidation) are not subject to the information-collection requirements. An application for an open-end home equity line of credit is not subject to this section unless it is readily apparent to the creditor when

the application is taken that the primary purpose of the line is for the purchase or refinancing of a principal dwelling.

6. *Refinancings.* A creditor who receives an application to change the terms and conditions of an existing extension of credit made by that creditor for the purchase of the applicant's dwelling may request the monitoring information again but is not required to do so if it was obtained in the earlier transaction.

7. *Data collection under Regulation C.* See comment 5(b)(2)–2.

13(b) Obtaining of Information

1. *Forms for collecting data.* A creditor may collect the information specified in section 202.13(a) either on an application form or on a separate form referring to the application.

2. *Written applications.* The regulation requires written applications for the types of credit covered by section 202.13. A creditor can satisfy this requirement by recording in writing or by means of computer the information that the applicant provides orally and that the creditor normally considers in a credit decision.

3. *Telephone, mail applications.* If an applicant does not apply in person for the credit requested, a creditor does not have to complete the monitoring information. For example:

- When a creditor accepts an application by telephone, it does not have to request the monitoring information.
- When a creditor accepts an application by mail, it does not have to make a special request to the applicant if the applicant fails to complete the monitoring information on the application form sent to the creditor.

If it is not evident on the face of the application that it was received by mail or telephone, the creditor should indicate on the form or other application record how the application was received.

4. *Applications through loan-shopping services.* When a creditor accepts an application through an unaffiliated loan-shopping service,

18

it does not have to request the monitoring information.

5. *Inadvertent notation.* If a creditor inadvertently obtains the monitoring information in a dwelling-related transaction not covered by section 202.13, the creditor may process and retain the application without violating the regulation.

13(c) Disclosure to Applicant(s)

1. *Procedures for providing disclosures.* The disclosures to an applicant regarding the monitoring information may be provided in writing. Appendix B contains a sample disclosure. A creditor may devise its own disclosure so long as it is substantially similar. The creditor need not orally request the applicant to provide the monitoring information if it is requested in writing.

13(d) Substitute Monitoring Program

1. *Substitute program.* An enforcement agency may adopt, under its established rulemaking or enforcement procedures, a program requiring creditors under its jurisdiction to collect information in addition to that required by this section.

SECTION 202.14—Enforcement, Penalties, and Liabilities

14(c) Failure of Compliance

1. *Inadvertent errors.* Inadvertent errors include, but are not limited to, clerical mistake, calculation error, computer malfunction, and printing error. An error of legal judgment is not an inadvertent error under the regulation.

2. *Correction of error.* For inadvertent errors that occur under sections 202.12 and 202.13, this section requires that they be corrected prospectively only.

APPENDIX B—Model Application Forms

1. *FHLMC/FNMA form—residential loan application.* The residential loan application form (FHLMC 65/FNMA 1003), including

supplemental form (FHLMC 65A/FNMA 1003A), prepared by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association and dated October 1986, complies with the requirements of this regulation in some transactions but not others because of the form's section "Information for Government Monitoring Purposes." Creditors that are governed by section 202.13(a) of the regulation (which limits collection to applications primarily for the purchase or refinancing of the applicant's principal residence) should delete, strike, or modify the data-collection section on the form when using it for transactions not covered by section 202.13(a) to ensure that they do not collect the information. Creditors that are subject to more extensive collection requirements by a substitute monitoring program under section 202.13(d) may use the form as issued, in compliance with that substitute program.

2. *FHLMC/FNMA form—home-improve-*

ment loan application. The home-improvement and energy loan application form (FHLMC 703/FNMA 1012), prepared by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association and dated October 1986, complies with the requirements of the regulation for some creditors but not others because of the form's section "Information for Government Monitoring Purposes." Creditors that are governed by section 202.13(a) of the regulation (which limits collection to applications primarily for the purchase or refinancing of the applicant's principal residence) should delete, strike, or modify the data-collection section on the form when using it for transactions not covered by section 202.13(a) to ensure that they do not collect the information. Creditors that are subject to more extensive collection requirements by a substitute monitoring program under section 202.13(d) may use the form as issued, in compliance with that substitute program.

At-Ord. No. 10354

Securities Credit Transactions

Regulation G

12 CFR 207; as amended effective July 22, 1985

Regulation T

12 CFR 220; as amended effective April 30, 1990

Regulation U

12 CFR 221; as amended effective September 23, 1987

Regulation X

12 CFR 224; as revised effective January 23, 1984



Any inquiry relating to Regulations G, U, and X should be addressed to the Federal Reserve Bank of the Federal Reserve District in which the inquiry arises. Any inquiry relating to Regulation T should be addressed to a national securities exchange or a national securities association of which the person making the inquiry is a member or the facilities of which are used for that person's transactions, or, if this is not practicable, the inquiry should be addressed to the Federal Reserve Bank of the District in which the inquiry arises.

The forms furnished with these regulations are reduced in size and are for information only. Copies of these forms for actual use and other forms required by the regulations can be obtained from any Federal Reserve Bank.

May 1990

Contents

	<i>Page</i>		<i>Page</i>
REGULATION G—SECURITIES CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS		(a) Requirements for inclusion on the list	5
Section 207.1—Authority, purpose, and scope	1	(b) Requirements for continued inclusion on the list	5
(a) Authority	1	(c) Removal from the list	6
(b) Purpose and scope	1	(d) Discretionary authority of Board	6
Section 207.2—Definitions	1	(e) Unlawful representations	6
Section 207.3—General requirements	2	Section 207.7—Supplement: Maximum loan value of stock and other collateral	6
(a) Registration; termination of registration	2	(a) Maximum loan value of a margin stock	6
(b) Limitation on extending purpose credit	2	(b) Maximum loan value of nonmargin stock and all other collateral	6
(c) Maintaining credit	3	(c) Maximum loan value of options	6
(d) Arranging credit	3	Form G-1	7
(e) Purpose statement	3	Form G-2	11
(f) Purpose statement for revolving credit or multiple-draw agreements	3	Form G-3	13
(g) Single-credit rule	3	Form G-4	15
(h) Mixed-collateral loans	3	REGULATION T—CREDIT BY BROKERS AND DEALERS	
(i) Withdrawals and substitutions	3	Section 220.1—Authority, purpose, and scope	19
(j) Exchange offers	4	(a) Authority and purpose	19
(k) Renewals and extensions of maturity	4	(b) Scope	19
(l) Transfers of credit	4	Section 220.2—Definitions	19
(m) Action for lender's protection	4	Section 220.3—General provisions	22
(n) Mistakes in good faith	4	(a) Records	22
(o) Annual report	4	(b) Separation of accounts	22
(p) Where to register and file applications and reports	4	(c) Maintenance of credit	22
(q) Lack of notice of NMS security designation	4	(d) Guarantee of accounts	22
Section 207.4—Credit to broker-dealers	4	(e) Receipt of funds or securities	22
(a) Emergency loans	4	(f) Exchange of securities	22
(b) Capital-contribution loans	4	(g) Valuing securities	22
Section 207.5—Employee stock option, purchase, and ownership plans	4	(h) Innocent mistakes	23
(a) Plan-lender; eligible plan	4	(i) Variable-annuity contracts issued by insurance companies	23
(b) Credit to exercise rights under or finance an eligible plan	5	Section 220.4—Margin account	23
(c) Credit to ESOPs	5	(a) Margin transactions	23
Section 207.6—Requirements for the list of OTC margin stocks	5	(b) Required margin	23
		(c) When additional margin is required	23
		(d) Liquidation in lieu of deposit	24
		(e) Withdrawals of cash or securities	24
		(f) Interest, service charges, etc.	24

	<i>Page</i>		<i>Page</i>
Section 220.5—Margin account		(a) Requirements for inclusion on the	
exceptions and special provisions	24	list of marginable OTC stocks . . .	32
(a) Unissued securities	24	(b) Requirements for continued	
(b) Short sales	24	inclusion on the list of marginable	
(c) Options	24	OTC stocks	32
(d) Accounts of partners	25	(c) Requirements for inclusion on the	
(e) Contribution to joint venture	25	list of foreign margin stocks	32
(f) Transfer of accounts	26	(d) Requirements for continued	
(g) Credit denominated in foreign		inclusion on the list of foreign	
currency	26	margin stocks	33
Section 220.6—Special memorandum		(e) Removal from the lists	33
account	26	(f) Discretionary authority of Board	33
Section 220.7—Arbitrage account	26	(g) Unlawful representations	33
Section 220.8—Cash account	26	Section 220.18—Supplement: Margin	
(a) Permissible transactions	26	requirements	33
(b) Time periods of payment;		(a) Margin security except for	
cancellation or liquidation	27	exempted security or a long	
(c) 90-day freeze	28	position in an option	33
(d) Extension of time periods,		(b) Exempted security, registered	
transfers	28	nonconvertible debt security or	
Section 220.9—Nonsecurities credit and		OTC margin bond	33
employee stock ownership account	28	(c) Short sale of nonexempted	
(a) Permissible transactions	28	security	33
(b) Nonpurpose credit	28	(d) Short sale of an exempted	
Section 220.10—Omnibus account	28	security	33
Section 220.11—Broker-dealer credit		(e) Nonmargin, nonexempted	
account	28	security or a long position in any	
(a) Permissible transactions	28	option	33
(b) Affiliated corporation	29	(f) Short put or short call on a	
Section 220.12—Market functions		security, certificate of deposit,	
account	29	securities index or foreign	
(a) Requirements	29	currency	33
(b) Specialists	29	Form T-1, T-2	35
(c) Underwritings and distributions	30	Form T-4	37
(d) OTC market makers and third-			
market makers	30	REGULATION U—CREDIT BY	
(e) Odd-lot dealers	30	BANKS FOR THE PURPOSE OF	
Section 220.13—Arranging for loans by		PURCHASING OR CARRYING	
others	30	MARGIN STOCKS	
Section 220.14—Clearance of securities	31	Section 221.1—Authority, purpose, and	
(a) Credit for clearance of securities	31	scope	39
(b) Deposit of securities with options		(a) Authority	39
clearing agency	31	(b) Purpose and scope	39
Section 220.15—Borrowing by creditors	31	Section 221.2—Definitions	39
(a) Restrictions on borrowing	31	Section 221.3—General requirements	41
(b) Agreements of nonmember banks	31	(a) Extending, maintaining, and	
Section 220.16—Borrowing and lending		arranging credit	41
securities	31	(b) Purpose statement	41
Section 220.17—Requirements for the			
list of marginable OTC stocks and the			
list of foreign margin stocks	32		

	<i>Page</i>		<i>Page</i>
(c) Purpose statement for revolving-credit or multiple-draw agreements	41	(d) Discretionary authority of Board	45
(d) Single-credit rule	41	(e) Unlawful representations	45
(e) Mixed-collateral loans	41	Section 221.8—Supplement: Maximum loan value of stock and other collateral	45
(f) Withdrawals and substitutions . .	42	(a) Maximum loan value of margin stock	45
(g) Exchange offers	42	(b) Maximum loan value of nonmargin stock and all other collateral	45
(h) Renewals and extensions of maturity	42	(c) Maximum loan value of options .	45
(i) Transfers of credit	42	Form U-1	46
(j) Action for bank's protection	42	REGULATION X—BORROWERS OF SECURITIES CREDIT	
(k) Mistakes in good faith	42	Section 224.1—Authority, purpose, and scope	49
(l) Lack of notice of NMS security designation	42	(a) Authority and purpose	49
Section 221.4—Agreements of nonmember banks	42	(b) Scope and exemptions	49
Section 221.5—Special-purpose loans to brokers and dealers	42	Section 224.2—Definitions	49
(a) Special-purpose loans	42	Section 224.3—Margin regulations to be applied by nonexempted borrowers . .	49
(b) Written notice	43	(a) Credit transactions outside the United States	49
(c) Types of special-purpose credit . .	43	(b) Credit transactions within the United States	50
Section 221.6—Exempted transactions . .	44	(c) Inadvertent noncompliance	50
Section 221.7—Requirements for the list of OTC margin stocks	44		
(a) Requirements for inclusion on the list	44		
(b) Requirements for continued inclusion on the list	45		
(c) Removal from the list	45		

Regulation G

Securities Credit by Persons Other Than Banks, Brokers, or Dealers

12 CFR 207, as amended effective July 22, 1985

SECTION 207.1—Authority, Purpose, and Scope

(a) *Authority.* Regulation G (this part*) is issued by the Board of Governors of the Federal Reserve System (the Board) pursuant to the Securities Exchange Act of 1934 (the act) (15 USC 78a et seq.).

(b) *Purpose and scope.* This part applies to persons other than banks, brokers or dealers, who extend or maintain credit secured directly or indirectly by margin stock and who are required to register with the Board under section 207.3(a) of this part. Credit extended by such persons is regulated by limiting the loan value of the collateral securing the credit, if the purpose of the credit is to buy or carry margin stock.

SECTION 207.2—Definitions

The terms used in this part have the meanings given them in section 3(a) of the act or as defined in this section.

(a) “Affiliate” means any person who, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with the lender.

(b) “Carrying” credit is credit that enables a customer to maintain, reduce, or retire indebtedness originally incurred to purchase a stock that is currently a margin stock.

(c) “Current market value” of—

(1) a security means: (i) if quotations are available, the closing sale price of the security on the preceding business day, as appearing in any regularly published reporting or quotation service; or

(ii) if there is no closing sale price, the lender may use any reasonable estimate of the market value of the security as of the close of business on the preceding business day; or

(iii) if the credit is used to finance the purchase of the security, the total cost of purchase, which may include any commissions charged.

(2) any other collateral means a value determined by any reasonable method.

(d) “Customer” includes any person or persons acting jointly, to or for whom a lender extends or maintains credit.

(e) “Good faith” with respect to—

(1) the loan value of collateral means that amount (not exceeding 100 percent of the current market value of the collateral) which a lender, exercising sound credit judgment, would lend without regard to the customer’s other assets held as collateral in connection with unrelated transactions;

(2) accepting a statement or notice from or on behalf of a customer means that the lender or its duly authorized representative is alert to the circumstances surrounding the credit, and if in possession of information that would cause a prudent person not to accept the notice or certification without inquiry, investigates and is satisfied that it is truthful.

(f) “Indirectly secured” (1) includes any arrangement with the customer under which—

(i) the customer’s right or ability to sell, pledge, or otherwise dispose of margin stock owned by the customer is in any way restricted while the credit remains outstanding; or

(ii) the exercise of such right is or may be cause for accelerating the maturity of the credit.

(2) does not include such an arrangement if—

(i) after applying the proceeds of the credit, not more than 25 percent of the value of the assets subject to the arrangement, as determined by any reasonable method, are margin securities;

(ii) it is a lending arrangement that permits accelerating the maturity of the credit as a result of a default or renegoti-

* Code of Federal Regulations, title 12, chapter II, part 207.

ation of another credit to the customer by another creditor that is not an affiliate of the lender;

(iii) the lender holds the margin stock only in the capacity of custodian, depository, or trustee, or under similar circumstances and, in good faith, has not relied upon the margin stock as collateral; or

(iv) if the lender, in good faith, has not relied upon the margin stock as collateral in extending or maintaining the credit.

(g) "In the ordinary course of business" means occurring or reasonably expected to occur in carrying out or furthering any business purpose, or in the case of an individual, in the course of any activity for profit or the management or preservation of property.

(h) "Lender" means any person subject to the registration requirements of this part.

(i) "Margin stock" means (1) any equity security registered or having unlisted trading privileges on a national securities exchange;

(2) any OTC margin stock;

(3) any OTC security designated as qualified for trading in the National Market System under a designation plan approved by the Securities and Exchange Commission (NMS security);

(4) any debt security convertible into a margin stock or carrying a warrant or right to subscribe to or purchase a margin stock;

(5) any warrant or right to subscribe to or purchase a margin stock; or

(6) any security issued by an investment company registered under section 8 of the Investment Company Act of 1940 (15 USC 80a-8), other than—

(i) a company licensed under the Small Business Investment Company Act of 1958, as amended (15 USC 661); or

(ii) a company which has at least 95 percent of its assets continuously invested in exempted securities (as defined in 15 USC 78c(a)(12)); or

(iii) a company which issues face-amount certificates as defined in 15 USC 80a-2(a)(15), but only with respect of such securities.

(j) "Maximum loan value" is the percentage of current market value assigned by the Board

under section 207.7 of this part to specified types of collateral. The maximum loan value of margin stock is stated as a percentage of current market value. All other collateral has good faith loan value except that puts, calls, and combinations thereof have no loan value.

(k) "OTC margin stock" means any equity security not traded on a national securities exchange that the Board has determined has the degree of national investor interest, the depth and breadth of market, the availability of information respecting the security and its issuer, and the character and permanence of the issuer to warrant being treated like an equity security traded on a national securities exchange. An OTC stock is not considered to be an "OTC margin stock" unless it appears on the Board's periodically published list of OTC margin stocks.

(l) "Purpose credit" is credit for the purpose, whether immediate, incidental, or ultimate, of buying or carrying a margin stock.

SECTION 207.3—General Requirements

(a) *Registration; termination of registration.*

(1) Every person who, in the ordinary course of business, extends or maintains credit secured, directly or indirectly, by any margin stock shall register on Federal Reserve Form FR G-1 (OMB No. 7100-0011) within 30 days after the end of any calendar quarter during which (i) the amount of credit extended equals \$200,000 or more, or (ii) the amount of credit outstanding at any time during that calendar quarter equals \$500,000 or more.

(2) A registered lender may apply to terminate its registration, by filing Federal Reserve Form FR G-2 (OMB No. 7100-0011), if the lender has not, during the preceding six calendar months, had more than \$200,000 of such credit outstanding. Registration shall be deemed terminated when the application is approved by the Board.

(b) *Limitation on extending purpose credit.* No lender, except a plan-lender, as defined in section 207.5(a)(1) of this part, shall extend any purpose credit, secured directly or indi-

rectly by margin stock in an amount that exceeds the maximum loan value of the collateral securing the credit, as set forth in section 207.7 of this part.

(c) *Maintaining credit.* A lender may continue to maintain any credit initially in compliance with this part, regardless of—

- (i) reduction in the customer's equity resulting from change in market prices;
- (ii) change in the maximum loan value prescribed by this part; or
- (iii) change in the status of the security (from nonmargin to margin) securing an existing purpose credit.

(d) *Arranging credit.* No lender may arrange for the extension or maintenance of any credit, except upon the same terms and conditions under which the lender itself may extend or maintain credit under this part except this limitation shall not apply with respect to the arranging by a lender for a bank to extend or maintain credit on margin stock or exempted securities.

(e) *Purpose statement.* Except for credit extended under section 207.5 of this part, whenever a lender extends credit secured directly or indirectly by any margin stock, the lender shall require its customer to execute Form FR G-3 (OMB No. 7100-0018), which shall be signed and accepted by a duly authorized representative of the lender acting in good faith.

(f) *Purpose statement for revolving credit or multiple-draw agreements.* (1) If a lender extends credit, secured directly or indirectly by any margin stock, under a revolving-credit or other multiple-draw agreement, Form FR G-3 can either be executed each time a disbursement is made under the agreement, or at the time the credit arrangement is originally established.

(2) If a purpose statement executed at the time the credit arrangement is initially made indicates that the purpose is to purchase or carry margin stock, the credit will be deemed in compliance with this part if the maximum loan value of the collateral at least equals the aggregate amount of funds actually disbursed. For any purpose credit disbursed under the agreement, the lender shall obtain and attach to the executed

Form FR G-3 a current list of collateral which adequately supports all credit extended under the agreement.

(g) *Single-credit rule.* (1) All purpose credit extended to a customer shall be treated as a single credit, and all the collateral securing such credit shall be considered in determining whether or not the credit complies with this part.

(2) A lender that has extended purpose credit secured by margin stock may not subsequently extend unsecured purpose credit to the same customer unless the combined credit does not exceed the maximum loan value of the margin stock securing the prior credit.

(3) If a lender extended unsecured purpose credit to a customer prior to the extension of purpose credit secured by margin securities, the credits shall be combined and treated as a single credit solely for the purposes of the withdrawal and substitution provision of paragraph (i) of this section.

(4) If a lender extends purpose credit secured by any margin stock and nonpurpose credit to the same customer, the lender shall treat the credits as two separate loans and may not rely upon the required collateral securing the purpose credit for the nonpurpose credit.

(h) *Mixed-collateral loans.* A purpose credit secured in part by margin stock, and in part by other collateral shall be treated as two separate loans, one secured by the margin stock and one by all other collateral. A lender may use a single credit agreement, if it maintains records identifying each portion of the credit and its collateral.

(i) *Withdrawals and substitutions.* (1) A lender may permit any withdrawal or substitution of cash or collateral by the customer if the withdrawal or substitution would not—

- (i) cause the credit to exceed the maximum loan value of the collateral; or
- (ii) increase the amount by which the credit exceeds the maximum loan value of the collateral.

(2) For purposes of this section, the maximum loan value of the collateral on the day

of the withdrawal or substitution shall be used.

(j) *Exchange offers.* To enable a customer to participate in a reorganization, recapitalization, or exchange offer that is made to holders of an issue of margin stock a lender may permit substitution of the securities received. A nonmargin nonexempted security acquired in exchange for a margin stock shall be treated as if it is margin stock for a period of 60 days following the exchange.

(k) *Renewals and extensions of maturity.* A renewal or extension of the maturity of a credit need not be considered a new extension of credit if the amount of the credit is increased only by the addition of interest, service charges, or taxes with respect to the credit.

(l) *Transfers of credit.* (1) A transfer of a credit between customers or lenders shall not be considered a new extension of credit if—

- (i) the original credit was in compliance with this part;
- (ii) the transfer is not made to evade this part;
- (iii) the amount of credit is not increased; and
- (iv) the collateral for the credit is not changed.

(2) Any transfer between customers at the same lender shall be accompanied by a statement by the transferor customer describing the circumstances giving rise to the transfer and shall be accepted and signed by a duly authorized representative of the lender acting in good faith. The lender shall keep such statement with its records of the transferee account.

(3) When a transfer is made between lenders, the transferee lender shall obtain a copy of the Form FR G-3 originally filed with the transferor lender and retain the copy with its records of the transferee account.

(m) *Action for lender's protection.* Nothing in this part shall require a lender to waive or forego any lien, or prevent a lender from taking any action it deems necessary for its protection.

(n) *Mistakes in good faith.* A mistake in good

faith in connection with the extension or maintenance of credit shall not be a violation of this part.

(o) *Annual report.* Every registered lender shall, within 30 days following June 30 of every year, file Form FR G-4 (OMB No. 7100-0011).

(p) *Where to register and file applications and reports.* Registration statements, applications to terminate registration, and annual reports shall be filed with the Federal Reserve Bank of the District in which the principal office of the lender is located.

(q) *Lack of notice of NMS security designation.* Failure to treat an NMS security as a margin stock in connection with an extension of credit shall not be deemed a violation of this part if the designation is made between quarterly publications of the Board's list of OTC margin stocks and the lender does not have actual notice of the designation.

SECTION 207.4—Credit to Broker-Dealers

No lender shall extend or maintain credit secured, directly or indirectly, by any margin stock to a creditor who is subject to part 220 of this chapter except in the following circumstances:

(a) *Emergency loans.* Credit extended in good faith reliance upon a certification from the customer that the credit is essential to meet emergency needs arising from exceptional circumstances. Any collateral for such credit shall have good faith loan value.

(b) *Capital-contribution loans.* Credit that the Board has exempted by order upon a finding that the exemption is necessary or appropriate in the public interest or for the protection of investors, provided the Securities Investor Protection Corporation certifies to the Board that the exemption is appropriate.

SECTION 207.5—Employee Stock Option, Purchase, and Ownership Plans

(a) *Plan-lender; eligible plan.* (1) Plan-lend-

er means any corporation, (including a wholly owned subsidiary, or a lender that is a thrift organization whose membership is limited to employees and former employees of the corporation, its subsidiaries, or affiliates) that extends or maintains credit to finance the acquisition of margin stock of the corporation, its subsidiaries, or affiliates under an eligible plan.

(2) *Eligible plan.* An eligible plan means any employee stock option, purchase, or ownership plan adopted by a corporation and approved by its stockholders that provides for the purchase of margin stock of the corporation, its subsidiaries, or affiliates.

(b) *Credit to exercise rights under or finance an eligible plan.* (1) If a plan-lender extends or maintains credit under an eligible plan, any margin security that directly or indirectly secures that credit shall have good faith loan value.

(2) Credit extended under this section shall be treated separately from credit extended under any other section of this part except sections 207.3(a) and 207.3(o) of this part.

(c) *Credit to ESOPs.* A lender may extend and maintain purpose credit without regard to the provisions of this part, except for sections 207.3(a) and 207.3(o), if such credit is extended to an employee stock ownership plan (ESOP) qualified under section 401 of the Internal Revenue Code, as amended (26 USC 401).

SECTION 207.6—Requirements for the List of OTC Margin Stocks

(a) *Requirements for inclusion on the list.* Except as provided in paragraph (d) of this section, an OTC margin stock shall meet the following requirements:

- (1) Four or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;
- (2) The minimum average bid price of

such stock, as determined by the Board, is at least \$5 per share;

(3) The stock is registered under section 12 of the act, is issued by an insurance company subject to section 12(g)(2)(G) of the act, is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 USC 80a-8), is an American Depositary Receipt (ADR) of a foreign issuer whose securities are registered under section 12 of the act, or is a stock of an issuer required to file reports under section 15(d) of the act;

(4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;

(5) The stock has been publicly traded for at least six months;

(6) The issuer has at least \$4 million of capital, surplus, and undivided profits;

(7) There are 400,000 or more shares of such security outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 percent of the stock;

(8) There are 1,200 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such a stock, as determined by the Board, is at least 500 shares; and

(9) The issuer or a predecessor in interest has been in existence for at least three years.

(b) *Requirements for continued inclusion on the list.* Except as provided in paragraph (d) of this section, an OTC margin stock shall meet the following requirements:

(1) Three or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;

(2) The minimum average bid price of such security, as determined by the Board, is at least \$2 per share;

(3) (1) The security is registered as specified in paragraph (a)(3) of this section;

(4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;

(5) The issuer has at least \$1 million of capital, surplus, and undivided profits;

(6) There are 300,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 percent of the stock; and

(7) There continue to be 800 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares.

(c) *Removal from the list of OTC margin stocks.* The Board shall periodically remove from the list any stock that—

(1) ceases to exist or of which the issuer ceases to exist, or

(2) no longer substantially meets the provisions of paragraph (b) of this section or section 207.2(k).

(d) *Discretionary authority of Board.* Without regard to the other paragraphs of this section, the Board may add to, or omit or remove from, the OTC margin stock list any equity security, if in the judgment of the Board, such

action is necessary or appropriate in the public interest.

(e) *Unlawful representations.* It shall be unlawful for any lender to make, or cause to be made, any representation to the effect that the inclusion of a security on the list of OTC margin stocks is evidence that the Board or the SEC has in any way passed upon the merits of, or given approval to, such security or any transactions therein. Any statement in an advertisement or other similar communication containing a reference to the Board in connection with the list or securities on that list shall be an unlawful representation.

SECTION 207.7—Supplement: Maximum Loan Value of Stock and Other Collateral

(a) *Maximum loan value of a margin stock.* The maximum loan value of any margin stock, except options, is 50 percent of its current market value.

(b) *Maximum loan value of nonmargin stock and all other collateral.* The maximum loan value of a nonmargin stock and all other collateral except puts, calls, or combinations thereof is their good faith loan value.

(c) *Maximum loan value of options.* Whether they are margin stock or not, puts, calls, and combinations thereof have no loan value.

FR G-1
OMB No. 7100-0011
Approval expires May 1992

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Registration Statement For Persons Who Extend Credit Secured by
Margin Stock (Other Than Banks, Brokers or Dealers)
(Federal Reserve Form G-1)

This registration statement is required by law (15 U.S.C. 78g and 78w; 12 C.F.R. 207).

The Federal Reserve Board regards the information provided by each respondent as confidential. If it should be determined subsequently that any information collected on this form must be released, respondents will be notified.

REPORTING BURDEN

Public reporting burden for this collection of information is estimated to average 2.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0011), Washington, D.C. 20503.

Name of registrant: _____
IRS Identification No.* _____

Name under which business is conducted, if different from above: _____

Address of principal place of business:
(Do not use P.O. Box No.)
Street _____ City _____ County _____
State _____ Zip Code _____

Mailing address, if different from above:
Street _____
City _____ State _____ Zip Code _____

General Instructions and Definitions

Who must file: Section 207.3(a) of Federal Reserve Regulation G requires that FR Form G-1 be completed by every person (other than commercial banks, brokers or dealers) who during any calendar quarter extends a total of \$200,000 or more, or has outstanding a total of \$500,000 or more, in credit secured directly or indirectly, in whole or in part, by collateral that includes any margin stock.

When and where to file: The form should be filed with the Federal Reserve Bank of the district in which the principal office of subject person is located within 30 days following the end of such quarter in which credit has been extended or is outstanding in accordance with Section 207.3(a). This registration statement will remain in effect until a FR Form G-2 (deregistration statement) is approved by the Board of Governors of the Federal Reserve System.

What to file: All persons subject to the registration requirements of Section 207.3(a) should (i) supply the background information specified below; (ii) complete Schedule A; and (iii) submit a copy of a balance sheet, certified by an independent public accountant, for the registrant's latest fiscal year. If the registrant is subject to supervision by a State or Federal regulatory authority, a copy of the latest balance sheet filed with such authority may be used. If neither is available, the registrant should complete Schedule B on page 4.

Definitions: Terms used in this form are explained below. Precise definitions may be found in Section 207.2 of Regulation G.

Person: Any individual, corporation, partnership, association, joint stock company, business trust, or unincorporated organization.

Purpose credit: Credit extended for the purpose of purchasing or carrying margin stock, or to reduce or retire indebtedness previously incurred for that purpose.

In the ordinary course of business: Occurring or reasonably expected to occur from time to time in the course of any activity of a person for profit or the management and preservation of property or, in the case of a person other than an individual, carrying out or in furtherance of any business purpose.

Margin stock: Includes (1) stocks registered on a national securities exchange, stocks on the Federal Reserve Board's List of Marginable OTC Stocks, or any OTC security designated for trading in the National Market System, (2) debt securities that are convertible into, or carry a warrant or right to subscribe to or purchase margin stock, (3) any such warrant or right, and (4) shares of most mutual funds.

Indirectly secured: In general, credit is indirectly secured by margin stock if there is an understanding between the borrower and the lender (1) which is designed to make the margin stock more available to the lender in case of default than to the borrower's other creditors, or (2) which limits the borrower from exercising full dominion over the margin stock to sell, pledge, or donate them, or determining where they shall be placed physically.

*A registrant who is an individual is not required to disclose his or her Social Security number.

Registration forms will be returned to registrants for corrections if all items have not been answered in the manner required or if the forms are otherwise unacceptable for filing.

Background Information

1. Principal lines of business:

2. Registrant is: (check one)

Sole proprietorship
 Partnership
 Corporation

Private investor
 Other (specify)

a. If a registrant is a sole proprietor, private investor, or other, state full residence address:

b. If registrant is a corporation, state date and place of incorporation:

Date: _____ Place: _____

c. Person responsible for maintaining records in connection with Regulation G:

Name: _____ Title: _____

3. If any of the accounts or records of registrant are kept or maintained by anyone other than the person named in 2(c), furnish the name and address of the other individual, firm, or organization:

4. a. Does any person not named in items 2(c) or 3 above exercise or have power to exercise a controlling influence over the management or policies of registrant, directly or indirectly, through stock ownership, agreement, or otherwise?

Yes No

b. If "yes", state the name of such person and describe the agreement, arrangement, or nature of the controlling influence:

5. If registrant extends credit in connection with an employee stock option or stock purchase plan, is the credit extended pursuant to the special "plan-lender" provision set forth in Section 207.5 of Regulation G?

Yes No

Schedule A

Securities Credit

As of _____, 19 ____

	I Total credit outstanding at end of quarter (\$ Thousands)	II Credit extended during quarter (\$ Thousands)
A. Credit to Purchase or Carry Margin Stock (Purpose Loans)		
1. Secured directly by margin stock:		
a. listed stocks and OTC margin stocks		
b. debt securities convertible into margin stock		
c. mutual funds and other margin stock		
2. Secured indirectly by margin stock		
3. TOTAL (Purpose Credit)		
B. Other Credit (Nonpurpose Loans)		
1. Secured directly by margin stock:		
a. listed stocks and OTC margin stocks		
b. debt securities convertible into margin stock		
c. mutual funds and other margin stock		
2. Secured indirectly by margin stock		
3. TOTAL (Nonpurpose Credit)		

1. "Credit Outstanding" (Column I) includes credit extended by the registrant during the quarter covered by this report, and during previous quarters, that has not been extinguished before the end of the quarter covered by this report.

2. "Credit Extended" (Column II) is credit extended by the registrant at any time during the quarter covered by this report. Column II includes new credit extended during the quarter regardless of whether such credit was extinguished at the end of the quarter. An increase in an existing loan is new credit.

Schedule B— This schedule is to be completed only by lenders not submitting corporate balance sheets certified by an independent public accountant or used to meet reporting requirements of a State or Federal regulatory authority.

Balance Sheet

As of _____, 19 ____

(\$ Thousands)

ASSETS	LIABILITIES AND NET WORTH
Cash and bank deposits _____	Short-term bank borrowings _____
Trade accounts and notes receivable (net of allowance for bad debts of _____) _____	Other notes and accounts payable _____
Other accounts and notes receivable (include credit to executives and employees) _____	Long-term debt _____
Marketable securities _____	All other liabilities _____
Inventories _____	TOTAL LIABILITIES _____
Investments in non-consolidated subsidiaries _____	Capital stock _____
Fixed assets (net of depreciation) _____	Additional paid-in capital _____
All other assets _____	Retained earnings/undivided profits _____
TOTAL ASSETS _____	Total Equity Capital ¹ _____
	TOTAL LIABILITIES AND EQUITY CAPITAL _____

Certification

The registrant filing this registration form and any attachments thereto and the person by whom it is executed represent hereby that all information contained therein is true and complete.

Date

Signature of sole proprietor, general partner, managing agent, or principal officer

Title

1. Registrants not reporting capital stock, additional paid-in-capital or retained earnings/undivided profits must nevertheless indicate total equity capital.

This mandatory report is needed to elicit certain background and financial information about a Regulation G lender and the types and amount of credit activities engaged in that are secured by margin stock.

Honest, accurate, and timely statements are required by law
(15 U.S.C. § 78ff; 18 U.S.C. § 1001)

FR G-2
OMB No. 7100-0011
Approval expires May 1992

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**Deregistration Statement For
Persons Registered Pursuant to Regulation G
(Federal Reserve Form G-2)**

A. For use by Noncorporate Registrants.

This deregistration statement is required by law (15 U.S.C. 78g and 78w; 12 C.F.R. 207).

REPORTING BURDEN

Public reporting burden for this collection of information is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments

regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0011), Washington, D.C. 20503.

Certificate

I (We), doing business under the name _____

IRS Identification No.* _____

hereby certify that I (we) have not, during the preceding six calendar months, had a total of \$200,000 or more of credit outstanding secured directly or indirectly by margin stock.

I (We) understand that if I (we), in the future, extend a total of \$200,000 or more during any calendar quarter, or have

outstanding at any time during a calendar quarter a total of \$500,000 or more, in credit that is secured directly or indirectly by collateral that includes any margin stock, I (we) shall within 30 days following the end of such calendar quarter reregister and remain registered for at least six months with the Board of Governors of the Federal Reserve System by filing Federal Reserve Form G-1 with the Federal Reserve Bank of the district in which my (our) principal office is located.

This certification is given in connection with an application for termination of registration pursuant to Section 207.3(a) of Regulation G of the Board of Governors of the Federal Reserve System.

Date _____

Signature(s) _____

Print or type name(s) and title(s) _____

Name of firm _____

*A registrant who is an individual is not required to disclose his or her social security number.

**Honest and accurate statements are required by law
(15 U.S.C. § 78ff; 18 U.S.C. § 1001)**

FR G-2
OMB No. 7100-0011
Approval expires May 1992

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Deregistration Statement For
Persons Registered Pursuant to Regulation G
(Federal Reserve Form G-2)

B. For use by Corporate Registrants.

This deregistration statement is required by law (15 U.S.C. 78g and 78w; 12 C.F.R. 207).

REPORTING BURDEN

Public reporting burden for this collection of information is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments

regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0011), Washington, D.C. 20503.

Officer's Certificate

I hereby certify that _____
Name of corporation

IRS Identification No. _____

("Corporation") has not, during the preceding six calendar months, had a total of \$200,000 or more of credit outstanding secured directly or indirectly by margin stock.

It is understood that if the Corporation shall, in the future, extend a total of \$200,000 or more during any calendar quarter, or has outstanding at any time during a calendar

quarter a total of \$500,000 or more, in credit that is secured directly or indirectly by collateral that includes any margin stock, the Corporation shall within 30 days following the end of such calendar quarter reregister and remain registered for at least six months with the Board of Governors of the Federal Reserve System by filing Federal Reserve Form G-1 with the Federal Reserve Bank of the district in which the principal office of the Corporation is located.

This certification is given in connection with an application for termination of registration pursuant to Section 207.3(a) of Regulation G of the Board of Governors of the Federal Reserve System.

Signature of duly authorized officer

Date

Print or type name

Title

Honest and accurate statements are required by law
(15 U.S.C. § 78ff; 18 U.S.C. § 1001)

FR G-3
OMB No. 7100-0018
Approval expires May 1992

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Statement of Purpose for an Extension of Credit Secured by Margin
Stock by a Person Subject to Registration Under Regulation G

Name of Lender

(Federal Reserve Form G-3)

This form is required by law (15 U.S.C. 78g and 78w; 12 CFR 207).

REPORTING BURDEN

Public reporting burden for this collection of information is estimated to average 10 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments

regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0011), Washington, D.C. 20503.

Instructions

1. This form must be completed when a lender subject to registration under Regulation G extends credit secured directly or indirectly, in whole or in part, by any margin stock.
2. The term "margin stock" is defined in Regulation G (12 CFR 207) and includes, principally: (1) stocks that are registered on a national securities exchange, stocks that are on the Federal Reserve Board's List of Marginable OTC Stocks, or any OTC security designated for trading in the National Market System; (2) debt securities (bonds) that are convertible into margin stock; and (3) shares of most mutual funds.
3. Please print or type (if space is inadequate, attach separate sheet).

Part I To be completed by borrower(s)

1. What is the amount of the credit being extended? _____

2. Will any part of this credit be used to purchase or carry margin securities? Yes No

If the answer is "no," describe the specific purpose of the credit _____

I (We) have read this form and certify that to the best of my (our) knowledge and belief the information given is true, accurate, and complete.

Signed:

Signed:

Borrower's signature _____ Date _____

Borrower's signature _____ Date _____

Print or type name

Print or type name

This form should not be signed in blank.

A borrower who falsely certifies the purpose of a credit on this form or otherwise willfully or intentionally evades the provisions of Regulation G will also violate Federal Reserve Regulation X, "Borrowers of Securities Credit".

Part II To be completed by lender only if the purpose of the credit is to purchase or carry margin securities (Part I(2) answered "yes")

1. List the margin stock securing this credit; do not include debt securities convertible into margin stock. The maximum loan value of margin stock is ____ per cent of its current market value under the current Supplement to Regulation G.

No. of shares	Issue	Market price per share	Date and source of valuation (See note below)	Total market value per issue

2. List the debt securities convertible into margin stock securing this credit. The maximum loan value of such debt securities is ____ per cent of the current market value under the current Supplement to Regulation G.

Principal amount	Issue	Market price	Date and source of valuation (See note below)	Total market value per issue

3. List other collateral including non-margin securities securing this credit.

Describe briefly	Market price	Date and source of valuation (See note below)	Good faith loan value

Note: Lender need not complete "Date and source of valuation" if the market value was obtained from regularly published information in a journal of general circulation.

Part III To be signed by an authorized representative of the lender in all instances

I am a duly authorized representative of the lender and understand that this credit secured by margin stock may be subject to the credit restrictions of Regulation G. I have read this form and any attachments, and I have accepted the customer's statement in Part I in good faith as required by Regulation G*; and I certify that to the best of my knowledge and belief, all the information given is true, accurate, and complete.

Signed:

* To accept the customer's statement in good faith, the authorized representative of the lender must be alert to the circumstances surrounding the credit and, if in possession of any information that 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 lender for three years after the credit is extinguished.

FR G-4
OMB No. 7100-0011
Approval expires May 1992

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Annual Report (Federal Reserve Form G-4)

For the year ended June 30, 19 ____

This report is required by law (15 U.S.C. 78g and 78w; 12 C.F.R. 207).

The Federal Reserve Board regards the information provided by each respondent as confidential. If it should be determined subsequently that any information collected on this form must be released, respondents will be notified.

REPORTING BURDEN

Public reporting burden for this collection of information is estimated to average 2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0011), Washington, D.C. 20503.

Name of registrant: _____ IRS Identification No.* _____

Address of principal office: _____

Street

City

County

State

Zip Code

General Instructions and Definitions

Who must file: Section 207.3(c) of the Federal Reserve Regulation G requires a report on Form G-4 to be filed by every person subject to the registration requirement of Section 207.3(a) of the rule. Any person registered under the regulation may apply for termination of registration by filing FR Form G-2 (see Section 207.3(a)), if such person has not, during the preceding six calendar months, had a total of \$200,000 or more of credit outstanding secured directly or indirectly by margin stock.

When and where to file: Form G-4 shall be filed, *in duplicate*, with the Federal Reserve Bank of the district in which the registrant's principal place of business is located, within 30 days following June 30 of each calendar year.

What to file: The registrant is required to file with this report a copy of the registrant's balance sheet, certified by an independent public accountant, as of the end of its most recent fiscal year. If a certified balance sheet is not available, registrant should file with this report a balance sheet in the form prescribed by Schedule B on FR Form G-1, or if subject to supervision by a State or federal regulatory agency, the latest balance sheet filed with such agency.

Definitions: Terms used in this form are explained below. Precise definitions may be found in Section 207.2 of Regulation G.

Person: Any individual, corporation, partnership, association, joint stock company, business trust, or unincorporated organization.

Registrant: Any person who is subject to the registration requirement of Section 207.3(a).

Purpose credit: Credit extended for the purpose of purchasing or carrying margin stock, or to reduce or retire indebtedness previously incurred for that purpose.

Margin stock: Includes (1) stocks registered on a national securities exchange, stocks on the Federal Reserve Board's List of Marginable OTC Stocks, or any OTC security designated for trading in the National Market System, (2) debt securities that are convertible into, or carry a warrant or right to subscribe to or purchase margin stock, (3) any such warrant or right, and (4) shares of most mutual funds.

Indirectly secured: In general, credit is indirectly secured by margin stock if there is an understanding between the borrower and the lender (1) which is designed to make the margin stock more available to the lender in case of default than to the borrower's other creditors, or (2) which limits the borrower from exercising full dominion over the margin stock to sell, pledge, or donate them, or determining where they shall be placed physically.

*A registrant who is an individual is not required to disclose his or her Social Security number.

Instructions for Completing Schedule of Securities Credit

- A. Report all Purpose Credit extended during the reporting period, as well as all purpose credit outstanding as of June 30, on Part A of the Schedule of Securities Credit.
- B. Registrants reporting Purpose Credit in Part A must also complete Part B unless the total amount of Nonpurpose Credit extended by the registrant is less than 5 percent of such registrant's total receivables. In such case, registrant should check Exemption Statement number two (2) below.
- C. Registrants *not* reporting Purpose Credit in Part A must complete Part B unless (1) the total amount of Nonpurpose Credit extended by the registrant is less than 25 percent of such registrant's total assets, or (2) the total amount of Nonpurpose Credit extended by the registrant is less than 5 percent of registrant's total receivables. In such case, the registrant should check the appropriate exemption statement below.
- D. Registrants who maintain records based upon fiscal quarters that do not coincide with calendar quarters have an option of reporting credit outstanding and extended in a slightly different manner. These registrants may report the annual data required by FR Form G-4 as of the year ended on either April 30 or May 31. A registrant reporting in this manner should change the date in Column I of the Schedule of Securities Credit to reflect the year end date used.

Exemption Statements

Check appropriate box if statement is applicable

- 1. Registrant does not have any purpose loans outstanding at the end of the year covered by this report and has not extended any purpose loans at any time during the year, and registrant has outstanding nonpurpose loans, if any, secured directly or indirectly by margin stock, amounting to less than 25 percent of registrant's total assets.
- 2. Registrant has extended total nonpurpose credit secured directly or indirectly by margin stock amounting to less than 5 percent of registrant's total receivables.

Employee Stock Option, Purchase, and Ownership Plan Credit

- 1. a. Is part or all of the credit extended pursuant to an employee stock option, purchase, or ownership plan? Yes No
- b. If "yes," does the credit qualify under the special provisions set forth in Section 207.5 of Regulation G? Yes No
- 2. If credit reported in Column I of the Schedule of Securities Credit includes outstanding employee stock option, purchase, or ownership plan credit, please report the following:
 - Outstanding credit pursuant to Section 207.5 \$ _____
 - Outstanding "plan-lender" credit extended pursuant to the general margin requirement Section 207.3 \$ _____

Schedule of Securities Credit

	I Total credit outstanding as of June 30, ____ (\$ Thousands)	II Credit extended during reporting period (\$ Thousands)
A. Credit to Purchase or Carry Margin Stock (Purpose Loans)		
1. Secured directly by margin stock:		
a. listed stocks and OTC margin stocks		
b. debt securities convertible into margin stock		
c. mutual funds and other margin stock		
2. Secured indirectly by margin stock		
3. TOTAL (Purpose Credit)		
B. Other Credit (Nonpurpose Loans)		
1. Secured directly by margin stock:		
a. listed stocks and OTC margin stocks		
b. debt securities convertible into margin stock		
c. mutual funds and other margin stock		
2. Secured indirectly by margin stock		
3. TOTAL (Nonpurpose Credit)		

1. "Credit Outstanding" (Column I) includes credit extended by the registrant during the year covered by this report, and during previous years, that has not been extinguished before the end of the year covered by this report.

2. "Credit Extended" (Column II) is credit extended at any time during the year covered by this report. Column II includes all new credit extended during the year regardless of whether such credit was extinguished by the end of the year. An increase in an existing loan is new credit.

Changes in Background Information

For material included in background information, see the second page of FR Form G-1 Registration Statement

Have there been any changes in background information since the previous G-4 report (G-1 report for a registrant filing its first G-4 report)?

Yes No

If yes, describe any such changes pertaining to name, address, IRS Identification No., organizational structure (e.g. a sole proprietorship becoming incorporated), name of person responsible for maintaining Regulation G records, control, or location of records.

Certification

The registrant filing this annual report and any attachment thereto and the person by whom it is executed represent hereby that all information contained therein is true and complete.

_____ Date

_____ Signature of sole proprietor, private investor, general partner, managing agent, or principal officer

_____ Print or type name and title

This mandatory report is needed to elicit certain background and financial information about a Regulation G lender and the types and amount of credit activities engaged in that are secured by margin stock.

**Honest, accurate, and timely statements are required by law
(15 U.S.C. § 78ff; 18 U.S.C. § 1001)**

Regulation T

Credit by Brokers and Dealers

12 CFR 220; as amended effective April 30, 1990

SECTION 220.1—Authority, Purpose, and Scope

(a) *Authority and purpose.* Regulation T (this part*) is issued by the Board of Governors of the Federal Reserve System (the Board) pursuant to the Securities Exchange Act of 1934 (the act) (15 USC 78a et seq.). Its principal purpose is to regulate extensions of credit by and to brokers and dealers; it also covers related transactions within the Board's authority under the act. It imposes, among other obligations, initial margin requirements and payment rules on securities transactions.

(b) *Scope.* (1) This part provides a margin account and seven special-purpose accounts in which to record all financial relations between a customer and a creditor. Any transaction not specifically permitted in a special account shall be recorded in a margin account.

(2) This part does not preclude any exchange, national securities association, or creditor from imposing additional requirements or taking action for its own protection.

SECTION 220.2—Definitions

The terms used in this part have the meanings given them in section 3(a) of the act or as defined in this section.

(a) "Credit balance" means the cash amount due the customer in a margin account after debiting amounts transferred to the special memorandum account.

(b) "Creditor" means any broker or dealer (as defined in sections 3(a)(4) and 3(a)(5) of the act), any member of a national securities exchange, or any person associated with a broker or dealer (as defined in section 3(a)(18) of the act), except for business entities controlling or under common control with the creditor.

* Code of Federal Regulations, title 12, chapter II, part 220.

(c) "Customer" includes (1) any person or persons acting jointly (i) to or for whom a creditor extends, arranges, or maintains any credit; or (ii) who would be considered a customer of the creditor according to the ordinary usage of the trade;

(2) any partner in a firm who would be considered a customer of the firm absent the partnership relationship; and

(3) any joint venture in which a creditor participates and which would be considered a customer of the creditor if the creditor were not a participant.

(d) "Debit balance" means the cash amount owed to the creditor in a margin account after debiting amounts transferred to the special memorandum account.

(e) "Delivery against payment," "payment against delivery," or a "C.O.D. transaction" refers to an arrangement under which a creditor and a customer agree that the creditor will deliver to, or accept from, the customer, or the customer's agent, a security against full payment of the purchase price.

(f) "Equity" means the total current market value of security positions held in the margin account plus any credit balance less the debit balance in the margin account.

(g) "Escrow agreement" means any agreement issued in connection with a call or put option under which a bank, holding the underlying security, foreign currency, certificate of deposit, or required cash, is obligated to deliver to the creditor (in the case of a call option) or accept from the creditor (in the case of a put option) the underlying security, foreign currency, or certificate of deposit against payment of the exercise price upon exercise of the call or put.

(h) "Examining authority" means (1) the national securities exchange or other self-regulatory organization of which a creditor is a member; or

(2) if not a member of any such self-regulatory organization, the Regional Office

of the Securities and Exchange Commission (SEC) where the creditor has its principal place of business; or

(3) if a member of more than one self-regulatory organization, the organization designated by the SEC as the examining authority for the creditor.

(i) "Foreign margin stock" means—

(1) a foreign security that is an equity security and that appears on the Board's periodically published list of foreign margin stocks based on information submitted by a self-regulatory organization under procedures approved by the Board; or

(2) A foreign security that is a debt security convertible into a margin security.

(j) *Foreign security* means a security issued in a jurisdiction other than the United States.

(k) "Good faith margin" means the amount of margin which a creditor, exercising sound credit judgment, would customarily require for a specified security position and which is established without regard to the customer's other assets or securities positions held in connection with unrelated transactions.

(l) "In or at the money" means the current market price of the underlying security is not more than one standard exercise interval below (with respect to a call option) or above (with respect to a put option) the exercise price of the option.

(m) "In the money" means the current market price of the underlying security is not below (with respect to a call option) or above (with respect to a put option) the exercise price of the option.

(n) "Margin call" means a demand by a creditor to a customer for a deposit of additional cash or securities to eliminate or reduce a margin deficiency as required under this part.

(o) "Margin deficiency" means the amount by which the required margin exceeds the equity in the margin account.

(p) "Margin excess" means the amount by which the equity in the margin account exceeds the required margin. When the margin excess is represented by securities, the current

value of the securities is subject to the percentages set forth in section 220.18 (the supplement).

(q) "Margin security" means (1) any registered security;

(2) any OTC margin stock;

(3) any OTC margin bond;

(4) any OTC security designated as qualified for trading in the national market system under a designation plan approved by the Securities and Exchange Commission (NMS security);

(5) any security issued by either an open-end investment company or unit investment trust which is registered under section 8 of the Investment Company Act of 1940 (15 USC 80a-8); or

(6) any foreign margin stock.

(r) "Nonexempted security" means any security other than an exempted security (as defined in section 3(a)(12) of the act).

(s) "Nonmember bank" means a bank that is not a member of the Federal Reserve System.

(t) "OTC margin bond" means (1) A debt security not traded on a national securities exchange which meets all of the following requirements:

(i) At the time of the original issue, a principal amount of not less than \$25,000,000 of the issue was outstanding;

(ii) The issue was registered under section 5 of the Securities Act of 1933 (15 USC 77e) and the issuer either files periodic reports pursuant to section 13(a) or 15(d) of the act or is an insurance company which meets all of the conditions specified in section 12(g)(2)(G) of the act; and

(iii) At the time of the extension of credit, the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments;

(2) A private mortgage pass-through security (not guaranteed by an agency of the U.S. government) meeting all of the following requirements:

(i) An aggregate principal amount of not less than \$25,000,000 (which may be issued in series) was issued pursuant to a registration statement filed with the SEC

- under section 5 of the Securities Act of 1933;
- (ii) Current reports relating to the issue have been filed with the SEC; and
 - (iii) At the time of the credit extension, the creditor has a reasonable basis for believing that mortgage interest, principal payments and other distributions are being passed through as required and that the servicing agent is meeting its material obligations under the terms of the offering;
- (3) A mortgage-related security as defined in section 3(a)(41) of the act;
- (4) A debt security issued or guaranteed as a general obligation by the government of a foreign country, its provinces, states, or cities, or a supranational entity, if at the time of the extension of credit one of the following is rated in one of the two highest rating categories by a nationally recognized statistical rating organization:
- (i) the issue,
 - (ii) the issuer or guarantor (implicitly), or
 - (iii) other outstanding unsecured long-term debt securities issued or guaranteed by the government or entity; or
- (5) A foreign security that is a nonconvertible debt security that meets all of the following requirements:
- (i) At the time of original issue, a principal amount of at least \$100,000,000 was outstanding;
 - (ii) At the time of the extension of credit, the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments; and
 - (iii) At the time of the extension of credit, the issue is rated in one of the two highest rating categories by a nationally recognized statistical rating organization, except that an issue that has not been rated as of the effective date of this provision shall be considered an "OTC margin bond" if a subsequent unsecured issue of at least \$100,000,000 of the same issuer is rated in one of the two highest rating categories by a nationally recognized statistical rating organization.
- (u) "OTC margin stock" means any equity security not traded on a national securities exchange that the Board has determined has the degree of national investor interest, the depth and breadth of market, the availability of information respecting the security and its issuer, and the character and permanence of the issuer to warrant being treated like an equity security traded on a national securities exchange. An OTC stock is not considered to be an "OTC margin stock" unless it appears on the Board's periodically published list of OTC margin stocks.
- (v) "Overlying option" means (1) a put option purchased or a call option written against a long position in an underlying security in the specialist record in section 220.12(b); or
- (2) a call option purchased or a put option written against a short position in an underlying security in the specialist record in section 220.12(b).
- (w) "Purpose credit" means credit for the purpose of (1) buying, carrying, or trading in securities; or
- (2) buying or carrying any part of an investment contract security which shall be deemed credit for the purpose of buying or carrying the entire security.
- (x) "Registered security" means any security that (1) is registered on a national securities exchange; or
- (2) has unlisted trading privileges on a national securities exchange.
- (y) "Short call or short put" means a call option or a put option that is issued, endorsed, or guaranteed in or for an account.
- (1) A short call obligates the customer to sell the underlying security, foreign currency, or certificate of deposit at the exercise price upon receipt of an exercise notice at any time prior to the expiration date of the option.
 - (2) A short put obligates the customer to purchase the underlying security, foreign currency, or certificate of deposit at the exercise price upon receipt of an exercise notice at any time prior to the expiration date of the option.
 - (3) A short call or a short put on stock index options obligates the customer to pay

the holder of an "in the money" long put or call who has exercised the option the cash difference between the exercise price and the current assigned value of the index as established by the option contract.

(z) "Specialist joint account" means an account which, by written agreement, provides for the commingling of the security positions of the participants and a sharing of profits and losses from the account on some predetermined ratio.

(aa) "Underlying security" means the security that will be delivered upon exercise of an option.

SECTION 220.3—General Provisions

(a) *Records.* The creditor shall maintain a record for each account showing the full details of all transactions.

(b) *Separation of accounts.* Except as provided for in the margin account and the special memorandum account, the requirements of an account may not be met by considering items in any other account. If withdrawals of cash or securities are permitted under the regulation, written entries shall be made when cash or securities are used for purposes of meeting requirements in another account.

(c) *Maintenance of credit.* Except as prohibited by this part, any credit initially extended in compliance with this part may be maintained regardless of—

- (1) reductions in the customer's equity resulting from changes in market prices;
- (2) any security in an account ceasing to be margin or exempted; or
- (3) any change in the margin requirements prescribed under this part.

(d) *Guarantee of accounts.* No guarantee of a customer's account shall be given any effect for purposes of this part.

(e) *Receipt of funds or securities.* (1) A creditor, acting in good faith, may accept as immediate payment—

- (i) cash or any check, draft, or order payable on presentation; or

- (ii) any security with sight draft attached.

(2) A creditor may treat a security, check or draft as received upon written notification from another creditor that the specified security, check, or draft has been sent.

(3) Upon notification that a check, draft, or order has been dishonored or when securities have not been received within a reasonable time, the creditor shall take the action required by this part when payment or securities are not received on time.

(4) A creditor may accept, in lieu of securities, a properly executed exercise notice for a stock option issued by the customer's employer and instructions to the issuer to deliver the resulting stock to the creditor. Prior to acceptance, the creditor must verify that the issuer will deliver the securities promptly and the customer must designate the account into which the securities are to be deposited.

(f) *Exchange of securities.* (1) To enable a customer to participate in an offer to exchange securities which is made to all holders of an issue of securities, a creditor may submit for exchange any securities held in a margin account, without regard to the other provisions of this part, provided the consideration received is deposited into the account.

(2) If a nonmargin, nonexempted security is acquired in exchange for a margin security, its retention, withdrawal, or sale within 60 days following its acquisition shall be treated as if the security is a margin security.

(g) *Valuing securities.* The current market value of a security shall be determined as follows:

(1) Throughout the day of the purchase or sale of a security, the creditor shall use the security's total cost of purchase or the net proceeds of its sale including any commissions charged.

(2) At any other time, the creditor shall use the closing sale price of the security on the preceding business day, as shown by any regularly published reporting or quotation service. If there is no closing price, the creditor may use any reasonable estimate of

the market value of the security as of the close of business on the preceding business day.

(h) *Innocent mistakes.* If any failure to comply with this part results from a mistake made in good faith in executing a transaction or calculating the amount of margin, the creditor shall not be deemed in violation of this part if, promptly after the discovery of the mistake, the creditor takes appropriate corrective action.

(i) *Variable-annuity contracts issued by insurance companies.* Any insurance company that issues or sells variable-annuity contracts or engages in a general securities business as a broker or dealer shall be subject to this part only for transactions in connection with those activities. Extensions of credit associated with conventional lending practices of insurance companies are subject to part 207 of this chapter.

SECTION 220.4—Margin Account

(a) *Margin transactions.* (1) All transactions not specifically authorized for inclusion in another account shall be recorded in the margin account.

(2) A creditor may establish separate margin accounts for the same person to:

- (i) clear transactions for other creditors where the transactions are introduced to the clearing creditor by separate creditors; or
- (ii) clear transactions through other creditors if the transactions are effected by separate creditors; or
- (iii) provide one or more accounts over which the creditor or a third-party investment adviser has investment discretion.

(b) *Required margin.* The required margin for each position in securities is set forth in section 220.18 (the supplement) and is subject to the exceptions and special provisions contained in section 220.5 (Margin Account Exceptions and Special Provisions).

(c) *When additional margin is required.*

(1) *Computing deficiency.* All transactions

on the same day shall be combined to determine whether additional margin is required by the creditor. For the purpose of computing equity in an account, security positions are established or eliminated and a credit or debit created on the trade date of a security transaction. Additional margin is required on any day when the day's transactions create or increase a margin deficiency in the account and shall be for the amount of the margin deficiency so created or increased. To the extent that debits in a margin account are denominated in foreign currency secured by specifically identified foreign margin securities as provided in section 220.5(g), each foreign-currency debit position shall be considered separately for purposes of computing a deficiency and no credit shall be given to such specifically identified foreign margin securities for purposes of computing equity in the margin account either in United States dollars or in any other specific foreign currency.

(2) *Satisfaction of deficiency.* The additional required margin may be satisfied by a transfer from the special memorandum account or by a deposit of cash, margin securities, exempted securities, or any combination thereof.

(3) *Time limits.* (i) A margin call shall be satisfied within seven business days after the margin deficiency was created or increased.

(ii) The seven-day period may be extended for one or more limited periods upon application by the creditor to a self-regulatory organization or national securities association unless the organization or association believes that the creditor is not acting in good faith or that the creditor has not sufficiently determined that exceptional circumstances warrant such action. Applications shall be filed and acted upon prior to the end of the seven-day period or the expiration of any subsequent extension. However, applications filed by firms having no direct electronic access to the organization or association may be accepted as timely filed if post-marked by midnight of the last day of the seven-day period, or any subsequent extension.

(4) *Satisfaction restriction.* Any transaction, position, or deposit that is used to satisfy one requirement under this part shall be unavailable to satisfy any other requirement.

(d) *Liquidation in lieu of deposit.* If any margin call is not met in full within the required time, the creditor shall liquidate securities sufficient to meet the margin call or to eliminate any margin deficiency existing on the day such liquidation is required, whichever is less. If the margin deficiency created or increased is \$500 or less, no action need be taken by the creditor.

(e) *Withdrawals of cash or securities.* (1) Cash or securities may be withdrawn from an account, except if—

- (i) additional cash or securities are required to be deposited into the account for a transaction on the same or a previous day; or
- (ii) the withdrawal, together with other transactions, deposits, and withdrawals on the same day, would create or increase a margin deficiency.

(2) Margin excess may be withdrawn or may be transferred to the special memorandum account (section 220.6) by making a single entry to that account which will represent a debit to the margin account and a credit to the special memorandum account.

(3) If a creditor does not receive a distribution of cash or securities which is payable with respect to any security in a margin account on the day it is payable and withdrawal would not be permitted under this paragraph, a withdrawal transaction shall be deemed to have occurred on the day the distribution is payable.

(f) *Interest, service charges, etc.* (1) Without regard to the other provisions of this section, the creditor, in its usual practice, may debit the following items to a margin account if they are considered in calculating the balance of such account:

- (i) interest charged on credit maintained in the margin account;
- (ii) premiums on securities borrowed in connection with short sales or to effect delivery;

(iii) dividends, interest, or other distributions due on borrowed securities;

(iv) communication or shipping charges with respect to transactions in the margin account; and

(v) any other service charges which the creditor may impose.

(2) A creditor may permit interest, dividends, or other distributions credited to a margin account to be withdrawn from the account if:

(i) the withdrawal does not create or increase a margin deficiency in the account; or

(ii) the current market value of any securities withdrawn does not exceed 10 percent of the current market value of the security with respect to which they were distributed.

SECTION 220.5—Margin Account Exceptions and Special Provisions

(a) *Unissued securities.* (1) The required margin on a net long or net short commitment in an unissued security is the margin that would be required if the security were an issued margin security, plus any unrealized loss on the commitment or less any unrealized gain.

(2) Margin is not required on a net short commitment in unissued securities when the account contains the related issued securities, nor for any net short or net long position in unissued exempted securities.

(b) *Short sales.*

(1) The required margin for the short sale of a security shall be the amount set forth in section 220.18 (the supplement).

(2) A short sale “against the box” shall be treated as a long sale for the purpose of computing the equity and the required margin.

(c) *Options.*

(1) *Margin or cover for options on exempted debt securities, certificates of deposit, stock indices, or securities exchange-traded options on foreign currencies.* The required margin for each transaction involving any short put or short call on an exempted debt

security, certificate of deposit, stock index, or foreign currency (if the option is traded on a securities exchange), shall be the amount or positions in lieu of margin set forth in section 220.18 (the supplement).

(2) *Margin for options on equity securities.* The required margin for each transaction involving any short put or short call on an equity security shall be the amount set forth in section 220.18 (the supplement).

(3) *Cover or positions in lieu of margin.* No margin is required for an option written on an equity security position when the account holds any of the following:

(i) the underlying security in the case of a short call, or a short position in the underlying security in the case of a short put;

(ii) securities immediately convertible into or exchangeable for the underlying security without the payment of money in the case of a short call, if the right to convert or exchange does not expire on or before the expiration date of the short call;

(iii) an escrow agreement for the underlying security or foreign exchange (in the case of a short call) or cash (in the case of a short put);

(iv) a long call on the same number of shares of the same underlying security if the long call does not expire before the expiration date of the short call, and if the amount (if any), by which the exercise price of the long call exceeds the exercise price of the short call is deposited in the account;

(v) a long put on the same number of shares of the same underlying security if the long put does not expire before the expiration date of the short put, and if the amount (if any), by which the exercise price of the short put exceeds the exercise price of the long put is deposited in the account;

(vi) a warrant to purchase the underlying security, in the case of a short call, if the warrant does not expire on or before the expiration date of the short call, and if the amount (if any), by which the exercise price of the warrant exceeds the exercise price of the short call is deposited

in the account. A warrant used in lieu of the required margin under this provision shall contribute no equity to the account.

(4) *Adjustments.* (i) When a short position held in the account serves in lieu of the required margin for a short put, the amount prescribed by paragraph (c)(2) of this section as the amount to be added to the required margin in respect of short sales shall be increased by any unrealized loss on the position.

(ii) When a security held in the account serves in lieu of the required margin for a short call, the security shall be valued at no greater than the exercise price of the short call.

(5) *Straddles.* When both a short put and a short call are in a margin account on the same number of shares of the same underlying security, the required margin shall be the margin on either the short put or the short call, whichever is greater, plus any unrealized loss on the other option.

(6) *Exclusive designation.* The customer may designate at the time the option order is entered which security position held in the account is to serve in lieu of the required margin, if such service is offered by the creditor; or the customer may have a standing agreement with the creditor as to the method to be used for determining on any given day which security position will be used in lieu of the margin to support an option transaction. Any security held in the account which serves in lieu of the required margin for a short put or a short call shall be unavailable to support any other option transaction in the account.

(d) *Accounts of partners.* If a partner of the creditor has a margin account with the creditor, the creditor shall disregard the partner's financial relations with the firm (as shown in the partner's capital and ordinary drawing accounts) in calculating the margin or equity of the partner's margin account.

(e) *Contribution to joint venture.* If a margin account is the account of a joint venture in which the creditor participates, any interest of the creditor in the joint account in excess of the interest which the creditor would have on the basis of its right to share in the profits

shall be treated as an extension of credit to the joint account and shall be margined as such.

(f) *Transfer of accounts.* (1) A margin account that is transferred from one creditor to another may be treated as if it had been maintained by the transferee from the date of its origin, if the transferee accepts, in good faith, a signed statement of the transferor (or, if that is not practicable, of the customer), that any margin call issued under this part has been satisfied.

(2) A margin account that is transferred from one customer to another as part of a transaction, not undertaken to avoid the requirements of this part, may be treated as if it had been maintained for the transferee from the date of its origin, if the creditor accepts in good faith and keeps with the transferee account a signed statement of the transferor describing the circumstances for the transfer.

(g) *Credit denominated in foreign currency.* A creditor may extend credit denominated in a foreign currency secured by foreign margin securities denominated or traded in the same foreign currency and specifically identified on the creditor's books and records as securing the foreign-currency debit.

SECTION 220.6—Special Memorandum Account

(a) A special memorandum account (SMA) may be maintained in conjunction with a margin account. A single entry amount may be used to represent both a credit to the SMA and a debit to the margin account. A transfer between the two accounts may be effected by an increase or reduction in the entry. When computing the equity in a margin account, the single entry amount shall be considered as a debit in the margin account. A payment to the customer or on the customer's behalf or a transfer to any of the customer's other accounts from the SMA reduces the single entry amount.

(b) The SMA may contain the following entries:

- (1) dividend and interest payments;

(2) cash not required by this part, including cash deposited to meet a maintenance margin call or to meet any requirement of a self-regulatory organization that is not imposed by this part;

(3) proceeds of a sale of securities or cash no longer required on any expired or liquidated security position that may be withdrawn under section 220.4(e) of this part; and

(4) margin excess transferred from the margin account under section 220.4(e)(2) of this part.

SECTION 220.7—Arbitrage Account

In an arbitrage account a creditor may effect and finance for any customer bona fide arbitrage transactions. For the purpose of this section, the term "bona fide arbitrage" means—

- (a) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different market at as nearly the same time as practicable for the purpose of taking advantage of a difference in prices in the two markets, or
- (b) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days of the purchase into a second security together with an offsetting sale of the second security at or about the same time, for the purpose of taking advantage of a concurrent disparity in the prices of the two securities.

SECTION 220.8—Cash Account

(a) *Permissible transactions.* In a cash account, a creditor may—

(1) buy for or sell to any customer any security if: (i) there are sufficient funds in the account; or (ii) the creditor accepts in good faith the customer's agreement that the customer will promptly make full cash payment for the security before selling it and does not contemplate selling it prior to making such payment;

(2) buy from or sell for any customer any security if: (i) the security is held in the

account; or (ii) the creditor accepts in good faith the customer's statement that the security is owned by the customer or the customer's principal, and that it will be promptly deposited in the account;

(3) issue, endorse, or guarantee an option for any customer if—

(i) in the case of a call option, the underlying security (or a security immediately convertible into the underlying security, without the payment of money) is held in or purchased for the account on the same day, and the option premium is held in the account until cash payment for the underlying or convertible security is received; or

(ii) in the case of a put option, the creditor obtains cash in an amount equal to the exercise price or holds in the account any of the following instruments with a current market value at least equal to the exercise price and with one year or less to maturity: securities issued or guaranteed by the United States or its agencies, negotiable bank certificates of deposit, or bankers acceptances issued by banking institutions in the United States and payable in the United States.

(4) use an escrow agreement in lieu of the cash or underlying security position if—

(i) in the case of a call or a put, the creditor is advised by the customer that the required securities or cash are held by a bank and the creditor independently verifies that an appropriate escrow agreement will be delivered by the bank promptly; or

(ii) in the case of a call issued, endorsed, or guaranteed on the same day the underlying security is purchased in the account and the underlying security is to be delivered to a bank, the creditor verifies that an appropriate escrow agreement will be delivered by the bank promptly.

(b) *Time periods for payment; cancellation or liquidation.*

(1) *Full cash payment.* A creditor shall obtain full cash payment for customer purchases—

(i) Within seven business days of the date:

(A) any nonexempted security was purchased;

(B) any unissued security was made available by the issuer for delivery to purchasers;

(C) any "when-distributed" security was distributed under a published plan;

(D) a security owned by the customer has matured or has been redeemed and a new refunding security of the same issuer has been purchased by the customer, provided:

(1) the customer purchased the new security no more than 35 calendar days prior to the date of maturity or redemption of the old security;

(2) the customer is entitled to the proceeds of the redemption; and

(3) the delayed payment does not exceed 103 percent of the proceeds of the old security.

(ii) In the case of the purchase of a foreign security, within seven business days of the trade date or the date on which settlement is required to occur by the rules of the foreign securities market, provided this period does not exceed the maximum time permitted by this part for delivery-against-payment transactions.

(2) *Delivery against payment.* If a creditor purchases for or sells to a customer a security in a delivery-against-payment transaction, the creditor shall have up to 35 calendar days to obtain payment if delivery of the security is delayed due to the mechanics of the transaction and is not related to the customer's willingness or ability to pay.

(3) *Shipment of securities, extension.* If any shipment of securities is incidental to consummation of a transaction, a creditor may extend the seven-business-day period by the number of days required for shipment, but not by more than seven business days.

(4) *Cancellation; liquidation; minimum amount.* A creditor shall promptly cancel or otherwise liquidate a transaction or any part of a transaction for which the customer has not made full cash payment within the required time. A creditor may, at its

option, disregard any sum due from the customer not exceeding \$500.

(c) *90-day freeze.* (1) If a nonexempted security in the account is sold or delivered to another broker or dealer without having been previously paid for in full by the customer, the privilege of delaying payment beyond the trade date shall be withdrawn for 90 calendar days following the date of sale of the security. Cancellation of the transaction other than to correct an error shall constitute a sale.

(2) The 90-day freeze shall not apply if: (i) within 7 business days of the trade date, full payment is received or any check or draft in payment has cleared and the proceeds from the sale are not withdrawn prior to such payment or check clearance; or (ii) the purchased security was delivered to another broker or dealer for deposit in a cash account which holds sufficient funds to pay for the security. The creditor may rely on a written statement accepted in good faith from the other broker or dealer that sufficient funds are held in the other cash account.

(d) *Extension of time periods; transfers.* (1) Unless a self-regulatory organization or association believes that the creditor is not acting in good faith or that the creditor has not sufficiently determined that exceptional circumstances warrant such action, it may, upon application by the creditor—

- (i) extend any period specified in paragraph (b) of this section;
- (ii) authorize transfer to another account of any transaction involving the purchase of a margin or exempted security; or
- (iii) grant a waiver from the 90-day freeze.

(2) Applications shall be filed and acted upon prior to the end of the seven-day period or the expiration of any subsequent extension. However, an application filed from firms having no direct electronic access to the exchange or association may be accepted as timely filed if it is postmarked no later than midnight of the last day of the seven-day period or any subsequent extension.

SECTION 220.9—Nonsecurities Credit and Employee Stock Ownership Account

(a) In a nonsecurities credit account a creditor may—

- (1) effect and carry transactions in commodities;
- (2) effect and carry transactions in foreign exchange;
- (3) extend and maintain secured or unsecured nonpurpose credit, subject to the requirements of paragraph (b) of this section.
- (4) extend and maintain credit to employee stock ownership plans without regard to the other sections of this part.

(b) Every extension of credit, except as provided in paragraphs (a)(1) and (2) of this section, shall be deemed to be purpose credit unless, prior to extending the credit, the creditor accepts in good faith from the customer a written statement that it is not purpose credit. The statement shall conform to the requirements established by the Board. To accept the customer's statement in good faith, the creditor shall be aware of the circumstances surrounding the extension of credit and shall be satisfied that the statement is truthful.

SECTION 220.10—Omnibus Account

(a) In an omnibus account, a creditor may effect and finance transactions for a broker or dealer who is registered with the SEC under section 15 of the act and who gives the creditor written notice that—

- (1) all securities will be for the account of customers of the broker or dealer; and
- (2) any short sales effected will be short sales made on behalf of the customers of the broker or dealer other than partners.

(b) The written notice required by paragraph (a) shall conform to any SEC rule on the hypothecation of customers' securities by brokers or dealers.

SECTION 220.11—Broker-Dealer Credit Account

(a) *Permissible transactions.* In a broker-dealer credit account, a creditor may—

(1) Purchase any security from or sell any security to another creditor under a good faith agreement to promptly deliver the security against full payment of the purchase price.

(2) Effect or finance transactions of any of its owners if the creditor is a clearing and servicing broker or dealer owned jointly or individually by other creditors.

(3) Extend and maintain credit to any partner or stockholder of the creditor for the purpose of making a capital contribution to, or purchasing stock of, the creditor, affiliated corporation, or another creditor.

(4) Extend and maintain, with the approval of the appropriate examining authority:

(i) credit to meet the emergency needs of any creditor; or

(ii) subordinated credit to another creditor for capital purposes, if the other creditor:

(A) is an affiliated corporation; or

(B) will not use the proceeds of the loan to increase the amount of dealing in securities for the account of the creditor, its firm or corporation or an affiliated corporation.

(b) For purposes of paragraph (a)(3) and (4) of this section "affiliated corporation" means a corporation all the common stock of which is owned directly or indirectly by the firm or general partners and employees of the firm, or by the corporation or holders of the controlling stock and employees of the corporation and the affiliation has been approved by the creditor's examining authority.

SECTION 220.12—Market Functions Account

(a) *Requirements.* In a market functions account, a creditor may effect or finance the transactions of market participants in accordance with the following provisions. A separate record shall be kept for the transactions specified for each category described in paragraphs (b) through (e) of this section. Any position in a separate record shall not be used to meet the requirements of any other category.

(b) *Specialists.*

(1) *Applicability.* A creditor may clear or finance specialist transactions for any specialist, or any specialist joint account, in which all participants, or all participants other than the creditor, are registered as specialists on a national securities exchange that requires regular reports on the use of specialist credit from the registered specialists.

(2) *Permitted offset positions.* A specialist in options may establish, on a share-for-share basis, a long or short position in the securities underlying the options in which the specialist makes a market, and a specialist in securities other than options may purchase or write options overlying the securities in which the specialist makes a market, if the account holds the following permitted offset positions:

(i) a short option position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";

(ii) a long option position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";

(iii) a short option position against which an exercise notice was tendered;

(iv) a long option position which was exercised;

(v) a net long position in a security (other than an option) in which the specialist makes a market; or

(vi) a net short position in a security (other than an option) in which the specialist makes a market.

(3) *Required margin.* The required margin for a specialist's transactions shall be—

(i) good faith margin for any long or short position in a security in which the specialist makes a market;

(ii) good faith margin for any wholly owned margin security or exempted security;

(iii) the margin prescribed by section 220.18 (the supplement) when a security purchased or sold short in the account

does not qualify as a specialist or permitted offset position.

(4) *Additional margin; restriction on "free-riding."* (i) Except as required by paragraph (b)(5) of this section, the creditor shall issue a margin call on any day when additional margin is required as a result of specialist transactions. The creditor may allow the specialist a maximum of seven business days to satisfy a margin call.

(ii) If a specialist fails to satisfy a margin call within the period specified in this paragraph (and the creditor is required to liquidate securities to satisfy the call), the creditor shall be prohibited for a 15-calendar day period from extending any further credit to the specialist to finance transactions in nonspecialty securities.

(iii) The restriction on "free-riding" shall not apply to:

(A) any specialist on a national securities exchange that has an SEC-approved rule on "free-riding" by specialists; or (B) the acquisition or liquidation of a permitted offset position.

(5) *Deficit status.* On any day when a specialist's separate record would liquidate to a deficit, the creditor shall not extend any further specialist credit in the account and shall issue a margin call at least as large as the deficit. If the call is not met by noon of the following business day, the creditor shall liquidate positions in the specialist's account.

(6) *Withdrawals.* Withdrawals may be permitted to the extent that the equity exceeds the margin requirements specified in paragraph (b)(3) of this section.

(c) *Underwritings and distributions.* A creditor may effect or finance for any dealer or group of dealers transactions for the purpose of facilitating the underwriting or distribution of all or a part of an issue of securities with a good faith margin.

(d) *OTC market makers and third-market makers.* (1) A creditor may clear or finance with a good faith margin, market-making transactions for an OTC market maker or a third-market maker who—

(i) is in compliance with any applicable

SEC rule, including minimum net capital rules;

(ii) regularly submits bona fide competitive bid and offer quotations to a recognized interdealer quotation system;

(iii) is ready, willing, and able to effect transactions in reasonable amounts with other brokers and dealers at the quoted prices; and

(iv) has a reasonable average rate of inventory turnover.

(2) If the credit extended to a market maker ceases to be for the purpose of market making, or the dealer ceases to be a market maker for an issue of securities for which credit was extended, the credit shall be subject to the margin specified in section 220.18 (the supplement).

(e) *Odd-lot dealers.* A creditor may clear and finance odd-lot transactions for any creditor who is registered as an odd-lot dealer on a national securities exchange with a good faith margin.

SECTION 220.13—Arranging for Loans by Others

A creditor may not arrange for the extension or maintenance of credit to or for any customer by any person upon terms and conditions other than those upon which the creditor may itself extend or maintain credit under the provisions of this part, except that this limitation shall not apply to credit arranged for a customer which does not violate parts 207 and 221 of this chapter and results solely from—

(a) investment banking services, provided by the creditor to the customer, including, but not limited to, underwritings, private placements, and advice and other services in connection with exchange offers, mergers, or acquisitions, except for underwritings that involve the public distribution of an equity security with installment or other deferred-payment provisions;

(b) the sale of nonmargin securities (including securities with installment or other deferred-payment provisions) if the sale is exempted from the registration requirements of

the Securities Act of 1933 under section 4(2) or section 4(6) of the act;

(c) a subsequent loan or advance on a face-amount certificate as permitted under 15 USC 80a-28(d); or

(d) credit extended by a foreign person to purchase foreign securities.

SECTION 220.14—Clearance of Securities

(a) *Credit for clearance of securities.* The provisions of this part shall not apply to the extension or maintenance of any credit that is not for more than one day if it is incidental to the clearance of transactions in securities directly between members of a national securities exchange or association or through any clearing agency registered with the SEC.

(b) *Deposit of securities with options clearing agency.* The provisions of this part shall not apply to the deposit of securities with an options-clearing agency for the purpose of meeting its deposit requirements if—

- (1) the clearing agency issues options on securities;
- (2) the clearing agency is registered with the SEC; and
- (3) the deposit consists of any margin security and complies with the rules of the clearing agency which have been approved by the SEC.

SECTION 220.15—Borrowing by Creditors

(a) *Restrictions on borrowing.* A creditor may not borrow in the ordinary course of business as a broker or dealer using as collateral any registered nonexempted security, except—

- (1) from or through a member bank of the Federal Reserve System; or
- (2) from any nonmember bank that has filed with the Board an agreement as prescribed in paragraph (b) of this section, which agreement is still in effect; or

(3) from another creditor if the loan is permissible under this part.

(b) *Agreements of nonmember banks.**

(1) A nonmember bank shall file an agreement that conforms to the requirements of section 8(a) of the act (see Form FR T-2) if—

(i) its principal place of business is in a territory or insular possession of the United States; or

(ii) it has an office or agency in the United States and its principal place of business is outside the United States.

(2) Any other nonmember bank shall file an agreement that conforms to the requirements of section 8(a) of the act (see Form FR T-1).

(3) Any nonmember bank may terminate its agreement if it obtains the written consent of the Board.

SECTION 220.16—Borrowing and Lending Securities

Without regard to the other provisions of this part, a creditor may borrow or lend securities for the purpose of making delivery of the securities in the case of short sales, failure to receive securities required to be delivered, or other similar situations. Each borrowing shall be secured by a deposit of one or more of the following: cash, securities issued or guaranteed by the United States or its agencies, negotiable bank certificates of deposit and bankers acceptances issued by banking institutions in the United States and payable in the United States, or irrevocable letters of credit issued by a bank insured by the Federal Deposit Insurance Corporation or a foreign bank that has filed an agreement with the Board on Form FR T-2. Such deposit made with the lender of the securities shall have at all times a value at least equal to 100 percent of the market value of the securities borrowed, computed as of the close of the preceding business day.

* Federal Reserve Report K.22, an annual list of nonmember banks that have filed this agreement, and Report K.22A, a monthly update, are available from the Board's Publications Services (202-452-3245).

SECTION 220.17—Requirements for the List of Marginable OTC Stocks and the List of Foreign Margin Stocks

(a) *Requirements for inclusion on the list of marginable OTC stocks.* Except as provided in paragraph (f) of this section, OTC margin stock shall meet the following requirements:

- (1) Four or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;
- (2) The minimum average bid price of such stock, as determined by the Board, is at least five dollars per share;
- (3) The stock is registered under section 12 of the act, is issued by an insurance company subject to section 12(g)(2)(G) of the Act, is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 USC 80a-8), is an American Depository Receipt (ADR) of a foreign issuer whose securities are registered under section 12 of the act, or is a stock of an issuer required to file reports under section 15(d) of the act;
- (4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;
- (5) The stock has been publicly traded for at least six months;
- (6) The issuer has at least \$4 million of capital, surplus, and undivided profits;
- (7) There are 400,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors or beneficial owners of more than 10 percent of the stock;
- (8) There are 1,200 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock as determined by the Board, is at least 500 shares; and
- (9) The issuer or a predecessor in interest has been in existence for at least three years.

(b) *Requirements for continued inclusion on the list of marginable OTC stocks.* Except as

provided in paragraph (f) of this section, OTC margin stock shall meet the following requirements:

- (1) Three or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;
- (2) The minimum average bid price of such stocks, as determined by the Board, is at least two dollars per share;
- (3) The stock is registered as specified in paragraph (a)(3) of this section.
- (4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;
- (5) The issuer has at least \$1 million of capital, surplus, and undivided profits;
- (6) There are 300,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 percent of the stock; and
- (7) There continue to be 800 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares.

(c) *Requirements for inclusion on the list of foreign margin stocks.* Except as provided in paragraph (f) of this section, a foreign margin stock shall meet the following requirements:

- (1) The security is listed for trading on or through the facilities of a foreign securities exchange or a recognized foreign securities market and has been trading on such exchange or market for at least six months;
- (2) Daily quotations for both bid and asked or last sale prices for the security provided by the foreign securities exchange or foreign securities market on which the security is traded are continuously available to creditors in the United States pursuant to an electronic quotation system;
- (3) The aggregate market value of shares, the ownership of which is unrestricted, is not less than \$1 billion;
- (4) The average weekly trading volume of

such security during the preceding six months is either at least 200,000 shares or \$1 million; and

(5) The issuer or a predecessor in interest has been in existence for at least five years.

(d) *Requirements for continued inclusion on the list of foreign margin stocks.* Except as provided in paragraph (f) of this section, a foreign margin stock shall meet the following requirements:

(1) The security continues to meet the requirements specified in paragraphs (c)(1) and (2) of this section;

(2) The aggregate market value of shares, the ownership of which is unrestricted, is not less than \$500 million; and

(3) The average weekly trading volume of such security during the preceding six months is either at least 100,000 shares or \$500,000.

(e) *Removal from the lists.* The Board shall periodically remove from the lists any stock that—

(1) ceases to exist or of which the issuer ceases to exist, or

(2) no longer substantially meets the provision of paragraphs (b) or (d) of this section or section 220.2(u).

(f) *Discretionary authority of Board.* Without regard to other paragraphs of this section, the Board may add to, or omit or remove from the list of marginable OTC stocks and the list of foreign margin stocks any equity security, if in the judgment of the Board, such action is necessary or appropriate in the public interest.

(g) *Unlawful representations.* It shall be unlawful for any creditor to make, or cause to be made, any representation to the effect that the inclusion of a security on the list of marginable OTC stocks or the list of foreign margin stocks is evidence that the Board or the SEC has in any way passed upon the merits of, or given approval to, such security or any transactions therein. Any statement in an advertisement or other similar communication containing a reference to the Board in connection with the lists or stocks on those lists shall be an unlawful representation.

SECTION 220.18—Supplement: Margin Requirements

The required margin for each security position held in a margin account shall be as follows:

(a) *Margin equity security except for an exempted security or a long position in an option:* 50 percent of the current market value of the security or the percentage set by the regulatory authority where the trade occurs, whichever is greater.

(b) *Exempted security, registered nonconvertible debt security or OTC margin bond:* the margin required by the creditor in good faith or the percentage set by the regulatory authority where the trade occurs, whichever is greater.

(c) *Short sale of nonexempted security:* 150 percent of the current market value of the security, or 100 percent of the current market value if a security exchangeable or convertible within 90 calendar days without restriction other than the payment of money into the security sold short is held in the account.

(d) *Short sale of an exempted security:* 100 percent of the current market value of the security plus the margin required by the creditor in good faith.

(e) *Nonmargin, nonexempted security or a long position in any option:* 100 percent of the current market value.

(f) *Short put or short call on a security, certificate of deposit, securities index or foreign currency:* (1) in the case of puts and calls issued by a registered clearing corporation and listed or traded on a registered national securities exchange or a registered securities association, the amount, or other position (except in the case of an option on an equity security), specified by the rules of the registered national securities exchange or the registered securities association authorized to trade the option, provided that all such rules have been approved or amended by the SEC; or

(2) in the case of all other puts and calls,

the amount, or other position (except in the case of an option on an equity security),

specified by the maintenance rules of the creditor's self-regulatory organization.

F.R. T-1, T-2
 OMB No. 7100-0191
 Approval Expires August 31, 1990

Board of Governors of the Federal Reserve System
 Washington, D.C.

AGREEMENT OF DOMESTIC (T-1) AND FOREIGN (T-2) NONMEMBER BANKS

(Federal Reserve Form T-1, T-2)

This report is required by sections 8 and 23 of the Securities Exchange Act of 1934 (15 U.S.C. §§78h and 78w).

AGREEMENT

In order (1) to qualify under section 8(a) of the Securities Exchange Act of 1934 as a bank from which it is lawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, to borrow, in the ordinary course of business as a broker or dealer, on securities (in addition to exempted securities as defined in such Act) registered on a national securities exchange, or (2) in the case of a foreign bank, to issue irrevocable letters of credit as security for a borrowing of securities pursuant to section 220.16 of Regulation T (12 CFR 220.16) the undersigned represents and agrees as follows:

1. That it is a "bank" within the meaning of that term as defined in the Securities Exchange Act of 1934; that it is organized under the laws of _____;
 _____;
 that it is not a member of the Federal Reserve System; and
 that it has its principal place of business at _____

2. That it will henceforth comply with all provisions of the Securities Exchange Act of 1934, the Federal Reserve Act, as amended, and the Banking Act of 1933, which are applicable to banks having membership in the Federal Reserve System and which relate to the use of credit to finance transactions in securities, and with such rules and regulations as may be prescribed pursuant to such provisions of law or for the purpose of preventing evasions thereof.

3. That this agreement shall be submitted to: (1) in the case of a non-member bank with its principal place of business in the United States, the Federal Reserve Bank of the district in which such bank has its principal place of business, and (2) in the case of a nonmember bank with its principal place of business outside the United States and branches or agencies within the United States, to the Federal Reserve Bank of New York or the Federal Reserve Bank of San Francisco.
4. That this agreement shall be effective on the date of issuance of the certificate issued by the appropriate Federal Reserve Bank and shall thereafter be binding upon the undersigned until terminated as provided by law.
5. That upon the termination of this agreement it will promptly surrender to the Board of Governors of the Federal Reserve System every certificate which shall have been issued by the said Board or any agent thereof in respect of such agreement.

Executed in duplicate this

_____ day of _____, 19__

[SEAL] _____

By _____
Authorized officer, agent or partner — indicate title or designation

Attest:

Secretary

RESOLUTION

(Inapplicable if qualifying bank is partnership)

Resolved that _____, the _____
of _____

(hereinafter in this resolution referred to as the "Bank") be and hereby is authorized and directed, for and in the name of the Bank to execute and file with the Board of Governors of the Federal Reserve System an agreement in the form prescribed by said Board pursuant to the provisions of section 8(a) of the Securities Exchange Act of 1934, in order to qualify the Bank as a bank not having membership in the

Federal Reserve System from which any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member may borrow, in the ordinary course of business as a broker or dealer, on securities (in addition to exempted securities as defined in such Act) registered on a national securities exchange.

CERTIFICATION

(Inapplicable if qualifying bank is partnership)

I hereby certify that the foregoing is a true and correct copy of a resolution duly adopted by the _____ of _____, at a
Board of directors or other governing body — indicate title Name of bank
_____ meeting duly called and held at _____ on the
Regular or Special
_____ day of _____, 19_____, at which meeting a quorum was present and acting throughout.

Secretary

DATE _____

FR T-4
OMB No. 7100-0019
Approval expires May 1992

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Statement of Purpose for an
Extension of Credit by a Creditor

Name of Creditor

(Federal Reserve Form T-4)

This form is required by law (15 U.S.C. 78g and 78w; 12 CFR 220).

REPORTING BURDEN

Public reporting burden for this collection of information is estimated to average 10 minutes per response, including the time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect

of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0011), Washington, D.C. 20503.

Instructions

1. This form need be completed only if the purpose of the credit being extended is *not* to purchase, carry, or trade in securities *and* the credit is in excess of that otherwise permitted under Regulation T. (See § 220.9(b)).
2. Please print or type (if space is inadequate, attach separate sheet).

Part I To be completed by customer(s)

1. What is the amount of the credit being extended? _____
2. The borrower acknowledges that no part of this credit will be used to purchase, carry, or trade in securities. The purpose of the credit is described in detail as follows:

3. Are any of the securities listed in Part II to be delivered, or have any such securities been delivered from a bank, broker, dealer, or other person on a "delivery against payment" basis? Yes No

I (We) have read this form and certify that to the best of my (our) knowledge and belief the information given is true, accurate, and complete.

Signed: _____	Date _____	Signed: _____	Date _____
Borrower's signature		Borrower's signature	
Print or type name		Print or type name	

This form should not be signed in blank.

A borrower who falsely certifies the purpose of a credit on this form or otherwise willfully or intentionally evades the provisions of Regulation T will also violate Federal Reserve Regulation X, "Borrowers of Securities Credit".

Part II To be completed by creditor

The following is a listing of collateral, if any, securing this credit.

1. Collateral consisting of securities with loan value under Regulation T (refer to the Supplement to Regulation T).

No. of shares or other unit	Itemize separately by issue	Market price	Date and source of valuation (See note below)	Total market value per issue

2. Collateral consisting of securities having no loan value under Regulation T.

No. of shares or other unit	Itemize separately by issue	Market price	Date and source of valuation (See note below)	Total market value per issue

3. Other collateral.

Itemize	Current market value	Date and source of valuation (See note below)	Good faith loan value

Note: Creditor need not complete "Date and source of valuation" if the market value was obtained from regularly published or disseminated information in either a journal of general circulation or an automated quotation system.

I am a duly authorized representative of the creditor. I have read this form and any attachments and have accepted the customer's statement in Part I in good faith as defined below*, and I certify that to the best of my knowledge and belief, all the information given is true, accurate, and complete.

Signed:

Date

Title

Authorized representative's signature

Print or type name

* To accept the customer's statement in good faith, the duly authorized representative of the creditor must be alert to the circumstances surrounding the credit and, if in possession of any information that 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 creditor for three years after the credit is extinguished.

Regulation U

Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks

12 CFR 221; as amended effective September 23, 1987

SECTION 221.1—Authority, Purpose, and Scope

(a) *Authority.* Regulation U (this part*) is issued by the Board of Governors of the Federal Reserve System (the Board) pursuant to the Securities Exchange Act of 1934 (the act) (15 USC 78a et seq.).

(b) *Purpose and scope.* This part imposes credit restrictions upon “banks” (as defined in section 221.2(b) of this part) that extend credit for the purpose of buying or carrying margin stock if the credit is secured directly or indirectly by margin stock. Banks may not extend more than the maximum loan value of the collateral securing such credit, as set by the Board in section 221.8 (the supplement).

SECTION 221.2—Definitions

The terms used in this part have the meanings given them in section 3(a) of the act or as defined in this section.

(a) “Affiliate” means (1) any bank holding company of which a bank is a subsidiary within the meaning of the Bank Holding Company Act of 1956, as amended (12 USC 1841(d));

(2) any other subsidiary of such bank holding company; and

(3) any other corporation, business trust, association, or other similar organization that is an affiliate as defined in section 2(b) of the Banking Act of 1933 (12 USC 221a(c)).

(b) (1) “Bank” has the meaning given to it in section 3(a)(6) of the act (15 USC 78c(a)(6)) and includes (i) any subsidiary of a bank;

(ii) any corporation organized under section 25(a) of the Federal Reserve Act (12 USC 611); and

(iii) any agency or branch of a foreign bank located within the United States.

(2) “Bank” does not include (i) any savings and loan association,

(ii) any credit union,

(iii) any lending institution that is an instrumentality or agency of the United States, or

(iv) any member of a national securities exchange.

(c) “Carrying” credit is credit that enables a customer to maintain, reduce, or retire indebtedness originally incurred to purchase a security that is currently a margin stock.

(d) “Current market value” of—

(1) a security means (i) if quotations are available, the closing sale price of the security on the preceding business day, as appearing on any regularly published reporting or quotation service; or

(ii) if there is no closing sale price, the bank may use any reasonable estimate of the market value of the security as of the close of business on the preceding business day; or

(iii) if the credit is used to finance the purchase of the security, the total cost of purchase, which may include any commissions charged.

(2) any other collateral means a value determined by any reasonable method in accordance with sound banking practices.

(e) “Customer” includes any person or persons acting jointly, to or for whom a bank extends or maintains credit.

(f) “Good faith” with respect to—

(1) the loan value of collateral, means that amount (not exceeding 100 percent of the current market value of the collateral) which a bank, exercising sound banking judgment, would lend, without regard to the customer’s other assets held as collateral in connection with unrelated transactions;

* Code of Federal Regulations, title 12, chapter II, part 221.

- (2) accepting notice or certification from or on behalf of a customer means that the bank or its duly authorized representative is alert to the circumstances surrounding the credit, and if in possession of information that would cause a prudent person not to accept the notice or certification without inquiry, investigates and is satisfied that it is truthful;
- (g) "Indirectly secured" (1) includes any arrangement with the customer under which—
- (i) the customer's right or ability to sell, pledge, or otherwise dispose of margin stock owned by the customer is in any way restricted while the credit remains outstanding; or
 - (ii) the exercise of such right is or may be cause for accelerating the maturity of the credit.
- (2) does not include such an arrangement if—
- (i) after applying the proceeds of the credit, not more than 25 percent of the value (as determined by any reasonable method) of the assets subject to the arrangement is represented by margin stock;
 - (ii) it is a lending arrangement that permits accelerating the maturity of the credit as a result of a default or renegotiation of another credit to the customer by another lender that is not an affiliate of the bank;
 - (iii) the bank holds the margin stock only in the capacity of custodian, depository, or trustee, or under similar circumstances, and, in good faith, has not relied upon the margin stock as collateral; or
 - (iv) the bank, in good faith, has not relied upon the margin stock as collateral in extending or maintaining the particular credit.
- (h) "Margin stock" means (1) any equity security registered or having unlisted trading privileges on a national securities exchange;
- (2) any OTC margin stock;
 - (3) any OTC security designated as qualified for trading in the National Market System under a designation plan approved by the Securities and Exchange Commission (NMS security);
 - (4) any debt security convertible into a margin stock or carrying a warrant or right to subscribe to or purchase a margin stock;
 - (5) any warrant or right to subscribe to or purchase a margin stock; or
 - (6) any security issued by an investment company registered under section 8 of the Investment Company Act of 1940 (15 USC 80a-8), other than—
 - (i) a company licensed under the Small Business Investment Act of 1958, as amended (15 USC 661); or
 - (ii) a company which has at least 95 percent of its assets continuously invested in exempted securities (as defined in 15 USC 78c(a)(12)); or
 - (iii) a company which issues face-amount certificates as defined in 15 USC 80a-2(a)(15), but only with respect of such securities.
- (i) "Maximum loan value" is the percentage of current market value assigned by the Board under section 221.8 of this part to specified types of collateral. The maximum loan value of margin stock is stated as a percentage of its current market value. Puts, calls, and combinations thereof have no loan value except for purposes of section 221.5(c)(10) of this part. All other collateral has good faith loan value.
- (j) "OTC margin stock" is any equity security not traded on a national security exchange that the Board has determined has the degree of national investor interest, the depth and breadth of market, the availability of information respecting the security and its issuer, and the character and permanence of the issuer to warrant being treated like an equity security traded on a national securities exchange. An OTC stock is not considered to be an "OTC margin stock" unless it appears on the Board's periodically published list of OTC margin stocks.
- (k) "Purpose credit" is any credit for the purpose, whether immediate, incidental, or ultimate, of buying or carrying margin stock.

SECTION 221.3—General Requirements

(a) *Extending, maintaining, and arranging credit.* (1) *Extending credit.* No bank shall extend any purpose credit, secured directly or indirectly by margin stock, in an amount that exceeds the maximum loan value of the collateral securing the credit. The maximum loan value of margin stock (set forth in section 221.8 of this part) is assigned by the Board in terms of a percentage of the current market value of the margin stock. All other collateral has "good faith" loan value, as defined in section 221.2(f) of this part.

(2) *Maintaining credit.* A bank may continue to maintain any credit initially extended in compliance with this part, regardless of—

- (i) reduction in the customer's equity resulting from change in market prices;
- (ii) change in the maximum loan value prescribed by this part; or
- (iii) change in the status of the security (from nonmargin to margin) securing an existing purpose credit.

(3) *Arranging credit.* No bank may arrange for the extension or maintenance of any purpose credit, except upon the same terms and conditions under which the bank itself may extend or maintain purpose credit under this part.

(b) *Purpose statement.* Except for credit extended under paragraph (c) of this section, whenever a bank extends credit secured directly or indirectly by any margin stock, in an amount exceeding \$100,000, the bank shall require its customer to execute Form FR U-1 (OMB No. 7100-0115), which shall be signed and accepted by a duly authorized officer of the bank acting in good faith.

(c) *Purpose statement for revolving-credit or multiple-draw agreements.*

(1) If a bank extends credit, secured directly or indirectly by any margin stock, in an amount exceeding \$100,000, under a revolving-credit or other multiple-draw agreement, Form FR U-1 can either be executed each time a disbursement is made un-

der the agreement, or at the time the credit arrangement is originally established.

(2) If a purpose statement executed at the time the credit arrangement is initially made indicates that the purpose is to purchase or carry margin stock, the credit will be deemed in compliance with this part if the maximum loan value of the collateral at least equals the aggregate amount of funds actually disbursed. For any purpose credit disbursed under the agreement, the bank shall obtain and attach to the executed Form FR U-1 a current list of collateral which adequately supports all credit extended under the agreement.

(d) *Single-credit rule* (1) All purpose credit extended to a customer shall be treated as a single credit, and all the collateral securing such credit shall be considered in determining whether or not the credit complies with this part.

(2) A bank that has extended purpose credit secured by margin stock may not subsequently extend unsecured purpose credit to the same customer unless the combined credit does not exceed the maximum loan value of the collateral securing the prior credit.

(3) If a bank extended unsecured purpose credit to a customer prior to the extension of purpose credit secured by margin stock, the credits shall be combined and treated as a single credit solely for the purposes of the withdrawal and substitution provision of paragraph (f) of this section.

(4) If a bank extends purpose credit secured by any margin stock and nonpurpose credit to the same customer, the bank shall treat the credits as two separate loans and may not rely upon the required collateral securing the purpose credit for the nonpurpose credit.

(e) *Mixed-collateral loans.* A purpose credit secured in part by margin stock, and in part by other collateral shall be treated as two separate loans, one secured by margin stock and one by all other collateral. A bank may use a single credit agreement, if it maintains records identifying each portion of the credit and its collateral.

(f) *Withdrawals and substitutions.* (1) A bank may permit any withdrawal or substitution of cash or collateral by the customer if the withdrawal or substitution would not—

- (i) cause the credit to exceed the maximum loan value of the collateral; or
- (ii) increase the amount by which the credit exceeds the maximum loan value of the collateral.

(2) For purposes of this section, the maximum loan value of the collateral on the day of the withdrawal or substitution shall be used.

(g) *Exchange offers.* To enable a customer to participate in a reorganization, recapitalization, or exchange offer that is made to holders of an issue of margin stock, a bank may permit substitution of the securities received. A nonmargin, nonexempted security acquired in exchange for a margin stock shall be treated as if it is margin stock for a period of 60 days following the exchange.

(h) *Renewals and extensions of maturity.* A renewal or extension of maturity of a credit need not be considered a new extension of credit if the amount of the credit is increased only by the addition of interest, service charges, or taxes with respect to the credit.

(i) *Transfers of credit.* (1) A transfer of a credit between customers or banks shall not be considered a new extension of credit if—

- (i) the original credit was in compliance with this part;
- (ii) the transfer is not made to evade this part;
- (iii) the amount of credit is not increased; and
- (iv) the collateral for the credit is not changed.

(2) Any transfer between customers at the same bank shall be accompanied by a statement by the transferor customer describing the circumstances giving rise to the transfer and shall be accepted and signed by an officer of the bank acting in good faith. The bank shall keep such statement with its records of the transferee account.

(3) When a transfer is made between banks, the transferee bank shall obtain a

copy of the Form FR U-1 originally filed with the transferor bank and retain the copy with its records of the transferee account.

(j) *Action for bank's protection.* Nothing in this part shall require a bank to waive or forgo any lien or prevent a bank from taking any action it deems necessary in good faith for its protection.

(k) *Mistakes in good faith.* A mistake in good faith in connection with the extension or maintenance of credit shall not be a violation of this part.

(l) *Lack of notice of NMS security designation.* Failure to treat an NMS security as a margin stock in connection with an extension of credit shall not be deemed a violation of this part if the designation is made between quarterly publications of the Board's list of OTC margin stocks and the bank does not have actual notice of the designation.

SECTION 221.4—Agreements of Nonmember Banks

(a) Banks that are not members of the Federal Reserve System shall file an agreement that conforms to the requirements of section 8(a) of the act (see Form T-1 for domestic nonmember banks and Form T-2 for all other nonmember banks) prior to extending any credit secured by any nonexempt security registered on a national securities exchange to persons subject to part 220 of this chapter, who are borrowing in the ordinary course of business.*

(b) Any nonmember bank may terminate its agreement upon written notification to the Board.

SECTION 221.5—Special-Purpose Loans to Brokers and Dealers

(a) *Special-purpose loans.* A member bank, and a nonmember bank that is in compliance

* Federal Reserve Report K.22, an annual list of nonmember banks that have filed this agreement, and Report K.22A, a monthly update, are available from the Board's Publications Services (202-452-3245).

with section 221.4 of this part, may extend and maintain purpose credit to brokers and dealers without regard to the limitations set forth in sections 221.3 and 221.8 of this part, if the credit is for any of the specific purposes and meets the conditions set forth in paragraph (c) of this section.

(b) *Written notice.* Prior to extending credit for more than a day under this section, the bank shall obtain and accept in good faith a written notice or certification from the borrower as to the purposes of the loan. The written notice or certification shall be evidence of continued eligibility for the special credit provisions until the borrower notifies the bank that it is no longer eligible or the bank has information that would cause a reasonable person to question whether the credit is being used for the purpose specified.

(c) *Types of special-purpose credit.* The types of credit that may be extended and maintained on a good faith basis are as follows:

(1) *Hypothecation loans.* Credit secured by hypothecated customer securities that, according to written notice received from the broker or dealer, may be hypothecated by the broker or dealer under Securities and Exchange Commission (SEC) rules.

(2) *Temporary advances in payment-against-delivery transactions.* Credit to finance the purchase or sale of securities for prompt delivery, if the credit is to be repaid upon completion of the transaction.

(3) *Loans for securities in transit or transfer.* Credit to finance securities in transit or surrendered for transfer, if the credit is to be repaid upon completion of the transaction.

(4) *Intraday loans.* Credit to enable a broker or dealer to pay for securities, if the credit is to be repaid on the same day it is extended.

(5) *Arbitrage loans.* Credit to finance proprietary or customer bona fide arbitrage transactions. For the purpose of this section "bona fide arbitrage" means—

(i) purchase or sale of a security in one market, together with an offsetting sale or purchase of the same security in a different market at nearly the same time as practicable, for the purpose of taking ad-

vantage of a difference in prices in the two markets; or

(ii) purchase of a security that is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days of the purchase into a second security, together with an offsetting sale of the second security at or about the same time, for the purpose of taking advantage of a concurrent disparity in the price of the two securities.

(6) *Distribution loans.* Credit to finance the distribution of securities to customers.

(7) *Odd-lot loans.* Credit to finance the odd-lot transactions of a person registered as an odd-lot dealer on a national securities exchange.

(8) *Emergency loans.* Credit that is essential to meet emergency needs of the broker-dealer business arising from exceptional circumstances.

(9) *Capital-contribution loans.* (i) Credit that the Board has exempted by order upon a finding that the exemption is necessary or appropriate in the public interest or for the protection of investors, provided the Securities Investor Protection Corporation certifies to the Board that the exemption is appropriate; or (ii) credit to a customer for the purpose of making a subordinated loan or capital contribution to a broker or dealer in conformity with the SEC's net capital rules and the rules of the broker's or dealer's examining authority, provided—

(A) the customer reduces the credit by the amount of any reduction in the loan or contribution to the broker or dealer; and

(B) the credit is not used to purchase securities issued by the broker or dealer in a public distribution.

(10) *Loans to specialists.* Credit extended to finance the specialty security and permitted offset positions of members of a national securities exchange who are registered and acting as specialists on the exchange, provided the credit is extended on a good faith loan value basis.

(11) *OTC-market-maker credit.* Credit to a dealer who has given written notice to the bank that it is a "qualified OTC market

maker” in an OTC margin security as defined in SEC Rule 3b-8 (17 CFR 240.3b-8) and that the credit will be used solely for the purpose of financing the market-making activity, provided the credit is extended on a good faith loan value basis.

(12) *Third-market maker loans.* Credit to a dealer who has given written notice to the bank that it is a “qualified third-market maker,” as defined in SEC Rule 3b-8 (17 CFR 240.3b-8), and that the credit will be used solely for the purpose of financing positions in securities assumed as a “qualified third-market maker,” provided the credit is extended on a good faith loan value basis.

(13) *Block-positioner credit.* Credit to a dealer who has given written notice to the bank that it is a “qualified block positioner” for a block of securities, as defined in SEC Rule 3b-8 (17 CFR 240.3b-8), and that the credit will be used to finance a position in that block, provided the credit is extended on a good faith loan value basis.

SECTION 221.6—Exempted Transactions

A bank may extend and maintain purpose credit without regard to the provisions of this part if such credit is extended—

- (a) to any bank;
- (b) to any foreign banking institution;
- (c) outside the United States;
- (d) to an employee stock ownership plan (ESOP) qualified under section 401 of the Internal Revenue Code (26 USC 401);
- (e) to any “plan lender” as defined in part 207 of this chapter to finance such a plan, provided the bank has no recourse to any securities purchased pursuant to the plan;
- (f) to any customer, other than a broker or dealer, to temporarily finance the purchase or sale of securities for prompt delivery, if the credit is to be repaid in the ordinary course of business upon completion of the transaction;
- (g) against securities in transit, if the credit is not extended to enable the customer to pay for

securities purchased in an account subject to part 220 of this chapter; or

(h) to enable a customer to meet emergency expenses not reasonably foreseeable, and if the extension of credit is supported by a statement executed by the customer and accepted and signed by an officer of the bank acting in good faith. For this purpose, emergency expenses include expenses arising from circumstances such as the death or disability of the customer, or some other change in circumstances involving extreme hardship, not reasonably foreseeable at the time the credit was extended. The opportunity to realize monetary gain or to avoid loss is not a “change in circumstances” for this purpose.

SECTION 221.7—Requirements for the List of OTC Margin Stocks

(a) *Requirements for inclusion on the list.* Except as provided in paragraph (d) of this section, an OTC margin stock shall meet the following requirements:

- (1) Four or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;
- (2) The minimum average bid price of such stock, as determined by the Board, is at least \$5 per share;
- (3) The stock is registered under section 12 of the act, is issued by an insurance company subject to section 12(g)(2)(G) of the act, is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 USC 80a-8), is an American Depositary Receipt (ADR) of a foreign issuer whose securities are registered under section 12 of the act, or is a stock of an issuer required to file reports under section 15(d) of the act;
- (4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;
- (5) The stock has been publicly traded for at least six months;
- (6) The issuer had at least \$4 million of capital, surplus, and undivided profits;

(7) There are 400,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 percent of the stock;

(8) There are 1,200 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such a stock as determined by the Board is at least 500 shares; and

(9) The issuer or a predecessor in interest has been in existence for at least three years.

(b) *Requirements for continued inclusion on the list.* Except as provided in paragraph (d) of this section, an OTC margin stock shall meet the following requirements:

(1) Three or more dealers stand willing to, and do in fact make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;

(2) The minimum average bid price of such stocks, as determined by the Board, is at least \$2 per share;

(3) The stock is registered as specified in paragraph (a)(3) of this section;

(4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;

(5) The issuer has at least \$1 million of capital, surplus, and undivided profits.

(6) There are 300,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 percent of the stock; and

(7) There continue to be 800 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares.

(c) *Removal from the list.* The Board shall periodically remove from the list any stock that—

(1) ceases to exist or of which the issuer ceases to exist, or

(2) no longer substantially meets the provisions of paragraph (b) of this section or section 221.2(j).

(d) *Discretionary authority of Board.* Without regard to the other paragraphs of this section, the Board may add to, or omit or remove from, the OTC margin stock list any equity security, if in the judgment of the Board such action is necessary or appropriate in the public interest.

(e) *Unlawful representations.* It shall be unlawful for any bank to make, or cause to be made, any representation to the effect that the inclusion of a security on the list of OTC margin stocks is evidence that the Board or the SEC has in any way passed upon the merits of, or given approval to, such security or any transactions therein. Any statement in an advertisement or other similar communication containing a reference to the Board in connection with the list or stocks on that list shall be an unlawful representation.

SECTION 221.8—Supplement: Maximum Loan Value of Stock and Other Collateral

(a) *Maximum loan value of margin stock.* The maximum loan value of any margin stock, except options, is 50 percent of its current market value.

(b) *Maximum loan value of nonmargin stock and all other collateral.* The maximum loan value of nonmargin stock and all other collateral except puts, calls, or combinations thereof is their good faith loan value.

(c) *Maximum loan value of options.* Except for purposes of section 221.5(c)(10) of this part, puts, calls, and combinations thereof have no loan value.

FR U-1
C.M.B. No. 7100-0115
Approval expires March 31, 1991

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
Statement of Purpose for an Extension of Credit
Secured By Margin Stock

Name of Bank
(Federal Reserve Form U-1)

This form is required by law (15 U.S.C. §§78g and 78w; 12 CFR 221).

INSTRUCTIONS

- 1. This form must be completed when a bank extends credit in excess of \$100,000 secured directly or indirectly, in whole or in part, by any margin stock.
- 2. The term "margin stock" is defined in Regulation U (12 CFR 221) and includes, principally: (1) stocks that are registered on a national securities exchange or that are on the Federal Reserve Board's List of Marginable OTC Stocks; (2) debt securities (bonds) that are convertible into margin stocks; (3) any over-the-counter security designated as qualified for trading in the National Market System under a designation plan approved by the Securities and Exchange Commission (NMS security); and (4) shares of mutual funds, unless 95 per cent of the assets of the fund are continuously invested in U.S. government, agency, state, or municipal obligations.
- 3. Please print or type (if space is inadequate, attach separate sheet).

PART I. To be completed by borrower(s).

1. What is the amount of the credit being extended? _____

2. Will any part of this credit be used to purchase or carry margin stock? Yes No

If the answer is "no," describe the specific purpose of the credit. _____

I (we) have read this form and certify that to the best of my (our) knowledge and belief the information given is true, accurate, and complete, and that the margin stock and any other securities collateralizing this credit are authentic, genuine, unaltered, and not stolen, forged, or counterfeit.

Signed: _____ Signed: _____

Borrower's Signature _____ Date _____ Borrower's Signature _____ Date _____

Print or Type Name _____ Print or Type Name _____

This form should not be signed in blank.

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, "Borrowers of Securities Credit."

PART II. To be completed by bank only if the purpose of the credit is to purchase or carry margin stock (Part I(2) answered "yes").

1. List the margin stock securing this credit; do not include debt securities convertible into margin stock. The maximum loan value of margin stock is per cent of its current market value under the current Supplement to Regulation U.

No. of shares	Issue	Market price per share	Date and source of valuation (See note below)	Total market value per issue

2. List the debt securities convertible into margin stock securing this credit. The maximum loan value of such debt securities is per cent of the current market value under the current Supplement to Regulation U.

Principal amount	Issue	Market price	Date and source of valuation (See note below)	Total market value per issue

3. List other collateral including nonmargin stock securing this credit.

Describe briefly	Market price	Date and source of valuation (See note below)	Good faith loan value

Note: Bank need not complete "Date and source of valuation" if the market value was obtained from regularly published information in a journal of general circulation.

PART III. To be signed by a bank officer in all instances.

I am a duly authorized officer of the bank and understand that this credit secured by margin stock may be subject to the credit restrictions of Regulation U. I have read this form and any attachments, and I have accepted the customer's statement in Part I in good faith as required by Regulation U*, and I certify that to the best of my knowledge and belief, all the information given is true, accurate, and complete. I also certify that if any securities that directly secure the credit are not or will not be registered in the name of the borrower or its nominee, I have or will cause to have examined

the written consent of the registered owner to pledge such securities. I further certify that any securities that have been or will be physically delivered to the bank in connection with this credit have been or will be examined, that all validation procedures required by bank policy and the Securities Exchange Act of 1934 (section 17(f), as amended) have been or will be performed, and that I am satisfied to the best of my knowledge and belief that such securities are genuine and not stolen or forged and their faces have not been altered.

Date

Title

Signed:

Bank officer's signature

Print or type name

*To accept the customer's statement in good faith, the officer of the bank must be alert to the circumstances surrounding the credit and, if in possession of any information that 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.

Regulation X Borrowers of Securities Credit

12 CFR 224; as revised effective January 23, 1984

SECTION 224.1—Authority, Purpose, and Scope

(a) *Authority and purpose.* Regulation X (this part*) is issued by the Board of Governors of the Federal Reserve System (the Board) under the Securities Exchange Act of 1934, as amended (the act) (15 USC 78a et seq.). This part implements section 7(f) of the act (15 USC 78g(f)), the purpose of which is to require that credit obtained within or outside the United States complies with the limitations of the Board's Margin Regulations G, T, and U (12 CFR 207, 220, and 221, respectively).

(b) *Scope and exemptions.* The act and this part apply the Board's margin regulations to United States persons and foreign persons controlled by or acting on behalf of or in conjunction with United States persons (hereinafter borrowers), who obtain credit outside the United States to purchase or carry United States securities, or within the United States to purchase or carry any securities (both types of credit are hereinafter referred to as purpose credit). The following borrowers are exempt from the act and this part:

(1) any borrower who obtains purpose credit within the United States, unless the borrower willfully causes the credit to be extended in contravention of Regulations G, T, or U;

(2) any borrower whose permanent residence is outside the United States and who does not obtain or have outstanding, during any calendar year, a total of more than \$100,000 in purpose credit obtained outside the United States; and

(3) any borrower who is exempt by order upon terms and conditions set by the Board.

SECTION 224.2—Definitions

The terms used in this part have the meanings

* Code of Federal Regulations, title 12, chapter II, part 224.

given to them in sections 3(a) and 7(f) of the act, and in Regulations G, T, and U. Section 7(f) of the act contains the following definitions:

(a) "United States person" includes a person which is organized or exists under the laws of any state or, in the case of a natural person, a citizen or resident of the United States; a domestic estate; or a trust in which one or more of the foregoing persons has a cumulative direct or indirect beneficial interest in excess of 50 per centum of the value of the trust.

(b) "United States security" means a security (other than an exempted security) issued by a person incorporated under the laws of any state, or whose principal place of business is within a state.

(c) "Foreign person controlled by a United States person" includes any noncorporate entity in which United States persons directly or indirectly have more than a 50 per centum beneficial interest, and any corporation in which one or more United States persons, directly or indirectly, own stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock.

SECTION 224.3—Margin Regulations to Be Applied by Nonexempted Borrowers

(a) *Credit transactions outside the United States.* No borrower shall obtain purpose credit from outside the United States unless it conforms to the following margin regulations:

(1) Regulation T (12 CFR 220) if the credit is obtained from a foreign branch of a broker-dealer;

(2) Regulation U (12 CFR 221) if the credit is obtained from a foreign branch of a bank, except for the requirement of a purpose statement (12 CFR 221.3(b) and (c)); and

(3) Regulation G (12 CFR 207) if the

credit is obtained from any other lender outside the United States, except for the requirement of a purpose statement (12 CFR 207.3(e) and (f)).

(b) *Credit transactions within the United States.* Any borrower who willfully causes credit to be extended in contravention of Regulations G, T, or U, and who, therefore, is not

exempted by section 224.1(b)(1) of this part, must conform the credit to the margin regulation that applies to the lender.

(c) *Inadvertent noncompliance.* No borrower who inadvertently violates this part and who acts to remedy the violation as soon as practicable shall be deemed in violation of this part.