

FEDERAL RESERVE BANK  
OF NEW YORK

Circular No. 6867  
December 23, 1971

INTERPRETATION OF REGULATION U

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

Printed below is the text of an interpretation of Regulation U, "Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks," adopted November 15 by the Board of Governors of the Federal Reserve System, relating to allocation of stock collateral when purpose and nonpurpose credits are extended to the same customer.

Additional copies of this circular will be furnished upon request.

Alfred Hayes,  
President.

[Reg. U]  
(12 CFR Part 221)

§ 221.120 Allocation of stock collateral to purpose and nonpurpose credits to same customer

(a) A bank proposes to extend two credits (Credits "A" and "B") to its customer. Although the two credits are proposed to be extended at the same time, each would be evidenced by a separate agreement. Credit A would be extended for the purpose of providing the customer with working capital (nonpurpose credit), collateralized by stock. Credit B would be extended for the purpose of purchasing or carrying margin stock (purpose credit), without collateral or on collateral other than stock.

(b) Regulation U allows a bank to extend purpose and nonpurpose credits simultaneously or successively to the same customer. This rule is expressed in section 221.3(n)(3) which provides in substance that for any nonpurpose credit to the same customer, the bank shall in good faith require as much collateral not already identified to the customer's purpose credit as the bank would require if it held neither the purpose loan nor the identified collateral. This rule also

takes into account that the bank would not necessarily be required to hold collateral for the nonpurpose credit if, consistent with good faith banking practices, it would normally make this kind of nonpurpose loan without collateral.

(c) The Board views section 221.3(n)(3) of Regulation U, when read in conjunction with section 221.3(n)(1), as requiring that whenever a bank extends two credits to the same customer, one a purpose credit and the other nonpurpose, any stock collateral must first be identified with and attributed to the purpose loan by taking into account the maximum loan value of such collateral as prescribed in section 221.4 (the Supplement) of Regulation U.

(d) The Board is further of the opinion that under the foregoing circumstances Credit B would be indirectly secured by stock, despite the fact that there would be separate loan agreements for both credits. This conclusion flows from the circumstance that the bank would hold in its possession stock collateral to which it would have access with respect to Credit B, despite any ostensible allocation of such collateral to Credit A.

(Interprets and applies 15 U.S.C. 78g(d).)