

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For the Press

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ISSUANCE OF REGULATION O.

The Board of Governors of the Federal Reserve System has issued, effective January 1, 1936, a new regulation designated as "Regulation O" relating to loans to executive officers of member banks.

Section 22(g) of the Banking Act of 1933, approved June 16, 1933, prohibited executive officers of member banks from borrowing from or otherwise becoming indebted to member banks of which they were executive officers and likewise prohibited member banks from making loans or extending credit to their executive officers. Any violation of such provision was declared to be a misdemeanor and the prosecution of violations came under the jurisdiction of the Department of Justice.

In order to clarify the meaning of the term "executive officer" and the question as to whether or not certain transactions were loans or extensions of credit within the meaning of the provision of law, the Banking Act of 1935, which was approved on August 23, 1935, authorized the Board of Governors of the Federal Reserve System to define the term "executive officer", and to determine what shall be deemed to be a loan or extension of credit. The Act also repealed the criminal penalties and made it clear

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that the Board of Governors of the Federal Reserve System could remove offending officers from office for violations of the kind described. The Act also prohibited partnerships in which one or more executive officers of a member bank are partners having either individually or together a majority interest in the partnership from borrowing from or otherwise becoming indebted to the member banks. Other provisions granted exceptions which did not theretofore exist; namely, executive officers of member banks are permitted to borrow from or become indebted thereto in amounts not exceeding \$2500 on condition that a majority of the entire Board of Directors of the bank consents to such indebtedness, and also to endorse or guarantee obligations previously acquired by the member bank for the purpose of protecting it against loss.

The Board has defined the term "executive officer" as follows:

"The term 'executive officer' means the Chairman of the Board of Directors, the President, every Vice President, the Cashier, Secretary, Treasurer, and Trust Officer of a member bank, and, in addition, every other officer of a member bank who participates in the management of the bank or any branch thereof, regardless of whether he has an official title or whether his title contains a designation of assistant, and regardless of whether he is serving without salary or other compensation; but such term does not include a director or member of a committee who is not also an executive officer within the foregoing definition."

Similarly the Board has defined the terms "loan", "loaning", "extension of credit", and "extend credit" to mean:

"the making of a loan or the extending of credit in any manner whatsoever, and include -

- "(1) Any advance by means of an overdraft, cash item, or otherwise;

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- "(2) The acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, indorser, guarantor, or surety;
- "(3) The increase of an existing indebtedness, except on account of accrued interest or on account of taxes, insurance, or other expenses incidental to the existing indebtedness and advanced by the bank for its own protection;
- "(4) Any advance of unearned salary or other unearned compensation for periods in excess of 30 days; and
- "(5) Any other transaction as a result of which an executive officer becomes obligated to a bank, directly or indirectly by any means whatsoever, by reason of an indorsement on an obligation or otherwise, to pay money or its equivalent.

"Such terms, however, do not include (i) advances against accrued salary or other accrued compensation, or for the purpose of providing for the payment of authorized travel or other expenses incurred or to be incurred on behalf of the bank, (ii) the acquisition by a bank of any check deposited in or delivered to the bank in the usual course of business unless it results in the granting of an overdraft to or the carrying of a cash item for an executive officer, or (iii) the acquisition of any note, draft, bill of exchange, or other evidence of indebtedness, through a merger or consolidation of banks or a similar transaction by which a bank acquires assets and assumes liabilities of another bank or other organization, or through foreclosure on collateral or similar proceeding for the protection of the bank."