

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9599

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1936.



Dear Sir:

There is inclosed, for your information, a copy of a letter sent to Mr. Oliver P. Wheeler, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, in connection with certain questions submitted to him by a national bank located in the Twelfth Federal Reserve District regarding the effect on the bank's operations under Regulation U of its "general pledge agreement".

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter". The signature is written in dark ink and is positioned above the typed name and title.

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

May 20, 1936.

COPI

Mr. Oliver P. Wheeler,
Assistant Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Sir:

This refers to your letter of May 11, 1936, containing questions submitted to you by the _____ National Bank regarding the effect on the bank's operations under Regulation U of its "general pledge agreement" enclosed with your letter.

Before answering the specific questions relating to this general loan agreement it may be pointed out that in the preparation of Regulation U consideration was given to the fact that most banks use a general loan agreement of this type. Although no attempt will be made in this letter to construe the legal effect of the enclosed agreement in the State of _____, it will be assumed that it will have an effect similar to general loan agreements which have been considered and which subject to the lien of each existing or future loan of the bank to a given borrower, all collateral or property of that borrower in the possession of the bank.

You first ask whether the pledge resulting from such a general loan agreement of all property in the possession of the bank as security for all the borrower's indebtedness prevents the separate allocation under Regulation U of certain collateral to loans subject to the regulation and of other collateral to loans not subject to the regulation. Regulation U is not intended to prevent a borrower from pledging specifically securities or other collateral for a particular loan or to prevent a bank from

allocating definite collateral to such a loan. However, if a general loan agreement be in effect by which collateral securing each loan also secures all other loans, the loan value of collateral specifically pledged for or allocated to loans not subject to the regulation may be considered as a basis for making or increasing loans subject to the regulation. Further, in determining whether collateral specifically pledged or allocated to loans not subject to the regulation may be withdrawn, the bank must combine the collateral for all loans. The bank may not in this case permit withdrawal of such an amount of collateral as will cause the maximum loan value of the remainder to be less than the amount of the loans subject to the regulation.

In answer to your second question, it follows from the foregoing that such a general loan agreement permits the use of collateral previously allocated to loans not subject to the regulation in computing the maximum loan value for the purpose of making a loan subject to the regulation. In this connection, it is recognized that resort to this practice would tend to nullify the regulation and that evidence of extensive use of the practice would give the Board reason to consider tightening the regulation.

Your last question is whether specific inclusion under the lien of a general loan agreement of all property deposited for safekeeping by the borrower conclusively indicates that securities in safekeeping are relied upon, so that under section 3(f) of Regulation U a bank must treat a loan as collateralized by such securities. Although subsection to the lien in such a case may not conclusively establish the reliance referred to in section 3(f), it will raise a presumption that the bank must have relied

upon the securities in safekeeping. This might be overcome, however, by clear evidence to the contrary in the records of the bank or elsewhere.

The Bulletin of the _____ Trust Company referred to by you represents, it is understood, the construction by that bank of Regulation U. The statements therein will be treated, it is believed, as a reasonable interpretation made in good faith by a member bank. This letter, however, will not attempt to approve or disapprove the construction quoted by you from that Bulletin, as the Board does not feel that it should, at least for the present, pass upon any documents published or used by member banks in connection with Regulation U. To do so in a particular case might result in requests from many banks for approval of their forms.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.