

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9615

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 11, 1936.

Dear Sir:

There is inclosed, for your information, a letter addressed to the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis under date of June 5, 1936, in reply to certain inquiries made of him by the president of a national bank with respect to the provisions of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

X-9615-a

June 5, 1936

Mr. W. B. Geery,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Geery:

Reference is made to your letter of May 22, 1936, inclosing a copy of a letter addressed to you by Mr. _____, President of the _____ National Bank & Trust Company, _____, making certain inquiries with respect to the provisions of Regulation U.

The first inquiry is addressed to a hypothetical case in which a borrower who has borrowed \$1,000 without security from a bank for a purpose other than purchasing or carrying a registered stock applied to the bank after May 1, 1936, for a further loan of \$900 which is for the designated purpose and otherwise subject to Regulation U, to be secured by stocks having a market value of \$2,000. Since, in connection with the second loan, the borrower in the hypothetical case provides additional collateral having a maximum loan value equal to the amount of the loan, it can be made under the provisions of the last paragraph of section 1 of the regulation and this would be true even if the first loan were for the purpose of purchasing or carrying registered stocks.

The second inquiry is addressed to a hypothetical case in which a borrower who has received a loan subject to Regulation U in

the amount of \$900 for which he has deposited as collateral stocks having a market value of \$2,000 applies to the bank after May 1, 1936, for a further loan of \$1,000 to be used in his business and not subject to the regulation. Since the provisions of Regulation U restricting the making of loans apply only to loans for the purpose of purchasing or carrying stocks registered on a national securities exchange, the second loan, in so far as Regulation U is applicable, could be made without the deposit of additional collateral.

The third inquiry is addressed to a hypothetical case in which a borrower who has received a loan of \$1,000 for business purposes and not subject to Regulation U, but which is secured by stocks having a market value of \$2,000 applies after May 1, 1936, for a further \$900 loan subject to the provisions of Regulation U. Under the provisions of Regulation U a loan subject to the regulation may be made in an amount not exceeding the maximum loan value of the collateral which secures it and loans previously made which are not subject to the regulation need not be combined with this loan in estimating the total amount of the loan subject to the regulation. Accordingly, without discussing the case from the standpoint of good banking practices, it follows that the second loan would be permissible without additional collateral, since the maximum loan value of the stocks which secure it, assuming that the loan agreement of the bank would have the effect of subjecting the collateral to the lien of the second loan as well as the first, is equal to the amount of the \$900 loan applied for. However, all of the collateral securing

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it would become subject to the restrictions upon withdrawals and substitutions of collateral as provided in the third paragraph of section 1.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.