

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

March 16, 1937.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of January 29, 1937, requesting advice as to the applicability of the provisions of Regulation U in a situation disclosed in a recent examination of the _____ Bank & Trust Company, _____, _____, described as follows:

"* * * on April 28, 1936, the bank loaned \$4,330 to a customer to enable him to purchase certain stocks registered on a national securities exchange, and * * * on July 29, 1936, the bank loaned the same customer \$1,800 additional for a similar purpose, and at the same time renewed the \$4,330 note referred to above, taking a single new note from him in the sum of \$6,130 to cover both the new advance and a renewal of the old loan. In both cases the advances were secured partly by stocks.

"At the time the new note was taken, the collateral held by the bank had a market value sufficient to meet the requirements of Regulation U for a loan of \$1,800, but not sufficient for a loan of \$6,130."

In this connection you refer to section 3(d) of the regulation which provides that:

"The renewal or extension of maturity of a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the addition of interest or service charges on the loan or

- 2 -

of taxes on transactions in connection with the loan."

Since this provision states that the renewal or extension of maturity of a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the items specified, it is reasonably to be implied that the increasing of a loan in any other manner should be treated as the making of a loan. While the provision does not expressly state whether or not it applies to loans made before May 1, 1936, it is the view of the Board that it should be construed as applying to such loans. Thus the renewal or extension of maturity of such a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the items specified. Similarly, any other increase should be treated as the making of a loan, and it would seem that such an increase should be so considered even in the absence of section 3(b). For example, it would seem that in the present case, even without section 3(b), the \$4,330 loan is the only loan which could properly be considered to have been made prior to May 1, 1936 since neither the new loan of \$1,800 nor what might be considered the combined loan of \$6,130 came into existence until after that date.

For these reasons, it is the opinion of the Board that although section 3(d) permits the \$4,330 loan to be continued as a loan made prior to May 1, 1936 it does not permit the \$1,800 loan to be so treated. While the \$4,330 loan need not be

- 3 -

considered to have lost its status as an old loan merely because it is now represented by the same note which represents the new loan of \$1,800, the \$1,800 loan can not take on the status of the old loan merely because it is represented by that note.

As indicated in the Board's letter (X-9599) of June 1, 1936, the \$1,800 loan could be made in this case without obtaining additional collateral and, therefore, it would seem that the bank has not violated the regulation. It should be understood, however, that a loan for the purpose of purchasing or carrying stocks registered on a national securities exchange has been made after May 1, 1936 in the amount of \$1,800 and, therefore, is subject to the provisions of the regulation. This should be taken into account in making further loans to the borrower or permitting withdrawals or substitutions of collateral; and if the bank prefers to have a single note represent both the old loan and the new loan, it seems advisable that the identity of the two loans be indicated in some way, such as by a notation on the note, so that confusion may not result in the future.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.