

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

April 5, 1937

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

Dear Mr. _____:

This refers to your letter of February 18, 1937, regarding the question whether a certain loan which the _____ Bank of _____, _____, _____, wishes to make to a certain dealer should be considered to be a loan for the purpose of purchasing or carrying stocks registered on a national securities exchange and therefore subject to Regulation U.

In the copy of the bank's letter which you forwarded, the bank asks whether the loan value of stocks securing the loan should be limited to 60 per cent. However, since there is nothing to indicate that the loan would come within the requirements specified in the supplement to the regulation for such a special loan value, the question, as you indicate, would seem to be whether or not the stocks securing such a loan should be limited to a loan value of 45 per cent.

It is understood that the proceeds of the loan are not to be employed immediately but would be kept available for use in

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acquiring registered or unregistered securities. The securities are only acquired when a quick sale is in prospect and they are disposed of promptly. The securities purchased are often unregistered, but some registered stocks are so purchased and the _____ Bank of _____ wishes to know, in effect, whether such purchases of registered stocks cause the loan to be subject to the regulation.

It seems clear from the borrower's business as a dealer that one purpose of the loan is to purchase or carry registered stocks. Therefore, while the loan may also have certain other purposes, it is the opinion of the Board that the loan should be considered to be a loan for the purpose of purchasing or carrying registered stocks.

In advising the _____ Bank of _____ of the Board's views with respect to this matter, you may wish to consider mentioning the possibility that this dealer might separate certain transactions and obtain loans from time to time for particular purposes, so that certain loans to the dealer would not be for the purpose of purchasing or carrying registered stocks or would come within exemptions specified in the regulation, and would thus be excluded from the operation of the regulation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.