

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

May 7, 1937

Mr. \_\_\_\_\_, Vice President,  
Federal Reserve Bank of \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_.

Dear Mr. \_\_\_\_\_:

Reference is made to your letter of April 28, 1937, regarding certain questions which have been presented to you under Regulation U by \_\_\_\_\_ Bank & Trust Company, \_\_\_\_\_, \_\_\_\_\_. You state these questions as follows:

"(1) May a bank, without regard to Regulation U, make a loan to a firm having membership in a national securities exchange on securities owned by the firm, if the purpose of the loan is to furnish cash working capital for the conduct of the brokerage business of the firm; i.e., for purchasing and carrying securities for the account of customers but not for the firm's account?

"(2) May a bank, without regard to Regulation U, make a loan to a partner of such a member firm for the purpose of enabling such partner to make a capital contribution to his firm?

"(3) May a bank make either of the above loans if the firm maintains for the partner a margin account in which there is a debit balance?"

While, as you indicate, all the facts involved in these cases are not entirely clear, upon the basis of the given facts and assuming the loans to be secured by stocks, the Board agrees with your view that the loans in each of the three instances referred to would ordinarily be subject to Regulation U. The situation represented by question numbered (1) seems to be quite similar to that covered in the Board's letter of April 5, 1937, (X-9862, Reg. U-13) and, on the principle stated in that letter, would seem to be a loan for the purpose of purchasing or carrying registered stocks. The other loans would seem to be subject to the regulation for substantially similar reasons.

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You refer to the question of whether or not it would be advisable to amend the regulation to exempt certain loans of the type here involved. Careful consideration has been given to the various aspects of the problem, including those phases of the matter discussed in your letter; and the problem will, of course, be given further study. It would seem to be preferable, however, for the present inquiry to be answered without regard to questions concerning such an amendment.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.