

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

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July 30, 1937

The Board of Governors of the Federal Reserve System has amended its Regulation U, which relates to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange, and at the same time has revised the "Foreword" to the regulation to accord with the regulation as revised. The effect of the amendment is to extend the scope of the regulation, which has heretofore applied only to loans made on or after May 1, 1936, so that it will apply also to loans made prior to that date.

The amendment, which becomes effective September 1, 1937, will appear in the forthcoming issue of the Federal Reserve Bulletin and the regulation as revised is being reprinted and will be mailed within a few days to all banks in the United States.

The "Foreword" to the Regulation, of which only the first paragraph has been revised, now reads as follows:

"This regulation is issued pursuant to the provisions of section 7 of the Securities Exchange Act of 1934.

The regulation does not restrict the right of a bank to extend credit, whether on securities or otherwise, for any commercial, agricultural, or industrial purpose, or for any other purpose except the purchasing or carrying of stocks registered on a national securities exchange.

The regulation does not prevent a bank from taking for any loan collateral in addition to that required by the regulation, nor does it require a bank to reduce any loan, to obtain additional collateral for any outstanding loan, or to call any outstanding loan because of insufficient collateral."

The amendment to Regulation U reads as follows:

"Amendment No. 3 of Regulation U - Effective September 1, 1937

Regulation U, as amended, is hereby further amended in the following respects:

1. Section 1 of said regulation is amended by inserting the words 'or at any previous time,' in the second paragraph of said section after the words 'incurred on or after May 1, 1936,'; and by substituting the words

'While a bank maintains any such loan, whenever made, the' for the words 'After any such loan has been made, a' in the third paragraph of said section; so that said section 1 as thus amended will read as follows:

'SECTION 1. GENERAL RULE

On and after May 1, 1936, no bank shall make any loan secured directly or indirectly by any stock for the purpose of purchasing or carrying any stock registered on a national securities exchange in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in the supplement to this regulation and as determined by the bank in good faith for any collateral other than stocks.

For the purpose of this regulation, the entire indebtedness of any borrower to any bank incurred on or after May 1, 1936, or at any previous time, for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single loan; and all the collateral securing such indebtedness shall be considered in determining whether or not the loan complies with this regulation.

While a bank maintains any such loan, whenever made, the bank shall not at any time permit withdrawals or substitutions of collateral that would cause the maximum loan value of the collateral at such time to be less than the amount of the loan. In case such maximum loan value has become less than the amount of the loan, a bank shall not permit withdrawals or substitutions that would increase the deficiency; but the amount of the loan may be increased if there is provided additional collateral having maximum loan value at least equal to the amount of the increase.'

2. Section 2 of said regulation is amended by substituting the word 'may' for the word 'thereafter' in the unlettered portion of said section so that the unlettered portion of said section as thus amended will read as follows:

'SECTION 2. EXCEPTIONS TO GENERAL RULE

Notwithstanding the foregoing, a bank may make and may maintain any loan for the purpose specified above, without regard to the limitations prescribed above, if the loan comes within any of the following descriptions:'"