

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

S-221

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 3, 1940



Dear Sir:

The Board's letter of March 16, 1939 (S-149) (F.R.L.S. #8212) outlined the general principles agreed upon by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation with respect to the administration of Regulation U as applicable to national banks, State member banks, and nonmember insured banks.

Subsequently the cooperation of the State Banking Departments was sought in extending the administration of the regulation on a somewhat similar basis to noninsured State banks. The matter was discussed with Mr. William R. White, Superintendent of Banks of New York and Chairman of the Executive Committee, National Association of Supervisors of State Banks. We have now been advised that thus far 44 of the State Bank Supervisors have agreed to cooperate in the administration of Regulation U in accordance with the program outlined by Mr. White in his letter of February 5, 1940 to the members of the National Association of Supervisors of State Banks. The four States which remain to be heard from are Louisiana, Mississippi, New Jersey, and Pennsylvania.

Enclosed for your information is a copy of Mr. White's letter and it is assumed that the Reserve Banks will cooperate to the fullest extent with the State Banking Departments in this work along the lines indicated. The Board has expressed to Mr. White its appreciation of his good offices and the cooperation shown by the members of the National Association of Supervisors of State Banks. It is suggested that you might wish to express to the heads of the State Banking Departments in your district your own appreciation of their cooperation.

Very truly yours,

Chester Morrill,  
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-221-a

## NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS

## Executive Committee

Office of the Chairman  
80 Centre Street  
New York.

February 5, 1940.

TO MEMBERS OF THE ASSOCIATION:

Section 7(a) of the Securities Exchange Act of 1934 directs the Board of Governors of the Federal Reserve System, for the purpose of preventing the excessive use of credit for the purchase or carrying of securities, to prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. The act applies to all banks, state or national, whether incorporated or not, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under Section 11(k) of the Federal Reserve Act.

Pursuant to these provisions, the Board of Governors has issued Regulation U, "Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange." A copy of this regulation as amended to September 1, 1937, together with a supplement dated November 1, 1937, is enclosed.

Representatives of the Board sometime ago called the attention of the State Bank Supervisors to the fact that while procedure for administering the regulation with respect to all insured banks has been developed, no such procedure has thus far been worked out to cover noninsured banks. The matter was referred to the Executive Committee at its December 1st meeting, and it was the sense of the Committee that the State Supervisors should cooperate with the Federal agencies with respect to Regulation U. The number of noninsured banks having any substantial amount of loans subject to Regulation U is doubtless small. Nevertheless, the gap in administrative procedure exists so far as noninsured banks are concerned. Both the Board of Governors and the Securities and Exchange Commission have certain powers and responsibilities under the Securities Exchange Act. It seems preferable that the State Bank Supervisors should assume responsibility with respect to Regulation U loans so far as noninsured banks are concerned.

It was the opinion of the Executive Committee that State Supervisors in the regular course of their examination of noninsured banks could examine loans subject to Regulation U for the purpose of determining whether violations exist, and where found, to take steps to correct such violations.

If you are willing to cooperate with respect to the administration of Regulation U, the following procedure is suggested:

- (1) The problem is one largely of education. Compliance should be obtained, so far as possible, by persuasion.
- (2) If an individual institution refuses to comply with the provisions of the Securities Exchange Act and Regulation U, or continues to make loans illegal under such act and such regulation after the examiner has urged compliance, the Supervisor should report the case to the Reserve Bank of the district in which the State capital is located, or, if he prefers, to the Reserve Bank in the district in which the bank in question is located. The Reserve Bank will in turn report to the Board of Governors. The Board will refer the case to the Securities and Exchange Commission or to the Attorney General, depending upon whether civil (injunction) or criminal action seems desirable in the light of all circumstances.
- (3) If a State examiner should be unfamiliar with the procedure followed by the Federal agencies to determine whether a loan does or does not conform to Regulation U, a local Federal Deposit Insurance or Federal Reserve Bank examiner will no doubt be glad to explain the method used in the case of insured or member banks.

I shall appreciate your advising this office whether or not your Department will cooperate with the Federal agencies along the lines suggested above, in order that we may advise the Board of Governors that the State Banking Departments in their examination of noninsured banks will seek to obtain compliance with the provisions of the Securities Exchange Act and Regulation U, if any violations of such act or regulation are discovered.

I am sending this letter with the approval of the Executive Committee given at a meeting in Washington on February 2nd at which twenty-one States were represented.

Sincerely yours,

(Signed) William R. White

Chairman.