

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-581

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1942.



Dear Sir:

The following is a copy of a letter sent today to a Federal Reserve Bank regarding Regulation W:

"Receipt is acknowledged of your letter of October 30 enclosing copy of a letter from Mr. _____, Supervisor of the Credit Union Division of the _____ State Banking Department, together with an article entitled 'A Cushion of Cash--How to Get it' referred to therein.

"The article presents the question whether section 8(b) of Regulation W exempts a loan made by a credit union, secured by its shares, to enable the borrower to purchase such shares, if there is an understanding that the borrower will be permitted to withdraw any portion of the share account, without making an equivalent payment on the loan, if the credit union should feel that such action was warranted by the circumstances, as, for example, where the loan was otherwise adequately secured.

"The Board agrees with you that an arrangement of the type described would be a violation of the Regulation. In view of the dual purpose of the loan it could not properly be considered as a loan 'for the purpose of purchasing' the shares within the meaning of section 8(b), and if it was originally made for the purpose of purchasing such shares but with an understanding that it might later be used for other purposes, the arrangement would violate section 11(a)."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

