

is necessary or appropriate in the public interest.

(e) *Unlawful representations.* It shall be unlawful for any lender to make, or cause to be made, any representation to the effect that the inclusion of a security on the list OTC margin stocks is evidence that the Board or the SEC has in any way passed upon the merits of, or given approval to, such security or any transactions therein. Any statement in an advertisement or other communication containing a reference to the Board in connection with the list or securities on that list shall be an unlawful representation.

§207.7 Supplement: Maximum loan value of margin stock and other collateral.

(a) *Maximum loan value of a margin stock.* The maximum loan value of any margin stock, except options, is fifty per cent of its current market value.

(b) *Maximum loan value of nonmargin stock and all other collateral.* The maximum loan value of a nonmargin stock and all other collateral except puts, calls, or combinations thereof is their good faith loan value.

(c) *Maximum loan value of options.* Whether they are margin stock or not, puts, calls, and combinations thereof have no loan value.

INTERPRETATIONS

§207.101 Application to credit committed before February 1, 1968, where funds are disbursed thereafter.

(a) The Board has been presented with the question whether this part applies to an extension of credit to a corporation under a contract entered into on May 31, 1967, whereby the creditor agreed to purchase notes of the corporation totaling \$150 million in three "closings" to be completed by December 2, 1968. Prior to February 1, 1968, \$132,500,000 was disbursed. The remaining \$16,500,000 was scheduled to be paid on February 21, 1968. It was assumed that the purpose of the credit was to carry stock that is registered on a national securities exchange, and that the credit may become secured by such stock.

(b) This part, which becomes effective March 11, 1968, will apply to credit extended, since (1) on that date the or-

dinary course of business, to purchase or carry registered equity securities, if the credit is secured by such securities. The above-described credit was the subject of an agreement executed prior to February 1, 1968, that bound the parties as to the amount, interest rate, term, and principal conditions of the credit, although some of the funds remained to be disbursed.

(c) The Board concluded that the funds described above, to be extended after February 1, 1968, will be extended pursuant to a firm commitment executed prior to that date. The Board was of the opinion that the date a commitment to extend credit becomes binding should be regarded as the date when the credit is extended, since (1) on that date the parties should be aware of law and facts surrounding the transaction and (2) generally, the date of contract is controlling for purposes of margin regulations and Federal securities law, regardless of the delivery of cash or securities. Accordingly, the Board concluded that this part did not apply to this extension of credit.

[33 FR 4248, Mar. 7, 1968]

§207.102 When bank in "good faith" has not relied on stock as collateral.

For text of this interpretation, see §221.117 of this subchapter.

[33 FR 7485, May 21, 1968]

§207.103 Corporate guaranty of bank loan as extension of credit in the ordinary course of business.

(a) The Board recently considered the questions whether (1) the guaranty by a corporation of an "unsecured" bank loan to exercise an option to purchase stock of the corporation is an "extension of credit" for the purpose of this part (Regulation G), (2) such a guaranty is given "in the ordinary course of business" of the corporation, as defined in §207.2(b), and (3) the bank involved took part in arranging for such credit on better terms than it could extend under the provisions of Part 221 (Regulation U) of this subchapter.

(b) The Board understood that any officer or employee included under the corporation's stock option plan who wished to exercise his option could obtain a loan for the purchase price of

the stock by executing an unsecured note to the bank. The corporation would issue to the bank a guaranty of the loan and hold the purchased shares as collateral to secure it against loss on the guaranty. Stock of the corporation is registered on a national securities exchange.

(c) A lender is subject to the registration and other requirements of this part if, in the ordinary course of his business, he extends credit on collateral that includes any registered equity securities in the amount of \$50,000 or more in any calendar quarter, or has such credit outstanding in any calendar quarter in the amount of \$100,000 or more. The Board understood that the corporation in question had \$100,000 in guaranties outstanding during the applicable calendar quarter.

(d) In the Board's judgment a person who guarantees a loan, and thereby becomes liable for the amount of the loan in the event the borrower should default, is lending his credit to the borrower. In the circumstances described, such a lending of credit must be considered an "extension of credit" under this part in order to prevent circumvention of the regulation's limitation on the amount of credit that can be extended on the security of registered stock.

(e) Under §207.2(b), *the term in the ordinary course of his business means*

* * * in the case of a person other than an individual, carrying out or in furtherance of any business purpose.

In general, stock option plans are designed to provide a company's employees with a proprietary interest in the company in the form of ownership of the company's stock. Such plans increase the company's ability to attract and retain able personnel and, accordingly, promote the interest of the company and its stockholders, while at the same time providing the company's employees with additional incentive to work toward the company's future success. An arrangement whereby participating employees may finance the exercise of their options through an unsecured bank loan guaranteed by the company, thereby facilitating the employees' acquisition of company stock, is likewise designed to promote the

company's interest and is, therefore, in furtherance of a business purpose.

(f) For the reasons indicated, the Board concluded that under the circumstances described a guaranty by the corporation constitutes credit extended in the ordinary course of business under this part, that the corporation is required to register pursuant to §207.1(a), and that such guaranties may not be given in excess of the maximum loan value of the collateral pledged to secure the guaranty, which is 20 percent under the current supplement to this part.

(g) Section 221.3(u) of this subchapter provides that "no bank shall arrange for the extension or maintenance of any credit for the purpose of purchasing or carrying any stock registered on a national securities exchange, except upon the same terms and conditions on which the bank itself could extend or maintain this credit" under the provisions of part 221. Since the Board concluded that the giving of a guaranty by the corporation to secure the loan described above constitutes an extension of credit, and since the use of a guaranty in the manner described could not be effectuated without the concurrence of the bank involved, the Board further concluded that the bank took part in "arranging" for the extension of credit in excess of the maximum loan value of the stock pledged to secure the guaranties.

[34 FR 7005, Apr. 29, 1969; 34 FR 8351, May 30, 1969]

§207.104 Contribution to joint venture as extension of credit when the contribution is disproportionate to the contributor's share in the venture's profits or losses.

(a) The Board recently considered the question whether a joint venture, structured so that the amount of capital contribution to the venture would be disproportionate to the right of participation in profits or losses, constitutes an "extension of credit" for the purpose of Regulation G.

(b) An individual and a corporation plan to establish a joint venture to engage in the business of buying and selling securities, including registered equity securities. The individual would contribute 20 percent of the capital and