

## Federal Reserve System

## § 221.2

AUTHORITY: 15 U.S.C. 78c, 78g, 78q, and 78w.

SOURCE: Reg. U, §§221.1 through 221.8 appear at 48 FR 35076, Aug. 3, 1983, unless otherwise noted.

EDITORIAL NOTES: (1) A copy of each form referred to in this part is filed as a part of the original document. Copies are available upon request to the Board of Governors of the Federal Reserve System or any Federal Reserve Bank.

(2) See the List of CFR Sections Affected in the Finding Aids section of this volume for FR citations to Part 221 OTC Margin Stocks changes.

### §221.1 Authority, purpose, and scope.

(a) *Authority.* Regulation U ("this part") is issued by the Board of Governors of the Federal Reserve System ("the Board") pursuant to the Securities Exchange Act of 1934 (the "Act") (15 U.S.C. 78a *et seq.*).

(b) *Purpose and scope.* This part imposes credit restrictions upon "banks" (as defined in §221.2(b) of this part) that extend credit for the purpose of buying or carrying margin stock if the credit is secured directly or indirectly by margin stock. Banks may not extend more than the maximum loan value of the collateral securing such credit, as set by the Board in §221.8 (the Supplement).

[Reg. U, 48 FR 35076, Aug. 3, 1983; 48 FR 37361, Aug. 18, 1983]

### §221.2 Definitions.

The terms used in this part have the meanings given them in section 3(a) of the Act or as defined in this section.

(a) *Affiliate* means: (1) Any bank holding company of which a bank is a subsidiary within the meaning of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1841(d));

(2) Any other subsidiary of such bank holding company; and

(3) Any other corporation, business trust, association, or other similar organization that is an affiliate as defined in section 2(b) of the Banking Act of 1933 (12 U.S.C. 221a(c)).

(b)(1) *Bank* has the meaning given to it in section 3(a)(6) of the Act (15 U.S.C. 78c(a)(6)) and includes: (i) Any subsidiary of a bank;

(ii) Any corporation organized under section 25(a) of the Federal Reserve Act (12 U.S.C. 611); and

(iii) Any agency or branch of a foreign bank located within the United States.

(2) *Bank* does not include: (i) Any savings and loan association,

(ii) Any credit union,

(iii) Any lending institution that is an instrumentality or agency of the United States, or

(iv) Any member of a national securities exchange.

(c) *Carrying* credit is credit that enables a customer to maintain, reduce, or retire indebtedness originally incurred to purchase a security that is currently a margin stock.

(d) *Current market value* of (1) a security means: (i) If quotations are available, the closing sale price of the security on the preceding business day, as appearing on any regularly published reporting or quotation service; or

(ii) If there is no closing sale price, the bank may use any reasonable estimate of the market value of the security as of the close of business on the preceding business day; or

(iii) If the credit is used to finance the purchase of the security, the total cost of purchase, which may include any commissions charged.

(2) Any other collateral means a value determined by any reasonable method in accordance with sound banking practices.

(e) *Customer* includes any person or persons acting jointly, to or for whom a bank extends or maintains credit.

(f) *Good faith* with respect to: (1) The loan value of collateral, means that amount (not exceeding 100 per cent of the current market value of the collateral) which a bank, exercising sound banking judgment, would lend, without regard to the customer's other assets held as collateral in connection with unrelated transactions.

(2) Accepting notice or certification from or on behalf of a customer means that the bank or its duly authorized representative is alert to the circumstances surrounding the credit, and if in possession of information that would cause a prudent person not to accept the notice or certification without inquiry, investigates and is satisfied that it is truthful;