

(d) Furthermore, the *purpose* of a loan means just that. It cannot be altered by some temporary application of the proceeds. For example, if a borrower is to purchase Government securities with the proceeds of a loan, but is soon thereafter to sell such securities and replace them with registered stocks, the loan is clearly for the purpose of purchasing or carrying registered stocks.

[12 FR 40, Jan. 3, 1947]

**§ 221.102 Designation of New York Stock Exchange for purposes of specialists transactions.**

(a) As amended effective July 20, 1949, § 221.3(o) removes the maximum loan level requirements applicable to credit for financing the functions of “specialists” on an exchange designated by the Board of Governors of the Federal Reserve System.

(b) Effective July 20, 1949, the Board of Governors of the Federal Reserve System has designated the New York Stock Exchange pursuant to § 221.3(o), as amended, this designation to be effective until further notice.

[14 FR 4665, July 27, 1949]

**§ 221.103 Loans to brokers or dealers.**

Questions have arisen as to the adequacy of statements received by lending banks under § 221.3(a) in the case of loans to brokers or dealers secured by stock where the proceeds of the loans are to be used to finance customer transactions involving the purchasing or carrying of registered stocks.

While some such loans may qualify for exemption under § 221.2, unless they do qualify for such an exemption they are subject to this part. For example, if a loan so secured is made to a broker to furnish cash working capital for the conduct of his brokerage business (i.e., for purchasing and carrying securities for the account of customers), the maximum loan value prescribed in § 221.4 would be applicable unless the loan should be of a kind exempted by § 221.2. This result would not be affected by the fact that the stock given as security for the loan was or included stock owned by the brokerage firm.

In view of the foregoing, the statement referred to in § 221.3(a) which the

lending bank may accept and rely upon in good faith in determining the purpose of the loan would be inadequate if the form of statement accepted or used by the bank failed to call for answers which would indicate whether or not the loan was of the kind discussed above.

[17 FR 191, Jan. 8, 1952]

**§ 221.104 Federal credit unions.**

For text of this interpretation, see § 220.110 of this subchapter.

[18 FR 4592, Aug. 5, 1953]

**§ 221.105 Arranging for extensions of credit to be made by a bank.**

For text of this interpretation, see § 220.111 of this subchapter.

[18 FR 5505, Sept. 15, 1953]

**§ 221.106 Reliance in “good faith” on statement of purpose of loan.**

(a) Certain situations have arisen from time to time under this part wherein it appeared doubtful that, in the circumstances, the lending banks may have been entitled to rely upon the statements accepted by them in determining whether the purposes of certain loans were such as to cause the loans to be not subject to the part.

(b) The use by a lending bank of a statement in determining the purpose of a particular loan is, of course, provided for by § 221.3(a). However, under that paragraph a lending bank may “rely” upon any such statement only if it is “accepted by the bank in good faith.” As the Board stated in the interpretation contained in § 221.101, the “requirement of ‘good faith’ is of vital importance”; and, to fulfill such requirement, “it is clear that the bank must be alert to the circumstances surrounding the loan”.

(c) Obviously, such a statement would not be accepted by the bank in “good faith” if at the time the loan was made the bank had knowledge, from any source, of facts or circumstances which were contrary to the natural purport of the statement, or which were sufficient reasonably to put the bank on notice of the questionable reliability or completeness of the statement.