lem of security purchases on low initial margins was described in part B above. Loans by unregulated lenders are particularly dangerous because initial margins are only 10 to 30 percent. It is the speculator who is in and out of the market quickly who is the customer of the unregulated lender and the effect of his transactions, concentrated as they are in a relatively few securities, tends to increase price fluctuations in those securities. In a rising market the number of shares an individual can purchase is pyramided if he can resort to unregulated credit, and his increased purchases can push up the price. In a falling market, loans which have been only 10 to 30 percent margined are the first to be called; and their forced sale accentuates the price decline. The experience in the spring of 1962 indicates that it was the loans by unregulated lenders which were subject to the earliest margin calls when the market started to decline. The effect of these calls could only be to further depress the market.

A striking example of the very large proportions unregulated credit sometimes assumes is furnished by Commission files relating to one Jack R. Dick. Prompted by New York Stock Exchange reports of the crossing of very large orders, investigation revealed that from March 6, 1959, to May 26, 1959, Dick had purchased over $9,100,000 in stocks and sold more than $8,700,000. All of his transactions were financed by Inland Credit Corp., an unregulated lender, and credit extended ranged between $230,000 and $780,000 against an average equity of $61,000.

The tendency of users of unregulated credit to concentrate their dealings in a relatively few stocks can result in significant market impact even though the amount of unregulated credit extended might be modest in relation to total security credit, and the volume of dealings financed might be small in relation to aggregate market volume. Included in Dick's purchases, during the 2½-month period in the spring of 1959 were the following:

Stock	*Amount*
Ampex Corp	$276,000
The Carpenter Steel Co	400,000
Dynamics Corp. of America	240,000
The General Tire & Rubber Co	600,000
Philadelphia & Reading Corp	672,000
Texas Instruments, Inc	490,000

Several lenders interviewed reported similar concentration, usually in the popular favorites of the moment and frequently involving large blocks. One, for instance, reported loans of over $930,000 on 20,600 shares of Brunswick Corp. during the period from September 1960 through July 1961.

The behavior of unregulated lenders during the period of market decline in the spring of 1962 which was described in part B, above, also serves to demonstrate the disrupting effects of low margins on the security markets.

(b) *General effects on credit controls.*—The absence of controls in one area appears to have had the effect of undermining and diluting the effectiveness of controls in those areas in which they have been imposed. Some brokers said that they consider disciplinary actions for violations of credit regulations grossly unfair because other members of the financial community are not restricted. Their resentment is particularly intense when they contemplate the possibility of being disciplined for helping a customer obtain a loan the availability of which is freely and lawfully advertised in the daily newspaper. Similarly, the study's interviews with banks suggest that laxness of some banks in relation to nonpurpose loans may be due to the feeling that the regulations could hardly be important if the loophole for unregulated lenders was left open. While the concern of the Commission is principally with the need for a relatively high initial margin to prevent adverse effects on the securities market, unregulated credit may also serve to undermine the broad objectives of the FRB with respect to security credit.

The nature of unregulated lending is such that it is strongest and most active at times when credit controls are most needed. It was when the FRB had established margins of 70 to 100 percent that unregulated sources of credit became most popular. The unregulated lender operates against the objectives and purposes of high-margin levels, and his loans may represent a potentially serious uncontrolled credit leak.

(c) *Role of unregulated credit in securities law violations.*—Unregulated credit has sometimes played an important role in illegal distributions of unregistered stock and price manipulations. More stringent controls might therefore be expected to yield a measure of increased investor protection as an important byproduct.

An example of the use of unregulated credit to achieve illegal distribution is presented by Commission files relating to Skiatron Electronics & Television Corp. On August 18, 1959, that corporation filed a registration statement covering a proposed offering of 172,242 shares of common stock. The prospectus stated that 125,000 shares were to be issued pursuant to warrants owned by Matthew Fox and that Fox had already purchased 75,000 such shares at $3 per share. In fact, Fox no longer held any of the 75,000 shares; before the registration statement was filed he had pledged them all to unregulated lenders and they, in turn, had sold them to the public.

The technique of raising funds by pledging securities which ultimately are sold to the public by the pledgee without the protection of the disclosure provided by a registration statement was not new to Fox. Investigation revealed that during the period from June 1957 to September 1958 he had disposed of 206,000 shares of Skiatron stock in that manner. Major Commission cases of illegal distributions in which unregulated credit played an essential part have involved stocks of Hazel Bishop, Guild Films, Swan-Finch Oil Corp., F. L. Jacobs, Doeskin, and Scranton Corp.

Several of the lenders interviewed said that they had been requested many times to make loans on large blocks of both listed and unlisted stock held by insiders. Only a few were alert to the problem and said they refused to lend on securities that they thought might have to be registered before they could be sold publicly.

Examples of manipulations facilitated by unregulated credit are supplied by the notorious activities of Lowell Birrell and Alexander Guterma. Birrell typically would have one of his controlled corporations issue him new stock in exchange for stock in another and then pledge the newly issued stock to unregulated lenders. He would then fail to repay the loan so that the lenders would, foreclosing the pledge, distribute the stock to the public. Guterma used unregulated credit primarily for the purpose of achieving initial control of a company and to maintain desired price levels. In 1958 Guterma was reported to have owed over $3 million to unregulated lenders, and at least five of the latter made illegal distributions of shares of F. L. Jacobs and Scranton Corp.[83]

This is not to suggest that there is necessarily anything unsavory or illegal about unregulated lending itself. The examples discussed above are given only to indicate that unregulated lending was actively resorted to and thus presumably facilitated illegal distributions of securities.

D. Summary, Conclusions, and Recommendations

The area of security credit is unique among the subjects discussed in this report in that, although the governing provisions of law are contained in the Exchange Act, administrative jurisdiction to implement these provisions is divided between the Board of Governors of the Federal Reserve System and the Commission, with substantive matters largely in the jurisdiction of the former and responsibility for enforcement in the latter. Traditionally, the Board of Governors' concern with security credit has been related to monetary control and the total economy, whereas the Commission's concern is with security credit and its regulation as factors in the securities markets themselves. Because of the latter special concern and because the study has revealed several substantial security credit problems, it is believed appropriate to state conclusions and recommendations, notwithstanding that the recommendations relate essentially to matters in the jurisdiction of the Board of Governors. The recommendations set forth below are expressed with full regard for, and without intending to impinge in any way upon, the Board of Governors' authority to regulate security credit in relation to monetary control and the total economy, including raising and lowering margin requirements and classifying securities and loans for that purpose.

Security credit controls have been described by the Chairman of the FRB as one of the instruments for effectuating the credit and monetary policies of the Board. The FRB has exercised its broad authority by promulgation of Regulations T and U governing, respectively, broker-dealers and domestic banks. Other types of lenders are not directly covered by the regulations. Credit controls on broker-dealers limit the amount which may be lent on listed securities, and the Securities Exchange Act prohibits them altogether from lending on unlisted securities, where the purpose is to purchase or carry securities. Controls on banks limit them in the amount that may be lent on stocks to purchase or carry listed stocks but otherwise do not limit them in lending for the purpose of purchasing or carrying other listed securities or unlisted securities. Both domestic banks and brokers are permitted to make loans secured by unlisted securities or by no collateral at all so long as the borrower's purpose is other than purchasing or carrying securities. Lenders other than domestic banks and brokers are generally free of security credit controls except in relation to borrowing from domestic banks.

[83] It would appear that lenders are severely restricted under the Securities Act of 1933 from selling securities which have been pledged as collateral by borrowers and have not been registered under the act. See *S.E.C.* v. *Guild Films Co.* 178 F. Supp. 418 (S.D.N.Y. 1959); affirmed 279 F. 2d 485 (2d Cir. 1960).

The unique nature of readily marketable, publicly traded securities and the extraordinary facility of the market mechanisms that have been developed to trade them, which together make possible rapid and wide price fluctuation, cause both an initial margin and a margin maintenance requirement to be an inherent feature of almost all security credit transactions. Public initial margin controls are considered useful in the governmental effort to regulate national credit and monetary conditions, and from the more restricted point of view of securities regulation they are indispensable in guarding against uncontrolled price declines that can result when the initial requirement is so low in relation to the maintenance requirement as to cause numerous margin calls in the event of any significant price decline. The evidence provided by the sharp market break in the spring of 1962 tends to demonstrate that, by reason of the preceding relatively high initial requirements, those loans that were regulated withstood the break well and those free of controls were much more vulnerable. As a general principle, therefore, the power should exist to extend initial margin controls to all security credit transactions to which their extension is feasible and not precluded by countervailing considerations.

The purpose for which security credit is extended may be particularly significant to the broad effort to regulate general credit and monetary conditions, but inadequately margined nonpurpose loans may be as vulnerable to margin calls as purpose loans and the disruptive effect of such calls is as undesirable in the one case as the other. Evidence now available, moreover, indicates that the aggregate amount of stock-collateralized, nonpurpose credit extended by banks, the principal source of such credit, is relatively and absolutely very great, and unless adequately margined presents a threat to market stability. Without prejudice to the retention of separate or additional margin requirements for purpose loans, it appears to the Special Study that authority should exist and consideration should be given to extending some type of initial margin requirement to all or some categories of "nonpurpose" loans collateralized by actively traded stocks, as the FRB may find appropriate.

Again with particular reference to the securities markets, the present pattern of credit regulation is marked by other disparities that may be explained historically but do not appear to be justifiable at present. These arise principally in the distinctions drawn between exchange-listed and over-the-counter securities and in the further distinctions drawn between lending by broker-dealers and lending by banks. Since over-the-counter securities and their markets are far more heterogeneous than listed securities and their markets, it would not be appropriate to equate all of the former to all of the latter, but for that segment of over-the-counter securities reasonably resembling listed securities in pertinent respects it would appear appropriate and equitable to remove or at least minimize some of the present distinctions. The most pertinent considerations in defining that segment are the availability of reliable information so that risks may be appraised, the availability of reliable quotations so that values may be assigned to pledged securities, and the availability of market depth so that collateral will not be unduly frozen in the hands of lenders.

Implementation of recommendations in chapters VII and IX would have the result of assuring a fund of reliable information for "OTC-listed" securities through required disclosures by issuers; establishing more dependable and informative interdealer and publicly disseminated quotations; identifying primary market makers of each over-the-counter security as a measure of depth of dealer interest; and presumably (through selection of securities to be included in newspaper and other publicly disseminated quotations) singling out those securities having widest public interest and activity. It would therefore also be appropriate to permit broker-dealers to extend credit on some over-the-counter securities to purchase or carry listed or unlisted securities as and to the extent provided by regulations of the Board of Governors. Assuming implementation of the above recommendations, extension of credit by broker-dealers might be permitted on "OTC-listed" stocks and convertible bonds included in any officially recognized public quotation system, subject to such exclusions or limitations as the Board of Governors may provide as to particular categories of such securities. The margin limit for such securities or particular categories of them might be fixed in relation to, but need not necessarily be the same as, the limit prevailing at any time for listed securities.

Stocks that are actively traded in over-the-counter markets as well as some convertible bonds that are actively traded in such markets or listed on an exchange may be subject to price fluctuations to as great a degree as are listed stocks. The categories of securities referred to in the preceding sentence probably coincide generally, but not necessarily exactly, with the categories referred to in the preceding paragraph as eligible for extension of credit by broker-dealers. Minimum initial margins should be required on these securities (as they may be more precisely defined in the regulation) when used as collateral for bank loans. It is not contemplated that such a requirement would restrict banks from lending at their discretion on inactively traded over-the-counter stocks, convertible bonds or nonequity securities.

The absence of any controls on lenders other than broker-dealers and domestic banks ("unregulated lenders") affords a significant loophole in the regulatory scheme and may have had the effect of reducing the effectiveness of credit regulations in those areas in which they have been imposed and also facilitating the activities of persons bent on securities law violations. Controls should be extended, to the extent feasible, to all persons regularly engaged in the business of lending on securities and adequate information-gathering about their activities should be instituted.

The Special Study concludes and recommends:

The Board of Governors of the Federal Reserve System has primary responsibility for the regulation of security credit in relation to monetary control and the entire economy. The Commission's concern, more limited in nature, is with security credit and its regulation as factors in the securities markets themselves. While recognizing the primary and broader responsibility and authority of the Board in this area and without intending to impinge upon that responsibility and authority in any way, the Special Study nevertheless believes it appropriate to express the

following conclusions and recommendations relevant to the Commission's more limited area of concern:

1. Data assembled by the Special Study, with cooperation from the Federal Reserve System, are believed by the Special Study to confirm the general principle that the Board of Governors should have authority to extend some kind of degree of margin control on all loans collateralized by securities whose forced liquidation in a declining market would have a significant market-disruptive potential, including some loans now classified as "nonpurpose." Unless the Board of Governors itself feels that further studies are necessary before requesting such authority, section 7 of the Exchange Act should be amended to authorize the Board of Governors to establish initial margin requirements on loans collateralized by securities, irrespective of their purpose, for banks and those lenders encompassed in paragraph 5 as well as for broker-dealers. The authority should be sufficiently flexible so that the Board may take into account both the general economic and credit needs of the country and the immediate needs of the securities markets, enabling it to establish separate initial margin requirements adapted to those separate purposes. Pursuant to such authority, the Board should appropriately amend Regulations T and U to encompass such specific categories of "nonpurpose" loans collateralized by securities and establish such margin levels as may seem appropriate to it.

2. Section 7 of the Exchange Act should be amended to give the Board of Governors of the Federal Reserve System authority to permit broker-dealers to extend credit on such over-the-counter securities or classes thereof as it may from time to time designate, with such advice or assistance as it may request of the Commission. The Board's authority should permit it, in establishing initial margin requirements, to differentiate between listed securities and some or all over-the-counter securities and among various classes of over-the-counter securities. Pursuant to such authority, and assuming implementation of recommendations in chapter IX.B. for extension of investor protections (financial reporting and proxy and insider-trading controls) to certain over-the-counter securities, the Board should appropriately amend Regulation T to permit broker-dealers to extend credit on specified classes of stocks and convertible bonds included within the "OTC-listed" category referred to in chapter IX.B. for which reliable, current information is available.

3. Section 7 of the Exchange Act should be amended to empower the Board of Governors of the Federal Reserve System to impose initial margin requirements on actively traded over-the-counter stocks and convertible bonds used as collateral for loans by banks. This power should extend both to loans for purchasing or carrying securities and also for other purposes. The Board's authority should permit it to designate from time to time the classes of over-the-counter stocks and convertible bonds to be deemed actively traded for this purpose, with such advice or assistance as it may request of the Commission. Pursuant to such authority, the Board should amend Regulation U to extend margin controls to bank loans on those categories of

over-the-counter stocks and convertible bonds so designated, which might coincide with, or differ from, the categories designated in respect of extension of credit by broker-dealers. It is not intended that such a requirement restrict banks from lending at their discretion, as at present, on inactively traded over-the-counter stocks, convertible bonds, or nonequity securities.

4. Whether or not the other recommendations herein are adopted Regulation U should be amended so that loans collateralized by, or to purchase or carry, listed convertible bonds are subject to margin requirements similar to those on loans collateralized by stock to purchase or carry listed stocks, with appropriate exceptions or differentiation for convertible bonds whose market prices do not primarily reflect the availability of the conversion privilege.

5. Under the authority now provided by section 7 of the Exchange Act, the Board of Governors should subject "all persons" who make loans to U.S. residents, on the collateral of securities traded in U.S. markets, to the same requirements as are applicable to domestic bank loans collateralized by such securities, subject to appropriate exclusions for lenders in specified categories such as those not engaged in a business of lending or those never having aggregate outstanding security loans of more than a specified amount, say, $100,000. To aid in enforcement, domestic lenders should be required to keep specified records and file periodic reports, and domestic banks should be prohibited from furnishing any form of assistance or service to any foreign lender in connection with any loan not in conformity with such requirements.

TABLE X-1.—*Net debit balances of customers of registered broker-dealers classified by exchange membership (as of Jan. 31, 1962)* [1]

[Dollar amounts in thousands]

Exchange membership [2]	Number of firms carrying margin accounts for customers [3]	Total customers' net debit balances [3]
All broker-dealers	544	$3,870,873
New York Stock Exchange members	340	3,823,921
American Stock Exchange members (not members of NYSE)	8	3,415
Regional exchange members (not members of NYSE or Amex)	112	28,016
Nonexchange members, total	84	15,521
NASD members	73	12,520
Non-NASD members	11	3,001

[1] Several firms reported their customers' net debit balances as of Jan. 25, 1962.
[2] Refers to regular membership on an exchange.
[3] Includes only customers other than broker-dealers.

Source: Questionnaire OTC-3.

APPENDIXES

All appendixes were prepared by the staff of the Board of Governors of the Federal Reserve System with the assistance of Federal Reserve Bank personnel at the request of the Special Study of Securities Markets. Appendix X-D presents answers to questions concerning bank practices in making security loans obtained from various member banks of the Federal Reserve System by Federal Reserve Bank personnel.

APPENDIX X-A

BANK LOAN SURVEY QUESTIONNAIRE

CONFIDENTIAL

Form Approved
Budget Bureau No. 55-6204
Expires Dec. 31, 1962

COVER SHEET FOR SURVEY OF BANK LOANS COLLATERALIZED BY STOCKS AND BONDS
OUTSTANDING ON SEPTEMBER 26, 1962

(Please return to the Reserve Bank on or before October 10, 1962)

____
Name of bank

____
Branch reporting (if applicable)

____
City and State

____
Person Supplying Information

DO NOT USE

A	B	C	D
Dist.	State	Bank	Branch
1-2	3-4	5-8	9-12
E	F	G	H
Class	FRB		
13	14		

INSTRUCTIONS (Cover Sheet)

Note: This form should be completed for each reporting bank or branch before entering the information requested on the sample of individual loans.

Loans Outstanding (box A): The figures reported against questions 1 and 2 will be the same as those which would be reported for the same date as Items 8 and 3b respectively on Schedule A of the Call Report. Note, however, that all of the figures reported should apply to the unit (bank or branch) from which the loan sample is drawn.

The types of loans covered by question 3 are the same as those covered in this survey; include all loans of the bank or branch which are secured in whole or substantial part by stocks and bonds, excluding loans to brokers, securities dealers and commercial banks. (For meaning of "secured in substantial part," please see note headed "Survey Coverage," on back of individual loan form.)

If the total of loans collateralized by securities cannot be determined exactly without unreasonable trouble and expense, an estimate may be substituted and "est" written after the amount reported against question 3. Reasonable accuracy for this figure is required, however, so that any estimate should be based on such data as might be provided by partial records or a simple tabulation of loan cards involving securities collateral.

Call Provisions (box B): These questions are included to determine the extent to which loans with nominal maturities of several months or more include, by their terms, authorization to demand earlier payment in event the collateral declines in value.

Box A

LOANS OUTSTANDING

1. Total gross loans of reporting office (bank or branch) (Schedule A of Call Report, line 8) $__________
2. Loans for the purpose of purchasing or carrying securities (other than to commercial banks and to brokers and dealers in securities) (Schedule A, line 3b) $__________
3. Total of loans secured by stocks and bonds (except for types excluded from this survey as noted in paragraph headed Survey Coverage - see instructions opposite) $__________

Box B

CALL PROVISIONS ON SECURITY LOANS

1. Except for demand loans, do your loan forms make any provision for calling other loans collateralized by stocks and bonds prior to maturity, in the event of declines in market value of the securities pledged? __________
2. If yes, check below the kinds of loans on securities where such provision is generally made:
   - ☐ Loans for purchasing or carrying securities (Schedule A, line 3b)
   - ☐ Commercial and industrial loans (Schedule A, line 5)
   - ☐ Consumer instalment loans (Schedule A, line 6d)
   - ☐ Single payment loans to individuals (Schedule A, line 6e)
   - ☐ Other (please specify) __________

SURVEY OF BANK LOANS COLLATERALIZED BY STOCKS OR BONDS, OUTSTANDING ON SEPTEMBER 26, 1962

The primary objective of this survey is to provide estimates of the outstanding volume of member bank loans collateralized by stocks and bonds, classified both according to the kinds of securities serving as collateral and according to the purposes of the loans. Respondent banks are asked to report details on only a sample of such loans, in order to provide the information needed with a minimum of effort.

Please mail the completed survey forms to the Federal Reserve Bank on or before October 10, 1962.

All information which you report will be held in confidence for use only within the Federal Reserve System and by designated staff of the Securities and Exchange Commission. The results of the survey will be published only in the form of totals for groups of banks. No information about individual loans or issues of securities will be published.

SURVEY COVERAGE

The securities loans covered in this survey include all loans collateralized by stocks or bonds *except* those made to brokers and dealers in securities and to banks. Included in the survey are all such loans for the purpose of purchasing or carrying securities, reported in the Call Report against item 3(b) of Schedule A. *Also*, all other loans collateralized by any stock or bond regardless of purpose, should be included in the group of loans from which the sample is drawn. If, however, stocks or bonds form only a minor part of the collateral behind a loan (20 percent or less) it should *not* be included in this survey; also, loans kept in special files (such as consumer installment loans) may be excluded *if* the collateral is not subject to whatever revaluation procedures are customarily applied to securities collateral. Revaluation procedures may include periodic review of accounts, special revaluations incident to security market declines and reexamination of collateral prior to loan renewals.

REPORTING PROCEDURE

Among your loans secured by stocks and bonds, you are asked to report on—

(*a*) Loans to borrowers whose names fall in the alphabetical segment between "____________________" and "____________________" (segment b);

(*b*) Loans to borrowers whose names fall in the alphabetical segment between "____________________" and "____________________" (segment b); and

(*c*) Each loan of $1 million or more in amount—regardless of the letter with which the borrower's name begins.

Please include the loans in the foregoing groups from *all* files in which loans on stocks or bonds may be contained. Most or all of your loans collateralized by stocks and bonds may be listed in a collateral register, but it will also be necessary to review the sample segment of any other files in which such loans are intermixed with other loans.

For each loan meeting the definition above, enter the name of the borrower and the other details called for. A loan may consist of several notes if all are secured by the same pool of collateral. If a borrower has more than one loan supported by separate and distinct collateral, report the information requested for each loan separately.

If your bank has more than one office, and separate records are maintained at branch offices, the sampling procedure outlined above should be followed at each office. The figures in the box on the insert page should be provided separately for each office reporting.

If you have numerous offices, you may wish to consult your Reserve Bank about the possibility of developing a procedure for sampling offices within your branch system.

Number both parts of your worksheets. Detach and save your portion for 60 days. If questions arise concerning the data submitted, it may be necessary for you to refer to your list of borrowers whose loans were reported. The names of the borrowers should *not* be sent to the Federal Reserve Bank.

If you should have questions about these instructions or the proper reporting of a loan, CONTACT THE FEDERAL RESERVE BANK.

Segment ("a" or "b") ______ (20)

Sheet No. ______ (21-22)

DETACH AND RETAIN

INSTRUCTIONS

FOLLOW THE REPORTING PROCEDURE ON THE REVERSE SIDE

Note: If the data called for are located in more than one place (for instance, the collateral register, loan records, and purpose statements) it will be desirable to assemble this information prior to filling out the loan details in the reporting form. All loans of $1,000,000 or more are to be reported regardless of the name of the borrower. These may be included on the reporting form wherever you find it convenient.

Section I: In this section, please report the terms of each loan collateralized by stocks and bonds in your sample segment. Enter the amount of the loan outstanding, the date when the loan was made or last renewed, and the final maturity specified (unless it is a demand loan in which case so note.) Column 4 is included to show how long this or a predecessor collateral loan to the same borrower has been continuously outstanding. If it has been outstanding (in whatever amount) since before 1960, indicate with a check; if it is more recent, report the day before the loan came on the books (the date of last zero balance.) Where a single loan, as defined under Reporting Procedure (reverse side), is evidenced by more than one note, the date made (column 2) will be that of the earliest note still outstanding, and the date due (column 3) will be that of the last note to mature.

Section II: For each loan in the sample, report in column 5 of this section how the loan would be classified for Schedule A of the Call Report. Collateralized loans are likely to fall into call report categories such as those listed below:

Item number	Type of loan
2b	Loans to financial institutions (other than commercial banks)
3b	Loans for the purpose of purchasing or carrying stocks, bonds, and other securities (other than to commercial banks and to brokers and dealers in securities)
4b	Loans to farmers
5	Commercial and industrial loans
6d	Instalment loans for household, family, and other personal expenditures
6e	Single-payment loans for household, family, and other personal expenditures

If "type of loan" is 3b, indicate by a check in columns 6, 7 and/or 8 the type of securities purchased or carried.

Section III: Indicate here the types of collateral behind the loan. The principal collateral should be indicated with a "P" and any additional types of collateral held should merely be checked. Listed stocks (Col. 9) include all stocks registered on a National Securities Exchange, and mutual fund shares (Col. 10) refer to redeemable securities of investment companies. (For purposes of reference, stocks in both of these categories are published in the "List of Stocks Registered on a National Securities Exchange, as of December 31, 1961," a copy of which is enclosed.)

CONFIDENTIAL

Segment ("a" or "b") ______ (20)

Sheet No. ______ (21-22)

SURVEY OF BANK LOANS COLLATERALIZED BY STOCKS AND BONDS, OUTSTANDING ON SEPTEMBER 26, 1962

______ Bank and office (if applicable) reporting

Form approved
Budget Bureau No. 55-6204
Expires Dec. 31, 1962

Name of borrower	Line number (23-24)	I. AMOUNT AND TERMS OF LOAN: 1 Amount outstanding on September 26, 1962 (omit cents) 25-31	2 Date made or last renewed (month, day and year) 32-37	3 Date due (if demand, write "demand"; if serial loan, give due date of last payment) (month, day and year) 38-43	4 Date of borrower's last zero balance (check if prior to 1960) (month, day and year) 44-49	II. CLASSIFICATION OF LOAN: 5 Type of loan (Call report basis—see instructions, Section II) 50	If column 5 shows loan as 3b, check type of securities purchased or carried: 6 Listed stocks 51	7 Unlisted stocks 52	8 Bonds and other 53	III. COLLATERAL FOR LOAN: Enter "P" in column for principal collateral, check each other kind held: Stocks: 9 Listed stocks 54	10 Mutual fund shares 55	11 Other unlisted stocks 56	Bonds and other: 12 U.S. Gov't. securities 57	13 Convertible bonds 58	14 Other bonds 59	15 Non-security collateral 60	16 If column 11 is checked, print here the number of shares and names of the unlisted stocks. If more than two, enter those representing the largest dollar value. No. of Shares	Issuing company (For a preferred issue, add "Pfd.")	Leave blank 61
(Example) Stewart Helms	Ex	19,800	9-17-62	demand	✓	3b	✓	✓		P		✓					50	Chase Manhattan Bank	
(Example) Bruce Henley	Ex	12,000	6-15-62	12-15-62	6-14-62	5						P	✓				100 100	Henley Novelties, Inc Henley Novelties, pfd	
1	1																		
2	2																		
3	3																		
4	4																		
5	5																		
6	6																		
7	7																		
8	8																		
9	9																		
10	10																		
11	11																		
12	12																		
13	13																		
14	14																		

APPENDIX X–B

VOLUME AND CHARACTERISTICS OF BANK LOANS

VOLUME AND CHARACTERISTICS OF BANK LOANS COLLATERALIZED BY STOCKS AND BONDS

On the basis of a sample survey of loans collateralized by stocks or bonds, it is estimated that member banks of the Federal Reserve System had almost $11 billion of such loans outstanding on September 26, 1962—the survey date. When blown up to universe proportions, the loans reported by respondent banks represent a total of $10,936 million, or just under 10 percent of all loans outstanding at member banks on that date. The estimated number of loans collateralized by securities exceeds 750,000.

Stocks traded on national securities exchanges comprised the principal collateral for nearly three-fifths of this credit (an estimated $6.2 billion) and unlisted stocks accounted for most of the rest—$3.1 billion. Not quite 40 percent of the loans secured principally by unlisted stock had an actively traded issue as their single most important collateral.[1] Collateral for the remaining 60 percent included public issues in which trading interest was insufficient to support wide publication of price quotations, as well as shares in closely held corporations or companies whose stock is not freely marketable. Of the loans secured principally by bonds, $285 million were collateralized by issues convertible into stock and about $300 million by securities of the U.S. Government.

Nearly two-thirds of the total loan volume on stocks and bonds was carried at banking offices in the central cities of large metropolitan areas; this was considerably more than the share of all loans at member banks accounted for by the same offices. Large banking offices—those with total loans of more than $100 million—accounted for about two-fifths of the outstanding total for both collateral loans and loans of all types, but the share for these offices rises to one-half when loans on unlisted stocks are considered separately. Lending on listed issues was more widely diffused, with two-thirds of the loan volume occurring at offices with less than $100 million in total loans.

Reflecting the value of collateral to both borrowers and banks in helping establish credit eligibility and terms, the secured loans in the survey represented a variety of purpose or borrower classifications. Thus, the largest total of loans secured by stocks and bonds ($4.6 billion) was reported by lending banks as single-payment loans to individuals for household and other personal purposes. This volume would represent nearly three-fifths of all single-payment loans reported by member banks on the September 28, 1962, Condition Report, and formed an important part of the credit collateralized by stocks and bonds outstanding at all classes of banks and sizes of lending office. About a third of the secured loans ($3.7 billion) were for business purposes, but these accounted for only a minor fraction of all business loans at member banks.

Of the $10.9 billion in loans secured by stocks and bonds, only $1.9 billion (just under one-fifth) was identified as being expressly for the purpose of purchasing or carrying securities. All of these loans are classed as securities credit by the banks and are referred to as "purpose" loans in this report, but only those which are stock secured and which are for the purpose of purchasing or carrying stocks registered on a national securities exchange (or mutual fund shares) are subject to margin requirements under Regulation U. It is estimated that just under half of the "purpose" credit outstanding on the date of the survey (about $900 million) was subject to margin regulation.

Most of the loans reported in the survey—about 90 percent of the total estimated number—were for less than $25,000, but large loans of $250,000 or more accounted for nearly 30 percent of the total dollar amount as compared with less than 1 percent of the number. About two-fifths of total loans outstanding were shown on the books as demand loans, and two-thirds of the total (by dollar volume) were either demand loans or due in less than 120 days. Most loans, however, were renewals; on the September 26 survey date, borrowers who had been continuously indebted to the lending office on this or a predecessor security loan since prior to 1960 accounted for about half of the $10.9 billion total then outstanding.

[1] In making this classification, issues were defined as actively traded if market interest was sufficient to warrant their inclusion in any NASD daily quotation list (national or regional) or in the national and eastern weekly list.

Coverage of survey

The estimates presented in this report are based on a sample of nearly 25,000 loans collateralized by securities, drawn from 472 banks and designed to give each such loan throughout the System roughly 1 chance in 25 of being included in the sample. Each participating bank supplied details concerning collateral loans made to all customers whose last names fell within assigned segments of the alphabet. Banks with total loans of $200 million or more at the end of 1961 were included in the sample automatically and were assigned alphabetic clusters designed to yield a 4-percent sample of their loans. Respondent banks also reported fully on all loans of $1 million or more. Smaller banks were selected for the survey on a sample basis with a decreasing likelihood of selection but were asked to report on an increasingly larger proportion of their loans.

For each loan in the sample, the respondent banks reported amount of loan, principal (and any subsidiary) collateral, date made, purpose, specified maturity and the duration of the borrower's indebtedness. The summary tables and text which follow present classifications of the loans according to these loan characteristics as well as to certain attributes of the banking offices at which the loans were made.

Distribution of loans by purpose and principal collateral

The purpose classification used in this survey is based on the category to which a loan would be assigned by the lending bank in its quarterly condition report. These categories include business loans (including some loans to farmers), "purpose" loans (for the purpose of purchasing or carrying securities, as defined above), single-payment personal loans to individuals, installment loans to individuals (estimated at $214 million), and loans to financial institutions other than banks ($331 million). Excluded entirely from the survey were loans to banks and loans to securities brokers and dealers. A small residual category (1 percent of the sample) included principally loans to nonprofit institutions.

Table I, in its first panel, shows the dollar total of loans in the sample, expanded to universe proportions and distributed according to purpose of loan by *principal* type of collateral pledged. Shown separately from the listed and unlisted stock totals is a quarter-billion dollar volume of loans collateralized principally by mutual funds shares. While themselves unlisted, these shares customarily include holdings of listed stocks and are treated in the same manner as listed stocks for purposes of margin regulation.

Seven-eighths of the total dollar volume of loans in the survey was collateralized principally by stocks. Of the credit extended on debt instruments, $285 million was secured by bonds convertible into stock—most of it in the form of "purpose" loans. U.S. Government securities formed the principal collateral for only $309 million of loans, a small amount in relation to the very large total held by the public. The residual category, consisting mostly of credit secured by other bonds, includes a small volume of loans in which securities figured only as secondary collateral.

The percentage distribution of loans in each purpose category according to collateral type (panel B) indicates the dominant role of listed stock in securing personal loans, and the greater relative importance of unlisted stock as collateral both for "purpose" loans and for loans to financial institutions. These same relationships are reflected in panel C which presents a percentage distribution of the loan volume secured by each collateral type according to its purpose class. Loans on listed stock (and mutual fund shares) are substantially more likely to be personal loans than are those secured by unlisted stock or bonds. For both listed and unlisted issues, one-third of all loans are business loans. One-quarter of the credit secured by unlisted stock is for the purpose of purchasing and carrying securities; this is almost twice as high as the comparable percentage for listed issues.

Among the loans on unlisted stocks, a higher proportion of those collateralized by actively traded issues were single-payment personal loans (38 percent versus 31 percent for other unlisted stock). In this respect, loans on actively traded issues occupy an intermediate position between loans with listed and those with other unlisted collateral. Loans on untraded issues were somewhat more likely to be business loans. Actively traded issues were no more likely than other unlisted shares to serve as principal collateral for "purpose" loans.

Table II presents for numbers of loans the same relationships as those shown in table I for dollar amounts. Reflecting the large number of small personal loans, this category accounts for 71 percent of all loans by number, as compared with 44 percent by dollar volume, and fully three-fourths of the personal loans are secured by listed stocks or mutual fund shares. Among loans secured by listed stocks, those classed as personal (single-payment and installment) made up 76 percent of the total number, but only 51 percent of the dollar amount; among loans secured by unlisted shares, personal loans made up 60 percent of the number and 36 percent of the dollar amount. Conversely, loan categories for which unlisted stocks were relatively more likely to serve as collateral—such as "purpose" loans and those to financial institutions—included much larger loans (on average) and accounted for a strikingly smaller proportion of the total by number than by volume. This is also true of business loans, for which unlisted stocks were relatively more likely to be pledged.

Broad distinctions among types of collateral loans such as those suggested by the preceding classifications can be observed more clearly by identifying the lending patterns at different types of banking offices. For this purpose, offices of both branch and unit banks have been classified as to geographical location, amount of total loans, amount of "purpose" loans, and by various internal loan ratios. The differences in collateral lending patterns which are summarized below utilize these banking office classifications.

Banking office characteristics and principal collateral

The extension of credit collateralized by securities occurs predominantly in the Nation's major metropolitan centers. Three-fourths of the total volume of security loans outstanding on the survey date was in such areas (having 1960 populations of 500,000 or more). Nearly two-thirds was concentrated at banking offices in the central cities of such areas although it is estimated from the banks in the sample that these offices accounted for only 54 percent of all loans outstanding at member banks.

Table III shows separately the geographical distribution of total loans, collateral loans, and loans secured principally by listed and unlisted stocks. Although the urban concentration of collateral lending is clearly indicated, it will be noted that there is a significant difference in incidence as between loans on listed and unlisted stocks by banking office characteristics. The main offices of money market banks,[2] for instance, carry on their books a disproportionate share of the loans on unlisted stocks; they accounted for 35 percent of all such loans, compared with only 21 percent of the loans on listed shares. This concentration at main offices of loans secured by unlisted stock generally held regardless of whether the principal collateral consisted of actively traded or other issues.

At other central city banks and branch offices there is a greater relative emphasis on collateral lending, and particularly on loans secured by listed issues. Thus, these offices accounted for 38 percent of all collateral loans and 43 percent of the loans on listed stock, although their share in total loans of all types is estimated at only 25 percent. Suburban banks were not a significant source of credit on unlisted stocks, but accounted for better than a tenth of outstanding loans on listed issues. Banks in smaller metropolitan areas, on the other hand, were relatively more important as suppliers of credit on unlisted than of listed stock. And country banks accounted for 11 percent of the total of loans of each type. When loans secured by unlisted issues other than those classified as actively traded are considered separately, a higher proportion of the total was made at small metropolitan and country banking offices than was the case for loans secured either by listed or more readily marketable unlisted collateral.

Table IV shows that, regardless of a lending office's geographic location, a substantially higher proportion of credit on unlisted stocks is extended at large banks. Offices with total loans of $100 million or more accounted for half of all loans outstanding on unlisted stock, as compared with about a third of the credit on listed stock. Conversely, banks or branches with total loans below $5 million reported 28 percent of the dollar amount of loans on listed issues and only 11 percent of those secured by unlisted stocks. It is estimated that these small offices accounted for 15 percent of all member bank loans (secured and unsecured) while the large offices with loans exceeding $100 million extended 43 percent of total member bank credit.

[2] Money market banks are defined within the Federal Reserve System as large banks ($200 million or more in deposits) which manage their money position so as to minimize excess reserves, by dealing regularly in the markets for Federal funds, Treasury bills, bankers acceptances and credit to brokers and dealers in securities. Throughout this report, this classification refers only to the main offices of such banks in large metropolitan areas.

The greater concentration of loans on unlisted stock at large banking offices reflects in part the high proportion of such loans carried at the main offices of large money market banks. It is also true, however, that in other geographic locations, a much smaller share of loans on unlisted issues is made by small offices and a much higher proportion at large offices. At central city banks or branches other than the main offices of money market banks, for instance, offices with less than $5 million in total loans accounted for 38 percent of all loans made on listed stock; these same offices made only 15 percent by dollar volume of the loans on unlisted issues. Again excluding money market bank main offices, big banks and branches accounted for 37 percent of the unlisted loan volume, but only 21 percent of that on listed issues. At banks in smaller metropolitan areas, a similar concentration in relatively larger banks of the credit extended on unlisted issues was clearly evident.

Consistent with this pattern is the related finding that credit on unlisted stock is more likely to be extended by banking offices which had a substantial absolute amount of loans collateralized by securities. Thus, offices reporting total collateral loans of $10 million or more accounted for 54 percent of the credit on unlisted stocks but only 38 percent of that on listed issues. Conversely, banking offices with collateral loans of under $1 million accounted for 23 percent of all credit on listed stocks and only 15 percent of the lending on unlisted issues.

It does not follow from this, however, that collateral lending in general and lending on listed stocks in particular, is an unimportant part of the business of banking offices reporting relatively small collateral loan totals. Credit on listed stock, in fact, is considerably more likely to be extended at offices reporting a high ratio of collateral to total loans than is that on unlisted stock. Thus, banking offices reporting a ratio of collateral loans to total loans of 30 percent or more account for 24 percent of all loans on listed stock but only 11 percent of all credit outstanding on actively traded issues and barely 6 percent of that on other unlisted issues. It is estimated that these same banking offices accounted for only 4 percent of total member bank loans of all types on the survey date.

Table V shows separately for loans on listed and unlisted stock the relative importance of banks with high and low "collateral loan ratios" in the total of such lending for each major geographical lender group. At central city banking offices (other than money market bank main offices), the concentration of collateral lending in offices for which such lending is an important activity is particularly marked. This group of high collateral-ratio lenders accounts for 47 percent of the collateral loans on listed stock at "other central city offices," and 20 percent of the loans on unlisted issues. It will be recalled that "other central city offices," as a group, are among the most important suppliers of credit on listed collateral—accounting for 43 percent of the total.

Banking office characteristics and purpose of loans

Geographic location, size and degree of specialization in collateral lending all appear to produce significant variations in the distribution of stock secured loans at banking offices by purpose categories. Since these patterns differ sharply for loans with listed and unlisted collateral, the two types of credit need to be shown separately.

Table VI shows, for both listed and unlisted stock collateral, the percentage distribution of credit among principal purpose categories for lending offices in each of the geographic classes. Among loans on listed stocks, single-payment personal loans account for close to 50 percent of total dollar volume regardless of lending office's location. For loans on unlisted stocks, the percentage classified as single-payment personal loans is lower for all geographic categories, particularly at money market main offices; a third of loans on unlisted stocks at these offices were "purpose" loans. (In addition, about one-eighth of the credit on unlisted stock at money market main offices is extended to financial institutions, not shown separately in this table.) On listed stock at money market main offices the incidence of "purpose" loans is more than a fifth. While this is a lower proportion of the total than that on unlisted issues, it is substantially larger than for other types of lending offices. Business loans at the money market main offices are apparently less likely to be collateralized by securities of any type and hence are relatively less important as a purpose category than at other types of banking offices. At banks in smaller metropolitan centers and at country banks, however, collateralized business loans are a more important segment of the total, and appear to be especially so where unlisted stock serves as the basis of credit for business purposes. When loans secured by unlisted stock are further divided between those collateralized by actively traded issues and others, it is notable that at other central city offices, single-payment personal loans constituted 49 percent of all loans secured by readily marketable unlisted issues—as high a proportion as they did for listed stock. The comparable percentage among loans secured by other unlisted issues was only 35 percent. At all offices except country banks, "purpose" loans made up a somewhat smaller share of loans secured by actively traded than by other unlisted issues, despite the presumably greater speculative interest in the former.

Table VII shows for business, "purpose" and personal loans the percentage distribution of loan totals among lending offices in the various size classes discussed earlier. Separate distributions are presented for loans secured by listed and by unlisted stocks. The far greater relative importance of small offices in supplying credit for all purposes on listed as compared with unlisted collateral probably reflects greater familiarity with listed stocks and ease of checking collateral values. Among the unlisted shares taken as principal collateral, moreover, actively traded issues appear to be substantially more acceptable as collateral for single-payment personal loans at these small offices than do those which are less readily marketable. Such offices accounted for 20 percent of the personal loans on actively traded issues compared with 29 percent of those on listed issues and only 12 percent of those on issues not actively traded.

Thus, a primary concentration of personal loans on listed stock at smaller branch offices of large city banks is reinforced by a secondary concentration of personal loans secured by *actively traded unlisted issues.* This supports the interpretation that personal loans at such offices are customarily made more readily or on more favorable terms if acceptable collateral is available. The greater concentration, already noted, of loans on listed stock at small offices with high ratios of collateral to total loans also would be consistent with a policy preference at these banks that personal loans be collateralized.

Very large banks and offices play a major role in supplying credit for purchasing and carrying both listed and unlisted securities, but are less important in furnishing personal and business credit on a collateralized basis. The extension of "purpose" credit in fact tends to be concentrated in large banks which handle a large volume of such loans but at which only a relatively small fraction of business and personal loans involve securities collateral. A higher proportion of the collateral loans they do make, therefore, tend to be "purpose" loans. Over a third of all "purpose" loans are accounted for by offices where more than half of their collateral loans are so classified. On the other hand, about five-eighths of both personal and business loans on listed stocks, and 50 percent of those on unlisted issues, originate at banks which report less than 5 percent of their collateral loans in the "purpose" category.

Distribution of collateral loans by size

The difference in borrowing patterns on listed and unlisted stock is again emphasized when collateral loans are classified by size, as is done in *tables VIII and IX.* In panel A of table VIII the total estimated volume of loans outstanding is distributed by principal collateral and size of loan. Panel B shows the percentage distribution of all loans in each collateral type among the size classes; panel C shows the relative importance of each type of collateral in making up the loan total for each size group. Table IX is similar except that the classifications are based on the number of loans in each category rather than the dollar amounts.

The importance of relatively smaller loans in accounting for the total volume of credit extended on listed stock stands out clearly in these tables. As shown in table VIII, panel B, loans of less than $25,000 account for a third of the total amount secured by listed stock compared with a fourth of that by unlisted issues. Five-eighths of all credit on listed stock takes the form of loans for less than $100,000; such loans make up only half of total credit outstanding on unlisted issues. Conversely, a third of the total secured by unlisted collateral is concentrated in loans for $250,000 or more as compared with less than a fourth of that secured by listed stock. Listed stock is the principal collateral for better than three-fifths of all loans under $100,000 but only about two-fifths of the total for loans of $1 million or more.

When classified by number rather than dollar amounts, the bulk of all loans (about 90 percent) are for less than $25,000, regardless of collateral. Among loans secured by listed stock and mutual funds, however, a greater concentration occurs among really small loans—those for less than $5,000. The size distribution for loans collateralized by bonds more closely resembles that for unlisted stock issues, except that relatively few very small loans are secured by convertible bonds.

Table X cross-classifies loan volume by loan and bank size. As might be expected, the largest banking offices account for the bulk of the really large loans, and the concentration is more noticeable for loans secured by unlisted than by listed stock. Banking offices with more than $200 million in total loans reported 81 percent by amount of all loans exceeding $1 million secured by unlisted stock and 48 percent of loans in the $250,000 to $1 million size class. For loans on listed issues the comparable proportions were 58 and 38 percent, respectively. One apparent exception to the concentration of large loans at large banks is a substantial amount of loans for more than $250,000 secured by listed stocks at central city banking offices with less than $5 million in total loans; such loans are probably carried on the books at branch offices of larger banks.

Additional evidence of a preference for listed collateral at small banking offices is shown by the fact that the smaller offices (those with less than $5 million in total loans) accounted for a significantly larger proportion of the loans on listed than on unlisted stock in each loan size class. The very large banking offices, on the other hand, were consistently more important in lending on unlisted shares, regardless of loan size.

For loans in different purpose classifications, there are markedly different loan size distributions. This is shown in *table XI*, where both the dollar volume and the number of loans in each of the three major purpose categories has been distributed among the loan size classes. There is a much greater incidence of small loans among single-payment personal loans, where loans for less than $5,000 account for two-thirds of the number and one-eighth of the dollar amount. By value, loans exceeding $100,000, which made up 56 percent of the total volume of "purpose" credit and 51 percent of the business loans, accounted for only 29 percent of the personal loan credit extended to individuals.

Loan characteristics of collateral loans

In addition to the basic data on collateral, purpose and size of loans, presented above, information is available from the collateral loan survey concerning the regulatory status of purpose loans, the specified maturity of loans (and the extent to which they are callable before maturity if collateral declines in value), and the duration of the borrower's indebtedness.

Regulatory status

The Federal Reserve Board's Regulation U specifies minimum margin requirements on bank loans which (1) are for the purpose of purchasing or carrying *stock registered on a national securities exchange* (or shares in mutual funds which customarily hold such stocks) and (2) are secured by *any stock*. In consequence of this limitation, credit for the sole purpose of purchasing or carrying unlisted stock or bonds is unregulated. Of the estimated $1.9 billion in "purpose" credit (for purchasing or carrying securities of any kind) reported in this survey, $909 million (47 percent) met the above criteria for regulation, while the remaining 53 percent was exempt.

Not all regulated loans were secured principally by listed stock or mutual fund shares; about a fifth of the total was principally secured by other collateral—bonds or unlisted stock. Such loans are subject to regulation if listed stocks make up any portion of the securities carried and if any stock (listed or unlisted) serves as any part of the collateral. The fact that a loan is subject to margin requirements does not, of course, affect the loan value of nonequity collateral. When the $727 million of regulated loans secured principally by listed stocks or mutual fund shares is related to the $6.4 billion in all loans principally collateralized by such issues, it amounts to 11 percent of the total.

Table XII shows the total dollar amount of regulated and unregulated "purpose" loans according to principal collateral and geographic location of lending office. Of the purpose loans collateralized principally by listed stock, it will be noted that $86 million is shown as unregulated, representing loans whose proceeds were applied to purchasing or carrying unlisted stocks or bonds. The bulk of such cases were at central city banks, as was also the major portion of regulated loans where unlisted issues or bonds constituted the principal collateral.

When loan characteristics of regulated loans are compared with those of unregulated "purpose" loans, the distribution by loan size of the total outstanding for each group was very similar. Considerable differences existed, however, with regard to maturity and duration of indebtedness. Regulated loans are much more likely to be written as demand loans than are loans for the purpose of purchasing or carrying unlisted (or nonequity) securities—55 percent as compared with 30 percent. Relatively long fixed maturities (8 months or more) are more common among the unregulated group—25 percent versus 11 percent for regulated loans. Borrowers subject to margin regulations, however, were much more likely to have carried their security loan indebtedness continuously for a longer period—since prior to 1960 in cases accounting for 58 percent of the regulated total. The comparable percentage for the unregulated "purpose" category was only 35 percent.

Maturity

Most loans reported in the survey were either demand loans or had relatively short fixed maturities. *Table XIII* indicates that half of all credit secured by listed stocks is in the form of demand loans and another one-fourth has a specified maturity of under 4 months. Less than 10 percent of the total has a fixed maturity of 8 months or more. For credit secured by unlisted stock, on the other hand, a smaller share of loans are written as demand loans and maturities tend to be longer.

Although the maturity pattern differs sharply for loans falling into different purpose categories, the differential treatment of listed and unlisted collateral remains observable. It is particularly notable in the case of "purpose" loans, where only 25 percent of those secured by unlisted stock are demand loans and 32 percent have maturities of 8 months or longer. For "purpose" loans on listed stock, 56 percent of the total is due on demand, and only 8 percent matures after 8 months or more. In the case of single-payment, personal loans, which are even less likely to have distant maturities, a further distinction is worth noting. The table shows that half of the loans secured by listed issues are written as demand loans as compared with 42 percent of those with unlisted collateral. When the latter are further classified to distinguish actively traded issues from the rest, however, 47 percent of the loans with actively traded collateral are written on a demand basis contrasting with only 38 percent of the others. In this respect, again, personal loans secured by actively traded unlisted shares more nearly follow the pattern for loans on listed stocks.

From the standpoint of potential market impact, there is probably little practical distinction between demand loans and those with fixed maturities. Over 90 percent of the credit outstanding which specifies a fixed maturity could be called by the bank in the event of a substantial decline in market value of the collateral.

Typical maturity patterns appear to differ considerably according to a banking office's geographic location, but the distinction in treatment between listed and unlisted stock collateral remains everywhere. As can be seen from *table XIV*, loans at banks in smaller metropolitan areas are least likely to be written as demand loans, while main office loans at large big city banks are somewhat more likely to carry the longer fixed maturities.

Duration of indebtedness

Although most loans in the survey were on the books either as demand loans or with short fixed maturities, over three-quarters of the outstanding credit was to borrowers who had been indebted on a predecessor security loan. Indeed, in cases involving 53 percent of the loan volume on listed stocks and 44 percent of that on unlisted, the borrower had been continuously indebted on this or a predecessor loan since prior to 1960. Of the loans outstanding last September 26, only 15 percent of the credit secured by listed stock and 23 percent of that secured by unlisted had first come onto the books in 1962.

Summarized below for each of the major purpose categories is the percentage of loan volume which on the date of the survey was to borrowers to whom security credit had been outstanding (not necessarily in the same amount) since prior to 1960:

[In percent]

	Listed stock	Unlisted stock
Business loans	49	43
"Purpose" loans	56	41
Personal loans	57	50
Total	53	44

The geographic location of lending offices does not appear to produce significant variations in the pattern of loan duration except for one important group of loans—those on unlisted stocks at big city main offices. These are less likely to be of long duration (only 39 percent outstanding since before 1960), and a higher proportion (30 percent) were new loans in 1962. The duration pattern for listed collateral at the same banks closely approximated the national averages—55 percent were continuously outstanding since before 1960 and only 15 percent were new in 1962.

Of loans remaining on the books with or without renewal for long periods of time, a higher proportion tend to be demand loans. Most demand loans originated in 1960 or 1961 had been rewritten within 6 months of the survey date; most of those on the books since prior to 1960 had not. Loans secured by bonds were just as likely to have been renewed as those secured by stock.

Except for very small and very large loans, loan size does not seem to be an important variable in duration of indebtedness. Borrowers with current balances below $5,000 were less likely to have a relationship of continuous indebtedness since prior to 1960, and were more likely to be new borrowers in 1962. This is particularly true of those pledging listed stocks. Large borrowers on unlisted collateral (current loans of $250,000 or more) were also somewhat more likely to fall into the 1962 new-loan category.

TABLES

BANK LOANS SECURED BY STOCKS AND BONDS, SEPTEMBER 26, 1962

APPENDIX X–B: TABLE I.—*Purpose category and principal collateral—Amount outstanding*

Purpose category	Listed stock	Mutual fund shares	Other unlisted stock			Convertible bonds	U.S. Government securities	Other bonds	Total
			Total	Actively traded	Other				
Panel A—Amount outstanding (million dollars)									
Business loans	2,062	100	1,056	366	690	24	129	348	3,718
"Purpose" loans	795	18	789	288	501	203	48	97	1,949
Single payment personal loans	3,040	115	1,046	455	591	47	77	289	4,613
Installment loans to individuals	143	8	52	18	33	(*)	4	8	214
Loans to financial institutions	73	(*)	160	66	93	13	51	34	331
Other	74	2	18	3	15	0	1	17	111
Total	6,187	243	3,120	1,196	1,924	286	309	792	10,936
Panel B—Percentage distribution of purpose categories by collateral									
Business loans	55	3	28	10	19	1	3	9	100
"Purpose" loans	41	1	40	15	26	10	2	5	100
Single payment personal loans	66	2	23	10	13	1	2	6	100
Installment loans to individuals	67	4	24	8	15	(*)	2	4	100
Loans to financial institutions	22	(*)	48	20	28	4	15	10	100
Other	67	2	16	3	14	0	1	15	100
Total	57	2	28	11	18	3	3	7	100
Panel C—Percentage distribution of collateral types by purpose									
Business loans	33	41	34	31	36	8	42	44	34
"Purpose" loans	13	7	25	24	26	71	16	12	18
Single payment personal loans	49	47	34	38	31	16	25	37	42
Installment loans to individuals	2	3	2	2	2	(*)	1	1	2
Loans to financial institutions	1	(*)	5	6	5	4	16	4	3
Other	1	1	1	(*)	1	0	(*)	2	1
Total	100	100	100	100	100	100	100	100	100

*Less than $500,000 or less than ½ of 1 percent.

APPENDIX X–B: TABLE II.—*Purpose category and principal collateral—Number of loans*

Purpose category	Listed stock	Mutual fund shares	Other unlisted stock	Convertible bonds	U.S. Government securities	Other bonds	Total
	Panel A—Number of loans (in thousands)						
Business loans	88	12	36	1	6	7	150
"Purpose" loans	29	2	28	5	1	6	69
Single payment personal loans	340	27	90	4	12	15	488
Installment loans to individuals	30	4	8	(*)	1	2	44
Loans to financial institutions	(*)	(*)	1	(*)	(*)	(*)	2
Other	1	(*)	(*)	0	(*)	(*)	2
Total	488	44	163	10	20	29	754
	Panel B—Percentage distribution of purpose classes by collateral						
Business loans	59	8	24	(*)	4	5	100
"Purpose" loans	41	2	40	7	1	8	100
Single payment personal loans	70	6	18	1	2	3	100
Installment loans to individuals	68	8	18	(*)	2	4	100
Loans to financial institutions	25	(*)	31	25	13	6	100
Other	65	18	6	0	6	6	100
Total	65	6	22	1	3	4	100
	Panel C—Percentage distribution of collateral types by purpose						
Business loans	18	26	22	7	32	23	20
"Purpose" loans	6	3	17	50	3	19	9
Single payment personal loans	70	61	55	38	59	51	65
Installment loans to individuals	6	8	5	1	5	6	6
Loans to financial institutions	(*)	(*)	(*)	4	1	(*)	(*)
Other	(*)	1	(*)	0	1	(*)	(*)
Total	100	100	100	100	100	100	100

*Less than 500 loans or less than ½ of 1 percent.

APPENDIX X–B: TABLE III.—*Loans outstanding on selected types of principal collateral, distributed by geographic location of lending office*

[Percentages for loans within specified collateral types]

Location of lending offices	Loans secured by stocks and bonds					Total loans of all types
	Listed stock	Unlisted stock (except mutual fund shares)			Total (including bonds and other)	
		Total	Actively traded	Other		
Large metropolitan areas:						
Main offices of money market banks	21	35	36	33	26	28
Other central city offices	43	28	29	28	38	25
Suburban banks and offices	11	4	5	3	9	9
Small metropolitan areas	11	20	18	22	14	15
Country banks	11	11	8	13	11	19
Office's location not indicated	3	2	3	1	2	4
All offices	100	100	100	100	100	100

APPENDIX X–B: TABLE IV.—*Loans oustanding by geographic locations of lending offices, distributed according to size of lending office*

[Percentages for loans secured principally by listed and by unlisted stocks shown separately]

Geographic location of lending office	Total loans at lending office											
	Less than $5,000,000		$5,000,000 but less than $25,000,000		$25,000,000 but less than $100,000,000		$100,000,000 but less than $500,000,000		$500,000,000 or more		All offices	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Large metropolitan areas:												
Main offices of money market banks	(*)	—	(*)	(*)	4	3	50	48	45	49	100	100
Other central city offices	38	15	17	20	24	29	19	36	2	1	100	100
Suburban banks and offices	32	23	29	43	19	18	20	16	—	—	100	100
Small metropolitan areas	12	5	33	23	38	47	17	25	—	—	100	100
Country banks	48	39	43	49	8	12	(*)	(*)	—	—	100	100
All offices	28	11	20	18	18	21	12	15	21	35	100	100

*Less than ½ of 1 percent.

APPENDIX X–B: TABLE V.—*Loans outstanding by geographic locations of lending offices, distributed according to ratio of collateral to total loans*

[Percentages for loans secured principally by listed and by unlisted stocks shown separately]

Geographic location of lending office	Collateral loans as percentage of total loans at banking office							
	Less than 10		10 but less than 30		30 or more		Total	
Large metropolitan areas:								
Main offices of money market banks:								
Listed	53		45		2		100	
Unlisted		41		59		(*)		100
Other central city offices:								
Listed	17		36		47		100	
Unlisted		27		53		20		100
Suburban banks and offices:								
Listed	38		48		14		100	
Unlisted		42		44		15		100
Small metropolitan areas:								
Listed	45		52		3		100	
Unlisted		39		58		3		100
Country banks:								
Listed	44		43		13		100	
Unlisted		57		35		8		100
All offices:								
Listed	34		42		24		100	
Unlisted		39		53		8		100

*Less than ½ of 1 percent.

APPENDIX X–B: TABLE VI.—*Loans outstanding by geographic locations of lending offices, distributed according to selected purpose categories*

[Percentages for loans secured principally by listed and by unlisted stocks shown separately]

Geographic location of lending office	Selected purpose categories							
	Business loans		"Purpose" loans		Single-payment personal loans		Total	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Large metropolitan areas:								
Main offices of money market banks	23	27	22	33	50	25	100	100
Other central city offices	37	29	12	25	47	41	100	100
Suburban banks and offices	23	33	11	15	54	47	100	100
Small metropolitan areas	34	40	11	25	52	35	100	100
Country banks	40	55	4	8	50	34	100	100
All offices	33	34	13	25	49	34	100	100

APPENDIX X–B: TABLE VII.—*Loans outstanding in selected purpose categories, distributed according to size of lending office*

[Percentages for loans secured principally by listed and by unlisted stocks shown separately]

Total loans at lending office	Purpose category							
	Business loans		"Purpose" loans		Single-payment personal loans		Total collateral loans	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Less than $5,000,000	30	12	16	5	29	16	28	11
$5,000,000 but less than $25,000,000	21	25	14	10	21	20	20	18
$25,000,000 but less than $100,000,000	19	23	18	21	18	21	18	21
$100,000,000 but less than $500,000,000	23	26	26	39	24	31	23	32
$500,000,000 or more	7	15	26	25	8	12	10	17
Total	100	100	100	100	100	100	100	100

APPENDIX X-B: TABLE VIII.—*Size of loan and principal collateral—Amount outstanding*

Loan size	Listed stock	Mutual fund shares	Other unlisted stock: Total	Other unlisted stock: Actively traded	Other unlisted stock: Other	Convertible bonds	U.S. Government securities	Other bonds	Total
	Panel A—Amount outstanding (million dollars)								
Under $5,000	538	54	167	58	109	7	22	24	810
$5,000 to $25,000	1,467	105	579	198	382	59	69	112	2,392
$25,000 to $100,000	1,776	64	772	281	491	92	82	196	2,982
$100,000 to $250,000	955	16	524	211	313	76	37	182	1,790
$250,000 to $1,000,000	965	0	627	305	322	47	46	134	1,821
$1,000,000 and over	486	5	451	144	308	6	50	144	1,141
Total	6,187	243	3,120	1,196	1,924	286	309	792	10,936
	Panel B—Percentage distribution of collateral types by size								
Under $5,000	9	22	5	5	6	2	7	3	7
$5,000 to $25,000	24	43	19	17	20	21	22	14	22
$25,000 to $100,000	29	26	25	24	26	32	27	25	27
$100,000 to $250,000	15	7	17	18	16	27	12	23	16
$250,000 to $1,000,000	16	-----	20	26	17	16	16	17	17
$1,000,000 and over	8	2	14	12	16	2	16	18	10
Total	100	100	100	100	100	100	100	100	100
	Panel C—Percentage distribution of size classes by collateral								
Under $5,000	66	7	21	7	13	1	3	3	100
$5,000 to $25,000	61	4	24	8	16	2	3	5	100
$25,000 to $100,000	60	2	26	9	16	3	3	6	100
$100,000 to $250,000	53	1	29	12	17	4	2	10	100
$250,000 to $1,000,000	53	-----	34	17	18	3	3	7	100
$1,000,000 and over	43	*	40	13	27	1	4	13	100
Total	57	2	29	11	18	3	3	7	100

*Less than ½ of 1 percent.

APPENDIX X–B: TABLE IX.—*Size of loan and principal collateral—Number of loans*

Loan size	Listed stock	Mutual fund shares	Other unlisted stock	Convertible bonds	U.S. Government securities	Other bonds	Total
	Panel A—Number of loans (in thousands)						
Under $5,000	302	31	87	3	11	14	449
$5,000 to $25,000	137	11	53	5	7	9	221
$25,000 to $100,000	40	2	17	2	2	4	66
$100,000 to $250,000	7	(*)	4	1	(*)	1	12
$250,000 to $1,000,000	2	0	2	(*)	(*)	(*)	4
$1,000,000 and over	(*)	(*)	(*)	(*)	(*)	(*)	1
Total	488	44	163	10	20	29	754
	Panel B—Percentage distribution of collateral types by size						
Under $5,000	62	72	54	28	57	48	60
$5,000 to $25,000	28	24	33	47	33	32	29
$25,000 to $100,000	8	4	11	19	9	15	9
$100,000 to $250,000	1	(*)	2	5	2	5	2
$250,000 to $1,000,000	(*)	----------	1	1	1	1	(*)
$1,000,000 and over	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Total	100	100	100	100	100	100	100
	Panel C—Percentage distribution of size classes by collateral						
Under $5,000	67	7	19	1	3	3	100
$5,000 to $25,000	62	5	24	2	3	4	100
$25,000 to $100,000	60	2	26	3	3	7	100
$100,000 to $250,000	53	1	29	4	2	11	100
$250,000 to $1,000,000	51	----------	37	2	2	7	100
$1,000,000 and over	50	(*)	50	(*)	(*)	(*)	100
Total	65	6	22	1	3	4	100

*Less than 500 loans or less than ½ of 1 percent.

APPENDIX X–B: TABLE X.—*Loans outstanding in specified size categories, distributed according to size of lending office*

[Percentages for loans secured principally by listed and by unlisted stocks shown separately]

Loan size	Total loans at lending office											
	Less than $5,000,000		$5,000,000 but less than $25,000,000		$25,000,000 but less than $100,000,000		$100,000,000 but less than $200,000,000		$200,000,000 or more		All offices	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Under $5,000	44	26	28	31	16	23	5	10	7	10	100	100
$5,000 to $25,000	38	21	26	29	19	24	7	12	10	14	100	100
$25,000 to $100,000	30	14	25	23	20	26	10	17	15	20	100	100
$100,000 to $250,000	15	7	22	22	24	27	15	13	24	31	100	100
$250,000 to $1,000,000	25	4	4	9	13	15	19	24	38	48	100	100
$1,000,000 and over	7	3	7	(*)	9	7	19	8	58	81	100	100
Total	28	11	20	18	18	21	12	15	21	35	100	100

*Less than ½ of 1 percent.

APPENDIX X–B: TABLE XI.—*Dollar amount and number of loans in selected purpose categories, distributed by size of loan*

[Percentages for loans within purpose categories]

Loan size	Purpose category							
	Business loans		"Purpose" loans		Single-payment personal loans		Total collateral loans	
	Dollar amount	Number of loans	Dollar amount	Number of loans	Dollar amount	Number of loans	Dollar amount	Number of loans
Under $5,000	3	39	3	43	12	66	8	59
$5,000 to $25,000	17	40	15	37	29	27	22	29
$25,000 to $100,000	28	16	26	16	29	6	27	9
$100,000 to $250,000	18	3	24	5	13	1	16	2
$250,000 to $1,000,000	20	1	19	1	12	(*)	16	1
$1,000,000 and over	13	(*)	13	(*)	4	(*)	10	(*)
Total	100	100	100	100	100	100	100	100

*Less than ½ of 1 percent.

APPENDIX X–B: TABLE XII.—*Regulated and unregulated loans for the purpose of purchasing and carrying securities, by principal collateral and geographic location of lending office*

[In millions of dollars]

Location of lending office	Listed stock (including mutual funds)		Unlisted stock		Bonds and other		Total	
	Regulated	Unregulated	Regulated	Unregulated	Regulated	Unregulated	Regulated	Unregulated
Large metropolitan areas:								
Main offices of money market banks	261	38	49	308	36	101	346	447
Other central city offices	288	33	30	186	20	137	338	356
Other offices (small metropolitan areas, suburban and country)	177	15	45	170	2	54	225	239
All offices	727	86	124	664	58	289	909	1,040

APPENDIX X–B: TABLE XIII.—*Loans outstanding in selected purpose categories, distributed according to specified maturity of loan*

[Percentages for loans secured principally by listed and by unlisted stocks shown separately]

Maturity category	Purpose category and collateral							
	Business loans		"Purpose" loans		Single-payment personal loans		Total	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Demand loan	44	27	56	25	51	42	50	31
Less than 120 days	28	24	18	12	25	28	25	21
120 to 239 days	13	23	18	31	17	19	15	24
240 to 394 days	7	12	4	21	4	9	5	14
395 days or longer	6	12	4	11	1	2	4	9
All maturities	100	100	100	100	100	100	100	100

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APPENDIX X-B: TABLE XIV.—*Loans outstanding by geographic locations of lending offices, distributed according to specified maturity of loan*

[Percentages for loans secured principally by listed and by unlisted stocks shown separately]

Geographic location of lending office	Specified maturity											
	Demand		Under 120 days		120 to 239 days		240 to 394 days		395 days and over		Total	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Large metropolitan areas:												
Main offices of money market banks	47	26	21	19	18	26	7	16	7	12	100	100
Other central city offices	46	29	33	25	13	22	4	13	3	8	100	100
Suburban banks and offices	65	37	17	24	12	31	3	3	1	2	100	100
Small metropolitan areas	42	29	28	23	20	27	7	14	2	5	100	100
Country banks	64	46	12	15	13	16	6	11	4	10	100	100
All offices	50	31	25	21	15	24	5	14	4	9	100	100

TECHNICAL NOTE

On all tables, the term "loans outstanding" unless otherwise indicated, refers to dollar amounts. All tables show universe estimates based on a weighted blowup of sampled loans and hence are subject to sampling variance.

Tables I, II, VIII, and IX.—Loans principally secured by collateral other than securities but which have securities of any type as secondary collateral are included with "Other bonds."

Tables III, IV, V, VI, XII, and XIV.—Large metropolitan areas are defined as those with more than 500,000 (as of the 1960 census) inhabitants; small metropolitan areas are those with population from 50,000 to 500,000. Technical definition of "money market banks" is given as footnote 2, page 45.

Table XIV.—Totals include a small amount for loans past due on survey date and not shown separately.

APPENDIX X–C

RELATION BETWEEN ISSUERS (CLASSIFIED BY ASSETS AND NUMBER OF SHAREHOLDERS) AND AMOUNT OF LOANS

APPENDIX X–C: TABLE I.—*Loans collateralized principally by unlisted stock classified according to number of shareholders and industry type of company whose stock constitutes principal collateral*

Company characteristics		Loans	
Number of shareholders	Industry group	Number	Amount
Under 200	Banks	1,090	$7,984,385
	Insurance	932	46,809,527
	Industrial and miscellaneous	2,882	87,656,704
Subtotal		4,904	142,450,616
200 to 299	Banks	70	655,826
	Insurance		
	Industrial and miscellaneous	69	7,680,500
Subtotal		139	8.336,326
300 to 499	Banks	1,454	35,977,564
	Insurance	266	12,607,254
	Industrial and miscellaneous	2,111	24,464,090
Subtotal		3,831	73,048,908
500 to 749	Banks	3,177	24,781,121
	Insurance	264	21,760,550
	Industrial and miscellaneous	2,040	26,976,495
Subtotal		5,481	73,518,166
750 to 999	Banks	692	9,722,957
	Insurance	90	943,000
	Industrial and miscellaneous	2,585	53,921,778
Subtotal		3,367	64,587,735
1,000 to 1,999	Banks	1,719	26,311,780
	Insurance	1,248	36,584,020
	Industrial and miscellaneous	8,400	173,911,477
Subtotal		11,367	236,807,277
2,000 to 2,999	Banks	2,129	57,168,428
	Insurance	1,269	53,947,207
	Industrial and miscellaneous	5,514	65,341,759
Subtotal		8,912	176,457,394
3,000 to 4,999	Banks	2,027	17,277,671
	Insurance	2,968	84,159,548
	Industrial and miscellaneous	6,395	143,311,018
Subtotal		11,390	244,748,237
5,000 or more	Banks	8,252	96,064,723
	Insurance	7,906	146,731,714
	Industrial and miscellaneous	9,781	161,843,082
Subtotal		25,939	404,639,519
Total classified		75,330	1,424,594,178
Not classifiable		87,281	1,695,374,787
Total collateralized principally by unlisted stocks.		162,611	3,119,968,965
Grand total collateralized by stocks and bonds.		753,833	10,936,125,441

APPENDIX X–C: TABLE II.—*Loans collateralized principally by unlisted stock classified according to asset size and industry type of company whose stock constitutes principal collateral*

Company characteristics		Loans	
Asset size	Industry group	Number	Amount
Under $500,000	Banks	75	$1,017,500
	Insurance		
	Industrial and miscellaneous	564	10,699,719
Subtotal		639	11,717,219
$500,000 to $999,999	Banks		
	Insurance	51	38,700
	Industrial and miscellaneous	362	6,325,837
Subtotal		413	6,364,537
$1,000,000 to $2,999,999	Banks		
	Insurance	524	26,827,059
	Industrial and miscellaneous	2,792	34,722,511
Subtotal		3,316	61,549,570
$3,000,000 to $4,999,999	Banks	80	1,919,360
	Insurance	584	12,214,114
	Industrial and miscellaneous	2,659	33,881,260
Subtotal		3,323	48,014,734
$5,000,000 to $9,999,999	Banks	185	1,542,150
	Insurance	472	14,832,398
	Industrial and miscellaneous	5,752	108,497,084
Subtotal		6,409	124,871,632
$10,000,000 to $19,999,999	Banks	2,472	10,546,608
	Insurance	728	26,763,464
	Industrial and miscellaneous	8,016	92,494,963
Subtotal		11,216	129,805,035
$20,000,000 to $49,999,999	Banks	2,107	24,611,573
	Insurance	2,082	45,101,399
	Industrial and miscellaneous	8,937	204,244,282
Subtotal		13,126	273,957,254
$50,000,000 to $99,999,999	Banks	2,470	32,464,513
	Insurance	1,645	54,665,053
	Industrial and miscellaneous	4,405	130,783,492
Subtotal		8,520	217,913,058
$100,000,000 and over	Banks	13,221	203,842,751
	Insurance	8,857	223,100,633
	Industrial and miscellaneous	6,290	123,457,755
Subtotal		28,368	550,401,139
Total classified		75,330	1,424,594,178
Not classifiable		87,281	1,695,374,787
Total collateralized principally by unlisted stocks.		162,611	3,119,968,965
Grand total collateralized by stocks and bonds.		753,833	10,936,125,441

APPENDIX X–D

BANK PRACTICES IN MAKING SECURITY LOANS: INTERVIEW QUESTIONS AND ANSWERS

METHODS AND STANDARDS IN MAKING SECURITY LOANS: DECEMBER 1962 INTERVIEWS

Interviews concerning banks' methods and standards in making security loans were held with a group of banks in December 1962 by the Federal Reserve Banks. The group consisted of 31 member banks, which included banks of various sizes and located in various parts of the United States. The questions for these interviews were drawn up by the Board of Governors of the Federal Reserve System.

There are reproduced below the replies of these banks as received from the Federal Reserve Banks. These have been arranged so as to group together for convenient reference the replies coming from banks of a given size group and dealing with a given subject. At the beginning of each group of replies there is reproduced the question or questions to which they relate.

To identify all the answers from any one bank, each answer is preceded by the code number of the respondent bank. The group includes 12 banks with deposits of $15–30 million, identified by code numbers 21–32; 12 banks with deposits of $100–250 million, identified by code numbers 51–62; and 7 banks with deposits of over $500 million, identified by code numbers 81–87.

* * *

A. LOAN RATIOS

Questions

1. What percentage of current market value are you generally willing to lend on listed stocks when the purpose of the loan is other than to purchase or carry listed stocks (a loan not regulated by Regulation U)? If the amount varies, please indicate what factors are important.

2. What percentage of current market value are you generally willing to lend on unlisted stocks when the purpose is other than to buy or carry listed stocks (a loan not regulated by Regulation U)? If the amount varies, please indicate what factors are important.

3. What percentage of current market value are you generally willing to lend on convertible bonds? If the amount varies, please indicate what factors are important.

Bank Code No. — *Answers*

21 1. Usual percentage is 60. Willing to go to 70 percent for best customers only.

2. Accepted only from very good customers and the percentage here is only 50.

3. Same standards as for listed stocks.

22 1. Not to exceed 70 percent of market value. If customer files an appropriate financial statement, the loan could exceed 70 percent, and all of the securities offered would be handled as "side collateral."

2. The officials endeavor to maintain 50 percent margin unless financial statement warrants a higher loan.

3. Not to exceed 70 percent of market value with conditions regarding financial statement outlined in 1 also applying.

23 1. 60 percent.

2. 50 percent on most unlisted stock. Exceptions are well-known companies such as banks and insurance companies not listed but reported in newspapers.

3. Have no such requests, but would go to 80 percent if they had.

24 1. When a nonpurpose loan is considered, the bank is generally willing to lend up to 50 percent of the market value of listed stocks. The only exceptions to this rule depend upon the particular individual who is doing the borrowing.

2. The 50-percent rule stated in answer to question 1 also applies to nonpurpose loans with unlisted securities pledged as collateral. The bank

may try to keep the amount below 50 percent of market value in certain instances, again depending upon the individual requesting the loan.

3. "Darn little of this type of lending." The bank usually will not consider a loan in excess of the par value of the securities offered as collateral. The percentage of par that the bank would lend depends upon the issuing company.

25 1. 75 percent. (No significant variation in percentage.)

2. 66 percent. (No significant variation.)

3. No definite policy since bank is inactive in making loans on bonds of any type.

26 1. Not willing to lend over 75 percent of current market value, a percentage that has been used as a guideline for several years. There are exceptions—the bank will lend more to customers whose financial standing and character are good. In fact, some customers to whom the bank would be willing to make an unsecured loan insist on pledging stock to get a better rate. In such cases, of course, the bank would be willing to lend 100 percent of value. The key factors are financial strength and character of borrower.

2. The bank stated that its policy was the same as for listed stocks (1 above). Factors determining the unmargined amount are degree of marketability, trends in stock prices, and financial strength and character of the borrower.

3. The bank has no loans secured by convertible bonds at present. Would consider the 75-percent ratio relevant here also for good strong bonds. The particulars of the convertibility features would be examined closely. Some indication was given that convertible bonds would be considered with more caution than either type of stock mentioned above.

27 1. Normally 75 percent. The percentage varies only in exceptional cases and then generally in the direction of a smaller percentage of current market value. Borrower characteristics generally determine variation.

2. Normally 50 percent. Only rarely accept other than local issues.

3. No loans have been made on convertible bonds. If the occasion should arise, they would probably consider loaning up to 75 percent of current market value on convertible bonds of listed, well-known firms. Again it would depend upon borrower—his occupation, income, credit standing, reason for borrowing, etc.

28 1. This bank's general policy relative to loans on listed stocks is to lend 60 to 70 percent of the value of such securities in the case of nonpurpose loans. The amount depends on the characteristics of the borrower and the repayment program.

2. The bank is generally willing to lend 50 to 60 percent on the value of unlisted stocks depending on the borrower, the market for the securities, and the type of stock. The bank is willing to lend more on bank stock than on most other unlisted securities.

3. The officer interviewed does not recall having made a loan on convertible bonds and the bank has no set policy for extending such credit.

29 1. The policy is to make nonpurpose loans on listed stocks for not more than 75 percent of current market value of such stocks, and this maximum limitation is adhered to. With respect to larger loans of $20,000 or more, the bank may require a higher margin of collateral and would confine such loans to between 50 and 60 percent of collateral value. Many loans fall in the 50-percent-of-value category because of the lower amounts requested by borrowers. Except with respect to the larger loans, there are no material deviations from the percentages stated.

2. With respect to nonpurpose loans on unlisted stock, the policy is to have such loans not exceed 50 percent of collateral value. However, with respect to a borrower of substantial financial means depositing mixed listed and unlisted collateral, a loan would be made for not more than 60 percent of value of all collateral. Generally the bank does not lend on unlisted stock. Exceptions are loans to prime borrowers and then on national over-the-counter stocks.

3. The bank has very few loans on convertible bonds, and such loans as are made on this kind of collateral are for not to exceed 75 percent of current market value. Any exceptions would consist of a lower percentage of loan in relation to collateral value.

30 1. 60 percent on listed securities.
2. 50 percent on unlisted.
3. Depending on valuation of conversion privilege, usually 70–75 percent.

31 1. Willing to lend up to 70 percent of the current market value. The maximum loan ratio in a particular case may vary downward from 70 percent. The important factors are the rating of the security and the financial statement of the borrower.
2. Willing to lend up to 70 percent of the current market value. The maximum loan ratio in a particular case may vary downward from 70 percent. The important factors are the rating of the security or the company and the financial statement of the borrower.
3. This bank has not formulated a policy for lending on convertible bonds. Over time fewer than 10 loans have been made on this type of security. The limits were around 60 to 70 percent and in the particular cases the financial statement of the borrower was an important factor.

32 1. While this bank attempts to "get all the margin it can," it will lend up to 70 percent of market on listed stocks when the purpose of the loan is not to purchase or carry listed stocks. While the margin may vary, it seems to be based to a large degree on the amount available; loans of the full 70 percent are rare.
2. Bank would not exceed 50 percent of the current market value in establishing the collateral value for unlisted stocks to be pledged against a nonregulated loan. Here again, the bank attempts to obtain as much margin as possible.
3. The bank expressed a reluctance to accept convertible bonds as collateral for a loan, but indicated it would lend up to 75 percent of the current market value on such collateral, depending upon the quality of the issue.

51 1–3. See schedule of margin requirements below. (In the case of volatile issues, another 20 percent is required.)

	Margin (percent)
Listed stocks selling over $10	35
Unlisted stocks selling over $10	50
(Exceptions: Bank, insurance stocks, and a few high type.)	
No collateral value to stocks selling under $5.	
Stocks selling $5 to $10	50
Corporate bonds	20
(Higher percentage if selling below 80.)	

52 1. The practice at this bank is to lend two-thirds of current market value. Generally, however, stocks having a value of less than $10 a share are not acceptable. If an exception must be made to that standard the bank will only go to 50 percent of market value.
2. Generally 50 percent of market value, but this standard is subject to exceptions. If the company issuing the stock offered as collateral is sound the bank might go above the 50 percent standard; some insurance companies might fall in this category. If the value of the stock offered is less than $10 a share and/or considered a "wild cat" concern the bank would not accept the collateral.
3. The convertible bonds would be equated with relative stock, and the bank would ask for the same margin. However, if the bonds are selling near par then the bank would consider coupon rather than convertibility.

53 1. 70 percent.
2. 40–70 percent. It depends on the borrower himself, rather than the price of the unlisted securities.
3. Up to 80 percent. When bonds are converted to stock, the customary rules for the type of stock obtained are then applied.

54 1. The amount that the bank would be willing to lend on listed stocks (nonpurpose basis) would depend upon the moral and credit eligibility of the borrower and the use of the funds. The use of the proceeds of the loans was stressed as being most important. The officers stated that they would be willing to lend a greater percentage of value for certain uses than for others. An example given was that of a loan made for 100 percent of market value where the funds were used to pay substantial medical expenses incurred by a husband and wife. If the

use of the funds had been less urgent in this case, the percentage loaned would not have been as great. Each case appears to be judged on its merits.

2. Same answer as question 1.

3. The bank has no loans outstanding on convertible bonds, but would most likely treat the instrument as a debt obligation rather than equity and handle any loan accordingly. The credit standing of the issuing corporation would be considered along with other factors.

55 1. 66⅔ percent: Financial strength of borrower; purpose of loan; repayment plan.

2. 50–66⅔ percent: Marketability of the stock in addition to those listed above.

3. 50–66⅔ percent: Conversion features of bond and marketability of stock, in addition to those listed in 1 above.

56 1. Will generally lend up to 70 percent on listed stocks when the purpose of the loan is other than to purchase or carry securities. If the loan is a particularly large one, and the stock-collateral is concentrated in one (or in a few types of stock), the bank may lend a smaller proportion of value, perhaps 50 percent.

2. The amount that will be lent on unlisted stocks varies. The bank maintains a list of about 200 stocks which it reviews and modifies at intervals. Each stock is assigned a rating accurately to such criteria as marketability, quality, and quantity held by the bank. This procedure enables the bank to make some judgment on the proportion of current market value that should be lent on different stocks.

3. The proportion of current market value that a bank is willing to lend on convertible bonds varies with the bond rating assigned by Standard & Poor. On a AAA bond that is selling at par, for example, the bank may lend up to 90 percent of current value. Bonds rated below B are not accepted as collateral.

57 1. Do not have a standard. Depends on relationship with customer, length of time, and kind of securities. Will give their best rate at approximately 60 percent of current market value.

2. There must be a reasonably active market for the unlisted stock. Percent depends on borrower and degree of marketability.

3. Have very few of these loans. Demand for credit based on this collateral limited. Depends on relationship with borrower.

58 1. This bank is generally willing to lend 70 to 80 percent on the value of listed stock, in case of nonpurpose loans (loans not regulated by Regulation U). The amount varies with the strength of the company, purpose of the loan, and the repayment program. The higher percentage generally applies to amortized loans having a fixed schedule of repayments.

2. The bank is willing to make nonpurpose loans of zero to 80 percent on the current value of nonlisted stocks. The percentage again depends on purpose of loan, the repayment program, and the strength of the company.

3. The bank is generally willing to lend 85 to 90 percent on the current market value of convertible bonds. The amount of the loan depends upon the strength of the company, purpose of the loan, the repayment program, and the convertible features of the bonds.

59 1. The bank has a general policy of confining nonpurpose loans on stocks to not more than 60 percent of current market value of listed stocks. Occasionally such loans are made for as much as 70 percent of current market value for a privileged borrower of well-known financial strength. The important factors when loans are made for more than 60 percent of value are the financial condition of the borrower and the quality of the stocks pledged. Such higher percentage loans would generally be confined to so-called "blue chip" stocks and to a high-type borrower.

2. Nonpurpose loans on unlisted stock are generally not made for more than 50 percent of current market value of such stocks. There are no material deviations from this policy except in certain cases for bank stocks.

3. The bank has made very few loans on convertible bonds and no such loans have been made for some time. There is no set policy at this time with respect to such loans.

60 1. 60 percent.

2. From zero to 50 percent, depending upon the stock and the individual. Some stocks are not regarded as satisfactory collateral. With respect to this question and all others where the question of variation of practices occurs, the financial status of the borrower is the predominant factor.

3. There is no standard in this case except the individual and the terms and price of the security; that is, the extent to which the conversion privilege is reflected in the price. Individual cases are judged by the discount committee.

61 1. Willing to lend up to 75 percent of the current market value. The maximum loan ratio in a particular case may vary downward from 75 percent. The important factors are the rating of the security and the financial statement of the borrower.

2. Willing to lend up to 75 percent of the current market value. The maximum loan ratio in a particular case may vary downward from 75 percent. The important factors are the rating of the security or the company and the financial statement of the borrower.

3. This bank has no loans on convertible bonds. It does not contemplate making such loans and for that reason has made no policy determination.

62 1. This bank is generally willing to lend 60 to 70 percent of the market value on listed stocks when the purpose of the loan is other than to purchase or carry listed stocks. Within the range indicated, the bank has indicated that the quality of the collateral and its general acceptability in the market would be the principal factors which it would consider in lending in the higher portion of the range.

2. The bank expressed a willingness to lend from 50 to 70 percent of the current market value on unlisted stocks for a nonregulated purpose. The quality of the collateral offered, its marketability, frequency of trading were indicated to be the principal factors considered in establishing the margin required.

3. We were informed that the bank would lend up to 85 percent of the current market value on convertible bonds if the issuer were a company acceptable to the bank. Here again, the marketability of the securities was an important consideration to the bank.

81 1. 60–80 percent—The amount may vary with the nature of the borrower, the quality of the collateral, and the diversification of the collateral.

2. 50–60 percent—The amount may vary with the factors listed above.

3. 80–90 percent—The amount may vary with the factors listed above.

82 1. Ordinarily will go as far as 60 percent of market value. For some issues, considered to be overpriced, the percent will be less.

2. Will ordinarily go as high as 50 percent of market value. May well be less. Might go as high as 60 percent on some insurance companies.

3. If selling above par will lend 60 to 70 percent of market value. If below par, limited to 60 percent of market value. In rare cases might go as high as 75 percent of market if it is an exceptionally good company and the bond is above par.

83 1 and 2. This bank does not determine loan values on the basis of whether stocks are listed or unlisted, but rather from an appraisal of the quality of the issues under consideration. The bank will lend 60 percent of the market value against the security of a high quality marketable issue, whether listed or unlisted. Something of lesser quality—those issues having a fluctuating market record—will be assigned a loan value equal to 50 percent of current market value. This bank bases its judgment to a large extent on the marketability of the issue; that is, the volume of trades in the issue, its general price record in the market, and how the issue has been behaving immediately prior to the loan application.

3. This bank does not have a volume of loans secured by convertible bonds and, because of the minimum number, has not set up specific criteria for establishing loan values. Generally, however, convertible bonds would be assigned the same relative loan value as the common stock of the company issuing the bonds.

84 1. 70 percent.

2. 70 percent.

3. 80 percent.

85 1. Will lend 60 percent of market. Depends on quality of issue and borrower.

2. Will lend 40–50 percent of market value. Might go to 60 percent on large, well-known firms.

3. Will not advance more than market price of the bond or the underlying stock price, whichever is larger. General policy to lend 80 percent of bond's market price if above par or 60 percent of underlying stock value.

86 1 and 2. The maximum loan value expressed as a percentage of market for each of the four classes of common stocks follows: Class A, 75 percent; class B, 50 percent; class C, 25 percent; class D, zero. The factors which are considered in each of the various classes of stocks are indicated below.

Class A. Seasoned issues of good investment quality, listed and actively traded on a national securities exchange; also banks, insurance, public utility, and investment company shares of good investment quality actively traded on the over-the-counter market. Good investment quality implies favorable earnings and dividend trend, good financial condition, strong competitive position, and established industry. This classification corresponds reasonably with Standard & Poor's stock rating A+ through B+.

Class B. Issues that from a quality standpoint correspond to Standard & Poor's stock rating B; also to Standard & Poor's stock rating A+ through B+ that are unlisted or otherwise lack sufficient marketability to qualify for an A rating.

Class C. Issues, whether listed or unlisted, of lesser investment quality. They include issues that are cyclical or experience sharp fluctuations and correspond reasonably to Standard & Poor's stock rating B—.

Class D. Issues not acceptable as collateral. These include new ventures or companies whose restricted financial condition and poor outlook makes them highly speculative. They correspond reasonably to Standard & Poor's stock rating C.

The bank indicated that some flexibility was authorized in establishing a moderately higher maximum loan value in those cases in which the financial statement of the borrower reflected ample responsibility and an orderly repayment program or a short loan maturity.

3. Prime convertible bonds bearing Moody's AAA or AA+ will be assigned a maximum loan value equal to 85 percent of current market price.

87 1. The bank's policy is to limit the amount of the loan to 70 percent of the value of the listed stock exchange collateral.

2. Policy is to limit advances on unlisted securities to 50 percent of the current market value. Variations occur but in those few instances permitted the loan would be unsecured, predicated on the financial statement, and the pledged securities considered as side collateral.

3. The bank does not make loans secured by convertible bonds.

B. VALUATION OF SECURITIES

Questions

4. When making a loan on securities that are not listed on an exchange but are actively traded, how do you value the securities? What sources of information do you use, and how current do you require these sources to be?

5. If the security used as collateral is not actively traded, what methods of valuation do you use?

6. Is the collateral revalued during the period of the loan? How often? What determines the timing?

Answers

Bank Code No.

21 4. Very few such loans. When made, reliance is placed on quotations from a local broker, as up to date as possible.

5. None made.

6. Most of these loans are for 90 days and are revalued when renewed, if they are. Also, this banker sets a value on AT&T stock as a point if passed to automatically revalue all collateral. At present, the value is 100, with the stock currently selling around 115.

22 4. On securities issued by local companies, values are obtained from newspaper which shows quotes daily.

On securities issued by other companies, the bank's officials use the "National Daily Quote Service" of the National Quotation Bureau.

Sources are required to be no more than 3 days old.

5. Same quote service as in 4 above. In the case of loans secured by local bank's stock, current quotes will be obtained from officer of bank involved.

6. During a rising market securities are revalued quarterly. During a falling market securities are revalued monthly or more frequently; depending on the rapidity of the decline in prices.

If a loan is increased, securities are automatically revalued.

23 4. Pick up latest sales figure reported in Wall Street Journal or local newspaper, or any other source reporting figures within 24 hours.

5. If bid-asked prices can't be found in newspapers, some brokers are asked for bid price.

6. For all collateral loans the following policy is carried out. In a steady or rising market collateral is reviewed every 3 months. When market is falling accounts are reviewed more frequently, daily if fall is steep. When loan is made it may be tagged as something to watch regularly. These accounts are given special attention in fast-dropping market. Values of collateral are changed only when market goes down.

24 4. (*a*) The bank uses broker manuals and pamphlets to determine the value of actively traded over-the-counter securities. In certain instances, the bank may also contact brokers to aid in establishing the value of securities.

(*b*) Broker's manuals and pamphlets are maintained on the most up-to-date basis possible. Most of the unlisted securities held, as collateral, by this bank are issues of local companies that are well known by the officers.

5. Brokerage contacts are about the only source of information on valuation of securities that are not actively traded.

6. The loan department watches collateralized loans continuously. There are at least two, and usually more, complete revaluations during the year. Securities are revalued whenever the external auditor conducts an audit, during internal audits, and when the bank is examined.

25 4. Recent sales price.

5. Local newspapers; brokers' quote sheets; personal contact with brokers. Most current available from above sources. If none available, *book value* is used.

6. Generally, loans of $5,000 and over are revalued every 4 months and smaller loans, once a year. If there is a significant market break, all are revalued at that time.

26 4. Relies strictly on broker's valuation. Does not attempt to analyze strength of company or evaluate value of security.

5. Would hesitate to make a loan secured by such securities, unless the principals of company were well known. Marketability is a very big consideration in willingness to make security loans. Have made loans secured by stock of closed corporations, however, but in all cases, the financial standing and character of persons were well known and company's general operations were known.

6. Each loan reviewed at least every 6 months, unless there is a change (decline) in stock prices. If market declines, it is reviewed quickly. During spring break, loans were reviewed daily.

27 4. Valued at market with subjective modification where necessary. Price at last trade serves as the basic value. The quantity traded and broker assessment of market for the issue are considered and value marked down if necessary.

5. If issues are not actively traded they will only be accepted as collateral if there is a "takeout"—indication that another firm or individual is willing to take the stock at the valued price.

6. Collateral revalued during period of the loan. Normally every 30 days but depend on market conditions. Last spring every week.

28 4. The bank determines the value of securities by checking quoted bid prices in the newspaper or calling a broker. Such values are determined at the time the loan is made. An attempt is made to determine the price of such securities at the time of the last trade.

5. In the case of securities not actively traded, the bank tries to determine at what price the securities were last traded. Again the bank goes to a broker to obtain this information.

6. The bank has no routine system for revaluing collateral. It tries to watch loans collateralized by stocks as closely as possible. The method, however, is casual rather than on a routine basis. The bank always revalues collateral at the time the loan is renewed and most loans are renewed within 6 months from the time they were originally made.

29 4. In making an appraisal of unlisted securities, the loan officers check a stock summary booklet showing Standard & Poor's stock rating. They look at the company earnings, price range, the type of industry, and the prices, high, low, and last quote, for the preceding month. The officers also obtain as current a market price as they can from a broker and request the broker's opinion of the stock. The bank has made a few loans on unlisted bank stocks, the amounts approximating 50 to 60 percent of stock book value. In exceptional cases they might go to 80 or 90 percent of such book values.

5. Generally no loans are made on stocks not actively traded. Such stock might be taken as secondary collateral to improve the collateral position of a loan previously made. A few loans are made on bank stocks, using as a value basis the book value as shown on the bank's statement.

6. Listed stocks held as collateral are revalued each month and unlisted stocks held as collateral are revalued weekly or semimonthly.

30 4. Current local or national lists of over-the-counter bids.

5. May use price at last sale, or book value, but the loan depends on the financial status of the customer in these cases.

6. Loans are for 90 days and revaluation is automatic at renewal. During a declining market, collateral is evaluated daily.

31 4. Obtain current prices from over-the-counter dealers and the *Wall Street Journal*. Current bid and asked prices are required.

5. Call informed persons regarding the security and the company. Actually, few loans are made on securities that are not actively traded.

6. Loans and maturity tables for each loan officer are listed and reviewed weekly. Security prices are watched closely for significant changes and in period such as during the stock market break last spring, collateral values may be checked daily.

32 4. This bank obtains current quotations from local brokers when making a loan on securities not listed on an exchange but actively traded.

5. If a security which is not actively traded is offered as collateral it rarely will be accepted. It requires that the stock be traded at least daily to be acceptable as collateral. Usually, in such cases, the bank relies on other collateral to support the loan if it is granted.

6. A revaluation of the collateral may be made during the period of the loan, depending upon the borrower's financial condition. It is made at least each 6 months, with most notes running for this period of time. The bank has adopted a firm policy of requiring a repayment program after one renewal on each stock-secured loan.

51 4. Uses a broker, obtaining as currently available information as possible.

5. The same source. Particular care paid to large blocks of stock or foreign bonds.

6. Most of these loans are for 3 months, with a few as long as 6 months. Some groups of loans are revalued every week. Others are regularly revalued at end of term, before renewal. All are revalued at time of a sharp break in the market.

52 4. For book values the loan officers use the Wall Street Journal, Moody's Investor Service, and information gathered directly from the company issuing the stock.

For market values the bank's officers use the broker approach freely, supplemented by the Wall Street Journal, National Daily Quote Service, and local newspapers.

Information must not be older than 1 week.

5. Information from the company involved is sought, and figures supplied are reviewed.

In the case of bank stocks quotes are requested from officers of bank involved.

6. As a regular thing, collateral is revalued once a month. In the case of loans secured by volatile securities, revaluation may be done as frequently as every day. If the market is falling securities may be revalued daily.

53 4. Use either the last sale or the current quotation. The bank's securities department call local brokers if the information is not readily available.

5. Book value from the company's statements.

6. Some accounts are considered "soft." These are constantly reviewed—usually once every week or two. Timing is a matter of policy; loans put in the soft category are decided by personal judgment of loan officers.

Securities from closely held corporations are reviewed each time the bank receives a new statement; sometimes monthly, sometimes quarterly.

54 4. The value of actively traded over-the-counter securities is established by (1) studying the market fluctuations, and striking a mean between highs and lows, and (2) studying company financial statements to evaluate the company's condition. The officers stated that they were conservative in valuing over-the-counter securities.

5. If information cannot be obtained regarding a stock and/or the stock is closely held so that only a narrow market is provided, and the loan depends upon collateral, the loan would not be made. The officer or officers involved must be satisfied as to the credit status and earning capacity of the company involved. (See answer to question 4.)

6. Collateral loans are reviewed regularly each quarter by the loan department. The sponsoring officer has the responsibility of continuously reviewing all of his collateral loans. Any dramatic change in security markets will prompt a review of collateral loans.

55 4 and 5. Bank makes few loans on unlisted stocks. When such loans are made, however, valuation of stocks is obtained from correspondent bank.

6. Bank makes no periodic revaluation. If stock averages indicate a general market decline, all collateral is revalued.

56 4. The prices of unlisted securities that are actively traded are frequently listed in the newspaper in the over-the-counter section. Any stock whose price is not listed in such a source may be checked with the broker. The marketability of the stock is also checked out.

5. If the stock is not actively traded, the bank checks with brokers and/or other sources of information to determine whether it should be accepted as collateral.

6. Stocks used as collateral are revalued or priced at 6-month intervals, without exception. However, if at any time the Standard & Poor index drops 10 percent since the last time the stock was revalued, there is an automatic check. Moreover, most loans secured by stocks are on a demand basis and are thus reviewed quarterly.

57 4. Valued at most recent market price. Use lower end of range for valuation. Brokers and dealers assessment considered.

5. Not accepted unless there is a market.

6. Collateral is revalued. Depends on market activity.

58 4. When making a loan on securities not listed but actively traded, the bank calls a reputable broker to determine the bid side of the market. The bank also generally gets a report on the company from Dun & Bradstreet. Such reports are required to be as current as possible.

5. In the case of loans secured by stocks of closed corporations the borrower must obtain a repurchase letter from another individual in which the individual agrees to purchase the stock at the face value of the debt. Such individuals are required to have a current and satisfactory financial statement filed with the bank.

6. After a loan is made, it is placed in a credit file where a spot check is made at least weekly of the collateral security. Any time there is a major stock market break, all accounts are analyzed. In cases where repurchase letters are required, the collateral is generally not revalued during the period of the loan. The notes, however, are made for 90 days and the loan is revalued at the time the note becomes due.

59 4. In obtaining prices on securities that are not listed on an exchange but are actively traded, the loan officer requests a quotation from a broker and also requests the broker's opinion of the stock or stocks. In addition

inquiry is made of an investment officer in the trust department of the bank with respect to such stocks. The valuation is based on the last trade price obtained and the information obtained on the company.

5. Loans on securities not actively traded are made quite infrequently. The same methods as stated at item 4 above are used to obtain information on the value of the stock and opinions of the company. When loans on this type of collateral are made, more than customary weight is given to the borrower's financial condition.

6. The bank is now in the process of setting up records so that all securities held as collateral will be revalued at least once a month. Previously such revaluation was one each 3 months except during periods of market turndowns. At such periods of market turndowns, the bank officers segregated what they considered certain crucial loans and revalued the collateral each week. As stated, it is planned that the securities held as collateral will be valued once a month and oftener if required, and such more frequent valuations may be confined to particular crucial, large loans somewhat dependent on market conditions.

60 4. A variety of sources are used in evaluating unlisted securities: dealer quotations of bids, the type of security, the bank's knowledge of the company, book value if company is a customer of the bank. Conversions that would dilute earnings also are considered.

5. Preceding answer applies.

6. All security loans are made for 90 days and all securities are revalued at the time the loan is reviewed for renewal. When the market is declining, securities are revalued daily.

61 4. Obtain current prices from over-the-counter dealers and the Wall Street Journal. Current bid and asked prices are required.

5. Use book value from financial statement or obtain opinion of responsible party.

6. Under ordinary circumstances prices are checked monthly. Under unusual circumstances, prices may be checked daily.

62 4. In connection with actively traded unlisted securities offered as collateral, the bank obtains quotations from local brokers to establish market values. It determines the thinness of the market in the issue under consideration, although it is assumed that to qualify as an "actively traded" issue there would be daily transactions in these securities. On the assumption that at least daily trades are effected, the bank accepts the current quotations as representing reasonable market values, unless there has been some recent volatility in the stock.

5. In addition to the methods reported under 4 above the bank reviews the data obtainable from a recognized securities manual, such as Standard & Poor's, reviewing the company's history, the book value of its stock, its management, etc., and endeavors to satisfy itself that sufficient market activity exists to assure a sale in liquidation, if necessary, on reasonable terms.

6. With but rare exceptions every note accepted by this bank in connection with stock secured loans matures 90 days from date. The bank does not use demand notes. All stock secured loans are reviewed at maturity if unpaid and the collateral is revalued at that time. If the stock markets drop substantially prior to maturity, all collateral is revalued promptly.

81 4. The sources are, first, the daily newspaper and second, the so-called "pink sheet" issued by the National Quotation Bureau.

5. Calls to brokers or as a last resort, calculations of book value based on the last financial statement of company whose stock is being offered as collateral.

6. Yes. Once a month or more frequently depending upon changes in market prices.

82 4. Market but primarily experience.

5. Valued at less than at last sale. Experience basis for adjustment. Will lend 70 percent of adjusted value.

6. At least once a week on listed stocks and at least once a month on unlisted. If market conditions warrant, revalued daily.

83 4. Unlisted securities which are actively traded are valued through reference to current editions of Standard & Poor's Guide and the Wall Street Journal. Occasionally a broker or securities dealer is consulted as a source of a quote.

5. This bank rarely lends on inactively traded securities and does not look favorably upon establishing a collateral value for any securities which do not seem to have a ready market.

6. The collateral may or may not be revalued during the period of the loan, depending upon the duration of the loan and market conditions. Whenever general market condititons are deemed to require it, all stock-secured collateral is revalued. In any event such loans are revalued at least semiannually.

84 4. Uses the "pink sheet," National Quotation Bureau.

5. Calls to brokers.

6. Once every 2 months and more often when security prices are declining.

85 4. Valued at market. High volatility of issue necessitates adjustments of valuation.

5. Extremely cautious on securities not actively traded. Checks with brokers on possible market. Prefer to lend no more than 30 or 40 percent of market value. Depends on borrower.

6. Collateral revalued. Depends on market conditions. At least once a month.

86 4. Unlisted securities which are actively traded are valued from market prices appearing in current editions of Standard & Poor's Guide or the Wall Street Journal, or both, and are periodically tested with brokers' quotes.

5. This bank maintains an investment department which conducts research into the background, management, marketability, etc. of stocks which are not actively traded, and assigns a rating to all such issues offered as collateral. The maximum loan values are the same for such issues as indicated under 1 and 2 above.

6. All stocks underlying loans must be revalued once each month and more often on declining markets.

87 4. Valuation of securities is accomplished through use of newspaper listings (national and local), the National Quotation Bureau and the security dealers' "pink sheet." Current is generally considered as "within a week."

5. Methods of valuation include those under 4 above. In addition, the bank may accept a quote from a recognized broker.

6. All secured loans are made with a 90-day maturity at which time, prior to renewal, the collateral is revalued. Collateral is revalued whenever there is a decline of 1 percent or more in the Dow Jones industrial averages.

Questions

7. Do you require a minimum margin of coverage that must be maintained on stock-secured loans? (For example, under rules of the New York Stock Exchange, a member firm extending credit to a customer must require the maintenance of a margin of at least 25 percent of the value of the collateral; does your bank make a requirement of this kind?) If so, what is it (*a*) for listed stocks, (*b*) for unlisted stocks? (Note whether this is stated as a percentage of the outstanding loan or of the value of the collateral.) If the percentages vary, what governs?

8. If a revaluation at any time indicates that the value of collateral behind a loan has fallen below your minimum requirements, what is the procedure for bringing this to the attention of the borrower? How much time is permitted for correction of the situation? If it varies, what factors govern?

9. Have you made any changes in your valuation and notification procedures since the stock market break of last spring? If so, please specify.

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21 7. Minimums are indicated by answers to questions 1 and 2.

8. A letter is sent to the customer asking additional collateral immediately. If no answer in 2 or 3 days, telephone request is made. If no action within 2 or 3 more days, collateral is sold. Some variance depending on quality of customer.

9. Only change was to reduce acceptance of unlisted stocks as collateral to a minimum.

22 7. No minimum margin of coverage required.

8. By use of telephone or letter.

Time for correction varies and depends on borrowers other relations with the bank, i.e., balances, financial statement on file, and type of job or position held.

9. No changes were made, and none are contemplated.

23 7. No fixed minimum. Generally they wait until collateral value falls to a level where the loan-collateral ratio becomes 70 percent—10 points higher than the ratio at the time the loan was made.

8. When market drops quickly customers are called by phone. Everyone with accounts in trouble are called. Letters follow up the calls. What happens then depends on individual accounts—how far their stock dropped, size of loan, importance of the customer.

9. No.

24 7. There is no hard and fast rule regarding maintenance of minimum margin requirements for nonpurpose loans; each case is judged on its individual merits.

8. If the bank feels that the value of current collateral has depreciated below a desirable level the individual is contacted and arrangements are made either to increase the amount of collateral or to reduce the loan. The time allowed to correct the situation depends upon the individual and the circumstances involved, and may range from 24 hours to 2 or 3 days.

9. No changes have been made in revaluation and notification procedures since the stock market break of last spring.

25 7. No specified minimum required. Amount varies with individual borrower.

8. Bank does not have a definite policy. If, when, and how the borrower is contacted depends on the evaluation of the loan officer. Factors considered in his evaluation are the same as listed in A.1, above.

9. None.

26 7. Twenty-five percent is general rule that has prevailed for several years. It is the same for all types of securities. The percentage is expressed in relation to value of collateral. Factors governing variations have been cited in previous questions.

8. Significant declines in collateral are brought to attention of the borrower by telephone or in person. Have written in some cases. Notice is given as soon as person can be located. Only variations in this practice are in connection with borrowers to whom the bank would loan on an unsecured basis.

Small declines in collateral value below 75 percent of loan amount are not brought to immediate attention, however. Such declines are noted at the 6-month review.

9. None.

27 7. Depends entirely on the borrower and the market situation. If borrower is an extremely good risk may allow margin to drop to zero. Tend to be somewhat less lenient on unlisted.

8. Loan officer makes contact. Borrower is only asked to correct the situation as soon as practicable. This may run from 2 days to 2 weeks depending on the borrower and the circumstances; e.g., how rapidly the market value is declining and the current position of the borrower.

9. No.

28 7. The bank has the right to call for additional collateral on security loans when the value of the security declines from its level at the time the loan was made. This is true of both listed and unlisted stocks. The bank, however, has no set minimum margin of coverage. Calls for additional collateral are made on the basis of the amount of decline in securities, and the net worth and reputation of the borrower.

8. When a revaluation is indicated the bank generally makes personal contact with the borrower (calls borrower into bank). In some instances, however, this problem is handled by letter. The additional collateral is obtained as soon as possible after the need develops. The bank has no set policy for varying the time in which such corrections are made. All borrowers are requested to make the necessary adjustments as soon as possible.

9. Since the stock market break last spring, this bank has been watching security loans more closely. As mentioned earlier, however, no formal program of revaluation has been instituted.

29 7. The bank requires collateral to the extent that the loan will not exceed 75 percent of the value of the collateral. This policy applies to loans on listed stocks. With respect to unlisted stocks, the policy is that the loan shall not exceed 50 percent of collateral value. If collateral contains both listed and unlisted stocks, the loan is not to exceed 60 percent of collateral value. In all cases the bank relates the amount of the loan to the value of the collateral.

8. If a revaluation at any time indicates that the value of collateral has fallen below minimum requirements, the loan officer calls the borrower by telephone. The loan officer asks for additional collateral at that time or a reduction in the loan. He may permit the borrower up to a week to accomplish the correction. The size of the loan, the financial strength of the borrower, and the kind of collateral pledged would have some bearing as to efforts made to obtain additional collateral or a reduction in the loan.

9. No changes have been made in valuation and notification procedures since the stock market break of last spring.

30 7. Except for small deviations from original terms, customer is asked to maintain the loan at 60 percent of collateral for listed securities and 50 percent for unlisted.

8. Fifteen days before note is due, customer is notified of the requirements for renewal. If the loan is excessive in relation to collateral, the net worth of the customer will determine whether he will be called. When decline is severe, he is asked to increase the collateral or reduce the loan immediately.

9. No.

31 7. Yes. (*a*) For listed stocks, 75 percent; (*b*) for unlisted stocks, 75 percent, stated as a percentage of outstanding loan to the value of the collateral. The percentages do not vary.

8. The borrower is notified by telephone. Depending on the quality of the collateral, the market situation, and the financial statement of the borrower, the borrower may be given time, as much as 30 days, or he may be required to take immediate action (that day) to furnish additional collateral or reduce the loan.

9. No change has been made in procedures as a result of experiences in the stock market break of last spring.

32 7. The minimum margin which must be maintained for listed stocks is 30 percent of the collateral value, and for unlisted stocks 50 percent of the collateral value.

8. In the event that a revaluation indicates the value of the collateral has fallen below the bank's minimum, the customer is contacted by telephone if possible, and if not, by letter. The customer is given 48 hours as a maximum to correct the situation. If the customer's statement reveals a minimum financial responsibility and the quality of the security is questionable, a shorter period of time may be given to correct the situation.

9. No change.

51 7. Not allowed to fall 5 percent beyond the percentages listed on the schedule attached. Percentage apply to value of collateral.

8. Telephone call day of revaluation. If not corrected in 2 or 3 days, then a registered letter. Letter says collateral will be sold in 2 or 3 days if additional collateral has not been deposited. Bank does sell collateral if there is no response, without compunction. Slightly more lenient treatment might be given an excellent customer.

9. No changes.

52 7. In the case of listed stocks if a loan goes over 70 percent of market value the loan immediately goes on a "watch" list. At 75 percent an adjustment in margin is requested, and at 80 percent the customer is told to make an adjustment. Above that point, remedial action is taken forthwith.

On unlisted securities the same procedure is followed, but steps occur at lower margin levels.

8. Letters to borrowers followed by telephone calls. In extremity, registered letters or telegrams are sent.

The time for correction varies, and depends on customer's relationship with bank as well as condition of the market.

9. No changes were made.

53 7. When collateral falls below amount needed to meet loan-collateral ratio, the account is reviewed. If deficit is small, and lending officer thinks the customer is sound, no action is taken. But the account is closely watched.

8. Bank phones customer who is given 24 hours to provide additional collateral. Circumstances sometimes dictate a longer period for action. Example: If customer cannot be located right away. Or if customer is generally a good account, he will be given more time.

9. No.

54 7. A guideline of the minimum margin required for each particular loan is decided upon at the time the loan is granted, and every attempt is made to see that the margin is maintained. The guideline established varies from loan to loan, and may be stated as a percentage of either the outstanding loan or the value of the collateral. Variations of margin percentage are generally based on the borrower's moral and credit standing.

8. The individual's character, moral standing, social status, as well as credit factors, enter into any decision regarding a call. If a decision to call is made, the individual is contacted promptly. The time permitted to correct a collateral deficiency varies with the individual situation, i.e., "many loans are good without collateral."

9. No changes have been made in the valuation and notification procedures of this bank since the stock market break of last spring. Only three people were contacted at that time concerning the status of collateral.

55 7. No specific minimum is required; the amount varies with the individual borrower.

8. Formal call issued only if margin of coverage is virtually nothing. When the margin declines to a "dangerously low level," an informal telephone call is made to the borrower to warn him that a call might be necessary if the stock continues to decline in value. The Bank stated that, in many instances, the borrower voluntarily increased collateral after the first telephone call.

9. No.

56 7. On listed stocks, a 30-percent margin is required. On unlisted stocks, the margin varies depending upon the loan to collateral ratio shown in the stock list referred to in No. 2.

8. When the value of collateral behind a loan has fallen below the minimum requirements, the bank's procedures vary. In some cases, the borrower may be contacted immediately by phone or wire. In other instances, margin calls may not be issued promptly, particularly if the customer has a "proven" financial standing.

9. No change has been made in valuation and notification procedures since last spring.

57 7. No. Loans are treated individually. Borrower and market conditions considered.

8. Loans referred to lending officer. He decides the time that should be permitted. Again depends on borrower and market conditions.

9. No.

58 7. The minimum margin required for stocks is 20 percent. For some unlisted stocks the minimum margin is higher. These are percentages of the value of the collateralized security. Variations in the percentages are determined by the strength of the company, purpose of the loan, and the repayment program.

8. When the value of collateral falls below the minimum required, the borrower is telephoned immediately. The bank explains to the borrower that he is required to provide the necessary coverage at once. Correction of the situation is required in all cases.

9. No changes in the valuation and notification procedures have been made at this bank since the stock market break last spring. The officer interviewed reported that procedures already in effect had proven entirely satisfactory.

59 7. At a time when, because of decreases in collateral values of listed stocks, a loan is 70 percent or more than the collateral value, a request is made to the borrower for additional collateral or a reduction in the loan. With respect to loans on unlisted stock, the requirement is 60 percent of collateral value because of reductions in the value of such stock. In all cases the bank relates the amount of the loan to the value of collateral. There are generally no variations in the above practices except in very unusual cases.

8. In cases where the collateral value has fallen below minimum requirements, the loan officer telephones the borrower. In a few instances where the officer is unable to reach the borrower by telephone, a letter is written. Request is made for additional collateral or a reduction of the loan. The borrower is requested to take such action as soon as he can by reasonable methods and may be given a week to 10 days to correct the situation. The period of time given is dependent somewhat on the size of the loan, the financial condition of the borrower, and action required to effect corrections.

9. The records to permit the monthly pricing of collateral have been set up since the market break of last spring. The bank now has a card system for valuing collateral and has a larger staff to handle the work.

60 7. Loans are made at 60 percent of market value and calls for additional margin are made whenever loan is 70 percent of market value. A somewhat more lenient policy is sometimes allowed on AT&T stock. The practice is the same for listed and unlisted stocks except in the case of the latter an effort is made to hold the loans to 60 percent of the value of the security. Some deviation may be allowed for the exceptionally good customer.

8. If the loan is close to maturity, the notification to the customer may await request for renewal. If the decline in collateral value is more serious, no more than 24 hours is allowed.

9. No.

61 7. Yes. (*a*) For listed stocks, 75 percent: (*b*) for unlisted stocks, 75 percent, stated as a percentage of outstanding loan to the value of the collateral. The percentages do not vary.

8. The borrower is notified by telephone. Depending on the quality of the collateral, the market situation, and the financial statement of the borrower, the borrower may be given time, as much as 30 days, or he may be required to take immediate action (that day) to furnish additional collateral or reduce the loan.

9. No change has been made in procedures as a result of experiences in the stock market break of last spring.

62 7. This bank requires the maintenance of margin equal to 25 percent of the value of the collateral for both listed and unlisted stocks.

8. If a revaluation indicates that the value of the collateral has dropped below the bank's minimum requirement, it calls the customer on the telephone when possible, otherwise communicates by letter. The amount of time which is granted to a customer to correct the situation varies, and, to a large extent, is governed by the borrower's financial statement. The bank does not overlook the quality of the collateral underlying the loan, but believes its judgment is tied very largely to its estimate of the borrower's ability to repay. The timing is a matter of judgment, with responsibility resting very largely with the lending officer. During the market break last spring, all of the bank's stock secured loans were divided alphabetically among its credit officers, who were made responsible for reviewing the collateral value and initiating action to adequately protect the loans assigned. The officer with whom the current survey was discussed indicated that the bank had sold out five or fewer customers at that time.

9. This bank has made no change in its valuation and notification procedures since the stock market break of last spring.

81 7. No.

8. The loan officer is informed when the collateral for a loan falls below the original requirements. Each case is treated individually on a customer by customer basis.

9. No.

82 7. Yes. If loan is 70 percent of market value, call will be made.

8. Telephone call, letters, and wires used. Time allowed for correction depends on individual circumstances—borrower's situation, market conditions, etc.

9. Early in June went through margin calls and put in the new market price as the carrying price on all stocks. There have been no upward revisions in the carrying prices since that time.

83 7. This bank requires a minimum margin for both listed and unlisted stocks of 25 percent of the market value. At such time as the collateral margin drops below this point, the bank requests additional collateral or a reduction in the loan. If the margin drops to 15 percent of current market value, the bank sells the collateral if there is no very good reason for continuing the loan. The lending officer is required to use judgment in such cases and to give due regard to the financial stability of the borrower so that, in actual practice, the number of cases in which stock is sold to satisfy an outstanding loan is held to reasonable proportions.

8. This bank usually telephones its borrowers at such time as the collateral has dropped below its minimum requirements. The time permitted for correcting the situation will vary, depending upon the customer's financial statement, that is, his net worth and its liquidity. The bank reported that some of these situations had been carried for as long as a year. The length of time that this bank will carry an undermargined stock-secured loan relates usually to the financial strength of the borrower.

9. This bank has made changes in its procedures since the stock market break of last spring. Up to that time it had no formalized instructions with respect to evaluations of stock collateral. Since the market decline of last spring, a formalized program has been initiated. This includes the development and use of forms designed specifically for the purpose of the maintenance of proper margin.

84 7. No.

8. The loan officer is informed when the collateral for a loan falls below the original requirements. Each case is treated individually on a customer by customer basis.

9. No.

85 7. Carry as long as loan is 70 to 75 percent market value of listed or 50 percent of value of unlisted.

8. Lending officer makes the contact. Time permitted for correction varies. Generally several days.

9. No.

86 7. This bank requires minimum margin of 25 percent of the value of the collateral based on the quality of the issue, whether listed or unlisted stocks are under consideration. (This 25 percent on best-rated stocks is a guideline rather than a rigid requirement. If the margin should drop to 24 or 23 percent, the bank probably would take no action at all. If, however, the margin dropped to 20 percent, the bank likely would take action if the borrower did not have on file a recent financial statement reflecting adequate net worth other than the stocks pledged. This means, of course, that if the bank is relying only on the collateral pledged to secure the loan, action will be taken earlier than if outside net worth is present.)

8. Individual treatment is accorded each loan in which the value of the collateral has fallen below the bank's minimum requirements. Usually the telephone is used to contact the customer, but sometimes this is done by letter, to work out a repayment program as promptly as seems reasonable, but to refrain from exercising undue pressure. The bank feels a deep sense of responsibility to its borrowers and is willing to go to great lengths to avoid selling out stocks pledged to secure loans.

9. The bank has made no changes in its valuation and notification procedures since the stock market break of last spring.

87 7. The minimum margins required are those listed under 1 and 2 above. This is computed as a percentage of the value of the collateral.

8. Notification of borrowers as to the decline in minimum requirements is accomplished by letter, telephone calls, or telegram. There are no hard and fast rules regarding time limitations. Admittedly, a few borrowers remain in a short collateral position from the market break of spring 1962. However, these are few in number and small in dollar volume. Correction in these will probably result from loan reductions instead of the receipt of additional collateral.

9. There have been no changes in policy because of the stock market break of last spring.

Question

10. Except where arrangements have been made to permit active trading, do you ordinarily permit a borrower to arrange substitutions of collateral by selling existing collateral and substituting securities that are purchased with proceeds of this sale? When substitutions are permitted how are the mechanics of delivery carried out? Does the borrower sign a new note?

Answers

Bank Code No.

21 Substitutions are permitted only very rarely.

22 Yes. Bank delivers securities to broker with instructions that the securities be held as collateral, and that bank looks to broker for delivery of other securities of comparable value.

23 Occasional substituting allowed, but no trading accounts are permitted. Customer makes request in writing if there is change in the securities. Will deal with broker directly if he is member of New York Exchange. Customer signs no new note. Notice of new collateral posted on account card.

24 This bank is infrequently involved in trading transactions. The officer interviewed could see no reason why substitution of collateral would be prohibited. The procedure would require that the individual bring in the new shares and give a stock power of attorney; the old shares would then be released. In most instances it would not be necessary to write a new note, but this would depend entirely upon the circumstances. If it were easier and more efficient to write a new note in a given situation, a new note would be executed.

25 Yes; if not excessive.
Normally, through the broker.
No.

26 Do not ordinarily permit this. In cases in which it is allowed, the character and reputation of borrower are decisive.
Borrower takes securities under trust receipt. He brings new issues in and signs new stock power. Securities added to old note; no new note made.

27 The borrower may substitute collateral. Trust receipts are used. The borrower does not sign a new note.

28 Borrowers are permitted to arrange collateral substitutions by selling existing collateral and substituting securities that are purchased with the proceeds. These substitutions are handled entirely by the bank with the customer's written permission. The bank calls a broker and arranges the transaction.

29 Ordinarily the bank does not permit substitutions of collateral. When made, which is only rarely, the customer will sell one issue from total collateral and replace such stock with stock previously owned of the same or greater value. The bank would not take a new note following such collateral changes. The general policy is that full proceeds of the sale of any collateral are to be applied to reduce the loan, and there is quite strict adherence to this policy. A stock sold is delivered by the bank to the broker, the bank then getting the check to apply on the loan.

30 Such cases are rare, but normally substitutions are allowed. The stock is delivered to broker by the bank and the new stock is delivered to the bank by broker. A new note is not made until maturity.

31 Yes. This bank prefers and encourages borrowers to handle sales and substitutions of collateral through brokers. The bank will release collateral on a trust receipt for an equal or greater amount of collateral. The borrower does not sign a new note.

32 Substitutions are rare but are permitted if the customer brings in a broker's due bill or the stock certificates. A new note is not required by reason of the substitution.

51 Substitutions are rarely permitted. When they are, exchange is made directly with broker. No new note is signed, but a "change of collateral" slip is made out.

52 Yes. Deliver securities to broker against payment and/or substitution. A new note is not required if a general collateral agreement is available.

53 Bank will permit substitutes once or twice. That is all. They do not

want trading accounts. When substitute is made no new note is signed. Instead, customer signs a pledge agreement where the new collateral is recited. The pledge is tied to the original note.

54 This bank does not want trading accounts. Substitutes of collateral are permitted. After a due bill is received from a reputable broker and the borrower has executed a stock power, the old stocks are released to the broker. Collateral lists are changed, and a new note is not required.

55 Yes; but occurs rarely. Normally carried out through broker. No new note.

56 In some cases a borrower may substitute collateral, but the bank tries to discourage this practice. When substitutions are permitted, the mechanics vary. In some cases the broker picks up the stock and gives the bank a trust receipt. In other cases the bank deals more or less directly with the customer. The borrower does not sign a new note.

57 Yes. Trust receipts used. Borrower does not sign a new note.

58 Bank permits borrowers to arrange for substitution of collateral. In some instances substitutions are made by the customer by picking up the stock certificates and leaving a trust receipt in the hands of the bank until the purchased securities can be delivered; in other instances the customer brings in other stock certificates that are acceptable collateral; and in other cases the broker, with the customer's consent, signs a trust receipt for the stock agreeing to replace it with the purchased securities as soon as delivery can be made. Exchanges are permitted with all acceptable collateral. The borrower making an exchange is not required to sign a new note until the loan is due.

59 There are only a very few loans where the collateral is actively traded. The bank does permit substitutions, but such substitutions occur infrequently. When substitutions are permited, the borrower places the sale and purchase orders with the brokers with the bank's consent. The customer arranges with the broker that new stock, when issued, will be sent direct to the bank. The customer also signs a trust receipt stating the transaction, and that receipt is placed in a pending file for followup. The bank delivers the sold stock to the broker with a letter to the broker to deliver the purchased stock to the bank. No new notes are taken because of collateral substitutions.

60 There are few cases in which substitution is requested. When it occurs the customer gives the bank a sell order and delivers to the bank the broker's notification of purchase. The borrower does not execute a new note.

61 Yes; when specifically requested and approved by the loan officer. The borrower signs a trust receipt for an equal or greater amount of collateral. The borrower does not sign a new note.

62 This bank will permit customers to arrange substitutions of collateral by selling existing collateral and substituting securities purchased with the proceeds of this sale. Customarily, delivery is made to the borrower on trust receipt or against the deposit of a broker's due bill. Alternatively, the bank will deliver to the broker against his receipt. The bank does not require a new note.

81 Yes. The substitutions are permitted within the framework of the original loan agreement and a new note is not required unless there is a change in the value of the collateral.

82 Yes. Trust receipts are used. Either customer or broker may pick up and make delivery.

83 The bank will permit a borrower to arrange substitutions of collateral by selling existing collateral and substituting securities purchased with the proceeds of this sale. In such cases written instructions are obtained from the borrower; the securities are released to the broker against his delivery of the new certificates or due bill, and if against a due bill the bank, of course, follows up for delivery of the certificates. It does not require the borrower to sign a new note in such transactions.

84 Substitutions are permitted within the framework of the original loan agreement and a new note is not required unless there is a change in the value of the collateral.

85 Borrower may substitute. Securities delivered to broker with instructions to deliver new securities to bank.

86 This bank does permit customers to purchase securities with the proceeds of the sale of pledged securities and substitute the purchased issues as collateral, but such occasions are infrequent. Invariably the securities held are delivered to the broker against receipt of the new securities or a due bill. Ordinarily the borrower does not sign a new note.

87 The selling of existing collateral and substituting securities purchased with the proceeds from the sale is not permitted.

Question

11. When borrowers offer stock as collateral for "nonpurpose" loans, in what form do they supply the purpose information specified in Regulation U? If they complete a standard form, please furnish a sample copy.

Answers

(Each bank furnished a copy of a standard form. Following are three of these forms.)

A. Statement With Respect to Purpose of Loan

Date____________________

Name of borrower:____

Amount of loan:____

Purpose of loan:

________ (*a*) For purpose of purchasing or carrying securities or for purpose of reducing or retiring indebtedness incurred to purchase securities registered on a national securities exchange.

________ (*b*) For other purposes. (Please describe.)

____

____

____

____

____
(Borrower's signature)

This loan is not subject to Regulation U and the undersigned officer is informed and in good faith believes that the purpose of the loan is as stated above, or if not so stated above, is____

____

____
(Signature of officer)

B.

To: (name of bank).

In compliance with Regulation U issued by the Board of Governors of the Federal Reserve System, I hereby certify that the purpose of a loan evidenced by the undersigned's note for $__________ dated____________ ________, is not to purchase stock registered on a national securities exchange, or to reduce or retire indebtedness originally incurred for such a purpose.

Purpose of loan:

____

Approved:

____
(Officer)

____
(Signature of customer)

C. Statement With Respect to Purpose of Loan

Date ____________________

To: (name of bank).

This statement is made in reference to a loan in the amount of $__________, made by you on____________________, 19____, to the undersigned and is for the purpose of establishing that said loan is not regulated under Regulation U of the Board of Governors of the Federal Reserve System.

STATEMENT I OR II SET FORTH BELOW, WHICHEVER IS APPLICABLE, MUST BE CHECKED (X) AND COMPLETED IN FULL

[ ] *Statement I*

Said loan is for the purpose of purchasing or carrying stock registered on a national securities exchange ("listed stock") or shares issued by an open-end investment company whose assets customarily include listed stock ("open-end shares"), but is excepted under paragraph ______ of section ______ of Regulation U shown on the reverse hereof.

[ ] *Statement II*

Said loan is not for the purpose of purchasing, or of enabling the undersigned to reduce or retire indebtedness which was originally incurred to purchase, listed stock or open-end shares, but is for the following purpose:

(Check (X) statement which applies)

[ ] Purchase or improvement of plant, machinery, or equipment.
[ ] Purchase or carrying of unlisted stock (other than open-end shares).
[ ] Purchase or carrying of bonds, debentures, or other debt securities.
[ ] Purchase or carrying of inventory.
[ ] Improvement or purchase of real estate.
[ ] Taxes.
[ ] Additional working capital.
[ ] Household improvements.
[ ] Other:____

The undersigned is not a person engaged principally, or as one of the undersigned's important activities, in the business of making loans for the purpose of purchasing or carrying listed stock or open-end shares.

Accepted in good faith:

____
(Signature of borrower)

____
(Official signature)

Question

12. To what extent do you check your overall position in specific securities (the total amount of a specific security that is pledged with you by all borrowers) to insure that the amounts do not become so large as to raise question about the bank's ability to liquidate the collateral if necessary? (NOTE.—This question may be omitted for banks of less than $50 million deposit size.)

Answers

Bank Code No.

51 The officer interviewed checks loan collateral personally if a large block of one stock or if foreign bonds are involved. No specific cross-check is made to determine whether position in any one security has become too large to liquidate easily. The feeling was that such a system would not justify its cost.

52 Exposure in specific securities is discussed at loan committee meetings with loan officers noting positions known to be high. Eventually the bank will put its security loans on computer. Until then some danger exists.

53 Banks keep collateral register with an index card for each stock. Each time the stock is used as collateral the loan is recorded on the card. This way the bank can immediately check accounts when the stock market price falls.

54 No specific checks of the position in any one security are made; however, they do watch the amount of stock of any small company pledged as collateral for specific loans. The bank does not have a long position in any security issue.

55 None.

56 The bank maintains a stock record which enables it to ascertain the total amount of stock held by type of issue, as well as a record of the holdings of each individual borrower.

57 Have occasionally, primarily in connection with holdings of stock of leading local company. Do not check other types.