

REGULATORY ALERT

NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314

DATE: April 2001 NO: 01-RA-05

TO: All Federally-Insured Credit Unions

SUBJECT: Regulation U

The purpose of this Regulatory Alert is to inform credit unions of the basic requirements of Regulation U promulgated by the Board of Governors of the Federal Reserve System (FRB). 12 C.F.R. §221. Regulation U governs "Credit by Banks and Persons other than Brokers or Dealers for the Purpose of Purchasing or Carrying Margin Stock."

Regulation U applies to credit unions that make loans secured by margin stock. Margin stock includes: any equity security registered on a national securities exchange, such as the New York Stock Exchange or the American Stock Exchange; any over-the-counter (OTC) security trading in the Nasdaq Stock Market's National Market; any debt security convertible into a margin stock; and most mutual funds.

General Requirements. Regulation U requires that when a credit union makes a loan for the purpose of buying or carrying margin stock and is secured by the stock, the maximum amount of the loan may not exceed 50 percent of the value of the collateral. 12 C.F.R. §221.7(a). The FRB has the authority to change the maximum collateral value percentage, but has not since 1974. Generally, options, including puts and calls, have no loan value unless they are publicly traded. Publicly traded options qualify as margin stock.

Registration. A credit union becomes subject to Regulation U and must register with the Federal Reserve Bank in whose District it is located when it meets one of two threshold tests for the amount of margin-stock-secured credit extended or outstanding:

- If \$200,000 or more in such credit was extended in the most recent calendar quarter; or
- If at any time in the most recent calendar quarter the amount of margin-stock-secured credit outstanding was \$500,000 or more. 12 C.F.R. §221.3(b)(1).

To register, a credit union must complete Federal Reserve Form G-1 within 30 days of the end of the calendar quarter in which one of the two threshold tests is

met. The form is available by calling the local Federal Reserve Bank or via the FRB's web site at www.federalreserve.gov (under Reporting Forms, Forms by Category, Securities (Regs. T U X)).

Other Reports.

Annual Report: In addition to registering using Federal Reserve Form G-1, a credit union must file an annual report, Federal Reserve Form G-4, within thirty days of June 30. This form will be supplied by the Reserve Bank before June 30.

Borrower's Statement: Federal Reserve Form G-3 must be completed when a credit union registered under Regulation U extends credit secured by any margin stock. This form must be completed and signed by both the borrower and the credit union.

Deregistration Statement: A credit union is eligible to deregister if, during the preceding six calendar months, no more than \$200,000 of credit secured by margin stock is outstanding. Federal Reserve Form G-2 is the Deregistration Statement.

This Regulatory Alert is not a comprehensive statement of the regulation, but a general overview. The full text ("12CFR221") may be searched on the Government Printing Office web site at: www.access.gpo.gov/nara/cfr/index.html. Questions regarding Regulation U should be directed to the local Federal Reserve Bank.

_____/s/_____
Dennis Dollar
Acting Chairman
National Credit Union Administration Board