Any member bank may sell securities or other property to any of its directors, or to a firm of which any of its directors is a member, in the regular course of business on terms not more favorable to such director or firm than those offered to others, or when such sale is authorized by a majority of the board of directors of a member bank to be evidenced by their affirmative vote or written assent: *Provided, however*, That nothing in this section contained shall be construed as authorizing member banks to purchase or sell securities or other property which such banks are not otherwise authorized by law to purchase or sell.

(Dec. 23, 1913, ch. 6, § 22(d), as added Sept. 26, 1918, ch. 177, § 5, 40 Stat. 971; amended Aug. 23, 1935, ch. 614, title II, § 203(a), 49 Stat. 704.)

CHANGE OF NAME

Section 203(a) of act Aug. 23, 1935, changed name of Federal Reserve Board to Board of Governors of the Federal Reserve System.

§ 375a. Loans to executive officers of banks

(1) General prohibition; authorization for extension of credit; conditions for credit

Except as authorized under this section, no member bank may extend credit in any manner to any of its own executive officers. No executive officer of any member bank may become indebted to that member bank except by means of an extension of credit which the bank is authorized to make under this section. Any extension of credit under this section shall be promptly reported to the board of directors of the bank, and may be made only if—

(A) the bank would be authorized to make it to borrowers other than its officers;

(B) it is on terms not more favorable than those afforded other borrowers;

(C) the officer has submitted a detailed current financial statement; and

(D) it is on condition that it shall become due and payable on demand of the bank at any time when the officer is indebted to any other bank or banks on account of extensions of credit of any one of the three categories respectively referred to in paragraphs (2), (3), and (4) in an aggregate amount greater than the amount of credit of the same category that could be extended to him by the bank of which he is an officer.

(2) Mortgage loans

A member bank may make a loan to any executive officer of the bank if, at the time the loan is made—

(A) it is secured by a first lien on a dwelling which is expected, after the making of the loan, to be owned by the officer and used by him as his residence, and

(B) no other loan by the bank to the officer under authority of this paragraph is outstanding.

(3) Educational loans

A member bank may make extensions of credit to any executive officer of the bank to finance the education of the children of the officer.

(4) General limitation on amount of credit

A member bank may make extensions of credit not otherwise specifically authorized under this section to any executive officer of the bank, in an amount prescribed in a regulation of the member bank's appropriate Federal banking agency.

(5) Partnership loans

Except to the extent permitted under paragraph (4), a member bank may not extend credit to a partnership in which one or more of its executive officers are partners having either individually or together a majority interest. For the purposes of paragraph (4), the full amount of any credit so extended shall be considered to have been extended to each officer of the bank who is a member of the partnership.

(6) Endorsement or guarantee of loans or assets; protective indebtedness

This section does not prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of the bank any loan or other asset previously acquired by the bank in good faith or from incurring any indebtedness to the bank for the purpose of protecting the bank against loss or giving financial assistance to it.

(7) Continuation of violation

Each day that any extension of credit in violation of this section exists is a continuation of the violation for the purposes of section 1818 of this title.

(8) Rules and regulations; definitions

The Board of Governors of the Federal Reserve System may prescribe such rules and regulations, including definitions of terms, as it deems necessary to effectuate the purposes and to prevent evasions of this section.

(Dec. 23, 1913, ch. 6, § 22(g), as added June 16, 1933, ch. 89, § 12, 48 Stat. 182; amended June 14, 1935, ch. 245, 49 Stat. 375; Aug. 23, 1935, ch. 614, title III, § 326(c), 49 Stat. 716; Apr. 25, 1938, ch. 173, 52 Stat. 223; June 20, 1939, ch. 214, § 1, 53 Stat. 842; Pub. L. 90–44, § 1, July 3, 1967, 81 Stat. 109; Pub. L. 95–630, title I, § 110, Nov. 10, 1978, 92 Stat. 3665; Pub. L. 97–320, title IV, § 421, Oct. 15, 1982, 96 Stat. 1522; Pub. L. 103–325, title III, § 334(a), Sept. 23, 1994, 108 Stat. 2233; Pub. L. 109–351, title VI, § 601(a), Oct. 13, 2006, 120 Stat. 1978.)

CODIFICATION

Proviso which permitted renewal or extension of loans made to executive officers prior to June 16, 1933, for periods expiring not more than five years from June 16, 1939, was omitted as obsolete.

AMENDMENTS

2006—Pars. (6) to (10). Pub. L. 109–351 redesignated pars. (7), (8), and (10) as (6), (7), and (8), respectively, and struck out former pars. (6) and (9) which related to report of date and amount of credit extensions, security, and uses of proceeds upon excessive extension of credit and report of loan activity since previous report of condition, respectively.

1994—Par. (2). Pub. L. 103–325 in introductory provisions substituted ''A member'' for ''With the specific prior approval of its board of directors, a member''.

1982—Par. (2). Pub. L. 97–320, § 421(a), struck out ''not exceeding $60,000'' after ''may make a loan''.

Par. (3). Pub. L. 97–320, § 421(a), struck out '', not exceeding the aggregate amount of $20,000 outstanding at any one time,'' after ''officer of the bank''.

Par. (4). Pub. L. 97–320, § 421(b), substituted ''in an amount prescribed in a regulation of the member

bank's appropriate Federal banking agency'' for ''not exceeding the aggregate amount of $10,000 outstanding at any one time''.

1978—Par. (2). Pub. L. 95–630 substituted ''$60,000'' for ''$30,000''.

Par. (3). Pub. L. 95–630 substituted ''$20,000'' for ''$10,000''.

Par. (4). Pub. L. 95–630 substituted ''$10,000'' for ''$5,000''.

1967—Par. (1). Pub. L. 90–44 rewrote in first sentence of provisions designated as par. (1) the prohibition of former first sentence against any executive officer borrowing or otherwise becoming indebted to a member bank of which he is an officer and against any member bank making any loan or extending credit in any other manner to any of its own executive officers, authorized member banks to extend credit to such executive officers and to report such extensions to the board of directors, and provided in subpars. (A) to (D) conditions for such extension of credit.

Pars. (2), (3). Pub. L. 90–44 inserted provisions, designated as pars. (2) and (3), for mortgage loans and educational loans, respectively.

Par. (4). Pub. L. 90–44 incorporated proviso of first sentence in provisions designated as par. (4), increased amount of available credit from $2,500 to $5,000, and struck out requirement of prior approval of credit by majority of entire board of directors.

Par. (5). Pub. L. 90–44 substituted provisions, designated as par. (5), for extension of credit to partnerships for former provisions of third sentence that ''Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibition of this section''.

Par. (6). Pub. L. 90–44 incorporated reporting requirement of second sentence in provisions designated as par. (6) but limited it to extensions of credit from other banks to the executive officers as exceeded amounts available to such officers from their member banks under pars. (2) to (4) of this section.

Par. (7). Pub. L. 90–44 designated provisions of fourth sentence as par. (7).

Par. (8). Pub. L. 90–44 designated proviso of sixth sentence as par. (8) and identified the violation as one for purposes of section 1818 of this title.

Par. (9). Pub. L. 90–44 added requirement, designated as par. (9), that member banks report all loans made under authority of this section since previous report of condition.

Par. (10). Pub. L. 90–44 designated provisions of fifth sentence as par. (10) and substituted general authorization for definition of terms for former specific authorization for definition of ''executive officer'' and for determination what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit.

Pub. L. 90–44 struck out former sixth sentence, less proviso, which provided for removal from office in manner prescribed in former section 77 of this title of any executive officer of member bank accepting a loan or extension of credit in violation of this section.

1939—Act June 20, 1939, substituted ''June 16, 1939,'' for ''from such date'', in first sentence.

1938—Par. (1). Act Apr. 25, 1938, substituted ''six'' for ''five'' in first sentence.

1935—Act Aug. 23, 1935, added last two provisos.

Act June 14, 1935, struck out a proviso and inserted in lieu thereof first proviso.

EFFECTIVE DATE OF 1978 AMENDMENT

Amendment effective upon expiration of 120 days after Nov. 10, 1978, see sec. 2101 of Pub. L. 95–630 set out as an Effective Date note under section 375b of this title.

§ 375b. Extensions of credit to executive officers, directors, and principal shareholders of member banks

(1) In general

No member bank may extend credit to any of its executive officers, directors, or principal shareholders, or to any related interest of such a person, except to the extent permitted under paragraphs (2), (3), (4), (5), and (6).

(2) Preferential terms prohibited

(A) In general

A member bank may extend credit to its executive officers, directors, or principal shareholders, or to any related interest of such a person, only if the extension of credit—

(i) is made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions by the bank with persons who are not executive officers, directors, principal shareholders, or employees of the bank;

(ii) does not involve more than the normal risk of repayment or present other unfavorable features; and

(iii) the bank follows credit underwriting procedures that are not less stringent than those applicable to comparable transactions by the bank with persons who are not executive officers, directors, principal shareholders, or employees of the bank.

(B) Exception

Nothing in this paragraph shall prohibit any extension of credit made pursuant to a benefit or compensation program—

(i) that is widely available to employees of the member bank; and

(ii) that does not give preference to any officer, director, or principal shareholder of the member bank, or to any related interest of such person, over other employees of the member bank.

(3) Prior approval required

A member bank may extend credit to a person described in paragraph (1) in an amount that, when aggregated with the amount of all other outstanding extensions of credit by that bank to each such person and that person's related interests, would exceed an amount prescribed by regulation of the appropriate Federal banking agency (as defined in section 1813 of this title) only if—

(A) the extension of credit has been approved in advance by a majority vote of that bank's entire board of directors; and

(B) the interested party has abstained from participating, directly or indirectly, in the deliberations or voting on the extension of credit.

(4) Aggregate limit on extensions of credit to any executive officer, director, or principal shareholder

A member bank may extend credit to any executive officer, director, or principal shareholder, or to any related interest of such a person, only if the extension of credit is in an amount that, when aggregated with the amount