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Title 12 – Banks and Banking

Chapter II – Federal Reserve System

Subchapter A – Board of Governors of the Federal Reserve System

Part 215 – Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks (Regulation O)

Authority: 12 U.S.C. 248(a), 375a(10), 375b(9) and (10), 1468, 1817(k), 5412; and Pub. L. 102-242, 105 Stat. 2236 (1991) (12 U.S.C. 1811 note).

Source: Reg. O, 59 FR 8837, Feb. 24, 1994, unless otherwise noted.

§ 215.2 Definitions.

For purposes of this part, the following definitions apply unless otherwise specified:

- (a) **Affiliate** means any company of which a member bank is a subsidiary or any other subsidiary of that company.
- (b) **Company** means any corporation, partnership, trust (business or otherwise), association, joint venture, pool syndicate, sole proprietorship, unincorporated organization, or any other form of business entity not specifically listed herein. However, the term does not include:
 - (1) An insured depository institution (as defined in 12 U.S.C. 1813); or
 - (2) A corporation the majority of the shares of which are owned by the United States or by any State.
- (c)
 - (1) **Control of a company or bank** means that a person directly or indirectly, or acting through or in concert with one or more persons:
 - (i) Owns, controls, or has the power to vote 25 percent or more of any class of voting securities of the company or bank;
 - (ii) Controls in any manner the election of a majority of the directors of the company or bank; or
 - (iii) Has the power to exercise a controlling influence over the management or policies of the company or bank.
 - (2) A person is presumed to have control, including the power to exercise a controlling influence over the management or policies, of a company or bank if:
 - (i) The person is:
 - (A) An executive officer or director of the company or bank; and
 - (B) Directly or indirectly owns, controls, or has the power to vote more than 10 percent of any class of voting securities of the company or bank; or
 - (ii)
 - (A) The person directly or indirectly owns, controls, or has the power to vote more than 10 percent of any class of voting securities of the company or bank; and

(B) No other person owns, controls, or has the power to vote a greater percentage of that class of voting securities.

(3) An individual is not considered to have control, including the power to exercise a controlling influence over the management or policies, of a company or bank solely by virtue of the individual's position as an officer or director of the company or bank.

(4) A person may rebut a presumption established by paragraph (c)(2) of this section by submitting to the appropriate Federal banking agency (as defined in 12 U.S.C. 1813(q)) written materials that, in the agency's judgment, demonstrate an absence of control.

(d)

(1) **Director of a company or bank** means any director of the company or bank, whether or not receiving compensation. An advisory director is not considered a director if the advisory director:

(i) Is not elected by the shareholders of the company or bank;

(ii) Is not authorized to vote on matters before the board of directors; and

(iii) Provides solely general policy advice to the board of directors.

(2) Extensions of credit to a director of an affiliate of a bank are not subject to §§ 215.4, 215.6, and 215.8 if—

(i) The director of the affiliate is excluded, by resolution of the board of directors or by the bylaws of the bank, from participation in major policymaking functions of the bank, and the director does not actually participate in such functions;

(ii) The affiliate does not control the bank;

(iii) As determined annually, the assets of the affiliate do not constitute more than 10 percent of the consolidated assets of the company that—

(A) Controls the bank; and

(B) Is not controlled by any other company; and

(iv) The director of the affiliate is not otherwise subject to §§ 215.4, 215.6, and 215.8.

(3) For purposes of paragraph (d)(2)(i) of this section, a resolution of the board of directors or a corporate bylaw may—

(i) Include the director (by name or by title) in a list of persons excluded from participation in such functions; or

(ii) Not include the director in a list of persons authorized (by name or by title) to participate in such functions.

(e)

(1) **Executive officer** of a company or bank means a person who participates or has authority to participate (other than in the capacity of a director) in major policymaking functions of the company or bank, whether or not: the officer has an official title; the title designates the officer an assistant; or the officer is serving without salary or other compensation.^[1] The chairman of the board, the president, every vice president, the cashier, the secretary, and the treasurer of a company or bank are

considered executive officers, unless the officer is excluded, by resolution of the board of directors or by the bylaws of the bank or company, from participation (other than in the capacity of a director) in major policymaking functions of the bank or company, and the officer does not actually participate therein.

(2) Extensions of credit to an executive officer of an affiliate of a bank are not subject to §§ 215.4, 215.6, and 215.8 if—

- (i) The executive officer is excluded, by resolution of the board of directors or by the bylaws of the bank, from participation in major policymaking functions of the bank, and the executive officer does not actually participate in such functions;
- (ii) The affiliate does not control the bank;
- (iii) As determined annually, the assets of the affiliate do not constitute more than 10 percent of the consolidated assets of the company that—
 - (A) Controls the bank; and
 - (B) Is not controlled by any other company; and
- (iv) The executive officer of the affiliate is not otherwise subject to §§ 215.4, 215.6, and 215.8.

(3) For purposes of paragraphs (e)(1) and (e)(2)(i) of this section, a resolution of the board of directors or a corporate bylaw may—

- (i) Include the executive officer (by name or by title) in a list of persons excluded from participation in such functions; or
- (ii) Not include the executive officer in a list of persons authorized (by name or by title) to participate in such functions.

(f) **Foreign bank** has the meaning given in 12 U.S.C. 3101(7).

(g) **Immediate family** means the spouse of an individual, the individual's minor children, and any of the individual's children (including adults) residing in the individual's home.

(h) **Insider** means an executive officer, director, or principal shareholder, and includes any related interest of such a person.

(i) **Lending limit.** The lending limit for a member bank is an amount equal to the limit of loans to a single borrower established by section 5200 of the Revised Statutes,^[2] 12 U.S.C. 84. This amount is 15 percent of the bank's unimpaired capital and unimpaired surplus in the case of loans that are not fully secured, and an additional 10 percent of the bank's unimpaired capital and unimpaired surplus in the case of loans that are fully secured by readily marketable collateral having a market value, as determined by reliable and continuously available price quotations, at least equal to the amount of the loan. The lending limit also

[1] The term is not intended to include persons who may have official titles and may exercise a certain measure of discretion in the performance of their duties, including discretion in the making of loans, but who do not participate in the determination of major policies of the bank or company and whose decisions are limited by policy standards fixed by the senior management of the bank or company. For example, the term does not include a manager or assistant manager of a branch of a bank unless that individual participates, or is authorized to participate, in major policymaking functions of the bank or company.

includes any higher amounts that are permitted by section 5200 of the Revised Statutes for the types of obligations listed therein as exceptions to the limit. A member bank's unimpaired capital and unimpaired surplus equals:

- (1) The bank's tier 1 and tier 2 capital included in the bank's risk-based capital under the capital rule of the appropriate Federal banking agency, based on the bank's most recent consolidated report of condition filed under 12 U.S.C. 1817(a)(3); and
 - (2) The balance of the bank's allowance for loan and lease losses or adjusted allowance for credit losses, as applicable, not included in the bank's tier 2 capital for purposes of the calculation of risk-based capital under the capital rule of the appropriate Federal banking agency, based on the bank's most recent consolidated reports of condition filed under 12 U.S.C. 1817(a)(3).
 - (3) Notwithstanding paragraphs (i)(1) and (2) of this section, for a member bank that is a qualifying community banking organization (as defined in § 217.12 of this chapter) that is subject to the community bank leverage ratio framework (as defined in § 217.12 of this chapter), unimpaired capital and unimpaired surplus equals Tier 1 capital (as defined in § 217.12 of this chapter and calculated in accordance with § 217.12(b) of this chapter) plus allowances for loan and lease losses or adjusted allowance for credit losses, as applicable.
- (j) **Member bank** means any banking institution that is a member of the Federal Reserve System, including any subsidiary of a member bank. The term does not include any foreign bank that maintains a branch in the United States, whether or not the branch is insured (within the meaning of 12 U.S.C. 1813(s)) and regardless of the operation of 12 U.S.C. 1813(h) and 12 U.S.C. 1828(j)(3)(B).
- (k) **Pay an overdraft on an account** means to pay an amount upon the order of an account holder in excess of funds on deposit in the account.
- (l) **Person** means an individual or a company.
- (m)
- (1) **Principal shareholder** means a person (other than an insured bank) that directly or indirectly, or acting through or in concert with one or more persons, owns, controls, or has the power to vote more than 10 percent of any class of voting securities of a member bank or company. Shares owned or controlled by a member of an individual's immediate family are considered to be held by the individual.
 - (2) A principal shareholder of a member bank does not include a company of which a member bank is a subsidiary.
- (n) **Related interest** of a person means:
- (1) A company that is controlled by that person; or
 - (2) A political or campaign committee that is controlled by that person or the funds or services of which will benefit that person.

^[2] Where State law establishes a lending limit for a State member bank that is lower than the amount permitted in section 5200 of the Revised Statutes, the lending limit established by applicable State laws shall be the lending limit for the State member bank.

- (o) *Subsidiary* has the meaning given in 12 U.S.C. 1841(d), but does not include a subsidiary of a member bank.

[Reg. O, 59 FR 8837, Feb. 24, 1994; 59 FR 37930, July 26, 1994, as amended at 60 FR 31054, June 13, 1995; 61 FR 57770, Nov. 8, 1996; 62 FR 13298, Mar. 20, 1997; 71 FR 71474, Dec. 11, 2006; 84 FR 4241, Feb. 14, 2019; 84 FR 61797, Nov. 13, 2019]