

May 1, 1978

To Our Clients

Tender Offer Loans to Holding
Companies; Margin Regulations

From time to time questions have been raised as to whether a loan to a holding company (a company the assets of which consist substantially of stock of operating subsidiaries) must be treated as being "indirectly secured" if the loan agreement contains routine negative covenants. This question has been put to rest by an April 19 letter of the Federal Reserve Board to the New York Clearing House reiterating the FRB interpretation that a loan to a holding company would not be deemed "indirectly secured" by reason of routine negative covenants if the bank in good faith has not relied on such stock as collateral.

M. Lipton