



BANKING ISSUANCE

Comptroller of the Currency
Administrator of National Banks

Type: Banking Bulletin

Subject: Junk Bonds

TO: Directors, Chief Executive Officers and Trust Officers of All National Banks, Deputy Comptrollers and All Examining Personnel

PURPOSE

The purpose of this bulletin is to advise national banks concerning their authority to purchase "Junk Bonds" for their own account or for the account of others. Caution is also advised concerning the acceptance of "Junk Bonds" as loan collateral.

SCOPE

This bulletin addresses all national bank acquisitions of "Junk Bonds." For purposes of this bulletin a "Junk Bond" is a speculative security with limited marketability characteristics.

POLICY

National Banks are authorized by the seventh paragraph of 12 USC 24 and by 12 CFR 1 to acquire limited amounts of corporate debt securities which are both marketable and commonly regarded as "investment securities", i.e., not predominantly speculative in nature. Corporate debt securities used to finance corporate takeovers are generally considered to be predominantly speculative with limited marketability. Accordingly, national bank commitments to acquire such "Junk Bonds" will be viewed as violations of 12 USC 24 and 12 CFR 1.

Trust investments must conform to the requirements of local law, in the case of personal trusts and estates, or to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA), in the case of employee benefit trusts. "Local law" is almost exclusively the "prudent man" rule, which discourages the purchase of securities for purposes of speculation, while ERISA prescribes a somewhat similar rule of prudence. As a general rule, we do not believe that "Junk Bonds" would qualify under state law and in so far as ERISA differs from state law, the Department of Labor should be consulted.

The generally speculative nature of "Junk Bonds" and their limited marketability may also limit their value as collateral for loans. Judgments as to the value of such collateral should be made on a case-by-case basis.



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ORIGINATING OFFICE

Questions concerning this bulletin should be directed to the Investment Securities Division,
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