

Superseded by 247

**FEDERAL RESERVE BANK
OF NEW YORK**

LOAN DEPARTMENT

December 30, 1919

RATES OF DISCOUNT

TO ALL MEMBER BANKS IN THE SECOND FEDERAL RESERVE DISTRICT,

DEAR SIRs:

You are advised that this bank has established the following rates of discount effective immediately and until further notice and superseding all existing rates:

For advances not exceeding 15 days and rediscounts not exceeding 90 days.....	4 $\frac{3}{4}$ %
For rediscounts of agricultural paper having a maturity at time of rediscount of more than 90 days but not more than 6 months.....	5%

It seems appropriate at this time to make a brief statement to the member banks in regard to the discount policy of this bank.

During the period of active borrowing upon an increasing scale by the Government of the United States, the demands for credit for war purposes exceeded the amount of the savings fund of the nation available for investment in Government securities, so that the discount facilities of the Federal Reserve Bank were, necessarily, employed to supplement the normal volume of credit created by savings. It was necessary, therefore, during this period for the Federal Reserve Bank of New York to give consideration in its discount policy to the interests not only of the Government and of business, but also of those patriotic citizens who anticipated their future savings in order to subscribe to war loans.

Now, happily, the income of the Government has overtaken its expenditures and in the month of September there was an actual decrease in the Government debt of about \$400,000,000; the loans which banks have made to their customers on Government securities are steadily being reduced, and Secretary Glass, in announcing the current offering of 4 $\frac{3}{4}$ % Treasury certificates of indebtedness, states that the success of the issue will assure the consummation of the Treasury's plan for financing the unfunded portion of the war debt.

In view of the foregoing, and of the wide distribution of certificates to the public, it being estimated that not over one-half of the certificates outstanding are now held by the banks, the directors of the Federal Reserve Bank of New York have eliminated the preferential rates heretofore maintained in favor of advances and rediscounts based on bonds, certificates of indebtedness and acceptances, and for the time being, at least, have established a single rate for credit at the Federal Reserve Bank, thereby greatly simplifying their future rate policy.

While the Federal Reserve Act, by lowering reserves, added permanently to the lending power of the member banks it was not intended that the Federal Reserve Banks themselves should be used to promote permanent credit expansion or for the purpose of obtaining funds to re-loan at a profit in the general credit market. They were intended to facilitate emergency or seasonal expansion, and except for such unusual borrowing as war financing necessitates, the same principles which governed borrowing by banks prior to the establishment of the Federal Reserve System should still obtain. Nor does the existence of the Federal Reserve System relieve bankers from their individual responsibility to prevent unwise expansion of credit at a time like the present when the pressure for credit is very great. On the contrary, with the banks being gradually relieved of the volume of Government securities which, directly or indirectly, they had to assume, the released credit should be devoted, as far as practicable, to the reduction of indebtedness to the Federal Reserve Bank, in order gradually to reduce the present credit expansion.

Yours very truly,

BENJ. STRONG,

Governor.