



**BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**

**WASHINGTON, D. C. 20551**

**ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD**

**July 19, 1966.**

**Dear Sir:**

In light of the current objectives of monetary policy and in order to make doubly sure that appropriate general principles are being applied with reasonable uniformity, the Board believes that it would be helpful if the Presidents and Discount Officers of all Federal Reserve Banks would review carefully the administration of their discount windows. Among the matters that the Board considers it important to have clearly in mind under present conditions are those mentioned in the following paragraphs. Each Reserve Bank can, of course, think of others.

On any occasion when monetary policy becomes more restrictive, it can be expected that borrowing activity at the discount window will tend to increase. In fact, growth in aggregate borrowing is an indicator of the degree of monetary restraint on banks. As banks borrow, they come under pressure to make adjustments, thereby helping to spread the effects of restraint throughout the banking system. To this end, Regulation A provides that credit extended through the discount window should be short term and on a noncontinuous basis, except in exigent circumstances.

Access to Federal Reserve discount facilities should, of course, continue to be available to member banks for appropriate purposes as outlined in Regulation A. In the current situation, however, every effort should be made to induce member banks to liquidate their borrowings as promptly as possible, not only by appropriate portfolio adjustments but by the adoption of more restrictive lending policies. Moreover, fuller utilization of credit lines and larger takedowns of commitments to lend do not constitute

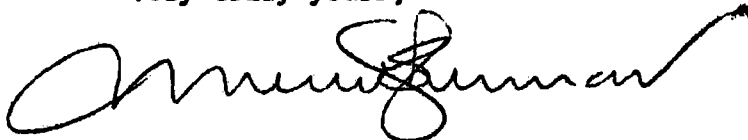
-2-

adequate justification for extended use of the discount window. And, of course, extension of Federal Reserve credit to member banks borrowing for the purpose of selling funds in the Federal funds market is clearly inappropriate.

The recent expansion of borrowing by country member banks suggests the need for particularly careful review. The fact that large city banks are cutting down on advances to correspondent country banks is not, of itself, a sufficient justification for extended or continuing country-bank borrowing from the Federal Reserve Banks. Also to be guarded against are demands by country banks for longer-term accommodation on the ground that their lines of credit to national or regional firms, which may have found that they are unable to get all the credit they desire from their usual sources, are now being activated.

The Board will appreciate your special review of discount window administration against the background of considerations of this kind. It would be glad to receive your comments, including advice on developments that would appear to be of significance to the Federal Reserve System generally.

Very truly yours,

A handwritten signature in black ink, appearing to read "Merritt Sherman", with a long, sweeping flourish extending to the right.

Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS