



FEDERAL RESERVE BANK
OF DALLAS

April 18, 1919.

A handwritten signature in cursive, appearing to read "D. D. Davis", written in dark ink over a light-colored background.

TO ALL MEMBER BANKS:

We are in receipt of the following opinion from the Federal Reserve Board at Washington:

"Section 3 of the Act approved March 3, 1919, amends Section 11 of the Federal Reserve Act by the substitution of a new sub-section (m) which reads as follows:

'(m) Upon the affirmative vote of not less than five of its members the Federal Reserve Board shall have power to permit Federal Reserve Banks to discount for any member, bank notes, draft, or bills of exchange bearing the signature or indorsement of any one borrower in excess of the amount permitted by section 9 and section 13 of this Act, but in no case to exceed twenty per centum of the member bank's capital and surplus: Provided, however, That all such notes, drafts, or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, or Certificates of Indebtedness of the United States; Provided further, That the provisions of this sub-section (m) shall not be operative after December 31, 1920.'

Under the provisions of this section, Federal Reserve Banks are permitted upon the affirmative vote of not less than five members of the Federal Reserve Board, to rediscount for any one member bank, notes, drafts, or bills of exchange of any one borrower in excess of those limits now imposed by Sections 9 and 13 of the Federal Reserve Act, provided that the aggregate in no case shall exceed 20%, and provided that any rediscounts over and above 10% shall be secured by Government obligations of the kinds specified.

The interpretation of this amendment is very clear as to rediscounts for national member banks and the only question which might arise is as to whether or not the power to rediscount an additional 10% of paper secured by the proper Government obligations applies to the case of a state member bank, which under the State law has already loaned under the regular line of credit in excess of 10% to one borrower. Section 9, independent of the amendment, provides in substance that if a state bank has loaned in excess of 10% to any one borrower, the Federal Reserve Bank cannot rediscount for that bank **any** of the paper of that borrower, but if on the other hand it has not loaned in excess of 10%, then the state member bank shall be afforded the regular discount privileges conferred by Section 13 **up to the limits set forth in Section 13.**

The amendment of March 3, 1919, confers powers "in excess of the amount" set forth in Sections 9 and 13 so that in order to give full force to that part of the language which refers to Section 9, it must be interpreted to mean that even though the State member bank has loaned in excess of 10% to one borrower under his regular line of credit, nevertheless the Federal Reserve Bank may rediscount paper of that borrower which is secured by the Government obligations of the kind specified, provided that the aggregate of all rediscounts does not exceed 20% of the member bank's capital and surplus.

If it were intended to authorize State member banks to rediscount with their Federal Reserve Banks, paper secured by Government obligations **only** in the case where the state bank has loaned **less** than 10% under its regular line of credit, there could have been no purpose in referring to Section 9 in the amendment.

The Board therefore rules under authority granted in this amendment that the Federal Reserve Banks may rediscount until December 31, 1920, for national and state member banks, paper secured