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FEDERAL RESERVE BANK OF DALLAS

November 10, 1919.

TO THE MEMBER BANK ADDRESSED:

Your attention is called to the following analysis of the Amendment to Section 5200 of the Revised Statutes of the United States, which became a law on October 22, 1919, together with a memorandum prepared and issued by the Federal Reserve Board discussing the distinction which, under the law, must be drawn by Federal Reserve Banks in making rediscounts for National banks and State bank members.

Respectfully,


Governor.

Loaning Powers of National Banks Under the Amendment to Section 5200 U. S. R. S., Approved October 22, 1919.

The amendment to Section 5200 of the Revised Statutes which became a law on October 22, 1919, has made certain material changes in the loaning powers of national banks. For the convenience of national banks and others interested in the effect of those changes, there is submitted herewith an analysis of the provisions of Section 5200 now in force.

The amounts which a national bank may properly lend to any one person, company, corporation or firm (including in the liability of a company or firm, the liabilities of the several members thereof) under the various clauses of Section 5200, as amended by the Act approved October 22, 1919, are stated in terms of the percentage of the paid-up and unimpaired capital stock and surplus of the leading bank.

CHARACTER OF LOANS

AMOUNTS LOANABLE

(A) Accommodation or straight loans, whether or not single name.	Maximum limit, 10% of bank's paid-up and unimpaired capital and surplus.
(B) "Bills of exchange drawn in good faith against actually existing values." The law expressly provides that this phrase shall also include: (a) Drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped. (b) Demand obligations, when secured by documents covering commodities in actual process of shipment. (c) Bankers' acceptances of the kinds described in Section 13 of the Federal Reserve Act.	No limit imposed by law.
(C) Commercial or business paper (of other makers) actually owned by the person, company, corporation or firm negotiating the same.	No limit imposed by law.
(D) Notes secured by shipping documents, warehouse receipts or other such documents conveying or securing title covering readily marketable non-perishable staples, including live stock. No bank may make any loan under (D), however, (a) Unless the actual market value of the property securing the obligation is not at any time less than 115% of the face amount of the note, and (b) Unless the property is fully covered by insurance, and in no event shall the privilege afforded by (D) be exercised for any one customer for more than six months in any consecutive twelve months.	15% of bank's capital and surplus, in addition to the amount allowed under (A); or if the full amount allowed under (A) is not loaned, then the amount which may be loaned in the manner described under (D) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10% but the aggregate of (A) and (D) may equal, but not exceed, 25%.
(E) Notes secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States.	10% of bank's capital and surplus, in addition to the amount allowed under (A), or if the full amount allowed under (A) is not loaned, then the amount which may be loaned in the manner described under (E) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10% but the aggregate of (A) and (E) may equal, but not exceed, 20%.

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| (F) Notes secured by U. S. Government obligations of the kinds described under (E), the face amount of which is at least equal to 105% of the amount of the customer's notes. | No limit, but this privilege, under regulations of the Comptroller of the Currency, expires December 31, 1920. |
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Some Examples of what a National Bank may lend at any one time to any one Customer under the Amendment to Section 5200, approved October 22, 1919, Expressed in terms of Percentage of the Bank's Capital and Surplus.

	Illustration 1	Illustration 2	Illustration 3
(A) Accommodation or straight loans.....	10%	5%	5%
(D) Notes secured by warehouse receipts, etc.	15%	20%	15%
(E) Notes secured by a like face amount of Government obligations	10%	10%	15%
TOTAL	35%	35%	35%
(B) Bills of exchange drawn against actually existing values.....	No limit imposed by law		
(C) Commercial or business paper.....	No limit imposed by law		
(F) Notes secured by at least 105% of U. S. Government obligations	No limit imposed by law		

What a Federal Reserve Bank May discount for its member banks.

The limitations imposed upon the amounts of rediscounts which a Federal Reserve Bank may make for a member bank, whether state or national, are determined by the provisions of the Federal Reserve Act and are not in any way affected by the amendment to Section 5200.

Under the provisions of Section 13 of the Federal Reserve Act any Federal Reserve Bank may rediscount for any member bank, whether state or national, the obligations of any one borrower to the extent of ten per cent. of the member bank's capital and surplus, but it is expressly provided that "bills of exchange drawn against actually existing values" shall not be included in determining that ten per cent. limit.

In the opinion of the Federal Reserve Board this phrase "bills of exchange drawn against actually existing values" includes "drafts or bills of exchange secured by shipping documents conveying or securing title to goods shipped" and "bankers' acceptances of the kinds described in Section 13 of the Federal Reserve Act" even though Section 13 (unlike the amendment to Section 5200) does not expressly state that those two classes of paper are bills of exchange drawn against actually existing values. In the opinion of the Board, however, accepted demand bills on which the drawer is released from liability are not "bills of exchange" within the meaning of Section 13 and must, therefore, be included in determining the limits on the amount of paper of any one borrower which a Federal Reserve Bank may rediscount for any member bank.

Under the terms of Section 11 (m), as amended by the Act of March 3, 1919, any Federal Reserve Bank may, until December 31, 1920, rediscount for any member bank, whether state or national, the obligations of any one borrower to the extent of *twenty* per cent. of the member bank's capital and surplus, provided, however, that the excess over and above *ten* per cent. must be secured by bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States.

Special Provisions Relating to Rediscounts for Member State Banks.

The above discussion relates to the general powers of a Federal Reserve Bank to make rediscounts for any member bank, whether state or national. It must be observed, however, that under the terms of Section 9 of the Federal Reserve Act no Federal Reserve Bank can rediscount for a member state bank *any* of the paper of any one borrower who is liable to such member State bank in excess of ten per cent. of the capital and surplus of that State bank but it is provided that the discount of bills of exchange drawn against actually existing values and the discount of commercial or business paper actually owned by the person negotiating the same shall not be included in determining the amount to which a borrower is liable to such member State bank.

The provisions of this Section 9 are in no way affected by the amendment to Section 5200 of the Revised Statutes and the same test as to eligibility of any part of the line of paper of any one borrower which is held by a member State bank is applicable now as before that amendment to Section 5200.

Under the provisions of Section 11 (m), as amended by the Act of March 3, 1919, the Board has ruled that a Federal Reserve Bank may, until December 31, 1920, rediscount for a member State bank paper 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, without regard to the amount the borrowing bank may already have loaned to its customer under his regular line of credit, provided, however, that the aggregate of all rediscounts of the paper of any borrower must in no case exceed twenty per cent. of the capital and surplus of the member State bank.

In other words, if the regular line of credit of the borrower from a member State bank is **not more** than the ten per cent. limit fixed by Section 9 of the Federal Reserve Act, Federal Reserve Banks may rediscount for State member banks to the same extent that they may for member national banks. If, however, the regular line of credit of the borrower from the member State bank is **more** than that ten per cent. limit, then the Federal Reserve Bank cannot rediscount any of that regular line of credit but may rediscount that paper which is secured by Government obligations of the kinds specified up to the limits described above. (See rulings of the Federal Reserve Board printed on pages 361 and 362 of the April, 1919, Federal Reserve Bulletin).