



FEDERAL RESERVE BANK
OF DALLAS

PROGRESSIVE DISCOUNT RATES

May 21, 1920.

TO THE MEMBER BANK ADDRESSED:

In our Circular Letter No. 17, dated May 7th, we indicated that it might become necessary to establish progressive rates of discount on borrowings of our member banks.

With the view of stabilizing conditions, discouraging excessive borrowings and of giving assurance that indispensable credit will be made available to all banks which are making needed loans, for purposes of raising crops and live stock and for distributing merchandise and moving crops and live stock to market, we have decided that it is to the best interests of all concerned to make these rates effective at once. It is apparent that if we permit some banks to borrow beyond their proper limit, other banks equally deserving may be deprived of needed credit to which they are entitled.

In its consideration of what would constitute a normal basic line of accommodation, our Board of Directors has had due regard for the seasonal requirements of our member banks due to the demands made upon them for credit to finance our farmers in their agricultural and live stock pursuits, and others in the manufacture and distribution of products already on hand, to the end that production and distribution of necessities may be stimulated and not curtailed. We have, therefore, with the approval of the Federal Reserve Board, established a normal basic amount of advances which may be extended to member banks, equal to the member banks' paid-up and unimpaired capital and surplus. This we consider a liberal line, which closely follows some of the State laws, and is more liberal than was permitted by the National Bank Act before the Federal Reserve System was created. Credit advances extended up to and including this basic amount will take the normal discount rate in effect at the time paper is submitted. Whenever advances to a member bank on rediscounts or member bank fifteen-day promissory notes, (with the exception explained below) shall be approved in an amount greater than its basic amount, such advances shall be subject to an increasing discount rate, applicable to paper of all maturities as follows:

“One-half of 1 per cent above normal current rate on accommodations extending above the normal basic amount up to and including 25 per cent of such basic amount;

“One per cent above normal current rate for the next subsequent sum up to and including an additional 25 per cent of the basic amount;

“One and one-half per cent above normal current rate for the next subsequent sum up to and including an additional 25 per cent of the basic amount;

“And so on at an increasing rate of one-half of 1 per cent for each unit of 25 per cent additional; i. e., the normal current rate shall apply on paper discounted for a member bank in an amount equal to its capital and surplus, but thereafter the rate shall increase progressively one-half of 1 per cent on each subsequent sum advanced equal to 25 per cent, or fraction thereof, of the capital and surplus of the applying member bank.”

EXCEPTION: The direct obligations (collateral notes for 15 days or less) of member banks secured by Liberty Bonds or Victory Notes which were actually owned by the borrowing member on April 1, 1920, and direct obligations of member banks secured by Treasury Certificates of Indebtedness actually owned by the borrowing member, will not be considered

as a part of the sum constituting the normal basic amount or any amount in excess thereof; and the progressive rates shall not apply to such direct obligations. In order to come within this exception, and not be subject to inclusion in the calculation of the normal basic amount and the subsequent application of progressive rates, each member bank collateral note secured by Treasury Certificates of Indebtedness or by Liberty Bonds or Victory Notes, must be accompanied by a certificate from an authorized officer of the applying bank, to the effect that the Liberty Bonds and Victory Notes offered are the property of the applying bank and were actually owned by it on April 1, 1920, and/or the Treasury Certificates of Indebtedness offered as collateral security are actually owned by the applying bank on date of hypothecation.

The progressive rate shall not attach to the paper now under discount, but new offerings and renewals (other than those secured by Liberty Bonds or Victory Notes owned on April 1, 1920, or by Treasury Certificates of Indebtedness owned) shall be subject to the progressive discount rate, to be based upon the then liability of the offering member bank after deducting the amount of paper maturing or being paid on the day the offering is accepted.

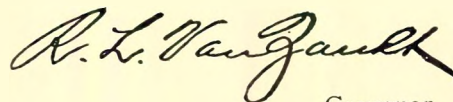
Member banks should contract their borrowings by retiring their rediscounts in advance whenever possible, and the discount on paper retired before maturity will be rebated at our current discount rates according to the class of paper retired.

Notwithstanding the liberal construction which, with the approval of the Federal Reserve Board, our Board of Directors has placed upon the amendment to Section 14 of the Federal Reserve Act, our Executive Committee feels that it is its duty to inquire into the necessity, on the part of the member bank, for all offerings of paper for rediscount, and will feel privileged to obtain from member banks information as to the purposes for which the proceeds are to be used by them, (unless such information is furnished by the offering bank in a letter of explanation accompanying the offering) and in its discretion may decline offerings for which a real need is not shown.

The progressive rates above described will be effective on and after the date of this circular, and will be applied to all accepted offerings received after this date, which, when added to the paper already under discount, creates an amount in excess of the offering bank's capital and surplus, or further increases that amount if already in excess of such capital and surplus, with the exceptions noted.

It is hoped and believed that with the co-operation of member banks, and with a general elimination of capital and speculative loans by all banks and the limitation of loans to the indispensable needs of actual production, manufacture and distribution, this action will assure sufficient credit accommodations to all member banks.

Respectfully,

A handwritten signature in cursive script, reading "R. L. Van Zandt". The signature is written in dark ink and is positioned above the printed name "Governor".

Governor.

(N. B.—Member bank collateral notes secured wholly or in part by Liberty Bonds, Victory Notes or Treasury Certificates of Indebtedness not accompanied by the certificate of ownership specified, or which are secured wholly or in part by borrowed bonds, will be considered as a part of the sum constituting the normal basic amount or amount in excess thereof, and the progressive rates shall apply thereto.)

EFFECTIVE JUNE 10, 1920
Federal Reserve Bank of Dallas

DISCOUNT RATES

SUBJECT TO
CHANGE WITH
OUT NOTICE

SUPERSEDING ALL PREVIOUS RATES

DISCOUNT IS CALCULATED ON BASIS OF 365 DAYS TO YEAR	15 Days and under	16 to 90 Days	91 Days to Six Months
Member Banks' Collateral Notes—Secured by U. S. Certificates of Indebtedness.....	See Note		
Member Banks' Collateral Notes—Secured by Liberty Bonds or Victory Notes.....	5½ %		
Member Banks' Collateral Notes—Secured by Eligible Paper	6 %		
Member Banks' Collateral Notes—Secured by War Finance Corporation Bonds.....	7 %		
Rediscounts—Customers' Notes—Secured by U. S. Certificates of Indebtedness.....	See Note	See Note	
Rediscounts—Customers' Notes—Secured by Liberty Bonds or Victory Notes.....	5½ %	5½ %	
Rediscounts—Customers' Notes—Secured by War Finance Corporation Bonds.....	7 %	7 %	
Rediscounts—Trade Acceptances	6 %	6 %	
Rediscounts—Commercial Paper	6 %	6 %	
Rediscounts—Agricultural or Live Stock Paper.....	6 %	6 %	6 %

NOTE—Rate borne by Certificates attached with minimum of 5%.

(Revenue Stamps ARE NOT Required on Notes Secured by United States Government Obligations issued after April 24, 1917.)

BANKERS' ACCEPTANCES—Purchased at market rates subject to agreement and discount calculated on basis of 360 days to the year.