

FEDERAL RESERVE BANK OF DALLAS  
DALLAS, TEXAS

April 18, 1961

**REPRINT OF REGULATION A**

**To All Member Banks and Others Concerned  
in the Eleventh Federal Reserve District:**

Enclosed is a copy of Regulation A of the Board of Governors of the Federal Reserve System. The Regulation has been reprinted to conform with the style of the Code of the Federal Regulations.

Member banks are requested to remove the old copy of the Regulation from their ring binders containing the Regulations of the Board of Governors and insert the enclosed copy in lieu thereof.

Yours very truly,

Watrous H. Irons  
President

**BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM**

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**ADVANCES AND DISCOUNTS BY  
FEDERAL RESERVE BANKS**



**REGULATION A**

**(12 CFR 201)**

**This regulation as printed herewith is in the form as revised  
effective February 15, 1955**



**In announcing the following revision of Regulation A, the Board of Governors stated:**

**“While this revision of Regulation A makes certain changes in the language of the Regulation itself, the most important change is the revision of the foreword (General Principles) to Regulation A. The revised foreword is designed merely to restate and clarify certain guiding principles which are observed by the Federal Reserve Banks in making advances and discounts in accordance with the applicable provisions of the Federal Reserve Act and of Regulation A. The revision is not intended to further restrict or restrain access by member banks to the credit facilities of the Federal Reserve Banks.”**

#### **INQUIRIES REGARDING THIS REGULATION**

**Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.**

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(This text corresponds to the Code of Federal Regulations, Title 12,  
Chapter II, Part 201, cited as 12 CFR 201)

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# REGULATION A

(12 CFR 201)

Revised effective February 15, 1955

## SECTION 201.0—FOREWORD: GENERAL PRINCIPLES

(a) A principal function of the Federal Reserve Banks under the law is to provide credit assistance to member banks, through advances and discounts, in order to accommodate commerce, industry, and agriculture. This function is administered in the light of the basic objective which underlies all Federal Reserve credit policy, i.e., the advancement of the public interest by contributing to the greatest extent possible to economic stability and growth.

(b) The Federal Reserve System promotes this objective largely by influencing the availability and cost of credit through action affecting the volume and cost of reserves available to the member banks. Through open market operations and through changes in reserve requirements of member banks, the Federal Reserve may release or absorb reserve funds in accordance with the credit and monetary needs of the economy as a whole. An individual member bank may also obtain reserves by borrowing from its Federal Reserve Bank at a discount rate which is raised or lowered from time to time to adjust to the credit and economic situation. The effects of borrowing from the Federal Reserve Banks by individual member banks are not localized, as such borrowing adds to the supply of reserves of the banking system as a whole. Therefore, use of the borrowing facility by member banks has an important bearing on the effectiveness of System credit policy.

(c) Access to the Federal Reserve discount facilities is granted as a privilege of membership in the Federal Reserve System in the light of the following general guiding principles.\*

(d) Federal Reserve credit is generally extended on a short-term basis to a member bank in order to enable it to adjust its asset position when necessary because of developments such as a sudden withdrawal of deposits or seasonal requirements for credit beyond those which can reasonably be met by use of the bank's own resources. Federal Reserve credit is also available for longer periods when necessary in order to assist member banks in meeting unusual situations, such as may result from national, regional, or local difficulties or from exceptional circumstances involving only particular member banks. Under ordinary conditions, the continuous use of Federal Reserve credit by a member bank over a considerable period of time is not regarded as appropriate.

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\* These principles arise out of statutory and regulatory requirements. See especially paragraph 8 of section 4 of the Federal Reserve Act set forth at p. 11 of the Appendix to this Regulation.

(e) In considering a request for credit accommodation, each Federal Reserve Bank gives due regard to the purpose of the credit and to its probable effects upon the maintenance of sound credit conditions, both as to the individual institution and the economy generally. It keeps informed of and takes into account the general character and amount of the loans and investments of the member bank. It considers whether the bank is borrowing principally for the purpose of obtaining a tax advantage or profiting from rate differentials and whether the bank is extending an undue amount of credit for the speculative carrying of or trading in securities, real estate, or commodities, or otherwise.

(f) Applications for Federal Reserve credit accommodation are considered by a Federal Reserve Bank in the light of its best judgment in conformity with the foregoing principles and with the provisions of the Federal Reserve Act and this part.

#### SECTION 201.1—INTRODUCTION

This part is based upon and issued pursuant to various provisions of the Federal Reserve Act. The part is applicable to the following forms of borrowing from a Federal Reserve Bank: (a) advances to member banks on their own notes secured (1) by direct obligations of the United States, by paper eligible for discount or purchase by Federal Reserve Banks, or by obligations of certain corporations owned by the United States, or (2) by other security which is satisfactory to the Federal Reserve Bank; (b) discounts for member banks of commercial, agricultural and industrial paper and bankers' acceptances; and (c) discounts for Federal Intermediate Credit banks.

#### SECTION 201.2—ADVANCES TO MEMBER BANKS

(a) **Advances on Government obligations.**—Any Federal Reserve Bank may make advances, under authority of section 13 of the Federal Reserve Act, to any of its member banks for periods not exceeding fifteen days<sup>1</sup> on the promissory note of such member bank secured (1) by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or (2) by the deposit or pledge of debentures or other such obligations of Federal Intermediate Credit banks having maturities of not exceeding six months from the date of the advance.<sup>2</sup>

<sup>1</sup> Under the last paragraph of section 13 of the Federal Reserve Act, a Federal Reserve Bank has authority to make advances for periods not exceeding ninety days to individuals, partnerships, and corporations (including member and nonmember banks) on their promissory notes secured by direct obligations of the United States. However, advances to member banks on the security of direct obligations of the United States are normally for short periods of not exceeding fifteen days; and it is not the practice to make advances to others than member banks except in unusual or exigent circumstances.

<sup>2</sup> Such advances may also be made on notes secured by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act.

(b) **Advances on eligible paper.**—(1) Any Federal Reserve Bank may make advances, under authority of section 13 of the Federal Reserve Act, to any of its member banks for periods not exceeding ninety days<sup>3</sup> on the promissory note of such member bank secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for discount by Federal Reserve Banks under the provisions of this part or for purchase by such banks under the provisions of the Federal Reserve Act.

(2) In the event notes which evidence loans made pursuant to a commodity loan program of the Commodity Credit Corporation and which comply with the maturity requirements of §201.3(a) have been deposited in a pool of notes operated by the Commodity Credit Corporation, the certificate of interest issued by the Commodity Credit Corporation which evidences the deposit of such notes may be accepted as security for an advance made to a member bank under this paragraph.

(c) **Advances on other security under section 10(b) of the Federal Reserve Act.**—Any Federal Reserve Bank may make advances, under authority of section 10(b) of the Federal Reserve Act, to any of its member banks upon the latter's promissory note secured to the satisfaction of such Federal Reserve Bank regardless of whether the collateral offered as security conforms to eligibility requirements under other provisions of this part. The rate on advances made under the provisions of this paragraph shall in no event be less than one-half of 1 per cent per annum higher than the highest rate applicable to discounts for member banks under the provisions of sections 13 and 13a of the Federal Reserve Act in effect at such Federal Reserve Bank. Such an advance must be evidenced by the promissory note of such member bank payable either (1) on a definite date not more than four months after the date of such advance, or (2) at the option of the holder on or before a definite date not more than four months after the date of such advance.

#### SECTION 201.3—DISCOUNT OF NOTES, DRAFTS AND BILLS FOR MEMBER BANKS<sup>4</sup>

(a) **Commercial, agricultural and industrial paper.**—Any Federal Reserve Bank may discount for any of its member banks, under authority of sections 13 and 13a of the Federal Reserve Act, any note, draft, or bill of exchange which meets the following requirements:

<sup>3</sup> However, borrowings by member banks are generally for short periods.

<sup>4</sup> Even though paper is not eligible for discount by a Federal Reserve Bank for a member bank under the provisions of this part, it may be used as security for an advance by a Federal Reserve Bank to a member bank under the terms and conditions of paragraph (c) of §201.2 if it constitutes security satisfactory to the Federal Reserve Bank.

(1) It must be a negotiable note, draft, or bill of exchange, bearing the endorsement of a member bank, which has been issued or drawn, or the proceeds of which have been used or are to be used, in producing, purchasing, carrying or marketing goods<sup>5</sup> in one or more of the steps of the process of production, manufacture, or distribution, or in meeting current operating expenses of a commercial, agricultural or industrial business, or for the purpose of carrying or trading in direct obligations of the United States (i.e., bonds, notes, Treasury bills or certificates of indebtedness of the United States);

(2) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings or machinery, or for any other fixed capital purpose;

(3) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for transactions of a purely speculative character or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities except direct obligations of the United States (i.e., bonds, notes, Treasury bills or certificates of indebtedness of the United States); and

(4) It must have a maturity at the time of discount of not exceeding ninety days, exclusive of days of grace, except that agricultural paper as defined in this section may have a maturity of not exceeding nine months, exclusive of days of grace; but this requirement is not applicable with respect to bills of exchange payable at sight or on demand of the kind described in paragraph (b) of this section.

**(b) Bills of exchange payable at sight or on demand.**—Any Federal Reserve Bank may discount for any of its member banks, under authority of section 13 of the Federal Reserve Act, negotiable bills of exchange payable at sight or on demand which (1) bear the endorsement of a member bank, (2) grow out of the domestic shipment or the exportation of nonperishable, readily marketable staples,<sup>6</sup> and (3) are secured by bills of lading or other shipping documents conveying or securing title to such staples. All such bills of exchange shall be forwarded promptly for collection, and demand for payment

<sup>5</sup> As used in this part the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including livestock.

<sup>6</sup> A readily marketable staple within the meaning of this part means an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.



shall be made promptly, unless the drawer instructs that they be held until arrival of such staples at their destination, in which event they must be presented for payment within a reasonable time after notice of such arrival has been received. In no event shall any such bill be held by or for the account of a Federal Reserve Bank for a period in excess of ninety days.

(c) **Bankers' acceptances.**—Any Federal Reserve Bank may discount for any of its member banks a banker's acceptance<sup>7</sup> which bears the endorsement of a member bank and (1) which grows out of transactions involving the importation or exportation of goods, the shipment of goods within the United States, or the storage of readily marketable staples,<sup>8</sup> as such transactions are more fully described in §203.1(a) (1), (2), and (3),<sup>9</sup> respectively, of this subchapter or (2) which has been drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange as provided in §203.2 of this subchapter: *Provided*, That any such acceptance shall have a maturity at the time of discount of not more than ninety days' sight, exclusive of days of grace, except that an acceptance drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with a maturity at the time of discount of not more than six months' sight, exclusive of days of grace:<sup>10</sup> *And provided further*, That acceptances for any one customer in excess of

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<sup>7</sup> A banker's acceptance within the meaning of this part is a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other money, accepted by a bank or trust company or a firm, person, company, or corporation engaged generally in the business of granting bankers' acceptance credits.

<sup>8</sup> In the case of an acceptance growing out of the storage of readily marketable staples, the bill must be secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer or issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn; and the acceptor must remain secured throughout the life of the acceptance. If the goods are withdrawn from storage before maturity of the acceptance or retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit; and, to this end, it should be required, when the original document is released, either that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or that a new document, similar to the original one, will be resubstituted within a specified time.

<sup>9</sup> The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal Reserve Bank.

<sup>10</sup> No acceptance discounted by a Federal Reserve Bank should have a maturity in excess of the usual or customary period of credit required to finance the underlying transaction or of the period reasonably necessary to finance such transaction; and no acceptance growing out of the storage of readily marketable staples should have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment, or distribution into the process of manufacture or consumption.

ten per cent of the capital and surplus of the accepting bank must remain actually secured throughout the life of the acceptance.<sup>11</sup>

(d) **Construction loans.**—In addition to paper of the kinds specified above, any Federal Reserve Bank may discount for any of its member banks, under authority of section 24 of the Federal Reserve Act, a negotiable note which (1) represents a loan made to finance the construction of a residential or a farm building whether or not secured by lien upon real estate, (2) is endorsed by such member bank, (3) is accompanied by a valid and binding agreement, entered into by a person<sup>12</sup> acceptable to the discounting Federal Reserve Bank, requiring such person to advance the full amount of the loan upon the completion of the construction of such residential or farm building, and (4) matures not more than six months from the date such loan was made and not more than ninety days from the date of such discount by such Federal Reserve Bank, exclusive of days of grace.

(e) **Agricultural paper.**—Agricultural paper, within the meaning of this part, is a negotiable note, draft, or bill of exchange issued or drawn, or the proceeds of which have been or are to be used, for agricultural purposes, including the production of agricultural products the marketing of agricultural products by the growers thereof, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of livestock.

(f) **Paper of cooperative marketing associations.**—Notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agricultural purpose within the meaning of the foregoing definition of “agricultural paper”, if the proceeds thereof have been or are to be used by such association in making advances to any members thereof for an agricultural purpose, in making payments to any members thereof on account of agricultural products delivered by such members to the association, or to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members. In addition, any other paper of

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<sup>11</sup> In the case of the acceptances of member banks this security must consist of shipping documents, warehouse receipts, or other such documents, or some other actual security growing out of the same transaction as the acceptance, such as documentary drafts, trade acceptances, terminal receipts, or trust receipts which have been issued under such circumstances, and which cover goods of such a character, as to insure at all times a continuance of an effective and lawful lien in favor of the accepting bank, other trust receipts not being considered such actual security if they permit the customer to have access to or control over the goods.

<sup>12</sup> Such person may be the member bank offering the note for discount or any other individual, partnership, association or corporation.

such associations which complies with the applicable requirements of this part may be discounted. Paper of cooperative marketing associations the proceeds of which have been or are to be used (1) to defray the expenses of organizing such associations, or (2) for the acquisition of warehouses, for the purchase or improvement of real estate, or for any other permanent or fixed investment of any kind, is not eligible for discount, even though such warehouses or other property is to be used exclusively in connection with the ordinary operations of the association.

(g) **Factors' paper.**—Notes, drafts, and bills of exchange of factors issued as such for the purpose of making advances exclusively to producers of staple agricultural products in their raw state are eligible for discount with maturities not in excess of ninety days, exclusive of days of grace.

(h) **Collateral securing discounted paper.**—Any note, draft, or bill of exchange eligible for discount is not rendered ineligible because it is secured by the pledge of goods or collateral of any nature, including paper ineligible for discount.

(i) **Determination of eligibility.**—(1) A Federal Reserve Bank shall take such steps as may be necessary to satisfy itself as to the eligibility of any paper offered for discount. Compliance of paper with the provisions of paragraph (a) (2) of this section may be evidenced by a statement which adequately reflects the borrower's financial worth and evidences a reasonable excess of quick assets over current liabilities, or such compliance may be evidenced in any other manner satisfactory to the Federal Reserve Bank.

(2) The requirement of this section that a note be negotiable shall not be applicable with respect to any note evidencing a loan which is made pursuant to a commodity loan program of the Commodity Credit Corporation and which is subject to a commitment to purchase by the Commodity Credit Corporation or with respect to any note evidencing a loan which is in whole or in part the subject of a guarantee or commitment made pursuant to section 301 of the Defense Production Act of 1950 as amended.

(j) **Limitations.**—(1) The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation is liable as maker, acceptor, endorser, drawer, or guarantor, discounted for any member bank shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national bank under the terms of section 5200 of the Revised Statutes of the United States, as amended.\*

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\* Section 5200 of the Revised Statutes of the United States is printed in the Appendix to this Regulation (page 17).

(2) The law forbids a Federal Reserve Bank to discount for any State member bank notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State member bank in an amount greater than that which could be borrowed lawfully from such State member bank were it a national bank.

SECTION 201.4—GENERAL REQUIREMENTS AS TO ADVANCES  
AND DISCOUNTS

(a) **Applications for advances or discounts.**—(1) Every application by a member bank for an advance to such bank or for the discount of paper must contain a certificate of such bank, in form to be prescribed by the Federal Reserve Bank, that the security offered for the advance or the paper offered for discount, as the case may be, has not been acquired from a nonmember bank (otherwise than in accordance with §201.5) or, if so acquired, that the applying member bank has received permission from the Board of Governors of the Federal Reserve System to obtain advances from the Federal Reserve Bank on security so acquired or to discount with the Federal Reserve Bank paper acquired from nonmember banks.

(2) Every such application shall also contain a notation by the member bank as to whether it has on file a statement which adequately reflects the financial worth of a party primarily liable on the paper offered as security for an advance or for discount or of the person from whom the member bank acquired such paper if such person is legally liable thereon.

(3) Every application of a State member bank for the discount of paper must contain a certificate or guaranty to the effect that the borrower is not liable and will not be permitted to become liable to such bank for borrowed money during the time his paper is under discount with the Federal Reserve Bank in an amount greater than that which could be borrowed lawfully from such State bank were it a national bank.

(b) **Financial statements.**—In order to determine whether security offered for an advance or paper offered for discount is eligible and acceptable, any Federal Reserve Bank may require that there be filed with it statements, or certified copies thereof, which adequately reflect the financial worth (1) of one or more parties to any obligation offered as security for an advance or to any note, draft, or bill of exchange offered for discount and (2) of any corporations or firms affiliated with or subsidiary to such party or parties. A Federal Reserve Bank may in any case require such other information as it deems necessary.

(c) **Other information.**—Each Federal Reserve Bank is required by law to keep itself informed of the general character and amount of

the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances or discounts, the Federal Reserve Bank is required to give consideration to such information. Each Federal Reserve Bank may require such information from its member banks as it may deem necessary in order to determine whether such undue use of bank credit is being made and whether the granting of any requested credit accommodation would be consistent with the general principles applicable to extensions of credit under this part.

(d) **Amount of collateral.**—In connection with any advance or discount under this part, a Federal Reserve Bank may require such collateral as it may deem advisable or necessary; but it is expected that the Federal Reserve Bank in determining the amount of collateral will give due regard to the public welfare and the general effects that its action may have on the position of the member bank, on its depositors, and on the community; and in general a Federal Reserve Bank should limit the amount of collateral it requires to the minimum consistent with safety.

#### SECTION 201.5—PAPER ACQUIRED FROM NONMEMBER BANKS

(a) **Prohibition upon acceptance of nonmember bank paper.**—Except with the permission of the Board of Governors of the Federal Reserve System, no Federal Reserve Bank shall accept as security for an advance or discount any assets acquired by a member bank from, or bearing the signature or endorsement of, a nonmember bank, except assets otherwise eligible which were purchased by the offering bank on the open market or otherwise acquired in good faith and not for the purpose of obtaining credit for a nonmember bank.

(b) **Applications for permission.**—An application for permission to use as security for advances assets acquired from nonmember banks or to discount paper acquired from nonmember banks shall be made by the member bank which desires to offer such assets as security or such paper for discount and shall state fully the facts which give rise to such application and the reasons why the applying member bank desires such permission. Such application shall be addressed to the Board of Governors of the Federal Reserve System but shall be submitted by the member bank to the Federal Reserve Bank of the district, which will forward it promptly to the Board of Governors of the Federal Reserve System with its recommendation.

(c) **Paper acquired from Federal Intermediate Credit banks.**—The Board of Governors of the Federal Reserve System hereby grants permission to Federal Reserve Banks to make advances to member banks upon the security of paper or assets bearing the signature or endorsement of, or acquired from, Federal Intermediate Credit banks or to discount for member banks paper bearing such a signature or endorsement or so acquired, if otherwise eligible under the law and this part.

SECTION 201.6—DISCOUNTS FOR FEDERAL INTERMEDIATE  
CREDIT BANKS

(a) **Kinds and maturity of paper.**—Any Federal Reserve Bank, under authority of section 13a of the Federal Reserve Act, may, with the permission of the Board of Governors, discount for any Federal Intermediate Credit bank (1) agricultural paper as defined in §201.3, or (2) notes payable to such Federal Intermediate Credit bank covering loans or advances made by it pursuant to the provisions of section 202(a) of Title II of the Federal Farm Loan Act, which are secured by notes, drafts, or bills of exchange eligible for discount by Federal Reserve Banks. Any paper discounted for a Federal Intermediate Credit bank must bear the endorsement of such bank and must have a maturity at the time of discount of not more than nine months, exclusive of days of grace.

(b) **Limitations.**—No Federal Reserve Bank shall discount for any Federal Intermediate Credit bank any paper which bears the endorsement of any nonmember State bank or trust company which is eligible for membership in the Federal Reserve System under the terms of section 9 of the Federal Reserve Act. In acting upon applications for the discount of paper for Federal Intermediate Credit banks, each Federal Reserve Bank shall give preference to the demands of its own member banks and shall have due regard to the probable future needs of its own member banks.

## APPENDIX

### STATUTORY PROVISIONS

Section 4 of the Federal Reserve Act reads in part as follows:

"Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Board of Governors of the Federal Reserve System, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Board of Governors of the Federal Reserve System may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements, and the accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Board of Governors of the Federal Reserve System any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Board of Governors of the Federal Reserve System, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time."

Section 9 of the Federal Reserve Act reads in part as follows:

*"Provided, however,* That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association. The Federal reserve bank, as a condition of the discount

of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank."

Section 10(b) of the Federal Reserve Act reads as follows:

"Sec. 10(b). Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

Section 13 of the Federal Reserve Act reads in part as follows:

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Federal Reserve System to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount, and the notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.\* Notes, drafts, and bills admitted to discount under the terms of this

\* Or Treasury bills or certificates of indebtedness. See act approved June 17, 1929 (46 Stat., 19), amending sec. 5 of Second Liberty Bond Act, approved Sept. 24, 1917 (40 Stat., 290).



paragraph must have a maturity at the time of discount of not more than 90 days, exclusive of grace.

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“Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, any Federal reserve bank may discount or purchase bills of exchange payable at sight or on demand which grow out of the domestic shipment or the exportation of nonperishable, readily marketable agricultural and other staples and are secured by bills of lading or other shipping documents conveying or securing title to such staples: *Provided*, That all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: *Provided further*, That no such bill shall in any event be held by or for the account of a Federal reserve bank for a period in excess of ninety days. In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the discount after payment of such bills to conform to the actual life thereof.

“The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation is liable as maker, acceptor, indorser, drawer, or guarantor, rediscounted for any member bank, shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national banking association under the terms of section 5200 of the Revised Statutes, as amended: *Provided, however*, That nothing in this paragraph shall be construed to change the character or class of paper now eligible for rediscount by Federal reserve banks.

“Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than 90 days' sight, exclusive of days of grace, and which are indorsed by at least one member bank: *Provided*, That such acceptances if drawn for an agricultural purpose and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with a maturity at the time of discount of not more than six months' sight exclusive of days of grace.

“Any member bank may accept drafts or bills of exchange

drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. \* \* \* \* \*

"Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13(a) of this Act, or by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act, or by the deposit or pledge of bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates to be established by such Federal reserve banks, such rates to be subject to the review and determination of the Board of Governors of the Federal Reserve System. If any member bank to which any such advance has been made shall, during the life or continuance of such advance, and despite an official warning of the reserve bank of the district or of the Board of Governors of the Federal Reserve System to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the reserve bank of the district under the provisions of this paragraph for such period as the Board of Governors of the Federal Reserve System shall determine: *Provided*, That no temporary carrying or clearance loans

made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph.

\* \* \* \* \*

“The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Board of Governors of the Federal Reserve System.

\* \* \* \* \*

“Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months’ sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Board of Governors of the Federal Reserve System by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal reserve banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Board of Governors of the Federal Reserve System: \* \* \* \*

“Subject to such limitations, restrictions and regulations as the Board of Governors of the Federal Reserve System may prescribe, any Federal reserve bank may make advances to any individual, partnership or corporation on the promissory notes of such individual, partnership or corporation secured by direct obligations of the United States. Such advances shall be made for periods not exceeding 90 days and shall bear interest at rates fixed from time to time by the Federal reserve bank, subject to the review and determination of the Board of Governors of the Federal Reserve System.”

Section 13a of the Federal Reserve Act as amended reads in part as follows:

“Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity,

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at the time of discount, exclusive of days of grace, not exceeding nine months, \* \* \* \*

“That any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, rediscount such notes, drafts, and bills for any Federal Intermediate Credit Bank, except that no Federal reserve bank shall rediscount for a Federal Intermediate Credit Bank any such note or obligation which bears the indorsement of a nonmember State bank or trust company which is eligible for membership in the Federal reserve system in accordance with section 9 of this Act. Any Federal reserve bank may also, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes payable to and bearing the indorsement of any Federal intermediate credit bank, covering loans or advances made by such bank pursuant to the provisions of section 202(a) of Title II of the Federal Farm Loan Act, as amended (U.S.C., title 12, ch. 8, sec. 1031), which have maturities at the time of discount of not more than nine months, exclusive of days of grace, and which are secured by notes, drafts, or bills of exchange eligible for rediscount by Federal reserve banks.

\* \* \* \*

“Notes, drafts, bills of exchange or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or are to be advanced by such association to any members thereof for an agricultural purpose, or have been or are to be used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or if such proceeds have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members: *Provided*, That the express enumeration in this paragraph of certain classes of paper of cooperative marketing associations as eligible for rediscount shall not be construed as rendering ineligible any other class of paper of such associations which is now eligible for rediscount.

“The Board of Governors of the Federal Reserve System may, by regulation, limit to a percentage of the assets of a Federal reserve bank the amount of notes, drafts, acceptances, or bills

having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, bills, or acceptances having a maturity in excess of six months, but not exceeding nine months, which may be rediscounted by such bank.”

Section 19 of the Federal Reserve Act reads in part as follows:

“\* \* \* No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Board of Governors of the Federal Reserve System.”

Section 24 of the Federal Reserve Act reads in part as follows:

“Loans made to finance the construction of industrial or commercial buildings and having maturities of not to exceed eighteen months where there is a valid and binding agreement entered into by a financially responsible lender to advance the full amount of the bank’s loan upon the completion of the buildings and loans made to finance the construction of residential or farm buildings and having maturities of not to exceed nine months, shall not be considered as loans secured by real estate within the meaning of this section but shall be classed as ordinary commercial loans whether or not secured by a mortgage or similar lien on the real estate upon which the building or buildings are being constructed: *Provided*, That no national banking association shall invest in, or be liable on, any such loans in an aggregate amount in excess of 100 per centum of its actually paid-in and unimpaired capital plus 100 per centum of its unimpaired surplus fund. Notes representing loans made under this section to finance the construction of residential or farm buildings and having maturities of not to exceed nine months shall be eligible for discount as commercial paper within the terms of the second paragraph of section 13 of this Act if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building entered into by an individual, partnership, association, or corporation acceptable to the discounting bank.”

Section 5200 of the Revised Statutes of the United States reads as follows:

“Sec. 5200. The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10

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per centum of its unimpaired surplus fund. The term 'obligations' shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest. Such limitation of 10 per centum shall be subject to the following exceptions:

"(1) Obligations in the form of drafts or bills of exchange drawn in good faith against actually existing values shall not be subject under this section to any limitation based upon such capital and surplus.

"(2) Obligations arising out of the discount of commercial or business paper actually owned by the person, copartnership, association, or corporation negotiating the same shall not be subject under this section to any limitation based upon such capital and surplus.

"(3) Obligations drawn in good faith against actually existing values and secured by goods or commodities in process of shipment shall not be subject under this section to any limitation based upon such capital and surplus.

"(4) Obligations as indorser or guarantor of notes, other than commercial or business paper excepted under (2) hereof, having a maturity of not more than six months, and owned by the person, corporation, association, or copartnership indorsing and negotiating the same, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(5) Obligations in the form of banker's acceptances of other banks of the kind described in section 13 of the Federal Reserve Act shall not be subject under this section to any limitation based upon such capital and surplus.

"(6) Obligations of any person, copartnership, association or corporation, in the form of notes or drafts secured by shipping documents, warehouse receipts or other such documents transferring or securing title covering readily marketable nonperishable staples when such property is fully covered by insurance, if it is customary to insure such staples, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus

when the market value of such staples securing such obligation is not at any time less than 115 per centum of the face amount of such obligation, and to an additional increase of limitation of 5 per centum of such capital and surplus in addition to such 25 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 120 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 30 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 125 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 35 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 130 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 40 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 135 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 45 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 140 per centum of the face amount of such additional obligation, but this exception shall not apply to obligations of any one person, copartnership, association or corporation arising from the same transactions and/or secured by the identical staples for more than ten months. Obligations of any person, copartnership, association, or corporation in the form of notes or drafts secured by shipping documents, warehouse receipts, or other such documents transferring or securing title covering refrigerated or frozen readily marketable staples when such property is fully covered by insurance, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus when the market value of such staples securing such obligation is not at any time less than 115 per centum of the face amount of such additional obligation, but this exception shall not apply to obligations of any one person, copartnership, association, or corporation arising from the same

transactions and/or secured by the identical staples for more than six months.

“(7) Obligations of any person, copartnership, association, or corporation in the form of notes or drafts secured by shipping documents or instruments transferring or securing title covering livestock or giving a lien on livestock when the market value of the livestock securing the obligation is not at any time less than 115 per centum of the face amount of the notes covered by such documents shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus. Obligations arising out of the discount by dealers in dairy cattle of paper given in payment for dairy cattle, which bear a full recourse endorsement or unconditional guarantee of the seller and are secured by the cattle being sold, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

“(8) Obligations of any person, copartnership, association, or corporation secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, shall (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

“(9) Obligations representing loans to any national banking association or to any banking institution organized under the laws of any State, or to any receiver, conservator, or superintendent of banks, or to any other agent, in charge of the business and property of any such association or banking institution, when such loans are approved by the Comptroller of the Currency, shall not be subject under this section to any limitation based upon such capital and surplus.

“(10) Obligations shall not be subject under this section to any limitation based upon such capital and surplus to the extent that such obligations are secured or covered by guaranties, or by commitments or agreements to take over or to purchase, made by any Federal Reserve bank or by the United States or any department, bureau, board, commission, or establishment of the United States, including any corporation wholly owned directly or indi-



rectly by the United States: *Provided*, That such guaranties agreements, or commitments are unconditional and must be performed by payment of cash or its equivalent within sixty days after demand. The Comptroller of the Currency is hereby authorized to define the terms herein used if and when he may deem it necessary.

“(11) Obligations of a local public agency (as defined in section 110 (h) of the Housing Act of 1949) or of a public housing agency (as defined in the United States Housing Act of 1937, as amended) which have a maturity of not more than eighteen months shall not be subject under this section to any limitation, if such obligations are secured by an agreement between the obligor agency and the Housing and Home Finance Administrator or the Public Housing Administration in which the agency agrees to borrow from the Administrator or Administration, and the Administrator or Administration agrees to lend to the agency, prior to the maturity of such obligations, monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity, which monies under the terms of said agreement are required to be used for that purpose.

“(12) Obligations insured by the Secretary of Agriculture pursuant to the Bankhead-Jones Farm Tenant Act, as amended, or the Act of August 28, 1937, as amended (relating to the conservation of water resources), shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

“(13) Obligations as endorser or guarantor of negotiable or nonnegotiable installment consumer paper which carries a full recourse endorsement or unconditional guarantee by the person, copartnership, association, or corporation transferring the same, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus: *Provided, however*, That if the bank's files or the knowledge of its officers of the financial condition of each maker of such obligations is reasonably adequate, and upon certification by an officer of the bank designated for that purpose by the board of directors of the bank, that the responsibility of each maker of such obligations has been evaluated and the bank is relying primarily upon each such maker for the payment of such obligations, the limitations of this section as to the obligations of each such maker shall be the sole applicable loan limitation: *Provided further*, That such certification shall be in writing and shall be retained as part of the records of such bank.”