

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 73-126
May 24, 1973

To All Member Banks
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System has revised its Regulation A governing the extension of credit by Federal Reserve Banks. The enclosed copy of Regulation A, dated April 19, 1973, should be inserted in the ring binder containing the regulations of the Board of Governors and the bulletins of this Bank in lieu of Regulation A dated April 16, 1970, and the amendment dated November 23, 1970. A revision of this Bank's Bulletin 2 is also enclosed which should be inserted in the ring binder in lieu of Bulletin 2 dated February 4, 1971, and Amendment No. 1 dated April 9, 1973.

The main feature of the new regulation is the establishment of a "seasonal borrowing privilege" which will enable Reserve Banks to assist many member banks in meeting significant seasonal variations in credit needs of their communities. This accommodation is restricted to member banks which do not have reasonably reliable direct access to national money markets. A member bank's seasonal need for funds is related to past patterns of movement in its deposits and loans which reflect a consistent seasonal dip in the amount of the bank's funds available to meet local credit needs. Reserve Bank credit will ordinarily be limited to the amount by which this seasonal need exceeds 5 percent of the member bank's average deposits in the preceding year. Subject to that qualification, the seasonal dip in net fund availability (defined generally as deposits minus loans) has to persist for a period of at least eight consecutive weeks and recur at about the same time each year. The credit granted will generally be extended, both as to amount and duration, so as to offset the bank's seasonal shrinkage in funds.

For illustrative purposes, seasonal credit needs have been calculated monthly for a bank that is assumed to have had average deposits of \$10 million in 1972. According to this example, which is given in the following table, the bank could

apply for seasonal credit for the four months, May through August.

<u>Month</u>	<u>Average Seasonal Pattern</u>		<u>Net Fund Availability</u>		<u>Potential Seasonal Credit Need*</u>
	<u>Deposits</u>	<u>Loans</u>	<u>Total (Deposits minus loans)</u>	<u>Difference From Peak Month</u>	
	(Millions of dollars)				
January	10.1	5.7	4.4	.1	-
February	9.9	5.4	4.5	-	-
March	9.9	5.5	4.4	.1	-
April	9.8	5.8	4.0	.5	-
May	9.7	6.1	3.6	.9	.4
June	9.8	6.1	3.7	.8	.3
July	9.6	6.2	3.4	1.1	.6
August	9.9	6.0	3.9	.6	.1
September	10.1	5.7	4.4	.1	-
October	10.2	5.7	4.5	-	-
November	10.2	5.8	4.4	.1	-
December	10.1	5.7	4.4	.1	-

*Difference in net fund availability between peak month and specified month, less 5 percent of average annual deposits.

Borrowing under the seasonal privilege must, by law, be secured by acceptable collateral as is true for any kind of borrowing from a Reserve Bank.

Arranging for Seasonal Credit - Any member bank that believes it could benefit from the seasonal credit provision should contact a loan officer at this Bank or appropriate branch well in advance of the period in which its seasonal need occurs. In processing each request, a bank's deposit and loan data for the most recent five years will be reviewed to assist in determining if a qualifying seasonal pattern exists. The nature of the seasonal need, any foreseeable changes in that need, and other matters that will help us to administer any credit granted will also be considered.

Additional data may be necessary in order to review properly the credit request, because our records do not reflect all the factors that determine a bank's need for funds in meeting the seasonal credit requirements of its community. For example, some banks may increase their holdings of money market instruments--such as Federal funds sold, commercial paper, and purchased loan participations--when they have excess funds available and then let

such holdings run off as their community seasonal needs for credit develop. Since these transactions are included in the reported figures for the bank's total loans, they tend to obscure the seasonal variations unless separately identified. Similarly, some banks make seasonal loans to local municipalities that are classified (for condition-reporting purposes) as investments rather than loans. Adjustments for these and similar factors should be made in calculating the seasonal need.

Other Matters - The Board of Governors has made a number of technical and clarifying changes in this revision of Regulation A. These changes principally broaden the eligibility of paper that can be accepted by Reserve Banks as collateral for advances at the discount rate.

Separate from the seasonal borrowing privilege, the Federal Reserve Banks will continue to provide credit to assist member banks in adjusting to meet temporary requirements for funds or to cushion more persistent outflows, pending an orderly adjustment of assets and liabilities.

Further, the Federal Reserve System reaffirms its readiness to extend credit to member banks in emergency or unusual circumstances and also to make credit available in emergency situations to other financial institutions, corporations, partnerships, and individuals on the security of Government obligations.

Should you have any questions on these changes, please contact Mr. Leon W. Cowan in Dallas (651-6225) or the appropriate officer at the branch of this Bank serving the territory in which your bank is located.

Yours very truly,

P. E. Coldwell

President

Enclosures (2)

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**EXTENSIONS OF CREDIT BY
FEDERAL RESERVE BANKS**

REGULATION A
(12 CFR 201)

As amended effective April 19, 1973



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

REGULATION A

(12 CFR 201)

As amended effective April 19, 1973

EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS

SECTION 201.1—AUTHORITY AND SCOPE

This Part is issued under section 13 and other provisions of the Federal Reserve Act and relates to extensions of credit by Federal Reserve Banks.

SECTION 201.2—GENERAL PRINCIPLES

(a) **Accommodation of credit needs of individual banks.** Extending credit to member banks to accommodate commerce, industry, and agriculture is a principal function of Reserve Banks. While open market operations and changes in member bank reserve requirements are important means of affecting the overall supply of bank reserves, the lending function of the Reserve Banks is an effective method of supplying reserves to meet the particular needs of individual member banks.

(b) **Effect on overall monetary and credit conditions.** The lending functions of the Federal Reserve System are conducted with due regard to the basic objectives of the Employment Act of 1946 and the maintenance of a sound and orderly financial system. These basic objectives are promoted by influencing the overall volume and cost of credit through actions affecting the volume and cost of reserves to member banks. Borrowing by individual member banks, at a rate of interest adjusted from time to time in accordance with general economic and money market conditions, has a direct impact on the reserve positions of the borrowing banks and thus on their ability to meet the needs of their customers. However, the effects of such borrowing do not remain localized but have an important bearing on overall monetary and credit conditions.

(c) **Short-term adjustment credit.** Federal Reserve credit is available on a short-term basis to a member bank, under such rules as may be prescribed, to such extent as may be appropriate to assist such bank in meeting temporary requirements for funds or to cushion more persistent outflows of funds pending an orderly adjustment of the bank's assets and liabilities.

(d) **Seasonal credit.** Federal Reserve credit is available for longer periods to assist a member bank that lacks reasonably reliable access to national money markets in meeting seasonal needs for funds arising from a combination of expected patterns of movement in its deposits and loans. Such credit will ordinarily be limited to the amount by which the member bank's seasonal needs exceed 5 per cent of its average total deposits in the preceding calendar year and will be available if (1) the member bank has arranged in advance for such credit for the full period, as far as possible, for which the credit is expected to be required, and (2) the Reserve Bank is satisfied that the member bank's qualifying need for funds is seasonal and will persist for at least eight consecutive weeks. In making such arrangements for seasonal credit, a Reserve Bank may agree to extend such credit for a period of up to 90 days,¹ subject to compliance with applicable requirements of law at the time such credit is extended. However, in the event that a member bank's seasonal needs should persist beyond such period, the Reserve Bank will normally be prepared to entertain a request by the member bank

¹ As provided in the law and in this Part, the maturity of advances to member banks is limited to 90 days, except as provided in §201.3(b) of this Part.

for further credit extensions under the seasonal credit arrangement.

(e) **Emergency credit for member banks.** Federal Reserve credit is available to assist member banks in unusual or emergency circumstances such as may result from national, regional, or local difficulties or from exceptional circumstances involving only a particular member bank.

(f) **Emergency credit for others.** Federal Reserve credit is available to individuals, partnerships, and corporations that are not member banks in emergency circumstances in accordance with §201.7 of this Part if, in the judgment of the Reserve Bank involved, credit is not practicably available from other sources and failure to obtain such credit would adversely affect the economy.

(g) **Credit for capital purposes.** Federal Reserve credit is not a substitute for capital and ordinarily is not available for extended periods.

(h) **Compliance with law and regulation.** All credit extended pursuant to this Part must comply with applicable requirements of law and of this Part. Among other things, the law requires each Reserve Bank (1) 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 (2) to give consideration to such information in determining whether to extend credit.

SECTION 201.3—ADVANCES TO MEMBER BANKS

(a) **Advances on obligations or eligible paper.** Reserve Banks may make advances to member banks for not more than 90 days if secured by obligations or other paper eligible under the Federal Reserve Act for discount or purchase by Reserve Banks.

(b) **Advances on other security.** A Reserve Bank may make advances to a member bank for not more than four months if secured to the satisfaction of the Reserve Bank, whether or not secured in conformity with §201.3(a), but the

rate on such advances shall be at least one-half of one per cent per annum higher than the rate applicable to advances made under §201.3(a).

SECTION 201.4—DISCOUNTS FOR MEMBER BANKS

If a Reserve Bank should conclude that a member bank would be better accommodated by the discount of paper than by an advance on the security thereof, it may discount for such member bank any paper endorsed by the member bank and meeting the following requirements:

(a) **Commercial or agricultural paper.** A note, draft, or bill of exchange issued or drawn on the proceeds of which have been or are to be used (1) in producing, purchasing, carrying, or marketing goods in the process of production, manufacture, or distribution, (2) for the purchase of services, (3) in meeting current operating expenses of a commercial, agricultural, or industrial business, or (4) for the purpose of carrying or trading in direct obligations of the United States; provided that (i) such paper has a period remaining to maturity of not more than 90 days, except that agricultural paper (including paper of cooperative marketing associations) may have a period remaining to maturity of not more than nine months and (ii) the proceeds of such paper have not been and are not to be used merely for the purpose of investment, speculation, or dealing in stocks, bonds, or other such securities, except direct obligations of the United States.

(b) **Bankers' acceptances.** A banker's acceptance (1) arising out of an importation or exportation or domestic shipment of goods or the storage of readily marketable staples or (2) drawn by a bank in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange; provided that such acceptance complies with applicable requirements of section 13 of the Federal Reserve Act.

(c) **Construction paper.** A note representing a loan made to finance construction of a residential or farm building, whether or not secured by a lien upon real estate, which matures not more than nine months from the date the loan was made and has a period remaining to maturity of not more than 90 days, if accompanied by an agreement

requiring some person acceptable to the Reserve Bank to advance the full amount of the loan upon completion of such construction.

SECTION 201.5—GENERAL REQUIREMENTS

(a) **Information.** A Reserve Bank shall require such information as it deems necessary to insure that paper tendered as collateral or for discount is acceptable and meets any pertinent eligibility requirements and that the credit granted is used consistently with this Part.

(b) **Amount of collateral.** A Reserve Bank shall require only such amount of collateral as it deems necessary or advisable.

(c) **Indirect credit for nonmember banks.** Except with the permission of the Board of Governors, no member bank shall act as the medium or agent of a nonmember bank (other than a Federal Intermediate Credit bank) in receiving credit from a Reserve Bank and, in the absence of such permission, a member bank applying for credit shall be deemed to represent and guarantee that it is not so acting.

(d) **Limitation as to one obligor.** Except as to credit granted under §201.3(b), a member bank applying for credit shall be deemed to certify or guarantee that as long as the credit is outstanding no obligor on paper tendered as collateral or for discount will be indebted to it in an amount exceeding the limitations in section 5200 of the Revised Statutes (12 U.S.C. §84), which for this

purpose shall be deemed to apply to State member as well as national banks.

SECTION 201.6—FEDERAL INTERMEDIATE CREDIT BANKS

A Reserve Bank may discount for any Federal Intermediate Credit bank (1) agricultural paper, or (2) notes payable to and bearing the endorsement of such Federal Intermediate Credit bank covering loans or advances made under subsections (a) and (b) of §2.3 of the Farm Credit Act of 1971 (12 U.S.C. §2074) which are secured by paper eligible for discount by Reserve Banks. Any paper so discounted shall not have a period remaining to maturity of more than nine months or bear the endorsement of a nonmember State bank.

SECTION 201.7—EMERGENCY CREDIT FOR OTHERS

In emergency circumstances a Reserve Bank may extend credit for periods of not more than 90 days to individuals, partnerships, and corporations (other than member banks) on the security of direct obligations of the United States or any obligations which are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, at such rate in excess of the rate in effect at the Reserve Bank for advances under §201.3(a) as its board of directors may establish subject to review and determination of the Board of Governors.

STATUTORY APPENDIX

SECTION 13 OF THE FEDERAL RESERVE ACT

Section 13 provides in part as follows:¹

* * * * *

2. Discount of commercial, agricultural, and industrial paper

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

[U. S. C., title 12, sec. 343. As used in this paragraph the phrase "bonds and notes of the Government of the United States" includes Treasury bills or certificates of indebtedness.]

* * * * *

¹ Paragraph numbers and captions have been added to facilitate reference.

4. Discount or purchase of sight drafts

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.

[U. S. C., title 12, sec. 344.]

5. Limitation on discount of paper of one borrower

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.

[U. S. C., title 12, sec. 345.]

6. Discount of acceptances

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.

[U. S. C., title 12, sec. 346.]

7. Acceptances by member banks

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. * * *

[U. S. C., title 12, sec. 372.]

8. Advances to member banks on promissory notes

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 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, or secured by such obligations as are eligible for purchase under section 14(b) 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.

[U. S. C., title 12, sec. 347.]

* * * * *

10. Regulation by Board of Governors of discounts, purchases and sales

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.

[Omitted from U.S. Code.]

* * * * *

12. Bank acceptances to create dollar exchange

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 draft 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: * * *

[Omitted from U.S. Code.]

13. Advances to individuals, partnerships, and corporations on direct obligations of United States

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 or by any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agencies 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.

[U. S. C., title 12, sec. 347c.]

SECTION 13a OF THE FEDERAL RESERVE ACT

Section 13a provides in part as follows:

1. Authority of Federal reserve banks to discount agricultural paper

Sec. 13a. 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, at the time of discount, exclusive of days of grace, not exceeding nine months, * * *

[U. S. C., title 12, sec. 348.]

2. Rediscounts for, and discount of notes payable to, Federal Intermediate Credit Banks

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.

[U. S. C., title 12, sec. 349.]

* * * * *

4. 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 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.

[U. S. C., title 12, sec. 351.]

5. Limitations

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.

[U. S. C., title 12, sec. 352.]

OTHER RELATED STATUTORY PROVISIONS

The eighth paragraph of section 4 of the Federal Reserve Act provides 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 re-

serve 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.

[U. S. C., title 12, sec. 301.]

The thirteenth paragraph of section 9 of the Federal Reserve Act provides 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.

[U. S. C., title 12, sec. 330.]

Section 10(b) of the Federal Reserve Act provides 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.

[U. S. C., title 12, sec. 347b.]

Section 19 (e) of the Federal Reserve Act provides in part as follows:

(e) * * * 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.

[U. S. C., title 12, secs. 463, 374.]

The third paragraph of section 24 of the Federal Reserve Act provides as follows:

Loans made to finance the construction of industrial or commercial buildings and having maturities of not to exceed sixty 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 sixty 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.

[U. S. C., title 12, sec. 371.]

Section 5200 of the Revised Statutes provides 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 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 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 indirectly 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 Secretary of Housing and Urban Development in which the agency agrees to borrow from the Secretary and the Secretary 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), or title V of the Housing Act of 1949, 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

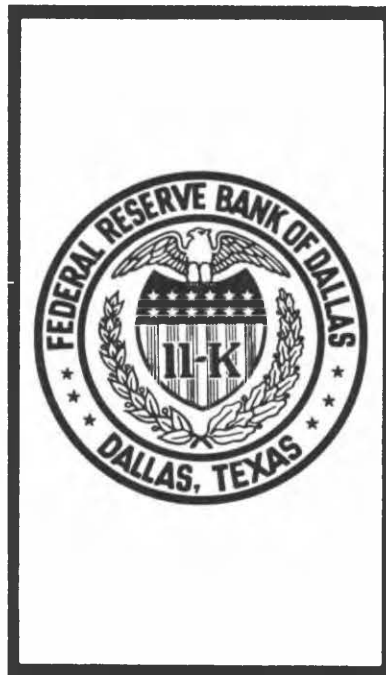
each maker of such obligations is reasonably adequate, and upon certification by an officer of the bank designated for that purpose by the board of directors of the bank, that the responsibility of each maker of such obligations has been evaluated and the bank is relying primarily upon each such maker for the payment of such obliga-

tions, 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.

[U. S. C., title 12, sec. 84.]

BULLETIN 2

Loans



FEDERAL RESERVE BANK OF DALLAS

SCOPE

This bulletin sets forth the general terms and conditions under which we may extend credit accommodations to member banks and the procedures to be followed in connection with extensions of such accommodations. Additional information, including statements concerning the policy by which the "discount window" is administered, may be found in Regulation A and the Federal Reserve Act (see references in section 2 of this bulletin). Our current discount rate and our current rates on section 10(b) advances and advances to individuals, partnerships and corporations under the last paragraph of section 13 of the Federal Reserve Act are found in Supplement A to this bulletin.

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Section 1, DEFINITIONS

1.00 Acceptable and acceptability

"Acceptable" and "acceptability" refer to the credit quality of paper and other collateral. Acceptability depends on the financial responsibility of makers, endorsers or guarantors, or on the security behind the obligation, or on all of these, as appropriate. We determine to our own satisfaction the acceptability of paper and certain other collateral.

1.05 Act

"Act" means the Federal Reserve Act.

1.10 Advance

"Advance" means a borrowing other than by discount under section 13 or 10(b) of the Act. Advances are generally made under the Continuing Lending Agreement Regarding Advances by Federal Reserve Bank of Dallas (Form LD-176).

1.15 Borrow and borrowing

"Borrow" and "borrowing" refer to a member bank receiving an extension of credit from this bank, whether by advance or discount.

1.20 Collateral

"Collateral" refers to obligations in the form of securities or paper which a borrowing bank pledges to secure an advance.

Reference: sections 5 and 6 of this bulletin.

1.25 Discount

"Discount" means an extension of credit in which a member bank discounts eligible paper.

1.30 Discount rate

"Discount rate" refers to the lowest rate charged for borrowing. It is fixed by our Board of Directors subject to review and determination of the Board of Governors of the Federal Reserve System.

Reference: Supplement A to this bulletin for the current discount rate.

1.35 Eligible and eligibility

"Eligible" and "eligibility" refer to obligations satisfying the applicable requirements of the Act

and Regulation A for use in connection with a section 13 advance or, in the case of paper, for discount.

1.40 Section 10(b) advance

"Section 10(b) advance" means an advance under section 10(b) of the Act at a rate not less than $\frac{1}{2}$ of 1% over the discount rate. Such an advance need not have eligible collateral, but the collateral must nevertheless be acceptable.

1.45 Section 13 advance

"Section 13 advance" means an advance at the discount rate under section 13 of the Act and secured by eligible collateral.

1.50 Officer authorized to borrow

"Officer authorized to borrow" means an officer of a member bank currently holding one of the offices which the member bank's borrowing resolution authorizes to borrow from this bank.

Reference: 4.05 of this bulletin.

1.55 Paper

"Paper" refers to notes and similar obligations of various obligors, usually customers of borrowing banks.

1.60 Reference to Bulletin 1

Several definitions, rules of construction, and other provisions applicable to this bulletin are found in our Bulletin 1, "General Provisions", and are incorporated herein by reference.

Section 2, REFERENCES

In addition to the specific references found throughout this bulletin, the following general references are important to an understanding of borrowing transactions with this bank:

Section 201.2 of Regulation A, containing general principles concerning the use of Federal Reserve credit.

Section 201.3 of Regulation A, covering advances to member banks.

Section 201.4 of Regulation A, covering discounts for member banks.

Section 201.5 of Regulation A, containing general requirements.

The following portions of the Act: section 4(8), section 9(13), section 10(b), section 12(2, 4, 5, 6, 7, 8, 10, 12 and 13), section 13a(1, 2, and 4), section 19(d), section 24(3).

RS 5200, containing the indebtedness limit for one borrower from national banks, a limit made applicable to borrowing from this bank by section 201.5(d) of Regulation A. (Note: for purposes of this statute, as applied to borrowing from us, undivided profits may be included as part of capital stock and surplus.)

Reference: Paragraph 2309 of Published Interpretations of the Board of Governors of the Federal Reserve System.

Section 3, GENERAL

3.00 Kinds of credit accommodations

Under provisions of the Act and subject to Regulation A, and in the light of the general principles set forth in that regulation, we are authorized to make credit available to member banks by the following means: section 13 advances (see section 5); section 10(b) advances (see section 6); and discounting eligible paper (see section 7).

3.05 Disbursement of funds and computation of interest

If a request for credit is received by us before 2:00 p.m. and the request is approved, the borrowing member bank will be given immediate credit in its reserve account unless the member bank requests that credit be given on a subsequent day. At the time of the advance, we credit the full amount of the advance to the reserve account of the borrowing bank. Interest on an advance will be payable to us at the time of repayment of the advance at the applicable rate indicated in Supplement A to this bulletin at the time the advance was made, except that, if the rate is changed while the advance is outstanding, the new rate shall apply for the period

after the date of such change. Interest will be computed on a basis of 365 days to the year. In computing interest, we include the date of borrowing and exclude the date of payment. The same procedure will apply to the discount of eligible paper, except no consideration is given to unpaid interest on discounted eligible paper.

3.10 Information required by law

We are required by law to keep informed of the general character and amount of the loans and investments of member banks to ascertain 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. In connection with any advance or discount, we reserve the right to require a current condition report of the borrowing member bank, a recent balance sheet and profit and loss statement of any obligor on paper offered as collateral for an advance or for discount, and such other reports and statements as we may deem desirable.

Reference: section 201:2(h) of Regulation A; 9.25, 9.30, and 9.35 of this bulletin.

3.15 Payment at maturity and prepayment

A borrowing plus accrued interest will be charged to the borrowing bank's reserve account at maturity. The borrowing bank, at its option, may prepay all or part of any borrowing, and in such cases, the amount paid plus accrued interest will be charged to the borrowing bank's reserve account.

3.20 Payments received on collateral by borrowing banks

If a member bank that has pledged or discounted paper with us, or has otherwise transferred collateral to us, receives any funds in payment for such paper or other collateral while it is so pledged, discounted, or transferred, the member bank must immediately advise us of all such payments. When there is an excess of collateral equal to or greater than the amount of

such payment, we will reduce the collateral value by the amount of the payment. In other cases, we will charge the borrowing bank's reserve account in the amount of the payment plus accrued interest thereon. Until we take either of the above actions, as appropriate, such payment will be considered as having been received in trust for us.

3.25 Renewal

A borrowing bank wishing to renew an advance should follow the same procedure necessary to obtain an original advance (see section 5 and section 6).

Section 4, PREREQUISITES FOR BORROWING

4.00 Borrowing resolution

A certified copy of a resolution adopted by a member bank's board of directors authorizing designated officers to execute agreements with us and to borrow on its behalf from us must be on file with us in order for any member bank to obtain credit accommodations. Our Form BD-1 Rev. should be used for this purpose. Borrowing resolutions filed with us remain in effect until cancelled or superseded by a new resolution.

4.05 Filing of signatures

An officer authorized to borrow must have his signature filed with this bank on a signature card, Form AC-150, before he is authorized to sign any documents in connection with borrowing.

4.10 Continuing lending agreement

In general, we will make advances to a member bank pursuant to a continuing lending agreement (our Form LD-176) to be executed by an officer authorized to borrow; and particular advances pursuant to such agreement will be evidenced by an advice of credit, transmitted to the member bank at the time of the particular advance, specifying the amount and maturity of the advance. However, we reserve the right in any case to require the execution by a member bank of a promissory note with respect to a

particular advance. Such a note must be signed by an officer authorized to borrow. The continuing lending agreement remains in effect until cancelled by either party by notice in writing to the other; however, cancellation does not affect loan transactions made previously.

Reference: 1.50 and 4.05 of this bulletin.

Section 5, SECTION 13 ADVANCES

5.00 Description

We may make advances to a member bank, pursuant to section 13 of the Act, for periods not exceeding 90 days,* on the security of obligations of, or fully guaranteed by, the United States or any agency of the United States (see Supplement B). Also, we may make advances to a member bank, pursuant to section 13 of the Act, for periods not exceeding 90 days,* on the security of any paper eligible for discount or for purchase by the Reserve Banks under provisions of the Act (eligible paper).

5.05 Borrowing request

In general, we do not require that a request for an advance be accompanied by a written application, and any such request may be made by letter, wire, or telephone by an officer authorized to borrow. However, we reserve the right to require the submission of a written application. Each request for an advance must specify the amount and maturity of the requested advance and the collateral offered as security, and in the event such collateral is not already held by us, the manner in which such collateral will be placed in our possession or under our control.

Reference: 4.05 of this bulletin.

5.10 Collateral security

Collateral offered as security for any advance, in addition to meeting requirements of the continuing lending agreement, must be acceptable

*It is expected, however, that advances normally will be for shorter periods unless made for seasonal or emergency reasons.

to us; must be endorsed or assigned by the member bank (except in the case of bearer paper); and must be in such form, or accompanied by such documents, that it may be readily transferred to us without further action by the member bank.

Reference: 1.00 and sections 8 and 9 of this bulletin.

5.15 Collateral must have adequate maturity

Collateral should not mature earlier than the date on which the borrowing matures (except collateral which is to be exchanged for similar collateral, with our advance agreement, before the maturity of the borrowing).

5.20 Release of collateral

Unless the borrowing bank requests otherwise, we release collateral immediately following payment of the related borrowing. All paper held as collateral will be returned to the borrowing bank and securities will be held by us in safekeeping subject to the order of the borrowing bank.

5.25 Advances due on Saturdays, Sundays or holidays

If an advance is agreed to fall due on one of our nonbanking days, the due date will be changed so that the advance will mature on our next banking day.

Reference: Supplement A to Bulletin 1, containing our nonbanking days.

Section 6, SECTION 10(b) ADVANCES

6.00 Description

We may make advances to a member bank, pursuant to section 10(b) of the Act, for periods not to exceed four months,* secured to our satisfaction, whether or not the collateral meets the requirements of 5.00 above. However, the rate on such advances must be at least one-half of 1 per cent higher than the highest rate applicable to discounts of or advances on eligible paper.

*It is expected, however, that advances normally will be for shorter periods unless made for seasonal or emergency reasons.

6:05 Collateral types

Among the types of collateral which may be acceptable for a section 10(b) advance are those listed below:

Paper which would be eligible except for its maturity, at the unpaid principal amount.

Paper secured by stock and complying with Regulation U, at the unpaid principal amount.

Obligations insured under Title I or Title II of the National Housing Act, at the unpaid principal amount.

Long-term general obligation bonds, revenue bonds, notes and warrants of any state or political subdivision thereof (other than those referred to in Supplement B).

In addition, when in our judgment circumstances make it advisable, we may accept as security for a section 10(b) advance any assets other than those set forth above which we find acceptable.

6.10 Procedure

Procedure for obtaining a section 10(b) advance is identical to that for other advances (see section 5). In addition, Form BD-29 should be submitted when the collateral is paper, secured or unsecured.

Section 7, DISCOUNTS

7.00 Description

We may discount customers' paper of a member bank pursuant to section 13 and 13(a) of the Act, that meets the "eligibility" requirements set forth in section 201.4 of Regulation A (eligible paper). Banks have generally found it more convenient to use eligible paper as collateral for a section 13 advance, rather than have it discounted.

7.05 Procedure

Any member bank desiring to discount paper with us, as indicated in 7.00 above, should consult us regarding the procedure to be followed.

Reference: section 9 for operating details with respect to eligible paper.

Section 8, SECURITIES AS COLLATERAL

8.00 Book-entry Treasury securities

In accordance with Section 306.117(a) of Subpart 0 of Treasury Department Circular No. 300 and the corresponding section of Agency regulations, this bank, as fiscal agent of the United States, maintains as "book-entry securities," transferable Treasury or Agency securities deposited as collateral for advances by this bank. Notwithstanding the application of the book-entry procedures, this bank in its individual capacity shall continue to maintain appropriate accounts evidencing such deposits. Transferable Treasury or Agency securities on deposit or hereafter deposited for such purpose will be converted into book-entry form and maintained in a book-entry collateral account in accordance with the provisions of our current Bulletin 14, "Book-Entry Securities," and in such event such securities will be handled pursuant to the terms and conditions of that circular, notwithstanding any inconsistent provisions herein.

8.05 Registered securities

Registered U.S. securities should be accompanied by the appropriate Treasury Department forms properly executed. In this connection, reference should be made to Treasury Department Form PD1004 (power of attorney), and Treasury Department Form PD1010 (authorizing resolution), and the instructions thereon. (The authorizing resolution on Form PD1010 must be in addition to the borrowing resolution referred to in paragraph 4.00 of this bulletin.)

8.10 Securities held elsewhere

Under certain conditions, securities offered as collateral may be held elsewhere than at this bank and should be handled in the following manner:

- (1) If held by an approved custodian bank, arrangements may be made for us to accept a custody receipt (see 8.15 for procedure).
- (2) If held in a correspondent bank in a Federal Reserve office city outside this district, they may be delivered to the Federal Reserve office in that city. The procedure for this will be supplied

on request and should be initiated early in the morning on the day the advance is needed.

(3) In all other cases, the securities should be delivered to us.

8.15 Securities held by an approved custodian bank

Supplement C to this bulletin lists custodian banks that have agreed to hold collateral for us. The borrowing bank should telephone and instruct the custodian bank to hold the securities subject to our order and for the account of the borrowing bank. The name of the individual contacted at the custodian bank should be furnished us in order that we may confirm that the securities are held as collateral. The borrowing bank should execute a Pledge Agreement Form (LD-168X), though when necessary the agreement may be obtained after the funds are advanced. When the securities are no longer pledged, we will instruct the custodian bank to release them and hold them in free safekeeping.

8.20 Simplified description in certain cases

When obligations pledged as collateral are regular bearer securities held in custody with us, or book-entry Treasury securities on our books, the borrowing bank need only advise us of the description of the securities and the number of the custody receipt or advice of deposit.

Section 9, PAPER

9.00 Approval required

Paper submitted for discount or to secure an advance should be listed on our Form BD-29 and must be processed and approved by our Discount Committee before credit can be granted. However, credit for approved paper will be granted as of the date the paper was received, unless we are otherwise instructed. Many banks find it convenient to submit paper for approval in advance, with instructions for the approved paper to be held in abeyance pending possible use for borrowing.

9.05 Bankers' acceptances

If a banker's acceptance as drawn does not clearly disclose the character of the underlying transaction on its face, evidence of eligibility

may consist of a stamp or certificate affixed by the acceptor in one of the following standard certificate forms:

DOMESTIC SHIPMENTS

At time of acceptance, this bill was accompanied by shipping documents evidencing the domestic shipment of (name of commodity) from (point of shipment) to (place of destination).

(Name of Acceptor)

IMPORT AND EXPORT TRANSACTIONS

The transaction which gives rise to this instrument is the (importation or exportation) of (name of commodity) from (point of shipment) to (place of destination).

(Name of Acceptor)

WAREHOUSE SECURED CREDIT

This bill was secured at the time of acceptance by independent warehouse, terminal, or other similar receipt conveying security title to (name of readily marketable staple) stored in (country where stored).

(Name of Acceptor)

9.10 Collection of paper

Paper which has been discounted or pledged as collateral will be furnished to the borrowing bank, in trust, ten days in advance of maturity to permit collection (see also 3.20 of this bulletin).

9.15 Demand paper

Eligible paper in the form of demand notes is acceptable for discount or to secure advances. However, demand paper cannot be accepted if offered more than a reasonable time after issue, if dishonored after demand for payment, or if otherwise overdue. Subject to the above restrictions, or unless limited by facts which establish an earlier payment date:

(1) Commercial or industrial demand paper may be accepted for periods up to 90 days from the date of pledge or discount.

(2) Agricultural demand paper may be discounted for periods up to 9 months, or accepted as collateral to a borrowing bank's note having a maturity not in excess of 90 days.

9.20 Financial statements

In connection with any advance or discount, financial statements, including complete schedules of important items, **must** be submitted with all commercial or industrial paper regardless of amount and **should** be submitted with agricultural paper in the amount of \$1,000 or over. Financial statements of endorsers or guarantors, if any, should also be submitted. We reserve the right to require a recent balance sheet and profit and loss statement of any obligor on paper offered as collateral for an advance or for discount, and such other reports and statements as we may deem desirable.

9.25 Financial statements — originals or copies

Financial statements should be originals or copies of originals held in the files of the borrowing bank. Financial statements become the property of this bank and are not returned; therefore, when a borrowing bank submits original financial statements, it should retain copies for its files. If copies (other than photocopies) are furnished, they should bear the following certification signed by an officer authorized to borrow:

[This is a true copy of the original signed]
[financial statement held in our files.]

9.30 Form of financial statements, forms available

Financial statements need not be in any special form but should consist of a complete and reasonably detailed balance sheet, profit and loss statement, and reconciliation of net worth. We may request additional information when deemed desirable for a better understanding of the financial condition and operation of the obligor. We have prepared three forms for optional use by member banks in this connection, and we supply them free of charge to member banks. They are:

Form C-5, financial statement for farmers and ranchers.

Form C-6, financial statement for commercial borrowers.

Form C-7, for comparative posting of five years of financial data on the borrower.

9.35 Endorsement

Paper may be endorsed by the use of an allonge so firmly affixed as to become a part of the instrument. Affixing the allonge by glue will meet this test; however, the use of pins, staples, paper clips, or various forms of tape will not comply.

9.40 Insurance

When applicable, insurance policies covering collateral should accompany paper and should have riders attached making loss payable to the member bank as its interest may appear.

9.45 Secured paper

The borrowing bank should see that copies of security agreements or similar instruments accompany secured paper. Evidence of compliance with the appropriate statutes covering the creation and perfection of security interests and other liens should also be provided.

9.50 Security forms available

Upon the request of a member bank, we will

supply without charge our security agreement (Form C-9) for banks in Uniform Commercial Code states, and our chattel mortgage (Form C-2) for banks in Louisiana.

9.55 Warehouse receipts

If paper is secured by warehouse receipts, the paper will not be acceptable as collateral unless the warehouse receipts meet the following requirements:

(1) They must be negotiable and endorsed whenever endorsement is necessary to pass title.

(2) The warehouseman issuing the receipt should be entirely independent of the customer pledging such receipt, and the warehouseman must not have any financial interest in the goods described in the receipt except to the extent of the usual lien for storage charges, etc.

Section 10, CONTRACT

Each member bank applying to us for an advance or discount shall be deemed by such action to have agreed to all of the terms and conditions set forth in this bulletin and in Regulation A.

Supplement B

ELIGIBILITY OF SECURITIES

B-1.00 Eligible U.S. agency securities

Direct obligations of, and obligations fully guaranteed as to principal and interest by, agencies of the United States Government, are eligible to secure advances at the discount rate. The following are the principal agency obligations now eligible as collateral for such advances:

1. Federal Intermediate Credit Bank debentures,
2. Federal Home Loan Bank notes and bonds,
3. Federal Land Bank bonds,
4. Bank for Cooperatives debentures,
5. Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation,
6. Obligations of or fully guaranteed by the Government National Mortgage Association,
7. Merchant Marine bonds,
8. Export-Import Bank notes, and guaranteed participation certificates*,
9. Farmers Home Administration insured notes*,
10. Notes fully guaranteed as to principal and interest by the Small Business Administration*,
11. Federal Housing Administration debentures,
12. District of Columbia Armory Board bonds,
13. Tennessee Valley Authority bonds and notes,
14. Bonds and notes of local urban renewal or public housing agencies fully supported as to principal and interest by the full faith and credit of the United States pursuant to section 302 of the Housing Act of 1961 (42 U.S.C. 1421(a)(c), and 1452(c)),
15. Commodity Credit Corporation certificates of interest in a price-support loan pool con-

forming with, and assigned in conformity with, agreements, instructions, and regulations of the Commodity Credit Corporation as to form and security,

16. Federal Home Loan Mortgage Corporation notes, debentures, and guaranteed certificates of participation,
17. United States Postal Service obligations,
18. Participation certificates evidencing undivided interests in purchase contracts entered into by the General Services Administration,
19. Obligations entered into by the Secretary of Health, Education, and Welfare under the Public Health Service Act, as amended by the Medical Facilities Construction and Modernization Amendments of 1970,
20. Obligations guaranteed by the Overseas Private Investment Corporation pursuant to the provisions of the Foreign Assistance Act of 1961, as amended.

NOTE: Nothing less than a *full guarantee* of principal and interest by a federal agency makes an obligation eligible. For example, mortgage loans insured by the Federal Housing Administration are not eligible since the insurance contract is not equivalent to an unconditional guarantee and does not fully cover interest payable on the loan. Obligations of international institutions, such as the Inter-American Development Bank and the International Bank for Reconstruction and Development are also not eligible, since such institutions are not agencies of the United States.

B-2.00 Eligible short-term municipal warrants and similar securities

Securities of the following types may be used as collateral for a section 13 advance at the discount rate:

Bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any state, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts.

*Form BD-29 is required with these obligations.

In determining the eligibility of such obligations as collateral, compliance with the requirements of Regulation E is not necessary; but this bank will satisfy itself that sufficient tax or other assured revenues earmarked for payment of such obligations will be available for that purpose at maturity, or within six months from the date of the advance if no maturity is stated. Payments due from federal, state, or other governmental units may, in our discretion, be regarded as "other assured revenues"; but neither

the proceeds of a prospective issue of securities nor future tolls, rents or similar collections for the voluntary use of government property for non-governmental purposes will normally be so regarded. Obligations with original maturity exceeding one year would not ordinarily be self-liquidating as contemplated by the statute, unless at the time of issue provision is made for a redemption or sinking fund that will be sufficient to pay such obligations at maturity.

Supplement C**APPROVED CUSTODIAN BANKS**

The following custodian banks have agreed to hold collateral for a borrowing bank in this district:

First National Bank of Amarillo, Amarillo, Texas

Continental Illinois National Bank and Trust Company, Chicago, Illinois

The First National Bank of Chicago, Chicago, Illinois

First National Bank in Dallas, Dallas, Texas

Mercantile National Bank at Dallas, Dallas, Texas

Republic National Bank of Dallas, Dallas, Texas

Texas Bank & Trust Company, Dallas, Texas

El Paso National Bank, El Paso, Texas

The State National Bank of El Paso, El Paso, Texas

The First National Bank of Fort Worth, Fort Worth, Texas

Fort Worth National Bank, Fort Worth, Texas

Bank of the Southwest, N. A., Houston, Texas
First City National Bank of Houston, Houston, Texas

Houston National Bank, Houston, Texas

Texas Commerce Bank, N. A., Houston, Texas

The Bank of New York, New York, New York
Bankers Trust Company, New York, New York

The Chase Manhattan Bank, N. A., New York, New York

Chemical Bank, New York, New York

First National City Bank, New York, New York

Franklin National Bank, New York, New York

Irving Trust Company, New York, New York

Manufacturers Hanover Trust Company, New York, New York

Morgan Guaranty Trust Company, New York, New York

Texas Commerce Bank, N. A., Houston, Texas
(New York Office)

Frost National Bank, San Antonio, Texas

National Bank of Commerce of San Antonio, San Antonio, Texas