

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 77-146
December 29, 1977

BULLETIN 2

TO ALL MEMBER BANKS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

Enclosed are revised pages 5, 6, 7, and C-1 of Bulletin 2, "Loans," for insertion in the ring binder containing the regulations of the Board of Governors and the bulletins of the Federal Reserve Bank of Dallas.

Section 9.00 of Bulletin 2 has been revised to allow the use of paper as collateral prior to final approval and to give this Bank the option of assigning a collateral value of less than 100 percent pending approval.

Section 9.10 has been modified to the extent that the specified number of days has been excluded in connection with paper returned in advance of maturity to permit collection.

Section 9.35 pertaining to customer paper endorsement has been revised to require that the paper must now be specially endorsed, by or on behalf of the holder, on the back of the instrument, not by use of an allonge.

Supplement C has been updated to include the current list of custodian banks that have agreed to hold collateral for borrowing banks in this District.

Member banks and others who maintain Regulations Binders should file the enclosed pages in their binders. The corresponding pages should be removed and destroyed.

If you have any questions concerning Bulletin 2, please contact Jesse D. Sanders, Assistant Vice President of this Bank, Ext. 6240, or the appropriate officer at the El Paso, Houston, or San Antonio Branch.

Additional copies of the revised pages will be furnished upon request to the Bank and Public Information Department of this Bank, Ext. 6267.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosures

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

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

City National Bank of Austin, Austin, 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

National Bank of Commerce, 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

Continental National Bank of Fort Worth, Fort Worth, 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

First National Bank in Little Rock, Little Rock, Arkansas

First National Bank at Lubbock, Lubbock, Texas

The First National Bank of Midland, Midland, Texas

Whitney National Bank, New Orleans, Louisiana

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

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)

San Angelo National Bank, San Angelo, Texas

First National Bank, St. Louis, Missouri

The Alamo National Bank of San Antonio, San Antonio, Texas

Bexar County National Bank, San Antonio, Texas

Frost National Bank, San Antonio, Texas

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

Wells Fargo Bank, N.A., San Francisco, California

First National Bank & Trust Company, Tulsa, Oklahoma

The First National Bank of Waco, Waco, Texas

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 must be accompanied by the appropriate Treasury Department forms properly executed. In this connection, reference must 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 of paper

Paper submitted to secure an advance should be listed on our form BD-29 and should be submitted in advance of actual need to allow time for processing and approval by our Discount Committee. Paper which has been so approved will be accepted at face value and held in abeyance pending a request for credit. If paper is not submitted in advance of actual need, we have the option of assigning a collateral value of less than 100 percent pending its approval. If such paper is ultimately approved by the Discount Committee, it can thereafter be utilized at 100 percent of its face value; but if it is not so approved, the assigned collateral value will be charged to the borrowing bank's reserve account unless acceptable substitute collateral is promptly provided.

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, in advance of maturity to permit collection (see also section 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, **should** 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 fol-

*Under certain conditions, the requirement for a financial statement may be waived.

lowing 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:

- (1) Form C-5, financial statement for farmers and ranchers.
- (2) Form C-6, financial statement for commercial borrowers.
- (3) Form C-7, for comparative posting of five years of financial data on the borrower.

9.35 Endorsement

Paper must be endorsed, by or on behalf of the holder, on the back of the instrument. The endorsement should read:

Pay to the order of Federal Reserve Bank of Dallas
(Name of borrowing bank and location)
(Manually signed by an officer authorized to borrow)

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 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.