



FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

September 1, 1993

DALLAS, TEXAS 75222

Notice 93-93

TO: The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

SUBJECT

**Request for Public Comment on
Proposed Amendments to Regulation A
(Extensions of Credit by Federal Reserve Banks)**

DETAILS

The Federal Reserve Board has issued for public comment proposed amendments to Regulation A (Extensions of Credit by Federal Reserve Banks) to implement section 142 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) regarding limits on Federal Reserve Bank credit.

In addition to making a number of technical and stylistic changes to update and clarify the regulation, the proposed amendments:

- Place limitations on Federal Reserve Bank credit to under-capitalized and critically undercapitalized insured depository institutions;
- Describe the loss calculations;
- Define undercapitalized and critically undercapitalized insured depository institutions;
- Define viable as it applies to an undercapitalized insured depository institution; and
- Provide for assessments on the Federal Reserve Banks for amounts that the Board may be required to pay the FDIC under section 142.

Under section 142, after December 19, 1993, the Board may be financially liable to the FDIC for certain losses incurred by the insurance funds administered by the FDIC. Section 142 amended section 10B of the Federal Reserve Act to discourage advances under that section to undercapitalized and critically undercapitalized insured depository institutions. Congress was concerned that such advances could lead to increased losses to the insurance funds.

The revised regulation would guide the Federal Reserve Banks in their dealings with undercapitalized and critically undercapitalized institutions and would also advise these institutions and their banking supervisors of potential limitations on the availability of Federal Reserve Bank credit.

The Board must receive comments by September 24, 1993. Comments should be addressed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551. All comments should refer to Docket No. R-0808.

ATTACHMENT

A copy of the Board's notice (Federal Reserve System Docket No. R-0808) is attached.

MORE INFORMATION

For more information, please contact the Discount and Credit Department of the Federal Reserve Bank of Dallas at (214) 922-5333. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.

FEDERAL RESERVE SYSTEM

12 CFR Part 201

[Regulation A; Docket No. R-0808]

Extensions of Credit by Federal Reserve Banks;
Proposed Revisions Regarding Limitations on
Extensions of Credit

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule.

SUMMARY: Section 142 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) amends section 10B of the Federal Reserve Act (FRA) in order to discourage advances, under that section, to undercapitalized and critically undercapitalized depository institutions. The Board proposes to implement this provision by revising its rules relating to the provision of Federal Reserve credit presently contained in Regulation A -- Extensions of Credit by Federal Reserve Banks (12 CFR part 201).

DATES: Comments must be received by September 24, 1993.

ADDRESSES: Comments, which should refer to Docket No. R-0808, may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551. They may also be delivered to the guard station in the Eccles Building Courtyard on 20th Street, NW. (between Constitution Avenue and C Street, NW.) between 8:45 a.m. and 5:15 p.m. weekdays. Except as provided in § 261.8 of the Board's Rules Regarding the Availability of Information (12 CFR 261.8), comments received will be available

for inspection and copying by members of the public in the Freedom of Information Office, room B-1122 of the Eccles Building between 9 a.m. and 5 p.m. weekdays.

FOR FURTHER INFORMATION CONTACT: Oliver Ireland, Associate General Counsel (202/452-3625), or Manley Williams-Stander, Legal Assistant (202/736-5565), Legal Division; or Gary Gillum, Senior Economist (202/452-3253), or Jim Clouse, Economist (202/452-3922), Division of Monetary Affairs, Board of Governors of the Federal Reserve System. For the hearing impaired only, contact Dorothea Thompson, Telecommunications Device for the Deaf (TDD), at (202/452-3544), Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551.

SUPPLEMENTARY INFORMATION: Section 142 of FDICIA (Title I of Pub. L. 102-242) amended section 10B of the FRA (12 U.S.C. 347b) to discourage advances under that section to undercapitalized and critically undercapitalized depository institutions by imposing liability on the Board for certain losses incurred by the funds administered by the Federal Deposit Insurance Corporation (FDIC). Specifically, the Board incurs limited liability for increased losses attributable to Federal Reserve Bank advances under section 10B of the FRA to an undercapitalized insured depository institution after that institution has borrowed for 60 days in any 120-day period. The 60 days may be extended for additional 60-day periods with a determination by the Chairman or the head of the appropriate Federal banking agency that the institution is viable. The Board also incurs limited liability for increased

losses attributable to section 10B advances to a critically undercapitalized insured depository institution after a five-day period beginning on the day the institution becomes critically undercapitalized. The Board's liability for these increased losses is limited to the lesser of the amount of the loss that the Board or a Federal Reserve Bank would have incurred on any increases in the amount of advances after the expiration of the applicable lending period if those advances had been unsecured, or the amount of interest received on the increased amount of the advances. The Board must report to Congress on any such liability it incurs.

In order to reflect the new provisions of section 10B, the proposed rule makes several substantive changes to Regulation A. It also incorporates a number of technical and stylistic changes to update and clarify the regulation. The principal substantive changes are:

- (1) Placing limitations on Federal Reserve Bank credit to undercapitalized and critically undercapitalized insured depository institutions;
- (2) Describing the loss calculations;
- (3) Defining undercapitalized and critically undercapitalized insured depository institutions;
- (4) Defining viable, as it applies to an undercapitalized insured depository institution; and
- (5) Providing for assessments on the Federal Reserve Banks for amounts that the Board may be required to pay the FDIC under section 142.

Limitations on Availability

Paragraphs (a) and (b) of § 201.4 of the proposed rule describe the limitations on the availability of Federal Reserve Bank credit to undercapitalized and critically undercapitalized insured depository institutions, respectively. These limitations apply not only to advances under section 10B of the FRA, which permits advances secured to the satisfaction of the Federal Reserve Bank and which is the only type of advance to which section 142 applies, but also to discount window credit under other sections of the FRA, such as sections 13(2) and 13(8), that are not expressly covered by section 142.

In the case of an undercapitalized insured depository institution, the proposed rule provides that a Federal Reserve Bank may make or have outstanding advances to or discounts for a depository institution that it knows to be an undercapitalized insured depository institution only:

- (1) If, in any 120-day period, the advances or discounts are not outstanding for more than 60 days during which the institution is an undercapitalized insured depository institution;
- (2) During the 60 days after the receipt of a written certification of viability from the Chairman of the Board of Governors or the head of the appropriate Federal banking agency; or
- (3) After consultation with the Board of Governors.

In the case of a critically undercapitalized insured depository institution, the proposed rule provides that a Federal Reserve Bank may make or have outstanding advances to or discounts for an institution that it knows to be a critically

undercapitalized insured depository institution only during the five-day period beginning on the date the institution became a critically undercapitalized insured depository institution or after consultation with the Board of Governors.

In each case, the consultation requirement generally formalizes existing practices under which Federal Reserve Bank staff discuss significant advances to troubled institutions with the Board or Board staff. It also facilitates Board involvement in discount window assistance that may exceed the section 142 limits and trigger Board liability and a reporting requirement. This requirement does not necessarily contemplate formal Board consideration of each extension of credit. In many cases, the requirement could be satisfied through a discussion of a Federal Reserve Bank's plans for dealing with a particular institution. In addition, the Board contemplates delegation of the authority to conduct such consultation to one or more members of the Board or Board staff in order to facilitate that consultation.

Even with a broad delegation, however, there could be situations in which it would be difficult or impossible for a Federal Reserve Bank to consult with the Board's delegate before extending credit that could exceed the section 142 limits. For example, a Federal Reserve Bank may not know that an institution has been critically undercapitalized for more than five days or may only learn this information at the time that the lending decision arises. The proposed rule, therefore, provides that in unusual circumstances when prior consultation with the Board is

not possible, the Federal Reserve Bank should consult with the Board as soon as possible after the extension of credit.

The Loss Calculations

The proposed rule introduces three new definitions, "liquidation loss," "increased loss," and "excess loss," which together function to implement the liability provisions of section 142. The term "liquidation loss" refers to the amount of loss that the FDIC would have incurred if it had liquidated the depository institution at a particular point in time. The term "increased loss" refers to the amount of the FDIC's loss which exceeds the liquidation loss due to certain advances which remain outstanding or to new advances which are made after time the FDIC would have liquidated the institution under the liquidation loss calculation. The term "excess loss" refers to the amount of the increased loss for which the Board is liable to the FDIC under section 142.

Capital Category

Under section 142, the limitations on access to Federal Reserve Bank credit depend in part on the capital category -- undercapitalized or critically undercapitalized -- of the borrowing depository institution. These categories are defined in section 142 through reference to Federal banking agency ratings and through reference to the Prompt Corrective Action standards in section 38 of the Federal Deposit Insurance Act (FDI Act). Section 38 of the FDI Act largely leaves the definition of the capital categories to the Federal banking

agencies which define the categories in terms of capital ratios and link changes in capital categories to specific events (including the date that a Call Report is required to be filed, the delivery of an exam report, or the provision of written notice by the appropriate Federal banking agency). The proposed Regulation A, therefore, adopts the Prompt Corrective Action rules establishing capital categories, including the provisions defining when the categories become effective. This approach avoids linking changes in capital categories solely to day-to-day balance sheet fluctuations that would be impossible to track, is relatively simple, and is consistent with the Prompt Corrective Action standards.

The proposed rule also provides that a Federal Reserve Bank, before extending credit, should ascertain if an institution is an undercapitalized insured depository institution or a critically undercapitalized insured depository institution. The Board is working with the other Federal banking agencies to ensure that Federal Reserve Banks have timely information concerning changes in institutions' capital categories.

Viable

Under section 142, a Federal Reserve Bank may extend discount window credit to an undercapitalized insured depository institution beyond 60 days in a 120-day period if the head of the appropriate Federal banking agency or the Chairman of the Board of Governors, after an examination, certifies in writing that the institution is viable. An institution is viable under section

142 if, giving due regard to the economic conditions and circumstances in the market in which the institution operates, the institution is not critically undercapitalized, is not expected to become critically undercapitalized, and is not expected to be placed in conservatorship or receivership. This definition not only permits broad discretion in taking economic factors into account, but also allows widely varying levels of expectation as to whether an institution will become critically undercapitalized or be placed into conservatorship or receivership.

In order to provide some guidance to the other federal banking agencies in making viability determinations, the proposed regulation states that although there are a variety of criteria for determining viability, the Board ordinarily would consider an undercapitalized institution to be viable if it had submitted a capital restoration plan as required under Prompt Corrective Action, if its primary federal regulator had accepted the plan, and if the institution is complying with the plan.

Assessment

Under section 142, the Board is liable to the FDIC for certain losses due to Federal Reserve Bank lending to an undercapitalized or critically undercapitalized insured depository institution beyond the time periods specified in that section. The proposed regulation provides that the Board will assess the Federal Reserve Banks for the amount of any such loss. While the proposed regulation does not specify an assessment

formula, the Board expects that any such loss would be assessed on all the Federal Reserve Banks on a pro rata basis rather than only on the Federal Reserve Bank making the advance.

Initial Regulatory Flexibility Act Analysis

Section 603 of the Regulatory Flexibility Act (Pub. L. No. 96-354, 5 U.S.C. § 601 et seq.) requires an agency publishing a proposed rule also to publish for comment an initial regulatory flexibility analysis containing:

- (1) A description of the reasons why the proposed rule is being considered;
- (2) A statement of the objectives of, and legal basis for, the proposed rule;
- (3) A description of the small entities to which the proposed rule would apply, and an estimate of their number, if feasible;
- (4) A description of projected reporting, recordkeeping, and compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirements and the type of professional skills required to prepare the reports or records;
- (5) An identification of Federal rules that may duplicate, overlap, or conflict with the proposed rule; and
- (6) A discussion of significant alternatives considered.

Items 1 and 2 are discussed in the Supplementary Information above.

The proposed rule would apply to all depository institutions insured by the FDIC, regardless of size, and many of these depository institutions would be considered to be "small entities."

The regulation does not impose any recordkeeping or reporting requirements. However, an institution, large or small, seeking an advance or discount may be requested to provide information in its possession or control concerning its capital category. Such information may include copies of Call Reports, exam results, or communications from its regulator. No additional professional skills will be required to prepare this information.

No Federal rules will duplicate, overlap, or conflict with the proposed rule.

The Board considered several alternative structures in developing the proposed rule. For example, the Board initially considered requiring prior Board authorization for any advance or discount which might cause liability to the Board. Because of the possibility of emergency situations arising late in the day and potential operational difficulties in acquiring prior Board authorization, the proposed rule requires consultation with the Board.

List of Subjects in 12 CFR Part 201

Banks, banking, Credit.

For reasons set forth in the preamble, the Board proposes to amend 12 CFR part 201 as follows:

PART 201 -- EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS

1. The authority citation for part 201 is revised to read as follows:

Authority: 12 U.S.C. 347a, 347b, 343 et seq., 347c, 348 et seq., 374, 374a, 461 and 347d.

2. Sections 201.1 through 201.6 are revised and §§ 201.7 through 201.9 are added to read as follows:

§ 201.1 Authority, scope and purpose.

(a) Authority and scope. This part is issued under the authority of sections 10A, 10B, 13, 13A, and 19 of the FRA (12 U.S.C. 347a, 347b, 343 et seq., 347c, 348 et seq., 374, 374a, and 461), other provisions of the FRA, and section 7(b) of the International Banking Act of 1978 (12 U.S.C. 347d) and relates to extensions of credit by Federal Reserve Banks to depository institutions and others.

(b) Purpose. This part establishes rules under which Federal Reserve Banks may extend credit to depository institutions and others. Extending credit to depository institutions to accommodate commerce, industry, and agriculture is a principal function of Federal Reserve Banks. While open market operations are the primary means of affecting the overall supply of reserves, the lending function of the Federal Reserve Banks is an effective method of supplying reserves to meet the particular credit needs of individual depository institutions. The lending functions of the Federal Reserve System are conducted with due regard to the basic objectives of monetary policy and the maintenance of a sound and orderly financial system.

§ 201.2 Definitions.

For purpose of this part, the following definitions shall apply:

(a) Appropriate Federal banking agency has the same meaning as in section 3 of the FDI Act (12 U.S.C. 1813(q)).

(b) Critically undercapitalized insured depository institution means any insured depository institution as defined in section 3 of the FDI Act (12 U.S.C. 1813(c)(2)) that is deemed to be critically undercapitalized under section 38 of the FDI Act (12 U.S.C. 1831o(b)(1)(E)) and the implementing regulations.

(c) (1) Depository institution means an institution that maintains reservable transaction accounts or nonpersonal time deposits and is:

(i) An insured bank as defined in section 3 of the FDI Act (12 U.S.C. 1813(h)) or a bank which is eligible to make application to become an insured bank under section 5 of such Act (12 U.S.C. 1815);

(ii) A mutual savings bank as defined in section 3 of the FDI Act (12 U.S.C. 1813(f)) or a bank which is eligible to make application to become an insured bank under section 5 of such Act (12 U.S.C. 1815);

(iii) A savings bank as defined in section 3 of the FDI Act (12 U.S.C. 1813(g)) or a bank which is eligible to make application to become an

insured bank under section 5 of such Act
(12 U.S.C. 1815);

(iv) An insured credit union as defined in
section 101 of the Federal Credit Union Act
(12 U.S.C. 1752(7)) or a credit union which is
eligible to make application to become an insured
credit union pursuant to section 201 of such Act
(12 U.S.C. 1781);

(v) A member as defined in section 2 of the
Federal Home Loan Bank Act (12 U.S.C. 1422(4)); or

(vi) A savings association as defined in
section 3 of the FDI Act (12 U.S.C. 1813(b)) which
is an insured depository institution as defined in
section 3 of the Act (12 U.S.C. 1813(c)(2)) or is
eligible to apply to become an insured depository
institution under section 5 of the Act (12 U.S.C.
1815(a)).

(2) The term depository institution does not
include a financial institution that is not required to
maintain reserves under Regulation D (part 204 of this
title) because it is organized solely to do business
with other financial institutions, is owned primarily
by the financial institutions with which it does
business, and does not do business with the general
public.

(d) Liquidation loss means the loss that any deposit insurance fund in the FDIC would have incurred if the FDIC had liquidated the institution:

(1) In the case of an undercapitalized insured depository institution, as of the end of the later of:

(i) Sixty days:

(A) In any 120-day period;

(B) During which the institution was an undercapitalized insured depository institution; and

(C) During which advances or discounts were outstanding to the depository institution from any Federal Reserve Bank; or

(ii) The 60-day period following the receipt by a Federal Reserve Bank of a written certification from the Chairman of the Board of Governors or the head of the appropriate Federal banking agency that the institution is viable.

(2) In the case of a critically undercapitalized insured depository institution, as of the end of the 5-day period beginning on the date the institution became a critically undercapitalized insured depository institution.

(e) Increased loss means the amount of loss to any deposit insurance fund in the FDIC that exceeds the liquidation loss due to:

(1) An advance under section 10B(1)(a) of the FRA that is outstanding to an undercapitalized or critically undercapitalized insured depository institution without payment having been demanded as of the end of the periods specified in paragraphs (d)(1) and (2) of this section; or

(2) An advance under section 10B(1)(a) of the Federal Reserve Act that is made after the end of such periods.

(f) Excess loss means the lesser of the increased loss or that portion of the increased loss equal to the lesser of:

(1) The loss the Board of Governors or any Federal Reserve Bank would have incurred on the amount by which advances under section 10B(1)(a) exceed the amount of advances outstanding at the end of the periods specified in paragraphs (d)(1) and (2) of this section if those increased advances had been unsecured; or

(2) The interest received on the amount by which the advances under section 10B(1)(a) exceed the amount of advances outstanding, if any, at the end of the periods specified in paragraphs (d)(1) and (2) of this section.

(g) Transaction account and nonpersonal time deposit have the meanings specified in Regulation D (part 204 of this title).

(h) Undercapitalized insured depository institution

means any insured depository institution as defined in section 3 of the FDI Act (12 U.S.C. 1813(c)(2)) that:

(1) Is not a critically undercapitalized insured depository institution; and

(2) (i) Is deemed to be undercapitalized under section 38 of the FDI Act (12 U.S.C.

1831o(b)(1)(C)) and the implementing regulations; or

(ii) Has a composite CAMEL rating of 5 under the Uniform Financial Institutions Rating System (or an equivalent rating by the appropriate Federal banking agency under a comparable rating system) as of the most recent examination of such institution.

(i) Viable, with respect to a depository institution, means that the Board of Governors or the appropriate Federal banking agency has determined, giving due regard to the economic conditions and circumstances in the market in which the institution operates, that the institution is not critically undercapitalized, is not expected to become critically undercapitalized, and is not expected to be placed in conservatorship or receivership. Although there are a number of criteria that may be used to determine viability, the Board of Governors believes that ordinarily an undercapitalized insured depository institution is viable if the appropriate Federal

banking agency has accepted a capital restoration plan for the depository institution under 12 U.S.C. 1831o(e)(2) and the depository institution is complying with that plan.

§ 201.3 Availability and terms.

(a) Adjustment credit. Federal Reserve Banks extend adjustment credit on a short-term basis to depository institutions to assist in meeting temporary requirements for funds or to cushion more persistent shortfalls of funds pending an orderly adjustment of a borrowing institution's assets and liabilities. Such credit generally is available only for appropriate purposes and after reasonable alternative sources of funds have been fully used, including credit from special industry lenders such as Federal Home Loan Banks, the National Credit Union Administration's Central Liquidity Facility, and corporate central credit unions. Adjustment credit is usually granted at the basic discount rate, but under certain circumstances a special rate or rates above the basic discount rate may be applied.

(b) Seasonal credit -- (1) Federal Reserve Banks extend seasonal credit for periods longer than those permitted under adjustment credit to assist smaller depository institutions in meeting regular needs for funds arising from a combination of expected patterns of movement in their deposits and loans. Seasonal credit is available only if similar assistance is not available from special industry lenders.

(2) Seasonal credit is ordinarily limited to the amount by which the depository institution's seasonal needs exceed certain percentages, established by the Board of Governors, of the institution's average total deposits in the preceding calendar year. Seasonal credit is available if the Federal Reserve Bank is satisfied that the institution's qualifying need for funds is seasonal and will persist for at least four weeks. The Board may establish special terms for seasonal credit when depository institutions are experiencing unusual seasonal demands for credit in a period of liquidity strain. To the extent practicable, a depository institution should arrange in advance for seasonal credit for the full period during which such credit is expected to be required. A special rate or rates at or above the basic discount rate may be applied to seasonal credit.

(c) Extended credit. Federal Reserve Banks extend credit to depository institutions under extended credit arrangements where similar assistance is not reasonably available from other sources, including special industry lenders. Such credit may be provided where there are exceptional circumstances or practices affecting a particular depository institution including sustained deposit drains, impaired access to money market funds, or sudden deterioration in loan repayment performance. Extended credit may also be provided to accommodate

the needs of depository institutions, including those with longer term asset portfolios, that may be experiencing difficulties adjusting to changing money market conditions over a longer period, particularly at times of deposit disintermediation. A special rate or rates above the basic discount rate may be applied to extended credit.

(d) Emergency credit for others. In unusual and exigent circumstances, a Federal Reserve Bank may, after consultation with the Board of Governors, advance credit to individuals, partnerships, and corporations that are not depository institutions if, in the judgment of the Federal Reserve Bank, credit is not available from other sources and failure to obtain such credit would adversely affect the economy. The rate applicable to such credit will be above the highest rate in effect for advances to depository institutions. Where the collateral used to secure such credit consists of assets other than obligations of, or fully guaranteed as to principal and interest by, the United States or an agency thereof, an affirmative vote of five or more members of the Board of Governors is required before credit may be extended.

§ 201.4 Limitations on availability and assessments.

(a) Advances to or discounts for undercapitalized insured depository institutions. A Federal Reserve Bank may make or have outstanding advances to or discounts for a depository institution that it knows to be an undercapitalized insured depository institution, only:

(1) If, in any 120-day period, advances or discounts from any Federal Reserve Bank to that depository institution are not outstanding for more than 60 days during which the institution is an undercapitalized insured depository institution; or

(2) During the 60 days after the receipt of a written certification from the Chairman of the Board of Governors or the head of the appropriate Federal banking agency that the borrowing depository institution is viable; or

(3) After consultation with the Board of Governors.^{1/}

(b) Advances to or discounts for critically undercapitalized insured depository institutions. A Federal Reserve Bank may make or have outstanding advances to or discounts for a depository institution that it knows to be a critically undercapitalized insured depository institution only:

(1) During the 5-day period beginning on the date the institution became a critically undercapitalized insured depository institution; or

(2) After consultation with the Board of Governors.^{1/}

^{1/} In unusual circumstances, when prior consultation with the Board is not possible, a Federal Reserve Bank should consult with the Board as soon as possible after extending credit that requires consultation under this paragraph.

(c) Assessments. The Board of Governors will assess the Federal Reserve Banks for any amount that it pays to the FDIC due to any excess loss.

(d) Information. Before extending credit a Federal Reserve Bank should ascertain if an institution is an undercapitalized insured depository institution or a critically undercapitalized insured depository institution.

§ 201.5 Advances and discounts.

(a) Federal Reserve Banks may lend to depository institutions either through advances secured by acceptable collateral or through the discount of certain types of paper. Credit extended by the Federal Reserve Banks generally takes the form of an advance.

(b) Federal Reserve Banks may make advances to any depository institution if secured to the satisfaction of the Federal Reserve Bank. Satisfactory collateral generally includes United States government and Federal agency securities, and, if of acceptable quality, mortgage notes covering 1-4 family residences, State and local government securities, and business, consumer and other customer notes.

(c) If a Federal Reserve Bank concludes that a depository institution will be better accommodated by the discount of paper than by an advance, it may discount any paper endorsed by the depository institution that meets the requirements specified in the FRA.

201.6 General requirements.

(a) Credit for capital purposes. Federal Reserve credit is not a substitute for capital.

(b) Compliance with law and regulation. All credit extended under this part shall comply with applicable requirements of law and of this part. Each Federal Reserve Bank:

(1) Shall keep itself informed of the general character and amount of the loans and investments of depository institutions with a view to ascertaining whether undue use is being made of depository institution 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) Shall consider such information in determining whether to extend credit.

(c) Information. A Federal Reserve Bank shall require any information it believes appropriate or desirable to insure that paper tendered as collateral for advances or for discount is acceptable and that the credit provided is used in a manner consistent with this part.

(d) Indirect credit for others. No depository institution shall act as the medium or agent of another depository institution in receiving Federal Reserve credit except with the permission of the Federal Reserve Bank extending credit.

§ 201.7 Branches and agencies.

(a) Except as may be otherwise provided, this part shall be applicable to United States branches and agencies of foreign banks subject to reserve requirements under Regulation D (12 CFR part 204) in the same manner and to the same extent as depository institutions.

§ 201.8 Federal Intermediate Credit Banks.

(a) A Federal Reserve Bank may discount for any Federal Intermediate Credit Bank agricultural paper or notes payable to and bearing the endorsement of the Federal Intermediate Credit Bank that cover loans or advances made under subsections (a) and (b) of section 2.3 of the Farm Credit Act of 1971 (12 U.S.C. 2074) and that are secured by paper eligible for discount by Federal Reserve Banks. Any paper so discounted shall have a period remaining to maturity at the time of discount of not more than nine months.

§ 201.9 No obligation to make advances or discounts.

(a) A Federal Reserve Bank shall have no obligation to make, increase, renew, or extend any advance or discount to any depository institution.

* * * * *

3. In §§ 201.108 and 201.109, footnotes 1, 1a, 2, and 3 are redesignated 2, 3, 4, and 5, respectively.

By order of the Board of Governors of the Federal Reserve System, August 20, 1993.

(signed) Jennifer J. Johnson

Jennifer J. Johnson
Associate Secretary of the Board