



FEDERAL RESERVE BANK
OF DALLAS

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PRESIDENT
AND CHIEF EXECUTIVE OFFICER

December 23, 1994

DALLAS, TEXAS
75265-5906

Notice 94-126

TO: The Chief Executive Officer of each bank
in the Eleventh Federal Reserve District

SUBJECT

Discount Rate Booklet

DETAILS

The Board of Governors of the Federal Reserve System has recently published a revised edition of its Discount Window booklet. The booklet is designed to promote understanding of the general policies governing the use of Federal Reserve credit.

The revised booklet incorporates many recent changes. For example, both statutory and policy changes resulting from the Federal Deposit Insurance Corporation Improvement Act of 1991 are included in the booklet.

Some institutions may be interested in the section of the booklet dedicated to the seasonal borrowing privilege, often referred to as seasonal credit. Seasonal credit is designed to enable qualifying institutions to meet liquidity shortfalls resulting from significant seasonal swings in their loans and deposits. Seasonal credit is subject to a market-driven interest rate that is reset every two weeks. For additional qualifying information on seasonal credit, please contact Nellie Lamb at one of the numbers listed below.

ENCLOSURE

A copy of the Discount Window booklet is enclosed.

For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

MORE INFORMATION

For more information or additional copies of the booklet, please contact John Phillips, Finlay Higgins, or other Discount Window personnel at (214) 922-5333 or (800) 333-4460.

For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.



The Federal Reserve

**DISCOUNT
WINDOW**



The Federal Reserve

DISCOUNT WINDOW

A Publication of the Federal Reserve System

1994

Table of Contents

<i>Preface</i>	4
I. Overview	5
Types of Credit	5
Adjustment Credit	5
Seasonal Credit	5
Extended Credit	5
Emergency Credit	6
Discount Rates	6
Eligibility to Borrow	7
Provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991	7
Arrangements for Borrowing	7
Pledging of Collateral	8
Posting of Discount Window Credits and Debits	9
Requirements for Reporting	9
II. Adjustment Credit	10
Basic Principles	10
Appropriateness of Borrowing	10
Other Reasonably Available Sources of Funds	10
Net Sales of Federal Funds	11
Affiliates of Bank Holding Companies	11
Branches and Agencies of Foreign Banks	11
Administration of Borrowings	12
III. Seasonal Credit	13
IV. Extended Credit	14
Appendix	
Regulation A, Extensions of Credit by Federal Reserve Banks	i
Relevant Provisions of the Federal Reserve Act	iv
Boundaries of Federal Reserve Districts and their Branch Territories	viii
List of Federal Reserve Banks and Branches	x



Preface

When the Federal Reserve System was established in 1913, lending reserve funds through the discount window was intended as the principal instrument of central banking operations. Although the window was long ago superseded by open market operations as the most important tool of monetary policy, it still has a complementary role in the day-to-day implementation of policy. The discount window functions as a safety valve in relieving pressures in reserve markets; in circumstances where extensions of credit can help relieve liquidity strains in the banking system, the window also helps to assure the basic stability of financial markets more generally.

The Federal Reserve's lending authority has been subject to statutory change from time to time. The most recent significant change occurred in 1991 with the passage of the FDIC Improvement Act (FDICIA). This revised edition of **The Federal Reserve Discount Window** provides information relating to the legislation and its effects on Federal Reserve policies governing extensions of credit to depository institutions that are in weak financial condition. The appendix to this booklet contains both the amended statutory language in the Federal Reserve Act (Section 10B) and the Federal Reserve's Regulation A, which has been recently revised to reflect the new statutory provisions.

I. OVERVIEW

The purpose of this booklet is to help depository institutions understand the general policies governing the use of Federal Reserve credit. It describes the programs under which Federal Reserve credit is made available and clarifies the purposes for which Federal Reserve credit is provided, the differences between such credit and credit supplied by market sources of funds or special industry lenders, and the requirement that depository institutions fully utilize reasonably available alternative sources of funds before turning to the discount window.

Discount window policies have evolved over time in response to the changing needs of the economy and financial system. Guidelines used by discount officers in implementing these policies are intentionally general, and they are administered with judgment and discretion so that the legitimate funding needs of individual institutions may be met. For institutions that do not meet minimum capital standards or that have received a composite CAMEL rating of 5 (or its equivalent), however, there are limits on extensions of Federal Reserve credit, as established in FDICIA, which may be exceeded only after consultation with the Federal Reserve Board of Governors.

Types of Credit

Adjustment Credit Adjustment credit is available on a short-term basis to help eligible depository institutions to meet temporary requirements for funds or to cushion briefly more persistent funds outflows while orderly balance sheet adjustments are being made. The Federal Reserve provides credit when funds are not reasonably available in the money markets or

from usual sources, including special industry lenders.

Seasonal Credit Seasonal credit is available to institutions that can demonstrate a clear pattern of recurring intra-yearly swings in funding needs. The Federal Reserve established the seasonal program in the early 1970s because a lack of access to funds in national money markets appeared to be limiting some small banks' ability to serve customers in their local communities. In the absence of funds from national markets, small institutions were tending to position themselves to accommodate customer needs at times of peak seasonal demands by accumulating oversized liquid asset positions during the rest of the year. Under the seasonal program, borrowers may obtain longer-term funds from the discount window during periods of seasonal need so they can carry fewer liquid assets during the rest of the year and can make more funds available for local lending.

Extended Credit The Federal Reserve may provide longer-term funds to institutions experiencing special difficulties arising from exceptional circumstances or practices involving individual institutions or from liquidity strains affecting a broad range of depository institutions. Extended credit is provided only after all other sources of funds, including special industry lenders, have been exhausted and other responsible supervisory agencies have been consulted. Also, the Federal Reserve must judge such lending to be in the public interest, and a plan for eliminating the liquidity problem of the borrowing institution must be in process.

Emergency Credit In unusual and exigent circumstances, the Board of Governors may authorize a Reserve Bank to provide emergency credit to individuals, partnerships, and corporations that are not depository institutions. Such lending may occur only when, in the judgment of the Reserve Bank, credit is not available from other sources and failure to provide credit would adversely affect the economy. When not secured by U. S. government or agency securities, loans of this type require the affirmative vote of at least five members of the Board of Governors of the Federal Reserve System. No emergency credit loans have been made since the mid-1930s.

Discount Rates

By statutory requirement, each Federal Reserve Bank must establish its discount rates at least every fourteen days, subject to review and determination by the Board of Governors of the Federal Reserve System. As described below, the applicable discount rate varies with the type of credit obtained and the circumstances surrounding the need for credit.

- **Adjustment credit** - The basic discount rate generally is charged on adjustment credit, although the Federal Reserve retains the option to impose a surcharge above that rate when conditions warrant. However, on adjustment credit loans of unusually large size that result from a major operating problem at the borrower's facility, the highest rate currently established for loans to depository institutions may be charged.
- **Seasonal credit** - The rate applied to seasonal credit is based on market interest rates and is never less than the discount rate applicable to adjustment credit. The seasonal

rate is reset on the first business day of each two-week reserve maintenance period to reflect movements in market interest rates over the previous maintenance period.

- **Extended credit** - The basic discount rate may be charged on extended credit for the first 30 days it is outstanding, although Reserve Banks may shorten this time period at their discretion. A flexible rate linked to market interest rates and at least 50 basis points above the basic discount rate may be charged on extended credit outstanding more than 30 days. The flexible rate is adjusted on the first business day of each two-week reserve maintenance period to reflect movements in market interest rates over the previous maintenance period.
- **Emergency credit** - the Federal Reserve does not currently establish a discount rate applicable to emergency credit, but Regulation A indicates that such a rate would be above the highest rate in effect for advances to depository institutions.

Changes in the basic discount rate are made infrequently and on a judgmental basis. In recent years, discount-rate adjustments typically have complemented open market operations designed to achieve broad policy goals, and in such cases they have tended to result in roughly similar changes in short-term market interest rates. Increases in the discount rate generally have reflected the Federal Reserve's concern over inflationary pressures, whereas decreases typically have reflected a concern over current or incipient weakness in economic activity. On occasion, however, the discount rate has been adjusted to align it more closely with short-term market

rates and to discourage excessive borrowing by depository institutions at the discount window.

Over the years, the discount rate generally has been lower than market interest rates such as the federal funds rate, but the gap has varied across a relatively wide range depending on the stance of monetary policy. When implementing a policy of monetary restraint, the Federal Reserve increases the pressure on the reserve positions of depository institutions by meeting less of their reserve needs through open market operations. To obtain the needed reserves, institutions respond initially by bidding more aggressively for funds in the marketplace--thereby driving up interest rates and widening the spread of the funds rate over the discount rate--but ultimately by turning to the discount window. In this way, the discount window serves as a needed safety valve for the banking system as well as for individual institutions in times of monetary restraint. An easing of monetary policy is associated with reductions in the pressure on reserve positions, declines in market interest rates, and less borrowing.

Eligibility to Borrow

Under the provisions of the Monetary Control Act (MCA) of 1980, all depository institutions that maintain reservable transaction accounts or nonpersonal time deposits (as defined in Regulation D) are entitled to the same borrowing privileges at the discount window as banks that are members of the Federal Reserve System. Eligibility to borrow is not dependent upon or related to the use of Federal Reserve priced services.

Under the terms of the MCA, bankers' banks, owned by the financial institutions with which they do business and not engaged in business with the public, are not required to maintain reserves under Regulation D and do not have ac-

cess to the discount window. However, the Board of Governors has determined that a bankers' bank may obtain access to the discount window if it voluntarily undertakes to maintain reserves.

Provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991

The lending provisions in FDICIA set limits on extensions of Federal Reserve credit to an FDIC insured depository institution that has fallen below minimum capital standards or has received a composite CAMEL rating of 5 (or its equivalent under a comparable rating system) from its federal banking regulator. Federal Reserve lending to a depository institution that is undercapitalized, significantly undercapitalized, or rated a composite CAMEL 5 (or its equivalent) is limited to 60 days in any 120-day period. An institution that is critically undercapitalized may receive discount window credit only during the five-day period that begins on the day it becomes critically undercapitalized.

FDICIA provides that lending beyond these limits may result in Federal Reserve liability to the FDIC. Accordingly, any depository institution subject to one of these limits is strongly encouraged to maintain liquidity sufficient to keep its needs for discount window credit within appropriate bounds. Where it appears that liquidity may prove inadequate, the institution should consult with its Federal Reserve Bank as far in advance as possible. Such consultations may also include discussions of collateral arrangements needed to ensure the orderly continuation of Federal Reserve payment services.

Arrangements for Borrowing

Any depository institution that expects to use the discount window should file the necessary corporate resolutions and lending agree-

ments with its Reserve Bank. Also, depository institutions that do not envision turning to the window in the ordinary course of events are encouraged to execute the necessary documents because a need for discount window credit may arise suddenly and unexpectedly.

Pledging of Collateral

All extensions of credit must be secured to the satisfaction of the Reserve Bank by collateral that is acceptable for that purpose. Assignments of collateral are made by the borrower under the terms and conditions of the Federal Reserve Bank's lending agreement. The Reserve Bank may require a perfected security interest on collateral pledged and in certain situations may require a public filing.

The following forms of collateral are most commonly used to secure discount window advances:

- Obligations of the United States Government
- Obligations of U.S. Government Agencies which have the full faith and credit of the U.S. Government
- Obligations of U.S. Government sponsored agencies
- Certain collateralized mortgage obligations
- Obligations of states or political subdivisions of the United States

- Corporate Bonds and money market instruments
- One-to-four family residential mortgage notes
- Commercial, industrial or agricultural notes

Reserve Bank staff can offer guidance on the process for pledging the collateral listed above as well as discuss other types of collateral that may be acceptable. Assets that have been accepted as collateral are assigned a value deemed appropriate by the Reserve Bank. The financial condition of an institution may be considered when assigning values.

Arrangements for pledging the collateral should be reviewed with the Reserve Bank. Securities issued by the U.S. Government and most securities issued by U.S. Government agencies are held in a computerized book-entry records system at the Federal Reserve. Physical securities or loans (customer notes) pledged as collateral generally must be held on the Reserve Bank's premises. Under certain conditions, securities offered as collateral may also be held by a custodian or depository through a third-party custody arrangement or by the borrower under a borrower-in-custody arrangement (used primarily for residential mortgages notes).

Institutions that have relationships with special industry lenders should be aware that collateral in which the special industry lender retains a superior legal interest is not eligible to secure discount window loans.


Posting of Discount Window Credits and Debits

Discount window loan credits and loan repayment debits are normally posted after the close of Fedwire; however, in the occasional circumstance where a depository institution does not have ready access to money markets and must make unanticipated payments earlier during the business day, the Reserve Bank may post the loan during the business day and post the repayment at the same time of day on the date it is repaid.

Further, on an exception basis at the Reserve Bank's initiative or at a depository institution's request, a loan may be repaid before twenty-four hours, or a multiple thereof, has expired. For example, the need for early repayment might be associated with a borrower's need

to obtain release of securities pledged as discount window collateral in time to permit same-day transfer.

Discount window loans and repayments posted intraday are subject to the review and approval of the Reserve Bank discount officer.

Requirements for Reporting

Certain information flows and administrative contacts by discount officers or their staff are necessary to remain informed about liquidity conditions and to ensure the appropriateness of borrowings and the continuing security interest in collateral pledged to secure loans. These are related only to the lending activity and do not reflect any supervisory authority or responsibility.

II. ADJUSTMENT CREDIT

The Federal Reserve provides adjustment credit only when other sources of funds are not reasonably available and when the need for credit is appropriate. Guidelines for administering adjustment credit are fairly general, in recognition of the wide range of circumstances that may give rise to borrowings by institutions that differ in size, in the nature of their businesses, and in the economic environments in which they operate. Discount officers exercise judgment and discretion in the administration of borrowings and respond flexibly to the particular needs of individual institutions.

Basic Principles

The basic principles governing the provision of adjustment credit include the following:

- Such credit will be granted at the discretion of the Reserve Bank.
- The borrower should have an appropriate reason for using the discount window.
- The borrower should fully utilize other reasonably available sources of funds before turning to the window for assistance.

Appropriateness of Borrowing

The appropriateness of adjustment credit relates generally to the circumstances confronting the borrowing institution. Appropriate reasons for seeking temporary Federal Reserve credit may include the following:

- To meet liquidity needs arising from an unexpected loss of deposits or nondeposit funds;
- To assist temporarily in meeting an unexpected surge of credit demands in an institution's normal servicing area;

- To avoid overnight overdrafts in an institution's reserve account caused by unexpected financial flows;
- To meet liquidity needs due to forces beyond the immediate control of an institution, such as an internal operating problem or an external development like a natural disaster.

Adjustment credit can accommodate a broad range of funding needs; however, there are various situations in which borrowing is not appropriate. These include:

- To take advantage of a differential between the discount rate and the rate of alternative sources of funds;
- To substitute Federal Reserve credit for short-term interest-sensitive funds normally acquired as a part of the institution's liability structure;
- To substitute Federal Reserve credit for capital;
- To support a planned increase in or continued holdings of investments or loans.

Other Reasonably Available Sources of Funds

Adjustment credit normally is provided only after other reasonably available sources of funds, including credit from correspondents, market sources, and special industry lenders, have been fully used. As part of appropriate planning for contingencies, all institutions are encouraged to establish credit lines to which they can gain access on a timely basis. Depository institutions that have access to liquidity advances from institutional lenders (such as the Federal Home Loan Bank System, credit union centrals, or the Central Liquidity Facility of the National Credit Union Administration) must seek assistance from these

sources before approaching the discount window. However, when an institution requires funds on short notice and is unable to gain timely access to its special industry lender, discount window credit may be provided. Such advances are made with the expectation that the borrower will repay when access to usual sources of funds is restored, usually the next business day.

Institutions that are liability managed and thus regularly rely on discretionary sources of funds (such as federal funds, repurchase agreements, Eurodollar borrowings and large negotiable CDs) may use the discount window only when these other funding sources are not reasonably available.

Because liability managed institutions have ready access to the national money markets, they seldom need to borrow for more than occasional overnight needs. When market sources of funds cannot be used effectively--perhaps because of internal operating problems (computer failure, miscalculation of reserve position, and so forth), an abnormally large need for purchased funds, or market indications of an overall shortage of funds--borrowings from the Federal Reserve are appropriate.

Net Sales of Federal Funds As a general rule, it is inappropriate for a depository institution to have net sales of federal funds while borrowing. The purpose of this restriction is to discourage the use of adjustment credit for purposes of rate arbitrage.

A depository institution demonstrating a pattern of net sales of federal funds while borrowing will be contacted by its discount officer. However, discount officers recognize that, on occasion, a depository institution may be unable to avoid being a net seller of federal funds while borrowing. For example, an institution's funding needs could change radically during the day

on which it borrows, or the institution could experience a significant reversal in funds flows within the reserve period in which the borrowing occurred.

Affiliates of Bank Holding Companies

Federal Reserve credit is made available to depository institutions that are affiliated with holding companies on much the same basis as for independent institutions. However, such credit is not available for funding the operations of the parent holding company or other affiliates without the prior permission of the Federal Reserve Bank.

In determining the appropriateness of borrowings by affiliated institutions, the Federal Reserve considers the availability of assistance from the holding company or from another affiliate, which may be an important funding resource not available to independent institutions. Affiliated institutions are monitored to ensure the appropriateness not only of their individual borrowings but also of the borrowings of their holding company system as a whole. To this end, lending to all such institutions is coordinated and monitored on a nationwide basis.

Branches and Agencies of Foreign Banks

Under the International Banking Act of 1978, U.S. branches of foreign banks and agencies of foreign banks that hold reserves are eligible to borrow at the discount window under the same general terms and conditions that apply to domestic depository institutions. The guidelines governing the access of branches and agencies to the discount window are generally the same as those that apply to domestic money center banks--which, in most cases, are their principal competitors and are functionally similar in their corporate and international lending activities and their ready ability to meet funding requirements

in national and international money markets. In some instances, however, individual U.S. branches and agencies may not operate in the same manner as major domestic banks and may have more limited sources of funds available. These situations will be dealt with flexibly by discount officers on a case-by-case basis.

As with depository institutions, U.S. branches and agencies of foreign banks normally are expected to draw on other reasonably available sources of funds before turning to the discount window. To the extent possible, such sources should include, besides additional U.S. sources, funds from foreign bank parents and foreign affiliates. In this regard, a U.S. branch or agency should not use funds borrowed at the discount window to fund the needs of its parent or its affiliates or to reduce its reliance on those offices in meeting its regular needs.

The International Banking Act provides that in making Federal Reserve credit available to U.S. branches and agencies, the Reserve Banks should give due regard to the reserve balances being maintained and their level relative to total assets. The discount window is administered in a flexible manner designed to meet the legitimate short-term funding needs of U.S. branches and agencies, but their overall needs for Federal Reserve credit, measured in frequency and amount, generally should be consistent with the overall borrowing needs of domestic money center banks; however, the funding needs of U.S. branches and agencies occasionally may be large relative to their U.S. deposits, and these will be handled flexibly.

In instances where foreign banks with more than one branch or agency operating in the United States have access to the discount win-

dow in more than one Reserve District, lending to all such offices is coordinated and monitored on a nationwide basis to ensure overall compliance with discount window policies.

Administration of Borrowings

To ensure that Federal Reserve credit is extended for appropriate purposes, discount officers review pertinent information relating to the borrower's liquidity needs and its reasons for use of the window. Data on selected assets and liabilities, including federal funds purchased and sold, are used in conjunction with other available data to monitor overall use of the window. Frequency and duration of borrowings are monitored and reviewed with the borrower when necessary to ensure that appropriate measures are being taken to reduce reliance on the window and to confirm that a more serious liquidity problem does not exist.

As part of their review of the borrowing records of individual institutions, discount officers rely in part on historical experience with common borrowing patterns in similar circumstances; however, the test of appropriateness of borrowing remains the primary criterion for credit at all times. As a general rule, smaller institutions are granted greater access to adjustment credit than are larger ones. This policy has been adopted in recognition of the fewer funding alternatives normally available to small institutions in adjusting their assets and liabilities.

To ensure compliance with the provisions of FDICIA, Reserve Banks routinely monitor the capital condition and other supervisory information, including CAMEL ratings, for borrowing institutions.

III. SEASONAL CREDIT

The Federal Reserve's seasonal borrowing privilege is designed to assist small and medium sized institutions meet significant seasonal swings in their loans and deposits during the year. Eligible institutions are usually located in agricultural or tourist areas.

Seasonal advances are available for periods of up to nine months, typically maturing and renewable on a periodic basis, and generally are restricted to institutions that can show a clear historical pattern of recurring intra-yearly need. To become eligible for such credit, an institution must establish a seasonal qualification with its Reserve Bank. In calculating this qualification, the institution's monthly net fund availability (deposits minus loans) is first projected for the next 12 months on the basis of actual experience over the previous several years. Its seasonal need is then computed for each month by subtracting the projected net fund availability for that month from the peak projected

net fund availability within the year.

The institution is expected to cover a part of its seasonal need from its own liquidity reserves. As a result, an amount based on the institution's deposits is deducted from the estimated seasonal need before the seasonal qualification is established. Net sales of Federal funds or purchases of liquid assets by an institution while using the seasonal credit may be permissible to a limited extent.

Institutions anticipating a possible need for seasonal credit are encouraged to make necessary arrangements with the Reserve Bank in advance. Prearrangement does not obligate the institution to borrow.

Institutions occasionally may experience unusual seasonal requirements for credit during periods of general liquidity strain, which are not identified adequately by the normal calculations. Discount officers have discretionary authority to accommodate such unusual needs.

IV. EXTENDED CREDIT

Discount officers exercise considerable discretion in establishing seasonal qualifications and extending seasonal credit when a borrower is in less than satisfactory financial condition. In particular, a critically undercapitalized institution is not eligible for seasonal credit and an undercapitalized or significantly undercapitalized institution will be eligible only after careful review of the institution's condition and prospects.

Extended credit may be provided when exceptional circumstances or practices are adversely affecting an individual institution. The conditions governing access to extended credit are as follows:

1. An applicant must make full use of other reasonably available sources of funds, including its access to special industry lenders, before turning to the Federal Reserve for assistance.
2. To ensure effective coordination of requests for special assistance, all such requests will be reviewed by the Federal Reserve after communication with other responsible supervisory agencies.
3. The conditions governing extended credit are generally concerned with an institution's ability to restore liquidity and remain viable.

4. In determining whether to extend credit to any institution, appropriate weight will be given to the financial condition of the institution. If the institution is undercapitalized or critically undercapitalized, as defined in Section 142 of FDICIA, the duration of extended credit loans is monitored to ensure compliance with the FDICIA lending limits.

When conditions warrant, extended credit also may be provided to accommodate the needs of institutions, including those with longer-term asset portfolios, that may be experiencing difficulties adjusting to changing money market conditions. In cases of serious liquidity strains affecting a broad range of depository institutions, Federal Reserve credit will be available to address the associated problems of individual institutions. Before extending credit, however, Reserve Banks will consult with other official agencies responsible for supervising the affected institution to determine, among other things, why funds are not available from other sources. Loan agreements may be drawn to establish the conditions under which credit will be provided and to ensure that the borrower adopts an appropriate plan to restore adequate liquidity and to repay the loan, within a reasonable period of time.

Regulation A

12 CFR 201

as amended effective June 2, 1994

Extensions of Credit by Federal Reserve Banks

Section

- 201.1 Authority, scope, and purpose
- 201.2 Definitions
- 201.3 Availability and terms
- 201.4 Limitations on availability and assessments
- 201.5 Advances and discounts
- 201.6 General requirements
- 201.7 Branches and agencies
- 201.8 Federal Intermediate Credit Banks
- 201.9 No obligation to make advances or discounts
- 201.51 Adjustment credit for depository institutions
- 201.52 Extended credit for depository institutions

SECTION 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 USC 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 USC 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.

*The words "this part," as used herein, mean Regulation A (Code of Federal Regulations, title 12, chapter II, part 201).

SECTION 201.2 Definitions

For purposes 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 USC 1813(q)).

(b) **Critically undercapitalized insured depository institution** means any insured depository institution as defined in section 3 of the FDI Act (12 USC 1813(c)(2)) that is deemed to be critically undercapitalized under section 38 of the FDI Act (12 USC 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 USC 1813(h)) or a bank which is eligible to make application to become an insured bank under section 5 of such act (12 USC 1815);

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

(iii) a savings bank as defined in section 3 of the FDI Act (12 USC 1813(g)) or a bank which is eligible to make application to become an insured bank under section 5 of such act (12 USC 1815);

(iv) an insured credit union as defined in section 101 of the Federal Credit Union Act (12 USC 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 USC 1781);

(v) a member as defined in section 2 of the Federal Home Loan Bank Act (12 USC 1422(4)); or

(vi) a savings association as defined in section 3 of the FDI Act (12 USC 1813(b)) which is an insured depository

institution as defined in section 3 of the act (12 USC 1813(c)(2)) or is eligible to apply to become an insured depository institution under section 5 of the act (12 USC 1815(a)).

(2) The term **depository institution** does not include a financial institution that is not required to maintain reserves under Regulation D (12 CFR 204) 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) 60 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-calendar-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 (12 CFR 204).

(h) **Undercapitalized insured depository institution** means any insured depository institution as defined in section 3 of the FDI Act (12 USC 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 USC 1831o(b)(1)(C)) and the implementing regulations; or

(ii) has received from its appropriate federal banking agency a composite CAMEL rating of 5 under the Uniform Financial Institutions Rating System (or an equivalent rating by its 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 USC 1831o(e)(2) and the depository institution is complying with that plan.

SECTION 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.** 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 expected patterns of movement in their deposits and loans. A special rate or rates at or above the basic discount rate may be applied to seasonal credit.

(1) Seasonal credit is only available if—

(i) the depository institution's seasonal needs exceed a threshold that the institution is expected to meet from other sources of liquidity (this threshold is calculated as certain percentages, established by the Board of Governors, of the institution's average total deposits in the preceding calendar year);

(ii) the Federal Reserve Bank is satisfied that the institution's qualifying need for funds is seasonal and will persist for at least four weeks; and

(iii) similar assistance is not available from special industry lenders.

(2) 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.

(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 lend-

ers. 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.

SECTION 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 calendar 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

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.

(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.²

² See footnote 1 in section 201.4(a)(3).

(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. Each Federal Reserve Bank shall be assessed that portion of the amount that the Board of Governors pays to the FDIC that is attributable to an extension of credit by that Federal Reserve Bank, up to 1 percent of its capital as reported at the beginning of the calendar year in which the assessment is made. The Board of Governors will assess all of the Federal Reserve Banks for the remainder of the amount it pays to the FDIC in the ratio that the capital of each Federal Reserve Bank bears to the total capital of all Federal Reserve Banks at the beginning of the calendar year in which the assessment is made, provided, however, that if any assessment exceeds 50 percent of the total capital and surplus of all Federal Reserve Banks, whether to distribute the excess over such 50 percent shall be made at the discretion of the Board of Governors.

(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.

SECTION 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 one-to-four 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.

SECTION 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 ensure 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.

SECTION 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 204) in the same manner and to the same extent as depository institutions.

SECTION 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 USC 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.

SECTION 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.

SECTION 201.51 Adjustment Credit for Depository Institutions

The rates for adjustment credit provided to depository institutions under section 201.3(a) of Regulation A may be provided by your local Federal Reserve Bank.

SECTION 201.52 Extended Credit for Depository Institutions

(a) **Seasonal credit.** The rate for seasonal credit extended to depository institutions under section 201.3(b) is a flexible rate that takes into account rates on market sources of funds, but in no case will the rate charged be less than the rate for adjustment credit as set out in section 201.51.

(b) **Extended credit.** For extended credit to depository institutions under section 201.3(c), for credit outstanding for more than 30 days, a flexible rate will be charged that takes into account rates on market sources of funds, but in no case will the rate charged be less than the rate for adjustment credit, as set out in section 201.51, plus one-half percentage point. At the discretion of the Federal Reserve Bank, this time period may be shortened, and the rate may be the discount rate applicable to adjustment credit.

Relevant Provisions from the Federal Reserve Act

SECTION 10A Emergency Advances to Groups of Member Banks*

1. Authority of Reserve Banks to Make Advances

Upon receiving the consent of not less than five members of the Board of Governors of the Federal Reserve System, any Federal Reserve Bank may make advances, in such amount as the board of directors of such Federal Reserve Bank may determine, to groups of five or more member banks within its district, a majority of them independently owned and controlled, upon their time or demand promissory notes, provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amounts of eligible and acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal Reserve Bank through rediscounts or advances other than as provided in section 10 (b). The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their number and in such amount as they may agree upon, but before so doing they shall require such recipient banks to deposit with a suitable trustee, representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon. Any Federal Reserve Bank making such advance shall charge interest or discount thereon at a rate not less than 1 per centum above its discount rate in effect at the time of making such advance. No such note upon which advances are made by a Federal Reserve Bank under this section shall be eligible under section 16 of this Act as collateral security for Federal Reserve notes.

[12 USC 347a. As added by act of Feb. 27, 1932 (47 Stat. 56).]

* Previously section 10(a), this section was redesignated by act of Dec. 19, 1991 (105 Stat. 2279).

2. Foreign Obligations as Security for Advances

No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

[12 USC 347a. As added by act of Feb. 27, 1932 (47 Stat. 56).]

3. Authority of Member Banks to Obligate Themselves

Member banks are authorized to obligate themselves in accordance with the provisions of this section.

[12 USC 347a. As added by act of Feb. 27, 1932 (47 Stat. 56).]

SECTION 10B Advances to Individual Member Banks*

(a) 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. Notwithstanding the foregoing, 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 notes having such maturities as the Board may prescribe and which are secured by mortgage loans covering a one-to-four family residence. Such advances shall bear interest at a rate equal to the lowest discount rate in effect at such Federal Reserve Bank on the date of such note.

[12 USC 347b(a). As added by act of Feb. 27, 1932 (47 Stat. 56); and amended by acts of Feb. 3, 1933 (47 Stat. 794); March 9, 1933 (48 Stat. 7); Aug. 23, 1935 (49 Stat. 705); Oct. 18, 1974 (88 Stat. 1368); March 31, 1980 (94 Stat. 140); and Dec. 19, 1991 (105 Stat. 2279).]

* Previously section 10(b), this section was redesignated by act of Dec. 19, 1991 (105 Stat. 2279).

Limitations on Advances

(b)(1) Except as provided in paragraph (2), no advances to any undercapitalized depository institution by any Federal Reserve Bank under this section may be outstanding for more than 60 days in any 120-day period.

(2) (A) If—

(i) the head of the appropriate Federal banking agency certifies in advance in writing to the Federal Reserve Bank that any depository institution is viable; or

(ii) the Board conducts an examination of any depository institution and the Chairman of the Board certifies in writing to the Federal Reserve Bank that the institution is viable, the limitation contained in paragraph (1) shall not apply during the 60-day period beginning on the date such certification is received.

(B) The 60-day period may be extended for additional 60-day periods upon receipt by the Federal Reserve Bank of additional written certifications under subparagraph (A) with respect to each such additional period.

(C) The authority of the head of any agency to issue a written certification of viability under this paragraph may not be delegated to any other person.

(D) Notwithstanding paragraph (1), an undercapitalized depository institution which does not have a certificate of viability in effect under this paragraph may have advances out-

standing for more than 60 days in any 120-day period if the Board elects to treat—

(i) such institution as critically undercapitalized under paragraph (3); and

(ii) any such advance as an advance described in subparagraph (A)(i) of paragraph (3).

(3) (A) Notwithstanding any other provision of this section, if—

(i) in the case of any critically undercapitalized depository institution—

(I) any advance under this section to such institution is outstanding without payment having been demanded as of the end of the 5-day period beginning on the date the institution becomes a critically undercapitalized depository institution; or

(II) any new advance is made to such institution under this section after the end of such period; and

(ii) after the end of that 5-day period, any deposit insurance fund in the Federal Deposit Insurance Corporation incurs a loss exceeding the loss that the Corporation would have incurred if it had liquidated that institution as of the end of that period,

the Board shall, subject to the limitations in subparagraph (B), be liable to the Federal Deposit Insurance Corporation for the excess loss, without regard to the terms of the advance or any collateral pledged to secure the advance.

(B) The liability of the Board under subparagraph (A) shall not exceed the lesser of the following:

(i) The amount of the loss the Board or any Federal Reserve Bank would have incurred on the increases in the amount of advances made after the 5-day period referred to in subparagraph (A) if those increased advances had been unsecured.

(ii) The interest received on the increases in the amount of advances made after the 5-day period referred to in subparagraph (A).

(C) The Board shall pay the Federal Deposit Insurance Corporation the amount of any liability of the Board under subparagraph (A).

(D) The Board shall report to the Congress on any excess loss liability it incurs

under subparagraph (A), as limited by subparagraph (B)(i), and the reasons therefore, not later than 6 months after incurring the liability.

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

(5) (A) The term "appropriate Federal banking agency" has the same meaning as in section 3 of the Federal Deposit Insurance Act.

(B) The term "critically undercapitalized" has the same meaning as in section 38 of the Federal Deposit Insurance Act.

(C) The term "depository institution" has the same meaning as in section 3 of the Federal Deposit Insurance Act.

(D) The term "undercapitalized depository institution" means any depository institution which—

(i) is undercapitalized, as defined in section 38 of the Federal Deposit Insurance Act; or

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

(E) A depository institution is "viable" if the Board or the appropriate Federal banking agency determines, giving due regard to the economic conditions and circumstances in the market in which the institution operates, that the institution—

(i) is not critically undercapitalized;

(ii) is not expected to become critically undercapitalized; and

(iii) is not expected to be placed in conservatorship or receivership.

[12 USC 347b(b). As added by act of Dec. 19, 1991 (105 Stat. 2279).]

SECTION 11 Powers of Board of Governors of the Federal Reserve System

The Board of Governors of the Federal Reserve System shall be authorized and empowered:

Rediscounts by One Reserve Bank for Another

(b) To permit, or, on the affirmative vote of at least five members of the Board of Governors of the Federal Reserve System to require Federal Reserve Banks to rediscount the discounted paper of other Federal Reserve Banks at rates of interest to be fixed by the Board of Governors of the Federal Reserve System.

[12 USC 248(b). Part of original Federal Reserve Act; not amended.]

SECTION 13 Powers of Federal Reserve Banks

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.

[12 USC 343. As amended by act of Sept. 7, 1916 (39 Stat. 752), which completely revised this section; and by act of March 4, 1923 (42 Stat. 1478). As used in this paragraph the phrase "bonds and notes of Government of the United States" includes Treasury bills or certificates of indebtedness. (See act of June 17, 1929, amending section 5 of Second Liberty Bond Act of Sept. 24, 1917). As to eligibility for discount under this paragraph of notes representing loans to finance building construction, see this act, section 24.)]

3. Discounts for Individuals, Partnerships, and Corporations

In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System, by the affirmative vote of not less than five members, may authorize any Federal Reserve Bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal Reserve Bank: *Provided*, That before discounting any such note, draft, or bill of exchange for an individual, partnership, or corporation the Federal Reserve Bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be

subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.

[12 USC 343. As added by act of July 21, 1932 (47 Stat. 715); and amended by acts of Aug. 23, 1935 (49 Stat. 714) and Dec. 19, 1991 (105 Stat. 2386).]

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.

[12 USC 344. As added by act of March 4, 1923 (42 Stat. 1479); and amended by act of May 29, 1928 (45 Stat. 975).]

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.

[12 USC 345. As reenacted without change by act of March 3, 1915 (38 Stat. 958); and amended by act of Sept. 7, 1916 (39 Stat. 752), which completely revised this section; and by act of April 12, 1930 (46 Stat. 162).]

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 docu-

ments 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.

[12 USC 346. As amended by act of March 3, 1915 (38 Stat. 958); by act of Sept. 7, 1916 (39 Stat. 752), which completely revised this section; and by act of March 4, 1923 (42 Stat. 1479).]

7. Banker's Acceptances

(A) Any member bank and any Federal or State branch or agency of a foreign bank subject to reserve requirements under section 7 of the International Banking Act of 1978 (hereinafter in this paragraph referred to as "institutions"), may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace—

(i) which grow out of transactions involving the importation or exportation of goods;

(ii) which grow out of transactions involving the domestic shipment of goods; or

(iii) which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.

(B) Except as provided in subparagraph (C), no institution shall accept such bills, or be obligated for a participation share in such bills, in an amount equal at any time in the aggregate to more than 150 per centum of its paid-up and unimpaired capital stock and surplus or, in the case of a United States branch or agency of a foreign bank, its dollar equivalent as determined by the Board under subparagraph (H).

(C) The Board, under such conditions as it may prescribe, may authorize, by regulation or order, any institution to accept such bills, or be obligated for a participation share in such bills, in an amount not exceeding at any time in the aggregate 200 per centum of its paid-up and unimpaired capital stock and surplus or, in the case of a United States branch or agency of a foreign bank, its dollar equivalent as determined by the Board under subparagraph (H).

(D) Notwithstanding subparagraphs (B) and (C), with respect to any institution, the aggregate acceptances, including obligations for a participation share in such acceptances, growing out of domestic transactions shall not exceed 50 per centum of the aggregate of all acceptances, including obligations for a participation share in such acceptances, authorized for such institution under this paragraph.

(E) No institution shall accept bills, or be obligated for a participation share in such bills, whether in a foreign or domestic transaction, for any one person, partnership, corporation, association or other

entity in an amount equal at any time in the aggregate to more than 10 per centum of its paid-up and unimpaired capital stock and surplus, or, in the case of a United States branch or agency of a foreign bank, its dollar equivalent as determined by the Board under subparagraph (H), unless the institution is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance.

(F) With respect to an institution which issues an acceptance, the limitations contained in this paragraph shall not apply to that portion of an acceptance which is issued by such institution and which is covered by a participation agreement sold to another institution.

(G) In order to carry out the purposes of this paragraph, the Board may define any of the terms used in this paragraph, and, with respect to institutions which do not have capital or capital stock, the Board shall define an equivalent measure to which the limitations contained in this paragraph shall apply.

(H) Any limitation or restriction in this paragraph based on paid-up and unimpaired capital stock and surplus of an institution shall be deemed to refer, with respect to a United States branch or agency of a foreign bank, to the dollar equivalent of the paid-up capital stock and surplus of the foreign bank, as determined by the Board, and if the foreign bank has more than one United States branch or agency, the business transacted by all such branches and agencies shall be aggregated in determining compliance with the limitation or restriction.

[Formerly 12 USC 372, as amended by act of March 3, 1915 (38 Stat. 958); by act of Sept. 7, 1916 (39 Stat. 752), which completely revised this section; and by acts of June 21, 1917 (40 Stat. 235) and Oct. 8, 1982 (96 Stat. 1239). Omitted from the U.S. Code.]

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 13a 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.

[12 USC 347. As added by act of Sept. 7, 1916 (39 Stat. 753), which completely revised this section; and amended by acts of May 19, 1932 (47 Stat. 160); May 12, 1933 (48 Stat. 46); June 16, 1933 (48 Stat. 180); Jan. 31, 1934 (48 Stat. 348); April 27, 1934 (48 Stat. 646); Oct. 4, 1961 (75 Stat. 773); and Sept. 21, 1968 (82 Stat. 856).]

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. As amended by act of Sept. 7, 1916 (39 Stat. 753), which completely revised this section.]

13. Advances to Individuals, Partnerships, and Corporations on 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 agency 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.

[12 USC 347c. As added by act of March 9, 1933 (48 Stat. 7) and amended by act of Sept. 21, 1968 (82 Stat. 856).]

14. *Receipt of Deposits from, Discount Paper Endorsed by, and Advances to Foreign Banks*

Subject to such restrictions, limitations, and regulations as may be imposed by the Board of Governors of the Federal Reserve System, each Federal Reserve Bank may receive deposits from, discount paper endorsed by, and make advances to any branch or agency of a foreign bank in the same manner and to the same extent that it may exercise such powers with respect to a member bank if such branch or agency is maintaining reserves with such Reserve Bank pursuant to section 7 of the International Banking Act of 1978. In exercising any such powers with respect to any such branch or agency, each Federal Reserve Bank shall give due regard to account balances being maintained by such branch or agency with such Reserve Bank and the proportion of the assets of such branch or agency being held as reserves under section 7 of the International Banking Act of 1978. For the purposes of this paragraph, the terms "branch", "agency", and "foreign bank" shall have the same meanings assigned to them in section 1 of the International Banking Act of 1978.

[12 USC 347d. As added by act of Sept. 17, 1978 (92 Stat. 621).]

SECTION 13A Discount of Agricultural Paper*

1. *Authority of Federal Reserve Banks to Discount Agricultural 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, 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, and such notes, drafts, and bills of exchange may be offered as collateral security for the issuance of Federal Reserve notes under the provisions of section 16 of this Act: *Provided*, That notes, drafts, and bills of exchange with maturities in excess of six months shall not be eligible as a basis for the issuance of Federal Reserve notes unless secured by warehouse receipts or other such negotiable documents conveying or securing title to readily marketable staple agricultural products or by chattel mortgage upon live stock which is being fattened for market.

[12 USC 348. As added by act of March 4, 1923 (42 Stat. 1479).]

* Previously section 13a, this section was redesignated by act of Dec. 19, 1991 (105 Stat. 2281).

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.

[12 USC 349. As added by act of March 4, 1923 (42 Stat. 1480); and amended by act of May 19, 1932 (47 Stat. 160).]

3. *Purchase and Sale of Debentures of Federal Intermediate Credit Banks*

Any Federal Reserve Bank may also buy and sell debentures and other such obligations issued by a Federal Intermediate Credit Bank or by a National Agricultural Credit Corporation, but only to the same extent as and subject to the same limitations as those upon which it may buy and sell bonds issued under Title I of the Federal Farm Loan Act.

[12 USC 350. As added by act of March 4, 1923 (42 Stat. 1480). The meaning of the term "debentures", as used above, was affected by act of Aug. 19, 1937 (50 Stat. 718), 12 USC 1040, which provides:

"The terms 'debenture' and 'debentures', when used in any Act of Congress, whenever enacted, except the Federal Farm Loan Act, relating to the purchase, sale, or use as security, of debentures issued by or for the benefit and account of any Federal Intermediate Credit Bank or Banks, shall be deemed to mean debentures issued by any such bank individually and consolidated debentures issued by such banks acting together."

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 associa-

tions 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.

[12 USC 351. As added by act of March 4, 1923 (42 Stat. 1480).]

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 acceptance having a maturity in excess of six months, but not exceeding nine months, which may be rediscounted by such bank.

[12 USC 352. As added by act of March 4, 1923 (42 Stat. 1480).]

SECTION 14 Open Market Operations

Every Federal Reserve Bank shall have power:

Rates of Discount

(d) To establish from time to time, subject to review and determination of the Board of Governors of the Federal Reserve System, rates of discount to be charged by the Federal Reserve Bank for each class of paper, which shall be fixed with a view of accommodating commerce and business; but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board;

[12 USC 357. As amended by acts of April 13, 1920 (41 Stat. 550); March 4, 1923 (42 Stat. 1480); Aug. 23, 1935 (49 Stat. 706).]

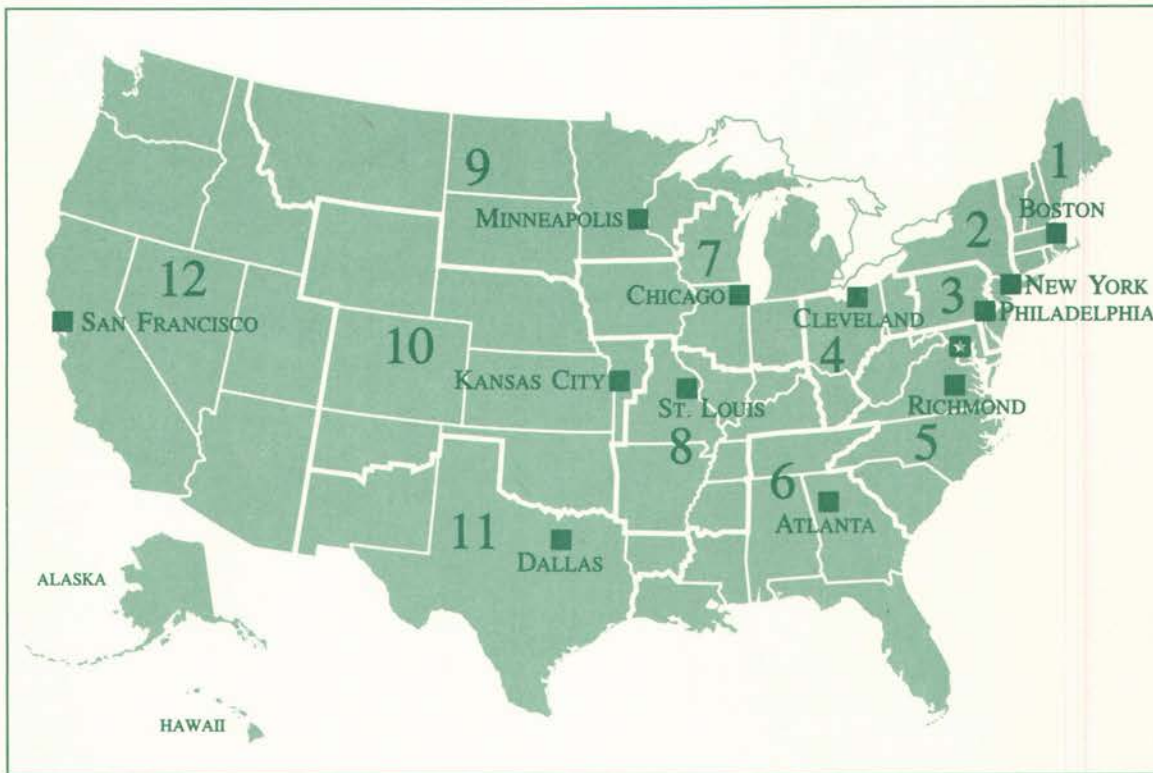
SECTION 19 Bank Reserves

Reserve Requirements

(7) *Discount and borrowing.* Any depository institution in which transaction accounts or nonpersonal time deposits are held shall be entitled to the same discount and borrowing privileges as member banks. In the administration of discount and borrowing privileges, the Board and the Federal Reserve Banks shall take into consideration the special needs of savings and other depository institutions for access to discount and borrowing facilities consistent with their long-term asset portfolios and the sensitivity of such institutions to trends in the national money markets.

[12 USC 461(c). As amended by acts of March 31, 1980 (94 Stat. 133, 138).]

Boundaries of the Federal Reserve Districts and their Branches



LEGEND

Both pages

- Federal Reserve Bank city
- ★ Board of Governors of the Federal Reserve System

Facing page

- Federal Reserve Branch city
- Branch boundary

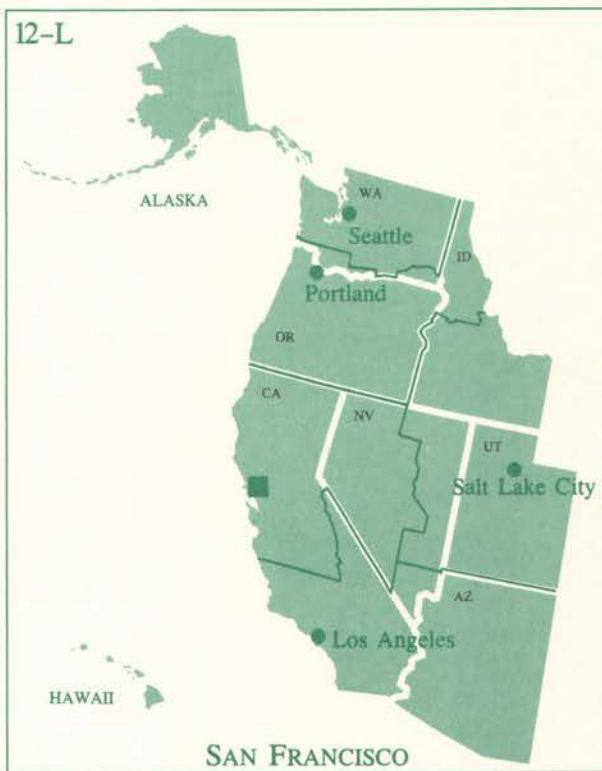
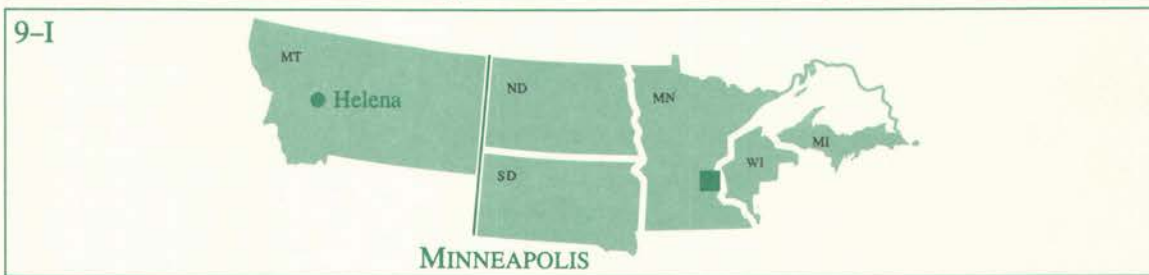
NOTE

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii.

The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto

Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Board of Governors revised the boundaries of the System most recently in August 1986.



List of Federal Reserve System Locations

Board of Governors of the Federal Reserve System, Washington, D.C. 20551

Federal Reserve Bank	Telephone Number	District	Address
BOSTON*	617-973-3000	1	600 Atlantic Avenue, Boston, Massachusetts 02106-2076
NEW YORK*	212-720-5000	2	33 Liberty Street (Federal Reserve P.O. Station), New York, New York 10045
Buffalo Branch	716-849-5000		160 Delaware Avenue, Buffalo, New York 14202 (P.O. Box 961, Buffalo, New York 14240-0961)
PHILADELPHIA	215-574-6000	3	Ten Independence Mall, Philadelphia, Pennsylvania 19106 (P.O. Box 66, Philadelphia, Pennsylvania 19105)
CLEVELAND*	216-579-2000	4	1455 East Sixth Street, Cleveland, Ohio 44114 (P.O. Box 6387, Cleveland, Ohio 44101)
Cincinnati Branch	513-721-4787		150 Fourth Street, Cincinnati, Ohio 45202-0999 (P.O. Box 999, Cincinnati, Ohio 45201-0999)
Pittsburgh Branch	412-261-7800		717 Grant Street, Pittsburgh, Pennsylvania 15219 (P.O. Box 867, Pittsburgh, Pennsylvania 15230)
RICHMOND*	804-697-8000	5	701 East Byrd Street, Richmond, Virginia 23219-7622 (P.O. Box 27622, Richmond, Virginia 23261-7622)
Baltimore Branch	410-576-3300		502 South Sharp Street, Baltimore, Maryland 21201 (P.O. Box 1378, Baltimore, Maryland 21203)
Charlotte Branch	704-358-2100		530 E. Trade Street, Charlotte, North Carolina 28202 (P.O. Box 30248, Charlotte, North Carolina 28230)
Culpeper Facility	703-825-1261		Mount Pony Road, State Route 658, (P.O. Drawer 20) Culpeper, Virginia 22701
ATLANTA	404-521-8500	6	104 Marietta Street, N.W., Atlanta, Georgia 30303 (P.O. Box 1731, Atlanta, Georgia 30301-1731)
Birmingham Branch	205-731-8500		1801 Fifth Avenue, North, Birmingham, Alabama 35203 (P.O. Box 830447, Birmingham, Alabama 35283-0447)
Jacksonville Branch	904-632-1000		800 West Water Street, Jacksonville, Florida 32204 (P.O. Box 929, Jacksonville, Florida 32231-0044)
Miami Branch	305-591-2065		9100 Northwest 36th Street, Miami, Florida 33178-2525 (P.O. Box 520847, Miami, Florida 33152-0847)
Nashville Branch	615-251-7100		301 Eighth Avenue, North, Nashville, Tennessee 37203-4407 (P.O. Box 4407, Nashville, Tennessee 37203-4407)
New Orleans	504-593-3200		525 St. Charles Avenue, New Orleans, Louisiana 70130 (P.O. Box 61630, New Orleans, Louisiana 70161-1630)
CHICAGO*	312-322-5322	7	230 South LaSalle Street, Chicago, Illinois 60604-1413 (P.O. Box 834, Chicago, Illinois 60690-0834)
Detroit Branch	313-961-6880		160 W. Fort Street, Detroit, Michigan 48226-3217 (P.O. Box 1059, Detroit, Michigan 48231)
ST. LOUIS	314-444-8444	8	411 Locust Street, St. Louis, Missouri 63102 (P.O. Box 442, St. Louis, Missouri 63166)
Little Rock Branch	501-372-5451		325 West Capitol Avenue, Little Rock, Arkansas 72201 (P.O. Box 1261, Little Rock, Arkansas 72203)
Louisville Branch	502-568-9200		410 South Fifth Street, Louisville, Kentucky 40202 (P.O. Box 32710, Louisville, Kentucky 40232)
Memphis Branch	901-523-7171		200 North Main Street, Memphis, Tennessee 38103 (P.O. Box 407, Memphis, Tennessee 38101)
MINNEAPOLIS	612-340-2345	9	250 Marquette Avenue, Minneapolis, Minnesota 55401-2171 (P.O. Box 291, Minneapolis, Minnesota 55480-0291)
Helena Branch	406-447-3800		100 Neill Avenue, Helena, Montana 59601
KANSAS CITY	816-881-2000	10	925 Grand Boulevard, Kansas City, Missouri 64198
Denver Branch	303-572-2300		1020 16th Street, Denver, Colorado 80202 (Terminal Annex-P.O. Box 5228, Denver, Colorado 80217-5228)
Oklahoma City Branch	405-270-8400		226 Dean A. McGee Avenue, (P.O. Box 25129) Oklahoma City, Oklahoma 73125
Omaha Branch	402-221-5500		2201 Farnam Street, Omaha, Nebraska 68102 (P.O. Box 3958, Omaha, Nebraska 68103)
DALLAS	214-922-6000	11	2200 North Pearl Street, Dallas, Texas 75201-2272 (P.O. Box 655906, Station K, Dallas, Texas 75265-5906)
El Paso Branch	915-544-4730		301 East Main Street, El Paso, Texas 79901-1326 (P.O. Box 100, El Paso, Texas 79999-0100)
Houston Branch	713-659-4433		1701 San Jacinto Street, Houston, Texas 77002-8215 (P.O. Box 2578, Houston, Texas 77252-2578)
San Antonio Branch	210-978-2100		126 East Nueva Street, San Antonio, Texas 78204-1020 (P.O. Box 1471, San Antonio, Texas 78295-1491)
SAN FRANCISCO	415-974-2000	12	101 Market Street, San Francisco, California 94105 (P.O. Box 7702, San Francisco, California 94120)
Los Angeles Branch	213-683-2300		950 South Grand Avenue, Los Angeles, California 90015 (Terminal Annex-P.O. Box 2077, Los Angeles, California 90051)
Portland Branch	503-221-5900		915 S.W. Stark Street, Portland, Oregon 97025 (P.O. Box 3436, Portland, Oregon 97208)
Salt Lake City Branch	801-322-7900		120 South State Street, Salt Lake City, Utah 84111 (P.O. Box 30780, Salt Lake City, Utah 84130)
Seattle Branch	206-343-3600		1015 Second Avenue, Seattle, Washington 98104 (P.O. Box 3567, Seattle, Washington 98124)

* Additional offices of these Banks are located at Lewiston, Maine 04240; Windsor Locks, Connecticut 06096; Cranford, New Jersey 07016; Jericho, New York 11753; Utica Oriskany, New York 13424; Columbus, Ohio 43229; Columbia, South Carolina 29210; Charleston, West Virginia 25328; Des Moines, Iowa 50306; Indianapolis, Indiana 46206; and Milwaukee, Wisconsin 53201.