

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1097]
March 17, 1932]

Amendment to Federal Reserve Act by Act of Congress
Approved February 27, 1932.

To all Member Banks in the
Second Federal Reserve District:

The Act of February 27, 1932, adds two new sections to the Federal Reserve Act, Section 10(a) and Section 10(b). Section 10(a) authorizes the making of loans to groups of member banks and is a permanent provision, whereas Section 10(b) authorizes until March 3, 1933, advances to individual member banks having a capital stock not exceeding \$5,000,000 each. Under both sections, the banks receiving the proceeds of such advances must be without adequate amounts of eligible and acceptable assets to enable them to obtain sufficient credit accommodations from the Federal Reserve Banks under other provisions of the Federal Reserve Act.

The full text of these two sections of the Federal Reserve Act is printed at the end of this circular.

In view of the fact that it is contemplated that applications for such advances will be made only in unusual circumstances, the Federal Reserve Board has not prescribed any regulations governing such advances, but, for the information of all member banks, the principal requirements of the law are analyzed and the general procedure contemplated thereunder is outlined below.

Section 10(a)

Advances to Groups of Member Banks

This section provides in effect that, upon receiving the consent of not less than five members of the Federal Reserve Board, any Federal Reserve Bank may make advances, in such amount as the board of directors of such Federal Reserve Bank may determine, upon the following conditions:

(a) Advances may be made on the promissory notes of groups of five or more member banks within the district of the loaning Federal Reserve Bank, a majority of them independently owned and controlled; except that advances may be made to a lesser number of such member banks (but not less than two) 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.

(b) Advances may be made only if the bank or banks which receive the proceeds thereof 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) of the Act.

(c) 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. (The liability of each individual bank on the note of a group under this provision of the law should be determined on the basis of its gross deposit liabilities at the opening of business on the date of the written application by the group to the Federal Reserve Bank for the advance, computed by adding together, (1) in the case of national banks, the figures corresponding to those called for by items 21, 22, 23 and 24 on the Comptroller of the Currency's call report form No. 2130, as revised in November, 1931, or, (2) in the case of State member banks, the figures corresponding to those called for by items 19, 20, 21 and 22 on the Federal Reserve Board's call report form No. 105, as revised in November, 1931.)

(d) The proceeds of an advance to a group may be distributed only to banks which are members of such group, and before receiving such proceeds such banks must deposit with a suitable trustee, designated by and representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon.

(e) 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.

(f) No note upon which such advances are made will be eligible as collateral security for Federal Reserve notes.

The rate at which advances may be made under the provisions of this section will be fixed from time to time, subject to the approval of the Federal Reserve Board and the condition specified in the law.

The maturities of notes accepted under this section must be satisfactory to the Federal Reserve Bank. There must be deposited and pledged with the Federal Reserve Bank, as security for any advance made by the Federal Reserve Bank to a group of banks under the provisions of Section 10(a), the note or notes of the bank or banks to which the proceeds of such advance are distributed by the group, together with all the security for such note or notes. Such security must, of course, be acceptable to the Federal Reserve Bank, which may require the group or any member thereof to provide such additional security as may be deemed necessary.

For the convenience of member banks desiring to apply for loans under Section 10(a), the following suggested forms are being prepared.

1. Resolution to be adopted by board of directors of each of the banks desiring to form a group, authorizing their officers to sign an agreement with other banks for this purpose.

2. Agreement to be entered into by banks desiring to form a group. This form of agreement includes the designation of a trustee for the group.

3. Resolution to be adopted by board of directors of individual borrowing bank authorizing it to borrow from the group and to pledge security therefor.

4. Application to be used by individual borrowing bank in requesting loan from the group. This must include a certificate to the effect that such bank has no adequate amount of eligible and acceptable assets available to enable it to obtain sufficient credit accommodations from the Federal Reserve Bank through rediscounts or advances other than as provided in Section 10(b).

5. Note to be used by the individual borrowing bank in borrowing from the group.

6. Resolution to be adopted by the board of directors of each of the banks in the group, authorizing the group to borrow from the Federal Reserve Bank upon the note of the group and to pledge the note or notes of the individual borrowing bank or banks and the security therefor.

7. Application to be used by group in requesting advance from the Federal Reserve Bank.

8. Note to be used by the group in borrowing from the Federal Reserve Bank. This form contemplates that the group shall give to the Federal Reserve Bank a single note for the full amount of the advance, such note, or counterparts thereof, being signed by all members of the group and stating on the face thereof the dollar amount of the proportion of the principal of such note for which each bank in the group is liable.

Banks desiring to form groups, or contemplating the possibility of forming groups at some future time, should so advise this bank, and we will furnish them with copies of the suggested forms. It is suggested that each group be formed under the name "Member Bank Loan Group No. _____ of the Second Federal Reserve District." In order to prevent possible duplication of numbers in the names of groups this bank will assign numbers when advised of the desire to form groups.

The forms used in different cases may vary to some extent to meet the needs and desires of the banks forming the particular group, but all forms used in connection with any advance made by this bank must, of course, be satisfactory to it.

Section 10(b)

Advances to Individual Member Banks

Under the terms of this section Federal Reserve Banks may, until March 3, 1933, and in exceptional and exigent circumstances, and subject in each case to affirmative action by not less than five members of the Federal Reserve Board, make advances to individual member banks upon the following conditions:

(a) Advances may be made only to member banks having capital stock of not exceeding \$5,000,000 each.

(b) Advances may be made only to banks which have no further eligible and acceptable assets available to enable them to obtain adequate credit accommodations through rediscounting at the Federal Reserve Bank or any other method provided by the Federal Reserve Act other than that provided by Section 10(a).

(c) 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.

(d) Advances under this section may be made only upon the promissory notes of member banks secured to the satisfaction of the lending Federal Reserve Bank.

(e) No note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

The rate at which advances may be made under the provisions of this section will be fixed from time to time, subject to the approval of the Federal Reserve Board and the condition specified in the law.

A special form of application is being prepared for the use of member banks desiring to apply for loans under Section 10(b). Copies will be provided upon request.

Each such application must include a certificate to the effect that the applying bank has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal Reserve Bank or any other method provided by the Federal Reserve Act other than that provided by Section 10(a); and it must also be supported by a statement of facts sufficient to satisfy the Federal Reserve Bank and the Federal Reserve Board that there are exceptional and exigent circumstances which would justify the making of such loan under the provisions of Section 10(b).

The regular form of member bank promissory note may be used for advances made under this section. Maturities must be satisfactory to the Federal Reserve Bank.

General

In conformity with the purposes of this legislation, advances under Sections 10(a) and 10(b) of the Federal Reserve Act will be limited to cases where there are conditions of an unusual and temporary character which appear to justify such action and when the member banks receiving the proceeds lack adequate amounts of eligible and acceptable assets with which to secure sufficient credit accommodations from the Federal Reserve Bank under other provisions of the Federal Reserve Act. When and if such circumstances exist it is hoped that this bank may be able to render helpful service for temporary periods. It is suggested, however, that before making applications for such advances member banks should communicate with this bank and ascertain its views as to the collateral or other security which should be offered and as to the other conditions upon which this bank would be disposed to give favorable consideration to the application.

GEORGE L. HARRISON,
Governor.

APPENDIX

Sections 10(a) and 10(b) of the Federal Reserve Act

(Added by the Act approved February 27, 1932)

SEC. 10. (a) Upon receiving the consent of not less than five members of the Federal Reserve Board, 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.

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.

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

SEC. 10. (b) Until March 3, 1933, and in exceptional and exigent circumstances, and when any member bank, having a capital of not exceeding \$5,000,000, has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by section 10 (a), any Federal reserve bank, subject in each case to affirmative action by not less than five members of the Federal Reserve Board, may make advances to such member bank on its time or demand promissory notes secured to the satisfaction of such Federal reserve bank: *Provided*, That (1) each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note; (2) the Federal Reserve Board may by regulation limit and define the classes of assets which may be accepted as security for advances made under authority of this section; and (3) no note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

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.

LOCATION OF BANK

\$.....

DATE

.....days after date, for value received, the undersigned bank promises

NOT TO EXCEED 15 DAYS

to pay to the order of the FEDERAL RESERVE BANK OF NEW YORK at its OFFICE IN THE CITY OF NEW YORK, N. Y.

.....DOLLARS

having deposited with and pledged to the said Federal reserve bank, as collateral security for the payment of this note and any other liability or liabilities, whether direct or contingent, of the undersigned bank to the said Federal reserve bank, due or to become due or that may be hereafter contracted, notes, drafts, bills of exchange, bankers' acceptances, bonds and/or notes of the United States, and/or other security, as described in the schedule included in the application for loan, dated..... accompanying and made a part hereof. The said Federal reserve bank is also given a lien for the payment of this note and any of the said other liabilities upon all the property or securities now or hereafter in the possession of said Federal reserve bank, including items in process of collection and the proceeds thereof, and also upon any balance to the credit of the undersigned bank in its deposit account with the said Federal reserve bank, and it is hereby agreed by the undersigned bank that the said Federal reserve bank has the right to require such additional security as it may deem proper, and, on failure to respond forthwith to such requirement or on the nonpayment of this note or on the nonpayment of any other liability or liabilities of the undersigned bank, the said Federal reserve bank, or any holder hereof, is hereby given full authority to sell, assign and deliver, or collect the whole or any part of the above named collaterals, or any substitute therefor, or any addition thereto, at any public or private sale or on any brokers' board or stock exchange, at any time or times hereafter, without demand, advertisement or notice; and, upon such sale, the said Federal reserve bank or the holder hereof may become the purchaser of the whole or any part of such collaterals, free from any right of redemption, and, after deducting all legal or other costs and expenses for collection, sale and delivery, may apply the residue of the proceeds of such collections, sale or sales to the payment of this note and of any, either or all of said other liabilities, as the said Federal reserve bank, or its assigns, shall deem proper, returning the over-plus to the undersigned bank. The undersigned bank hereby authorizes and empowers said Federal reserve bank, at its option, at any time, to appropriate and apply to the payment of any or all of the liabilities of the undersigned bank to the Federal reserve bank, whether direct or contingent, or whether then due or to become due, or whether now existing or hereafter contracted, any money or balance now or hereafter in the hands of said Federal reserve bank, on deposit or otherwise, to the credit of or belonging to the undersigned bank. It is agreed that in the event of the insolvency or bankruptcy of, or the appointment of a receiver for, the undersigned bank, or in the event of its property and business being taken possession of, or its business being suspended by, or it being closed by, the lawfully authorized governmental agency or authority, this note and all the said other liabilities and each of them shall immediately become due and payable, without demand or notice.

By.....