

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 3109]
July 12, 1946

ADVANCES AND DISCOUNTS

Under Sections 13, 13a and 10(b) of the Federal Reserve Act

*To all Member Banks in the
Second Federal Reserve District:*

This circular contains general information regarding our credit facilities available to member banks under sections 13, 13a and 10(b) of the Federal Reserve Act, with particular emphasis upon the procedure involved in obtaining such credit accommodation and upon the use of financial statements in connection therewith. All references to us apply equally to our Buffalo Branch, and banks in the territory assigned to the Buffalo Branch are requested to seek credit accommodation directly from the Branch as in the past.

REGULATION A

1. Advances to and discounts for member banks by Federal Reserve Banks are made in accordance with the provisions of Regulation A of the Board of Governors of the Federal Reserve System to which reference is made for complete details respecting such credit facilities.

RATES

2. The rates of interest and discount are fixed by the Federal Reserve Banks subject to review and determination of the Board of Governors of the Federal Reserve System. These rates are subject to change from time to time and, therefore, our rates are set forth in a separate circular pertaining only to rates.

AUTHORIZATION OF OFFICERS TO BORROW

3. Before a member bank obtains an advance from us, or discounts its bills receivable with us, it should file with us a duly certified copy of a resolution adopted by its board of directors authorizing specified officers to obtain such advances and to discount such bills. A member bank may obtain from us a suggested form (Form Cr. 65) setting forth the text of such a resolution which is continuing in character and covers all advances and discounts described in this circular which are available to member banks.

ADVANCES

General Procedure

4. Under the Federal Reserve Act (hereinafter sometimes referred to as the "Act"), we are authorized to make member banks advances or loans of varying maturities not exceeding four months, the maximum maturity depending on the type of collateral. Each advance or

renewal thereof is made on the basis of a written application which should be submitted to us in duplicate on a form prescribed by us. The borrower's obligation is evidenced by a promissory note, on our Form Cr. 24, payable on the date specified therein. The note and both counterparts of the application should be signed manually in ink by an authorized officer (or officers) of the borrower, and the note should be delivered to us with the application. All collateral for the advance should also be delivered to us with the application unless it is already in our possession. All securities serving as collateral should be in such form, or accompanied by such instruments, that they may be readily transferred to us without further action by the borrower. Upon the maturity of the borrower's promissory note we will obtain payment of the note by charging the borrower's reserve account with the amount of the note. In the absence of other instructions, and except as stated in paragraph 22, all collateral for the advance will be returned to the borrower upon payment of the advance.

Renewals

5. Whenever a member bank desires that an advance to it, other than an advance on eligible paper, be renewed in whole or in part, the member bank should submit to us a new application in duplicate and a new promissory note (on Form Cr. 24) in the same manner as if it were applying for a new loan. If a member bank desires the renewal of an advance on eligible paper, the procedure described in paragraph 12 should be followed.

90 Day Advances on Direct Obligations of the United States

6. Under the thirteenth paragraph of section 13 of the Act and section 2(b) of Regulation A we may make advances to member banks, for periods not exceeding ninety days, secured by direct obligations of the United States. Application for such an advance should be made on Form L. & D. 130.

90 Day Advances on Eligible Paper

General information

7. Under the eighth paragraph of section 13 of the Act and section 2(a) of Regulation A we may make advances to member banks, for periods not exceeding ninety days, secured by notes, drafts, bills of exchange, or bankers' acceptances which are eligible for discount or for purchase by Federal Reserve Banks under the Act.

Application

8. Application for such an advance should be made on our Form L. & D. 129A. In case there is insufficient space in Schedule A on the face of the application or on the reverse side of the application to list all the eligible paper that is to be pledged as collateral, the remaining eligible paper should be listed on a separate form (Form L. & D. 129C) which should be attached to and made a part of the application. The application should be accompanied by financial statements as provided in paragraph 25.

Amount and maturities of paper

9. The total amount of the eligible paper listed on Schedule A should equal or exceed the amount of the advance for which application is being made. If possible, all pledged paper should have maturities at least three days beyond the maturity of the advance for which application is being made, i.e., beyond the maturity date of the promissory note (Form Cr. 24)

of the member bank, in order to minimize the substitution of collateral prior to maturity of the advance. If additional collateral, other than eligible paper, is to be furnished as margin, such additional collateral should be listed in Schedule B on the reverse side of Form L. & D. 129A. In case there is insufficient space on Form L. & D. 129A, the remaining additional collateral should be listed on Form L. & D. 129C which should be attached to and made a part of the application.

Negotiability of paper

10. Negotiability is essential to eligibility, and we cannot accept paper which, by reason of any provision, alteration or omission, is not negotiable under the negotiable instruments law.

Endorsement of paper

11. If any paper pledged as collateral for an advance is payable to the order of the applying member bank, the paper should be endorsed in the name of the applying member bank over the manual signature in ink of an authorized officer of the bank.

Renewal application

12. Application for a renewal of an advance secured by eligible paper should be made on our Form L. & D. 129B. If it is unnecessary to make substitution for any of the paper initially pledged to secure the advance, the schedules on Form L. & D. 129B need not be filled in. If, however, the member bank desires to substitute collateral, due to the maturity of pledged paper or for other reasons, the new paper to be pledged should be listed in Schedule A on Form L. & D. 129B and the initially pledged paper to be withdrawn should be listed on Schedule C (Form L. & D. 129B). In case there is insufficient space in Schedule A on Form L. & D. 129B to list all the new paper to be pledged, the remaining new paper should be listed on Form L. & D. 129C which should be attached to and made a part of the application. Financial statements should be furnished as provided in paragraph 25. Schedule B of Form L. & D. 129B need not be used unless new ineligible paper or other collateral is to be pledged to secure the advance. If any of the collateral listed in Schedule B to the original loan application is to be withdrawn from pledge, it should be listed in Schedule C.

15 Day Advances on Obligations of Certain Federal Instrumentalities

13. Under the eighth paragraph of section 13 of the Act and section 2(b) of Regulation A we may make advances to member banks, for periods not exceeding fifteen days, secured by debentures or other such obligations of Federal Intermediate Credit Banks having maturities not exceeding six months from the date of the advance or by bonds of the Federal Farm Mortgage Corporation or the Home Owners' Loan Corporation which are guaranteed both as to principal and interest by the United States. Application for such an advance should be made on Form L. & D. 130.

Advances Not Exceeding 4 Months on Miscellaneous Collateral

General information

14. Under section 10(b) of the Act and sections 2(c) and 2(d) of Regulation A we may make advances to member banks for periods not exceeding four months, secured to our satisfaction by any of the classes of assets more particularly described in section 2(d) of Regulation A.

Application

15. Application for such an advance should be made on Form L. & D. 131A, and should include in Schedule A thereof a detailed description of all the collateral being offered. In case there is insufficient space in Schedule A on Form L. & D. 131A to list all the collateral being offered, the remaining collateral should be listed on Form L. & D. 131B which should be attached to and made part of the application. Commercial, agricultural or industrial paper offered as collateral should be described by stating the names of makers and endorsers and the maturities. Underlying collateral, if any, held by the borrowing member bank as security to such paper should be itemized. All the collateral except readily marketable securities, should be supported by financial statements, appraisals, certificates of title and other evidence of value sufficient to make possible a prompt determination of value. If any paper pledged as collateral for such an advance is payable to the order of the applying member bank, the paper should be endorsed in the name of the applying member bank over the manual signature in ink of an authorized officer of the bank.

DISCOUNTS

General information

16. Under the second paragraph of section 13 and the first paragraph of section 13a of the Act and section 1 of Regulation A we may discount for a member bank eligible commercial, agricultural and industrial paper which meets the requirements set forth in Regulation A, including the requirement that at the time of discount, commercial and industrial paper have a maturity of not exceeding 90 days and agricultural paper have a maturity not exceeding nine months. In addition, under the fourth and sixth paragraphs of section 13 and the second paragraph of section 24 of the Act and sections 1 and 6 of Regulation A, we may discount for a member bank eligible bills of exchange, bankers' acceptances including dollar exchange acceptances, and notes evidencing loans made to finance the construction of residential or farm buildings, which meet the requirements set forth in Regulation A.

Application

17. Application for discount should be made in duplicate on Form L. & D. 129A. Both counterparts of the application should be signed manually in ink by an authorized officer (or officers) of the applying member bank. In case there is insufficient space in Schedule A on the face of the application or on the reverse side of the application to list all of the eligible paper that is to be discounted, the remaining eligible paper should be listed on a separate form (Form L. & D. 129C) which should be attached to and made a part of the application. The application should be accompanied by financial statements as provided in paragraph 25.

Negotiability of paper

18. Negotiability is essential to eligibility, and we cannot accept paper which, by reason of any provision, alteration or omission, is not negotiable under the negotiable instruments law.

Endorsement of paper

19. All discounted paper, whether or not payable to the order of the applying member bank, should be endorsed in the name of the applying member bank over the manual signature in ink of an authorized officer of the bank.

GENERAL INFORMATION REGARDING ADVANCES AND DISCOUNTS

Computation of interest

20. Interest for the actual number of days involved, computed on the basis of 365 days to the year, will be deducted at the time of the making of the advance or discount.

Payment of paper or other collateral by obligors

21. If a member bank, which has discounted paper with us or has pledged paper or other collateral with us, receives any payment in respect of the paper or collateral while the paper or collateral is under discount or pledge with us, such payment shall be held in trust for us by the member bank and shall be immediately paid over to us.

Collection of maturing paper

22. If paper which has been discounted by or pledged with us is payable at the member bank, or in the same city in which the bank is located, we will return the paper to the bank in time to enable the bank to make presentment on the maturity date. Upon payment of an advance we will return to the member bank all pledged paper which matures more than ten days after the payment of the advance. Unless pledged paper has already been returned to the member bank as stated above in this paragraph, or unless the borrowing member bank has made other arrangements with us within a reasonable time prior to maturity, all other maturing paper will be entered by us for collection in accordance with the provisions of our current circular regarding the collection of noncash items. Upon the maturity date of all discounted paper we will charge the reserve account of the member bank with the amount of the maturing paper. Upon the maturity date of all pledged paper which matures before the maturity date of the advance for which it is pledged, we will charge the reserve account of the member bank with the amount of the maturing paper, and the amount of the advance will be reduced accordingly, unless the member bank pledges other paper satisfactory to us in substitution for the maturing paper. Upon receipt of advice of payment of maturing paper which we have entered for collection we will credit the amount of payment to the reserve account of the member bank.

Prepayment of advances and repurchase of discounted paper

23. At its option a member bank may pay all or part of any advance at any time before the stated date of maturity, or it may repurchase from us any eligible paper which we have discounted for it. In the event of such prepayment or repurchase we will rebate the unearned interest. In the event of a reduction in our discount rate between the date of the making of the advance or discount and the date of such prepayment or repurchase the unearned interest will be rebated at such lower rate.

Advances to others than member banks

24. Under the thirteenth paragraph of section 13 of the Act, we may make advances to individuals, partnerships and corporations (including nonmember banks) for periods not exceeding ninety days, secured by direct obligations of the United States. If any person desires to obtain such an advance we will be pleased to furnish promptly upon request the necessary forms and advice with respect to their use.

FINANCIAL STATEMENTS

When required

25. Financial statements are required by us with respect to any customer whose paper is offered to us by a member bank in amounts aggregating \$1,000 or more. Statements may also be required in connection with an offering aggregating less than \$1,000, particularly when the paper offered by the member bank consists largely of items aggregating less than \$1,000 per customer.

Composition of statements

26. Financial statements need not be in any special form but should consist of a complete and reasonably detailed balance sheet and profit and loss statement and a reconciliation of the net worth or surplus account. We may find it necessary in some cases to request additional information where we deem it desirable for a better understanding of the financial condition and operations of a borrower. Since comprehensive information is usually contained in financial reports prepared by public accountants, such reports should be submitted to us if they are available. Financial statements may be submitted on forms which we have developed for the use of member banks and their customers, which are referred to in greater detail in paragraphs 33 through 37.

Certification

27. Statements furnished us should be duplicate originals, or copies, of the original statements held in the files of the member bank. The statements furnished us should bear the following certificate of the member bank, signed by an authorized officer:

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

Date of statements

28. Our determination of the acceptability of paper can be made properly only upon the basis of current financial information. Paper offered to us should be supported by a balance sheet as of the end of the last fiscal year and by a statement of profit and loss and reconciliation of net worth for the fiscal year. If a more recent balance sheet and a more recent statement of profit and loss and reconciliation of net worth are available they should also be furnished us.

29. When statements of several related parties are submitted, as in the case of a parent or holding company with subsidiaries or affiliates, it is preferable that the balance sheets of the various parties be prepared as of the same date and that information concerning operations cover the same periods.

Unfavorable developments

30. If there are any materially unfavorable developments in the affairs of a borrower or any other party whose statement has been submitted to us in support of an offering of paper which is not reflected in the statement, we should be advised of such developments at the time of the offering of the paper or promptly upon the occurrence of such developments.

Subsidiaries or affiliates

31. If a borrowing company has subsidiaries, or itself is a subsidiary of another company, the borrower's paper should be supported by the separate financial statement of the borrower and also by a consolidated statement of the group. In such a case it may be necessary for us to require complete and detailed data showing separately the figures of each company in the group, with the detail of any inter-company eliminations used in arriving at the consolidated statement. In a case where the paper offered to us is that of a borrower having substantial inter-company relations with a concern not included in the consolidated group, we should be furnished with a separate statement showing the figures with respect to the other concern and a segregation of the inter-company accounts.

Endorsers or guarantors

32. When the financial responsibility of an endorser or guarantor is a substantial credit factor with respect to paper offered, a recent financial statement of the endorser or guarantor should be furnished in addition to the statement of the borrower.

Suggested forms

33. As a convenient means of informing member banks and their customers as to the character of the credit information which we desire in connection with paper offered to us by our member banks, we have prepared a number of forms of financial statements and supplementary schedules which will be furnished to member banks upon request in reasonable quantities without charge. The following is a list of the forms;

Financial Statement Forms:

<i>Description</i>		<i>Form Number</i>
Individual (Merchant, Manufacturer, etc.).....	Short	CR 1
Individual (Merchant, Manufacturer, etc.).....	Long	CR 110
Firm	Short	CR 9
Firm	Long	CR 109
Corporation	Short	CR 7
Corporation	Long	CR 108
Personal		CR 107
Farm Credit Statement.....	Short	CR 151
Farm Credit Statement.....	Long	CR 114

Supplement and Real Estate Schedules:

Supplement to Farm Credit Statement.....	CR 115
Farm Real Estate Schedule.....	CR 116
Real Estate Schedule (General).....	CR 91

The forms have been prepared with a view to making it as easy as possible for borrowers to furnish complete information bearing upon their financial condition and affairs. While it is not necessary that such forms be used, the information submitted should include all that called for on such forms and also any supplemental information which may be relevant.

Statement forms for individuals, firms and corporations

34. The forms for individuals, firms and corporations have been designed to conform with accounting procedures generally employed by most commercial and industrial businesses, and provide a convenient means for the presentation of the financial and credit information necessary for proper consideration of requests for credit. While both the short and the long statement forms provide for basic information including a balance sheet, operating statement and reconciliation of net worth or surplus, with pertinent supplementary data, the short form provides for this information only on a condensed basis. In many cases the information called for on the short form may be sufficient.

Statement form for personal, nonbusiness use

35. The statement form for personal nonbusiness use is designed to obtain financial and credit information from a person not engaged in business. It can be used in connection with ascertaining the financial responsibility of endorsers or guarantors, or individuals seeking personal loans.

Farm Credit Statement

36. The short and long forms of financial statements adapted for the use of farmers in this District have been developed in collaboration with, and have been recommended by, the Agricultural Committee of the New York State Bankers Association and the Extension Service of the New York State College of Agriculture.

Supplement to Farm Credit Statement

37. The Supplement to Farm Credit Statement contains a section covering general farming activities and also provides for information relating to certain specialized farming activities common to this part of the country. The Supplement, together with the long form of Farm Credit Statement and the Farm Real Estate Schedule, provide for comprehensive information regarding a farmer's financial affairs and the character of his physical assets, including his land and buildings, machinery, implements and livestock, which will permit a thorough credit analysis.

EFFECT OF THIS CIRCULAR ON PREVIOUS CIRCULAR

38. This circular supersedes our Circular No. 2001, dated November 25, 1939, entitled "Financial Statements".

AGREEMENT TO THIS CIRCULAR

39. Any member bank which applies to us for an advance or discount shall be deemed by such action to have agreed to the terms and conditions set forth in this circular which are applicable to such transactions.

REVISION OF THIS CIRCULAR

40. The right is reserved to withdraw, add to, or amend at any time any of the provisions of this circular.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.