

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 5592]  
[December 28, 1964]

ADVANCES AND DISCOUNTS  
Revision of Operating Circular No. 12

*To the Member Banks of the  
Second Federal Reserve District:*

Enclosed is a copy of our Operating Circular No. 12, Revised December 28, 1964. The revision incorporates the outstanding supplement to the superseded circular and contains other changes that bring the circular's provisions up to date. The changes are mainly editorial; others conform the circular to current practices and to changes in the Federal Reserve Act and in our application forms for advances.

Additional copies of the revised operating circular will be furnished upon request.

ALFRED HAYES,  
*President.*

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Operating Circular No. 12  
Revised December 28, 1964 ]

**ADVANCES AND DISCOUNTS**

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

*To the Member Banks of 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 (hereinafter sometimes referred to as the "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.

**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 (12 CFR Part 201) and in light of the General Principles as set forth in the foreword to the Regulation. Reference is made to Regulation A for complete details respecting such credit facilities.

**Rates**

2. Rates of interest and discount are fixed by each of the Federal Reserve Banks subject to review and determination of the Board of Governors of the Federal Reserve System. Our rates are set forth in Operating Circular No. 13. These rates are subject to change from time to time.

**Authorization of officers to borrow**

3. Before a member bank may obtain credit from us through an advance or discount, it must file with us a duly certified copy of a resolution adopted by its board of directors authorizing specified officers to obtain such advances and discounts. 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 that are available to member banks.

## ADVANCES

### Application, note, and collateral

4. A member bank desiring an advance and having on file with us a resolution of the kind described in paragraph 3 of this circular should submit to us, before the close of business on the day the advance is desired, (1) its application therefor (in duplicate) on the prescribed form; (2) its promissory note (on our Form Cr. 24) for the amount of the advance desired, made payable on the date on which the advance is to be repaid (which should be a business day for this Bank); and (3) all collateral for the advance not already in our possession. The note and application should be signed manually in ink by the authorized officer (or officers). All securities offered 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 applicant member bank, and should mature not earlier than the date on which the note is made payable (except direct obligations of the United States Government that are to be exchanged for similar securities before the maturity date of the note). All eligible paper offered as collateral should normally mature not less than three days after the date on which the note is made payable. In the event that, pursuant to Regulation A, we require additional or marginal collateral for any advance, we will notify the member bank concerned.

### Liquidation

5. At any time before the date on which a note evidencing an advance is payable, a member bank, at its option, may pay all or part of its obligation. Under certain circumstances described in the Act, in the agreement contained in the application for the advance, and in the note, all or part of the amount of an advance may become due and payable prior to the stated maturity. We will usually obtain payment of the obligation of a member bank by charging its reserve account. Reference is made to paragraph 23 for information regarding the rebate by us of unearned interest.

### Release and disposition of collateral

6. Whenever we release collateral for an advance, we shall, unless otherwise instructed, return to the borrowing member bank all paper included therein, and hold for the account of the member bank, subject to its order, all securities included therein.

### Advances for not exceeding 15 days on obligations of the United States or of certain Federal instrumentalities

7. Under the eighth paragraph of section 13 of the Act and section 201.2(a) of Regulation A, we may make advances to member banks for periods not exceeding 15 days, secured by (1) bonds, notes,

certificates of indebtedness, or Treasury bills of the United States,\* or (2) debentures or other such obligations of Federal Intermediate Credit Banks having maturities not exceeding six months from the date of the advance. Application for such an advance should be made on Form L. & D. 130.

**Advances for not exceeding 90 days on eligible paper,  
except as set forth in paragraph 14 of this circular**

8. Under the eighth paragraph of section 13 of the Act and section 201.2(b) of Regulation A, we may make advances to member banks for periods not exceeding 90 days, secured by notes, drafts, bills of exchange, or bankers' acceptances that are eligible for discount or for purchase by Federal Reserve Banks under the Act. However, borrowings by member banks are generally for short periods.

*Application*

9. Application for such an advance, other than an advance within the terms of paragraph 14 of this circular, should be made on our Form L. & D. 129A. All eligible paper that is to be pledged as collateral should be listed in Schedule A of that form. In case there is insufficient space in Schedule A, the remaining listings should be continued on a separate form (Form L. & D. 129C), which should be attached to and made a part of the application. If additional or marginal collateral (other than eligible paper) is to be furnished, such collateral should also be listed on Form L. & D. 129C. The application should be accompanied by financial statements as provided in paragraph 26.

*Amount and maturities of paper*

10. All eligible paper offered as collateral should normally mature not less than three days after the date on which the advance is made payable. The total principal amount of eligible paper serving as collateral should equal or exceed the amount of the advance for which application is being made.

*Negotiability of paper*

11. Except as set forth in paragraph 14 and as provided in this paragraph, negotiability is essential to eligibility, and we cannot accept paper that, by reason of any provision, alteration, or omission, is not negotiable under applicable law. A note evidencing a loan that is in whole or in part the subject of a guarantee or commitment made pursuant to section 301 of the Defense Production Act of 1950, as amended, need not be negotiable.

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\* Under the last paragraph of section 13 of the Act we may make advances for periods not exceeding 90 days to any individual, partnership, or corporation (including a member or nonmember bank) secured by direct obligations of the United States. Advances to member banks on the security of direct obligations of the United States are normally made for short periods not exceeding 15 days; see paragraph 25 of this circular.

*Endorsement of paper*

12. If any paper pledged as collateral for an advance is payable to the order of the applicant member bank, the paper should be endorsed in the name of such bank.

*Application for new advance to replace previous advance*

13. In the event a member bank desires to obtain a new advance secured by eligible paper, other than an advance within the terms of paragraph 14, to replace a previous advance and desires to pledge all or some of the collateral pledged for the previous advance, application therefor should be made on our Form L. & D. 129A, in duplicate. The application and the new promissory note (on Form Cr. 24) should bear the date of the maturity of the note for the previous advance and should reach us on or before that date. If the same collateral that secured the previous advance is to be used as security for the new advance, a statement to that effect may be made in Schedule A of the new application without itemization. If any new eligible paper is being offered as collateral, it should be listed in Schedule A of the application. In case there is insufficient space in Schedule A, the remaining listings should be continued on a separate form (Form L. & D. 129C), which should be attached to and made part of the application. If any paper is being withdrawn as collateral, or if additional or marginal collateral (other than eligible paper) is to be furnished, such collateral should also be listed on Form L. & D. 129C. Financial statements in support of new paper being offered should also be furnished to us, as provided in paragraph 26.

**Advances for not exceeding 90 days on eligible notes evidencing loans made pursuant to commodity loan programs of, or on certificates of interest issued by, Commodity Credit Corporation**

14. Under section 201.2(b) of Regulation A, we may make advances to member banks for periods not exceeding 90 days, secured by notes that evidence loans made pursuant to commodity loan programs of the Commodity Credit Corporation and that are subject to a commitment to purchase by the Corporation, provided such notes are eligible for discount by Federal Reserve Banks under section 201.3 of Regulation A. Any such note need not be negotiable and may be endorsed without recourse upon the applicant member bank. We also may make advances to member banks for periods not exceeding 90 days, secured by certificates of interest issued by the Commodity Credit Corporation evidencing the deposit, in a pool of notes operated by the Corporation, of notes evidencing loans made pursuant to commodity loan programs of the Corporation and complying with the maturity requirements of section 201.3 of Regulation A. Each such note and certificate of interest pledged as security for any such advance shall be as to form, security, any required accompanying documents, and otherwise, in all respects in conformity with the agreements, instructions, and regulations of the Commodity Credit Corporation, and each note shall be endorsed, and each certificate of interest

assigned, in conformity therewith. Application for such an advance, or for a new advance so secured to replace a previous advance, should be made on our Form L. & D. 129D, submitted in duplicate. Financial statements of the makers of such notes need not be furnished unless requested by us.

### **Advances for not exceeding four months on miscellaneous collateral**

15. Under section 10(b) of the Act and section 201.2(c) of Regulation A, we may make advances to member banks for periods not exceeding four months, secured to our satisfaction, regardless of whether the collateral offered as security conforms to eligibility requirements under the provisions of Regulation A. However, borrowings by member banks are generally for short periods.

#### *Application*

16. 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. Paper offered as collateral should be described by listing the names of makers and endorsers, the unpaid principal amount of each note, and the maturity date of each note. Underlying collateral, if any, held by the borrowing member bank as security for such paper should be itemized. All the collateral, except readily marketable securities, should be supported by certificates of title, when appropriate to establish ownership, and also by financial statements and appraisals, or other evidence of value sufficient to permit us to make a fair appraisal thereof. If the collateral includes any paper issued subject to the terms of a loan agreement, a copy of such agreement should also be furnished. If any paper pledged as collateral for such an advance is payable to the order of the applicant member bank, the paper should be endorsed in the name of such bank.

## **DISCOUNTS**

### **General information**

17. Under the second paragraph of section 13 and the first paragraph of section 13a of the Act and section 201.3 of Regulation A, we may discount for a member bank eligible commercial, agricultural, and industrial paper that meets the requirements set forth in Regulation A, including the requirement that at the time of discount, commercial and industrial paper have a maturity 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 third paragraph of section 24 of the Act and section 201.3 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 that meet the requirements set forth in Regulation A. A member bank at any time may repurchase paper that we have discounted for it.

## **Application**

### *Discount of eligible paper*

18. Application for discount, other than for the discount of notes described in paragraph 19, should be made in duplicate on Form L. & D. 129A-3 and should be submitted to us before the close of business on the day the discount is desired. The application should be signed manually in ink by an authorized officer (or officers) of the applicant 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 26.

### *Discount of eligible notes evidencing loans made pursuant to commodity loan programs of the Commodity Credit Corporation*

19. Application for discount of notes evidencing loans made pursuant to commodity loan programs of the Commodity Credit Corporation should be made on our Form L. & D. 129D and should be submitted to us before the close of business on the day the discount is desired. The application should be signed manually in ink by an authorized officer (or officers) of the applicant member bank. Each such note should be as to form, security, any required accompanying documents, and otherwise, in all respects in conformity with agreements, instructions, and regulations of the Commodity Credit Corporation. Financial statements of the makers of such notes need not be furnished unless requested by us.

## **Negotiability of paper**

20. Except as provided in this paragraph, negotiability is essential to eligibility, and we cannot accept paper that, by reason of any provision, alteration, or omission, is not negotiable under applicable law. A note that evidences a loan made pursuant to a commodity loan program of the Commodity Credit Corporation, and is subject to a commitment to purchase by it, need not be negotiable. A note evidencing a loan that is in whole or in part the subject of a guarantee or commitment made pursuant to section 301 of the Defense Production Act of 1950, as amended, need not be negotiable.

## **Endorsement of paper**

21. All discounted paper, whether or not payable to the order of the applicant member bank, should be endorsed in the name of such

bank. However, discounted notes evidencing loans made pursuant to commodity loan programs of the Commodity Credit Corporation should be endorsed by the applicant member bank in conformity with the requirements of the Corporation; notwithstanding the form and substance of the endorsement, the payment of the notes shall be guaranteed as provided in our Form L. & D. 129D.

## GENERAL INFORMATION REGARDING ADVANCES AND DISCOUNTS

### Computation of interest and discount

22. In the case of an advance to a member bank evidenced by its promissory note, we will, at the time of making the advance, deduct from the face amount of the note interest at our then current rate, computed to the maturity of the note on the basis of 365 days to the year, and will credit the balance to the reserve account of the member bank with us. The same procedure will apply to the discount of eligible paper for a member bank, except that our discount will be deducted from the unpaid principal amount of the discounted note plus any unpaid interest thereon.

### Rebate of unearned interest; change in rate

23. In the event a member bank pays all or part of its obligation arising out of an advance before the maturity thereof, or repurchases paper discounted with us, we will rebate to it the unearned interest thereon by crediting the amount of such unearned interest to the reserve account of the member bank with us. The rebate will be made at the interest rate at which the advance or discount was made, or at the rate prevailing at the time of the rebate, whichever is less.

### Payments received by member banks from obligors

24. If a member bank receives any payment of, or on account of, any promissory note, security, or other collateral discounted by or pledged with us by the member bank, the member bank shall forthwith pay over and deliver to us each such payment (properly endorsed where endorsement is necessary); and until so paid over and delivered to us by the member bank each such payment received by it shall be deemed held in trust for our account.

### Advances to individuals, partnerships, and corporations

25. Under the last paragraph of section 13 of the Act, we may make advances to individuals, partnerships, and corporations (including member and nonmember banks) for periods not exceeding 90 days, secured by direct obligations of the United States. However, advances to member banks on the security of direct obligations of the United States are normally for short periods not exceeding 15 days, and it is not the practice to make advances to others than member banks except in unusual or exigent circumstances.

## FINANCIAL STATEMENTS

### Requirement

26. Except as set forth in paragraphs 14 and 19, we require a member bank to submit to us the current financial statement of a borrower or any other party whose paper, in amounts aggregating \$1,000 or more, is offered to us by the member bank for discount or as collateral for advances. We may require a member bank to submit such a statement in any other case in which we deem it desirable.

### Form of statements

27. 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. Statements furnished us should be duplicate originals, or photocopies of the original statements held in the files of the member bank. Reports to stockholders generally are acceptable. Since comprehensive information is usually contained in financial reports prepared by certified public accountants, such reports should be submitted to us if they are available. Financial statements may be submitted on forms that we have developed for the use of member banks and their customers; these forms are referred to in greater detail in paragraphs 33-37.

### Date of statements

28. Our determination of the acceptability of paper, except under paragraphs 14 and 19, 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 that 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, and such developments are not reflected in the statement, we should be advised of such developments at the time of the offering of the paper or as soon as the bank learns of their occurrence.

## Subsidiaries or affiliates

31. If the borrowing company has subsidiaries, or itself is a subsidiary of another company, we prefer to receive the individual financial statement of the borrowing company and the consolidated statement of the group. In particular cases, however, we may conclude that either form of statement may be acceptable.

## Endorsers or guarantors

32. When the financial responsibility of an endorser or guarantor is a substantial credit factor with respect to paper offered, except under paragraphs 14 and 19, a current 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 of the character of the credit information that we desire in connection with paper offered to us by our member banks, we have prepared a number of suggested financial statement forms and supplementary schedules that will be furnished to member banks upon request in reasonable quantities without charge. The following is a list of the forms:

<i>Description</i>	<i>Form Number</i>	
<b>Financial Statement Forms:</b>		
Proprietorship (Retailer, Wholesaler, Manufacturer, etc.) .....	Short	CR 1
Proprietorship (Retailer, Wholesaler, Manufacturer, etc.) .....	Long	CR 110
Partnership .....	Short	CR 9
Partnership .....	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
Farm Operating Statement .....		CR 169
<b>Supplement and Real Estate Schedules:</b>		
Supplement to Farm Credit Statement ....		CR 115
Farm Real Estate Schedule .....		CR 116

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 substantially all that is called for on such forms and also any supplemental information that may be relevant.

### **Statement forms for proprietorships, partnerships, and corporations**

34. The forms for proprietorships, partnerships, 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, the Farm Real Estate Schedule, and the Farm Operating Statement, provide for comprehensive information regarding a farmer's financial affairs, the character of his physical assets, including his land and buildings, machinery, implements, and livestock, and a statement of his income and expense.

## **GENERAL**

### **Agreement to this circular**

38. Any member bank that 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 applicable to such transactions.

### **Revision of this circular**

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

**Effect of this circular on previous circular**

40. This circular supersedes our Operating Circular No. 12, Revised effective February 15, 1955, and the First Supplement thereto dated September 25, 1964.

ALFRED HAYES,  
*President.*