

HT 6657

FEDERAL RESERVE BANK
OF NEW YORK

December 17, 1970

ADVANCES AND DISCOUNTS
Changes in Member Bank Borrowing Procedures

To the Chief Executive Officers of the Member Banks
of the Second Federal Reserve District:

In our Circular No. 6648, dated December 1, 1970, we advised you of certain changes that would become effective early next year in the procedures under which our member banks obtain advances from this Bank. These changes have been developed to simplify and modernize existing practices. As indicated in that circular, they do not reflect any change in the Federal Reserve's general credit and monetary policies and are not related to the proposals made in the fundamental reappraisal of the discount mechanism which the System still has under consideration.

The changes in the procedures under which our member banks obtain advances from this Bank are set forth in the proposed revision of our Operating Circular No. 12, a copy of which is enclosed. The revised circular will be issued subsequently in final form, effective February 4, 1971. These changes will also entail the use of a new "continuing lending agreement," copies of which are also enclosed. Under the new procedure the continuing lending agreement, after its execution by a member bank, will remain in force until such time as it is expressly terminated, thereby eliminating the need for the submission of an application and promissory note at the time of each advance. Use of the continuing lending agreement will, accordingly, help to reduce the administrative requirements that have been in effect in order to obtain advances.

The continuing lending agreement will constitute an unconditional obligation on the part of the borrowing member bank to pay at maturity advances obtained pursuant to the continuing lending agreement. The lending agreement contains only the most essential provisions regarding collateral pledged as security for such advances. These provisions are similar to those now found in our form of promissory note. Each advance under the agreement will be evidenced by an advice of credit that specifies the amount of the advance and its maturity date. Under the continuing lending agreement interest will be charged at the time an advance is repaid instead of being deducted at the time the advance is obtained. Changes in the discount rate will be applicable to outstanding advances from and after the effective date of change in the discount rate.

The Board of Governors of the Federal Reserve System has revised its Regulation A on Advances and Discounts to conform the provisions of the regulation to the foregoing changes in procedure. A copy of the amendments to Regulation A was sent to you with our Circular No. 6648.

Since a member bank will not be able to take advantage of these new procedures unless the bank has returned to us an executed copy of the continuing lending agreement, we have enclosed two copies of the form of such agreement for execution, one to be returned to us and one to be retained in your own files. The agreement should be executed by the officer or officers authorized to act under the borrowing resolution of your bank's board of directors that is on file with us. Please return the signed copy of the continuing lending agreement to our Discount Division at your earliest convenience, but, in any event, no later than January 15, 1971.

If you have any questions with respect to the new procedure or the material enclosed herewith, please contact Herbert H. Ruess, Manager of our Credit and Discount Department (212-732-5700, Extension 8091) or Henry T. Christensen, Chief, Discount Division (Extension 609), at our Head Office, or Gerald H. Greene, Assistant Cashier (716-853-1700) at our Buffalo Branch.

ALFRED HAYES,
President.

[Proposed revision of this Bank's Operating Circular No. 12 on
advances and discounts to be issued effective February 4, 1971]

**FEDERAL RESERVE BANK
OF NEW YORK**

ADVANCES AND DISCOUNTS

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

This circular sets forth the general terms and conditions under which we may extend credit accommodations to member banks and the procedures to be followed in connection with extensions of such accommodations. All references in this circular to us apply equally to our Buffalo Branch, and it is suggested that member banks located in the Buffalo Branch territory request credit accommodations from the Branch.

Kinds of credit accommodations

1. Under provisions of the Federal Reserve Act (hereafter called "the Act"), and subject to Regulation A of the Board of Governors of the Federal Reserve System (12 CFR Part 201) and in the light of the general principles set forth in the foreword to that Regulation, we are authorized to make credit available to member banks by the following means:

(a) We may make advances to a member bank, pursuant to section 13 of the Act, for periods not exceeding 90 days,* on the security of obligations of, or fully guaranteed by, the United States or any agency of the United States.

(b) We may make advances to a member bank, pursuant to section 13 of the Act, for periods not exceeding 90 days,* on the security of any paper eligible for discount or for purchase by the Reserve Banks under provisions of the Act.

(c) We may make advances to a member bank, pursuant to section 10(b) of the Act, for periods not to exceed four months,* secured to our satisfaction, whether or not the collateral meets the

* It is expected, however, that advances normally will be for shorter periods commensurate with the period of time Federal Reserve credit is actually needed.

requirements of paragraphs (a) or (b) above. However, the rate on such advances must be at least one half of 1 percent higher than the highest rate applicable to discounts of or advances on eligible paper.

(d) We may discount customers' paper of a member bank, pursuant to sections 13 and 13a of the Act, that meets the "eligibility" requirements set forth in section 201.3 of Regulation A.

Continuing lending agreement

2. In general, we will make advances to a member bank pursuant to a continuing lending agreement (our Form No. CR. 66) to be executed by a duly authorized officer of the member bank; and particular advances pursuant to such agreement will be evidenced by an advice of credit, transmitted to the member bank at the time of the particular advance, specifying the amount and maturity of the advance. However, we reserve the right in any case to require the execution by a member bank of a promissory note with respect to a particular advance.

Granting of credit accommodations

3. (a) In general, we do not require that a request for an advance be accompanied by a written application, and any such request may be made by telephone, letter, or wire by an authorized officer of a member bank. However, we reserve the right to require the submission of a written application. Each request for an advance must specify the amount and maturity of the requested advance, the collateral offered as security, and in the event such collateral is not already held by us, the manner in which such collateral will be placed in our possession or under our control. Any member bank desiring to discount paper with us, as indicated in paragraph 1(d) above, should consult us regarding the procedure to be followed.

(b) If a request for credit is received by us before 3 p.m. and the request is approved, the borrowing member bank will be given immediate credit in its reserve account unless the member bank requests that credit be given on a subsequent day.

Collateral security

4. (a) Collateral offered as security for any advance, in addition to meeting requirements of the continuing lending agreement, must be

acceptable to us; must be endorsed or assigned by the member bank (except in the case of bearer paper); and must be in such form, or accompanied by such documents, that it may be readily transferred to us without further action by the member bank.

(b) Under certain conditions, collateral offered as security for an advance by us may be held by another member bank or Federal Reserve Bank in lieu of actual delivery of the collateral to us. Information with respect to such arrangements will be furnished on request.

(c) If a member bank that has pledged or discounted paper with us, or has otherwise transferred collateral to us, receives any funds in payment for such paper or other collateral so pledged, discounted, or transferred, the member bank must immediately remit the funds to us, and until so remitted the payment will be considered as having been received in trust for us.

(d) In accordance with Subpart O of Treasury Department Circular No. 300, this Bank, as fiscal agent of the United States, maintains as "book-entry Treasury securities" transferable Treasury securities deposited as collateral for advances by this Bank. Transferable Treasury securities now on deposit or hereafter deposited for such purpose will be converted into book-entry form and deposited in a book-entry collateral account in accordance with the provisions of our current Operating Circular No. 21, "Book-Entry Treasury Securities," and in such event such securities will be handled pursuant to the terms and conditions of that circular, notwithstanding any inconsistent provisions herein.

Rates

5. Interest on an advance will be payable to us at the time of repayment of the advance at the applicable rate indicated in our current Operating Circular No. 13 at the time the advance was made, except that, if the rate is changed while the advance is outstanding, the new rate shall apply from and after the effective date of such change. Interest will be computed on a basis of 365 days to the year.

Statements and reports

6. In connection with any advance or discount, we reserve the right to require a current condition report of the borrowing member bank, a recent balance sheet and profit-and-loss statement of any

obligor on paper offered as collateral for an advance or for discount, and such other reports and statements as we may deem desirable.

Authorization of officers to borrow

7. A certified copy of a resolution adopted by a member bank's board of directors authorizing designated officers to execute agreements with us and to borrow on its behalf from us must be on file with us in order for any member bank to obtain credit accommodations. Our Form No. CR. 65 should be used for this purpose.

Agreement to this circular

8. Each member bank applying to us for an advance or discount shall be deemed by such action to have agreed to all of the terms and conditions set forth in this circular and in Regulation A of the Board of Governors of the Federal Reserve System.

Right to amend

9. We reserve the right to withdraw, add to, or amend any of the provisions of this circular at any time.

Effect of this circular on previous circulars

10. This circular supersedes our Operating Circular No. 12, Revised December 28, 1964, and the First and Second Supplements thereto dated August 16, 1966 and December 27, 1967.

ALFRED HAYES,
President.

AGREEMENT

Regarding Advances by Federal Reserve Bank of New York

1. The undersigned member bank (hereafter called "the member bank") promises to pay to the Federal Reserve Bank of New York (hereafter called "the Reserve Bank") the amount of each advance made pursuant to this Agreement by the Reserve Bank to the member bank at the maturity date thereof, as such amount and maturity date are specified in an advice of credit prepared and transmitted by the Reserve Bank to the member bank at the time of such advance, subject to all provisions of this Agreement and to all applicable terms and conditions set forth in the Reserve Bank's Operating Circulars, Regulation A of the Board of Governors of the Federal Reserve System, and the Federal Reserve Act. The member bank further promises to pay interest on each such advance at the rate and in the manner provided in the Reserve Bank's Operating Circulars and Supplements thereto.

2. The member bank authorizes the Reserve Bank to charge the member bank's reserve account with the amount of each advance and interest thereon at or after its maturity.

3. As security for the payment of each advance when due, the member bank pledges to the Reserve Bank the collateral agreed upon by the member bank and the Reserve Bank. Such collateral is also pledged by the member bank as security for all other liabilities of such bank due or to become due to the Reserve Bank or which may be acquired by the Reserve Bank.

4. As further security for the payment of each advance, the Reserve Bank shall have a lien upon, or security interest in, all property (tangible and intangible) of the member bank in the possession or under the control of the Reserve Bank, including but not limited to items in process of collection and the proceeds thereof and any balance to the credit of the member bank with the Reserve Bank.

5. Upon the request of the Reserve Bank, the member bank will substitute collateral or pledge such additional collateral as the Reserve Bank may deem necessary for its protection.

6. In the event of nonpayment of any advance when due or upon failure of the member bank to comply with a request by the Reserve Bank for substitute or additional collateral, the Reserve Bank shall have all the rights of a secured creditor, including the right to sell all or any part of the collateral at public or private sale without demand upon or notice to the member bank (except such notice as may be required by applicable statute and may not be waived) and to become the purchaser of the whole or any part of such collateral, free from any equity of redemption and from all other claims to the extent permitted by applicable statute. After deduction of all expenses, the proceeds of such collateral may be applied by the Reserve Bank to the payment of such advance and of all other liabilities of the member bank to the Reserve Bank, and any surplus then remaining shall be paid to the member bank.

7. Any advance made pursuant to this Agreement shall become immediately due and payable, without demand or notice, upon (a) the failure of the member bank to perform any agreement hereunder or to pay any liability of the member bank to the Reserve Bank when due; or (b) the insolvency of, or the appointment of a receiver for, the member bank; or (c) the suspension or closing of the member bank, or the taking possession of its business, by any governmental authority.

8. Upon the happening of any event described in paragraph 7 of this Agreement, the Reserve Bank shall have the right to set off against the amount of any advance any indebtedness of the Reserve Bank to the member bank, whether or not due.

.....
(Name of member bank)

.....
(Address)

.....
(Date)

By.....
(Authorized officer)