

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 6728 ]  
May 5, 1971

COLLATERAL FOR ADVANCES TO MEMBER BANKS  
Interpretation of Regulation A

To the Member Banks of the  
Second Federal Reserve District:

On April 29, 1971, the Board of Governors of the Federal Reserve System amended an interpretation of its Regulation A concerning the eligibility of obligations as collateral for advances to member banks. The interpretation has been amended to include as such eligible collateral certificates issued by the trustees of Penn Central Transportation Company that are fully guaranteed by the Secretary of Transportation; Federal Home Loan Mortgage Corporation notes, debentures, and guaranteed certificates of participation; and U. S. Postal Service obligations. Printed below is a copy of the amended interpretation.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,  
President.

Interpretation of Regulation A

§ 201.108 *Obligations eligible as collateral for advances.*

(a) Section 3(a) of Public Law 90-505, approved September 21, 1968, amended the eighth paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 347) to authorize advances thereunder to member banks "secured by such obligations as are eligible for purchase under section 14(b) of this Act." The relevant part of such paragraph had previously referred only to "notes . . . eligible . . . for purchase", which the Board had construed as not including obligations generally regarded as securities. (See 1962 *Federal Reserve Bulletin* 690, 12 CFR 201.103(d).)

(b) Under section 14(b) direct obligations of, and obligations fully guaranteed as to principal and interest by, the United States are eligible for purchase by Reserve Banks. Such obligations include certificates issued by the trustees of Penn Central Transportation Company that are fully guaranteed by the Secretary of Transportation. Under section 14(b) direct obligations of, and obligations fully guaranteed as to principal and interest by, any agency of the United States are also eligible for purchase by Reserve Banks. Following are the principal agency obligations eligible as collateral for advances:

- (1) Federal Intermediate Credit Bank debentures,
- (2) Federal Home Loan Bank notes and bonds,
- (3) Federal Land Bank bonds,
- (4) Bank for Cooperatives debentures,
- (5) Federal National Mortgage Association notes, debentures and guaranteed certificates of participation,
- (6) Obligations of or fully guaranteed by the Government National Mortgage Association,
- (7) Merchant Marine bonds,
- (8) Export-Import Bank notes and guaranteed participation certificates,
- (9) Farmers Home Administration insured notes,
- (10) Notes fully guaranteed as to principal and interest by the Small Business Administration,
- (11) Federal Housing Administration debentures,
- (12) District of Columbia Armory Board bonds,

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- (13) Tennessee Valley Authority bonds and notes,
- (14) Bonds and notes of local urban renewal or public housing agencies fully supported as to principal and interest by the full faith and credit of the United States pursuant to section 302 of the Housing Act of 1961 (42 U.S.C. 1421a(c), 1452(e)),
- (15) Commodity Credit Corporation certificates of interest in a price-support loan pool,
- (16) Federal Home Loan Mortgage Corporation notes, debentures, and guaranteed certificates of participation,
- (17) United States Postal Service obligations.

(c) Nothing less than a *full* guarantee of principal and interest by a Federal agency will make an obligation eligible. For example, mortgage loans insured by the Federal Housing Administration are not eligible since the insurance contract is not equivalent to an unconditional guarantee and does not fully cover interest payable on the loan. Obligations of international institutions, such as the Inter-American Development Bank and the International Bank for Reconstruction and Development, are also not eligible, since such institutions are not agencies of the United States.

(d) Also eligible for purchase under section 14(b) are "bills, notes, revenue bonds, and warrants with a

maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts."<sup>1</sup> In determining the eligibility of such obligations as collateral for advances, compliance with the requirements of Regulation E is not necessary; but the Reserve Bank will satisfy itself that sufficient tax or other assured revenues earmarked for payment of such obligations will be available for that purpose at maturity, or within six months from the date of the advance if no maturity is stated. Payments due from Federal, State or other governmental units may, in the Reserve Bank's discretion, be regarded as "other assured revenues"; but neither the proceeds of a prospective issue of securities nor future tolls, rents or similar collections for the voluntary use of government property for non-governmental purposes will normally be so regarded. Obligations with original maturities exceeding one year would not ordinarily be self-liquidating as contemplated by the statute, unless at the time of issue provision is made for a redemption or sinking fund that will be sufficient to pay such obligations at maturity.

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<sup>1</sup> Paragraph 3 of section 1 of the Federal Reserve Act (12 U.S.C. 221) defines "the continental United States" to mean "the States of the United States and the District of Columbia", thus including Alaska and Hawaii.