

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **7122**]
April 6, 1973

EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS

Revision of Regulation A, Effective April 19, 1973

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

The following statement was made public April 5 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today revisions in its "discount window" regulations designed primarily to assist smaller banks to meet the seasonal borrowing needs of their communities. The changes are effective April 19, 1973.

The revisions, which are substantially the same as those proposed for comment by the Board last November 21, will also:

1. Make a number of technical and clarifying changes in the Board's Regulation A, which governs lending by Federal Reserve Banks, regarding the eligibility of paper that can be accepted by Reserve Banks as collateral for advances at the discount rate.
2. Continue to provide, as in the past, for credit to assist a member bank in adjusting to temporary requirements for funds or to cushion more persistent outflows, pending an orderly adjustment of a member bank's assets and liabilities.
3. Reaffirm the System's readiness to extend credit to member banks in emergency or unusual circumstances, and also to make credit available in emergency situations to other financial institutions, corporations, partnerships and individuals on the security of Government obligations.

The Board said that about 2,000 member banks, based on historical lending and deposit patterns, have substantial seasonal calls for credit in their communities. The vast majority of these banks have no more than \$50 million in total deposits.

Today's action is a further step in a program by the Board to implement recommendations made in a System report entitled "Reappraisal of the Federal Reserve Discount Mechanism" and published in July of 1968 by a Federal Reserve System task force. Since that time, the System has incorporated into its procedures the substance of task force recommendations relating to emergency credit to member and nonmember depository institutions. The seasonal borrowing privilege announced today is consistent with task force recommendations.

This new seasonal lending arrangement will be available to member banks that lack reasonably reliable access to national money markets. It is intended to assist them in meeting seasonal needs for funds, arising from a recurring pattern of movements in deposits and loans that persists for at least eight weeks.

An eligible bank will be required under this arrangement to provide part of its own seasonal needs—up to 5 per cent of its average total deposits in the preceding calendar year. It may obtain its additional seasonal needs by borrowing from the Federal Reserve.

The bank will be required to arrange in advance with its Reserve Bank for seasonal borrowing. Credit under this arrangement will be extended to member banks for periods of up to 90 days at a time. Under ordinary circumstances, a Federal Reserve Bank will be prepared to grant renewals extending the borrowing for the duration of the demonstrated seasonal need.

No change in the stance of monetary policy, in either the short or the long run, is intended or expected to result from the revision of Regulation A.

Printed below are (a) the text of the revised Regulation A as submitted for publication in the *Federal Register* and (b) an explanatory statement of this Bank on the manner in which the seasonal borrowing privilege is to be determined. Copies of the revised regulation in pamphlet

form will be sent to you as soon as they become available. In addition, we will send you in due course our Operating Circular No. 12, "Advances and Discounts," revised to reflect the changes in Regulation A.

Questions from member banks in the Head Office territory regarding the eligibility of paper as collateral for advances may be directed to Eugene P. Emond, Manager, Credit and Discount Department (Telephone No. 212-732-5700, Extension 8463) or Joseph A. Clark, Chief, Credit Division (Telephone No. 212-732-5700, Extension 8421). Inquiries from member banks in the Head Office territory regarding the seasonal borrowing privilege may be directed to Herbert H. Ruess, Manager, Credit and Discount Department (Telephone No. 212-732-5700, Extension 8091) or Franklin T. Love, Assistant Chief, Credit Division (Telephone No. 212-732-5700, Extension 8422).

Inquiries from member banks in the Buffalo Branch territory may be directed to Gary S. Weintraub, Assistant Cashier (Telephone No. 716-853-1700, Extension 203).

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.

FEDERAL RESERVE SYSTEM

[12 CFR Part 201]

[Reg. A]

ADVANCES AND DISCOUNTS BY FEDERAL RESERVE BANKS

Revision of Regulation

By Notice of Proposed Rule Making published in the *Federal Register* on November 28, 1972 (37 F.R. 25177), the Board proposed a revision of its Regulation relating to advances and discounts by the Federal Reserve Banks. After consideration of all comments received, the Board has adopted a revision of that Regulation in the form of amendments to Part 201, which is substantially the same as the revision earlier proposed, but with certain technical and editorial changes. The revised Regulation will become effective April 19, 1973. The procedure provided by § 553(d) of Title 5, United States Code, with respect to deferment of effective date has not been followed because the amendments relieve restrictions and such deferment would serve no useful purpose and might impair the effective accomplishment of one of the purposes of the amendments.

As indicated in the Notice of Proposed Rule Making, the principal purposes of this revision of the Board's Regulation A are (1) to improve the ability of member banks to meet strong seasonal credit needs of their communities; (2) to eliminate certain restrictions with respect to the eligibility of paper as collateral for Federal Reserve credit; and (3) to condense and simplify technical provisions of the Regulation. Short-term Federal Reserve credit will continue to be provided in accordance with present rules. No change in the stance of monetary policy, in either the short or the long run, is intended or expected to result from the revision of Regulation A.

To implement its proposal, the Board has amended Part 201, effective April 19, 1973, by changing the heading to read "Extensions of Credit by Federal Reserve Banks" and by changing §§ 201.0 through 201.6 to read as set forth below.

By order of the Board of Governors, April 3, 1973.

PART 201 — EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS

Sec.

- 201.1 Authority and scope.
- 201.2 General principles.
- 201.3 Advances to member banks.
- 201.4 Discounts for member banks.
- 201.5 General requirements.
- 201.6 Federal Intermediate Credit banks.
- 201.7 Emergency credit for others.

Authority: The provisions of this Part 201 issued under 12 U.S.C. 84, 248, 301, 330, 343-347, 347b, 347c, 348, 349, 351, 352, 361, 371, 372, 373, 374.

§ 201.1 — Authority and scope.

This Part is issued under section 13 and other provisions of the Federal Reserve Act and relates to extensions of credit by Federal Reserve Banks.

§ 201.2 — General principles.

(a) *Accommodation of credit needs of individual banks.* Extending credit to member banks to accommodate commerce, industry, and agriculture is a principal function of Reserve Banks. While open market operations and changes in member bank reserve requirements are important means of affecting the overall supply of bank reserves, the lending function of the Reserve Banks is an effective method of supplying reserves to meet the particular needs of individual member banks.

(b) *Effect on overall monetary and credit conditions.* The lending functions of the Federal Reserve System

are conducted with due regard to the basic objectives of the Employment Act of 1946 and the maintenance of a sound and orderly financial system. These basic objectives are promoted by influencing the overall volume and cost of credit through actions affecting the volume and cost of reserves to member banks. Borrowing by individual member banks, at a rate of interest adjusted from time to time in accordance with general economic and money market conditions, has a direct impact on the reserve positions of the borrowing banks and thus on their ability to meet the needs of their customers. However, the effects of such borrowing do not remain localized but have an important bearing on overall monetary and credit conditions.

(c) *Short-term adjustment credit.* Federal Reserve credit is available on a short-term basis to a member bank, under such rules as may be prescribed, to such extent as may be appropriate to assist such bank in meeting temporary requirements for funds or to cushion more persistent outflows of funds pending an orderly adjustment of the bank's assets and liabilities.

(d) *Seasonal credit.* Federal Reserve credit is available for longer periods to assist a member bank that lacks reasonably reliable access to national money markets in meeting seasonal needs for funds arising from a combination of expected patterns of movement in its deposits and loans. Such credit will ordinarily be limited to the amount by which the member bank's seasonal needs exceed 5 per cent of its average total deposits in the preceding calendar year and will be available if (1) the member bank has arranged in advance for such credit for the full period, as far as possible, for which the credit is expected to be required, and (2) the Reserve Bank is satisfied that the member bank's qualifying need for funds is seasonal and will persist for at least eight consecutive weeks. In making such arrangements for seasonal credit, a Reserve Bank may agree to extend such credit for a period of up to 90 days,¹ subject to compliance with applicable requirements of law at the time such credit is extended. However, in the event that a member bank's seasonal needs should persist beyond such period, the Reserve Bank will normally be prepared to entertain a request by the member bank for further credit extensions under the seasonal credit arrangement.

(e) *Emergency credit for member banks.* Federal Reserve credit is available to assist member banks in unusual or emergency circumstances such as may result from national, regional, or local difficulties or from exceptional circumstances involving only a particular member bank.

(f) *Emergency credit for others.* Federal Reserve credit is available to individuals, partnerships, and corporations that are not member banks in emergency circumstances in accordance with § 201.7 of this Part if, in the judgment of the Reserve Bank involved, credit is not practicably available from other sources and failure to obtain such credit would adversely affect the economy.

(g) *Credit for capital purposes.* Federal Reserve credit is not a substitute for capital and ordinarily is not available for extended periods.

¹As provided in the law and in this Part, the maturity of advances to member banks is limited to 90 days, except as provided in § 201.3(b) of this Part.

(h) *Compliance with law and regulation.* All credit extended pursuant to this Part must comply with applicable requirements of law and of this Part. Among other things, the law requires each Reserve Bank (1) to keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities or for any other purpose inconsistent with the maintenance of sound credit conditions and (2) to give consideration to such information in determining whether to extend credit.

§ 201.3 — Advances to member banks.

(a) *Advances on obligations or eligible paper.* Reserve Banks may make advances to member banks for not more than 90 days if secured by obligations or other paper eligible under the Federal Reserve Act for discount or purchase by Reserve Banks.

(b) *Advances on other security.* A Reserve Bank may make advances to a member bank for not more than four months if secured to the satisfaction of the Reserve Bank, whether or not secured in conformity with § 201.3(a), but the rate on such advances shall be at least one-half of one per cent per annum higher than the rate applicable to advances made under § 201.3(a).

§ 201.4 — Discounts for member banks.

If a Reserve Bank should conclude that a member bank would be better accommodated by the discount of paper than by an advance on the security thereof, it may discount for such member bank any paper endorsed by the member bank and meeting the following requirements:

(a) *Commercial or agricultural paper.* A note, draft, or bill of exchange issued or drawn or the proceeds of which have been or are to be used (1) in producing, purchasing, carrying, or marketing goods in the process of production, manufacture, or distribution, (2) for the purchase of services, (3) in meeting current operating expenses of a commercial, agricultural, or industrial business, or (4) for the purpose of carrying or trading in direct obligations of the United States; provided that (i) such paper has a period remaining to maturity of not more than 90 days, except that agricultural paper (including paper of cooperative marketing associations) may have a period remaining to maturity of not more than nine months and (ii) the proceeds of such paper have not been and are not to be used merely for the purpose of investment, speculation, or dealing in stocks, bonds, or other such securities, except direct obligations of the United States.

(b) *Bankers' acceptances.* A banker's acceptance (1) arising out of an importation or exportation or domestic shipment of goods or the storage of readily marketable staples or (2) drawn by a bank in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange; provided that such acceptance complies with applicable requirements of section 13 of the Federal Reserve Act.

(c) *Construction paper.* A note representing a loan made to finance construction of a residential or farm building, whether or not secured by a lien upon real estate, which matures not more than nine months from the date the loan was made and has a period remaining to maturity of not more than 90 days, if accompanied by an agreement requiring some person acceptable to the Reserve Bank to advance the full amount of the loan upon completion of such construction.

§ 201.5 — General requirements.

(a) *Information.* A Reserve Bank shall require such information as it deems necessary to insure that paper tendered as collateral or for discount is acceptable and meets any pertinent eligibility requirements and that the credit granted is used consistently with this Part.

(b) *Amount of collateral.* A Reserve Bank shall require only such amount of collateral as it deems necessary or advisable.

(c) *Indirect credit for nonmember banks.* Except with the permission of the Board of Governors, no member bank shall act as the medium or agent of a nonmember bank (other than a Federal Intermediate Credit bank) in receiving credit from a Reserve Bank and, in the absence of such permission, a member bank applying for credit shall be deemed to represent and guarantee that it is not so acting.

(d) *Limitation as to one obligor.* Except as to credit granted under § 201.3(b), a member bank applying for credit shall be deemed to certify or

guarantee that as long as the credit is outstanding no obligor on paper tendered as collateral or for discount will be indebted to it in an amount exceeding the limitations in section 5200 of the Revised Statutes (12 U.S.C. § 84), which for this purpose shall be deemed to apply to State member as well as national banks.

§ 201.6 — Federal Intermediate Credit banks.

A Reserve Bank may discount for any Federal Intermediate Credit bank (1) agricultural paper, or (2) notes payable to and bearing the endorsement of such Federal Intermediate Credit bank covering loans or advances made under subsections (a) and (b) of § 2.3 of the Farm Credit Act of 1971 (12 U.S.C. § 2074) which are secured by paper eligible for discount by Reserve Banks. Any paper so discounted shall not have a period remaining to maturity of more than nine months or bear the endorsement of a nonmember State bank.

§ 201.7 — Emergency credit for others.

In emergency circumstances a Reserve Bank may extend credit for periods of not more than 90 days to individuals, partnerships, and corporations (other than member banks) on the security of direct obligations of the United States or any obligations which are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, at such rate in excess of the rate in effect at the Reserve Bank for advances under § 201.3(a) as its board of directors may establish subject to review and determination of the Board of Governors.

Explanatory Statement of this Bank Regarding the Seasonal Borrowing Privilege

The seasonal borrowing privilege is available to member banks that have only limited or indirect access to national money markets and that regularly experience definable and relatively substantial seasonal pressures.

Regulation A, as revised effective April 19, 1973, bases the calculation of seasonal credit on the seasonal movement in a bank's deposits and loans. A seasonal decline in available funds (deposits minus loans) must exceed 5 per cent of the previous year's average total deposits for at least eight weeks in order for a bank to qualify for seasonal credit.

In a typical case, for example, a bank's available funds may lessen substantially during the same two or more consecutive months each year because of a decline in deposits and a simultaneous rise in the seasonal credit demands of the community related to preparations for a tourist season. Federal Reserve credit under the seasonal borrowing privilege will be related to the amount and duration of this pattern (deriving a "net fund availability" by subtracting loans from deposits) subject, of course, to the member bank's providing that part of the "deficit" which equals 5 per cent of deposits in the preceding year.

To assist member banks in requesting seasonal credit, this Bank will review its file of deposit and loan data

for the member bank for the most recent five years to determine the approximate size and duration of its seasonal pattern. Our representatives will discuss the nature of the seasonal need, any foreseeable changes in that need, and other matters that will facilitate the administration of the credit once it is arranged.

In some instances additional data will be needed from the member bank, because our record of the bank's loans and deposits may not always provide an accurate indication of a seasonal need. For example, some banks may regularly sell Federal funds, or purchase commercial paper or loan participations when they have excess funds available, with those resources subsequently providing the means to meet the developing seasonal credit needs of the community. Since those assets would be included in the reported figures for the bank's total loans, they would tend to obscure, and probably reduce, the seasonal variations unless separately identified. Similarly, some banks make seasonal loans to local municipalities that are classified as securities rather than loans for condition-reporting purposes; others sell seasonal loans or participations therein to correspondents. Adjustments for these and similar factors may be necessary in calculating the bank's seasonal need for credit.