

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7445]
August 23, 1974]

PROPOSED AMENDMENT TO REGULATION A
Special Discount Rate for Long-Term Assistance to Member Banks

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued August 21 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today proposed an amendment to its regulation governing member bank borrowing that would permit application of a special discount rate to member banks needing exceptionally large assistance over a prolonged period.

Comment will be received on the proposal through September 23.

The special discount rate would ordinarily be higher than the basic discount rate but would not exceed the rate established for emergency loans to nonmember banks (currently 10 percent). The basic discount rate is now 8 percent.

The special discount rate would limit any rate preference for long-term assistance to an individual bank when a wide gap exists between the basic discount rate and money market rates as it does at present.

The special rate would also encourage the borrowing bank to make the necessary adjustments in its operations to permit repayment of the loan in a reasonable period.

Under the proposal the special rate may apply to member banks borrowing for prolonged periods (such as for more than eight weeks) and in significant amounts (such as when the loan has exceeded on average the amount of the borrowing bank's required reserves).

Under the proposed amendment to the Board's Regulation A (covering use of the discount window) the special rate could be waived in individual cases.

The present provision in Regulation A relating to emergency credit to member banks reads as follows: "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."

Under the proposal, this provision would be divided into two categories. One would cover Federal Reserve credit to assist member banks in unusual or emergency circumstances such as may result from national, regional, or local difficulties. A second category, to which the special discount rate would apply, would be available for prolonged assistance involving only a particular member bank.

Printed on the reverse side is the text of the proposed amendment to Regulation A. Comments thereon should be submitted by September 23, and may be sent to our Credit and Discount Department.

Alfred Hayes,
President.

(over)

(Reg. A)

EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS

Special Rate Application to Certain Extensions of Credit

Pursuant to its authority under Section 10(b) of the Federal Reserve Act (12 U.S.C. 347(b)), the Board proposes to amend §201.2(e) of its Regulation A to permit application of a special discount rate to certain types of lending to member banks. The amendment would continue the availability of credit to member banks in unusual or emergency circumstances resulting from national, regional, or local difficulties. Federal Reserve credit would also continue to be made available for protracted assistance where there are exceptional circumstances or practices involving only a particular member bank. Under the proposed rule, however, a special rate may be applied to credit in the latter category.

The purpose of the special discount rate would be to limit any rate preferential and to encourage the borrowers to make the necessary underlying adjustments that will facilitate repayment of the loan. The special rate would ordinarily be higher than the basic discount rates established under Sections 13 and 10(b) of the Federal Reserve Act (12 U.S.C. 347 and 12 U.S.C. 347(b), respectively). In no event would it be lower than the basic Section 10(b) rate. The spread between the special rate and the basic discount rate would be larger the higher the market rates are in relation to the basic rate. In no case should the special loan rate to member banks exceed the rate established for loans to nonmembers (currently 10 percent). The special rate may be waived by the Federal Reserve Bank in cases of banks in particular difficulty where there is a remedial program under way leading to repayment of the loan over a reasonable period.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant

data, views, comments, or argument. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than September 23, 1974. The proposed amendment to Regulation A would read as follows:

SECTION 201.2—GENERAL PRINCIPLES

* * *

(e) Other credit to member banks.

(1) In the event of unusual or emergency circumstances resulting from national, regional, or local difficulties, Federal Reserve credit beyond that contemplated under §201.2(c) is available.

(2) Federal Reserve credit is also available for protracted assistance where there are exceptional circumstances or practices involving only a particular member bank. A special rate apart from rates charged for lending to member banks under other provisions of this Part may be applied to such credit. The special rate may apply to member banks borrowing for prolonged periods (such as for more than eight weeks) and in significant amounts (such as when the loan has exceeded on average the amount of the borrowing bank's required reserves) because of financial strains arising from particular circumstances or practices affecting the individual bank—including sustained deposit drains, impaired access to money market funds, sudden deterioration in loan repayment performance, or unsatisfactory bank policies. In no case should the special loan rate to member banks exceed the rate established for loans to nonmembers under 12 U.S.C. 347(c).

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