

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7467]
September 26, 1974]

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 September 25 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today established a new category of "discount" borrowing under which a special discount rate may be applied to member banks requiring exceptionally large assistance over a prolonged period of time.

The amendment to the Board's regulation governing member bank borrowing states that the special rate would in no case exceed the rate established for emergency loans to nonmember banks. The basic discount rate is now 8 per cent while the rate for emergency loans to nonmember banks is 10 per cent.

The purpose of the special rate is to 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 presently. 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 regulatory amendment, the special rate will apply to member bank 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).

The amendment is substantially the same as that proposed by the Board for comment on August 21.

Enclosed is a copy of the amendment to Regulation A. Additional copies of the enclosure will be furnished upon request.

ALFRED HAYES,
President.

Board of Governors of the Federal Reserve System

EXTENSIONS OF CREDIT BY
FEDERAL RESERVE BANKS

AMENDMENT TO REGULATION A

Effective September 25, 1974, section 201.2(e)
is amended to read as follows:

SECTION 201.2—GENERAL
PRINCIPLES

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(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 section 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 established by Federal Reserve Banks subject to review and determination by the Board of Governors and 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, or sudden deterioration in loan repayment performance. 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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