

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 7906]  
June 29, 1976

PROPOSED AMENDMENT TO REGULATION A  
Liberalization of Seasonal Borrowing Privilege

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

Following is the text of a statement issued June 23 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced proposals to liberalize the conditions which govern certain borrowing by member banks from the 12 Reserve Banks.

The purpose of the change is to help banks, particularly smaller banks, that are subject to significant seasonal loan demand or deposit fluctuations, to meet the financial needs of their communities.

The Board will receive comment on the proposal through July 23, 1976.

The proposed changes would permit member banks to be eligible for seasonal credit from the Federal Reserve even though they maintain a portion of their liquid assets in the form of Federal funds, so long as such holdings conform to the bank's normal operating experiences. Heretofore, the discount window was not available to such banks if they chose to hold Federal funds.

The proposal also liberalizes the seasonal borrowing privilege in other ways. Presently, a bank qualifies for seasonal borrowing assistance if its need for funds in the peak season exceeds 5 per cent of average total deposits in the preceding year. The new proposal lowers this formula to 4 per cent of the first \$100 million, and includes somewhat higher percentages for larger deposits.

In computing eligibility for seasonal assistance, the proposal also reduces the minimum period during which the seasonal need must be evident. The new plan would reduce that test from eight to four weeks.

The seasonal credit arrangement is not normally available to banks with deposits of \$500 million or more.

The proposed changes are aimed mainly at assisting smaller member banks, including those that typically maintain liquid balances in the form of Federal funds. Banks in agricultural and other areas which are subject to seasonal peaks in credit demands will be the principal beneficiaries.

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

PAUL A. VOLCKER,  
*President.*

(OVER)

**PART 201—EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS**

**Notice of Proposed Rulemaking Relating to Seasonal Credit**

The Board of Governors of the Federal Reserve System proposes to amend §201.2(d) of Regulation A (Extensions of Credit by Federal Reserve Banks) to provide more flexible conditions under which member banks with well-defined seasonal requirements for loanable funds would be permitted to borrow from Federal Reserve Banks. The purpose of the proposed amendment is to enable member banks to increase their ability to serve their communities by providing them with a reliable source of short-term funds during periods of increased loan demand due to seasonal conditions.

Federal Reserve credit would be available to a member bank to the extent that the member bank's seasonal needs exceed certain established percentages of the bank's average total deposits in the preceding calendar year. Regulation A currently provides that a member bank must provide for that part of its seasonal needs that equals 5 per cent of its deposits. If the proposed amendment is adopted, under percentages to be established by the Board of Governors, it is expected that a member bank will be required to provide for that part of its seasonal need that equals 4 per cent of the first \$100 million of deposits; 7 per cent of the second \$100 million of deposits; and 10 per cent of any deposits over \$200 million. Changes in these percentages will be announced in the Federal Register. Seasonal credit will not normally be available to banks with deposits of \$500 million or more since such banks ordinarily have ready access to national money markets.

In order to provide additional benefits to member banks, the minimum period during which the seasonal need for funds must persist would be reduced from the presently required eight weeks to four weeks. While member banks would be encouraged to arrange for seasonal credit in advance of their needs, the proposed amendment does not require such prearrangement in order to obtain seasonal credit. In utilizing the seasonal credit provisions, member banks would be permitted to modify their credit arrangements with Federal Reserve Banks.

Net sales of Federal funds and purchases of liquid assets by a member bank would not be regarded as inappropriate while using seasonal credit as long as the sales and purchases represent the member bank's normal operating pattern. A member bank will not be permitted to borrow from the discount window for the purpose of increasing sales of Federal Funds.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, comments, or arguments. 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 July 23, 1976. All material submitted should include the docket number R-0043. Such information will be made available for inspection and copying upon request except as provided in §261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

This amendment is proposed under the authority of § 4 of the Federal Reserve Act (12 U.S.C. 301) to prescribe regulations defining the conditions under which credit may be extended to member banks and §13 of the Federal Reserve Act (12 U.S.C. 347), which authorizes Federal Reserve Banks to extend credit to member banks. In consideration of the foregoing, the Board proposes to amend §201.2(d) of Regulation A (12 CFR 201.2(d)) as follows:

**SECTION 201.2—GENERAL PRINCIPLES**

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(d) **Seasonal credit.** Federal Reserve credit is available for longer periods to assist a member bank 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 certain percentages established by the Board of Governors of the bank's average total deposits in the preceding calendar year. Credit will be available if the Reserve Bank is satisfied that the member bank's qualifying need for funds is seasonal and will persist for at least four weeks. To the extent practicable, member banks should arrange in advance for seasonal credit for the full period during which such credit is expected to be required. In making arrangements for such credit, a Reserve Bank may agree to extend credit for a period of up to 90 days,<sup>1</sup> subject to compliance with applicable requirements of law at the time 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.

<sup>1</sup> As 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.