

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 7948]
September 1, 1976

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

The Board of Governors of the Federal Reserve System today announced the adoption of rules liberalizing the conditions which govern seasonal borrowing by member banks from the 12 Reserve Banks.

The purpose of the change in Regulation A is to increase the ability of member banks—particularly smaller banks—that are subject to significant seasonal loan demand or deposit fluctuations to meet the financial needs of their communities.

The change in rules governing seasonal borrowing was proposed on June 23, 1976. Comment was generally favorable and the revision was adopted as proposed.

The revised regulation permits 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 (loans of excess reserves to other banks), so long as such holdings conform to the bank's normal operating experience. Heretofore, seasonal credit at the discount window was not available to banks while they were net lenders of Federal funds.

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

In computing eligibility for seasonal assistance, the revision of discount lending rules reduces from eight to four weeks the minimum period during which the seasonal need must be evident.

The revised seasonal credit arrangement will not normally be available to banks with deposits of \$500 million or more. Smaller banks in agricultural and other areas which are subject to seasonal peaks in credit demands will be the principal beneficiaries of the new seasonal borrowing rules.

In submitting the amendment for publication in the *Federal Register*, the Board of Governors made the following additional statement:

On June 23, 1976, the Board invited public comments to be submitted by July 23, 1976, on a proposed amendment to its Regulation A (Extensions of Credit By Federal Reserve Banks) that would 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 (41 FR 26935). 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 or decreased deposits due to seasonal conditions.

After review and consideration of all comments received, the Board has decided to adopt the amendment in the form proposed. The amendment is effective immediately. The amendment provides that Federal Reserve credit will be available to a member bank to the extent that the member bank's seasonal needs exceed certain percentages of the bank's average total deposits in the preceding calendar year. Under the percentages established by the Board of Governors, 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. At present, it is not anticipated that these percentages will be changed. However, any modifications in these percentages made by the Board would be announced by notice

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published 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.

While member banks will be encouraged to arrange for seasonal credit in advance of their needs, the amendment does not require such prearrangement in order to obtain seasonal credit. In utilizing the seasonal credit provisions, member banks will be permitted to modify their credit arrangements with Federal Reserve Banks.

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

After review and consideration of all comments received, pursuant to its authority under §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, the Board has decided to adopt the amendment in the form proposed. The amendment is effective in less than 30 days since the provision relieves existing restrictions of the Board's regulations and because the Board finds it in the public interest to make the amendment effective immediately in order to authorize the extension of Federal Reserve seasonal credit to member banks under these more flexible conditions as soon as possible.

Enclosed is a copy of the amendment to Regulation A. This Bank will shortly be contacting those member banks in this District that appear to qualify for seasonal credit. In the interim, any questions regarding this matter may be directed at our Head Office to Herbert H. Ruess, Manager, Credit and Discount Department, Tel. No. 212-791-5375, and at our Buffalo Branch, to Gary S. Weintraub, Assistant Cashier, Tel. No. 716-849-5020.

Additional copies of the enclosure will be furnished upon request.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

EXTENSIONS OF CREDIT BY
FEDERAL RESERVE BANKS

AMENDMENT TO REGULATION A

Effective August 25, 1976, section 201.2(d)
is amended to read as follows:

SECTION 201.2—GENERAL
PRINCIPLES

* * *

(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,¹ 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 consider a request by the member bank for further credit extensions under the seasonal credit arrangement.

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¹ 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.

For this Regulation to be complete, retain:

- 1) Regulation A pamphlet, as amended effective April 19, 1973.
- 2) Amendments effective September 25, 1974 and October 25, 1974.
- 3) This slip sheet.

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