

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212 791-6375

*H. Pic. No 8556*  
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CHESTER B. FELDBERG  
VICE PRESIDENT

To Member Banks in the Head Office Territory  
of the Second Federal Reserve District:

The purpose of this letter is to bring to your attention certain actions being taken by the Reserve Banks to liberalize requirements for the submission of collateral to secure discount window borrowings.

During 1978, the Federal Reserve System undertook a broad-scale review of discount window collateral, with a view to modernizing existing policies and procedures. The study was undertaken because of problems experienced by some member banks (particularly the larger banks) in finding adequate collateral to secure their borrowing needs, and in anticipation of the implementation last November of the new Treasury Tax and Loan ("TT&L") Investment Program, which has required many banks to submit substantial additional collateral for TT&L purposes. An objective of the System study was to expand the pool of collateral available for discount window purposes, and also thereby to free collateral for use in connection with the TT&L program.

As a result of the study, a number of policy and procedural changes are being implemented, effective immediately. A major change will permit banks with a need for additional collateral to use residential mortgages held in their possession to secure their discount window borrowings under so-called "off-premises custody" arrangements. Under the Federal Reserve Act, discount window advances secured by mortgages on one-to-four family residential property may be made at the basic discount rate. The off-premises custody procedure could also be used in the case of other high-volume, small-denomination assets, which are burdensome to transfer and require heavy servicing. As in the past, third-party custody arrangements will also be permissible for certain types of collateral, such as municipal securities, which are held in safekeeping by another member bank.

In addition to the new off-premises custody procedure, other changes will permit use of loan participations and certain types of foreign customer notes as discount window collateral. These latter changes should primarily interest those banks that have used domestic customer notes as collateral in the past.

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We recognize that the great majority of banks in the Second Federal Reserve District have not experienced collateral problems to date and are able to satisfy their requirements through the use of Treasury securities held in book-entry form at this Bank. However, for those banks that see a current or prospective need to expand their pool of available collateral, we would be pleased to discuss the new collateral initiatives.

If your bank has an interest in pursuing these matters further or has questions with respect to any other aspect of discount window administration, please contact Eugene P. Emond, Manager, Credit and Discount Department (Tel. No. 212-791-6146) or Arnold Slansky Special Assistant, Loans and Credits Function (Tel. No. 212-791-5348).

Yours sincerely,

*Chester B. Feldberg*

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