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FEDERAL RESERVE BANK
OF NEW YORK

April 18, 1980

CREDIT NEEDS OF LOCAL COMMUNITIES

—Application of Special Credit Restraint Program to Small Banks
—Temporary Seasonal Credit Program for Small Banks

To the Chief Executive Officers of All Commercial Banks in the Second Federal Reserve District:

Enclosed is a letter from Paul A. Volcker, Chairman of the Board of Governors of the Federal Reserve System, that clarifies the application of the Federal Reserve Board's Special Credit Restraint Program to smaller banks, particularly those in rural and agricultural areas. The letter also indicates that a Temporary Seasonal Credit Program has been adopted by the Board to help small banks under liquidity pressure meet the credit needs of their communities.

Also enclosed is a copy of the Board's press release on this matter, a description of the Temporary Seasonal Credit Program, and a form that must be completed as part of the application for establishment of a seasonal credit line under the temporary program. Banks interested in participating in the program should contact, at our Head Office, Eugene P. Emond, Manager, Credit and Discount Department (Tel. No. 212-791-6146), or, at our Buffalo Branch, Gary S. Weintraub, Operations Officer (Tel. No. 716-849-5020).

Questions regarding the application of the Special Credit Restraint Program to small banks should be directed to Donald E. Schmid, Manager, Bank Analysis Department (Tel. No. 212-791-6611).

ANTHONY M. SOLOMON,
President.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

April 17, 1980

TO THE CHIEF EXECUTIVE OFFICERS OF COMMERCIAL BANKS:

A number of questions have arisen concerning:

(1) The application of the Special Credit Restraint Program to smaller banks, particularly those in rural and agricultural areas, with loan portfolios principally consisting of agricultural, small business, and housing paper.

(2) The possible availability to nonmember banks of seasonal borrowing privileges at the discount window, comparable to the established provisions for member banks, under authority of newly enacted H.R. 4986.

This communication is designed to clarify these issues.

Special Credit Restraint Program

All commercial banks have received, and been requested to respect, the general guidelines for bank lending set forth in the Special Credit Restraint Program. Those guidelines indicate that a primary purpose is to "meet the basic needs of established customers for normal operations, particularly smaller businesses, farmers, thrift institution bank customers and agriculturally oriented correspondent banks and homebuyers with limited alternative sources of funds." Certain types of loans--financing speculative activity, takeovers, or other reasonably postponable activities or activities that do not contribute to economic efficiency--are to be discouraged. The guidelines go on to indicate that, taking into account such factors as liquidity and capital positions, growth in bank loans should not generally exceed a range of 6-9 percent.

The question has arisen, particularly among smaller banks and their customers, as to whether the quantitative guideline is designed to discourage lending to farmers or others looking to their local commercial bank for financing their ordinary production needs. The answer is no.

The clear intent of the guideline is to encourage banks to meet the ordinary continuing operating or seasonal needs of their established local customers, taking due account of normal standards of liquidity and capital requirements within the lending bank and of the creditworthiness of the borrower. To that end, banks, as appropriate and possible, are expected to take account of the special needs of small businesses, including farmers and others.

The Board is conscious that the predominant customers of many smaller banks fall into categories where it is expected that reasonable availability of funds will be maintained, and no special reports under the Special Credit Restraint Program have been requested from smaller banks.

Banks in that size group, like other banks, are expected to maintain normal lending activity to small businesses, farmers, and others without access to other forms of financing insofar as that lending is consistent with prudent liquidity positions and capital ratios. Should that lending, looking at 1980 as a whole, appear to be proceeding at a pace that would press against or exceed the 6-9 percent guidelines for total lending, the bank would be expected to cut back less urgent forms of lending. These might include, for instance, unsecured personal financing, loans to finance land or other postponable capital acquisitions, participations in larger business loans of correspondent banks, sales of Federal funds, and the like. In other words, every care should be taken to conserve available funds for priority uses, and the necessary restraint should fall on other areas. In those instances where a bank is essentially confining loan expansion to priority areas, which may particularly be the case with community banks serving agricultural areas and small businesses, that bank is justified in exceeding the quantitative guidelines.

Discount Window Accommodation

We are aware that stringent credit conditions in many areas of the country, and particularly among community banks with limited access to central money markets, have given rise to concern over the seasonal availability of funds to agriculture or small businesses for ordinary production purposes. Contacts with bankers and others make it evident that the availability of credit to individual farmers or others is affected by many factors other than the liquidity of individual lending institutions. However, to the extent that a bank--member or nonmember--is unable to obtain funds for priority lending through ordinary funding sources, use of the discount window may be considered.

To facilitate this process, pending full development of more permanent guidelines for discount window access under the provisions of the recently passed "Monetary Control Act of 1980," a seasonal borrowing program will be made available to nonmember banks, supplementing facilities already available to member banks. This program will be conducted under certain simplified criteria providing readily calculated guidelines for the use of the borrowing banks and the discount officers of the Federal Reserve Banks. Member banks may, at their initiative, also apply for discount window accommodation according to the same guidelines in lieu of the existing seasonal credit program should they find it more advantageous.

The specifics of the program are described in the enclosure.

Sincerely,

Paul A. Volcker

Enclosure

April 17, 1980

Temporary Seasonal Credit Program
for Small Banks

The following temporary program for seasonal lending through Reserve Bank discount windows has been established effective immediately. It is available to nonmember banks. Member banks may also choose to participate in this program instead of their established seasonal credit arrangements. By July 1, the Board expects to have adopted a more permanent set of guidelines governing all aspects of discount window administration under provisions of the new Monetary Control Act of 1980. That Act provides that depository institutions having transactions accounts or nonpersonal time deposits shall have access to the discount window on the same basis as member banks. Seasonal lending has been available to member banks for some years.

Access to seasonal credit under the temporary program will be generally limited to banks with deposits of less than $100 million, though in special circumstances applications by somewhat larger banks without access to national money markets may also be considered. To participate in the program, a bank must provide evidence of liquidity pressures that make it difficult to accommodate the normal seasonal credit needs of its community. Such banks would typically have loan-deposit ratios above the average ratio for banks of similar size in the nation. The minimum gross loan-gross deposit ratio for banks to qualify for this program would normally be 68 percent.

Seasonal credit will be granted to help finance increases in loans by such banks that are operating within the qualitative guidelines of the Board's Special Credit Restraint Program, and thereby giving special attention to the seasonal financing of such borrowers as farmers and small businesses in the ordinary course of local business. The amount of credit available from the Federal Reserve to finance a bank's increase in loans will normally be limited to a maximum of 5 percent of its total loans outstanding at the time when the bank applies for a credit line and can show that it meets the minimum qualifications.

The amount of total loans and the loan-deposit ratio should be computed as the average for the two statement weeks preceding the statement week in which the bank applies. Thus, for example, the eligibility for seasonal credit of banks applying in the present statement week ending April 23 would be based on average loan-deposit ratios in the two statement weeks ending April 16. The total loans relevant to calculation of its maximum seasonal credit line would be the average amount of loans (excluding any **sales** of federal funds) in those two weeks. For banks applying in later weeks, loan totals and loan-deposit ratios would be computed from the two statement weeks preceding the later week of application.

A bank may draw on its seasonal line to finance no more than 70 percent of the increase in total loans from the level prevailing at the time of application. To the extent that loans subsequently fall back toward the starting level ("the base level") banks will be required to repay a proportionate share of System credit. Also, to the extent that deposits subsequently increase more than loans, a substantial portion of the excess will be expected to be used for repayment of the borrowing from the Federal Reserve. The borrowing should be entirely repaid once the loan-to-deposit ratio returns to the starting figure determined at the time of application.

In any event, individual loans arranged under this program may be outstanding for no more than six months, but the term of the borrowing may be extended another three months under special circumstances. The surcharge above the basic discount rate does not apply to borrowing under this program.

FEDERAL RESERVE press release

For immediate release April 17, 1980

The Federal Reserve Board today announced a temporary seasonal credit program that is designed to help small banks under liquidity pressures meet the credit needs of their communities.

The practical effect of the program is to extend immediately the coverage of the seasonal borrowing privilege, heretofore limited to smaller member banks, to all small banks under simplified guidelines. This action is taken in further implementation of the provisions of the "Monetary Control Act of 1980" regarding the availability of the discount window to institutions holding transactions accounts or nonpersonal time deposits. As previously announced, by July 1, the Board expects to have more permanent guidelines in place.

The seasonal program is aimed generally at banks--both member and non-member--with less than $100 million in deposits. Seasonal credit will be granted mainly to finance increases in loans by banks operating within the qualitative guidelines of the Board's Special Credit Restraint Program and thus giving special attention to the normal financing needs of farmers and small business.

Details of the seasonal program are included in the attached letter to all banks. The letter also clarifies the application of the Special Credit Restraint Program to smaller banks lending primarily to agriculture, small business, or other priority uses.

The letter explains that the intent of the guidelines under the Program is to encourage banks to meet the ordinary continuing or seasonal needs of their established local customers, taking account of the special needs of small business, farmers and others. Should a bank's total lending appear to be proceeding at a pace that would exceed the 9 percent guideline on loan growth, small banks, like

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other banks, would be expected to cut back on less urgent forms of lending. In those instances where a bank is essentially confining loan expansion to priority areas, which may particularly be the case with community banks serving agricultural areas and small business, that bank is justified in exceeding the quantitative guidelines of the Special Credit Restraint Program.

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Calculation for Temporary Seasonal
Credit Line with Federal Reserve Bank of ____________
(Two-week base period ending ______, 1980)

The base period for demonstrating eligibility and for calculating the seasonal credit line is the two full statement weeks just preceding the statement week in which the application is made. For example, for applications made in the statement week ending April 23, the base period is the two weeks ending April 16.

SECTION I

Date				Total Loans, Gross Col. 1		Total Deposits Col. 2	
Day of Week	Month	Day	Year	Mils.	Thous.	Mils.	Thous.
Thur.			1980				
Fri.			1980				
Sat.			1980				
Sun.			1980				
Mon.			1980				
Tues.			1980				
Wed.			1980				
Thur.			1980				
Fri.			1980				
Sat.			1980				
Sun.			1980				
Mon.			1980				
Tues.			1980				
Wed.			1980				
TOTAL							
DAILY AVERAGE							

(Instructions to nonmember banks for completing the above table are provided on page 2 of this form and those for member banks are provided on page 3.)

SECTION II

1. Ratio of daily average of total loans, gross, to total deposits (daily average of Col. 1 divided by daily average of Col. 2; report to two decimal places)..... ____________

INSTRUCTIONS

Item Definitions for Nonmember Banks

The definitions of items on this report correspond directly to the definitions of items on the Consolidated Report of Condition as shown in the table below. For definitions and instructions for these items (as well as for the consolidation procedure), refer to the referenced items in the instruction pamphlet for the Consolidated Report of Condition.

	Report of Condition Items	
	For banks that submit the Simplified Version of the Consolidated Report of Condition for a Bank and Its Domestic Subsidiaries	For banks that submit the Standard Version of the Consolidated Report of Condition for a Bank and Its Domestic Subsidiaries
Col. 1: Total loans, gross	Schedule A, Item 8	Schedule A, Item 8
Col. 2: Total deposits	Asset Item 19	Asset Item 24a

Note: If data are not readily available on a daily basis that exactly meet the definitions described above, estimates are acceptable. Please be certain that gross loans exclude Federal funds sold and that total deposits exclude Federal funds purchased and other borrowings.

INSTRUCTIONS

Item Definitions for Member Banks

The item definition for "Total loans, gross" (Col. 1) on this report corresponds directly to the definition of "Total loans, gross" from Schedule A, Item 8 of the Consolidated Report of Condition. For the definition and instructions (as well as the consolidation procedure) pertaining to this item, refer to the instruction pamphlet for the Consolidated Report of Condition.

The item definition for "Total deposits" (Col. 2) on this report corresponds directly to the sum of the following items from the Report of Deposits and Vault Cash (FR 414):

1) demand deposits due to banks;

2) U.S. government demand deposits;

3) other demand deposits;

4) savings deposits authorized for automatic transfer (ATS accounts) and negotiable order of withdrawal (NOW) accounts;

5) other savings deposits (including club accounts);

6) time deposits (including the three original maturity classifications of 30 to 179 days, 180 days to less than 4 years, and 4 years or more).

Refer to the instructions for the Report of Deposits and Vault Cash for the definition of these items as well as the consolidation procedure.

Note: If loan data are not readily available on a daily basis that exactly meet the definitions described above, estimates are acceptable. Please be certain that gross loans exclude Federal funds sold.