

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 8850
June 13, 1980

**EXTENSIONS OF CREDIT TO DEPOSITORY INSTITUTIONS
UNDER THE MONETARY CONTROL ACT
Comment Invited on Proposed Revision of Regulation A**

To All Depository Institutions
in the Second Federal Reserve District:

The Board of Governors of the Federal Reserve System has proposed a major revision of its Regulation A, "Extensions of Credit by Federal Reserve Banks," to carry out provisions of the Monetary Control Act of 1980. Comment on the proposal should be submitted by July 15, 1980, and may be sent to our Credit and Discount Department.

The following is quoted from the text of the Board's announcement:

The Act provides that any depository institution that holds transaction accounts or nonpersonal time deposits which are subject to reserve requirements, shall have access to the Federal Reserve discount and borrowing facilities on the same basis as member banks.

Under the proposed regulation, Federal Reserve credit would be offered under two major programs — regular adjustment credit and extended credit, which would include seasonal credit and special credit for institutions facing particular problems.

Nonmember institutions that are now eligible for credit under the Monetary Control Act would be expected, like member banks, to rely on other available sources of funds before turning to the Federal Reserve for assistance. Consequently, institutions that have access to credit programs provided by the Federal Home Loan Banks, credit union centrals, or the Central Liquidity Facility of the National Credit Union Administration will be expected to seek assistance from those sources first.

As indicated in the Board's proposal, under the extended credit program Federal Reserve credit would be available, when conditions warrant, to accommodate the needs of depository institutions, including those with longer-term asset portfolios, that may be experiencing difficulties adjusting to changing money market conditions over a longer period than covered by adjustment credit, particularly at times of deposit disintermediation.

Printed on the following pages is the text of the proposal. Additional copies will be furnished upon request directed to our Circulars Division.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE BANK
OF NEW YORK
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[12 CFR PART 201]

(Docket No. R-0307)

NOTICE OF PROPOSED RULEMAKING

EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rulemaking.

SUMMARY: The Monetary Control Act of 1980 (Title I of Pub. L. 96-221) provides that a depository institution that maintains transaction accounts or nonpersonal time deposits is entitled to the same discount and borrowing privileges as banks that are members of the Federal Reserve System. In order to implement this provision, the Board proposes to revise its rules relating to the provision of Federal Reserve credit presently contained in Regulation A--Extensions of Credit by Federal Reserve Banks (12 CFR Part 201).

DATE: Comments must be received by July 15, 1980.

ADDRESS: Comments should be addressed to Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551. Comments can also be delivered to room B-2223 at the above address between 8:45 a.m. and 5:15 p.m. All comments should refer to Docket No. R-0307.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202-452-3625) or John Spitzer, Senior Economist (202-452-2587), Board of Governors of the Federal Reserve System, Washington, D.C.

SUPPLEMENTARY INFORMATION: The Monetary Control Act of 1980 (Title I of Pub. L. 96-221) provides that any depository institution that holds transaction accounts or nonpersonal time deposits shall be entitled to the same discount and borrowing privileges as member banks. The Board proposes to implement this provision by amending its rules regarding access to Federal Reserve credit currently provided for in Regulation A -Extensions of Credit by Federal Reserve Banks (12 CFR Part 201).

The proposed regulation provides that Federal Reserve credit may be offered under two basic programs--adjustment and extended. Non-member depository institutions that are now eligible to borrow from the Federal Reserve would, like member banks, be expected to rely on other reasonably available sources of funds before turning to the discount

window for assistance. Consequently, institutions that have access to credit programs provided by Federal Home Loan Banks, credit union centrals, or the Central Liquidity Facility of the National Credit Union Administration would be expected to seek assistance from these sources prior to requesting credit from the Federal Reserve.

The primary form of Federal Reserve lending would continue to be short-term adjustment credit. Such credit is available on a very short-term basis to assist borrowers in meeting temporary requirements for funds, or to cushion more persistent fund outflows pending an orderly adjustment of the borrower's assets and liabilities. Borrowing is not permitted to take advantage of a favorable spread between the discount rate and other market rates, to add to investment portfolios, or to finance a program of loan expansion.

Interest on Federal Reserve adjustment credit would generally be at the basic discount rate. However, the Federal Reserve would retain the option to impose a surcharge in addition to the basic rate. While the discount rate surcharge introduced for a brief period earlier this year applied only to large institutions, any surcharge that may be imposed could apply to any institution that was eligible to borrow depending upon the length and frequency of the borrowing.

In addition to this primary program for short-term adjustment credit, under the proposed regulation extended credit would be available under certain limited conditions. It would continue regular arrangements for providing seasonal credit to smaller institutions that lack ready access to national money markets or to special industry lenders. In determining a depository institution's eligibility for seasonal credit, Federal Reserve Bank discount officers would give weight not only to its historical record of seasonally adjusted loan and deposit performance, but would also take account of evidence with regard to changing patterns of recent and prospective needs for funds and liquidity conditions at the institution. The special program for seasonal credit adopted as a temporary measure on April 17, 1980 would be terminated when the new regulation becomes effective.

Extended credit would also be available to meet the needs of a depository institution experiencing difficulties arising from exceptional circumstances or practices involving only that institution, where the provision of such temporary assistance is in the public interest. In addition, when conditions warrant, extended credit would be available to accommodate the needs of institutions, including those with longer term asset portfolios, that may be experiencing difficulties adjusting to changing money market conditions over a longer period than covered by adjustment credit, particularly at times of deposit disintermediation.

Advances made under the seasonal credit program would be at the basic discount rate; as with adjustment credit, however, the Federal Reserve would reserve the option to apply a surcharge above the basic

rate. The rate applicable to other extended credit would normally be above the basic rate, though the applicable rate would, of course, depend on market conditions at the time.

In view of the March 31, 1980 effective date of the discount window provisions of the Monetary Control Act, the Board has determined to shorten the length of the comment period normally provided to the public. Accordingly, comments on these proposals should be submitted to the Board by July 15, 1980.

Pursuant to authority under sections 10(a), 10(b), 13, 13a, 19 of the Federal Reserve Act (12 U.S.C. §§ 347a, 347b, 343-347, 347c, 347d, 348-352, 374, 374a), as amended by the Monetary Control Act of 1980 (Title I, Pub. L. 96-221; 94 Stat. 132), the Board proposes to amend Regulation A (12 CFR Part 201) to read as follows:

PART 201--EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS

Sec.

- 201.1 Authority, Scope and Purpose
- 201.2 Definitions
- 201.3 Availability and Terms
- 201.4 Advances and Discounts
- 201.5 General Requirements
- 201.6 Federal Intermediate Credit Banks

§ 201.1 Authority, Scope and Purpose.

(a) Authority and Scope. This Part is issued under the authority of sections 10(b) and 13 of the Federal Reserve Act (12 U.S.C. §§ 347b, 343 et seq., 347c) and other provisions of the Federal Reserve Act and relates to extensions of credit by Reserve Banks to depository institutions and others. Except as may be otherwise provided, this Part shall be applicable to United States branches and agencies of foreign banks subject to reserve requirements under Regulation D (12 CFR Part 204) in the same manner and to the same extent as member banks.

(b) Purpose. Extending credit to depository institutions to accommodate commerce, industry, and agriculture is a principal function of Reserve Banks. While open market operations are the primary means of affecting the overall supply of reserves, the lending function of the Reserve Banks is an effective method of supplying reserves to meet the particular credit needs of individual depository institutions.

The lending functions of the Federal Reserve System are conducted with due regard to the basic objectives of monetary policy and the maintenance of a sound and orderly financial system. These basic objectives are

promoted by influencing the overall volume and cost of credit through actions that affect the volume and cost of reserves to depository institutions. Borrowing by individual depository institutions, at a rate of interest that is adjusted from time to time in accordance with prevailing economic and money market conditions, has a direct impact on the reserve positions of the borrowing institutions and thus on their ability to meet the credit needs of their customers. However, the effects of such borrowing do not remain localized but have an important bearing on overall monetary and credit conditions.

§ 201.2 Definitions

For purposes of this Part, the following definitions shall apply:

(a) "Depository institution" means an institution that maintains reservable transaction accounts or nonpersonal time deposits and which is:

(1) an insured bank as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. § 1813(h)) or a bank that is eligible to apply to become an insured bank under section 5 of such Act (12 U.S.C. § 1815);

(2) a savings bank or mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. § 1813(f), (g));

(3) an insured credit union as defined in section 101 of the Federal Credit Union Act (12 U.S.C. § 1752(7)) or a credit union that is eligible to apply to become an insured credit union under section 201 of such Act (12 U.S.C. § 1781);

(4) a member as defined in section 2 of the Federal Home Loan Bank Act (12 U.S.C. § 1422(4)); and

(5) an insured institution as defined in section 401 of the National Housing Act (12 U.S.C. § 1724(a)) or an institution that is eligible to apply to become an insured institution under section 403 of such Act (12 U.S.C. § 1726).

(b) "Transaction account and nonpersonal time deposits" have the meanings specified in Part 204 of this Title (Regulation D).

§ 201.3 Availability and Terms

(a) Short-term adjustment credit. Federal Reserve credit is available on a short-term basis to a depository institution, under such rules as may be prescribed to assist the institution, to the extent appropriate, in meeting temporary requirements for funds, or to cushion more persistent outflows of funds pending an orderly adjustment of the

institution's assets and liabilities. Such credit normally is available only after reasonable alternative sources of funds, including credit from special industry lenders, have been fully used. Under certain circumstances, a surcharge may be imposed above the basic rate of interest charged by Reserve Banks.

(b) Extended credit. (1) Seasonal credit. Federal Reserve credit is available for periods longer than those permitted under adjustment credit to assist smaller depository institutions in meeting regular needs for funds arising from a combination of expected patterns of movement in their deposits and loans. Seasonal credit is available only if similar assistance is not available from other special industry lenders. Seasonal credit will ordinarily be limited to the amount by which the depository institution's seasonal needs exceed certain percentages, established by the Board of Governors, of the institution's average total deposits in the preceding calendar year. Such credit will be available if the Reserve Bank is satisfied that the institution's qualifying need for funds is seasonal and will persist for at least four weeks. Need for credit at depository institutions will also be given consideration when institutions are experiencing unusual seasonal demands for credit in a period of liquidity strain. To the extent practicable, a depository institution should arrange in advance for seasonal credit for the full period during which such credit is expected to be required.

(2) Other extended credit. Federal Reserve credit is available to eligible depository institutions under extended credit arrangements where similar assistance is not reasonably available from other sources, including special industry lenders. Such credit may be provided where there are exceptional circumstances or practices involving only a particular depository institution. Exceptional circumstances would include situations where an individual depository institution is experiencing financial strains arising from particular circumstances or practices affecting that institution--including sustained deposit drains, impaired access to money market funds, or sudden deterioration in loan repayment performance. Extended credit may also be provided to accommodate the needs of depository institutions, including those with longer term asset portfolios, that may be experiencing difficulties adjusting to changing money market conditions over a longer period, particularly at times of deposit disintermediation. A special rate above the basic discount rate established by the Reserve Banks, subject to review and determination by the Board of Governors, may be applied to extended credit.

(c) Emergency credit for others. In unusual and exigent circumstances, a Reserve Bank may, after consultation with the Board, advance credit to individuals, partnerships, and corporations that are not depository institutions if, in the judgment of the Reserve Bank, credit is not available from other sources and failure to obtain such

credit would adversely affect the economy. The rate applicable to such credit will be above the highest discount rate in effect for depository institutions. Where the collateral used to secure such credit consists of assets other than obligations of, or fully guaranteed as to principal and interest by, the United States or an agency thereof, an affirmative vote of five or more Board members is required before credit may be extended.

§ 201.4 Advances and Discounts

(a) Reserve Banks may lend to depository institutions either through advances secured by acceptable collateral or through the discount of certain types of paper. Credit extended by the Federal Reserve generally takes the form of an advance.

(b) Reserve Banks may make advances to any depository institution if secured to the satisfaction of the Reserve Bank. Satisfactory collateral generally includes United States government and federal agency securities, and, if of acceptable quality, mortgage loans covering 1-4 family residences, state and local government securities, and customer notes.

(c) If a Reserve Bank concludes that a depository institution will be better accommodated by the discount of paper than by an advance, it may discount any paper endorsed by the depository institution which meets the following requirements:

(1) Commercial or agricultural paper. A note, draft, or bill of exchange issued or drawn or the proceeds of which have been or are to be used (i) in producing, purchasing, carrying, or marketing goods in the process of production, manufacture, or distribution; (ii) for the purchase of services; (iii) in meeting current operating expenses of a commercial, agricultural, or industrial business; or (iv) for the purpose of carrying or trading in direct obligations of the United States. Such paper, at the time of discount, must have a period remaining to maturity of not more than 90 days, except that agricultural paper (including paper of cooperative marketing associations) may have a period remaining to maturity of not more than nine months, and the proceeds of such paper must not have been, or are not to be used, merely for the purpose of investment, speculation, or dealing in stocks, bonds, or other such securities, except direct obligations of the United States.

(2) Bankers' acceptances. A banker's acceptance (i) arising out of an importation or exportation or domestic shipment of goods or the storage of readily marketable staples; or (ii) drawn by a bank in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange. Such acceptance must comply with applicable requirements of section 13 of the Federal Reserve Act (12 U.S.C. § 346).

institution's assets and liabilities. Such credit normally is available only after reasonable alternative sources of funds, including credit from special industry lenders, have been fully used. Under certain circumstances, a surcharge may be imposed above the basic rate of interest charged by Reserve Banks.

(b) Extended credit. (1) Seasonal credit. Federal Reserve credit is available for periods longer than those permitted under adjustment credit to assist smaller depository institutions in meeting regular needs for funds arising from a combination of expected patterns of movement in their deposits and loans. Seasonal credit is available only if similar assistance is not available from other special industry lenders. Seasonal credit will ordinarily be limited to the amount by which the depository institution's seasonal needs exceed certain percentages, established by the Board of Governors, of the institution's average total deposits in the preceding calendar year. Such credit will be available if the Reserve Bank is satisfied that the institution's qualifying need for funds is seasonal and will persist for at least four weeks. Need for credit at depository institutions will also be given consideration when institutions are experiencing unusual seasonal demands for credit in a period of liquidity strain. To the extent practicable, a depository institution should arrange in advance for seasonal credit for the full period during which such credit is expected to be required.

(2) Other extended credit. Federal Reserve credit is available to eligible depository institutions under extended credit arrangements where similar assistance is not reasonably available from other sources, including special industry lenders. Such credit may be provided where there are exceptional circumstances or practices involving only a particular depository institution. Exceptional circumstances would include situations where an individual depository institution is experiencing financial strains arising from particular circumstances or practices affecting that institution--including sustained deposit drains, impaired access to money market funds, or sudden deterioration in loan repayment performance. Extended credit may also be provided to accommodate the needs of depository institutions, including those with longer term asset portfolios, that may be experiencing difficulties adjusting to changing money market conditions over a longer period, particularly at times of deposit disintermediation. A special rate above the basic discount rate established by the Reserve Banks, subject to review and determination by the Board of Governors, may be applied to extended credit.

(c) Emergency credit for others. In unusual and exigent circumstances, a Reserve Bank may, after consultation with the Board, advance credit to individuals, partnerships, and corporations that are not depository institutions if, in the judgment of the Reserve Bank, credit is not available from other sources and failure to obtain such

credit would adversely affect the economy. The rate applicable to such credit will be above the highest discount rate in effect for depository institutions. Where the collateral used to secure such credit consists of assets other than obligations of, or fully guaranteed as to principal and interest by, the United States or an agency thereof, an affirmative vote of five or more Board members is required before credit may be extended.

§ 201.4 Advances and Discounts

(a) Reserve Banks may lend to depository institutions either through advances secured by acceptable collateral or through the discount of certain types of paper. Credit extended by the Federal Reserve generally takes the form of an advance.

(b) Reserve Banks may make advances to any depository institution if secured to the satisfaction of the Reserve Bank. Satisfactory collateral generally includes United States government and federal agency securities, and, if of acceptable quality, mortgage loans covering 1-4 family residences, state and local government securities, and customer notes.

(c) If a Reserve Bank concludes that a depository institution will be better accommodated by the discount of paper than by an advance, it may discount any paper endorsed by the depository institution which meets the following requirements:

(1) Commercial or agricultural paper. A note, draft, or bill of exchange issued or drawn or the proceeds of which have been or are to be used (i) in producing, purchasing, carrying, or marketing goods in the process of production, manufacture, or distribution; (ii) for the purchase of services; (iii) in meeting current operating expenses of a commercial, agricultural, or industrial business; or (iv) for the purpose of carrying or trading in direct obligations of the United States. Such paper, at the time of discount, must have a period remaining to maturity of not more than 90 days, except that agricultural paper (including paper of cooperative marketing associations) may have a period remaining to maturity of not more than nine months, and the proceeds of such paper must not have been, or are not to be used, merely for the purpose of investment, speculation, or dealing in stocks, bonds, or other such securities, except direct obligations of the United States.

(2) Bankers' acceptances. A banker's acceptance (i) arising out of an importation or exportation or domestic shipment of goods or the storage of readily marketable staples; or (ii) drawn by a bank in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange. Such acceptance must comply with applicable requirements of section 13 of the Federal Reserve Act (12 U.S.C. § 346).

(3) Construction paper. A note representing a loan made to finance construction of a residential or farm building, whether or not secured by a lien upon real estate, which matures not more than nine months from the date the loan was made and, at the time of discount, has a period remaining to maturity of not more than 90 days, if accompanied by an agreement requiring a third person acceptable to the Reserve Bank to advance the full amount of the loan upon completion of such construction.

§ 201.5 General Requirements

(a) Credit for capital purposes. Federal Reserve credit is not a substitute for capital.

(b) Compliance with law and regulation. All credit extended under this Part shall comply with applicable requirements of law and of this Part. Each Reserve Bank (1) shall keep itself informed of the general character and amount of the loans and investments of depository institutions with a view to ascertaining whether undue use is being made of credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions, and (2) shall consider such information in determining whether to extend credit.

(c) Information. A Reserve Bank shall require such information as it believes appropriate or desirable to insure that paper tendered as collateral or for discount is acceptable and that the credit provided is used in a manner consistent with this Part.

(d) Indirect credit for others. Except with the permission of the Board of Governors, no depository institution shall act as the medium or agent of an institution that is not a depository institution (other than a Federal Intermediate Credit Bank) in receiving Federal Reserve credit.

§ 201.6 Federal Intermediate Credit Banks

A Reserve Bank may discount for any Federal Intermediate Credit bank (1) agricultural paper, or (2) notes payable to and bearing the endorsement of the Federal Intermediate Credit Bank that cover loans or advances made under subsections (a) and (b) of § 2.3 of the Farm Credit Act of 1971 (12 U.S.C. § 2074) and secured by paper eligible for discount by Reserve Banks. Any paper so discounted shall have a period remaining to maturity at the time of discount of not more than nine months.

(Signed) Griffith L. Garwood

Griffith L. Garwood
Deputy Secretary of the Board

[SEAL]