

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 9132]
August 21, 1981

DISCOUNT RATES

To All Depository Institutions
in the Second Federal Reserve District:

Effective today, the directors of this Bank, with the approval of the Board of Governors of the Federal Reserve System, have established new borrowing rates for extended credit to banks and thrift institutions under sustained liquidity pressures and for special circumstances.

The following is quoted from the text of a statement issued by the Board of Governors:

The Federal Reserve Board today established a new borrowing rate for extended credit to banks and thrift institutions under sustained liquidity pressures.

The new discount rate will be the basic rate of 14 percent for the first 60 days of borrowing, 15 percent for the next 90 days, and 16 percent thereafter. The basic discount rate of 14 percent and the 4 percent surcharge that applies to large, frequent borrowers of short-term adjustment credit were not affected by this action.

The Board acted at this time in view of several applications received in recent weeks for borrowing under the extended credit program. This program was established and described in the revision of Regulation A, governing extensions of credit by the Federal Reserve Banks, following the passage of the Monetary Control Act of 1980. (The Board's description of the program is attached.)

The program is available to commercial banks and thrift institutions alike, including member institutions of the Federal Home Loan Bank System. In this latter connection, in an exchange of letters between Chairman Pratt of the Federal Home Loan Bank Board and Chairman Volcker of the Federal Reserve Board, Chairman Pratt indicated that ". . . it is now desirable and prudent for the Federal Home Loan Bank System to encourage the Federal Reserve to supplement its own efforts in funding members' liquidity needs."

In his response, Chairman Volcker said: ". . . we greatly appreciate your cooperation, and that of your staff, in developing practical approaches to our provision of extended credit to members of the Federal Home Loan Bank System." (The exchange of letters is attached.)

The Federal Reserve's extended credit program is designed to help commercial banks, savings and loan associations, savings banks, and credit unions adjust to sustained liquidity pressures. The Federal Reserve noted that deposit growth in the thrift industry has continued over this year and the industry in general has sustained a high level of liquidity despite pressure on the earnings of individual institutions.

In taking today's action, the Board acted on requests from the boards of directors of the Federal Reserve Banks of New York, Philadelphia and Dallas. The discount rate is the interest rate that is charged for borrowings from the district Federal Reserve Banks.

At the same time, the Board adjusted the rate for "extended credit for special circumstances" to conform with the rate structure for "other extended credit."

Enclosed is a copy of this Bank's Operating Circular No. 13, regarding discount rates. In addition, printed on the following pages is the text of the attachments referred to in the Board's statement.

Questions regarding these changes may be directed, at the Head Office of this Bank, to Chester B. Feldberg, Vice President (Tel. No. 212-791-6375), Stephen G. Thieke, Assistant Vice President (Tel. No. 212-791-6159), or Robert C. Plows, Special Assistant, Loans and Credits Function (Tel. No. 212-791-6152), or, at our Buffalo Branch, to John T. Keane, Vice President and Branch Manager (Tel. No. 716-849-5011).

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE BANK
Federal Reserve Board

**Description of Program For Other Extended Credit
Issued in Connection With 1980 Revision of
Regulation A Following Passage of the
Monetary Control Act of 1980**

"... When conditions warrant, extended credit is available to assist institutions (including those with longer-term asset portfolios) that may be having difficulties adjusting to changing money market conditions. These advances may be extended over a longer period than contemplated in the use of adjustment credit, particularly at times of deposit disintermediation. When serious liquidity strains affect a broad range of depository institutions, Federal Reserve Banks will be prepared to address the problems of those institutions being affected. Before extending credit, however, a Reserve Bank will be expected to consult with other official agencies responsible for supervising the affected institution to determine, among other things, why funds are not available from other sources.

Loan agreements will be drawn to establish the conditions under which credit is advanced and to ensure that the borrower adopts an appropriate plan to restore adequate liquidity and repays the loan within a reasonable period of time."

Exchange of Letters Between Chairmen Volcker and Pratt

August 19, 1981

The Honorable Paul A. Volcker
Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Paul:

Our recent discussions about the Federal Reserve's program for extended credit to depository institutions facing sustained liquidity pressures have been helpful and productive. Your staff has been very cooperative in working out practical aspects associated with lending to the institutions supervised by the Federal Home Loan Bank Board.

As I have previously indicated, the Federal Home Loan Bank Board believes it is now desirable and prudent for the Federal Home Loan Bank System to encourage the Federal Reserve to supplement its own efforts in funding members' liquidity needs. We are prepared to cooperate with you in informing thrifts of the conditions under which they can obtain extended credit from their local Federal Reserve Banks. It is my understanding that the Federal Reserve adjustment credit program is also available to thrifts.

The Federal Home Loan Banks intend to meet the needs of institutions with severe supervisory problems, requiring that the lending be very closely coordinated with an orderly workout of the situation. In addition, the Federal Home Loan Banks may continue in selected instances to lend to their members who are engaged in expansion lending. We are also prepared to maintain the present volume of our lending to institutions borrowing from the Federal Reserve. In the case of institutions that are experiencing liquidity pressures and are eligible for Federal Reserve lending, we also anticipate that some part of their increased credit needs will be supplied by the Federal Home Loan Banks.

Sincerely,

Richard T. Pratt

August 20, 1981

The Honorable Richard T. Pratt
Chairman
Federal Home Loan Bank Board
1700 G Street, Northwest
Washington, D. C. 20552

Dear Dick:

Thanks for your letter of August 19. I understand the position of the Federal Home Loan Bank Board as expressed there, as do other members of the Board. We are delighted that arrangements with the Federal Home Loan Bank System to facilitate a complementary lending program by the Federal Reserve to thrift institutions under sustained liquidity pressure have proceeded smoothly.

We are, and have been, prepared to provide extended credit to depository institutions should qualified institutions be unable to find reasonable alternative sources of credit. As you know, access to liquidity has not generally been a problem in the past. However, looking to the future, we fully realize thrifts may increasingly seek Federal Reserve credit. In that connection, we greatly appreciate your cooperation, and that of your staff, in developing practical approaches to our provision of extended credit to members of the Federal Home Loan Bank System.

Sincerely,

Paul

**FEDERAL RESERVE BANK
OF NEW YORK**

Operating Circular No. 13
Revised effective August 21, 1981

DISCOUNT RATES

*To All Depository Institutions
in the Second Federal Reserve District:*

1. This Bank has made the following changes in its rate schedule, effective August 21, 1981:

A rate of 14 percent per annum has been established on advances under section 10(b) of the Federal Reserve Act of extended credit (a) for institutions under sustained liquidity pressures, or (b) for special circumstances; a rate of 15 percent per annum has been established on such credit outstanding for more than 60, but not more than 150, days; and a rate of 16 percent per annum has been established on such credit outstanding for more than 150 days.

Shown on the reverse side is the schedule of rates now in effect at this Bank on advances and discounts made under the Federal Reserve Act.

2. This circular supersedes our Operating Circular No. 13, Revised effective May 5, 1981.

ANTHONY M. SOLOMON,
President.

[Enc. Cir. No. 9132]

(OVER)

Rate Schedule Effective August 21, 1981

Percent
Per Annum

Advances to and discounts for depository institutions:

- (a) Advances and discounts under sections 13, 13a, and 10(b) of the Federal Reserve Act, except as otherwise provided in this schedule 14*

- (b) Advances under section 10(b) of the Federal Reserve Act of extended credit (i) to institutions under sustained liquidity pressures, or (ii) for special circumstances, where such Federal Reserve credit has been outstanding (including extensions and renewals) for:
 - Not more than 60 days 14
 - More than 60, but not more than 150, days 15
 - More than 150 days 16

Advances to individuals, partnerships, and corporations other than depository institutions:

- Advances under the 13th paragraph of section 13 of the Federal Reserve Act 17

* Advances to, and discounts for, a depository institution having total deposits of \$500 million or more will be subject to a surcharge of 4 percent in either of the following circumstances:

- (1) Any advance or discount which represents borrowing of adjustment credit by the depository institution in two or more consecutive reserve accounting weeks; or
- (2) Any advance or discount which represents borrowing of adjustment credit by the depository institution in more than four reserve accounting weeks within a calendar quarter of 13 reserve accounting weeks (current quarter, July 2-September 30, 1981).