

The following is suggested as an outline of principles that should be followed by Federal Reserve Banks in certain cases in dealing with applications of member banks for rediscounts:

(1) Where a bank applying for rediscounts is found to be in an extended condition, the question should be definitely raised as to how far the funds requested are to be used in the liquidation of the outstanding obligations of the institution, and how far they are being called for to finance new transactions of the same kind that have already led to the extended condition of the bank. In cases where funds are desired for the liquidation of indebtedness, the accommodation may well be granted; in any other case they should be declined.

(2) In cases where a presumably sound bank offers doubtful or questionable paper, such paper should be rejected without hesitation regardless of the question as to whether the bank's endorsement would in the last analysis make it good.

(3) In cases where the paper offered is of such character as to comply with the regulations laid down by the Board, but does not appear to possess such strength as to altogether satisfy the directors as to its desirability, no objection would be made to their requiring the applying bank to fortify its endorsement of such paper by approved collateral deposited under a collateral agreement with the reserve bank.