

FEDERAL RESERVE BOARD

WASHINGTON

X-3784
July 18, 1923.

SUBJECT: Rediscounts for Nonmember Banks.

Dear Sir:

During the emergency of 1921, the Federal Reserve Board granted to member banks the privilege of acting as the media or agents of nonmember banks in rediscounting paper with Federal Reserve Banks. (Circular letter X-3176, July 27, 1921: Federal Reserve Bulletin, August, 1921, page 963). That privilege, however, was granted only as a temporary emergency measure and, the emergency having passed, it was revoked by the Federal Reserve Board under date of June 26, 1923. In advising you of the withdrawal of such privilege the Board announced that all previous rulings on this subject were rescinded, and that announcement has led to a number of inquiries as to the proper application of the Board's ruling. The Board has deemed it advisable, therefore, to announce the following rules for the guidance of the Federal Reserve Banks and the member banks:

1. The ruling published on page 963 of the August, 1921, Bulletin, which gave member banks general authority to apply to their respective Federal Reserve Banks for discounts of eligible paper acquired from nonmember banks, and the ruling published on page 213 of the August, 1915, Bulletin are rescinded in toto. The rulings published on page 520 of the June, 1918, Bulletin and on page 745 of the August, 1918, Bulletin are rescinded in so far as they apply to the rediscount of paper bearing the signature or endorsement of nonmember banks or acquired from nonmember banks.
2. Except with the Board's permission, no Federal Reserve Bank shall discount any paper acquired by a member bank from a nonmember bank or bearing the signature or endorsement of a nonmember bank: Provided, however, That Federal Reserve Banks may discount bankers' acceptances and other eligible paper bearing the signature or endorsement of a nonmember bank, if such paper was bought by the offering bank in good faith on the open market from some party other than the nonmember bank.
3. Applications for permission to rediscount paper acquired from nonmember banks shall be made by the member bank which desires to offer such paper for rediscount and shall state fully the facts which give rise to each application and the reasons why the applying member bank feels justified in seeking such permission.

4. As a general rule, the Federal Reserve Board will not permit member banks to discount paper for nonmember banks which are eligible for membership, because such banks should join the Federal Reserve System if they desire to participate in its benefits. The Board will make exceptions to this rule, however, in some cases in order to assist such banks in emergencies for a limited time; but such exceptions will be made only with the understanding that they will not be continued beyond the period when the bank concerned can qualify for admission to membership in the Federal Reserve System.

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

TO GOVERNORS OF F. R. BANKS