

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9464

January 25, 1936.

SUBJECT: Discounts for Individuals, Partnerships
and Corporations.

Dear Sir:

The authority granted by the Federal Reserve Board to all Federal Reserve banks in its circular of July 26, 1932 (X-7215-a), as amended by its letter of July 8, 1935 (X-9257), to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and that circular, will expire at the close of business on January 31, 1936. The Board has decided to extend such authorization for an additional six months.

The Board has revised its circular of July 26, 1932 (X-7215-a), effective February 1, 1936, in order to conform to a change in the law on this subject made by section 322 of the Banking Act of 1935, and a copy of the circular as revised is inclosed herewith. You will observe that section 2 of the revised circular contains an authorization by the Board to all Federal Reserve banks, for a period ending at the close of business on July 31, 1936, to discount eligible notes, drafts and bills of

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exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations and the circular.

You may if you wish have the revised circular printed or mimeographed and give copies thereof to persons making inquiries regarding this subject, together with copies of the Board's Regulation A and of any supplemental circular and any forms which your bank may adopt with the approval of your counsel.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN AND GOVERNORS OF ALL FEDERAL RESERVE BANKS

X-9464-a

February 1, 1936.

SUBJECT: DISCOUNTS FOR INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS.

TO ALL FEDERAL RESERVE BANKS:

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Acts of July 21, 1932, and August 23, 1935, provides as follows:

"In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Federal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe."

In view of the fact that the power conferred by this provision can be exercised only in "unusual and exigent circumstances", the Board of Governors of the Federal Reserve System has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Board will expect to be followed are outlined below for the information of

the Federal reserve banks and any individuals, partnerships or corporations that may contemplate applying to them for discounts.

1. LEGAL REQUIREMENTS.

It will be observed that, by the express terms of the law:

(a) The power conferred upon the Board of Governors of the Federal Reserve System to authorize Federal reserve banks to discount eligible paper for individuals, partnerships or corporations may be exercised only:

- (1) In unusual and exigent circumstances,
- (2) By the affirmative vote of not less than five members of the Board of Governors, and
- (3) For such periods as the Board of Governors may determine.

(b) When so authorized, a Federal reserve bank may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13, 13a, and 24) of the Federal Reserve Act. (Such paper must, therefore, comply with the applicable requirements of the Regulations of the Board of Governors of the Federal Reserve System.)

(c) Paper discounted for individuals, partnerships or corporations must be either (1) indorsed or (2) otherwise secured to the satisfaction of the Federal reserve bank.

(d) Before discounting paper for any individual, partnership

or corporation, a Federal reserve bank must obtain evidence that such individual, partnership or corporation is unable to secure adequate credit accommodations from other banking institutions.

(e) Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Board of Governors of the Federal Reserve System.

(f) All discounts for individuals, partnerships or corporations are subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.

2. AUTHORIZATION BY THE BOARD OF GOVERNORS.

The Board of Governors of the Federal Reserve System, pursuant to the power conferred upon it by the amendment hereinbefore quoted, hereby authorizes all Federal reserve banks, for a period ending at the close of business on July 31, 1936, to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and this circular.

3. FOR WHOM PAPER MAY BE DISCOUNTED.

A Federal reserve bank may discount for individuals, partnerships or corporations notes, drafts or bills of exchange, which are the obligations of such individuals, partnerships, or corporations or which are the obligations of other parties actually owned by such individuals, partnerships or corporations.

Within the meaning of this circular, the term "corporations" does not include banks.

4. APPLICATIONS FOR DISCOUNT.

Each application of an individual, partnership or corporation for the discount of eligible paper by the Federal reserve bank must be addressed to the Federal reserve bank of the District in which the principal place of business of the applicant is located, must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

(a) A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

(b) Evidence sufficient to satisfy the Federal reserve bank as to (1) the legal eligibility of the paper offered for discount under the provisions of the Federal Reserve Act and the Regulations of the Board of Governors of the Federal Reserve System and (2) its acceptability from a credit standpoint;

(c) A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which applications for such credit accommodations were made, the dates upon which such applications were made, whether such applications were definitely refused and the reasons, if any, given for such refusal;

(d) A list showing each bank with which the applicant has

had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate date upon which such banking relations commenced and, if such banking relations have been terminated, the approximate date of their termination;

(e) Complete credit data regarding the financial condition of the principal obligors and indorsers, if any, on the paper offered for discount;

(f) A list and description of any collateral or other security offered by the applicant;

(g) A waiver by the applicant of demand, notice and protest as to applicant's obligation on all paper discounted by the Federal reserve bank or held by the Federal reserve bank as security; and

(h) An agreement by the applicant, in form satisfactory to the Federal reserve bank, (1) to furnish additional credit information to the Federal reserve bank, when requested, (2) to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank at the expense of the applicant, whenever requested by the Federal reserve bank, and (3) to furnish additional security whenever requested to do so by the Federal reserve bank.

5. GRANT OR REFUSAL OF APPLICATION.

Before discounting notes, drafts, or bills of exchange for any individual, partnership or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

- (a) That the financial condition and credit standing of the applicant justify the granting of such credit accommodations;
- (b) That the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;
- (c) That the indorsement or the security offered is adequate to protect the Federal reserve bank against loss;
- (d) That there is a reasonable need for such credit accommodations; and
- (e) That the applicant is unable to obtain adequate credit accommodations from other banking institutions.

A special effort should be made to determine whether the banking institution with which the applicant ordinarily transacts his banking business or any other banking institution to which the applicant ordinarily would have access is willing to grant such credit accommodations.

A Federal reserve bank should not discount such paper unless it appears that the proceeds of such discounts will be used to finance current business operations and not for speculative purposes, for permanent or fixed investments, or for any other capital purposes. Except with the permission of the Board of Governors of the Federal Reserve System, no such paper should be discounted if it appears that the proceeds will be used for the purpose of paying off existing indebtedness to other banking institutions.

In discounting paper for individuals, partnerships or

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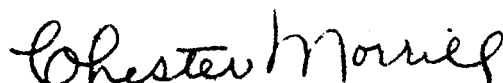
corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

6. LIMITATIONS.

Except with the permission of the Board of Governors of the Federal Reserve System, no Federal reserve bank shall discount for any one individual, partnership or corporation paper amounting in the aggregate to more than one per cent of the paid-in capital stock and surplus of such Federal reserve bank.

7. ADDITIONAL REQUIREMENTS.

Any Federal reserve bank may prescribe such additional requirements and procedure respecting discounts hereunder as it may deem necessary or advisable; provided that such requirements and procedure are consistent with the provisions of the law, the Board's regulations and the terms of this circular.



Chester Morrill,
Secretary.