

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9644

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 8, 1936.

SUBJECT: Advances under Section 10(b) of the Federal Reserve Act to Member Banks Which Have Not Exhausted Their Eligible Paper.

Dear Sir:

The question has been raised as to whether a Federal Reserve bank may lawfully make an advance under section 10(b) of the Federal Reserve Act to a member bank which at the time has in its portfolio paper eligible for rediscount or as security for advances from a Federal Reserve bank under other provisions of the Federal Reserve Act.

Section 10(b) of the Federal Reserve Act, as it previously existed, authorized advances by a Federal Reserve bank in exceptional and exigent circumstances to any member bank having no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal Reserve bank or other method provided by the Federal Reserve Act. No such limitation on the authority to make advances under section 10(b), however, is contained in the section as it was amended by the Banking Act of 1935 and the legislative history of the section and of the Banking Act of 1935 shows that it was not intended by Congress that a member bank must have exhausted its eligible paper in order to receive an advance from the Federal Reserve bank under the provisions of the section.

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In the opinion of the Board, therefore, a Federal Reserve bank may lawfully make an advance in accordance with the provisions of section 10(b) of the Federal Reserve Act to a member bank which has assets eligible for rediscount or as security for advances from a Federal Reserve bank under other provisions of the Federal Reserve Act. Moreover, such eligible assets may be used as security for an advance under section 10(b) of the Federal Reserve Act, if this should be desired for any reason and the security is satisfactory to the Federal Reserve bank.

However, as you know, the question in any case whether advances should be made by a Federal Reserve bank is one for the determination of such bank as and when applications for such advances are received, and the further question of whether advances should be made by a Federal Reserve bank under section 10(b) when the borrowing member bank has paper which is eligible for rediscount or as security under other provisions of the Federal Reserve Act is a matter for the determination of the Federal Reserve bank in the light of the circumstances existing in each particular case.

Very truly yours,



Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS