

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

R-41

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



July 30, 1937.

CONFIDENTIAL -- NOT FOR PUBLICATION OR DISTRIBUTION

SUBJECT: Revised Draft of Proposed Regulation A

Dear Sir:

In its letter of August 28, 1935 (X-9301), the Board of Governors submitted to the Federal Reserve banks for comments and suggestions a draft of a revision of Regulation A relating to discounts for member banks by Federal Reserve banks, and with its letter of October 21, 1935 (X-9346), inclosed copies of memoranda covering the recommendations made by the Board's staff with respect to the principal suggestions of the Federal Reserve banks in connection with the proposed regulation.

There are inclosed herewith six copies of a revised draft of the proposed Regulation A and of a proposed letter regarding marginal collateral to be transmitted to the Federal Reserve banks in connection with the issuance of Regulation A. The inclosed draft of the regulation contains a number of changes, and your attention is invited particularly to the provisions of subsection (d) of section 1 of the regulation regarding the kinds of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act; to the omission from subsection (a) of section 2 of the provisions under which paper is ineligible for discount if its proceeds are advanced to some other borrower; to the provisions of subsection (e) of section 3 of the regulation regarding the amount of credit extended on the security of obligations of the United States; to the omission of the words "or between foreign countries" in paragraph (1) of subsection (b) of section 6 regarding bankers' acceptances; to the omission in paragraph (3) of said subsection (b) of the words "or issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn"; to the new footnote 9 regarding bankers' acceptances; to the recommendations in the appendix relating to real estate loans; and to the

recommendations in the appendix relating to loans upon installment paper; as well as to the General Principles included as a preface to the regulation and the proposed letter to the Federal Reserve banks regarding marginal collateral.

Subsection (d) of section 1 of the regulation contains a list of specified classes of collateral security upon which it may be expected that member banks will more readily be able to obtain credit from the Federal Reserve banks under the provisions of section 10(b) of the Federal Reserve Act than upon other classes of security not specifically mentioned. It has been suggested that the inclusion of this list of classes of collateral security and of the recommendations contained in the appendix to the regulation as to the standards which should be observed by member banks in making installment loans and loans upon real estate may serve to foster and encourage sound practices by member banks in making loans and investments.

As you know, with the exception of paper of cooperative marketing associations and of certain factors, paper the proceeds of which are advanced or loaned to some other borrower, such as paper made by finance companies, has heretofore been ineligible for discount at Federal Reserve banks. You will note from subsection (a) of section 2 of the inclosed draft of the regulation that this restriction on paper whose proceeds are loaned to others has been eliminated, so that notes, drafts or bills of exchange the proceeds of which have been or are to be advanced or loaned to some other borrower for a commercial, agricultural or industrial purpose would be eligible for discount. Like any paper offered for discount, however, such a note, draft or bill would have to comply with the other requirements of the regulation as to eligibility for discount, including the maturity limitations of 90 days in the case of commercial paper and nine months in the case of agricultural paper. If paper is ineligible for discount because its maturity is in excess of these limitations, it may nevertheless be accepted by a Federal Reserve bank as security for a member bank's promissory note under the provisions of section 10(b) of the Federal Reserve Act, as provided in subsection (d) of section 1 of the regulation.

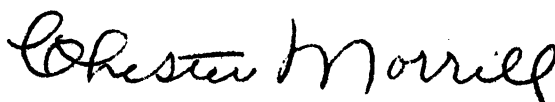
It will be observed that under the provisions of paragraph (1) of subsection (b) of section 6 it would no longer be possible to discount bankers' acceptances drawn to finance the shipment of goods between foreign countries. This change is contained in the revised draft of the regulation in view of the disclosures regarding acceptances of this kind in the report of the Federal Reserve Committee on Acceptance Practice. In view of the fact that Regulation B provides that, with certain exceptions, a banker's acceptance must be eligible for discount in order to be eligible for purchase by Federal

Reserve banks in the open market, this change would also prevent the purchase of bankers' acceptances drawn to finance the shipment of goods between foreign countries. However, the change would not prevent the financing through bankers' acceptances of the sale and distribution into the channels of trade abroad of goods exported from this country, in accordance with the ruling published at page 860 of the Federal Reserve Bulletin for 1927. Footnote 9 is intended to conform substantially to the recommendation contained in the report of the Federal Reserve Committee on Acceptance Practice.

It will be appreciated if you will review the inclosed documents and furnish to the Board your comments and suggestions thereon before September 1, 1937. While the Board will, of course, be glad to have your views on any provision of the regulation to which you wish to call attention, the provisions contained in the draft of the regulation inclosed with the Board's letter of August 28, 1935, have already been the subject of careful consideration by the Federal Reserve banks, and it is hoped that in making suggestions to the Board regarding the revised draft you will give particular attention to the provisions which are mentioned in the second paragraph of this letter.

It is requested that the regulation and the proposed letter be considered by the appropriate officers of your bank, but that they be not submitted to or discussed with anyone outside of the bank. Please have it clearly understood that the regulation and proposed letter are not for publication and that the entire matter is to be dealt with in strict confidence.

Very truly yours,



Chester Morrill,  
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

CONFIDENTIAL - NOT FOR PUBLICATION OR DISTRIBUTION

PROPOSED LETTER TO BE SENT TO FEDERAL RESERVE BANKS  
AFTER ISSUANCE OF REGULATION A.

SUBJECT: Amount of Marginal Collateral Required in  
Connection with Advances or Discounts.

Dear Sir:

In connection with the revision of Regulation A which has just been issued, the Board of Governors wishes to invite your attention to the provisions contained in subsection (d) of section 3 relating to marginal collateral required by a Federal Reserve bank from a member bank in connection with a discount or an advance.

In determining the amount of marginal collateral to be required it is expected that a Federal Reserve bank shall give primary consideration to the public welfare and the general effects that its action may have on the position of the member bank, on its depositors, and in the community, and in general a Federal Reserve bank should limit the amount of collateral it requires to the minimum consistent with prudence.

Although the regulation itself contains no specific limitation on the amount of additional or marginal collateral that a Federal Reserve bank may require from a member bank in connection with

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a discount or an advance, it is the view of the Board of Governors that in no case should the amount of all the assets of a member bank, at their market value or their reasonably appraised value, required by a Federal Reserve bank as collateral security in connection with any advance or discount under the provisions of Regulation A exceed \_\_\_\_\_ per cent of the amount of the advance or \_\_\_\_\_ per cent of the amount of the paper discounted, as the case may be, unless a prompt and full report of all the circumstances of the case is made by the Federal Reserve bank to the Board of Governors of the Federal Reserve System.

It is requested that you arrange to have all future transactions of the kind described reported to the Board of Governors in accordance with the views expressed above.

Very truly yours,

Chester Morrill,  
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

CONFIDENTIAL - NOT FOR PUBLICATION OR DISTRIBUTION

Draft of regulation prepared at direction of Board of  
Governors of the Federal Reserve System but not  
yet acted upon by the Board of Governors.

BOARD OF GOVERNORS  
OF THE FEDERAL RESERVE SYSTEM

ADVANCES TO AND DISCOUNTS FOR MEMBER BANKS  
BY FEDERAL RESERVE BANKS

REGULATION A

This regulation as printed herewith is  
in the form as revised effective

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INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve bank of the district in which the inquiry arises.

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GENERAL PRINCIPLES

The guiding principle underlying the extension of credit by Federal Reserve banks is public service. Accordingly, the effect that the granting or withholding of credit accommodation by a Federal Reserve bank may have on a member bank, on its depositors and on the community is of primary importance. The fundamental objective to be sought in the application of the provisions of this regulation is the advancement of the public interest.

In extending accommodation to any member bank, the Federal Reserve banks are required to have due regard to the demands of other member banks, as well as to the maintenance of sound credit conditions and the accommodation of commerce, industry, and agriculture, and to consider not only the nature of the paper offered, but also the general character and amount of the loans and investments of the member bank, and whether the bank has been extending an undue amount of credit for speculative purposes in securities, real estate, or commodities, or in any other way has conducted its operations in a manner inconsistent with the maintenance of sound credit conditions.

Draft of regulation prepared at direction of Board of Governors of the Federal Reserve System but not yet acted upon by the Board of Governors.

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REGULATION A  
Revised effective \_\_\_\_\_ 1937  
(Superseding Regulation A, Series of 1930)

ADVANCES TO AND DISCOUNTS FOR MEMBER BANKS BY FEDERAL  
RESERVE BANKS

INTRODUCTION

This regulation is based upon and issued pursuant to various provisions of the Federal Reserve Act, the most important of which, together with related provisions of law, are published in the Appendix hereto. The regulation is applicable to the following forms of borrowing from a Federal Reserve bank: (1) advances to member banks on their own notes secured by paper eligible for discount or purchase by Federal Reserve banks, by obligations of the United States or certain corporations owned by the United States, or by other security which is satisfactory to the Federal Reserve bank; (2) discounts of commercial, agricultural and industrial paper and bankers' acceptances; and (3) discounts for Federal Intermediate Credit banks.

## SECTION 1. ADVANCES TO MEMBER BANKS

(a) Advances on Government obligations. - Any Federal Reserve bank may make advances, under authority of section 13 of the Federal Reserve Act, to any of its member banks for periods not exceeding fifteen days<sup>1</sup> on the promissory note of such member bank secured (1) by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or (2) by the deposit or pledge of debentures or other such obligations of Federal Intermediate Credit banks having maturities of not exceeding six months from the date of the advance, or (3) by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act and guaranteed both as to principal and interest by the United States, or (4) by the deposit or pledge of Home Owners' Loan Corporation bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and guaranteed both as to principal and interest by the United States.

(b) Advances on eligible paper. - Any Federal Reserve bank may make advances, under authority of section 13 of the Federal

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<sup>1</sup>However, under the provisions of the last paragraph of section 13 of the Federal Reserve Act, any Federal Reserve bank may make advances for periods not exceeding ninety days to individuals, partnerships or corporations (including banks) on their promissory notes secured by direct obligations of the United States at rates fixed for the purpose.

Reserve Act, to any of its member banks for periods not exceeding ninety days on the promissory note of such member bank secured by such notes, drafts, bills of exchange or bankers' acceptances as are eligible for discount by Federal Reserve banks under the provisions of this regulation or for purchase by such banks under the provisions of Regulation B.

(c) Advances on other security under section 10(b) of the Federal Reserve Act. - Subject to the provisions of subsection (d) of this section, any Federal Reserve bank may make advances, under authority of section 10(b) of the Federal Reserve Act, to any of its member banks upon the latter's promissory note secured to the satisfaction of such Federal Reserve bank. The rate charged on advances made under the provisions of this subsection shall in no event be less than one-half of 1 per cent per annum higher than the highest rate applicable to discounts for member banks under the provisions of sections 13 and 13a of the Federal Reserve Act in effect at such Federal Reserve bank on the date of the note evidencing such advance. Such an advance must be evidenced by the promissory note of such member bank payable either (1) on a definite date not more than four months after the date of such advance, or (2) at the option of the holder on or before a definite date not more than four months after the date of such advance.

(d) Kinds of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act. - A Federal Reserve bank may accept as security for an advance made under the

provisions of subsection (c) of this section assets of any of the classes enumerated below which are satisfactory to the Federal Reserve bank, or paper secured by assets of such classes:

(1) Assets which may be used as collateral security for advances under subsection (a) of this section, entitled "Advances on Government Obligations", or subsection (b) of this section, entitled "Advances on Eligible Paper";

(2) Paper which would be eligible for discount or for purchase by Federal Reserve banks except by reason of the fact that the period of its maturity is greater than that permitted for paper eligible for discount or purchase;

(3) Obligations evidencing loans upon the security of stock which are made in conformity with the provisions of Regulation U of the Board of Governors of the Federal Reserve System;

(4) Investment securities as defined by the Comptroller of the Currency pursuant to section 5136 of the Revised Statutes of the United States;

(5) Obligations insured under the provisions of Title I or Title II of the National Housing Act;

(6) Debentures, bonds, or other such obligations issued by Federal Home Loan banks or issued under authority of the Federal Farm Loan Act, without regard to the maturity of any such obligations;

(7) Bills, notes, revenue bonds, and warrants which

constitute general obligations of any State or of any political subdivision thereof;

(8) Obligations which are issued or drawn for the purpose of financing, refinancing, or carrying real estate and which comply substantially with the standards set forth in the recommendations relating to real estate loans in the appendix to this regulation;

(9) Obligations which are issued or drawn for the purpose of financing or refinancing the sale of goods upon an installment basis and which comply substantially with the standards set forth in the recommendations relating to loans upon an installment basis in the appendix to this regulation, and obligations of businesses principally engaged in extending credit on such basis and in substantial accordance with such standards.

In addition, when in the judgment of the Federal Reserve bank circumstances make it advisable to do so, the Federal Reserve bank may accept as security for an advance under subsection (c) of this section any assets other than those set forth above which are satisfactory to the Federal Reserve bank.

## SECTION 2. DISCOUNT OF NOTES, DRAFTS AND BILLS FOR MEMBER BANKS.<sup>2</sup>

(a) Commercial, agricultural and industrial paper. - Any Federal

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<sup>2</sup>Even though paper is not eligible for discount by a Federal Reserve bank for a member bank under the provisions of this regulation, it may be used as security for an advance by a Federal Reserve bank to a member bank under the terms and conditions of subsection (c) and subsection (d) of section 1 of this regulation if it constitutes security satisfactory to the Federal Reserve bank. In addition to the classes of paper mentioned in section 2 of this regulation a Federal Reserve bank may discount bankers' acceptances in accordance with the provisions of section 6 of this regulation.

Reserve bank may discount for any of its member banks, under authority of sections 13 and 13a of the Federal Reserve Act, any note, draft or bill of exchange which meets the following requirements:

(1) It must be a negotiable note, draft, or bill of exchange, bearing the indorsement of a member bank, which has been issued or drawn, or the proceeds of which have been used or are to be used, in producing, purchasing, carrying or marketing goods<sup>3</sup> in one or more of the steps of the process of production, manufacture, or distribution, or in meeting current operating expenses of a commercial, agricultural or industrial business, or for the purpose of carrying or trading in direct obligations of the United States (i.e. bonds, notes, Treasury bills or certificates of indebtedness of the United States);

(2) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings or machinery, or for any other capital purpose;

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<sup>3</sup>As used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including livestock.



(3) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for transactions of a purely speculative character or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities except direct obligations of the United States (i.e. bonds, notes, Treasury bills or certificates of indebtedness of the United States);

(4) It must have a definite maturity at the time of discount of not exceeding ninety days, exclusive of days of grace, except that agricultural paper as defined below in this section of this regulation may have a maturity of not exceeding nine months, exclusive of days of grace; but this requirement is not applicable with respect to bills of exchange payable at sight or on demand of the kind described in subsection (b) of this section.

(b) Bills of exchange payable at sight or on demand. -

Any Federal Reserve bank may discount for any of its member banks, under authority of section 13 of the Federal Reserve Act, negotiable bills of exchange payable at sight or on demand which (1) bear the indorsement of a member bank, (2) grow out of the domestic shipment or the exportation of nonperishable, readily marketable staples<sup>4</sup>

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<sup>4</sup>A readily marketable staple within the meaning of this regulation means an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

and (3) are secured by bills of lading or other shipping documents conveying or securing title to such staples. All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made promptly, unless the drawer instructs that they be held until arrival of such staples at their destination, in which event they must be presented for payment within a reasonable time after notice of such arrival has been received. In no event shall any such bill be held by or for the account of a Federal Reserve bank for a period in excess of ninety days.

(c) Construction loans. - In addition to paper of the kinds specified above, any Federal Reserve bank may discount for any of its member banks, under authority of section 24 of the Federal Reserve Act, a negotiable note which (1) represents a loan made to finance the construction of a residential or a farm building whether or not secured by lien upon real estate, (2) is indorsed by such member bank, (3) is accompanied by a valid and binding agreement, entered into by a person<sup>5</sup> acceptable to the discounting Federal Reserve bank, requiring such person to advance the full amount of the loan upon the completion of the construction of such residential or farm building, and (4) matures not more than six months

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<sup>5</sup>Such person may be the member bank offering the note for discount or any other individual, partnership, association or corporation.

from the date such loan was made and not more than ninety days from the date of such discount by such Federal Reserve bank, exclusive of days of grace.

(d) Agricultural paper. - Agricultural paper, within the meaning of this regulation, is a negotiable note, draft, or bill of exchange issued or drawn, or the proceeds of which have been or are to be used, for agricultural purposes, including the production of agricultural products, the marketing of agricultural products by the growers thereof, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of livestock.

(e) Paper of cooperative marketing associations. - Notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agricultural purpose within the meaning of the foregoing definition of "agricultural paper", if the proceeds thereof have been or are to be used by such association in making advances to any members thereof for an agricultural purpose, in making payments to any members thereof on account of agricultural products delivered by such members to the association, or to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product

handled by such association for any of its members. In addition, any other paper of such associations which complies with the applicable requirements of this regulation may be discounted. Paper of cooperative marketing associations the proceeds of which have been or are to be used (1) to defray the expenses of organizing such associations, or (2) for the acquisition of warehouses, for the purchase or improvement of real estate, or for any other permanent or fixed investment of any kind, are not eligible for discount, even though such warehouses or other property are to be used exclusively in connection with the ordinary operations of the association.

(f) Collateral securing discounted paper. - A note, draft or bill of exchange discounted by a Federal Reserve bank may be secured by the pledge of goods or collateral of any nature, including paper which is ineligible for discount, provided such note, draft or bill of exchange is otherwise eligible for discount.

(g) Determination of eligibility. - A Federal Reserve bank shall take such steps as may be necessary to satisfy itself as to the eligibility of any paper offered for discount. Compliance of paper with the provisions of paragraph (3) of subsection (a) of this section may be evidenced by a financial statement of the borrower showing a reasonable excess of quick assets over current liabilities, or such compliance may be evidenced in any other manner satisfactory to the Federal Reserve bank.

(h) Limitations. - The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation

is liable as maker, acceptor, indorser, drawer, or guarantor, discounted for any member bank shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national banking association under the terms of section 5200 of the Revised Statutes of the United States, as amended.<sup>6</sup> A Federal Reserve bank may not discount for any State member bank any note, draft, or bill of exchange of any one borrower whose total liability for borrowed money to such State member bank is greater than could be borrowed lawfully from such State bank were it a national bank.

### SECTION 3. GENERAL REQUIREMENTS AS TO ADVANCES AND DISCOUNTS

(a) Applications for advances or discounts. - Every application by a member bank for an advance to such bank or for the discount of paper must contain a certificate of such bank, in form to be prescribed by the Federal Reserve bank, that the security offered for the advance or the paper offered for discount, as the case may be, has not been acquired from a nonmember bank (otherwise than in accordance with section 4 of this regulation) or, if so acquired, that the applying member bank has received permission from the Board of Governors of the Federal Reserve System to obtain advances from the Federal Reserve bank on security acquired from nonmember banks or to discount with the Federal Reserve bank paper so acquired. Every such

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<sup>6</sup> Section 5200 of the Revised Statutes of the United States is printed in the Appendix to this regulation (page 52) together with a tabular analysis of the section prepared in the office of the Comptroller of the Currency (page 36).

application shall also contain a notation by the member bank as to whether it has on file a current financial statement of a party primarily liable on the paper offered for discount or as security for an advance or of the person from whom the member bank acquired such paper. Every application of a State member bank for the discount of paper must contain a certificate or guaranty to the effect that the borrower is not liable and will not be permitted to become liable to such bank for borrowed money during the time his paper is under discount with the Federal Reserve bank in an amount greater than that which could be borrowed lawfully from such State bank were it a national bank.

(b) Financial statements. - In order to determine whether security offered for an advance or paper offered for discount is eligible and acceptable, any Federal Reserve bank may require that there be filed with it recent financial statements, or certified copies thereof, (1) of one or more parties to any obligation offered as security for an advance or to any note, draft, or bill of exchange offered for discount and (2) of any corporations or firms affiliated with or subsidiary to such party or parties. A Federal Reserve bank may in any case require such other information as it deems necessary.

(c) Speculative use of credit by a member bank. - Each Federal Reserve bank is required by law to keep itself informed at all times of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances or discounts, the Federal Reserve bank is required

to give consideration to such information. Each Federal Reserve bank may require such information from its member banks as it may deem necessary in order to determine whether such undue use of bank credit is being made.

(d) Additional or marginal security. - In connection with any advance or discount under this regulation, a Federal Reserve bank may require such additional or marginal security as it may deem necessary for its protection over and above security, if any, required in such case by the provisions of this regulation; and the requirements of this regulation with respect to the kinds of security shall not be applicable to such additional or marginal security.

(e) Amount of credit extended on security of obligations of the United States. - In any case in which an advance is made by a Federal Reserve bank in accordance with the provisions of this regulation on a member bank's promissory note which is secured by direct obligations of the United States or obligations which are guaranteed both as to principal and interest by the United States, the member bank may obtain credit in an amount equal to the face amount of such obligations. However, if the member bank has paid for such obligations less than the face amount thereof and the market value of the obligations is less than par, the amount of such credit may not exceed the amount which it has paid for the obligations or the market value, whichever is the higher. The amount of any discount charged by the Federal Reserve bank at the rate established for the purpose may be deducted from the amount of the credit.

#### SECTION 4. PAPER ACQUIRED FROM NONMEMBER BANKS

(a) Prohibition upon acceptance of nonmember bank paper. -

Except with the permission of the Board of Governors of the Federal Reserve

System, no Federal Reserve bank shall discount or accept as security for an advance any paper or assets acquired by a member bank from, or bearing the signature or indorsement of, a nonmember bank, except assets or paper otherwise eligible which was purchased by the offering bank in good faith on the open-market from some party other than a nonmember bank or which was acquired through a merger or consolidation with, or purchase of a majority of the assets of, a nonmember bank.

(b) Applications for permission. - An application for permission to use as security for advances assets acquired from nonmember banks or to discount paper acquired from nonmember banks shall be made by the member bank which desires to offer such assets as security or such paper for discount and shall state fully the facts which give rise to such application and the reasons why the applying member bank desires such permission. Such application shall be addressed to the Board of Governors of the Federal Reserve System but shall be submitted by the member bank to the Federal Reserve bank of the district, which will forward it promptly to the Board of Governors of the Federal Reserve System with its recommendation.

(c) Paper acquired from Federal Intermediate Credit banks. - The Board of Governors of the Federal Reserve System hereby grants permission to Federal Reserve banks to make advances to member banks upon the security of paper or assets bearing the signature or indorsement of, or acquired from, Federal Intermediate Credit banks, or to discount such paper for member banks, if such paper is otherwise eligible under the law and this regulation.

#### SECTION 5. DISCOUNTS FOR FEDERAL INTERMEDIATE CREDIT BANKS

(a) Kinds and maturity of paper. - Any Federal Reserve bank,



under authority of section 13a of the Federal Reserve Act, may discount for any Federal Intermediate Credit bank (1) agricultural paper as defined in section 2 of this regulation, or (2) notes payable to such Federal Intermediate Credit bank covering loans or advances made by it pursuant to the provisions of section 202(a) of Title II of the Federal Farm Loan Act, which are secured by notes, drafts or bills of exchange eligible for discount by Federal Reserve banks. Any paper discounted for a Federal Intermediate Credit bank must bear the indorsement of such bank and must have a maturity at the time of discount of not more than nine months exclusive of days of grace.

(b) Limitations. - No Federal Reserve bank shall discount for any Federal Intermediate Credit bank any paper which bears the indorsement of any nonmember State bank or trust company which is eligible for membership in the Federal Reserve System under the terms of section 9 of the Federal Reserve Act. In discounting paper for Federal Intermediate Credit banks, each Federal Reserve bank shall give preference to the demands of its own member banks and shall have due regard to the probable future needs of its own member banks. Except with the permission of the Board of Governors of the Federal Reserve System, no Federal Reserve bank shall discount paper for any Federal Intermediate Credit bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal Reserve notes in actual circulation.

#### SECTION 6. BANKERS' ACCEPTANCES<sup>7</sup>

(a) Definition. - A banker's acceptance within the meaning of this regulation is a draft or bill of exchange, whether payable in the

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<sup>7</sup>For regulations governing the acceptance by member banks of drafts and bills of exchange drawn on them, see Regulation C.

United States or abroad and whether payable in dollars or some other money, accepted by a bank or trust company or a firm, person, company or corporation engaged generally in the business of granting bankers' acceptance credits.

(b) Eligibility. - Any Federal Reserve bank may discount for any of its member banks any such bankers' acceptance bearing the indorsement of a member bank and having a maturity at the time of discount not greater than that prescribed by subsection (c) of this section, which has been drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving any one of the following:

(1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between dependencies or insular possessions and foreign countries;

(2) The shipment of goods within the United States, provided shipping documents conveying security title are attached at the time of acceptance; or

(3) The storage in the United States or in any foreign country of readily marketable staples,<sup>8</sup> provided that the bill is secured at the time of acceptance by a warehouse, terminal,

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<sup>8</sup>A readily marketable staple within the meaning of this regulation means an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

or other similar receipt, conveying security title to such staples, issued by a party independent of the customer; and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (A) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (B) that a new document, similar to the original one, will be re-substituted within a specified time.

Provided, That acceptances for any one customer in excess of 10 per cent of the capital and surplus of the accepting bank must remain actually secured throughout the life of the acceptance, and in the case of the acceptances of member banks this security must consist of shipping documents, warehouse receipts, or other such documents, or some other actual security growing out of the same transaction as the acceptance, such as documentary drafts, trade acceptances, terminal receipts, or trust receipts which have been issued under such circumstances, and which cover goods of such a character, as to insure at all times a continuance of an effective and lawful lien in favor of the accepting bank, other trust receipts not being

considered such actual security if they permit the customer to have access to or control over the goods.

(c) Maturities. - No such acceptance is eligible for discount which has a maturity at the time of discount in excess of ninety days' sight, exclusive of days' of grace, except that acceptances drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with maturities at the time of discount of not more than six months' sight, exclusive of days of grace. Although a Federal Reserve bank may legally discount an acceptance having a maturity at the time of discount not greater than that prescribed above in this subsection, an acceptance should not have a maturity which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of the period reasonably necessary to finance such transaction. Since the purpose of permitting the acceptance of drafts secured by warehouse receipts or other such documents is to permit the temporary holding of readily marketable staples in storage pending a reasonably prompt sale, shipment, or distribution, no such acceptance should have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment, or distribution into the process of manufacture or consumption.

(d) Dollar exchange acceptances. - A Federal Reserve bank may also discount any bill drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange as provided in Regulation C, provided that it

has a maturity at the time of discount of not more than three months, exclusive of days of grace.

(e) Evidence of eligibility. - A Federal Reserve bank must be satisfied, either by reference to the acceptance itself or otherwise, that the acceptance is eligible for discount under the terms of the law and the provisions of this regulation. The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal Reserve bank.<sup>9</sup>

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<sup>9</sup>In accepting any draft or bill of exchange arising out of a shipment of the kind referred to in clause 1 of subsection (b) of section 6 of this regulation, the accepting bank should obtain at the time of acceptance satisfactory evidence as to the nature of the transaction underlying such draft or bill of exchange.

APPENDIX

Recommendations of the Board of Governors of the Federal Reserve System as to the Minimum Standards Which Should Be Observed by Member Banks in Making Loans upon Real Estate

While recognizing that requirements of individual banks in making loans for the purpose of financing or carrying real estate will vary according to the circumstances of particular transactions, the Board of Governors of the Federal Reserve System believes that certain standards should be observed. Some of these standards are specifically required by law with respect to loans of national banks. Others are advisable as a matter of sound banking practice. The examiners for the Federal Reserve banks should take such standards into consideration in reviewing loans of State member banks, and Federal Reserve banks in passing upon applications of member banks for credit accommodations supported by real estate loans should give preference to the acceptance as collateral of such loans as meet these standards. With these considerations in mind the Board recommends that member banks in making real estate loans, other than those insured under Title II of the National Housing Act, apply the standards set forth below as minimum requirements:

- (1) Obligations issued or drawn for the purpose of financing, refinancing or carrying real estate should be secured by first lien, evidenced by mortgage, trust deed or other such instrument, upon improved real estate, which may consist of improved farm land or improved business or residential properties;

(2) The amount of the loan or loans evidenced by such obligations should not exceed 50 per cent of the appraised value of the real estate securing such loan or loans and no such loan should be for a longer term than five years, except that any such loan may be in an amount not exceeding 60 per cent of the appraised value of the real estate securing such loan and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust or other such instrument under the terms of which 40 per cent or more of the principal of the loan will be amortized within a period of not more than ten years by means of substantially equal monthly, quarterly, semiannual or annual payments on principal with interest added or on principal and interest combined;

(3) There should be on file with the member bank with respect to such obligations the following documents or properly certified or photostatic copies thereof:

(a) an appraisal of the value of the real estate which has been made within a reasonable time before the obligation was acquired by the member bank (i) by one or more competent and experienced appraisers independent of the member bank and having no interest, direct or indirect, in the real estate, or (ii) if the member bank maintains a separate real estate department, by one or more officers or employees who are regularly assigned to such department and who specialize in real estate appraisals, or (iii) by a committee of not less than two members appointed by the board of directors, and which

contains, in addition to such other data as may be required by the member bank, statements as to the purpose for which the real estate is used or is proposed to be used and the nature and amount of the income received therefrom;

(b) an adequate description of the real estate, including the improvements;

(c) evidence of the title to the real estate in the form of a certificate of a title company, a title insurance policy, an opinion of a competent attorney or other form satisfactory to the member bank;

(d) satisfactory evidence that no taxes or assessments thereon are delinquent and that adequate insurance is carried; and

(e) such other information and documents as the circumstances of the case may render advisable.



Recommendations of the Board of Governors of the Federal Reserve System  
as to the Minimum Standards for Installment Paper Used as  
Collateral Security for Advances to Member Banks

While recognizing that requirements of individual banks in making loans for the purpose of financing or refinancing the sale of goods upon an installment basis will vary according to the circumstances of particular transactions, the Board of Governors of the Federal Reserve System believes that certain standards should be observed as a matter of sound banking practice. The examiners for the Federal Reserve banks should take such standards into consideration in reviewing loans of State member banks, and Federal Reserve banks in passing upon applications of member banks for credit accommodations supported by obligations issued or drawn for the purpose of financing or refinancing the sale of goods upon an installment basis should give preference to the acceptance as collateral of such loans as meet these standards. With these considerations in mind, the Board recommends that the standards set forth below be applied by all member banks as minimum requirements in making such loans:

- (1) Obligations which are issued or drawn for the purpose of financing or refinancing the sale of goods upon an installment basis should be secured by first lien upon or retention of title to such goods through a chattel mortgage, conditional sales contract, bailment lease, or other similar instrument, insuring at all times the continuance of an effective and lawful lien or retention of title in favor of the holder of such obligations;

(2) The goods should be of such nature and the terms of the obligations should be such that in the event of the resale of the goods at any time during the life of the obligations it may reasonably be expected that the sum realized will be substantially greater than that necessary to liquidate the amount of the obligations then unpaid, including interest and all charges.

## STATUTORY PROVISIONS

Section 4 of the Federal Reserve Act reads in part as follows:

" Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Board of Governors of the Federal Reserve System, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Board of Governors of the Federal Reserve System may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements, and the accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Board of Governors of the Federal Reserve System any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Board of Governors of the Federal Reserve System, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time."

Section 9 of the Federal Reserve Act reads in part as follows:

"Provided, however, That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association. The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by

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this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank."

Section 10(b) of the Federal Reserve Act reads as follows:

"Sec. 10(b). Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

Section 13 of the Federal Reserve Act reads in part as follows:

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Federal Reserve System to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount, and the notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and

notes of the Government of the United States.\* Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than 90 days, exclusive of grace.

\* \* \* \* \*

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, any Federal reserve bank may discount or purchase bills of exchange payable at sight or on demand which grow out of the domestic shipment or the exportation of nonperishable, readily marketable agricultural and other staples and are secured by bills of lading or other shipping documents conveying or securing title to such staples: Provided, That all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: Provided further, That no such bill shall in any event be held by or for the account of a Federal reserve bank for a period in excess of ninety days. In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the discount after payment of such bills to conform to the actual life thereof.

"The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation is liable as maker, acceptor, indorser, drawer, or guarantor, rediscounted for any member bank, shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national banking association under the terms of section 5200 of the Revised Statutes, as amended: Provided, however, That nothing in this paragraph shall be construed to change the character or class of paper

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\*Or Treasury bills or certificates of indebtedness. See act approved June 17, 1929 (46 Stat., 19), amending sec. 5 of Second Liberty Bond Act, approved Sept. 24, 1917 (40 Stat., 290)

now eligible for rediscount by Federal reserve banks.

"Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than 90 days' sight, exclusive of days of grace, and which are indorsed by at least one member bank: Provided, That such acceptances if drawn for an agricultural purpose and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with a maturity at the time of discount of not more than six months' sight exclusive of days of grace.

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. \* \* \* \* \*

"Any Federal Reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13(a) of this Act, or by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act, or by the deposit or pledge of bonds issued under the provisions of subsection (c) of Section 4 of the Home Owners' Loan Act of 1933, as amended; and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such

advances shall be made at rates to be established by such Federal reserve banks, such rates to be subject to the review and determination of the Board of Governors of the Federal Reserve System. If any member bank to which such advance has been made shall, during the life or continuance of such advance, and despite an official warning of the reserve bank of the district or of the Board of Governors of the Federal Reserve System to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the reserve bank of the district under the provisions of this paragraph for such period as the Board of Governors of the Federal Reserve System shall determine: Provided, That no temporary carrying or clearance loans made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph.

\* \* \* \* \*

"The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Board of Governors of the Federal Reserve System.

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"Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Board of Governors of the Federal Reserve System by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal reserve banks in such amounts

and subject to such regulations, restrictions, and limitations as may be prescribed by the Board of Governors of the Federal Reserve System: \* \* \* \*."

Section 13a of the Federal Reserve Act as amended reads in part as follows:

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity, at the time of discount, exclusive of days of grace, not exceeding nine months, \* \* \* \*."

"That any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, rediscount such notes, drafts, and bills for any Federal Intermediate Credit Bank, except that no Federal reserve bank shall rediscount for a Federal Intermediate Credit Bank any such note or obligation which bears the indorsement of a nonmember State bank or trust company which is eligible for membership in the Federal reserve system, in accordance with section 9 of this Act. Any Federal reserve bank may also, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes payable to and bearing the indorsement of any Federal intermediate credit bank, covering loans or advances made by such bank pursuant to the provisions of section 202(a) of Title II of the Federal Farm Loan Act, as amended (U.S.C., Title 12, ch.8, sec.1051), which have maturities at the time of discount of not more than nine months, exclusive of days of grace, and which are secured by notes, drafts, or bills of exchange eligible for rediscount by Federal Reserve banks.

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"Notes, drafts, bills of exchange or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or are to be advanced by such association to any members thereof for an agricultural purpose, or have been or are to be used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or if such proceeds have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members: Provided, That the express enumeration in this paragraph of certain classes of paper of cooperative marketing associations as eligible for rediscount shall not be construed as rendering ineligible any other class of paper of such associations which is now eligible for rediscount.

"The Board of Governors of the Federal Reserve System may, by regulation, limit to a percentage of the assets of a Federal reserve bank the amount of notes, drafts, acceptances, or bills having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, bills, or acceptances having a maturity in excess of six months, but not exceeding nine months, which may be rediscounted by such bank."

Section 19 of the Federal Reserve Act reads in part as

follows:

"\*\*\*No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Board of Governors of the Federal Reserve System."

Section 24 of the Federal Reserve Act reads in part as

follows:

"Loans made to finance the construction of residential or farm buildings and having maturities of not to exceed six months, whether or not secured by a mortgage or similar lien on the real estate upon which the residential or farm building is being constructed, shall not be considered as loans secured by real estate within the meaning of this section but shall be classed as ordinary commercial loans: Provided, That no national banking association shall invest in, or be liable on, any such loans in an aggregate amount in excess of 50 per centum of its actually paid-in and unimpaired capital. Notes representing such loans shall be eligible for discount as commercial paper within the terms of the second paragraph of section 13 of the Federal Reserve Act, as amended, if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building entered into by an individual, partnership, association, or corporation acceptable to the discounting bank."

Section 5200 of the Revised Statutes of the United States reads

as follows:

"Sec. 5200. The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. The term 'obligations' shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest. Such limitation of 10 per centum shall be subject to the following exceptions:

"(1) Obligations in the form of drafts or bills of exchange drawn in good faith against actually existing values shall not be subject under this section to any limitation based upon such capital and surplus.

"(2) Obligations arising out of the discount of commercial or business paper actually owned by the person, co-partnership, association, or corporation negotiating the same shall not be subject under this section to any limitation based upon such capital and surplus.

"(3) Obligations drawn in good faith against actually existing values and secured by goods or commodities in process of shipment shall not be subject under this section to any limitation based upon such capital and surplus.

"(4) Obligations as indorser or guarantor of notes, other than commercial or business paper excepted under (2) hereof, having a maturity of not more than six months, and owned by the person, corporation, association, or copartnership indorsing and negotiating the same, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(5) Obligations in the form of banker's acceptances of other banks of the kind described in section 13 of the Federal Reserve Act shall not be subject under this section to any limitation based upon such capital and surplus.

"(6) Obligations of any person, copartnership, association or corporation, in the form of notes or drafts secured by shipping documents, warehouse receipts or other such documents transferring or securing title covering readily marketable nonperishable staples when such property is fully covered by insurance, if it is customary to insure such staples, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus when the market value of such staples securing such obligations is not at any time less than 115 per centum of the face amount of such obligation, and to an additional increase of limitation of 5 per centum of such

capital and surplus in addition to such 25 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 120 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 30 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 125 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 35 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 130 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 40 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 135 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 45 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 140 per centum of the face amount of such additional obligation, but this exception shall not apply to obligations of any one person, copartnership, association or corporation arising from the same transactions and/or secured upon the identical staples for more than ten months.

"(7) Obligations of any person, copartnership, association, or corporation in the form of notes or drafts secured by shipping documents or instruments transferring or securing title covering livestock or giving a lien on livestock when the market value of the livestock securing the obligation is not at any time less than 115 per centum of the face amount of the notes covered by such documents shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(8) Obligations of any person, copartnership, association, or corporation in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, shall (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(9) Obligations representing loans to any national banking association or to any banking institution organized under the laws of any State, or to any receiver, conservator, or superintendent of banks, or to any other agent, in charge of the business and property of any such association or banking institution, when such loans are approved by the Comptroller of the Currency, shall not be subject under this section to any limitation based upon such capital and surplus."

TABULAR ANALYSIS OF SECTION 5200 OF THE REVISED STATUTES OF THE UNITED STATES PREPARED IN THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

OBLIGATIONS (See definition in section 5200 above)	AMOUNTS LOANABLE
(A) Accommodation or straight loans, whether or not single name, including liability as endorser or guarantor (where endorser or guarantor receives the proceeds from bank) of paper not coming within exceptions 2 and 4. Loans secured by stocks, bonds, and authorized real estate mortgages.	Maximum limit, 10 percent of bank's paid up and unimpaired capital and surplus.
(1) Drafts or "bills of exchange drawn in good faith against actually existing values."	No limit imposed by law.
(2) Commercial or business paper (of other makers) actually owned by the person, copartnership, association, or corporation negotiating the same.	No limit imposed by law.
(3) Obligations secured by goods or commodities in process of shipment.	No limit imposed by law.
(4) Obligations as endorser or guarantor of notes (other than commercial or business paper) maturing within six months, owned by endorser.	15 percent in addition to 10 percent (A).
(5) Bankers' acceptances of the kinds described in section 13 of the Federal Reserve Act.	No limit imposed by law.
(6) Obligations secured by shipping documents, warehouse receipts, or other such documents, transferring or securing title covering readily marketable nonperishable staples-- (a) When the actual market value of the property is not at any time less than shown in table herewith. (b) When the property is fully covered by insurance (if customary to insure such commodity), and in no event shall this exception apply to obligations of any one customer arising from the same transactions and/or secured upon the identical staples for more than 10 months.	15 percent, secured by 115 percent. 5 percent, secured by 120 percent. 5 percent, secured by 125 percent. 5 percent, secured by 130 percent. 5 percent, secured by 135 percent. 5 percent, secured by 140 percent. -- 40 percent in addition to regular 10 percent loan (A).

<p>(7) Obligations secured by shipping documents or instruments covering live-stock or giving a lien thereon having a market value of not less than 115 percent of the amount of the loan.</p>	<p>15 percent in addition to regular 10 percent loan (A).</p>
<p>(8) Notes secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States, Treasury bills of the United States or obligations fully guaranteed by the United States as to principal and interest.</p>	<p>15 percent of bank's capital and surplus, <u>in addition to</u> the amount allowed under (A), or if the full amount allowed under (A) is not loaned, then the amount which may be loaned in the manner described under (8) is increased by the loanable amount not used under (A). In other words, the amount loaned under (A) must never be more than 10 percent, but the aggregate of (A) and (8) may equal, but not exceed, 25 percent.</p>
<p>(9) Loans to any bank or representative in charge of its business, when approved by the Comptroller (Act May 20, 1935).</p>	<p>No limit.</p>