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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers
of Monday, September 27, 1937.

September 25, 1937.

The Board of Governors of the Federal Reserve System has issued, effective October 1, 1937, a general revision of Regulation A, governing discounts and advances for member banks by Federal Reserve banks. The revision formally incorporates into the Board's regulation various legislative provisions enacted by Congress since the previous revision was issued in 1930.

Revision of Regulation A has been considered by the Board since the passage of the Banking Act of 1935 which liberalized and made permanent the emergency provisions of the law permitting advances to member banks on any sound assets. Under these provisions of the law, Federal Reserve banks are given authority to make advances upon any sound assets of member banks for the purpose of enabling them to meet seasonal or other requirements of commerce, industry and agriculture which are consistent with the

maintenance of sound credit conditions.

The issuance of the revised regulation at this time is an appropriate sequence of the System's recent reduction of discount rates. The Regulation further implements the System's policy of monetary ease by liberalizing and consolidating the rules and methods affecting the lending function of the Federal Reserve System.

In a preface to the regulation, the Board states that the guiding principle underlying the discount policy of the Federal Reserve banks is the advancement of the public interest and recognizes that the lending function of the Federal Reserve banks is not automatic but is an instrumentality of the System's general credit policy.

The regulation makes few changes in the technical rules for eligibility which have prevailed since the System was established. It does, however, make eligible for discount a large amount of paper of commission merchants and finance companies, including paper drawn to finance installment sales of a commercial character.

The regulation lists specifically the following classes of assets which may be accepted as collateral for advances by Federal Reserve banks: Securities defined by the Comptroller of the Currency as eligible for investment by national banks, loans on stocks made in compliance with

the Board's Regulation U, mortgages and loans insured under Titles I or II of the National Housing Act, debentures and bonds issued by Federal Home Loan banks or under authority of the Federal Farm Loan Act, bills, notes, and revenue bonds and warrants issued by States or other political subdivisions, obligations issued or drawn for the purpose of financing real estate, and obligations issued for the purpose of financing the sale of goods on an installment basis.

In addition to the specified classes of assets, the regulation provides further that, when in the judgment of a Federal Reserve bank circumstances make it advisable to do so, the banks may accept as security for an advance any assets satisfactory to the Federal Reserve bank. The regulation, therefore, bars no class of paper from use as collateral for advances but merely indicates a preferred list of paper which covers all the principal fields of financing.

In order to encourage member banks to have their real estate loans and installment paper acceptable as a basis for advances at the Reserve banks, the Board in an appendix to the regulation recommends certain minimum standards for observance in making such loans. In establishing rules which in effect make all sound assets of member banks eligible as a basis for advances by the Federal Reserve banks the Board had in mind the fact recognized by Congress in the Banking Act of 1935, that under our banking system member banks carry time

deposits as well as demand deposits, and since these banks are custodians of the funds representing the savings or capital accumulation of the people, they properly invest a part of their funds in long-time paper. Consequently, provision should be made whereby such paper may be used in case of need as a basis for advances from the Federal Reserve banks.

The principles underlying the new regulation are the same as those underlying recent modification of the Federal Reserve Act. Experience has demonstrated that the solvency of banks is better safeguarded by careful regard to the quality of the paper which they acquire than by strict observance of the form that this paper takes, and that greater emphasis on soundness and less emphasis on form is a sound banking principle. The Board was also guided in its determination of eligibility requirements by the recognition of the fact that at a time of a deflationary development it is important for the Federal Reserve System to lend with the greatest freedom consistent with safety. At such times technical limitations on the character of eligible paper endanger rather than protect the safety of the banking structure.

By describing in the regulation the character of paper that will have first claim for advances the Board hopes to encourage better and safer banking practices. At the same time the Board believes that the assurance of support in case of need given to member banks whose lending and investment practices comply with the minimum standards laid down by the Board will encourage the banks to give their communities the financial services that they require.