

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN RECORDS SECTION
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Office Correspondence

Date February 2, 1970

To Board of Governors

From Division of Federal Reserve
Bank Operations (Mr. Ring)

Subject: St. Louis discount window.

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At the meeting of the Board of Governors on November 21, the following statement in the recent report of examination of the St. Louis Reserve Bank was discussed.

"...on the basis of our review of the activity in the interval between examinations and our discussions with management, it is our opinion that this Bank is administering the discount function under a policy which is more liberal than the intent of the present Regulation A."

During the discussion the question was raised as to whether the discount function at the St. Louis Reserve Bank is in fact more liberal than intended under the Board's Regulation A; and, if so, whether our interim reporting requirements are in such form as to disclose apparent deviations from what would appear to be accepted discount policy, as well as the correction of any such deviations from System policy.

Our discussions and consideration of the comment by the examiners indicated that their comment was based mainly on letters to certain country member banks indicating that in the case of "adjustment credits" the Federal Reserve Bank of St. Louis would not be inclined to question borrowings in less than 13 out of 26 weeks unless the borrowings exceeded 40 per cent of the reserve requirements of the borrowing bank.

NOTE: These "adjustment credits," which are the most common type as compared with "seasonal" and "emergency" credits, are for the purpose of providing reserves on a short-term basis following a development such as a sudden withdrawal of deposits, so that the bank may have time to adjust its assets in an orderly manner.

The examiners felt that if the policy set forth in the letters were to be followed it may, under certain circumstances, result in a more liberal discount policy than is intended under Regulation A.

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While the ratio of frequently indebted country banks to the total of all borrowing country banks was greatest at St. Louis for the year ended October 1969, as shown in the accompanying memorandum from the Division of Research and Statistics, this does not in itself imply a more liberal discount practice, because--

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1. As the Research memorandum suggests, this ratio may be inflated due to the small number of borrowing banks and large number of frequently indebted banks in the St. Louis District as compared with other districts.
 2. Of the 23 banks indebted to the St. Louis Reserve Bank in more than 13 of any 26 consecutive weeks during 1969, 6 were borrowing for seasonal agricultural purposes and 4 for emergency reasons.
 3. The borrowings of the other 13 banks generated problems of the kind encountered in all Federal Reserve districts in varying degrees. Although administrative pressure was applied to these banks just about as early as in most districts, resistance to this pressure necessitated two or more telephone contacts, including visits to the Reserve Bank, which prolonged the period of such borrowings longer than might ordinarily be permitted.

As to our current reporting system, any deviations from System policy in discount practices of the Reserve Banks would be disclosed by the following reporting requirements and other means of surveillance by this Division.

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1. Quarterly reports from all Reserve Banks, pursuant to the Board's letter of June 29, 1965, listing cases of repetitive or unusual borrowings, the reasons therefor, and the administrative actions of the Reserve Banks with respect to such cases.
 2. Monthly conferences by telephone with the discount officers of all Reserve Banks to discuss member bank borrowings, including in particular those of an unusual nature or for prolonged periods.

NOTE: Any of these cases that appear to have been handled more liberally than by other Reserve

Banks or the intent of Regulation A are discussed with the discount officer of the lending Reserve Bank and with Mr. Bilby, the Board's consultant in the discount function.

3. Representatives of this Division attend periodic meetings of the discount officers of all Reserve Banks to discuss selected borrowing cases in the interest of developing and maintaining uniformity of discount practices.