



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

S-2126

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 17, 1970.

Dear Sir:

This refers to the Board's letter of August 21, 1969 (S-2100), regarding procedures to be followed in handling requests from nonmember banks for loans under the authority of paragraph 13 of Section 13 of the Federal Reserve Act. That letter stated that it would be desirable for applications for such loans to be submitted to the Board for consideration and approval.

Subsequently, however, a set of guidelines was proposed by the Conference of Presidents to help assure uniformity among the Reserve Banks in handling these applications and thus eliminate the need for submitting them to the Board for approval. These guidelines have now been accepted by the Board in the form enclosed. Accordingly, the Board's letter of August 21, 1969, is hereby rescinded.

Very truly yours,

A handwritten signature in cursive script, reading "Kenneth A. Kenyon", is positioned above the typed name.

Kenneth A. Kenyon,  
Deputy Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Guidelines for emergency lending to nonmember banks

1. A decision to extend credit to nonmember banks should be based upon the probable consequences of the failure to obtain Reserve Bank credit and the impact of any resulting bank failure on the community or the economy. It would be most unusual for the failure of a single institution or small group of institutions to have such significant repercussions as to justify Federal Reserve action. However, in exceptional and unusual cases, credit may be extended to a nonmember commercial bank unable to obtain assistance elsewhere in order to prevent the failure of the bank, provided that the failure, in the Reserve Bank's judgment, would impose a serious hardship on the local community or economy, or would seriously affect the condition of other banks.
2. Credit should be extended to nonmember banks only if all reasonable alternative sources of credit have been exhausted, and only if the bank has made all reasonable and appropriate offsetting adjustments in its investment portfolio and lending practices.
3. Emergency credit should be made available to a nonmember bank only after consultation with the Board and the responsible regional Federal and/or State bank supervisory agencies. A Federal Reserve Bank should not make a loan to a nonmember bank against the wishes of the appropriate supervisory agency without prior consultation on that matter with the Board of Governors, nor should it be obligated to lend to nonmember banks on an emergency basis merely because of a request by such agency.
4. A nonmember bank granted emergency credit will be expected to arrange promptly for all reasonable and orderly adjustments of its position in order to achieve repayment of its loan. In some cases, the Reserve Banks may provide emergency credit to a nonmember bank for an extended period in order to provide assistance to the responsible bank supervisory agencies in carrying out a well-defined and approved program of reorganization designed to place the bank in a sound financial condition.
5. In all cases, the Federal Reserve Bank will oversee closely the progress of the adjustment program of the borrowing nonmember bank, and will reserve the right to take appropriate steps to protect its interest and to otherwise accomplish the purpose of the loan.

6. Inasmuch as the emergency situations referred to above do not usually arise without some advance warning, the Reserve Banks should be furnished, as early as possible, with information on developing situations that may result in a request for Federal Reserve credit. The Board of Governors should also be informed of such situations by the Reserve Banks as promptly as possible, particularly since it may be necessary to consult with other supervisory authorities in Washington.

7. Emergency credit to nonmember banks should be extended initially under the last paragraph of Section 13, and until such time as the supply of collateral eligible under that paragraph is exhausted. With the permission of the Board of Governors, additional credit may be extended indirectly through a member bank under Section 10(b), secured by assets acquired by the member bank from the nonmember bank for the purpose of obtaining credit for the latter, if the assets are acceptable to the Reserve Bank. While of limited potential application, direct discounting of eligible paper for a nonmember bank, upon authorization by an affirmative vote of no less than five members of the Board of Governors, is provided for by the third paragraph of Section 13.

March 17, 1970