

encing demonstrable seasonal pressures persisting for a period of at least 4 consecutive weeks and probably longer, and exceeding a minimum relative size. It is expected that this borrowing privilege would be of value principally to smaller unit banks in agricultural or resort areas in which seasonal swings have a substantial impact on the entire community and where access to the national money markets or other adjustment resources is not always readily available.

The existence of seasonal pressures would be judged on the basis of past years' patterns of loan and deposit fluctuations. The establishment of a qualifying seasonal swing in net availability of funds—defined as deposits minus loans to customers in the bank's market area—would ordinarily be fixed by negotiation once a year. Once the existence of a qualifying seasonal need was established, the reserve banks would agree to extend discount credit up to the qualifying amount and for the length of time the need was expected to persist, up to 90 days. The 90-day maximum is imposed by statute; however, should the need extend over a longer period than this, the reserve banks would regard renewals of credit as in accordance with the initial seasonal credit negotiation. Seasonal credit needs would normally be expected to last for several months, but in exceptional cases could range up to as much as 9 months, we believe.

Seasonal credit obtainable at a reserve bank would be limited to the amount of the borrowing bank's seasonal swing in excess of a specified percentage of its average deposits in the preceding year. This "deductible" principle, requiring a bank to meet a part of its seasonal needs out of its own resources, is designed to encourage individual bank maintenance of some minimum level of liquidity for purposes of flexibility. It would also serve effectively to limit the aggregate amount of credit extended under the seasonal borrowing privilege to an amount consistent with overall monetary policy, while allowing the Federal Reserve to provide this assistance to all those member banks with relatively large seasonal needs.

The proposed redesign of the discount window would provide that the Federal Reserve continue to supply liberal help to its member banks in emergency situations. So long as the member bank is solvent and steps are being taken to find a solution to its problems, credit would be available on the same basis as it currently is, and, within the limits of the law, special and flexible arrangements would continue to be made where necessary. Assisting a bank in an emergency situation would generally require credit extension for periods longer than would normally be allowed at the window, but this would be expected and regarded as appropriate.

The Federal Reserve, in its role as lender of last resort to other sectors of the economy, may find it necessary to extend credit assistance to institutions other than member banks. This action would be taken only when other sources of credit have been exhausted and failure of the troubled institutions would have a significant impact on the economy's financial structure. When lending to nonmembers, the Federal Reserve would act in cooperation with the relevant supervisory authority to insure that steps are taken to find a solution to their problems. The Federal Reserve Act authorizes direct advances to nonmembers, but only if collateralized by U.S. Government securities. Since most nonmember institutions of the types apt to require