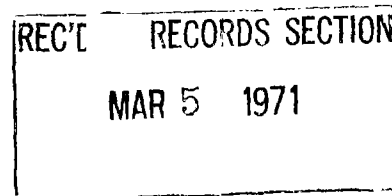




BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551



March 4, 1971

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Broida

There is enclosed a copy of a memorandum from the System Account Manager dated March 3, 1971, and entitled "Review of System lending of Government securities." This is the memorandum referred to under Item 8 of the agenda for next Tuesday's meeting of the Committee.

A handwritten signature in cursive script that reads "Arthur L. Broida".

Arthur L. Broida,  
Deputy Secretary,  
Federal Open Market Committee.

Enclosure



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totaling \$20.3 million were made each day and the average daily balance outstanding was about \$40 million. The largest balance outstanding during the period was \$139.3 million on May 4, 1970. Subsequent to increasing the maximum term of loans from three days to five, there have been very few requests for extensions and 75 per cent to 80 per cent of the loans have been repaid within three days. Gross earnings from interest charged on the loans were \$292,286 for the New York Bank and \$13,976 for the Chicago Bank.

System lending has been helpful in smoothing out the functioning of the Government securities market by reducing the amount of delivery failures in a period of mounting volume of transactions. Since the inception of System lending, dealers have found the facility to be a most useful backstop to conventional lending channels, despite the penalty rate charged for the service over the rate charged by conventional lenders.

Recently, as dealers became more acquainted with the facility, average weekly fails to receive and fails to deliver have decreased significantly--which, of course, is the main purpose of the lending function. From November 12, 1970, to February 24, 1971, average daily fails to receive declined to \$215 million from the \$732 million average for the previous six months; and average daily fails to deliver declined to \$92 million from the \$371 million reported for the previous six months.

In light of the essential role which the lending of securities has continued to fulfill since it was first authorized in October 1969,

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it is recommended that the Committee continue the authorization to  
lend on the same basis as before--to avert or minimize delivery  
failures. Periodic reports will be continued to be presented to the  
Committee.