

## FEDERAL RESERVE BANK OF DALLAS

September 9, 1915.

TO THE MEMBER BANK ADDRESSED:

On June 7, 1915, we addressed a letter to all of the banks in this district urging upon them the necessity for having their communities provide adequate cotton warehouse facilities in order that a forced sale of that commodity, as soon as ginned, might be avoided.

For the actual producer to be able to receive a reasonable price for his cotton it will be necessary for the market to be supplied with only an amount which it can readily absorb, and to bring this condition about the Federal Reserve Bank of Dallas offers its facilities to the member banks of the Eleventh Federal Reserve District. On September 4th the Secretary of the Treasury deposited with this institution the sum of \$5,000,000.00 in gold, thereby increasing our lending ability by over eight million dollars, and has promised us further deposits if needed.

We, therefore, do not hesitate to announce that we are now ready and able to render any necessary assistance to our member banks, so that their farmer customers will not be compelled to sell their product at less than the actual cost of production, providing the warehouses urged in our letter of June 7th are available.

The Federal Reserve Board has issued a circular, together with necessary regulations, on the subject of "Commodity Paper," a copy of which is enclosed, and on yesterday the Directors of the Federal Reserve Bank of Dallas adopted the following resolution:

"That the Federal Reserve Bank of Dallas, in conformity with the Federal Reserve Board's circular on 'Commodity Paper', hereby establishes a preferential rate of 3% on cotton or commodity paper having not more than 90 days to run; i. e., promissory notes of ACTUAL PRODUCERS, which are specifically secured by approved warehouse receipts for cotton and readily marketable commodities of a non-perishable character, where it is certified to this bank that the maker of the note is not paying a greater rate than 6% either as interest, or commissions or both."

In preparing your applications for the rediscount of this class of paper it will be necessary for your endorsement on each note, in addition to the waiver of demand, notice and protest, to include the following:

"The maker of this note is the actual producer of the commodity securing same, and is not being charged on this note a greater rate than 6% per annum either as interest or commissions, or both."

If you have in view the discounting with us of any commodity paper on which you desire to take advantage of the above preferential rate it is suggested that you have prepared immediately a rubber endorsing stamp including the above clause.

In regard to warehouse receipts, pledged cotton should be stored in public warehouses and the warehouse receipt therefor should be in such form as to make it acceptable collateral under all circumstances wherever offered.

Evidence of proper insurance should accompany each warehouse receipt. Certain warehouses issue insured receipts. In such cases it would be proper for the interested member bank to satisfy itself of the capital, responsibility of the warehouseman, and the personnel of its management in order to be able to certify to same when called upon.

In accepting and holding warehouse receipts from any source the Federal Reserve Bank would expect its members to be in position, if called upon, to verify the facts set out in any particular certificate, by inspection or otherwise.

Receipts should show grades and weights of the stored cotton, and the member should satisfy itself that no prior lien exists against the cotton pledged.

Notes pledging the staple should be of the usual collateral form, giving the right to call for additional security in case of necessity. While the amount per bale advanced to the pledgor will be at the discretion of the member bank, the Federal Reserve Bank of Dallas, in accepting such paper, would discriminate in favor of transactions fairly margined.

While the law will not permit the Reserve Bank to discount notes secured by cotton when the notes are made by those purchasing the staple for speculation or investment purposes, we will accept from member banks notes made by planters growing and owning the cotton, by spinners who have bought it for manufacturing purposes, or by merchants accepting cotton in settlement of accounts of growers.

Attention is called, however, to the fact that only the note of the grower, having a maturity not greater than 90 days from date of discount, will be entitled to the preferential rate.

When the warehouseman is not a corporation it is desirable that his receipts, when offered as collateral, should be accompanied by a copy of his financial statement. It should be needless to state that goods stored in the custody of the owner do not offer acceptable security from a legal or other point of view.

Very respectfully,

R. L. Van Zandt,

Governor.

City \_\_\_\_\_

State \_\_\_\_\_

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**To the Warehousemen:**

The standing of your Warehouse and the responsibility behind your receipts are matters of great importance to your customers and to the Banks of your community.

It is therefore highly important to you that it be known that your business is conducted in a safe and efficient manner.

We trust, therefore, you will give this matter the prompt attention its importance requires.

FEDERAL RESERVE BANK OF DALLAS

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**SPECIAL LETTER OF ADVICE TO  
FEDERAL RESERVE BANK OF DALLAS**

.....1916.

To THE FEDERAL RESERVE BANK,  
DALLAS, TEXAS.

In order to facilitate loans to my customers having cotton stored in  
..... warehouse at

....., I hereby certify that the following answers  
are true and correct to the best of my knowledge and belief:

QUESTIONS	ANSWERS
1. Is all cotton stored in your warehouse properly protected from weather damage?.....	
2. Do you issue a receipt for each bale stored? - - - - - .....	
3. Do you plainly mark all receipts for cotton stored on platforms or premises adjacent your warehouse, to show its location? - - - - - .....	
4. Who has charge of your un-issued receipts, and where are they kept? - - .....	
5. Who is authorized to issue and sign receipts? - - - - - .....	
6. Are your receipts and tags numbered consecutively when printed? - - - - - .....	
7. Do you require the surrender of the receipts upon the delivery of the cotton?.....	
8. Do your receipts specifically state on their face that they are negotiable? .....	

QUESTIONS

ANSWERS

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9. Do you keep records showing daily all receipts surrendered and cotton delivered? - - - - - .....
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10. Are all receipts surrendered marked "Delivered"? - - - - - .....
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11. What is done with surrendered receipts? .....
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12. Do you make a practice of checking up to ascertain if you have on hand all cotton for which receipts are outstanding? If so, how often? - - - - - .....
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13. Are your records so kept that an inspector from the Federal Reserve Bank can verify outstanding receipts against cotton on hand? - - - - - .....
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14. Are such records kept in a fire-proof safe at nights, Sundays and holidays at the warehouse? - - - - - .....
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15. If records are not so kept, state where they are kept. - - - - - .....
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16. Will you agree to permit an inspector from the Federal Reserve Bank to audit your records and verify your outstanding receipts against cotton on hand, at all reasonable times? - - - - - .....
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17. Is your warehouseman under bond? If so, give name of bonding company and amount of bond. - - - - - .....

QUESTIONS

ANSWERS

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18. Do you issue warehouse receipts marked INSURED? If so, how do you carry this insurance? - - - - -

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19. Is your insurance written by an employee or other party interested in your warehouse? - - - - -

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20. Is your cotton insured by specific policies or by certificates under open policies? .....

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21. Is your warehouse company incorporated? If so, has the charter been accepted and Capital Stock paid in full—give amount? - - - - -

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22. If not incorporated, who are the owners of the property? - - - - -

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23. If the owners of the property operate the warehouse, please furnish their financial statements. - - - - -

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24. If leased by you, please furnish your financial statement. - - - - -

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Signed.....

For.....Warehouse Company

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NOTE—In returning this statement please attach a canceled form of the warehouse receipt issued by you.