FEDERAL RESERVE BANK OF DALLAS
Circular No. 39.

COMMODOITY LOANS

August 17, 1916.

TO THE MEMBER BANK ADDRESSED:

During last year we sent out several circulars on the subjects of warehouses, cotton, and commodity loans, but as another cotton season is now upon us we deem it of sufficient importance to again call your attention to our Circular No. 23, issued on September 9, 1915, as amended by our Circular No. 26, issued on November 12, 1915.

Particular attention is directed to the fact that our commodity rate of discount (at present 3% on paper maturing within 90 days from date of discount by us) applies not only to cotton loans but to all loans which are specifically secured by approved warehouse receipts covering any readily marketable commodity of a non-perishable character, such as wheat, oats, corn, hay, rice, peanuts, cotton seed, etc.

Under the terms of the Federal Reserve Act we are not permitted to discount notes secured by commodities when the notes are made by those purchasing the commodity for speculative or investment purposes, but we fully realize that if our cotton is all thrown on the market for sale as soon as it is ginned the price will be abnormally and unduly depressed, and we therefore offer the facilities of the Federal Reserve Bank of Dallas to its member banks in order that they may be able to assist their customers in holding their product and supplying the market with only an amount which it can readily absorb at a fair price.

The preferential commodity rate, above referred to, will not apply except on those notes which bear the following endorsement of the bank in addition to its waiver of demand, notice, and protest:

"The maker of this note is not being charged, on this note, a greater rate than 6% per annum, either as interest or commission or both."

Notes secured by warehouse receipts for commodities should be on a collateral form giving the right to call for additional security in case of necessity, and all warehouse receipts must be endorsed in such manner as to make them negotiable in our hands.

In order for it to be acceptable to us, a warehouse receipt for cotton

(1) Must state on its face that it is a negotiable receipt, and must bear the duly authorized signature of the person issuing same.

(2) It must properly identify by number, weight, etc., the bale of cotton which it represents.

(3) It must provide for the delivery of the cotton only upon the return of the receipt properly endorsed by the person in whose name it is issued.

The member bank should satisfy itself as to the approximate grade of the staple and of the fact that no prior lien exists against the cotton pledged, as this information is valuable and may be called for.
The cotton must be insured, preferably in favor of the holder of the receipt as his interest may appear, and proper evidence of this insurance furnished us. This evidence may be in the form of a certificate from the discounting bank to that effect, providing said bank has the insurance policies in its possession subject to inspection by a representative of the Federal Reserve Bank.

Sufficient evidence must be furnished us, in the form of a certificate, statement, or otherwise, that the cotton is properly protected from weather damage, and we must also be satisfied as to the reliability and financial responsibility of the party or parties owning the warehouse or issuing the receipt.

In order to facilitate the work of our credit information department on this important character of loans, we are desirous of obtaining definite information concerning the business methods and practices of all of the warehouses in the Eleventh Federal Reserve District, whose receipts may be offered to us, and are therefore enclosing two copies of a statement form which you are requested to have filled out and signed by your local warehousemen and returned to us for our files. If there are more than two warehouses in your locality please advise us and additional forms will be sent you.

We are anxious to furnish every possible accommodation to our member banks, to assist them in properly caring for the legitimate needs of their customers, even if it becomes necessary for us to rediscount with other Federal Reserve Banks in order to be able to do so.

We trust, therefore, that we may have your co-operation to this end, and that you will render us your aid in promptly obtaining the desired warehouse information.

Very respectfully,

R. L. VanZandt
Governor