Circular No. 20
Series of 1918

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FEDERAL RESERVE BANK
OF DALLAS

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FEDERAL RESERVE AGENT
W. C. WEISS, - - - AUDITOR

April 25, 1918.

BILL OF LADING DRAFTS
(Superseding Circular No. 28, Dated Dec. 16, 1915)

TO THE MEMBER BANK ADDRESSED:

On December 16, 1915, this bank began the practice of accepting from member banks, for immediate credit in their reserve accounts, demand drafts or drafts drawn at not exceeding ninety days sight, when such drafts were accompanied and secured by negotiable bills of lading covering readily marketable products, under certain conditions set forth in our circular No. 28 of that date.

Relative to the above we are just in receipt of a telegram from the Federal Reserve Board reading as follows:

"Board recognizes importance of having Federal Reserve Banks provide facilities for handling bill of lading drafts for member banks and regrets that legal considerations make it necessary to interfere with established practice of some of the Federal Reserve Banks respecting drafts of this character.

Some of the banks have been taking drafts from members payable at sight with instructions to hold until arrival of car, thus making drafts, in effect, payable upon arrival of car, at the same time taking from member banks a written order authorizing any drafts outstanding and unpaid after a period of sixty days from date of receipt by Federal Reserve Bank to be charged to account of member bank.

Board has consulted counsel and wishes to advise you that no objection will be made to your discount for member bank drafts with bill of lading attached drawn payable on or before thirty, sixty or ninety days after date and any arrangements made by you to charge interest for the actual time drafts are outstanding will be approved by the Board."

In view of the foregoing it is necessary for us to modify our circular of December 16, 1915, and therefore, effective at once, immediate credit in your reserve account for the face amount of bill of lading drafts will be given subject to the following requirements:

(1) The draft must be drawn payable on or before some specific date, not exceeding ninety days, although may be drawn payable "on arrival of car on or before........days after date."

(2) It must have attached, and be secured by, a shipper's order negotiable bill of lading covering readily marketable products and must be accompanied by instructions to surrender bill of lading only upon payment of the draft.

(3) It must bear the endorsement of the forwarding member bank including a guaranty of all previous endorsements. (Do not use D. C. H. endorsement stamp.)

(4) It must have affixed and properly cancelled, the required number of revenue stamps.

(5) Drafts must be enclosed in separate letter which states that immediate credit in reserve account is desired under terms of Circular No. 20.

Drafts meeting the above requirements, will be accepted for immediate credit in your reserve account subject to final payment. The drafts will be forwarded by us direct for collection, with instructions to the collecting bank to remit the proceeds to the nearest Federal Reserve Bank for our credit and advice, and the date of such credit will terminate the interest charged by us thereon.

The actual cost of collection, together with interest at a rate equal to our thirty day trade acceptance rate for the time outstanding, with a minimum of ten cents per item, will be charged to the member bank's account, under advice, immediately upon receipt of proper notice that the item has been paid.

Dishonored items will be charged back to the forwarding member bank together with any costs which may have accrued.

The use of our facilities in connection with the collection of bill of lading drafts has developed to such an extent that we regret the necessity for making any change in our practice and trust that our member banks may readily obtain the cooperation of their customers in the preparation of their drafts so that they will meet the new requirements.

Yours very truly,

R. L. Van Zandt
Governor.