



FEDERAL RESERVE BANK  
OF DALLAS

DALLAS, TEXAS, April 20, 1920.

BORROWED BONDS AS COLLATERAL

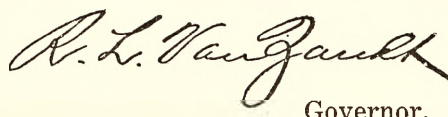
TO THE MEMBER BANK ADDRESSED:—

It has come to our notice that there are several member banks which have borrowed Liberty Bonds and Victory Notes from their customers for the purpose of using such securities as collateral to their promissory notes. While most of these banks have specific written authority from the owners to pledge such bonds, we find that in some instances said authority is so vague in its terms as to raise some doubt as to the legality of the hypothecation, and does not conform to the certificate printed in red in the body of our promissory note form, to the effect that any borrowed securities pledged thereto are being pledged with the written consent of the owner.

This situation having been brought to the attention of our Board of Directors, that body, at its meeting held on April 2nd, 1920, issued formal instructions to the effect that any bonds pledged with the Federal Reserve Bank of Dallas by a member bank, shall be the property of such member bank, or if borrowed, shall be accompanied by specific signed authority legally executed, from the owner of the bonds, authorizing such hypothecation, and that said written authority shall describe the bond or bonds in detail.

It is hoped that the above instructions will be carefully noted by member banks which may have occasion to submit an offering secured wholly or in part by borrowed bonds, in order that they may be occasioned no delay in receiving credit therefor.

Yours very truly,

  
Governor.