

FEDERAL RESERVE BANK  
of Dallas.

May 13, 1920.

COLLECTION OF TRADE ACCEPTANCES.

TO THE BANK ADDRESSED:

The use of trade acceptances is being adopted by an increasing number of business concerns over the entire United States. It is probable, therefore, that acceptances will come into your hands in increasing numbers, for collection, from banks in every part of the country and in some instances direct from the drawers.

It has come to our attention that a great many banks receiving trade acceptances for collection, have presumed such items to be ordinary commercial drafts drawn against unpaid or past due accounts, and have not, therefore, accorded such items the treatment which their importance deserves. Many trade acceptances have been returned unpaid with such notations as "Days will remit," "This Company never pays drafts," and "No response to notice," etc., only to find that the acceptor who is the drawee, has not been presented with the item or has been called on the telephone and advised that a draft was being held for collection.

We deem it advisable, therefore, to solicit your co-operation in the interest of good banking service and sound credit, in the handling of these items. A trade acceptance is a draft drawn by the seller of goods on the buyer for a specified time, and when sent for collection, has already been presented and accepted by the buyer, whereupon it becomes his obligation and a valid promise to pay on the specified date. It is therefore a negotiable instrument, as binding upon the acceptor as his promissory note, and all such items are in fact subject to protest unless otherwise stated.

Statistics show that a very large percentage of trade acceptances are paid at maturity when properly presented and therefore presenting banks can render a service to their customers as well as creating a source of revenue for themselves, by giving items of this character close attention. Trade acceptances are usually made payable at the drawee's own bank at the time of acceptance, and the holder usually recognizes the preference of the acceptor by sending his acceptance to the bank where it is payable.

It has not been the custom in this part of the country to charge to the maker's or acceptor's account the amount of any negotiable instrument made payable at his bank, except a check. When a trade acceptance is received for collection, therefore, care should be taken to observe the following:

(1) The item should be presented at the bank or other place where it is made payable, but if the bank at which presented has no instructions to pay, the item should be presented at the acceptor's office, or the acceptor should be notified of non-payment by the bank at which he made the acceptance payable.

(2) When an acceptor is notified he should be made to clearly understand that it is an accepted draft with a maturity and should not be merely advised that you hold a draft on him, etc.

Will you please see that this letter is brought to the attention of your Collection Department so that in the interest of the trade acceptance system, which promises so much for the benefit of the banker as well as his customer, it may be prepared to handle such items correctly whenever they reach your hands.

Respectfully,

H.L. Van Zandt,