



FEDERAL RESERVE BANK  
OF DALLAS

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FINANCING THE NEW COTTON CROP

TO THE BANKS OF THE ELEVENTH DISTRICT:

A conference was held in Washington on July 19th, between the Federal Reserve Board and the Governors of those Federal Reserve Banks whose districts contain most of the cotton producing area of the United States, the purpose of the conference being to review the credit situation in those districts, and to determine what further assistance would be needed and could reasonably be extended in harvesting and marketing the growing cotton crop. The following is the statement given out by the Federal Reserve Board at the conclusion of the conference:

"In view of the vital importance of the problems incident to the harvesting and marketing of the coming cotton crop, the Federal Reserve Board today held a conference with the governors of the Federal Reserve Banks of Richmond, Atlanta, St. Louis, Kansas City and Dallas, the banks located in or brought in closest touch with the member banks in the cotton states, for the purpose of reviewing the credit situation in these states, and determining what further credit will be needed to facilitate the harvesting and orderly marketing of this crop.

"At the present time the five Reserve Banks in question are lending to their members \$457,000,000, or more than 26 per cent of the loans of the entire system, the Richmond Bank borrowing from other Reserve Banks \$20,000,000 and the Dallas Bank borrowing \$16,000,000 for that purpose. The total loans of these five Reserve Banks to their member banks exceed their reserve deposits by \$192,000,000, whereas the reserve deposits of the other seven Reserve Banks exceed their loans to their members by \$118,000,000.

"The amount now loaned by these Reserve Banks to their members is four and one-half times the amount borrowed at any one time by all the national banks of the country prior to 1914, or before the establishment of the Federal Reserve System.

"The Federal Reserve Board and the Governors of the Federal Reserve Banks announce that the Federal Reserve Banks, in addition to credits already extended, are able and stand ready to extend further credit for the purpose of harvesting and marketing the coming crop, in whatever amount may legitimately be required, either directly to their member banks, or under a ruling now issued by the Federal Reserve Board, indirectly to non-member banks acting through the agency and with the endorsement of a member bank. These loans will be made by the Federal Reserve Banks upon notes, drafts and bills of exchange issued or drawn in accordance with the terms of the Federal Reserve Act and the regulations of the Federal Reserve Board, for the harvesting or orderly marketing of the coming cotton crop.

"In order, however, that these rediscount facilities of the Federal Reserve Banks may be made fully effective it will be necessary that member banks in the cotton states place their loaning facilities freely at the disposal of cotton producers and dealers in their respective localities with the knowledge and assurance that the Federal Reserve Board and the Federal Reserve Banks recognize the urgency of rendering all proper assistance to these important interests during such abnormal times.

"Mr. Meyer, managing Director of the War Finance Corporation, who attended the conference, reviewed the activities of the War Finance Corporation in making loans for financing cotton for immediate and future export. Governor Strong, of the Federal Reserve Bank of New York, and representatives of certain New York member banks were also invited to the conference to discuss the necessity or advisability of having various

commercial banks through the country establish a fund for the purpose of making loans upon cotton. In view of the conclusions reached by the conference as to the ability of the Federal Reserve Banks effectively to take care of all of the legitimate requirements of the cotton interests, it was felt that the establishment of such a fund at this time is neither necessary nor advisable. Governor Strong stated, however, that he had received assurances from a number of important banking institutions in New York City that if the facilities now offered by the Federal Reserve Banks and the War Finance Corporation should prove to be inadequate, they will co-operate in the establishment of a cotton loan fund in whatever amount the situation might demand."

In accord with the policies set forth in the above statement, we are issuing this general letter defining the attitude of this bank toward **Cotton Loans and Cotton Paper**, with special reference to the growing crop, involving, probably, further extension of credit, both for the making and the orderly marketing of the crop.

### MAKING AND HARVESTING

The Federal Reserve Bank of Dallas is prepared to rediscount for its member banks, acceptable paper, the proceeds of which are used in meeting the absolutely indispensable needs of customers in cultivating and harvesting the crop, when offered with specific explanation of the purpose for which it was created, in addition to lines already granted for the same or equally necessary and deserving purposes.

### MARKETING

Notes, drafts and bills of exchange secured by staple agricultural products, or other goods, wares or merchandise, when drawn for agricultural, industrial or commercial purposes, but not for investment or speculative purposes, are eligible for discount under the Act.

Under this provision, it has always been the position of the Federal Reserve Bank of Dallas, governed by the Regulations of the Board, that notes secured by proper warehouse receipts for cotton, the warehouses being responsible and independent of the owner of the product, are eligible for discount when drawn under the conditions above quoted and running not longer than 90 days from the date of discount.

The provisions of the Act are sufficiently broad and liberal for the orderly marketing of cotton or other agricultural products, and the resources of the Federal Reserve Banks are ample and available when used for that purpose.

When, however, having discounted paper secured by staple agricultural products, or other goods, wares or merchandise, it becomes evident that the purpose of the owners is to hold them off the market indefinitely, or for a predetermined price, there being a market to take them, then such paper ceases to be eligible for discount by Federal Reserve Banks, although it may still be a proper investment for member banks.

### LINE OF CREDIT

Under the Act, Federal Reserve Banks are not limited in the amount of eligible paper which they may discount for a member bank, except as to the limit of paper bearing the signature or endorsement of any one borrower (which is well known to members); the "line" is left to the discretion, judgment, experience and prudence of the Federal Reserve Bank. There is, therefore, no fixed line for any member bank, but Section 4 of the Act requires that the board of directors of Federal Reserve Banks "shall administer the affairs of the bank fairly and impartially and without discrimination in favor of or against any member bank or banks, and shall, subject to the provision of the law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advances and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

The endeavor has always been made to extend accommodation to a member bank according to the measure of its necessities.

The inquiry is occasionally made whether a certain class of discounted paper can be omitted from a bank's regular line. As stated above and as will be hereafter shown, there is no "regular line" for any bank, but under the Act all "discounts, advances and accommodations" to a bank must be taken into account "with due regard for the claims and demands of other member banks."

No paper may be discounted without the endorsement of a member bank; it is liable for all paper discounted in any event, and that liability must be taken into account, as well as its equitable share of the resources of the Reserve Bank.

In order to measure the relative amount of accommodation extended to each member bank, a "basic line" was fixed. This line is determined upon a fair and logical basis; that is, upon the lending power contributed to the Federal Reserve Bank by the reserve deposit and capital subscription of each member bank. Even under that definition, no specific limit to the amount of advances to any bank is fixed.

Judgment, experience and knowledge of the conditions surrounding a bank, and the reserve position of the Federal Reserve Bank itself, therefore, determine the line which may be safely and reasonably given any bank, with due regard to the claims of other banks.

### ADVANCES ON THE NEW COTTON CROP

Under the conditions hereinbefore set forth, and under the terms of the Federal Reserve Act and the Regulations of the Board, the Federal Reserve Bank of Dallas will make further advances for making and gathering the growing crop, and will discount for its members eligible paper secured by negotiable and acceptable warehouse receipts for new cotton at 80% of the market value at the time loans are made, the margin to be kept good; and will discount acceptable trade acceptances of mills for cotton purchased and intended for consumption, and approved bankers' acceptances based on new cotton and made under the Regulations.

UNDER A RULING OF THE BOARD EMBODIED IN ITS ANNOUNCEMENT, FEDERAL RESERVE BANKS ARE AUTHORIZED IN THE PRESENT URGENT AND ABNORMAL SITUATION TO DISCOUNT FOR THEIR MEMBER BANKS PAPER OWNED AND ENDORSED BY NON-MEMBER BANKS WHEN OFFERED AND ENDORSED BY THE MEMBER BANKS. SUCH PAPER MUST BE IN THE FORM OF NOTES, DRAFTS OR BILLS OF EXCHANGE, ISSUED OR DRAWN UNDER THE TERMS OF THE FEDERAL RESERVE ACT AND THE REGULATIONS OF THE BOARD "FOR THE HARVESTING AND ORDERLY MARKETING OF THE COMING COTTON CROP," AND MUST BE ACCOMPANIED BY A SIGNED STATEMENT BY THE MAKER OR DRAWER, EITHER ON THE PAPER ITSELF OR ON AN ATTACHED SLIP, THAT THE PROCEEDS HAVE BEEN USED OR ARE TO BE USED FOR HARVESTING OR MARKETNG THE NEW COTTON CROP.

The Federal Reserve Bank of Dallas reserves the right and the authority now, as heretofore, to determine the limit of credit which may be reasonably, and with prudence and safety, extended to any bank under any conditions, and to determine the acceptability of the paper offered.

The Reserve Banks of the cotton States can adequately provide for the gathering and orderly marketing of the new crop with the full co-operation of all member banks. To make this aid thoroughly effective, member banks will be compelled to take measures to provide for the small cotton producer, both in completing his crop and in order that he may not suffer by having to sell his cotton immediately upon gathering it, **should there not be a satisfactory market at the time.** The proceeds of such advances on new cotton should be used to liquidate current indebtedness where possible, in order to give vitality to credit. It should be obvious that business cannot move and be kept moving **unless cotton is sold as the market will take it.**

Respectfully,



Governor.