

**FEDERAL RESERVE BANK
OF DALLAS**

Circular No. 5
Series 1926

December 15th, 1926

OFFERINGS OF LIVE STOCK PAPER.

To the Member Bank Addressed:

This circular supersedes our Circular No. 3, Series of 1926, entitled "Live Stock Financing," and has been issued with a view of clarifying certain matter contained therein, which in some cases appears to have been misunderstood.

Our Board of Directors has decided to reserve the right to require that member banks furnish the following information in connection with notes of \$2,500 or over secured by a first mortgage lien on live stock, unless accompanied by financial statements of makers which evidence the credit acceptability of the notes offered, independent of live stock under mortgage:

(1) A report of inspection of the live stock securing the note, such inspection having been made not more than thirty days prior to the date of the note offered.

(2) Certificates from the County Clerk of the county or counties in which the mortgages are filed, showing all liens on record against the live stock securing the note offered.

(3) Full information regarding the range on which said live stock is located, i.e., whether owned by the mortgagor or leased. If under lease, date of entrance of the livestock on the property, statement of range owner's or landlords' liens, or any unpaid rentals, will be required.

(4) Tax Collector's statement or other satisfactory evidence showing taxes and/or forest permit fees paid, or if unpaid, amount due and payable, on live stock under mortgage.

While this circular refers only to what may be termed strictly live stock loans, it is not intended to discriminate against this class of paper, which will be considered by the Discount Committee in the light of the information available, the same as any other paper. Where live stock paper is supported by financial statements which, in our judgment, reflect credit acceptability, or where we are in possession of other information which would warrant our accepting the paper, the data enumerated in paragraphs numbered 1, 2, 3 and 4 above will not be required. The information in the paragraphs referred to is necessary only in the case of live stock loans the payment of which is largely or wholly dependent upon the live stock under mortgage or where there is apparently an insufficient margin, at conservative valuations, between the value of the security and the amount of the loan.

While this circular is intended primarily to outline our own requirements where live stock paper is offered to us, nevertheless, our practical experience with a number of member banks has clearly demonstrated the value of proper inspection reports to the member bank itself.

For your consideration we offer the following suggestions as to what, in our judgment, constitutes a satisfactory inspection report and what we should expect it to cover in cases where it is required: (a) the name and address of the mortgagor, (b) class and kind of live stock and where located, (c) the number of live stock covered by the mortgage which have been actually counted, and in those cases where several classes are covered by mortgage, a detailed classification thereof, (d) marks and brands and in whose name registered, (e) information relative to condition of the range, its carrying ability and fattening qualities, (f) information as to whether the live stock is located in quarantined territory.

Inspection should be made by a reputable, practical stockman, preferably an inspector employed or accredited by some responsible live stock association or organization, a cattle loan company or the Federal Intermediate Credit Bank, which affiliation should be verified by the inspector.

Where a member bank has regularly in its employ a representative who inspects cattle securing loans made by it, his report of inspection will be given full consideration, particularly when supported by affidavit of the owner of the live stock showing number and class under mortgage.

We believe that the adoption of the above suggestions will tend to improve credit practices and that, by definitely establishing values supporting live stock loans, the hazard in connection therewith will be greatly reduced. The co-operation of member banks along the lines indicated will not only enable this bank to more intelligently and fairly pass upon the credit acceptability of live stock paper but will also tend to stabilize and render such paper much more desirable.

Yours very truly,

A handwritten signature in cursive script, appearing to read "H. M. Dancy", written in black ink.

Governor.