

**FEDERAL RESERVE BANK  
OF DALLAS**

August 23, 1928.

**To the Member Bank Addressed:**

The officers and a committee of directors of this bank, in conjunction with counsel of the bank, have been at work for some time devising a plan whereby this bank, within the terms of the Federal Reserve Act and regulations of the Federal Reserve Board, safely may lend to member banks on eligible paper secured by tickets and bills of lading covering cotton in process of marketing, **without making the impracticable requirement that such tickets and bills of lading be sent to the head or branch office of the reserve bank.**

The result is a plan which we shall be glad to explain in detail to any member bank that is interested and that feels that it may wish to avail itself of the facility. But inasmuch as the plan is new and constitutes a departure from any practice of this bank in the past, notwithstanding it is simple and free from requirements that might be considered objectionable, we feel that it may be best explained individually to member banks thus interested. Accordingly it is suggested that each such bank take the matter up with us to learn the details first hand.

Meanwhile, we print on the remaining pages of this folder two papers, used in the plan, which we think it likely each member bank may be interested in examining in any event.

One is a form of draft or acceptance of the cotton buyer, and the other a form of collateral agreement executed by the cotton buyer to the member bank.

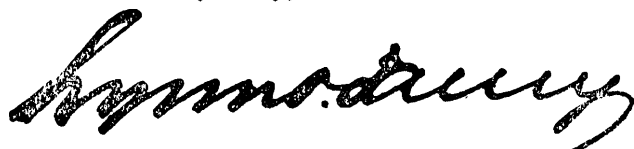
Whether or not a member bank wishes to avail itself of the reserve bank's plan, we think it may find it to its interest to use the forms enclosed.

Judging by expressions which we have heard, not only is there a lack of uniformity among the types of draft or acceptance and collateral agreement in use by member banks, but also instruments in use by particular member banks are not entirely satisfactory to them.

The draft form enclosed is believed to be free from criticism and the collateral form is deemed adequate for most, if not all, purposes.

We shall be glad to know whether you think a practicable plan of the character mentioned of lending on cotton in process of marketing will answer a need of member banks of this district, especially of banks in your section, and also whether there is a likelihood that now or in the future you may wish to avail yourselves of the plan, if you find it adapted to your situation.

Yours very truly,



Governor.

**COTTON MERCHANT'S COLLATERAL AGREEMENT  
IN FAVOR OF**

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Whereas the undersigned is engaged in the purchase and sale of cotton in bales and has begun, or desires to begin, business with the above mentioned bank, and is now or may become indebted and/or liable to said bank in the transaction of such business; and

Whereas it is desirable that certain terms on which such business is and will be transacted, shall be stated in writing;

Now, therefore, the undersigned hereby agrees, in consideration of the premises and of the sum of \$1.00 to the undersigned in hand paid by the said bank, the receipt whereof is hereby acknowledged, that all existing and all future transactions between the undersigned and the said bank shall be upon the following basis and terms:

1. The undersigned hereby agrees to fulfill, strictly and punctually, all obligations of the undersigned, whether primary or secondary, on or by reason of all notes, drafts, bills of exchange and/or other instruments to which the undersigned may be or become a party, or on which the undersigned may be or become liable in any way, and which have been, or, within one year from this date, shall be, executed or negotiated to said bank, whether by the undersigned or another or others, and to discharge punctually all indebtedness and/or liability whatever now existing or that hereafter, within one year from this date, may arise, on the part of the undersigned in favor of said bank on any account.

2. Irrespective of, and notwithstanding, any term of any instrument whatever and any circumstance whatever, by reason of which, otherwise, any one or more of the items hereinafter in this paragraph specified may now or hereafter constitute security for one or more particular items of indebtedness and/or liability of the undersigned, and for none other, or for such item or items in preference to one or more other items of indebtedness and/or liability, the undersigned hereby assigns, transfers, sets over and pledges unto the said bank as security for the agreement of the undersigned contained in the preceding paragraph of this instrument and all and every the items embraced therein, and, as to any and each item of security, without limitation of same to any one or more items of indebtedness and/or liability, or preference of same over any one or more other items of indebtedness and/or liability, all and every the following:

(a) All securities and papers whatever that the undersigned has delivered or caused to be delivered, or hereafter within one year from this date shall deliver, or cause to be delivered, to said bank as security for, or in connection with, all or any one or more items of indebtedness and/or liability of the undersigned to said bank;

(b) All securities and papers whatever that may be attached to, or may accompany, or that otherwise may have been or hereafter may be acquired by said bank in connection with, any note, draft, bill of exchange or other instrument whatever on or by reason of which the undersigned is liable and which said bank may have acquired or hereafter may acquire;

(c) All securities hereinafter in this instrument mentioned and assigned to said bank and all rights hereinafter in this instrument conferred on said bank;

(d) All securities and papers whatever that may be received by said bank in exchange for or in lieu of any securities theretofore held by said bank;

(e) All moneys now on deposit or hereafter deposited by or for the account of the undersigned with the said bank and all notes, drafts and other instruments whatever belonging to the undersigned, and delivered or entrusted to said bank for collection or other purpose, and all credits and rights whatever now existing and that may hereafter arise in favor of the undersigned and against the said bank.

3. The purpose of the foregoing provision is to confer, and the same shall be effective to confer, upon the said bank, a blanket lien upon, and pledge of, all the items mentioned in subdivisions (a), (b), (c), (d), and (e) of said paragraph for all and every the items of indebtedness and/or liability specified in paragraph 1 of this instrument, without limitation to, or distribution or allocation among, any particular items of indebtedness and/or liability, and without preference of any one of such items over another such item.

4. However, the undersigned hereby assents that the said bank may sell, rediscount, assign, transfer, set over and/or pledge to Federal Reserve Bank of Dallas or to anyone else, all or any of the items of indebtedness and/or liability of the undersigned to the aforesaid bank, and hereby assents and authorizes that the aforesaid bank, in so doing, may assign, transfer, set over and/or pledge with all or any of such items of indebtedness and/or liability, and on such terms as to said bank may seem best, any one or more or all of the items of security held by the said bank, hereby permitting said bank to make such allocation as it may desire for the purpose aforesaid, of any one or more or all items of security to any one or more items of indebtedness and/or liability and such assignment or transfer may confer upon such assignee or transferee all or any of the rights, powers and privileges granted by this instrument

5. The said bank shall be entitled to retain, as collateral, or to retain and apply, in such order and manner as it shall choose, on all items of indebtedness and/or liability of the undersigned, whether due or not, all moneys and credit items that the undersigned may deposit for credit, collection or otherwise and all moneys and credit items which may be collected or received by said bank, on such items or otherwise, for the account of the undersigned, including all proceeds of all sales of any of the securities held by said bank as aforesaid, and all credits whatever now existing and/or that may hereafter arise on the part of said bank in favor of the undersigned.

6. The undersigned stipulates that all cotton that may be represented by securities, other than bills of lading by a railroad company or other carrier, held by said bank as aforesaid, shall be insured at all times against fire and such other hazards, if any, as may be specified in addendum hereto or endorsement hereon, for the full value of such cotton, in solvent insurance companies; that the policies of insurance shall be in favor of the undersigned, and that, by loss payable clause attached to the policy or policies, or by bankers' letters or other instruments, the insurers shall recognize the interest of said bank in such cotton, and shall promise that any loss payable under such contracts of insurance on such cotton shall be payable to such bank, as its interest may appear; and that the undersigned will deliver to the said bank, at or before the delivery to said bank of each security representing cotton, either the insurance policy or policies aforesaid, with loss payable clause attached, or the bankers' letters or other instruments aforesaid, evidencing the facts aforesaid with reference to such insurance. The undersigned stipulates that said bank shall have,—and the undersigned hereby assigns, transfers and sets over unto the said bank, and promises, if and whenever requested, to execute any separate or additional instrument to the bank assigning,—all of the right of the undersigned in and to, and all benefits under, all policies and contracts of insurance which the undersigned at any time may hold or have a right to, and the proceeds of such policies and contracts, covering the cotton represented by securities held by said bank. The undersigned stipulates that the undersigned will see to it that all such insurance papers are obtained and maintained in valid and sufficient form to cover such cotton to the full value thereof and that they are delivered to the said bank. If the undersigned shall omit or fail in any particular to perform any provision of this paragraph, the said bank may perform the same and expend whatever money is essential therefor, and the undersigned will repay said sum immediately to said bank, at its place of business, on demand.

7. The undersigned will, at all times, furnish to, and maintain with, said bank, and said bank shall at all times have the right to require from the undersigned, as security for all items of indebtedness and/or liability aforesaid, securities to an amount and value satisfactory to said bank, and said bank may call, at any time and as often as it may deem proper, for additional security for such items of indebtedness and/or liability, and the undersigned will punctually comply with such call.

8. But said bank, without requiring additional security, or without waiting for the furnishing of such security, if required, may, whenever for any reason it deems best, and prior to default of the undersigned in any respect, and prior to maturity of any item of indebtedness and/or liability aforesaid, take charge of and sell, without notice to the undersigned, at public or private sale, any or all of the securities representing cotton held by said bank, using the proceeds in accordance with paragraph 5 hereof.

9. If and whenever (a) the undersigned shall make default in the performance of any agreement herein undertaken, or (b) from any cause said bank shall deem itself insecure in the punctual payment of all items of indebtedness and/or liability of the undersigned, or (c) the undersigned shall become sick or disabled or shall die, all indebtedness and liability of the undersigned to said bank shall, at the option of said bank, become immediately due and payable, notwithstanding any credit or time allowed to the undersigned by any instrument evidencing any of such indebtedness or liability.

10. Upon any occasion specified in the foregoing paragraph the said bank may immediately, without notice to the undersigned, sell, at one time or at different times and whenever deemed by said bank best, and at public auction or at private sale, any one or more of the items of security held by said bank; and said bank may use the proceeds of such sale or sales in the manner specified in paragraph 5 hereof. Said bank may first deduct out of the proceeds of all sales, all expenses of every nature, including reasonable attorney's fees, if any.

11. Said bank shall not be charged with responsibility in any contingency whatever to sell or otherwise realize on any item of security. Nor shall said bank be under any duty, notwithstanding the wish or opinion of the undersigned or of others, to hold any item of security for a better price than that currently obtainable. The limit of said bank's liability as to any security shall be the preservation of the security, or the application in accordance with this instrument, of the moneys, if any, actually received by the bank for such security.

Dated at.....this.....day of....., 19.....

Witness: .....

FORM OF COTTON DRAFT

ACCEPTED

PAYABLE AT

(Signature of Acceptor)

NAME OF BANK

(Date)

PAY TO THE ORDER OF MYSELF

DOLLARS \$

on or before days after date

A/C B/C on basis pounds weight and grade.

The drawers, acceptors, endorsers and other parties to this instrument hereby severally waive presentment for payment, protest and notice of dishonor.

To (Name of Drawee)

(Signature of Drawer)

(Address of Drawee)

ENDORSEMENT OF DRAWER

Pay to the order of the Bank of
At option of such Bank or other holder hereof, acceptor may be permitted to move any B/C represented by paper or card attached hereto to yard, compress or other place, sample and/or compress same, also to withdraw any such ticket or card and make any substitution therefor or partial payment hereon.

(Signature of Drawer)

ALTERNATIVE FORM OF COTTON DRAFT
(For Use If Preferred to First Form)

ACCEPTED

PAYABLE AT

(Signature of Acceptor)

(Date)

PAY TO THE ORDER OF Bank,

DOLLARS \$

on or before days after date

A/C B/C on basis pounds weight and grade.

Any holder for presentment or other purpose may purchase this draft. At option of any holder, acceptor may be permitted to move any B/C represented by paper or card attached hereto to yard, compress or other place, sample and/or compress same, also to withdraw any such ticket or card and make any substitution therefor or partial payment hereon. The drawers, acceptors, endorsers and other parties to this instrument hereby severally waive presentment for payment, protest and notice of dishonor.

To (Name of Drawee)

(Signature of Drawer)

(Address of Drawee)