

At a special meeting of the Federal Reserve Board held in the office of the Board on Saturday, October 24, 1914 at 10:15 a. m.

PRESENT:

Mr. McAdoo	Mr. Williams
Mr. Hamlin	Mr. Warburg
Mr. Delano	Mr. Harding

Mr. Miller.

The Secretary of the Treasury presided and Mr. H. P. Willis acted as secretary to the meeting.

In addition to the members of the Federal Reserve Board there were present for the purpose of conference Mr. Festus J. Wade of St. Louis, Messrs. William Woodard, Albert H. Wiggin, Benjamin Strong, jr., of New York, Mr. James Brown of Philadelphia, Mr. D. L. Wing of Boston and Mr. J. H. McLaurin of Jacksonville, Florida.

Upon invitation of the Secretary of the Treasury, Mr. Albert H. Wiggin presented a draft of the proposed cotton loan fund plan as finally revised by the committee of New York bankers in charge of the undertaking. He briefly outlined the plan and then read it in detail.

A general discussion ensued and the plan was modified at a number of points finally assuming the follow-

ing form:

Memorandum of plan for the creation of a fund of approximately \$135,000,000 to be used for the purpose of making loans on cotton in the cotton-producing states.

Submitted to the Federal Reserve Board at a meeting of bankers representing banks in New York and St. Louis, and approved by the Board on October 24, 1914.

Members of the committee present in person, Messrs. A. H. Wiggin, William Woodward, A. J. Hemphill and J. S. Alexander representing the New York bankers, and Mr. Festus J. Wade of St. Louis, and Mr. Daniel G. Wing of Boston.

* * * * *

OUTLINE OF PLAN .

It is proposed to create in the manner hereinafter provided a fund of approximately \$135,000,000. to be known as the "Cotton Loan Fund" and to be used for the purposes herein stated. Subscribers to this fund shall be divided into two classes to be designated respectively as Class "A" and Class "B" subscribers. Class "A" subscribers shall consist of banks or other corporations, firms or individuals located or residing in other than the cotton-producing States of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Texas and Tennessee.

All class "A" subscriptions shall be contingent upon the receipt of subscriptions of that class aggregating \$100,000,000. Class "B" subscriptions shall be made by or through banks or bankers located or residing in the cotton-producing States above mentioned and as hereinafter more particularly explained; no Class "B" subscriptions shall be required except as a condition of a loan or loans to be made out of the fund to be created, and in such event such subscriptions shall not be required to exceed 25% of the amount of the loan applied for.

Each subscriber shall, upon the payment in whole or in part of the amount subscribed for, receive a negotiable participation certificate showing on its face the class of subscription represented thereby and specifying the terms under which the owner will be entitled to share in the distribution of the monies realized from the loans made from the fund created.

All Class "A" and Class "B" certificates shall bear interest at the rate of six per cent per annum payable quarterly.

The Cotton Loan Fund will be administered under the direction of a Committee to be known as the Central Committee and to be composed of the individual members of the Federal Reserve Board. The Central Committee shall appoint a sub-committee for the general administration of the fund to be known as the Cotton Loan Committee and shall delegate to such Committee such powers as may be necessary to properly carry out the purposes of this plan. The Cotton Loan Committee to be named by the Central Committee shall consist of the following:

W. P. G. Harding, Chairman, Washington, D. C.
Paul M. Warburg, Washington, D. C.
Col. E. M. House, Austin, Texas.
Albert H. Wiggin, New York,
James S. Alexander, New York,
James B. Forgan, Chicago, Ill.
Festus J. Wade, St. Louis, Mo.
Levi L. Rue, Philadelphia, Pa.
William A. Gaston, Boston, Mass.

The Cotton Loan Committee shall in turn appoint committees in each of the cotton-producing States hereinbefore named, the title of such committees to include the name of the State in which such committee shall be required to act for the Cotton Loan Committee, and each State Committee so appointed shall in turn appoint local committees in sufficient number to safeguard the practical workings of the plan. All committees appointed to be subject to the approval of the Central Committee and all committees to serve without compensation of any kind.

The banks of the City of New York have pledged themselves to subscribe fifty million dollars of the one hundred million

dollars of Class "A" certificates, provided the remaining fifty million dollars shall be raised within a reasonable time under the supervision of the Central Committee by banks in non-cotton producing States.

All loans made from the fund created shall bear interest at the rate of six per cent per annum and all applications for loans must be made through banks or bankers who shall in each instance accompany the application for such loans with a subscription to Class B certificates in an amount equal to 25% of the amount of the loan applied for. The subscriber to Class "B" certificates applying for a loan for a customer will not be required to endorse the note of such customer and shall not be entitled or permitted to receive from such customer the payment of any commission on account of obtaining such loan.

All loans made shall be first approved by the proper local committee, by the appropriate State Committee and by two members of the Cotton Loan Committee. When applications for such loans have been approved as above provided the notes evidencing same, together with the collateral required under the terms of this plan, must be forwarded to the office of the Cotton Loan Committee with instructions as to the disposition of the proceeds and must, as stated, be accompanied with the subscription of the bank or banker forwarding the application to an amount of Class "B" certificates equal to 25% of the amount applied for.

In order to make the subscriptions of Class "B" certificates immediately available, each subscription accompanied by an application for a loan, must be accompanied by a New York draft of the bank or banker through which the application is made, drawn to the order of the Cotton Loan Fund, or in such manner as the Cotton Loan Committee shall designate, said draft to be for an amount equal to 25% of the loan applied for, and upon the granting of such loan a Class "B" certificate for this amount shall be issued. In this manner 75% of each loan will be provided by the fund obtained from Class "A" subscribers and 25% from the Class "B" subscribers.

All loans shall be evidenced by notes in form approved by the Cotton Loan Committee and shall be secured by cotton on the basis of six cents per pound for middling in addition to the Guarantee Fund hereinafter described.

As evidence of the security offered, each note tendered with an application for a loan must be accompanied by receipts of approved warehouses by evidence of proper insurance. All cotton accepted as security must be located in warehouses or other buildings under the ownership and control and some person, firm or corporation other than the borrower, and in approving such loans the local and State Committees shall respectively pass upon the sufficiency of such warehouse receipts and insurance and shall be satisfied that such cotton is free from all liens except that created by the loan or loans from the fund to the borrower for which such cotton is pledged as part security for such loan, and the Committee approving such loans shall likewise be satisfied that the cotton offered as security is of the grade or quality specified in the application.

All expenses such as warehouse charges and insurance premiums shall be borne by the borrower.

In addition to the security hereinbefore specified, every applicant granted a loan from the fund shall pay to the Cotton Loan Committee a sum equal to three per cent of the face amount of the loan granted and the applicant shall authorize the Cotton Loan Committee to deduct or withhold this amount from the proceeds of such loan. All sums so paid shall constitute a mutual borrower's Guarantee Fund to be used (1) for the payment of expenses of administration, which it is estimated will in no event exceed 1/8 of one per cent of the loan fund created; (2) to pay any losses sustained by reason of any loans from the said fund; the balance, including all interest earned from the investment of the said mutual borrower's guarantee fund shall be returned pro rata to the borrowers.

The Cotton Loan Committee shall Control the Guarantee Fund so created and may, in its discretion, invest all or any portion thereof in Class "A" certificates herein provided for.

All applications for loans shall be made not later than February 1, 1915, and all loans made shall mature on or before February 1, 1916; provided, however, that the Central Committee, in its discretion, may authorize the Cotton Loan Committee to extend any and all loans for a period not to exceed six months after February 1, 1916, if in the judgment of said Central Com-

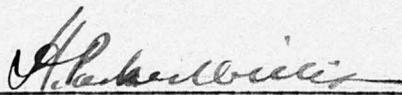
mittee conditions at that time justify such extension.

Calls for payment of subscriptions to Class "A" certificates shall be made as nearly pro rata as possible. In the event that on February 1, 1915, applications for loans shall not have been received to the extent of the full amount subscribed, the fund shall nevertheless be closed at the amount thus applied for and loaned, and Class "A" subscribers shall thereupon be released from the payment of the balance of their subscriptions which have not up to that time been called for. Provided, always, that the fund shall not be construed to have been established for any purpose until Class "A" subscriptions shall have been received to the amount of \$100,000,000.

As monies become available for repayment to subscribers they will be applied against both Class "A" and Class "B" certificates, but the percentage of reduction in the case of Class "B" certificates shall be one-half of that in the case of Class "A" certificates until the amount of the latter outstanding shall be reduced to the amount of Class "B" certificates then outstanding, after which the percentage of reduction shall be the same. For example, if a payment is made on the Class "A" certificates to the extent of ten per cent of the face amount of such certificates then outstanding, a payment shall at the same time be made upon the Class "B" certificates to the extent of five per cent of the amount then outstanding. Again, if a payment on the Class "A" certificates is made of an amount equivalent to $3\frac{1}{2}\%$ of the amount then outstanding, at the same time a payment on Class "B" certificates will be made of an amount representing $1\frac{3}{4}\%$ of the aggregate of Class "B" certificates then outstanding, which method of payment shall be continued until the amount of the two classes of certificates outstanding shall be the same, after which all sums distributed shall be divided pro rata among all certificate holders, regardless of the two classes.

Further modification of details was intrusted to a subcommittee representing the bankers with Mr. Wiggin as chairman.

At 12:00 noon a recess was taken until 12:30 p. m. and at the latter hour discussion of the plan was resumed and continued until 2:00 p. m., when adjournment was taken.


Secretary.

APPROVED:

Chairman.