

December 30, 1915.

Dear Sir :

In regard to your letter of December 21st, including a copy of a letter of the National Implement and Vehicle Association of the United States, dated Chicago, December 13th, I beg to reply as follows :

The question which your Mr. McCullough puts is a very close one. The law permits the rediscount of six months' paper that has been "drawn or issued for agricultural purposes, or the proceeds of which have been used^s or are to be used for agricultural purposes. "

There can not be any doubt that a bill drawn by a dealer on a farmer in payment for agricultural implements purchased by the farmer is a bill that has been "drawn or issued for agricultural purposes and the proceeds of which have been used or are to be used for agricultural purposes. "

The question then arises - does such paper comply in addition to this requirement, with those prescribed by the Federal Reserve Board by Regulation B, of which II(a) prescribes that " no bill is 'eligible', the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings,

machinery (including therein additions, alterations, or other permanent improvements, except such as are properly to be regarded as costs of operation)."

It is a very close question whether agricultural implements are to be considered as permanent improvements or as part of the cost of operation. However, it must be considered that machinery of this kind is not of a permanent character. It wears out rapidly and in most cases has to be replaced within a comparatively short time, so that it may be assumed that a certain amount of money would be spent annually and regularly for the purchase and replacement of machinery of this kind. As the Board by its regulations does not desire unnecessarily to restrict, but rather to encourage, the facilities to be given, as far as that may be done consistently with prudence, it would appear that the wider interpretation in this case should be given, and a ruling by the Board would appear entirely appropriate which would permit notes and bills of exchange drawn by implement dealers on a farmer against a sale to him of agricultural implements, to be considered as drawn or issued for agricultural purposes.

This would answer in the affirmative Mr. McCullough's question (1):

"Are the notes of farmers or consumers given for the purchase price of farm tools, agricultural machinery or other farm operating equipment discountable under the section thirteen (13) of the Federal Reserve Act - Providing for notes, bills, or drafts, drawn or issued for 'Agricultural purposes'?"

Question (2) reads as follows :

"Will the fact that such notes, drafts or bills are presented by the dealer with his endorsement for rediscount, change their classification from the rating given them if presented by the maker (the farmer) if so why ? "

It is to be assumed that the clause permitting the re-discount of agricultural six months' paper was enacted by Congress for the purpose of giving special facilities to farmers. If the note were purchased from a dealer, it would appear that the facility is not given to the farmer but to the dealer. However, there is no doubt that the language of the law plainly would permit the rediscount of such paper and inasmuch as, indirectly, the farmer would profit by the rediscount to the dealer- inasmuch as otherwise the farmer would have to borrow and probably borrow at a higher rate for a single name note than the money could be secured upon the double name bill of exchange drawn by the dealer- it is to be expected that the advantage of the lower discount rate and of the cheaper credit will indirectly result to the benefit of the farmers.

It would appear, therefore, that from every point of view, question (2) should be answered in the affirmative.

Question (3) reads :

"What provisions or marks of identification, if any must be placed upon notes, drafts or bills to have them properly classified as 'issued for agricultural purposes' and render them discountable if their maturity does not exceed six months."

The nature of the bill, the name of the acceptor, and the name of the drawer, would probably indicate that a farmer

was the purchaser and an implement dealer the seller of the goods. However, the purchasing member bank will have to satisfy itself in some satisfactory way that the bill is substantially of an agricultural character. A simple memorandum attached to the bill, stating that the bill was drawn in payment of agricultural implements, signed either by the acceptor or the drawer would probably be considered sufficient evidence by the member bank and the Federal Reserve Bank.

Question (4) reads :

"What is the limit, in amount, that a Federal Reserve Bank may rediscount of notes, drafts or bills where taken for 'Agricultural purposes' as provided in Section thirteen (13) ? "

The law prescribes that in the aggregate the total amount of agricultural paper purchased by a Federal Reserve Bank should not exceed a percentage of its capital stock, the percentage to be fixed from time to time for each Federal Reserve Bank by the Federal Reserve Board. The percentage fixed by the Board differs in the various districts. Whenever a district has applied, the maximum limit has been granted, which has been considered to be 99% of the capital stock.

I beg to remain,

Respectfully,

(Signed) H. PARKER WILLIS,

Secretary.

Mr. James B. McDougal,
Governor, Federal Reserve Bank,
Chicago, Illinois.