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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 29, 1918.

Dear Sir:

An informal ruling of the Board is published on page 65, volume 2, of the Federal Reserve Bulletin to the effect that it is the view of the Board that cattle should be considered as a readily marketable commodity and that a Federal reserve bank may consider as eligible a bankers' acceptance secured by a chattel mortgage on cattle.

This has apparently been construed to mean that a national bank may accept drafts if secured at the time of acceptance by a chattel mortgage on cattle.

In the particular instance in which this ruling was made the drafts were drawn against a trust company which was not a member of the Federal Reserve System and the question before the Board was whether or not this bankers' acceptance was eligible for discount by a Federal reserve bank and not whether a national bank was authorized to accept drafts or bills of exchange secured by a chattel mortgage. As the language of the ruling is, however, susceptible of this interpretation the Board desires to correct any misapprehension on the subject and has ruled that drafts or bills of exchange drawn in domestic transactions against a national bank can not, under authority of Section 13, be accepted when secured by a chattel mortgage on cattle but only when accompanied by shipping documents or when secured by a warehouse receipt or other similar documents conveying or securing title to readily marketable staples.

While cattle may be treated as readily marketable staples, a chattel mortgage is not considered a document similar to a warehouse receipt since the borrower retains the possession of the goods and conveys to the bank only the legal title.

The Board having reached the conclusion that national banks are not authorized to accept bills secured by chattel mortgages on cattle, deems it advisable that Federal reserve banks should consider as ineligible bills drawn against the security of such chattel mortgages, whether accepted by member or non-member banks.

Respectfully,

Governor.

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