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ADDRESS REPLY TO  
 FEDERAL RESERVE BOARD

## FEDERAL RESERVE BOARD

WASHINGTON

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April 15, 1920.

X-1899

Subject: Warehouse Receipts on Whiskey in Bond.

Dear Sir:-

For your information there is enclosed copy of the Board's reply to a letter from a firm formerly engaged in the wholesale liquor business, relating to the use of warehouse receipts on whiskey in bond as collateral for loans made by member banks.

Very truly yours,

Enclosure.

Governor.

To Governors and Chairmen of all F.R. Banks.

COPY

April 14, 1920

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Dear Sirs:-

The Federal Reserve Board has received and considered your letter of April 12th, 1920, stating that since national prohibition became effective banks have not regarded warehouse receipts covering whiskey in bond as good collateral and asking that the Federal Reserve Board "reconsider the matter and give some relief".

The Federal Reserve Board has never in the past made any ruling to the effect that warehouse receipts covering whiskey in bond are either good or bad collateral for a bank loan. It is obviously a question which each bank must determine for itself and is not a matter coming within the jurisdiction of the Federal Reserve Board.

Under the terms of Section 3 of Title II of the Volstead Act, it is provided "That nothing in this act shall prohibit the purchase or sale of warehouse receipts covering distilled spirits on deposit in Government bonded warehouses and no special tax shall attach to the business of purchasing and selling such warehouse receipts." Article IV, Section 26 of the Regulations issued by the Bureau of Internal Revenue, under the terms of the Volstead Act, relative to the manufacture, sale, possession, and use of intoxicating liquors provides that whiskey and brandy may be "bottled in bond for domestic medicinal purposes in a distillery bottling house or bottling room of a special bonding warehouse." On August 21, 1919, the Attorney General of the United States rendered an opinion to the Secretary of the Treasury to the effect that the sale of warehouse certificates on whiskey held in bond subject to the payment of tax before removal was not a sale of whiskey for beverage purposes within the meaning of the War Prohibition Act and was not prohibited by that Act.

It seems reasonably clear, therefore, that under the terms of the prohibition laws and the Regulations issued by the Treasury Department, warehouse receipts covering whiskey in bond may under certain circumstances be legally bought and sold so that it is legally possible under those circumstances for the owner of a warehouse receipt covering whiskey in bond

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to pledge that warehouse receipt as security for his note. Whether or not a bank will make a loan upon a note secured in that manner is a question which must, of course, be determined by the bank itself in each case. The Federal Reserve Board has not and cannot make any ruling one way or another as to the desirability of such a warehouse receipt as collateral for a loan upon a note.

The Federal Reserve Board in construing the provisions of Section 13 of the Federal Reserve Act, has had occasion to rule that a warehouse receipt covering whiskey in bond cannot be considered a receipt conveying or securing title to "readily marketable staples" within the meaning of that section and that therefore such a receipt is not a proper basis for a banker's acceptance of the kind defined in that section. That ruling, however, has no relation to the legal right of a bank to make a loan upon the note of a borrower secured by a warehouse receipt covering whiskey in bond.

Very truly yours,

W.P.G. HARDING.

Governor.