

FEDERAL RESERVE BOARD
WASHINGTON

160

X-3038

February 2, 1921.

SUBJECT: Ineligibility of Notes of Storage
Companies.

Dear Sir:

There is enclosed for the information
and guidance of your officers and directors, copy
of the Board's letter of January 31st to the
Deputy Governor of the Federal Reserve Bank of New
York, which is self-explanatory.

Very truly yours,

Enclosure.

G o v e r n o r .

TO CHAIRMAN OF ALL FEDERAL RESERVE BANKS.

X-3038a

COPY

February 2, 1921.

Mr. George L. Harrison,
Deputy Governor,
Federal Reserve Bank,
New York City.

Dear Sir:

Receipt is acknowledged of your letter of January 17, 1921, with reference to the notes of the Union Terminal Cold Storage Company of New York.

The Board understands that the Storage Company uses the proceeds of its notes to advance to its customers who have placed their goods in the Company's warehouses to be sold by the Company for the account of the customers; that the customers give the Storage Company their notes for the amount of these advances and as security for such notes pledge the warehouse receipts representing the goods stored; and that the Storage Company pledges the customers' notes and the warehouse receipts as collateral for its own notes the eligibility of which is in question.

In the opinion of the Federal Reserve Board such notes of the Union Terminal Cold Storage Company are ineligible for rediscount by Federal Reserve Banks under the principles enunciated in the Board's rulings with reference to the paper of cotton factors, namely, that paper the proceeds of which are used to make loans to third parties is finance paper rather than commercial or agricultural paper and is not, therefore, eligible for rediscount.

The Federal Reserve Board desires the Federal Reserve Banks, in dealing with paper of this character, to be guided by the principles stated in the Board's rulings relative to cotton factors' paper rather than by the prior rulings with reference to the paper of the Union Terminal Cold Storage Company.

Yours very truly,

(Signed) W.P.G. Harding,

Governor.