

MEMORANDUM
of the
PRINCIPAL RULINGS OF THE FEDERAL RESERVE BOARD
showing what kinds of paper of
COOPERATIVE MARKETING ASSOCIATIONS
are eligible for rediscount or purchase by
FEDERAL RESERVE BANKS

Submitted at the Fourth General Session, December 15,
1922, of the National Council of Farmers Cooperative
Marketing Associations at Washington, D. C., in con-
nection with the remarks of Mr. A. C. Miller on the
topic "How the Federal Reserve System Can Help Cooperation."

In connection with the rapid development of the cooperative marketing movement during the past eighteen months, the Federal Reserve Board has been called upon from time to time to rule as to the eligibility for rediscount or purchase by Federal Reserve Banks of certain classes of paper growing out of the operations of such associations. Each such ruling was based upon a particular state of facts submitted to the Board for a ruling, and a ruling to the effect that a particular kind of paper is eligible does not mean that any other kind of paper is ineligible. There are many kinds of paper which have never been submitted to the Board for a ruling, and, therefore, the Board's rulings on this subject do not cover every kind of paper of cooperative marketing associations which may be purchased or rediscounted by Federal Reserve Banks. For the information of those interested, however, there is given below a brief non-technical summary indicating in a general way the classes of paper which the Federal Reserve Board has already ruled may be rediscounted or purchased by Federal Reserve Banks.

CLASSES OF ASSOCIATIONS UNDER CONSIDERATION.

In each case passed on by the Board the cooperative marketing association involved was organized without capital and its members consisted exclusively of growers of the particular crop which the association was organized to market. The growers agreed to sell and deliver their entire crops to the association, title passing at the time of delivery, and the association assuming absolute control over the commodities and their re-sale. Generally speaking, the commodities were pooled accord-

ing to grades and after all of a particular pool had been sold the proceeds were distributed pro rata among the growers who had contributed to that pool. These rulings, therefore, would not necessarily apply to the paper of associations which operate on any plan substantially different from that just described.

FUNCTION OF SUCH ASSOCIATIONS.

The proper function of such associations is to assist in the orderly marketing of agricultural products; and if such an association should engage in the speculative holding of a crop for higher prices, much of its paper which normally would be eligible for purchase or rediscount by Federal Reserve Banks would become ineligible; because Federal Reserve Banks cannot purchase or rediscount paper drawn to finance speculation.

GROWERS' NOTES TO FINANCE CARRYING OF CROPS
PENDING ORDERLY MARKETING.

Inasmuch as agricultural products should not be dumped upon the market as soon as harvested, but should be marketed gradually, the carrying of agricultural products by the growers thereof for such periods as are reasonably necessary in order to assist the orderly marketing thereof is a proper step in the process of distribution, and a farmer's own note which is drawn, or the proceeds of which are used, to finance the carrying of the farmer's products for such reasonable period is a note which has been issued or drawn for an agricultural purpose and which may, therefore, be rediscounted by Federal Reserve banks with a maturity up to six months.

GROWERS' DRAFTS ACCEPTED BY ASSOCIATIONS.

Where, at the time growers deliver their crops to a cooperative marketing association, the association accepts drafts drawn upon it by the growers,

such drafts when discounted by the growers at their local banks with their own indorsements, are eligible for rediscount by Federal Reserve Banks as agricultural paper with maturities up to six months provided the proceeds are used by the growers for agricultural purposes.

The following is an example of what may be considered an agricultural purpose: When a grower delivers his crop to a cooperative marketing association which is actually engaged in orderly marketing, and the grower is obliged to borrow money for ordinary general purposes, such as the payment of obligations previously incurred in growing or harvesting the same crop, a draft drawn by the grower on the association for a part of the market value of the crop may properly be considered to be drawn for an agricultural purpose, because such a borrowing enables the grower to meet his obligations without selling his crop immediately and thus "carry" the crop, which is one of the steps in the process of distribution.

NOTES OF ASSOCIATIONS FOR FUNDS TO FINANCE PACKING AND MARKETING.

Notes of an association the proceeds of which are used to pay the current expenses of such association, such as the payment of wages and the purchase of supplies in connection with its business of packing and marketing agricultural products grown by others, are eligible for rediscount as commercial paper with maturities not in excess of 90 days.

NOTES OF ASSOCIATIONS FOR FUNDS TO PAY FOR COMMODITIES PURCHASED.

Likewise, the notes of associations representing direct borrowings by such associations, the proceeds of which have been or are to be used to make payments to the growers for commodities delivered to the association

are eligible for rediscount by Federal Reserve Banks if they have maturities not in excess of 90 days, because the proceeds are used for the commercial purpose of buying the commodities from the growers.

BANKERS' ACCEPTANCES DRAWN BY SUCH ASSOCIATIONS.

Bankers' acceptances drawn by such associations to finance the domestic storage of commodities pending orderly marketing are eligible both for rediscount by Federal Reserve Banks and for purchase by Federal Reserve Banks in the open market. In creating such acceptances the association arranges for a credit with some national or State bank which accepts its drafts to the amount arranged for, the drafts being secured by warehouse receipts covering non-perishable, staple agricultural products stored in independent warehouses, and after acceptance such drafts are eligible for rediscount or for purchase in open market by Federal Reserve Banks. Under existing law, they are eligible for rediscount only when they have not more than three months to run. Heretofore, they have been eligible for purchase by Federal Reserve Banks only when their maturities at the time of purchase did not exceed three months; but a recent amendment to the Board's regulations permits them to be purchased with maturities up to six months. Bankers' acceptances are recognized as the most desirable form of credit, as they sell on the credit of the accepting bank as well as on their backing of staple commodities, and they usually take the lowest rates of interest, if properly drawn and safeguarded.

GROWER'S DRAFT ON ASSOCIATION EXCEPTED FROM LIMITATIONS.

One of the most recent, and also one of the most liberal, rulings

of the Board on this subject was to the effect that where a member of a cooperative association delivers his crop to the association and at substantially the same time draws a draft on the association which is accepted by it and discounted by the drawer at his own bank, such a draft is a "bill of exchange drawn in good faith against actually existing values" and, therefore, is excepted from the 10% limitation prescribed in the Federal Reserve Act on the aggregate amount of paper of any one borrower which a Federal Reserve Bank may rediscount for any one member bank. This should be very beneficial to the farmers and their cooperative marketing association, because it permits the rediscount of such paper in unlimited amounts.

OTHER CLASSES OF ELIGIBLE PAPER.

The above are not all of the rulings made by the Federal Reserve Board on this subject, and, of course, there are other classes of eligible paper that can be used in borrowing by cooperative marketing associations, but these are probably the most important rulings which have been issued so far. It should be understood also that the above statements are not intended as precise technical statements. All of the Board's various rulings on this subject except the one last mentioned were brought together and summarized in the Federal Reserve Bulletin for September, 1922 (page 1044 of the final edition and page 269 of the first edition) to which reference should be made by managers of associations, bankers and others interested in exact statements and in the legal points involved.