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July 12, 1922.

Honorable A. W. Mellon,  
Secretary of the Treasury,  
Washington, D. C.

My dear Mr. Secretary:

Receipt is acknowledged of your letter of July 5th enclosing a copy of H. R. 11763, a bill introduced by Mr. McFadden to provide further facilities for agricultural and live stock credits, and enclosing also a copy of a memorandum prepared by the War Finance Corporation with reference to the bill.

You refer to the fact that both the Federal Reserve Board and the Treasury have given their endorsements to the so-called Anderson-Lenroot Bill (S. 3051 and H. R. 10058) to provide further credits for agriculture and live stock through farm credit departments to be established in the Federal land banks, but that no action has been taken with regard to that bill since it was recommended by the Joint Commission on Agricultural Inquiry, and that there seems to be little disposition at the present time to consider legislation for agricultural credits along the lines proposed in the Anderson-Lenroot Bill. You state also that you regard it as a matter of the first importance that legislation providing further facilities for agricultural and live stock credits be agreed upon and enacted into law sufficiently in advance of May 31, 1923, the date now fixed by law for the cessation of the activities of the War Finance Corporation, to avoid any pressure for further extensions of the life of that corporation, and you believe that it would be helpful, therefore, if the Treasury and the Federal Reserve Board and the War Finance Corporation would all agree on some workable measure between now and the opening of the fall session of Congress. You accordingly ask the Federal Reserve Board to consider the provisions of H. R. 11763 and to express its views as to the merits of that bill, particularly in the light of the discussions of the past year or more on the subject of agricultural and live stock credits.

The Federal Reserve Board agrees with you as to the desirability of cooperation with a view to the enactment of sound and constructive legislation providing for additional credit facilities for agriculture and live stock and will be

glad to render such assistance as it can to this end.

Title I of H. R. 11763 proposes certain amendments to the Federal Reserve Act. Section 2 of this title would add a section to the Federal Reserve Act to be numbered Section 13(a) and entitled "Discount of Agricultural and Live Stock Paper." The new section contains a provision similar to the one contained in the present law that "any Federal reserve bank may discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity at the time of discount, exclusive of days of grace, not exceeding six months", but adds a proviso authorizing Federal reserve banks to discount nine months' paper under certain circumstances. The nine months' paper which would be made eligible by this proviso consists of (a) paper "secured by warehouse receipts or other such negotiable documents, conveying or securing title to readily marketable, non-perishable agricultural products", and (b) paper secured by chattel mortgage upon live stock which is "being fattened for market", under such conditions that it will be ready for market on or before the date of maturity" of such paper. This extension of the maximum maturity of paper which may be discounted by Federal reserve banks from six months under the present law, to nine months under the proposed bill, is the most important feature of H. R. 11763 so far as concerns the Federal Reserve System.

The second paragraph of the proposed new section 13(a) further provides that notes issued by, and drafts accepted by, a cooperative marketing association composed of producers of agricultural products, shall be deemed to have been issued or drawn for an agricultural purpose if the proceeds thereof have been or will be advanced by such association to any members thereof for an agricultural purpose, or have been or will be used by such association in connection with the grading, processing, packing, preparation, or marketing of agricultural products. Under the present rulings of the Board, growers' drafts accepted by cooperative marketing associations are eligible for discount with maturities not in excess of six months, if the proceeds are used by the growers for an agricultural purpose, and notes of cooperative marketing associations are eligible for discount with maturities up to three months, if the proceeds have been used in connection with the grading, processing, etc., of agricultural products, or if the association purchases agricultural products from its members - rather than handles such products on a consignment basis - and the proceeds of the notes are used by such association to pay its members for agricultural products delivered to it. The only substantial effect of this paragraph with regard to paper created by cooperative marketing associations would be, therefore, to extend the maturity limitation of eligible notes issued by such associations from three to six months and this extension would meet with the approval of the Federal Reserve Board.

As bearing on the question of the advisability of making nine months' paper eligible for discount, I am enclosing herewith a copy of the Board's letter of December 13, 1920, to the Chairman of the Banking & Currency Committee of the United States Senate, in which the Board expresses its disapproval of Senate Bill 4559 of the 66th Congress which proposed to make eligible for discount by Federal reserve banks agricultural and live stock paper with maturities up to twelve months, on the ground that the enactment of such legislation would materially lessen the liquidity of paper held by the Federal reserve banks and the elasticity of the Federal reserve note currency which is based upon and secured by the paper so held. The Board reiterated its disapproval of legislation of this character in its letter to the Chairman of the Banking & Currency Committee of the United States Senate, dated January 26, 1922. The same objection applies to the extension to nine months of the maturity limitations of the paper that may be discounted by Federal reserve banks although it applies in a lesser degree. Without, however, expressing itself definitely against this extension as proposed in H. R. 11763, the Board desires to say that if nine months' paper is made eligible for discount, its use by Federal reserve banks as collateral for Federal reserve notes should be prohibited, so that in any event the elasticity of the Federal reserve note currency may be protected, and to say furthermore that in its opinion a better and safer way to provide additional credit facilities for agriculture in general would be to broaden the scope of Title II of H. R. 11763, which as at present drawn offers facilities to the live stock industry exclusively.

Before describing the provisions of Title II I should mention that Section 3 of Title I of H. R. 11763 proposes to make another amendment to the Federal Reserve Act so as to make eligible for membership in the Federal Reserve System banks located in places with populations of 6,000 or less, although the banks have only 60 per cent of the amount of capital required under the terms of the present law, provided, that the application of such a bank for membership is accompanied by adequate undertaking that the capital will be increased within three years to the amount now required. A majority of the members of the Board approve of this feature of H. R. 11763 and have already expressed their approval of S. 3521 which is designed to accomplish substantially the same end. This latter bill was passed by the Senate on July 10, 1922.

Title II of H. R. 11763 provides for the division by the Federal Farm Loan Board of the continental United States into not less than five nor more than ten geographical districts to be known as "Live stock districts", in each of which is to be established a Federal Live Stock Finance Corporation to be operated under the supervision of the Federal Farm Loan Board, but independent of the Federal land banks. Any live stock Loan Company incorporated under State law and having a capital and surplus of not less than \$100,000 may become a

member of the Federal Live Stock Corporation of its district by subscribing to stock in such Live Stock Finance Corporation in an amount equal to twenty-five per centum of the capital stock of the subscribing corporation. On behalf of the United States, the Secretary of the Treasury is to subscribe to the capital stock of each Federal Live Stock Finance Corporation in a sum equal to twenty-five per centum of the aggregate subscriptions of member corporations, but in no event in excess of one million dollars for any one Federal Live Stock Finance Corporation. Member corporations may deposit with their Federal Live Stock Finance Corporation United States bonds or other obligations of the United States, and such Federal Live Stock Finance Corporations may thereupon rediscount for such member corporations eligible live stock paper in an amount not to exceed ten times the face value of the United States bonds or other obligations so deposited, or may make loans or advances to such member corporation in a like amount upon the member corporation's promissory note secured by eligible live stock paper. Eligible live stock paper is defined as "notes, drafts, bills of exchange, or other evidences of debt (hereinafter referred to as obligations) made by one or more persons, firms, corporations, or associations engaged in the United States in the business of breeding, raising, or fattening live stock, which obligations are secured by a chattel mortgage conveying a first and paramount lien upon the live stock which has a current market value at the place such live stock is located equal at least to 150 per centum of the face value of such secured obligation or obligations."

In order to provide Federal Live Stock Finance Corporations with funds, in addition to their capital, with which to rediscount for and make loans to member corporations, the bill provides that each Federal Live Stock Finance Corporation may issue and have outstanding collateral trust bonds in an aggregate amount not exceeding twenty times its paid-in and unimpaired capital stock, maturing in not less than six months nor more than three years from the respective dates of issue, and bearing interest at rates to be fixed by the directors of the corporation with the approval of the Federal Farm Loan Board. The bonds issued prior to June 30, 1925, are to be exempt from taxation other than inheritance taxes.

The title contains detailed provisions with respect to the custody of the collateral for the bonds, which collateral is to be held by a "Federal custodian" who is to be one of the directors of the Federal Live Stock Finance Corporation appointed by the Federal Farm Loan Board.

The bill is well drawn and would, no doubt, provide helpful and much needed assistance to live stock interests, but, as I have already mentioned, the benefits of Title II would not accrue to agriculture other than live stock. H. R. 11763 would afford to live stock interests an additional source of credit, ~~made~~ available

by the issuance of short term bonds by regional finance institutions the establishment of which is provided for in Title II, but offers no relief to agriculture other than live stock except through the extensions, provided for in Title I and heretofore described, of the maturity limitations applicable to cooperative marketing association paper, and paper secured by nonperishable agricultural products.

It is recognized, of course, that the conditions of the live stock industry differ from those which pertain to other classes of agriculture, in that the period during which the ranchman with a breeding herd requires financing is from two to three years; so that there is doubtless a greater need for additional credit facilities for live stock than for other kinds of agriculture. In so far, however, as other classes of agriculture require credit facilities in addition to those now available, the Board is of the opinion, as it has already suggested, that the more logical and the safer way to provide such facilities would be to enlarge the powers of the proposed regional finance corporations, so as to enable them to discount paper secured by agricultural products as well as paper secured by live stock. This would necessitate a change in the title of the regional finance corporations and probably an enlargement of the membership in such corporations, but it seems to the Board that it might be possible to work out an amendment of this kind which would not only eliminate the feature contained in Title I of H. R. 11763 as at present drawn, of extending to nine months the maturity limitations of certain kinds of paper eligible for rediscount at Federal reserve banks, but would also provide more adequate relief to all classes of agriculture.

If the Board can be of any further assistance in connection with this subject it will be very glad to do so.

Yours very truly,

(Signed) W. P. G. Harding

Governor.

C O P Y