

FEDERAL RESERVE BOARD

WASHINGTON

X-3733
June 8, 1923.

SUBJECT: Warehouse Receipts of Cotton.

Dear Sir:

Please find enclosed a copy of a letter dated May 29th, addressed to Mr. George R. James, Member of the Federal Reserve Board, by Mr. H. S. Yohe in Charge of the Administration of the United States Warehouse Act. There is also enclosed a copy of each of the documents referred to in Mr. Yohe's letter. The system of inspection of warehouses in cotton producing territory under the United States Warehouse Act appears clearly to be superior to the inspection under state laws in some states, and the form of receipt calling for a description of the cotton bales, so that they can be identified and so that substitutions of inferior grades can not be made in the security for loans by banks, seems far superior to the indefinite receipts used by many warehouses not licensed under the United States Act. The Board desires a report from you as to whether the conditions described in Mr. Yohe's letter obtain in states in your district, with any suggestions which may occur to you for improving present practices. Is it true that bankers, in making loans on cotton, pay little attention to the warehouse receipts, and give no preference to the loans based on cotton in warehouses licensed under the United States Warehouse Act? If so, what explanation is given?

In giving consideration to this matter, your attention is called to the regulations of the Farm Loan Board according preference to the receipts of Federal Warehouses as security. The Board would like to receive an expression of your opinion as to whether it would be practicable for Federal Reserve Banks to express such a preference for the receipts of Federal Warehouses.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

(COPY)

UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS
WASHINGTON

X-3733a
May 29, 1923.

Mr. George R. James,
Federal Reserve Board,
Treasury Department,
Washington, D. C.

Dear Mr. James:

In line with the suggestion made yesterday at our conference, and inasmuch as the subject of this letter was taken up first informally with you, I am addressing my communication to you.

In the interests of orderly marketing of agricultural products and of bankers who loan on such products when in storage, I take this opportunity to call to your attention the United States warehouse Act. The purpose of this law is to encourage orderly marketing and to give to bankers a form of warehouse receipt, definite in its terms, conveying such specific information as is essential to the bankers to form a fair estimate of the value of the particular commodities on which he is asked to loan.

In order that each member of the Federal Reserve Board and each of your twelve Federal Reserve Banks may consider this subject thoroughly, there are enclosed with this communication the following:

- 18 copies of the United States warehouse Act.
- 18 copies of forms of receipts issued under this Act.
- 18 copies of Service and Regulatory Announcements No. 71.
- 18 copies of three letters dated, respectively, May 29, June 5 and June 12, and addressed "To Bankers in Cotton Producing States."

In Service and Regulatory Announcements No. 71 you will find on page 3 a table showing the progress made under this Act to May 1, 1922. To bring this information to date, I would state that on May 19, 1923, we had warehouse space licensed sufficient to accommodate commodities in the amounts indicated:

Cotton	2,879,409 bales.
Grain	19,914,547 bushels.
Wool	32,526,250 pounds.
Tobacco	226,055,000 pounds.

In the copy of the Act enclosed we should like, particularly for you to note section 30. This section was amended at the last session

of Congress. It increased not only the scope of the offences punishable under the Act but the severity of the penalties which might be imposed.

From the figures I have given you showing the progress made under the Act, it is apparent that we have been progressing substantially in the past two years. In the Mississippi Valley recently, through the action of certain cotton trade interests, some of the larger cotton warehousemen have advised that they intend to permit their licenses to expire with their expiration dates. As far as the warehousemen are concerned, it seems it makes little difference to them whether they operate under the Act. What they wish to try to do is to give their patrons what they desire. Now it seems that some of the large cotton merchants and patrons of these warehouses have come to the conclusion that the banks make no distinction between a Federal warehouse receipt and a receipt such as was issued by these warehousemen prior to becoming licensed under the statute.

There has just come to me a letter which expresses rather clearly the sentiment in this connection. In part it reads as follows:

"When money was tight the cotton merchants had to get it anyway that the banks would let them have it. **** The banks as a whole in this state have put their stamp of approval on the bonded warehouse system, but nine out of every ten banks in this same state will not make it compulsory for a cotton merchant to have bonded receipts before they will extend him a line of credit. The cotton men seeing that they can handle their business without the bonded warehouse receipts have asked for the standard form."

Now, what is this standard form of receipt? It is not a receipt such as is approved by the Uniform Warehouse Receipts Act; neither is it a form in harmony with that issued under the United States warehouse Act. That you may know what is likely to be the standard form which will be used, I am quoting, using fictitious names and addresses, the wording which appears on three receipts issued by warehousemen in different parts of the country prior to their becoming licensed by this Department. The first one reads as follows:

"Cambria, S. C., _____
Received from _____
_____ Bales Cotton,
quality, weight and condition unknown, marked as in the margin,
which we hereby agree to deliver to _____,
or order, only upon surrender of this receipt, and payment of
all charges.

CAMBRIA WAREHOUSE CORPORATION."

"FARMERS COMPRESS COMPANY
Uniontown, Miss. _____ 19__.

Received of _____
One bale of cotton as per marks and number given
below:

Marks	Number	Weight:	Remarks
		: Standard	:
		: Not standard	:

This Compress Company is not liable or responsible for accidents, concealed damage, waterpacks, acts of Providence, acts of the public enemy, or for damages or losses by fire even when caused by its negligence.

This bale of cotton to be delivered only upon return of this receipt and payment of all charges." FARMERS COMPRESS COMPANY

DELAWARE CITY COTTON COMPRESS CO.

Received for
Storage or Concentration
And Deliverable To _____ Or order

One Bale of Cotton in apparent good order, unless otherwise noted, of the above tag number and following marks

This bale will be delivered upon return of this receipt properly endorsed and payment of all warehouse charges.

Mark	No.
Charges	

RISK OF FIRE EXCEPTED. And subject to all conditions appearing on back hereof." DELAWARE CITY COTTON COMPRESS CO.

Now as to the terms or conditions appearing on the back of the last mentioned receipt, one of them is that the cotton is subjected to a charge for compression whether compressed or not at the time it is withdrawn. Another one reads as follows:

"This company assumes no liability and is not responsible for loss or damage to cotton by fire, or resulting therefrom, (even though caused by the negligence of this company, or its servants), or by flood, tornado or any cause beyond its control."

Please compare these forms of receipts with the form of cotton receipt which I have enclosed, Note, particularly, the difference between the contractual relation established between the warehouseman and the depositor, and then note further the detailed information called for on the Federal receipt as compared with that called for on the other forms. Of course, it is apparent that the information called for on the Federal receipt is needed to give the banker a fair estimate of the value of the cotton.

Particularly is the banker interested in the weight, grade and condition of the cotton. Under the Federal law the grade must be stated on every warehouse receipt unless the depositor requests that it shall not be stated. Such a request is valid only in the case of products the identity of which is at all times maintained, while the product is in the warehouse. In the case of a product which is handled in bulk, such as grain, the identity of which is lost, the grade must always be stated on a Federal receipt. Mention is made of this point because the producer of cotton really does not know his rights under the law and the warehouseman invariably will not grade unless he is requested to do so, and this even despite the fact that the law places a positive duty upon it. We check this closely to see that the warehouseman has valid requests to omit the grade. Country bankers, too, do not seem to understand that the grade must appear on the Federal receipt. All the country banker needs do when a Federal receipt is offered to him as collateral, if he notes that grade does not appear thereon, is to tell his client to take the receipt back to the warehouseman, if it has been issued by a licensed warehouseman, and request the grade to be stated on the receipt. If the warehouseman refuses to do it and the matter is reported to this Department, the warehouseman's license will be revoked at once or he will be obliged to conduct his warehouse in accordance with the Act.

Now with respect to the weight. It is a general practice in some sections of the country, if the producer happens to be hauling his cotton to the warehouse and is caught in a shower, for the warehouseman to make an arbitrary deduction from the weight of the cotton. We take the stand that the receipt should show in such instances the gross weight of the cotton, the amount that has been deducted for excess moisture, and under the heading "Condition" some explanation made for the deduction. It is immaterial to us, as a matter of fact, whether the gross weight and amount of deduction are shown or whether the net weight and the amount deducted are shown, but what we want is that the depositor should be informed of deductions which are made and the reason therefor. We require an explanation under the heading "Condition" if there are any other circumstances which might affect the value of the cotton from a collateral standpoint.

There are certain practices indulged in with reference to storing cotton in certain sections which are not tolerated by, and which, as a matter of fact, are penal offenses under the Federal warehouse Act. For instance, in some sections, when the warehouse becomes filled, instead of the warehouseman declaring an embargo and refusing to accept the cotton, he will take the cotton, place it outside the warehouse, perhaps on the open ground without dunnage underneath, and issue for such cotton the same kind of receipt as is issued on the cotton in the warehouse, at the same time charging the depositor the usual storage rates. Of course, as bankers, it is easy to appreciate the undesirability of a warehouse receipt covering such cotton.

Another practice which is indulged in is for the warehouseman, who is prevailed upon by a customer who wishes to make a shipment of cotton in a hurry, to deliver the cotton without the receipts. We have known this to happen even in cases where the receipts were in the hands of bankers as collateral for loans.

Now if you will refer again to the forms of receipts which I have quoted, you will notice that they merely acknowledge receipt of a bale or bales of cotton. That might mean that the cotton represented by the receipt might be a bale of bollies or might be middling cotton or middling fair cotton, it might be short staple or inch and a half cotton and, of course, it is apparent that the loan values in such instances are far apart.

There is no reason to believe that the so-called standard form of receipt which will be issued by warehousemen who have been operating under the Act, but who will permit their licenses to expire, will be any different from the forms which I have above quoted. On the other hand, we have fairly accurate indications that the receipts will be entirely in line with those before mentioned.

Referring again to the quotation from the letter, before mentioned, it seems to me that if the banks were right in requiring Federally licensed warehouse receipts when money was tight, the requirement should be just as right when money is easy. In other words, if the Federal warehouse receipt is a good thing when the money market breaks, it ought to be a good thing to prevent the money market from breaking.

There is another phase of what seems to be injustice toward warehousemen who are trying to give to the bankers the very best form of warehouse collateral, if the bankers as a whole are failing to discriminate between a Federally licensed warehouse receipt, or one that can measure up to it, and receipts which are inferior to it. The warehouseman who is licensed under the Federal statute must comply with the law and the regulations. This means that patrons of these warehouses can not do business in a loose fashion. The result is that

those who want to follow unsound methods or methods which may promote their own interests to the detriment of others, will place their cotton in warehouses where the warehousemen are not restricted by the Federal law and regulations. In other words, the action of the banks, it seems to me, sets up unfair competition. It seems to me that bankers, and especially members of the Federal Reserve Banking System, should cooperate with warehousemen who are trying to give them a high type of warehouse collateral. Any other course does not seem fair.

In administering the Federal warehouse Act, we do not depend upon the penalties provided in the law to keep warehousemen from going wrong. Just as the National Banks are subjected to irregular examination by national bank examiners, so are the warehouses and the warehousemen operating under the Federal warehouse Act subjected to inspection and examination by a corps of inspectors operating under this Department. No law, regardless of the severity of the penalties, necessarily keeps men from going wrong. The Inspection Service of this Department does have a restraining influence and, in addition, it certainly is more likely to catch wrong acts on the part of warehousemen in their incipiency than any system which does not have an inspection service.

As you know, the War Finance Corporation loaned a great many millions of dollars on agricultural products in the past two years. In the large majority of cases the various cooperative associations which obtained advances from the War Finance Corporation gave as security Federally licensed warehouse receipts. In the applications which these various associations filed for loans the Finance Corporation had stipulated that it would accept Federally licensed receipts without further question. The Federal Farm Loan Board, which is now administering the intermediary farm credits Act, has made a ruling as to warehouse collateral which is in complete harmony with the War Finance Corporation. It has, however, added to its ruling that as for warehouse receipts issued under State laws, it would accept such receipts only after having satisfied itself as to the acceptability of the law and the regulations promulgated thereunder and, further, that it was satisfied with the method of administration of the law and regulations. To this ruling it has added a further ruling that receipts issued by warehouses other than those licensed under the United States warehouse Act would be accepted only after investigations had been made of each individual warehouse and its operations.

These rulings on the part of both the War Finance Corporation and the Federal Farm Loan Board were made only after a thorough investigation of the Federal warehouse Act, the regulations, and the method of administration. It seems desirable that the various branches of the Government which have to do with financing agricultural products through the use of warehouse receipts should be in complete harmony.

It would appear from the quotation from the letter previously referred to that if the Federal Reserve Banks and their member banks merely indicated that they preferred the Federal warehouse receipt that

they would receive it. The warehouseman, as a general rule, wants to accommodate his patrons. On general principles he is not opposed to the Federal warehouse Act. He realizes that he is obliged to do business in a different way and must keep certain records which he would not keep if he were not operating as a Federal licensee, but no warehouseman has ever filed a complaint that the keeping of these records was burdensome.

I shall be very glad to have you present this matter to the Reserve Board and, of course, if I can serve you and the Board in giving more specific information, it will be a pleasure to do so. I shall be pleased to have a copy of any letter which the Board may see fit to send to the Federal Reserve Banks.

In closing, let me thank you, Mr. Hamlin and Mr. Platt for the very courteous audience given me yesterday.

Very truly yours,

(signed) H. S. Yohe

In Charge, Administration
United States Warehouse Act.