

(C C P Y)

X-4244

January 13, 1925.

My dear Senator _____

I have your letter of January 7th enclosing a letter from Mr. _____, regarding the eligibility of notes based on calcium arsenate stored in Federal warehouses for rediscount by Federal reserve banks.

The eligibility of promissory notes for rediscount by Federal reserve banks does not depend upon the existence or character of collateral security; but, under the terms of Section 13 of the Federal Reserve Act it depends upon the question whether or not they are issued or drawn, or the proceeds are used for commercial or agricultural purposes. If, therefore, the notes in question are negotiable in form, have maturities not in excess of those prescribed by the Federal Reserve Act, and arise out of commercial or agricultural transactions or the proceeds are used for commercial or agricultural purposes, they are technically eligible for rediscount at a Federal reserve bank.

If the notes are notes of farmers given in payment for calcium arsenate or any other goods to be used for strictly agricultural purposes, such notes would be eligible for rediscount as agricultural paper with maturities not in excess of nine months.

If, however, such notes are the notes of dealers in calcium arsenate, they could be eligible only as commercial paper with maturities not in excess of 90 days. The storage of calcium arsenate or any other goods by a dealer pending a reasonably prompt sale would be deemed to be a commercial transaction within the meaning of the Federal Reserve Act and notes given to finance the storage would be eligible as commercial paper; but if the storage is for the purpose of withholding calcium arsenate from the market in order to obtain a speculative price it would not be deemed a commercial transaction.

While the eligibility of promissory notes for rediscount from a legal standpoint does not depend at all upon the existence or character of collateral security, you will, of course, understand that the existence of good collateral will make them more desirable from a credit standpoint. The desirability from a credit standpoint of paper offered for rediscount, however, is a matter to be passed upon by the Federal reserve banks in the exercise of their banking discretion rather than by the Federal Reserve Board. If any more definite or specific information is desired, therefore, as to whether these notes will actually be accepted for rediscount when offered to a Federal reserve bank it would be best to take the matter up directly with the Federal reserve bank to which it is contemplated such notes will be offered.

Very truly yours,

(Signed) D. R. Crissinger,
Governor