

FEDERAL RESERVE BOARD X-4559

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WASHINGTON

March 12, 1926.

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

SUBJECT: Eligibility for discount of factors notes covering advances to producers of eggs, poultry and butter.

Dear Sir:

The Board has recently been requested to rule upon certain questions arising under that provision of the second paragraph of Section 13 of the Federal Reserve Act which makes eligible for discount at a Federal reserve bank the notes, drafts and bills of exchange "of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state". It appears that a certain cold storage and warehouse company which is engaged in business as a factor makes advances to farmers who consign to the company, chickens, eggs and butter to be stored in the company's warehouse. The advances are made pending the sale of these products by the company for the account of the farmers. The question presented is whether or not the notes of this warehouse company issued in its capacity as factor for the purpose of making advances exclusively to producers of eggs, poultry and butter should be considered eligible for discount at a Federal reserve bank.

Inasmuch as the warehouse company in this case is a factor, the only question to be decided is whether the notes of the company covering the advances to its customers are notes covering advances to "producers of staple agricultural products in their raw state". In considering this question it is important to note that the test of eligibility of paper of this kind is to be found in the character of the person to whom the advances are made rather than in the kind of products securing these advances. If the advances are made to any person of the class described by the term "producers of staple agricultural products in their raw state", the notes given by the factor may be eligible for discount, regardless of whether the products by which particular advances are secured are or are not agricultural products in their raw state or whether the advances are secured at all. Broadly speaking, the term "producers of staple agricultural products in their raw state" is synonymous with farmers, dairymen and livestock growers and therefore, the notes of factors issued as such covering advances exclusively to this class of producers will be eligible for rediscount at a Federal reserve bank; and this is true even though these farmers, dairymen or livestock growers may also be engaged in producing products which cannot properly be considered agricultural products in their raw state and regardless of the kinds of products securing the advances made by the factors.

Applying these principles to the facts of the present inquiry, the Board holds that the notes of this cold storage and warehouse company issued in its capacity as factor making advances exclusively to producers of eggs and poultry or other staple agricultural products in their raw state, will be eligible for discount at a Federal reserve bank, provided that these notes comply in all other respects with the relevant provisions of the law and the Board's regulations.

In the opinion of the Board butter is not a staple agricultural product in its raw state; but this does not affect the eligibility of notes of factors covering advances to farmers, dairymen or live stock growers who produce butter, because any member of this class is of course engaged in the production of some agricultural products in their raw state even though he also produces butter. The Board holds, however, that the notes of a factor covering advances to those engaged in the commercial production of butter with cream purchased from others, are ineligible for rediscount, unless the persons so engaged are also producers of some staple agricultural products in their raw state. The paper of a factor issued as such for the purpose of making advances exclusively to creameries or dairies, therefore, would ordinarily be ineligible for rediscount under this provision of the law.

In this connection it also seems appropriate to mention a ruling made by the Board prior to the date of the amendment to the law regarding factors paper which holds that while the notes of a cold storage company itself are ineligible for rediscount because the proceeds are used to make loans to third parties, the notes of the customers of the cold storage company representing loans made to them by the company, when endorsed and discounted by the company, would be eligible for rediscount by a member bank at a Federal reserve bank, provided that the customers have used or are to use the proceeds for agricultural or commercial purposes and provided also that the notes comply in other respects with the provisions of the law and the regulations of the Federal Reserve Board. (See 1921 Bulletin, page 308.) Under this ruling, of course, the notes of the customers of a factor may be eligible for rediscount without regard to the provisions of the second paragraph of Section 13 of the Federal Reserve Act providing for the rediscount of factors' paper.

Very truly yours,

Edmund Platt,  
Vice Governor.

TO GOVERNORS OF ALL F.R. BANKS .