

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7318

December 29, 1932.

SUBJECT: Eligibility of Notes Given in
Payment of Insurance Premiums.

Dear Sir:

There are inclosed herewith, for your information, copies of letters exchanged between the Federal Reserve Board and the Federal Reserve Bank of New York on the subject of the eligibility for rediscount at a Federal reserve bank of notes given in payment for premiums for insurance by persons, firms or corporations engaged in the production, manufacture or distribution of goods.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS., EXCEPT NEW YORK.

Copy

X-7318-a

Federal Reserve Bank
of New York

December 9, 1932.

S i r s :

We have an inquiry from Mr. Paul L. Haid, President of the Insurance Executives Association, as to the eligibility for rediscount at the Federal Reserve Bank of notes given in payment for premiums for insurance by persons, firms or corporations engaged in the production, manufacture or distribution of goods.

It is our view that if such notes have been made by parties engaged in producing, purchasing, carrying or marketing goods and given in payment for insurance premiums which were a current expense of the business, this would represent an eligible use of the proceeds and if further the financial statements of the makers in each case show a reasonable excess of quick assets over current liabilities, that such notes should be considered eligible for rediscount. In other words, if the maker's straight note discounted at his bank would be eligible, we see no reason why its eligibility would be in any way affected by the endorsement of an insurance company or insurance agent.

We would appreciate your ruling on this subject.

Respectfully,

(S) L. R. Rounds
Deputy Governor

Federal Reserve Board

Washington, D. C.

Copy

X-7318-b

December 22, 1932.

Mr. L. R. Rounds,
Deputy Governor,
Federal Reserve Bank of New York,
New York City, New York.

Dear Mr. Rounds:

Reference is made to your letter of December 9, 1932, in which you request a ruling of the Board on a question raised by Mr. Paul L. Haid, President of the Insurance Executives Association, as to the eligibility for rediscount at a Federal reserve bank of notes given in payment for premiums for insurance by persons, firms or corporations engaged in the production, manufacture or distribution of goods.

Upon consideration of this question, it is the opinion of the Federal Reserve Board that notes of such persons, firms or corporations given in payment for premiums for insurance customarily deemed necessary in the business of producing, purchasing, carrying or marketing goods, or the proceeds of which are used for such purposes, are notes issued for commercial or agricultural purposes within the meaning of the Federal Reserve Board's Regulation A; and accordingly, such notes are eligible for discount by Federal reserve banks if they comply in other respects with the applicable provisions of the law and of the Board's regulations. A note which is thus given for an eligible purpose is not

Mr. Rounds --- 2

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rendered ineligible by the fact that it may subsequently be indorsed by an insurance company or an insurance agent. As in any other case, a statement of the maker showing a reasonable excess of quick assets over current liabilities may be required as evidence that the note is not one the proceeds of which have been or are to be used for a capital purpose.

Very truly yours,

(S) Chester Morrill,
Secretary.