FEDERAL HOUSING ADMINISTRATION
ROOMS 601-602, 225 BUSH STREET
SAN FRANCISCO, CALIFORNIA

ALFRED B. SWINERTON
REGIONAL DIRECTOR

November 27, 1934.

Honorable M. S. Eccles, Chairman,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Eccles:

Everything is going fine on the trip to the Reserve Banks. I am more than ever convinced of the promise both in the credit situation and in the Modernization Program.

You asked me the day I left to let you know if there was anything that you could do. The one single thing that would do more to help than anything else would be an affirmatively favorable attitude on the part of every bank examiner toward Modernization Credit Notes. My office in Washington informs me that instructions to examiners, prepared in accordance with the conference held at the Chief Examiner's office in Washington some time ago, have now been delivered for distribution to each examiner of the Federal Reserve system, Federal Deposit Insurance Corporation and the Comptroller of Currency.

Anything you can do that would make it possible for the examiners to let the banks that they examine know that they look with favor on this paper, would be a tremendous help. I believe it is fear of the examiners' attitude which has more effect than anything else, particularly with the smaller banks.

Sincerely yours,

RS G

December 10, 1934.

Mr. Roger Stefan,
Federal Housing Administration,
Washington, D. C.

Dear Mr. Stefan:

I wish to acknowledge your letter of November 27, regarding the attitude of examiners toward Modernization Credit Notes.

On September 4, 1934, the Federal Reserve Board sent letters to all Federal reserve agents concerning examination policy. The Board stated that the Federal reserve examiners should be instructed that no modernization loans should be classified as slow, doubtful or loss, so long as the insurance provided by the Federal Housing Administration adequately covers the loans or portions thereof. I am enclosing a copy of this letter for your information. Later, November 26, a letter of transmittal was addressed to all agents providing them with the Federal Housing Administration memorandum for the use of bank examiners. Also a supply of the revised modernization credit plan bulletins were made available to examiners.

In view of this action, it seems to me that the examination division of the Federal Reserve Board has demonstrated to Federal reserve examiners that modernization loans shall not be regarded with suspicion in any way. I do not think that additional communications on the subject of modernization loans would do much to increase the volume being currently made by commercial banks.

I wish to reiterate my desire to aid the housing program by every means in my power and I would appreciate any suggestions which you may wish to make in the future.

Very truly yours,

M. S. Eccles,
Governor.

HHE/lem

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date December 3, 1934.

To Governor Eccles

From Mr. Edmiston
H.E.

Subject: Re: Mr. Stephan's letter with regard to examiners' attitude toward Modernization Credit Notes.

The Federal Reserve Board sent letters to all Federal reserve agents on September 4, 1934, regarding the classification of loans under Title I. The pertinent paragraph in this letter reads as follows:

> "The Board feels that the examiners for the Federal Reserve Banks should be instructed that no part of the loans made under the provisions of Section 2, Title I of the National Housing Act should be classified as slow, doubtful, or loss so long as the insurance provided by the Federal Housing Administration adequately covers the loans or portions thereof which might otherwise be so classified."

The Comptroller of the Currency sent out a similar statement to all national bank examiners at the same time.

Just recently, November 26th, a letter of transmittal was addressed to all agents providing them with a memorandum furnished by the Federal Housing Administration to bank examiners to give them information in treating modernization loans. This memorandum points out to examiners that the insurance provided is 20 per cent of the total face value of all qualified notes acquired by the bank and not simply 20 per cent of the loans outstanding at any one time.

It seems to me that the Examination Division of the Federal Reserve and the Comptroller's Office have demonstrated to bank examiners that modernization loans are sound loans and should not be regarded with suspicion in any way. No further action on the part of the Federal Reserve Board would seem to be necessary and I do not think that a letter pointing out that the Board looks with favor upon such loans would do much to increase the volume made by banks.