

June 17, 1938.

Dear Henry:

Inasmuch as you mentioned the other day the subject of the record of the Federal Reserve in making loans, I did not want you to be under the impression that the record was open to any justified criticism. While the matter is not of vital importance, I felt you might be interested to have the facts.

In the first place, the only authority the System has to make direct loans to business and industry is contained in Section 13b, which was added to the Federal Reserve Act by act of June 19, 1934. However, this is a very restricted power. The law provides:

"In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the Federal Reserve bank, pursuant to authority granted by the Board of Governors of the Federal Reserve System, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, for the purpose of providing it with working capital, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding five years."

In other words, loans could only be made for working capital purposes and could not be for more than five years. In addition, subsection (d) created industrial advisory committees in each Federal Reserve district "for the purpose of aiding the Federal Reserve banks in carrying out the provisions of this section." While the Board here in Washington was authorized to prescribe regulations, it is questionable whether it could have forced these industrial advisory committees and the Federal Reserve banks to make loans other than those they deemed legal and proper.

There was one other limitation in law which was not material, namely, that the total amount of such loans should not exceed the combined surplus of the Federal Reserve banks as of July 1, 1934, (\$138,383,000) plus advances by the Secretary of the Treasury not to exceed \$139,299,557, or a grand total of about \$277,683,000.

As a matter of fact, rather a good showing was made considering the restrictions. The Board put on a special campaign with the banks and every possible effort was made to acquaint the public with the opportunity to borrow under the conditions specified by Congress. From June 19, 1934, up to May 25 of this year the Federal Reserve banks received 9,096 applications for a total of \$380,648,000, and approved 2,536 of these applications for a total of \$158,962,000. A large proportion of the applications was for loans for fixed capital purposes, which were specifically prohibited by the act and, of course, there was the usual percentage of applications that were not acceptable for other reasons.

As you will recall, a similar authority was granted to the R.F.C., and while I am hesitant about drawing comparisons, I venture to say that our record will compare very favorably with what was accomplished under that authority.

I shall not burden you with the details, but I did not want you to have a wrong impression about this matter.

Sincerely yours,

M. S. Eccles,  
Chairman.

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D. C.

ET:b



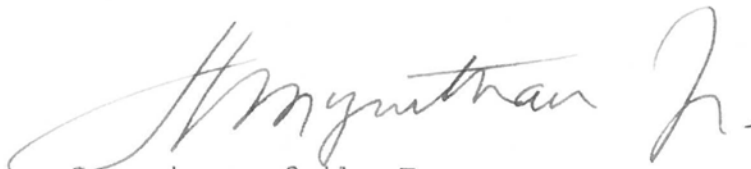
THE SECRETARY OF THE TREASURY  
WASHINGTON

June 29, 1938

Dear Marriner:

Thank you for your letter of June 17th and the information it contains with respect to the authority given Federal Reserve banks to make direct loans to business and industry. I am glad to have your statement on this.

Sincerely yours,

  
Secretary of the Treasury

Honorable Marriner S. Eccles,  
Chairman, Board of Governors  
of the Federal Reserve System,  
Washington, D. C.