

Office Correspondence

FEDERAL RESERVE
BOARDDate June 27, 1935To Governor EcclesSubject: Application of real estate loanFrom J. M. Daigerregulations to State member banks

GPO 16-852

In the work that Mr. Chase and I have been doing on a tentative draft of regulations governing real estate loans, I am strongly impressed by the fact that the Federal Reserve Board might be greatly hampered if the regulations are not to be applicable to State member banks. I know that you have this matter in mind and that the exemption afforded to the State member banks by the bill as passed by the House does not meet with your approval. I am bringing the matter to your attention again in order to emphasize the practical importance of having the Senate bill make the State member banks subject to the same regulations as the national banks will be subject to.

The existence of a large surplus of funds available for real estate loans will mean, of course, an increasingly competitive situation as the easing now evident in the mortgage market becomes more general. Thus the regulations that the Federal Reserve Board might well prescribe in the interest of soundness, without in any way being improperly restrictive, would nevertheless tend to put the national banks at a disadvantage. The natural result of this would be to make the regulations of the Board appear unduly restrictive, even though they were soundly conceived. The national banks might therefore be critical of the regulations from the outset; the Board in this case would then be under constant pressure to modify the regulations; and the old question of "competition in laxity" would be injected into the situation.

All this would of course be quite contrary to the effect that you desire the regulations to have, but I think it might be inevitable if your plan to have real estate loans subject to regulation by the Board is made applicable only to national banks.