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April 29, 1935.

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Honorable Thomas Jefferson Coolidge,
Under Secretary of the Treasury,
Washington, D. C.

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Dear Mr. Coolidge:

I am inclosing for your information a copy of a letter which I have written to Honorable James A. Moffett, Administrator of the Federal Housing Administration, in response to a letter which he addressed to me under date of April 23, 1935, suggesting that section 5202 of the Revised Statutes be amended so as to exempt from the limitations thereof loans obtained by national banks on real estate mortgages from Federal Home Loan banks under the provisions of section 10(b) of H.R. 6021, which I understand has passed both houses of Congress and is now in conference.

I understand that Mr. Moffett has written a similar letter to the Secretary of the Treasury and I sincerely hope that the Secretary will concur in the position which I have taken on this subject.

Very truly yours,

(Signed) Marriner S. Eccles

GENERAL COUNSEL'S OFFICE
Dictated by *MSE*
Approved by
Reviewed by

Marriner S. Eccles,
Governor.

Inclosure
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April 29, 1935.

Honorable James A. Moffett, Administrator,
Federal Housing Administration,
Washington, D. C.

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My dear Mr. Moffett:

I have received your letter of April 23, 1935 inviting attention to the provisions of section 10(b) of H. R. 6021, which would authorize Federal Home Loan banks to make advances to approved nonmember mortgagees which are subject to inspection and supervision of some Governmental agency and whose principal activity in the mortgage field must consist of lending their own funds.

You state that under this amendment national banks will be eligible to borrow from the Federal Home Loan banks on the security of insured mortgages, but they are substantially restricted in the exercise of this privilege by the limitations of section 5202 of the Revised Statutes; and you suggest that there be added to the Banking Act of 1935 an amendment exempting such borrowings from the limitations of section 5202.

I do not favor such an amendment; because section 206 of the Banking Act of 1935 would amend the Federal Reserve Act so as to enable Federal reserve banks to make advances to member banks on any of their sound assets, including real estate mortgages, and I feel that national banks should look to the Federal reserve banks, rather than the Federal Home Loan banks or any other agency, for any financial assistance which they may need.

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Handwritten signature or initials

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As members of the Federal Reserve System, the national banks are stockholders of the Federal reserve banks, maintain their reserves on deposit with them, have constant daily contacts and relations with them, and have a right to look to them for reasonable credit accommodations in times of need. National banks have no such relations with the Federal Home Loan banks.

One of the principal objectives of the Banking Act of 1935 is to make the Federal reserve banks more serviceable to their member banks and to make it unnecessary for member banks to go elsewhere for their necessary credit accommodations. The amendment which you suggest is inconsistent with this objective. It would imply that Congress expects national banks to borrow from the Federal Home Loan banks on real estate mortgages and lacks faith in the measures contained in the Banking Act of 1935 to enable the Federal reserve banks to furnish all the credit accommodations needed by their member banks.

Moreover, I believe that the amendment which you suggest would raise false hopes; because national banks do not need to borrow now and would not need to borrow against real estate mortgages except during periods of deflation or depression. During such periods, it would be difficult for the Federal Home Loan banks to sell their obligations to the investing public and thus to obtain the funds with which to make loans to the national banks.

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If the Federal reserve banks should purchase the obligations of the Federal Home Loan banks in order to meet such a situation, they would merely be doing indirectly what the Banking Act of 1935 seeks to enable them to do directly. If the Government should purchase the obligations of the Federal Home Loan banks in order to enable them to make loans to national banks, the Government would have to raise the money by issuing its own bonds, many of which would have to be purchased by the Federal reserve banks. This would do even more indirectly that which the Banking Act of 1935 seeks to accomplish directly.

On the whole, I think it would be much simpler, much more logical, and much more practical for the national banks to look only to the Federal reserve banks for financial assistance in times of need and for the Federal reserve banks to grant such assistance directly, as the Banking Act of 1935 would enable them to do.

Very truly yours,

(Signed) Marriner S. Eccles

Marriner S. Eccles,
Governor.

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GENERAL COUNSEL'S OFFICE

Dictated by.....*WW*.....

Approved by.....

Revised by.....

BK