

May 25, 1936.

Mr. Edward E. Brown, President,  
The First National Bank of Chicago,  
Chicago, Illinois.

Dear Ned:

It occurred to me that you would be interested in the state of affairs reflected in a letter which I received from Walter W. Ross, a Chicago lawyer. If what he says is true, or if it does in fact reflect a general condition in your territory or anywhere else, then it seems to me there is not the slightest justification for complaints about the government being in the lending business, nor do I see how the government can get out of the lending business if the banks, with all the surplus funds at their disposal, are refusing to make loans such as Mr. Ross indicates. This sort of thing, if true, is what discredits the banking fraternity. Of course, I am not suggesting that the individual cases which he cites be looked into, but I am wondering if from your own knowledge the situation approximates what is set forth in the following paragraphs which I am quoting from Mr. Ross' letter:

"I am somewhat familiar with this situation in our locality because my eldest son has for a number of years been engaged in designing and building attractive homes. A little over two years ago the architectural business being practically dead, he decided to utilize his time by building a house for sale or rent. When he had finished the house he found that he needed about \$3,500.00 to complete the payments. He spent several weeks interviewing bankers in Chicago and the suburbs and men who had formerly been engaged in making such loans, but it was impossible for him to borrow the \$3,500.00 on a first mortgage on the house. However, he finally located a woman in California who was willing to make the loan. Within a few months he sold the house for \$15,500.00 cash and then started to build another house about twice as expensive as the one he had just sold, and when he had finished it last year he wanted a loan of about \$12,500.00 on a \$30,000.00 property. He went to the FHA and submitted the proposition to them and they in turn sent him to various banks in this locality, none of whom, however, would make the

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"loan. He finally found a lender in Minneapolis. He has not as yet sold the house but it is rented for over \$200.00 a month at the present time.

"There are great numbers of young men who are just getting established in their life work who need to utilize credit, and although many of them are well entitled to the credit they are at this time having great difficulty in obtaining money. Here are several instances which have recently come under my personal observation:

"There is a young man who is a tenant of mine who pays me \$1,500.00 a year for the house in which he lives. He is at the head of a department of one of the largest stores in Chicago, of which his father is a partner, and he has been negotiating with me for the purchase of a lot upon which to build a home. His uncle is a director of one of the largest banks in Chicago, and he went to this bank to see if he could borrow money for the purpose of building a home, but the reply was that the bank did not care to bother with such loans. This particular bank has approximately two hundred million dollars invested in Government bonds. Why should it bother to make loans of this kind, when it can invest its depositors' money in Government bonds which it can convert into cash on a moment's notice and yet earn profits which enables it to pay very handsome dividends to the stockholders?

"I observe that the Government is about to issue another billion dollars of bonds, and the bank referred to above will undoubtedly invest further surplus deposits in those bonds, and so it will continue undoubtedly as long as the Government is issuing bonds at frequent intervals, and the question arises as to how is that circle to be broken.

"Prior to the War, our Government had outstanding only a little over a billion dollars of bonds, most of which were owned by national banks and used as a basis for their currency, so that the banks at that period were compelled to make loans of many kinds in order to operate at a profit. At the present time, as you know, the Government is borrowing the money from the banks and loaning it through one loaning agency or another to the citizens of our country, and, as I see it, this will have to continue until the circle above mentioned is broken.

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"Here is another illustration which has come under my observation: This young man's father is the president of one of our large manufacturing companies, the son is a vice-president of the same company, is well established, married and has two children, and wants to build a house but he has not yet found a way to finance the operation.

"My second son is a young lawyer here in Chicago, married. He too wants to build a house. He is well established with an income of several thousand dollars a year, owns his own lot which is worth approximately \$8,000.00, has had the plans drawn for his house and has made his application for a loan. He does not know yet whether he will be able to borrow the money. I have been told that one of the largest banks in Chicago has on hand several thousand applications for loans approved by the FHA but up to the present time has made only a very few of such loans.

"These conditions exist no doubt in nearly all parts of our country today. It is through the individual initiative of great numbers of our citizens that our country has prospered and progressed when they have utilized their credit by borrowing money necessary for their purposes. We have experimented during the past hundred years with depending entirely upon credit furnished by private banks. In March 1933 this system entirely collapsed temporarily and we found it necessary to have our Government provide credit for millions of our citizens who could not be accommodated by the private banks. It is my belief that a central bank is necessary to perpetuate our constitutional form of government."

Needless to say, if responsible men generally come to the view that a central bank is necessary because of the failure of privately owned banks to function in accommodation of those who are good credit risks, then the doom of the banking system as we know it is already sealed.

While I do not like to bother you, I am seriously concerned by such letters as this and I would, therefore, appreciate knowing for my own information what you think about it. I am passing on these same paragraphs to the Federal Housing Administration.

Sincerely yours,

M. S. Eccles,  
Chairman.