BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 10, 1947

To Chairman Eccles and Gov. Clayton

From Messrs. Thomas, Young, and Wood

Subject: Other suggestions for emergency credit control, particularly with regard to bank holdings of mortgages.

In order to check the continued expansion of bank holdings of real estate mortgages and to prevent a rapid expansion of bank portfolios of medium- and long-term corporate, State, and local government securities, emergency legislation along the lines of the "bond limitation plan" in the Board's Annual Report for 1945 might be proposed. The limitation would need to cover all long-term assets of banks and not be confined as in the earlier proposal to long-term marketable securities, nor should it be confined as is Section 24 of the Federal Reserve Act to real estate loans. Further study will be needed to determine the specific form and amount of the limitation.

A broad restriction of this type is better than a direct limitation on holdings of mortgages. Such a direct limitation might drive banks into a more rapid expansion of their holdings of "other" securities, which the recent firming of medium- and long-term interest rates on corporate, State, and local government securities would encourage.

Another suggestion worthy of consideration is revision of the appendix to the Board's Regulation A which recommends minimum standards that should be observed by member banks in making loans upon real estate. These standards might be appropriately strengthened in the light of the present emergency situation. Such strengthening might include the advisability of limiting mortgage holdings to, say, 25 per cent of time deposits, the desirability of conservative appraisal standards, and the desirability of maintaining a large proportion of FHA and GI mortgages with maturities under 20 years.

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