

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 9, 1942

To Chairman Eccles

Subject: Relationship of the Bank of
Canada to the Central Mortgage
Bank

From Walter R. Gardner *WRC*

During the Board's discussion of the proposed central bank for Cuba the suggestion was made that any major agricultural or mortgage institution set up in Cuba should be a subsidiary of the central bank. Canada was cited as a precedent. If I recollect rightly, you were under the impression that the new central mortgage bank there was to be a subsidiary of the Bank of Canada.

So far as the essence of the relationship is concerned, you were entirely right that the Bank of Canada will be in effective control of the new mortgage bank, but this control will result from the provisions governing management and has nothing to do with ownership of the bank. Miss Bulla's note, which I attach, brings out the fact that the Canadian Government -- not the Bank of Canada -- will take all the shares of the central mortgage bank. It is possible that a similar arrangement can be worked out in Cuba, enabling the central bank to have a controlling influence in the management at the same time that it enjoys the protection which government capital in the other institutions will give the central bank's loans to them.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**Office Correspondence**Date February 9, 1942To Mr. GardnerSubject: Central Mortgage BankFrom Miss Bullaof Canada

Legislation establishing a Central Mortgage Bank was passed in 1939 and received Royal Assent. The Act was proclaimed on July 14, names of appointed directors were announced, and the Board of Directors held an organization meeting in July. In November, because of war conditions, official announcement was made that the Bank would not function. The legislation still stands and the organization has not been destroyed. The institution can be revived when circumstances permit.

The Act provides that the Bank shall be under the management of a Board of Directors composed of:

- A Governor, who shall be the Governor of the Bank of Canada;
- A Deputy-Governor, who shall be the Deputy-Governor of the Bank of Canada;
- The Deputy Minister of Finance; and
- Three other directors (not officials) appointed in accordance with the provisions of the Act (i.e., apparently by the Government).

The Governor of the Central Mortgage Bank shall be the Chief Executive Officer of the institution with authority to act in all matters not specifically reserved to the Board or the Executive Committee.

The Executive Committee is to consist of the Governor, the Deputy-Governor, the Deputy Minister of Finance and one director selected by the Board.

The Assistant Deputy Governor of the Bank of Canada shall be Assistant Deputy Governor of the Central Mortgage Bank.

The Act provides for a fully Government-owned institution with a capital of \$10,000,000 consisting of 100,000 shares of \$100 each, registered in the name of the Minister of Finance. The Bank would have authority to issue its own debentures to a maximum of \$200,000,000. The Governor-in-Council may guarantee principal and interest of these debentures. Apparently the guarantee is not mandatory.

Mortgage, insurance, and other lending companies with mortgages outstanding would be invited to become member companies. The Bank may then buy the securities of these member companies.

Further details concerning the appointment of the three non-official directors, reduction of interest rates on outstanding mortgages, etc., can be summarized when the complete text of the Act has been studied.