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August 16, 1937

Governor Marriner S. Eccles  
Federal Reserve System  
Washington, D. C.

Dear Governor Eccles:

Thank you for your letter of the 13th with its enclosures. I greatly appreciate the comments made by the members of the staff who have reviewed the material. Some of them relate to matters which others have brought to my attention, while others will require a little further thought on my part.

I am particularly glad of Dr. Currie's memorandum with its table giving the history of the "V" factor since 1919.

In advance of further study of the comments, I believe I should explain my use of the word "quality" which has not been clear to a number of my critics and correspondents. Possibly the idea is confused in my own mind, though it seems clear enough.

Credit as a whole is first divided into categories depending on the kind of transaction for which it was generated. A number of these categories are given as, for instance, financing consumer purchases, financing security speculation, etc. Next, the characteristics of these various categories are examined with particular reference to the monetary aspects of bank credit. For any given category the balance of characteristics may be favorable or unfavorable to reliance on that category as a constituent of our total volume of bank credit viewed from the monetary standpoint. This preponderance of favorable or unfavorable characteristics gives the category its good or bad quality from the monetary aspect. It is in this sense that I use the term "quality of credit." I do not use it in the sense of the quality, considered from the standpoint of safety or otherwise, of the individual transactions themselves, except as this affects the whole category in its monetary aspect. A little later, at your convenience, I shall take advantage of the kind invitation in your last paragraph.

Sincerely yours,

