

File
September 29, 1939

Honorable Jesse Jones, Administrator
Federal Loan Agency
Washington, D. C.

Dear Jesse:

You will recall our discussion at the Treasury last week in which you jokingly took the Reserve System to task for its performance respecting industrial loans. In spite of the fact that you were joshing me, I feel that I shouldn't let your charges go unchallenged and for that reason I have checked the record and have some observations to make which I think you will find interesting and perhaps enlightening.

The figures do not tell the story unless considered in the light of comparative authorizations enjoyed by the two Federal agencies under the law. Both started out under the Act of Congress approved June 19, 1934. Under this Act the RFC had an important advantage over the Reserve banks since its loans were not limited to those for working capital purposes and its commitments were not subject to a prescribed ratio. However, for the sake of the argument, I am willing to admit that both agencies were unduly restricted and started out on a more or less even footing. The figures show that up to January 30, 1935, when Congress first liberalized the RFC's authority, the Federal Reserve banks had made loans and participations of \$32 million odd against approximately \$9 million for the RFC.

The amendment of January 30, 1935, liberalized the RFC's authority in a number of ways, as follows: (a) it changed "adequate security must be provided" to "the loan must be so secured as to reasonably assure repayment"; (b) eliminated the maximum of \$500,000 for any one borrower; (c) extended the maximum maturity from five to ten years; and (d) eliminated the requirement that the applicant must have been established prior to January 1, 1934. The Federal Reserve banks received no liberalization whatsoever at that time, nor since.

In spite of the great advantage enjoyed by the RFC for over three years from this point on, the cumulative figures up to April 1938 (when the bars were dropped again as to RFC lending) show that the Federal Reserve banks made loans and participations of \$111 million odd as against approximately \$105 million for the RFC.

The amendment of April 13, 1938, not only removed practically all restrictions on business loans by the RFC but was also a clear indication on the part of Congress that the RFC was expected to carry the ball and enjoy the spotlight in this field. Nevertheless the Federal Reserve banks continued to make new loans, increasing the cumulative total of loans and participations by \$21 million up to the end of June 1939. During this period the RFC "authorizations" increased approximately \$235 million although disbursements increased only about \$73 million. To my mind it is rather remarkable that the Reserve banks were able to make even that amount of loans in view of the competitive situation.

The figures also show an interesting sidelight on the question of "tightness" in authorizations. As of June 28, 1939, the Federal Reserve banks had authorized loans totaling \$179 million odd, of which \$14 million or approximately 8 per cent had been canceled, whereas the RFC had authorized a total of \$434 million odd, of which \$85 million or approximately 20 per cent had been canceled. As you know, loans are canceled not so much because the borrowers procure funds elsewhere as for the reason that the conditions attached to the "authorized" loans are such that the borrower cannot or is unwilling to meet them.

The performance of the Federal Reserve banks should also be viewed in the light of other difficulties. The law requires that applications be considered by an industrial advisory committee at each Federal Reserve bank, selected from successful business men in the district. It is only natural that these men, drawn from businesses in good financial condition, should be inclined to look with disfavor upon many applications submitted by their less successful competitors. Again, the law does not give the Board of Governors in Washington any authority to pass upon applications but only to make regulations under which the Reserve banks should lend. Obviously these regulations can only qualify the statutory authority, not broaden it. The ability of the Board in Washington, therefore, to stimulate industrial loans by the Reserve banks has been limited both by the restrictions in the statute and by the fact that the statute gives no final power to the Board to approve or disapprove loan applications.

In the light of the above, it seems to me that the Federal Reserve System has done as well with industrial loans as could be expected considering the handicaps under which it has had to operate.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles
Chairman

LC/fgf

Read by Mr. Draper 10/31/39. Told me it was fine he was glad it had been sent. LC

September 29, 1939

Honorable Henry Morgenthau
Secretary of the Treasury
Washington, D. C.

Dear Henry:

I think you will recall that at last week's meeting at the Treasury Jesse Jones indulged in some good-natured panning of the Federal Reserve banks and myself included, for the "tightness" of the Reserve System in its industrial lending activity. In spite of the humor of the occasion I feel that the charges should not go unchallenged and I have accordingly sent Jesse a letter containing some observations on the matter and I am enclosing a copy herewith. I trust you will find the facts interesting and informative.

Sincerely,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman

enclosure

LC/fgf

Identical letter sent to Jerome Frank and John Hanes.

FILE COPY



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

September 30, 1939

Dear Marriner:

Many thanks for your letter of September 29th, enclosing copy of your reply to Jesse Jones. I have read it with much interest, but confess that I believe you must have taken Jesse far more seriously than I did. I never thought again of his remarks at luncheon because I believed them to be in the nature of a good humour jest. At any rate, I am glad to have the information.

With kindest regards, I am

Sincerely yours,

John Hanes

The Honorable Marriner S. Eccles,
Chairman,
Federal Reserve Board,
Washington, D. C.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

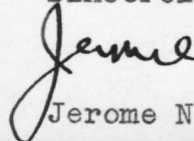
September 30, 1939

Honorable Marriner Eccles
Federal Reserve System
Washington, D. C.

Dear Marriner:

I have read with much interest
your letter to Uncle Jess. As usual in
any argument you get the better of your
adversary.

Sincerely,


Jerome N. Frank

RECEIVED
OCT 1 1939
ST. LOUIS
FEDERAL RESERVE BANK
ST. LOUIS