

May 5, 1938.

Hon. Jesse H. Jones, Chairman,
Reconstruction Finance Corporation,
1825 H Street, N.W.,
Washington, D.C.

My dear Jesse:

I think you know the very high regard and esteem in which I hold you individually and as head of the Reconstruction Finance Corporation. There can be no question that during most critical times you and the Reconstruction Finance Corporation have been most helpful and constructive.

I know you cannot and will not misunderstand if I quite frankly and honestly disagree with some of the sentiments expressed in your speech of yesterday's date as reported in The New York Times.

It has been and is my privilege to be associated as a director of two trust companies. We are primarily in business to make money for the benefit of our stockholders. We can only make money if we can lend our depositors' and our own funds at a fair return in interest, and providing our investments yield us a fair amount. I think that is fundamental.

Most of us in the banking field are, of course, subject to strict supervision. Based on these examinations, it is, I believe, the general practice to question any loan on real estate as non-liquid, and more or less to question even a fair and intelligent appraisal of same. It is secondly their policy to question any loan that is not promptly repaid and liquidated; and same are immediately classified as slow or doubtful. Collateral loans which are not secured by most liquid Stock Exchange or Curb Exchange collateral are also so referred to by most examiners.

Insofar as bond portfolios are concerned, unless one has practically nothing but municipals, government, Port Authority and kindred bonds, question is raised. Even many of the so-called seasoned bonds which, due to general conditions, are today selling at a discount are severely criticized as being held in the portfolio, which naturally in turn shrinks the availability of funds in the capital market, and besides dumps at a most unfortunate time good securities in limited markets, further depressing prices.

I know in the two enterprises with which I am identified, there are many loans we would gladly take on, consisting of real estate, commercial loans and even individual credits that might take a substantial time to be repaid and at a fair rate of interest; but we hesitate and, quite properly, in my opinion, do not accept these due to the fact that we are cognizant that at the next examination these loans will be classified as doubtful or slow, and we will be asked to have them liquidated before the next examination, which we know is impossible.

Now, you may say to me, why don't we disregard these agencies; but after all, we are under their strict supervision. We cannot write off by taxation or otherwise any extraordinary risks that we might have, even good risks, but must fit into the general policies of those who have supervision of our activities. That is the story as I see it.. I do not believe that it is the directors or officers and/or trust companies today who hesitate to make good loans; but we are discouraged from making good loans unless they are 150% collateralized with liquid collateral and unless loans are of a temporary nature.

May I respectfully suggest that you yourself take a cross-section of examinations of various institutions and have these statements analyzed by your own statistical service to show first-hand, on a perfectly neutral basis, the criticisms that are made at present of portfolios that have been carefully and judiciously invested in high grade bonds, the criticisms that are being made, and the discouragement of making loans except those that I have herein classified. If, as a result of that survey, you can get with the policy that you have initiated some co-operation to encourage loans and portfolio investments that may not be super-liquid in fundamentally sound industries of average maturities, I believe some really constructive help would be afforded.

Today unfortunately we have a series of contradictions. We have the spoken word of liberalizing credit. We have, on the other hand, supervising agencies adopting another policy.

I would appreciate hearing from you.

With all good wishes and warmest personal regards, I am,

Cordially yours,

Howard S. Cullman.

hsc;rb