

# THE NATIONAL BANK OF AUBURN

CHARTERED 1817

AUBURN, N.Y.

June 20, 1938

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

My dear Mr. Eccles:

Country banks generally have watched with a great deal of interest your very fine efforts to place bank examinations on a sound and reasonable basis, and to relieve them from what in a majority of instances seems to have been an unwarranted and unjustifiable attitude towards assets that should be regarded as credit risks and not appraised by market values which in depressed times do not reasonably reflect intrinsic worth. This is especially true when the market for this class of risk has been strangled by regulations and restrictions based on ratings of securities which did not indicate at the time of purchase that the investments were predominantly speculative.

For some time I have been making the suggestion to various supervisory authorities that the practice of including in the schedule and classification of "Loans and Discounts" all real estate mortgages, has distorted a fair and reasonable appraisal of these assets. There is a world of difference between these two methods of extending credit and I respectfully suggest that mortgage loans should be separated from the schedule of "Loans and Discounts" and set up and classified in a separate schedule by themselves.

It seems to me that it has been forgotten that the extension of all credit involves some risk. The practice in the past of reserving for trustees, savings banks, etc., the highest rated investments and leaving to commercial banks the ability to finance the so-called "Credit" or "Medium-rated" securities provided for a free flow of commercial credit. For the past few years, commercial banks have not given this type of credit any consideration and have confined their loans and investments, for the large part, to that type of credit which belongs to the savings banks, etc., and which does nothing to promote commercial activity for

To Hon. Marriner S. Eccles, Chairman of Federal Reserve Board  
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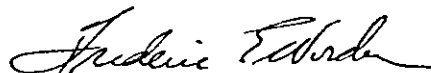
that type of business which constitutes by far the majority of all the business in the country, the so-called "Medium Type" investment or credit risk.

The economic recovery of this country is dependent largely on the opportunity of bankers to again express their faith and confidence in this type of borrowers. It is true that in extending this credit in the past there have been some losses, and in some specific instances perhaps there have been severe losses, but it is my contention that the industries and business of this country have been built up because the individual bankers in each community had confidence in the character and the ability of the men representing our largest group of borrowers, the so-called "Medium" credit risk. Under the present regulations and restrictions, this type of credit has been strangled. Banks are no longer able to make this type of loan, and instead of promoting the commercial and industrial activity of the country, are now largely supporters only of government credit and look to government agencies to do that type of lending for which the banks themselves are by far better qualified, if present restrictions and regulations could be removed.

It is my earnest desire that you will not weaken in your efforts to correct this situation. I am especially referring at this time to the five points reported on page 2 of the Wall Street Journal of June 18, indicating your attitude.

May I extend my most sincere wishes for your success.

Very truly yours,



Frederic E. Worden,  
President.

FEW:MP

June 28, 1938

Mr. Frederic E. Worden, President  
The National Bank of Auburn  
Auburn, New York

Dear Mr. Worden:

This will acknowledge your letter of June 20, in which you comment favorably upon the recent changes in bank examination policy and the revision of the Comptroller's regulation on investment securities.

I was gratified to have you point out that, under existing banking policy, the banks have become accustomed to various Government agencies doing various types of lending for which the banks themselves are by far better qualified. The restrictions of the bank supervisory authorities have been partly responsible for the existing practice, but only partly so. With these restrictions now greatly lessened, it will remain for the bankers of the country as a group to realize their new opportunities and thus obviate the necessity of further extension of credit to business by the Government itself.

Yours sincerely,

M. S. Eccles,  
Chairman.

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