

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7947

June 30, 1934.

Dear Sir:

You will recall that at the recent Conference I suggested that a letter be written you regarding loans to industry.

I want first to thank you for your earnest consideration of the problems of the Conference and your evident spirit of cooperation.

We mainly considered the opportunity furnished and the responsibility entailed by this new law. You will observe

(1) That in exceptional circumstances when it appears to the satisfaction of your bank that an established industrial or commercial business located in your district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, your bank may make loans to, or purchase obligations of, such industrial or commercial business, or may make commitments with respect thereto, on a reasonable and sound basis, for the purpose of providing it with working capital.

(2) That your bank shall have power to discount for, or purchase from, any financing institution operating in your district obligations entered into for the purpose of obtaining working capital for any established industrial or commercial business; to make loans or advances to any such financing institution on the security of such obligations, or to make commitments with regard to such loans or advances on their security,

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including commitments made in advance of the actual undertaking of such obligations. This provision requires participation by the financing institution.

Under these two provisions loans may be made direct to established industrial or commercial businesses or indirectly through financing institutions, such loans in either case to be for working capital.

As you know the Board has promulgated Regulation S covering such loans, which regulation was submitted to and approved by the Conference.

This regulation has been made as simple as possible so that it might materially aid and in no way hinder the making of these loans, and most of the questions discussed at the Conference are now covered by the law and the regulation.

The question of the personnel of the industrial advisory committee in your district is important. The regulation fixes the number at five. In my opinion the members of this committee should be men fully advised as to the industrial and commercial situation in your district, fully alive as to the needs of the smaller industrialist, and entirely sympathetic with the purpose of these loans. I also feel that three of the members should reside at your home office city so that a quorum may be immediately present for the consideration of applications.

The rate is also an important factor. I think this rate should be considered from the standpoint of the purpose embraced in this law and that purpose is to aid the smaller industrialist in the solution of his problems. I do not think that a rate can be uniform because of diverse

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conditions in different districts. I rather think that each district considering its own conditions should determine the rate for its district.

It would be wise in fixing a rate to keep in view usual banking rates in your district but this approach must be limited if those banking rates are high when considered in the light of the purposes of this Act.

In determining whether there should be a different rate for individuals or financing institutions the increased risk in the case of individuals may well be considered.

I do not believe that there should now be any preferential rate for member banks since the law made no distinction between financing institutions and because a substantial part of the funds loaned are paid to us by the Treasury. Later experience may show that the element of risk may influence a preferential rate but I feel that we should await that experience before fixing one. It is my personal feeling that a commitment fee would be justified and that it should be a low fee. This feeling is prompted by the knowledge that commitments will tie up available funds for loans and by the knowledge that through commitments an element of value is given the financing institution.

I am very hopeful that through the process of making commitments we will engage the active cooperation of the banks, but this hope must be restrained within the limitation of having left available funds for immediate loans.

These expressions as to rates are only expressions. The Board will fully consider the mature action of your directors on this question.

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I am certain that you have carried home to your directors our earnest feeling, first, that these new loans will materially aid the Recovery Program, second, that it gives your bank an opportunity to render a real service in your district, and third, that this opportunity entails a responsibility that for the good of the Federal Reserve System must be fully met.

I am pleased to advise that the expressions of this letter are concurred in by the members of the Board, but that they must be considered only as our expressions, since the Board feels that each Reserve Bank can and will meet its responsibilities under this law and will be more fully advised as to the special conditions in its district.

With my warm regards, I am,

Sincerely yours,

Governor..

TO GOVERNORS AND CHAIRMEN OF ALL F. R. BANKS.