FEDERAL RESERVE BOARD

X-7948

WASHINGTON

OFFICE OF VICE GOVERNOR

July 2, 1934.

Enclosed I am handing you correspondence discussed at the recent conference of Governors and Chairmen, to wit: letter from Honorable Jesse Jones, of the Reconstruction Finance Corporation, to me under date of June 22, 1934, and my reply under date of June 26, 1934.

You will note that I made my reply as much along the spirit of the discussion had in the conference as I could. I understood the expressions of the conference to mean that the Reserve Banks should not have joint action with the Reconstruction Finance Corporation in the making of these loans but that full cooperation between the two agencies in the interest of making the loans could well be had.

I believe that this cooperation in each bank will prevent harmful competition between the Reconstruction Finance Corporation and your bank, the appearance of an applicant before the Reconstruction Finance Corporation who had been declined by your bank, and the possibility of a critical review of any action of your bank by the Reconstruction Finance Corporation.

I am expressing myself freely on this subject feeling that you are primarily interested in your bank doing a fine job in the interest of the small industrialists of your district, and that you will work out the details of cooperation to affirmatively accomplish the desired ends.

With my regards, I am

Sincerely yours,

Governor.

Enclosures

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

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Federal Reserve Bank of St. Louis

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RECONSTRUCTION FINANCE CORPORATION

Washington

June 22, 1934.

Dear Governor Black:

I beg to enclose herewith copy of our regulations for industrial loans. These can be altered if and as required.

It seems to me that as far as is practical under the law, the RFC and Federal Reserve Banks should consider these loans jointly, i.e., Federal Reserve Industrial representatives and RFC Loan Committeemen sitting as a joint Loan Committee in considering industrial loans, inviting the cooperation of banks, and especially the bank having the account of the applicant. In this way, greater speed will be accomplished, with each agency taking such participation in the loan as may be agreed upon at the time of making the loan. By this procedure a greater spread in the credit risk would also be obtained.

Inasmuch as our offices, with few exceptions, are in Federal Reserve Bank buildings, industrial loan applicants could be directed to a common office for "Industrial Loans"; the Advisory Loan Committee, composed of representatives of the RFC and the Federal Reserve Bank, determining whether the loan would be recommended, and if so, what agency would make it, or how it would be participated in; Federal Reserve Bank management, as well as the RFC Board, necessarily reserving the right to adopt, alter, change, modify, or reject recommendations of the Loan Committee.

There will undoubtedly be loans which Federal Reserve Bank management will be willing to make, in cooperation with banks, and in which the RFC will have no part. On the other hand, there will probably be loans in which the Federal Reserve and the RFC will participate in connection with banks.

If some such procedure as this is not agreeable to the Federal Reserve Board and the several Federal Reserve Banks, the RFC will, at all events, cooperate with Federal Reserve and other banks and lending agencies, with a view to facilitating such loans.

Sincerely yours,

(signed) Jesse H. Jones
Chairman

Honorable Eugene R. Black
Governor, Federal Reserve Board
Washington, D. C.

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FEDERAL RESERVE BOARD

Washington

June 26, 1934.

Honorable Jesse Jones, Chairman,
Reconstruction Finance Corporation,
Washington, D. C.

Dear Mr. Jones:

Your letter of the 22nd relative to cooperation in the matter of making loans to industry was today considered at our conference.

The conference felt that the law covering loans to industry by the Reserve Banks specifically defines the functions and duties of the Reserve Banks in the matter of making such loans. This law also provides for a Statutory Advisory Committee composed of industrialists and defines its duties and powers.

The conference was of opinion that the Federal Reserve Banks cannot waive the duties or obligations imposed by law by any form of collateral agreement. It believes, however, that the Federal Reserve Banks will find many ways in which they and the Reconstruction Finance Corporation agencies can be of mutual help by cooperation in exchanging information and expeditiously handling the applications that will come under the new legislation. To a considerable extent cooperation already exists in fact, and it is the feeling of the conference that such further working arrangements as may be necessary or desirable will be developed most speedily and satisfactorily as the work progresses in each bank.

In the end we are all striving to aid industry and to that end we will cordially cooperate. In this way we will help to aid recovery.

With my regards, I am

Sincerely yours,

(Signed) E. R. Black
Governor.

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