

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

K-7997

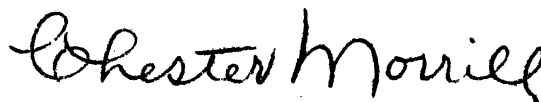
September 4, 1934.

SUBJECT: Classification of Loans under
Title I of the National
Housing Act.

Dear Sir:

There is attached for your information a copy of a letter addressed by the Board under date of September 4, 1934, to the Federal Reserve Agent at the Federal Reserve Bank of Cleveland, with regard to the classification by examiners for the Federal reserve banks of loans made under the provisions of Section 2, Title I of the National Housing Act.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

C O P Y

X-7997-a

September 4, 1934.

Mr. L. B. Williams,
Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Williams:

Reference is made to your letter of August 20, 1934, concerning loans made by banking institutions under the provisions of Section 2, Title I of the National Housing Act and, particularly, the classification of such loans by examiners for the Federal Reserve Banks.

The National Housing Act provides for the insurance of such loans, under the conditions imposed, to an amount not to exceed 20 per cent of the total amount of the loans, advances of credit, and purchases made by each approved financial institution for the prescribed purposes.

Under Section 3, Title I of the Act, the Administrator is authorized to make loans to institutions insured under Section 2, upon the security of obligations which meet the requirements prescribed under Section 2, for the full face value of the obligations offered as security, subject to such rates, terms and conditions as the Administrator shall determine. Bulletin No. 1, issued by the Federal Housing Administration August 10, 1934, contains the following statement:

"Liquidity is assured by an agreement of the Federal Housing Administration incorporated in the Contract of Insurance, to advance cash to any financial institution demonstrating the need for same, at any time, up to the full face value of all outstanding insured notes in good standing."

Mr. L. B. Williams

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It is further explained in the Bulletin that such rediscount facilities are not intended for use in order to obtain government money to lend but are to assure the ability of the financial institution to raise cash against such receivables in case of emergency.

The Board feels that the examiners for the Federal Reserve Banks should be instructed that no part of the loans made under the provisions of Section 2, Title I of the National Housing Act should be classified as slow, doubtful, or loss so long as the insurance provided by the Federal Housing Administration adequately covers the loans or portions thereof which might otherwise be so classified. It is understood that similar instructions have been issued by the Comptroller of the Currency to all national bank examiners.

It is understood that, if you have not already done so, you will receive copies of the regulations of the Federal Housing Administration from that organization.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.