

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-9006

November 1, 1934.

Dear Sir:

During the meeting of Chairmen and other representatives of the Industrial Advisory Committees in Washington on September 27, 1934, there was a discussion of the status of the committees and their relations with the Federal reserve banks under the industrial credit act. A brief digest of this discussion is contained in the summary statement which was sent to you with the Board's letter, X-8031, of October 2, 1934.

As you know, Congress, in establishing the Industrial Advisory Committees, provided that each member should be actively engaged in some industrial pursuit within the Federal reserve district in which the committee is established; that each application should be submitted to such committee; and, after examination by it of the business with respect to which the application is made, that the application should be transmitted to the bank with the recommendation of the committee.

As the enactment of this new legislation was based upon the belief that there were many established business enterprises whose needs for working capital had not been met by banking institutions, it was

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evidently the expectation of the Congress that establishment in each district of a body composed of carefully selected industrialists would bring to bear in the first instance upon the problem submitted in each application the kind of independent judgment that would be most appropriate for the determination of the question whether the loan desired could be made on a sound and reasonable basis notwithstanding the risks and uncertainties that might have deterred banks from making such loans.

It is important, therefore, in order to carry out the obvious intent of the Congress that the Industrial Advisory Committee shall be free to use such means and methods as they may deem necessary in order to enable them not only to make the examinations required by the law but to exercise their independent judgment in making their recommendations to the Federal reserve banks.

The question has arisen, however, whether the officers of the banks, in a spirit of cooperation and a desire quickly to reach harmonious conclusions, may have overlooked the purpose of Congress as to the precedent and independent position of the committees and have attempted to influence the members of the committees to adopt views which the officers, in the light of their own banking experience, felt should apply to the final disposition of the applications. However sound such views might be and however commendable the desire to assist, the Board feels that it should point out the advisability on the part of the officers of the banks of refraining from any form of action with respect to the proceedings of the committees which might seem to justify criticisms in the

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future that the recommendations of the Industrial Advisory Committees were reached otherwise than through the exercise of their independent judgment. This expression of the Board's feeling in this matter of course should not be interpreted as restricting in any degree the freedom of the committee to call for any assistance that it may need and it is expected that the investigators who prepare data for submission to the committees will include in their reports all pertinent data that they have been able to gather regarding the condition, management, etc., of the applicant, both of a favorable and unfavorable nature, in order that the committees may be in possession of all the facts which the investigators have been able to ascertain.

Very truly yours,



Chester Morrill,  
Secretary.

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