

FEDERAL RESERVE BOARD

357

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

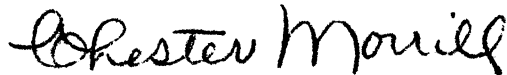
X-9028

November 24, 1934.

Dear Sir:

There is inclosed for your information a copy of a letter received from Mr. Worthington, Deputy Governor of the Federal Reserve Bank of Kansas City, regarding the attitude of Dun & Bradstreet with reference to credit ratings of concerns that have mortgaged their real estate and plant equipment and in some instances made assignments of receivables to secure industrial loans; a copy of a letter from Mr. Rounds, Deputy Governor of the Federal Reserve Bank of New York, in regard to the questions raised in Mr. Worthington's letter; and a copy of the Board's reply to Mr. Worthington.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT KANSAS CITY.

FEDERAL RESERVE BANK
OF
KANSAS CITY

November 2, 1934.

Federal Reserve Board,
Washington,
D. C.

Gentlemen:

In the handling of negotiations for industrial loans an obstacle has developed in this district which may or may not have been brought to your attention by other Federal reserve banks. It is the attitude of Dun & Bradstreet, Inc., with reference to credit ratings of concerns that have mortgaged their real estate and plant equipment and, in some instances, made assignment of receivables to secure industrial loans. One local applicant, whose loan has been approved by our Industrial Advisory Committee and our Executive Committee, has about decided to withdraw his application because he has been informed by the Kansas City office of Dun & Bradstreet that the pledging of his real estate, machinery and a portion of his receivables will make it necessary for them to eliminate his rating from their reference books. If this is done, the applicant feels that he will be unable to obtain shipments of raw materials except on a C.O.D. basis. This attitude of Dun & Bradstreet will have a tendency to destroy the value of an industrial loan to such an applicant. The matter has been discussed with the local manager of the mercantile agency, who has agreed to submit it to New York but doubts whether the instructions of the New York office will enable him to give a satisfactory rating to such concerns as may take advantage of the provisions of the law under which we are making these industrial loans.

It is suggested that the Federal Reserve Board may deem it advisable to take this matter up direct with Mr. Whiteside, President of Dun & Bradstreet, Inc., or with other responsible officials at their headquarters in New York.

Very truly yours,

(Signed) C. A. Worthington

C. A. Worthington,
Deputy Governor.

FEDERAL RESERVE BANK
OF NEW YORK

November 13, 1934.

Mr. E. L. Smead
Chief, Division of Bank Operations
Federal Reserve Board
Washington, D. C.

Dear Mr. Smead:

Referring to Mr. Worthington's letter of November 2 addressed to the Board concerning the policy or attitude of Dun & Bradstreet, Inc. with reference to credit ratings of concerns which have mortgaged their real estate and plant equipment to secure industrial loans, Mr. Whiteside, President of Dun & Bradstreet, Inc., is now in Washington in the Government service. Mr. Roy Foulke, Vice President of the company, is well known to one of our officers, and in discussing this matter with Mr. Foulke he has explained that it is, of course, the function of the rating agency to advise its clients of any facts coming to its attention with reference to the financial status of concerns rated by them. These facts may be differently interpreted according to the view taken by the subscriber to the service. Mr. Foulke says, however, that so far as their rating of such concerns is affected by these loans, they have been inclined to consider the loan a constructive factor. He does not recall any instance where the rating of the concern has been lowered because of the loan. On the other hand, he did recall some instances where the rating had been raised. He said that he knew of a few cases where a rating had been lowered at about the time a loan was granted but that it was not the result of the granting of the loan, but rather the result of a review of the situation and that the rating would have been lowered even though the loan had not been granted.

Mr. Foulke has been in contact with us in connection with a number of applications and he expressed the opinion that the making of industrial loans as had been done in this district is altogether desirable from the standpoint of the creditors of the borrower, as well as from the borrower's standpoint.

Mr. Foulke indicated a willingness to review any specific case that we might bring to his attention, and if Mr. Worthington will submit the facts in the case he has mentioned, we will be glad to take it up with Mr. Foulke.

There is, of course, no escaping the facts in these situations and creditors will almost invariably consider that any concern which has given a chattel mortgage upon its machinery and equipment, or which has made an assignment of its accounts receivable, is a less desirable credit risk from the point of view of the unsecured trade creditors than it was before such mortgage or assignment was made. This is a fact which can not be escaped. It is only fair to say, however, that this change in attitude

Federal Reserve Bank of New York 2.

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is not alone the result of the actual giving of the mortgage or making of the assignment, but is also the result of the disclosure of the extended situation which made necessary this action.

We have been mindful of this adverse effect on the credit standing of a borrower by the taking of collateral in this form and have tried to avoid taking of chattel mortgages or assignments of accounts receivable wherever we can properly do so and in many cases in lieu thereof have taken the agreement of the borrower not to give a chattel mortgage or to make an assignment of accounts receivable to any other party without our consent. There are situations, however, where it is impossible to make a loan on a reasonably sound basis without taking these steps, and it may generally be considered that if the taking of this step results in a lowering of the credit rating of the borrower, then such credit rating was previously higher than justified and was due for a lowering in any event. It would not seem to the writer that this is a matter to be greatly concerned about and at least from the point of view of our handling of these cases, we do not believe it represents a serious obstacle to the granting of these loans.

If there is any further information that you desire, we shall be glad to be of service.

Very truly yours,

(Signed) L. R. Rounds

L. R. Rounds
Deputy Governor

C O P Y

X-9028-c

November 23, 1934.

Mr. C. A. Worthington, Deputy Governor,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. Worthington:

Upon receipt of your letter of November 2, relating to the attitude of Dun & Bradstreet with reference to credit ratings of concerns that have mortgaged their real estate and plant equipment and, in some instances, made assignments of receivables to secure industrial loans, we called Mr. Rounds, who is in charge of making industrial loans at the Federal Reserve Bank of New York, and asked him whether he had encountered obstacles similar to those set forth in your letter. Mr. Rounds advised us that similar difficulties had not been encountered by his bank, but that he would be glad to contact one of the officers of Dun & Bradstreet, not for the purpose of influencing the company's rating procedure in any way, but for the purpose of finding out the extent to which its ratings are affected by the industrial loans made by the Federal Reserve banks.

For your information, there is inclosed a copy of a letter received from Mr. Rounds, under date of November 13, in which he sets forth the result of his discussion with Mr. Foulke, Vice President of Dun & Bradstreet, Inc.

It is understood from your letter that the Kansas City Manager of Dun & Bradstreet is submitting the facts in the case you mention to his

Mr. C. A. Worthington - #2

New York office, and it is assumed that he will receive a reply in harmony with the position outlined in Mr. Rounds' letter. This would seem to make it unnecessary for either your bank or the Board to take the matter up formally with Dun & Bradstreet, Inc.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.