

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9035

November 30, 1934.

Dear Sir:

There is inclosed for your information a copy of a letter addressed by the Federal Reserve Board to the Governor of the Federal Reserve Bank of Chicago, suggesting that, in all cases where applications for industrial loans are refused, the applicant be advised fully as to the reasons for the decision of the Federal reserve bank.

Very truly yours,



Inclosure

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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November 30, 1934.

Mr. G. J. Schaller, Governor,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Governor Schaller:

Receipt is acknowledged of your letter of November 5, 1934, in reply to the Board's letter of October 31, 1934, in which reference was made to the application of Parret & Company, Normal, Illinois, for an industrial loan, and in which it was stated as the feeling of the Federal Reserve Board that where an application for an industrial loan is refused by a Federal reserve bank the applicant ordinarily should be advised of the reasons making such refusal necessary.

Your letter states that your Executive Committee has reached the conclusion that it is desirable not to go into specific reasons for declining applications due to the fact that in some cases they reflect on the ability and integrity of the applicants. You also state that it would appear that your practice in this regard is not out of line with the practice of commercial banks.

The Board feels that a special responsibility rests upon the Federal reserve banks in the making of industrial advances and that it is highly important that, in all cases where an application for an industrial loan is not approved, it be made clear to the applicant that the bank's action is not the result of an arbitrary decision of the Industrial Advisory Committee not to recommend approval

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or of the Federal reserve bank not to grant the loan, but is in accordance with the requirements of the law as to the purpose of the advance or that the loans be made on a reasonable and sound basis.

In certain instances which have come to the attention of the Board, the applicants have indicated a feeling that the bank's decision not to make the loan was in contravention of the purposes sought to be accomplished by section 13b of the Federal Reserve Act and it is believed that such a misunderstanding can be avoided, at least in a number of cases, only by a full explanation of the reasons for the refusal.

The Board suggests, therefore, that whenever an application is denied for the reason that the business is not an established industrial or commercial concern within the meaning of the law, or the proceeds of the loan are not to be used for the purpose of furnishing working capital, or the application is ineligible for other reasons, you explain fully in your letter to the applicant why the Federal reserve bank is without authority to make the loan. Also where the loan cannot be made because of the credit standing of the applicant, future business prospects, unsatisfactory management, insufficient security, etc., it is suggested that your letter contain a frank and full explanation of the circumstances which impel the decision that the loan cannot be made on a reasonable and sound basis. When more than one reason exists for the refusal, all important reasons should be fully explained. The Board feels that such a procedure will be productive of the most satisfactory

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results as it will leave no possibility of misunderstanding on the part of the applicant as to the reasons for the bank's action and will make clear that the Industrial Advisory Committee and the bank are proceeding in accordance with the intent of the law.

If cases do arise where it is felt that the reasons for the refusal of the application should not be put in a letter to the applicant, it is suggested that, wherever practicable, you arrange to have one of your field men call on the applicant and explain to him in a frank and friendly manner the reasons for the bank's action, or, if more convenient, that the applicant be advised that if he will call at the bank the officers in charge of the Industrial Loan Department will be glad to go fully into the reasons why the application was not approved.

Of course, isolated instances may arise where it would not be advisable to state, either in a letter or an interview, one or more of the reasons for not granting the application, but in such a case the other important reasons, if any, should be fully explained and it should be made clear in any event that the bank's decision is not an arbitrary one.

Very truly yours,

Chester Morrill,
Secretary.