

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9636

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 2, 1936.

Dear Sir:

You will find inclosed, for your information, a copy of a letter received by the Board under date of June 18, 1936, from the Administrator of the Federal Housing Administration, and a copy of the Board's reply of June 22, 1936, with respect to the question whether loans insured under the provisions of the National Housing Act are eligible as collateral for advances by Federal reserve banks to their member banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL PRESIDENTS.

COPY

X-9636-a

FEDERAL HOUSING ADMINISTRATION
Washington

June 18, 1936

Honorable Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

In the absence of any specific ruling by the Board of Governors of the Federal Reserve System, there appears to be a question in the minds of some member banks as to whether mortgage loans and modernization loans insured under the provisions of the National Housing Act are eligible as collateral for advances by the Federal Reserve banks.

My attention has been called to the fact, however, that one of the Federal Reserve member banks has recently asked the Federal Reserve Bank of its district "on what basis loans would be granted when secured by Federal Housing Administration mortgage or modernization loans," and has received from the Federal Reserve Bank the following answer:

"Loans on the security of FHA Mortgage or Modernization loans are not considered in the same category as the direct obligations of the United States or the guaranteed obligations such as Home Owners Loan Corporation bonds, and for that reason would not be eligible as collateral to a member bank's fifteen day note at our regular rediscount rate.

"There is no reason, however, why they would not be considered under Section 10b, in which Section Federal Reserve Banks are authorized to make loans to member banks on any sound assets owned by the member banks. The Board of Governors has not yet issued its new Regulation A, but this is our interpretation of the Act."

Explaining its reasons for having sought to learn the attitude of its reserve bank with respect to loans insured by the Federal Housing Administrator, the member bank writes to me as follows:

"This bank is very much interested in having as much liquidity attached to FHA mortgage loans and modernization loans as possible. We are planning to acquire all loans under both titles we can find in our community as long as

we have available funds. We are very much interested, however, in knowing these mortgages and notes would be readily acceptable at the Federal Reserve Bank as security for loans should we find it necessary to borrow."

The bank then makes the following suggestions with regard to the answer which it received from the Reserve Bank:

"Wouldn't it be possible for you to take this matter up with the Federal Reserve Board at Washington and procure from them a ruling that would be applicable to all Federal Reserve Banks? It is my opinion if you could obtain such a ruling, every banking institution in the United States would feel inclined to invest a larger portion of their surplus funds in these securities."

I realize that when most banks, as at present, have available a large surplus of funds for investment, there is no occasion for their having to apply to the Federal Reserve banks for advances against loans insured by the Federal Housing Administration. Nevertheless, it would be helpful, I believe, if a formal ruling could be had from the Board of Governors as to whether the Federal Reserve Bank whose letter I have quoted has, in the opinion of the Board, correctly interpreted Section 10(b) of the Federal Reserve Act, as amended by the Banking Act of 1935, insofar as it may be construed to apply to loans insured under the provisions of the National Housing Act.

I shall appreciate your considering this matter with a view to obtaining a ruling on these questions if it is agreeable to the Board to make one at this time.

Very sincerely yours,

(Signed) Stewart McDonald

Stewart McDonald
Administrator

X-9636-b

June 22, 1936.

Dear Mr. McDonald:

Pursuant to your letter of June 18, 1936, regarding the status under Section 10(b) of the Federal Reserve Act of loans insured under the provisions of the National Housing Act, I have brought to the attention of the Board your request for an expression of the Board's views on the letter recently written by one of the Federal Reserve banks to a member bank which had inquired "on what basis loans would be granted when secured by Federal Housing Administration mortgage or modernization loans."

The Board notes that the answer of the Federal Reserve Bank which you have quoted is as follows:

"Loans on the security of FHA Mortgage or Modernization Loans are not considered in the same category as the direct obligations of the United States or the guaranteed obligations such as Home Owners Loan Corporation bonds, and for that reason would not be eligible as collateral to a member bank's fifteen day note at our regular rediscount rate.

"There is no reason, however, why they would not be considered under Section 10b, in which Section Federal Reserve Banks are authorized to make loans to member banks on any sound assets owned by the member banks. The Board of Governors has not yet issued its new Regulation A, but this is our interpretation of the Act."

Section 10(b) of the Federal Reserve Act as amended on August 23, 1935, reads as follows:

"Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

Any advance under this section must be secured to the satisfaction of the Federal Reserve bank, but there is no other limitation on the character of security which may be used for such an advance. Accordingly, it is the opinion of the Board that a Federal Reserve bank is authorized to make advances to a member bank under section 10(b) of the Federal Reserve Act upon the security of modernization loans insured under Title I of the National Housing Act or mortgage loans insured under Title II of the National Housing Act if such security is satisfactory to the reserve bank.

Of course the question whether such loans would in particular cases constitute acceptable security must be determined by the Federal Reserve banks as and when requests for such advances are received from the member banks, but, if satisfactory, the Federal Reserve banks are at liberty to make advances to member banks upon any such security in accordance with the provisions of section 10(b) of the Federal Reserve Act.

With kind regards, I am

Sincerely yours,

(Signed) Marriner S. Eccles

M. S. Eccles
Chairman.

Honorable Stewart McDonald
Federal Housing Administrator
Washington, D. C.