1st June, 1928

The Federal Reserve Banks of the United States have recently raised their rediscount rates and they made it quite clear that they believed too much money is being used for the purpose of speculation and that loans against stocks must be reduced. This can be accomplished only by liquidation in the stock market and liquidation across the line will undoubtedly result in liquidation in Canada. The present is therefore a time for exercising extreme care where we are carrying loans against stocks. Liberal margins must be maintained and shares other than those of recognized well established companies, especially those which have a narrow market, should not be relied upon as collateral. As we have pointed out on several former occasions, many stocks might easily drop 50 per cent or more in a bad market, so that all stock loans must be carefully watched.

20th November, 1928

Loans for speculative purposes tend to produce unhealthy situations and through price fluctuations in securities a false sense of values. It is a function of the banks to provide assistance for the needs of industry and agriculture and where there is only so much money to go around it stands to reason that the more there is used for stock speculation, the less there is available for legitimate purposes, such as moving crops and the like. We feel quite perturbed over the insistent demand for loans on stocks and sooner or later we may witness a drastic reaction. As we have pointed out on several occasions, on a weak market margins of even 50 per cent may fade quickly and managers must watch their stock loans with extreme care.

Where customers insist upon buying new securities they should sell sufficient of their present holdings to pay for the fresh purchases rather than increase their loans. In the present frame of mind the public's main object appears to be to buy all the stocks the individual thinks he can arrange to finance and when the trouble comes he is obviously likely to find himself overextended. Our managers have a real problem to keep stock-borrowing customers in line. We are most anxious to avoid a situation where our branches are left with large lock-ups in stock loans, when the present market craze passes with its usual distressing results.

Customers come to the bank and say, "We have a large equity with our brokers and we want to the bank to take over our account." The obvious answer to this is, "Sell enough of your present securities to pay off your broker and take the balance of the securities into your own possession." The brokers on the other hand say to their customers, "In order that we can do more business, get a loan from your bank," and so the vicious cycle goes on. There is little use preaching to the public because they will only heed by experiencing severe losses, but what we must avoid is becoming tied up with too many stock loans and thus risking the possibility of having eventually to shoulder the load. Our managers should point out to customers that this is a very high market and a risky one and that they cannot go on forever making a profit by buying and selling to someone else and that some day the end must come.

We have at present no drastic policy in mind regarding stock loans but we do feel that their tendency must be downward. This can be accomplished only by the reduction of loans through savings or by a customer being induced to sell part of his holdings where the load which he carries is out of proportion to his means. Our managers can perform a splendid service by pointing out to customers that this is no time to carry large loans on speculative securities and that they should put their financial obligations on a proper basis.

19th September, 1928

We wish to emphasize again that the bank's funds (and so far as we can see the funds of other Canadian banks) are very fully employed in taking care of