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INVESTMENTS IN CAPITAL STRUCTURE OF BANKS AND LOANS TO BANKS AND OTHERS BY THE RECONSTRUCTION FINANCE CORPORATION

PART I - INVESTMENTS

PART II - LOANS

August 19, 1936.

Summary

Reconstruction Finance Corporation investments in over 6,000 banks through purchase of their preferred stock, capital notes and debentures and through loans on their preferred stock totalled $1,047,000,000 through June 30, 1936. Repayments, including large amounts from a few very large banks, amounted to $341,000,000 through July 31, 1936, reducing outstandings to about $700,000,000. About 400 banks had completely retired the RFC's investment.

Investments were made by the RFC under terms which provide for amortization generally within periods of from 10 to 20 years. Dividends now required, or interest charged, are at the rate of 3½ percent per annum. Unless banking profits show considerable additional improvement carrying charges on the RFC investment may create problems in many cases in which RFC holdings constitute a large proportion of the capital funds of a bank. At the end of 1935 the RFC investment outstanding in insured commercial banks was equal to 14 percent of total capital funds of all such banks; in the east north central states it was equal to 25 percent of total capital funds. 40 percent, by number, of all insured commercial banks held RFC capital at that time; the proportion in the east north central states was 44 percent.

RFC loans made to active banks in the sum of $1,000,000,000, and made to receivers or through mortgage loan companies to aid in liquidation of closed banks in the amount of $900,000,000, had been reduced by June 30, 1936, to $155,000,000 and $142,000,000, respectively. Disbursements in the first half of 1936 of $26,000,000 to closed banks included only a negligible amount going to new borrowers. Repayments of loans to closed banks appear to have been slower in southern states than in other regions.

Other types of loans which continue to be made to new borrowers include loans to mortgage loan companies, especially to the RFC Mortgage Company which in turn lends directly on certain types of mortgages, working capital loans to industrial and commercial businesses, and loans to drainage, levee and irrigation districts to refinance indebtedness.

Disbursements are also being made on earlier commitments to railroads and to self-liquidating public works projects, and the RFC is acting as distributor for bonds taken by the PWA. In dealing with railroads the RFC has been directly interested in reorganization and similar proceedings. Lending programs of the Commodity Credit Corporation have been discontinued currently and part of the indebtedness of the Corporation has been transferred from the RFC to commercial banks.

Total outstanding loans and investments of the Corporation on July 31, 1936, aggregated \$2,156,000,000 against \$2,527,000,000 a year earlier. A surplus of about \$130,000,000 has been accumulated, while the Corporation pays a rate of $2\frac{1}{4}$ percent on its debentures to the Treasury the proceeds of which are used to make loans and investments.

PART I - INVESTMENTS

Terms of Investment

The program of Government contributions to the capital structure of banks through Reconstruction Finance Corporation purchases of preferred stock, capital notes and debentures was undertaken in the spring of 1933 in connection with the relicensing of banks after the March closing. The Emergency Banking and Bank Conservation Act, approved March 9, 1933, authorized the Secretary of the Treasury to request the Reconstruction Finance Corporation to subscribe to preferred stock in banks which he found to be in need of capital funds. Provision was made for the issuance of nonassessable preferred stock by national banks which would pay cumulative dividends of not more than 6 percent; an amendment permitted the purchase of capital notes or debentures of State banks in States whose laws did not permit the issuance of nonassessable preferred stock or permitted the issuance of such stock only by unanimous consent of stockholders. 1/

An intragovernmental committee, drawing for assistance on the examination staffs of the Comptroller's Office, the Board of Governors of the Federal Reserve System and the Reconstruction Finance Corporation, performed the task of laying the basis for recommendations to the Secretary of the Treasury after October 1933. Every effort was made to obtain

1/ Capital notes and debentures were sold to the RFC by banks in 28 states and the District of Columbia. Investments were made in State banks in every State, either through purchases of preferred stock, capital notes or debentures or through loans on preferred stock.

local assistance for banks before recommending RFC subscriptions, and the Corporation required that there be some unimpaired capital represented by common stock or junior preferred obligations. Such local assistance was made in various forms, including contributions, subscriptions to common or preferred[1/] stock, agreements to reduce par value of outstanding stock, purchases of assets by directors with or without repurchase agreements, loans of collateral to replace depreciated securities. Some of this assistance was temporary and some in the nature of a permanent investment; some brought in actual cash and some did not. In many cases local subscriptions to stock were equal to those of the RFC. In some cases the RFC investment was made indirectly, through loans to local interests which actually became the preferred stockholders. In some cases the Corporation also made loans on a reopened bank's assets to increase its liquidity.

Preferred stock purchases were generally made subject to amended articles of association providing for retirement out of earnings, 40 percent of earnings after preferred stock dividends, but not necessarily more than 5 percent of the preferred issue, to be applied annually to amortization. Capital notes were taken on a serial basis, with final maturity typically after about 10 years, and debentures on a long-term basis with a 15-year or longer maturity. It was required that anticipated net earnings be adequate to provide dividends.

Before final approval of subscriptions, banks in many instances were requested to nominate and install new management which would be satisfactory to the RFC. Assurance was also required that salaries would be satisfactory. The right was also reserved to require future changes in management.

1/ Figures released by the Comptroller of the Currency on August 7, 1936, indicated that preferred stock sold by national banks to others than the RFC amounted to about $45,000,000.

Total Invested

To March 31, 1936, capital investments by the RFC in banks and trust companies (including a small amount of loans on preferred stock) had been authorized to 6,800 1/ institutions in the aggregate amount of $1,218,-000,000. Additional authorizations of $3,000,000 were made in the second quarter of 1936. Approximately four-fifths of these authorizations were made in the nine months from October 1933 to June 1934, chiefly during the period when banks were qualifying for membership in the FDIC. By far the larger part of the RFC's investment has been made in active banks. It has been estimated 2/ that something like $125,000,000 was subscribed to reopen closed institutions or to establish new banks to replace those which had failed; the bulk of this amount was authorized in the second and third quarters of 1933. Actual disbursements to 6,065 institutions totalled $1,044,000,000 3/ through March 31, 1936, with an additional $3,000,000 disbursed to July 31. Of the amount disbursed through March, $517,000,000 went to national banks, $263,000,000 to state member banks and $264,000,000 to nonmember banks.

Retirement of Investment

The rate of recoveries on assets and the increase in bank earnings have permitted some banks to anticipate their repayment instalments. In some cases it has been possible to raise additional capital locally;

1/ This, and all other figures cited, are adjusted to exclude the Export-Import banks.

2/ Upham and Lamke, Closed and Distressed Banks, Washington, 1934, p. 198. This estimate was based on the fact that authorizations through September 1933 amounted to $70,000,000, practically all of which was for the purpose of recapitalizing closed institutions.

3/ Of the undisbursed authorizations $110,000,000 had been withdrawn or cancelled, and $98,000,000 remained authorized but undisbursed, including $59,000,000 in New York chiefly for capital notes and debentures.

in general the Reconstruction Finance Corporation, and the Comptroller in the case of national banks, have not permitted the retirement of the Corporation's investment without a corresponding increase in common stock either through new financing or through the capitalization of reserves created out of earnings and recoveries. News stories appearing from time to time have given the impression that the Comptroller has encouraged retirement of RFC capital, while the RFC, at least by contrast, has seemed to counsel caution and delay.

Retirements through July 31, 1936, totalled $341,000,000, including in the months of June and July the repayment of $49,000,000 by the National City Bank, $46,000,000 by the Chase National Bank, $24,000,000 by the Manufacturers Trust Co. and $15,000,000 by the First National Bank of Chicago.

Detailed figures are available for retirements up to March 31, 1936. Of the total of $177,000,000, $66,000,000 had come from state member banks in New York, including several large New York City banks. Fifty-two million dollars was repaid by national banks in the entire country, $24,000,000 by state member banks other than in New York State, and $36,000,000 by nonmember banks. Three hundred and eighty-six institutions had completely retired the RFC's investment.

The RFC's investment not yet retired as of March 31, 1936, was distributed as follows: national banks, $466,000,000 (reduced by July 31 to less than $350,000,000); state member banks, $174,000,000 (reduced by July 31 to less than $150,000,000); and nonmember banks, $229,000,000; total, $868,000,000. By July 31 the total amount outstanding was reduced to $706,000,000.

The only very large bank which has preferred stock still oustanding in the RFC's hands is the Continental Illinois National Bank and Trust Company, with $45,000,000 remaining after a 10 percent reduction on August 1.

Although 32.6 percent or nearly a third of the RFC's aggregate investment had been retired by July 31, this proportion becomes somewhat smaller when a dozen or so very large banks are taken out of the picture. For other banks the outstanding amount was roughly $650,000,000 out of disbursements of about $800,000,000. This represents repayments of less than 20 percent. The number of banks which had completely retired the RFC's investment by March 31 was only 6.4 percent of the number to which disbursements had been made.

Investment by Geographic Areas and by Types of Banks

Table 1 summarizes by geographical regions and by class of banks (a) the number of the insured banks in which the Reconstruction Finance Corporation held an investment on December 31, 1935, and the ratio to tota number of insured banks, and (b) the aggregate outstanding investment in these banks and the ratio to total capital account of all insured banks (including those in which investments were not made). 1/ The data are based on the Federal Deposit Insurance Corporation call report and apply to all insured banks in the continental United States other than

1/ The table does not show original amounts of investment since the RFC report in which a state and supervisory authority breakdown is given for December 31, 1935, shows only amounts outstanding on that date. Retirements to December 31, 1935, were not large and the remaining amounts were perhaps more representative of the real need for RFC capital than original disbursements. The restriction of the analysis to insured commercial banks is not serious, since outstanding RFC investment in 81 uninsured banks and insured mutual savings banks in the continental United States totalled only $21,000,000.

Table / - RFC Investment and Deposit--Capital Ratios, Insured Commercial Banks, by Regions, Dec. 31, 1935

Region	Number of States	Number of banks in which investment made	Percent of all banks	Amount of investment (thousands of dollars)	Percent of total capital account of all banks	Ratio of total deposits to total capital account, all banks 1/
New England	6	179	34.8	39,145	8.8	6.1
Member		95	25.5	22,620	6.2	6.3
Nonmember		84	59.2	16,525	20.1	4.8
Massachusetts		61	30.5	15,237	5.6	6.3
Except Massachusetts		118	37.5	23,908	13.5	5.8
Middle Atlantic	3	909	40.6	333,356	10.9	6.2
New York State Member		56	47.1	65,800	5.7	6.5
National and nonmember		375	57.8	154,910	18.8	6.8
New Jersey Member		160	55.4	48,154	28.0	7.2
Nonmember		44	44.0	20,437	32.0	5.1
Pennsylvania Member		207	26.4	29,095	4.3	5.3
Nonmember		67	22.5	14,960	9.8	3.5
South Atlantic	9	563	37.6	42,917	10.3	6.8
National		138	29.3	15,624	8.0	8.1
State member		22	22.2	8,001	9.8	6.2
Nonmember		403	43.5	19,292	13.9	5.1
South Central	8	1,057	39.6	92,449	20.1	7.1
National		308	30.4	58,797	18.7	7.9
State member		33	33.7	6,499	23.1	6.2
Nonmember		716	46.1	27,153	22.9	5.2
East North Central	5	1,367	44.2	232,354	24.9	8.6
National		355	41.1	135,307	26.6	9.7
State member		80	31.9	44,192	22.9	9.1
Nonmember		932	47.1	52,855	22.9	5.7

Table / - RFC Investment and Deposit--Capital Ratios, Insured Commercial Banks, by Regions, Dec. 31, 1935 (Cont.)

Region	Number of States	Number of banks in which investment made	Percent of all banks	Amount of investment (thousands of dollars)	Percent of total capital account of all banks	Ratio of total deposits to total capital account, all banks 1/
West North Central	7	1,138	36.7	55,935	14.9	9.0
National		318	37.2	35,080	16.9	9.8
State member		37	26.4	4,588	7.5	9.8
Nonmember		783	37.1	16,267	15.4	7.0
Mountain	8	212	42.5	16,068	18.1	9.2
National		85	37.9	9,619	17.2	10.1
State member		28	40.0	3,656	21.1	8.3
Nonmember		99	48.3	2,793	17.9	7.4
Pacific	3	249	48.8	55,041	12.4	9.6
National		99	44.0	23,032	7.4	9.8
State member		22	45.8	17,197	23.8	9.9
Nonmember		128	54.0	14,812	24.9	7.7
Total Continental United States		5,674	40.2	867,265	14.0	7.0

1/ Ratio derived by dividing deposits by capital account.
Source: FDIC Call Report.

mutual savings banks. Ratios to aggregate capital account are unsatisfactory indexes since they are influenced not only by the relative numbers of banks in which investments were made but also by the relative sizes of those banks in which investments were and were not made. 1/

Forty percent of the insured commercial banks in the entire country had capital investments of the RFC outstanding at the end of 1935, and the RFC's aggregate investment was 14 percent of the aggregate capital account of all insured commercial banks. This investment amounted to 26 percent of all outstanding capital issues.

The proportion of all banks in a given state indebted to the RFC on capital account was over one-half in 14 states; 2/ the highest proportion was in Mississippi where it was over 70 percent. The amount of Reconstruction Finance Corporation investment exceeded 30 percent of the aggregate capital account in two states, Mississippi and Michigan, and exceeded 20 percent in thirteen other states, including New Jersey, Ohio, Illinois, and Wisconsin. 3/ At the other extreme, there were five states in which this proportion was less than 6 percent; these were New Hampshire, Massachusetts, Rhode Island, Pennsylvania, and Delaware.

Among member banks in New England and among banks of each group in the important state of Pennsylvania only about one-quarter of the banks had preferred stock and other capital liabilities outstanding held by the RFC. On the other hand, between 50 and 60 percent of banks were indebted to the RFC on capital account among the nonmember banks of New

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1/ Data by size of bank as well as the ratio of RFC investment to total capital funds in those banks in which investments were made can be derived from some basic schedules now available.

2/ These states were New York, New Jersey, North Carolina, Mississippi, Arkansas, Louisiana, Indiana, Wisconsin, North Dakota, South Dakota, Colorado, Utah, Oregon, and Washington.

3/ The other nine states were Maine, Vermont, Alabama, Louisiana, Nebraska, North Dakota, South Dakota, Idaho, and Arizona.

England and among the national banks of New York, New Jersey, Michigan and three other states; and over 70 percent among the nonmember banks of New York and four other states. 1/

Significant differences do not appear among broad regions in the relative numbers of banks with RFC investment at the end of 1935. The highest proportion was in the Pacific Coast states, 49 percent, and the smallest in New England, 35 percent. Except in the 3 Middle Atlantic states, the proportion of nonmember banks in each region indebted on capital account to the RFC was greater than the corresponding proportion of member banks.

The RFC's aggregate investment in banks and trust companies was, as stated above, only 14 percent of total capital account of all insured banks. This percentage, however, was weighted downward by certain important regions and groups of banks with ratios lower than 10 percent. Groups with especially low ratios of investment to aggregate capital account included member banks along the Atlantic seaboard (excluding national and State member banks in New Jersey and national banks in New York), and national banks along the Pacific Coast. In the other regions the ratio of aggregate RFC investment to total capital account of all banks ranged from 15 percent in West North Central states to 25 percent in one large region, the East North Central. Reconstruction Finance Corporation investments were also about a quarter of aggregate capital account in state banks, both member and nonmember, in the three Pacific Coast states.

The relative investment in the capital account of nonmember banks was considerably greater than in member banks in almost every state in the Eastern and South Atlantic regions, while in the majority of Southern

1/ In 19 states 50 percent or more of the nonmember banks had RFC investments outstanding.

and Pacific Coast states aggregate investments in state banks, both member and nonmember, were proportionately greater than in national banks (especially on the Pacific Coast). In Middle Western and Western states, on the other hand, there were no such consistent differences in the proportion of RFC investment to total capital account as among banks supervised by the various authorities.

Reference to the ratios of aggregate deposits to aggregate capital account for the various regional groups and subgroups, which are shown in the last column of Table 1, does not help much in explaining the variations described above. These figures demonstrate only the well-known fact that deposits relative to capital funds are generally higher in the west than in the east, and that nonmember banks though smaller are generally so capitalized as to have less deposits relative to capital funds than member banks. They do show that the especially small RFC investment in Pennsylvania is explained by strong capitalization in that state. It is also true that as among regions east of the Mississippi and in the south the more heavily capitalized in relation to deposits the banks of a region were in the aggregate, the smaller the relative RFC investment was in that region. On the other hand, within any one region deposits relative to capital funds were usually highest for national banks and lowest for nonmember banks, while there is no consistent order with respect to relative volume of RFC investment.

These variations in outstanding volume of aggregate RFC investment relative to total capital account would have to be explained if possible, by regional and local differences in the sizes of banks which required RFC investment, by accidental or significant facts that seriously undercapitalized banks happened to be under one supervision or another, and by variations in the relative amount of investment in individual banks.

Retirement of Investment, by Geographic Areas

(It is hoped to introduce a section in later drafts analyzing repayments up to June 30, 1936, by states and regions. These data will become available in an RFC report which will appear in September.)

Relation of Investment to Bank Earnings

A question closely connected with that of retirement of the Reconstruction Finance Corporation's investment is the effect on bank earnings of the dividend or interest requirements on this investment.

The dividend rate is now $3\frac{1}{2}$ percent. In the summer of 1933 the dividend rate for new stock subscriptions was reduced from 6 percent, the maximum authorized by law, to 5 percent, and in January 1934 this reduction was made to apply retroactively to authorizations originally made with the 6 percent rate. The next reduction was to 4 percent, which rate was to be in effect for five years from April 1, 1934, with a permanent rate of 5 percent applying to periods before and after this interval. In October 1934 the dividends to be paid from February 1, 1935, over a period of 5 years were set at $3\frac{1}{2}$ percent. In 1940 the rate is to revert permanently to 4 percent. Interest rates for capital notes and debentures and for loans on preferred stock have been the same as the dividend rates for preferred stock.

In the case of a bank in which the Reconstruction Finance Corporation investment amounts to say a half of total capital funds, annual dividend and amortization requirements amounting to $8\frac{1}{2}$ percent of the investment make it necessary for the net profits of the bank to exceed 4 percent of capital funds in order that these obligations may be met without reducing its surplus and reserves.

The average earnings experience of national and state member banks in recent years is summarized in Table 2

Table 2 - Member and Nonmember Insured Commercial Bank Earnings, Percent of Capital Funds

	1933		1934			1935		
	National	State member	National	State member	Nonmember	National	State member	Nonmember
Net earnings from current operations	8.16	7.04	8.42	6.94	4.91	7.95	6.36	6.25
Net profit	-9.89	-3.49	-5.18	-3.40	-10.45	5.14	2.63	-0.46

It appears that for the average national bank the increase in recoveries relative to losses produced net profits of 5 percent of capital funds in 1935. State member banks showed a smaller margin of net gain, and insured nonmember commercial banks none at all. For many banks these averages are of no significance whatever, and many of them must continue to suffer net losses. Net earnings from current operations of nonmember banks in 1935 of 6.25 percent of capital funds showed a considerable improvement over the previous year, and the improvement in recoveries and losses was striking, the excess of losses over recoveries declining from $15\frac{1}{2}$ percent of capital funds to $6\frac{1}{2}$ percent. Continued improvement must clearly come from further reductions of losses, and it is not too much to expect that in the next two or three years such reductions will occur on a widespread scale, although there will doubtless be problems in particular cases. Doubtless, many banks in which the RFC has an investment will have difficulty for many years in showing returns available for dividends.

If the annual dividend charges of $3\frac{1}{2}$ percent are compared not with the overall earnings of the bank but with the income to be obtained by investing the proceeds of preferred stock, say in Government bonds, it is evident that a bank must lose about 1 percent on the transaction. But it could also be said that a bank ordinarily makes only a small margin of profit on the investment of its other capital funds, the bulk of earnings growing out of the lending and investment of deposits.

It is always an advantage to one group of stockholders, from the point of view of their earnings, if the stockholdings of others can be retired. The RFC investment, moreover, has special characteristics. First, the stock is preferred as to dividends so that it has the character of debt rather than of equity liability if a bank's net profit is small. Second, no identification of interest exists between bank management responsible primarily to other permanent stockholders and the Government as a temporary stockholder. Third, the idea that outside capital funds should pay for themselves in the narrow sense becomes plausible to the permanent stockholders when excess reserves are large and retirement of the RFC investment might not impair liquidity.

These considerations contribute to a feeling among bankers that they should be either permitted to retire the RFC's investment, even if that involved reducing capital funds, or that the dividend charges should be cut further. Nevertheless, adequate capitalization is necessary, and if it cannot be obtained out of earnings or from private investors, governmental authorities have a responsibility of seeing that it is provided in some other way.

The seriousness of the problem of maintaining adequate capitalization of the banking system in the face of rapidly mounting deposits is roughly indicated in Table 3. In the year and a half up to December 31, 1935, deposits of the banking system increased more than enough to offset increased capitalization.

Table 3 - Ratio of Total Deposits to Total Capital Account and to Capital Issues Outstanding, All Insured Commercial Banks, June 30, 1934 - Dec. 31, 1935

	Ratio of deposits to total capital account 1/		Ratio of deposits to capital issues outstanding 1/	
	Including RFC investment	Excluding RFC investment	Including RFC investment	Excluding RFC investment
June 30, 1934	5.7	6.5	10.8	14.1
Dec. 31, 1934	6.3	7.3	11.6	15.4
June 30, 1935	6.5	7.5	12.0	16.1
Dec. 31, 1935	7.1	8.3	13.4	18.1

1/ Ratio obtained by dividing deposits by capital.

Many banks are in no position to sell common stock. They must therefore retain the RFC as a stockholder until its investment can be retired out of profits. Although the Government should realize a reasonable return on its investment, the rate on preferred stock, capital notes and debentures might well be reduced to a minimum and no effort made to cover other expenses of the RFC by earnings from this source.

The Treasury has recently been borrowing at $2\frac{3}{4}$ percent on long term, and the average annual interest charge on the entire Federal interest-bearing debt was 2.56 percent as of July 31, 1936. On June 30, 1935, the Treasury held $4,030,000,000 of RFC notes; on the portion of this borrowed against the RFC's own loans and investments a rate of $2\frac{1}{4}$ percent is being paid. 1/ No dividends are paid by the RFC on its $500,000,000 capital stock. Approximately $250,000,000 of the RFC's preferred stock investments are financed by its fully guaranteed notes outstanding in the hands of private investors. No disclosure has been made of rates paid on these notes, which have been issued to refund notes bearing rates ranging from 2 to 3 percent originally sold to banks from which preferred stock, capital notes, or debentures were purchased. The RFC on June 30, 1936, reported an accumulated surplus account of over $130,000,000.

1/ Statutory allocations for relief and capital funds of other Government institutions amounted to about $2,600,000,000. On money borrowed from the Treasury for these purposes the RFC is paying 1/8 percent.

Part II - Loans

Summary of Loans

Table 4 gives a summary of the changes which occurred in the first half of 1936 in the outstanding loans and undisbursed commitments of the RFC under various classifications, and also of the total amounts disbursed prior to 1936. Commitments shown in the table include contingent authorizations. The table includes loans to certain United States Government agencies as well as to private borrowers, and stock purchases in three agencies which are to be considered in some sense subsidiaries of the RFC. Relief advances to states and municipalities and allocations to other Government departments are not included. Since no data are available on the numbers of borrowers who have repaid their loans or who still have loans outstanding, numbers of borrowers to whom loans were authorized, which are available are not shown.

The following sections contain comments on each type of loan which should be read in connection with Table 4 . (See page 19.)

Table 4 - Reconstruction Finance Corporation Loans and Investments
(Other than Purchases of or Loans on Preferred Stock, Capital Notes and Debentures of Banks and Trust Companies)

(in thousands of dollars)

	Advanced through Dec. 31, 1935	Outstanding Dec. 31, 1935	Commitments undisbursed Dec. 31, 1935	Advances Jan. 1, 1936–June 30, 1936	Repayments Jan. 1, 1936–June 30, 1936	Outstanding June 30, 1936	Commitments undisbursed June 30, 1936
Banks and trust companies 1/	1,931,075	382,441	117,163	24,549	147,227	259,763	76,728
Mortgage loan companies	306,240	123,494	138,746	7,737	17,221	114,010	126,354
RFC Mortgage Company--stock and loans	14,721	14,721		4,444	---	19,165	
Insurance companies 2/	119,894	36,643	4,040	---	1,448	35,195	4,000
Building and loan associations	116,441	7,359	111	82	3,415	4,026	787
Agricultural financing institutions--Private	34,474	4,043	---	---	916	3,128	---
--U.S.	381,708	3/45,074	---	---	11,536	33,538	---
Commodity Credit Corp.--Loans and stock (net)	555,632	267,541	249,352	46,103	54,364	259,280	191,553
Export-Import Banks--Preferred stock	12,500	10,000	25,000	7,000	---	17,000	18,000
On Agricultural commodities	39,941	22,246	10,733	1,987	22,734	1,499	6,265
Industrial and commercial businesses 4/	43,927	41,518	48,616	16,418	3,991	53,945	46,128
Railroads (direct loans)	487,217	396,250	175,968	10,664	18,482	388,432	146,542
Self-liquidating projects 5/	192,609	147,563	76,647	30,598	7,893	170,269	105,400
Securities purchased from PWA	293,948	154,001	50,700	126,441	146,272	134,170	65,053
Drainage, levee and irrigation districts	50,104	50,025	66,987	6,205	115	56,114	65,381
Other loans	33,679	1,107	---	2,300	1,285	2,122	50,856
Total	4,614,110	1,704,026	964,063	284,528	436,899	1,551,656	903,047

1/ Including loans on assets of closed banks under Section 5e. (Outstanding June 30, 1936, $1,476,000)
2/ Including purchases of and loans on preferred stock.
3/ Adjusted to exclude the refinancing of loans to Federal Land Banks by redistribution among the 12 Banks.
4/ Including loans to fishing and mining industries.
5/ Including loans for repair and reconstruction of property damaged by earthquake, fire and tornado. (Outstanding June 30, 1936, $9,545,000).

Loans to Banks

The RFC's loans to banks before the bank holiday were made primarily to open banks and after the bank holiday chiefly to closed banks. In the later period investments in preferred stock and debentures were utilized to carry out in a more positive way the earlier purpose of supporting weak institutions; and loans made in the later period were largely advanced to receivers or mortgage loan companies to expedite the payment of dividends to depositors of closed banks. Table 5 should be consulted along with the first two lines of Table 4 for loans to closed banks. It should be pointed out that many of the banks which received loans while still open have gone into receivership. 1/ On March 4, 1936, only three licensed member banks owed the RFC money, the amounts aggregating less than $500,000.

Out of loans disbursed to banks or receivers through June 30, 1936, of $1,955,624,000, more than $800,000,000 or about 41 percent were made to receivers. 2/ Repayments of loans to receivers had reached approximately $685,000,000 or 65 percent of disbursements, of which over $110,000,000 was received in the first half of 1936 (including final repayment of $36,000,000 by the receiver of the First National Bank of Detroit), leaving about $125,000,000 still outstanding. A number of loans to national bank receivers have recently been refinanced by other banks at reduced interest rates. 3/

1/ As of December 31, 1935, loans had been authorized to 4,950 banks "which were open when the loans were made. Loans to 1,170 of these banks that closed after the loans were made, have been paid in full."--RFC: Summary of Activities as of December 31, 1935.

2/ Or, "on assets of closed banks," under Section 5e of the RFC Act.

3/ On July 13, 1936, the RFC reduced interest rates on a number of classes of its loans. The rate for banks was cut from 4 percent to 3 percent.

Table 5 – Reconstruction Finance Corporation
Loans to Aid in the Liquidation or Reorganization of Closed Banks

(in thousands of dollars)

	Advanced through Dec. 31, 1935	Out-standing	Commit-ments undis-bursed	Advances	Repay-ments	Out-standing	Commit-ments undis-bursed
		Dec. 31, 1935		Jan. 1, 1936– June 30, 1936		June 30, 1935	
Loans to banks and trust companies (receivers)	776,688	214,203	103,834	23,559	122,608	115,155	64,138
Loans on assets of closed banks (Section 5e)	11,797	1,235	952	413	171	1,476	6,122
Loans to mortgage loan companies	87,640	30,287	116	1,533	6,821	25,000	58
Total	876,125	245,725	104,903	25,505	129,599	141,631	70,318
Loans advanced to National banks	485,814						
Loans advanced to State banks	390,311						

RFC funds were also made available for distribution to depositors of closed banks through loans to mortgage loan companies. Out of total disbursements of about $90,000,000 for this purpose approximately $75,000,000 had been repaid leaving about $15,000,000 outstanding on June 30, 1935.

By June 30, 1936, repayments of loans made originally to active banks had exceeded $1,000,000,000, or 87 percent of disbursements. The proportion repaid is only slightly higher than for loans to receivers despite the fact that these loans were largely made at earlier dates. By the end of 1932 disbursements of loans to banks had reached a total of $949,000,000 and of this figure less than $43,000,000 1/ was made to closed banks. Repayments have in many cases been made possible by RFC purchases of preferred stock. 2/ During the first half of 1936 repayments were relatively slow and amounted only to about $35,000,000, leaving outstanding about $135,000,000. This included a considerable part of the loan of $90,000,000, made in 1932 to the Central Republic Bank and Trust Company of Chicago.

RFC loans to banks are practically at an end. There is still a demand for loans to bank receivers but many of these are additional advances to earlier borrowers; only 5 out of 199 banks receiving new authorizations in the first quarter of 1936 were new borrowers. During the first half of 1935, $24,000,000 was disbursed on loans to bank receivers.

1/ Upham and Lamke, Closed and Distressed Banks, p. 173. The figure cited includes some loans through mortgage loan companies.

2/ See, for instance, New York Times, August 8, 1935, for a report made by the manager of the RFC New York loan agency to the Assistant to the Secretary of the Treasury on RFC operations in northern New Jersey.

The Comptroller of the Currency has been successful in transferring a considerable amount of outstanding national bank receivers' borrowings from the RFC to other banks as lender. The problem of disposing of the remainder, a large number of which are probably small loans to small institutions appears to be a difficult one.

Repayments of Loans to Closed Banks by Geographic Areas

Although in general figures are not available on repayments to the RFC by states, such figures have been published for loans made either to bank receivers or to mortgage loan companies to aid in bank liquidations, as of December 31, 1934, and December 31, 1935. (See Table 6). These indicate that aggregate repayments in southern states were relatively smaller than in other regions both over the entire period up to the end of 1935 (50 percent as compared with 72 percent for the United States) and especially when repayments during 1935 are compared with amounts outstanding at the end of 1934 (37 percent as compared with 70 percent). Eastern states showed the next poorest record of repayments. The results are fairly consistent when taken state by state within the regions.

These comparisons may of course be affected by differences prevailing in periods elapsed since loans were originally made in the various states. However, new advances during 1935 were relatively small in the South, furnishing a presumption that the bulk of the loans prior to 1935 had probably not been made any later than in other regions. A further indication that this was so is given by the comparison in Table 7 of disbursements to banks, open or closed, up to June 30, 1934 (the earliest date for which any state breakdowns of dollar amounts has been given by the RFC) and up to December 31, 1935. This shows that the proportion of all loans made in the earlier period in the South was greater than in any region but the Far West. This is, of course, not entirely conclusive as to the timing of loans to closed banks alone.

Table 6 - RFC Loans to Aid in the Liquidation or Reorganization of Closed Banks.--Rate of Repayments, by Regions

(Amounts in thousands of dollars)

Region	Number of States	Disbursements	Repayments	Ratio (percent)
		Cumulated through 1935		
East	16	248,048	168,356	67.8
South	8	74,221	36,879	49.7
Middle West	9	506,440	389,776	77.0
West	9	11,968	9,218	77.0
Far West	7	35,447	26,169	73.8
United States		876,125	630,400	72.0

Region	Outstanding Dec. 31,1934	Repayments	Disbursements	Outstanding Dec. 31,1935	Percentage of outstanding Dec. 31, 1934		
		1935			Repayments 1935	Disbursements 1935	Net decrease 1935
East	123,067	77,075	33,700	79,692	62.6	27.4	35.2
South	47,198	17,674	7,818	37,342	37.4	16.6	20.8
Middle West	256,427	203,520	63,757	116,664	79.4	24.9	54.5
West	4,736	4,557	2,571	2,750	96.2	54.3	41.9
Far West	11,955	9,251	6,574	9,278	77.4	55.0	22.4
United States	443,381	312,077	114,421	245,725	70.4	25.8	44.6

Table 7 . RFC Loans to Banks and Trust Companies--
Comparison of Disbursements Cumulated through
June 30, 1934, and through December 31, 1935,
by Regions

(Amounts in thousands of dollars)

Region	Through June 30, 1934	Through Dec. 31, 1935	Percent disbursed in earlier period
East	488,189	590,009	82.8
South	218,790	235,127	93.0
Middle West	718,184	897,613	80.1
West	31,021	35,777	86.8
Far West	148,696	158,972	93.6
U.S., incl. possessions	1,606,571	1,919,278	83.8

Returning to the analysis of repayments of loans for bank liquidation, it is shown in Table 6 that in the West and Far West loans continued to be made in 1935 in amounts relatively large in comparison with earlier loans or with repayments which were being made in 1935. However, the aggregate amount of loans made at any time to closed banks in these regions was relatively small, in comparison for instance with all loans to banks in these regions. In 7 middle western states, on the other hand, where the repayment record was good, the amount of loans advanced to aid closed banks was extremely large, and in 1935 continued large in absolute volume although not in relation to loans made earlier. Outstanding loans to aid in bank liquidation in the Middle West formed 58 percent of all such outstanding in the United States at the end of 1934, and still accounted for 48 percent on December 31, 1935.

Additional repayments during the first half of 1936 totalled $130,000,000 as shown in Table 5, but the distribution by states is not available.

Loans to other Financial Institutions and on Agricultural Commodities

Loans to financial institutions other than banks and on agricultural commodities are also practically at an end, except in the case of mortgage loan companies. In making these loans the RFC performed a function which even during normal times would have been assumed only in part by the banks. During the emergency these loans were of importance to banks largely because they relieved pressure on the entire credit structure.

Interest rates to private borrowers on these classes of loans were reduced on July 13, 1936, from 4 percent to $3\frac{1}{2}$ percent, except that on loans to building and loan associations, the rate is now $3\frac{1}{2}$ percent "unless the Home Loan Bank rate is higher."

For the purposes of this study it is necessary to review these loans only briefly.

Loans to Mortgage Loan Companies: About 70 percent of the loans made to private mortgage loan companies were made otherwise than in connection with bank liquidations or reorganizations; total disbursements of such loans not made to aid banks through June 1936 were $225,000,000. The bulk of these loans were made to tide over institutions whose mortgage assets had become frozen. As compared with total disbursements to private mortgage loan companies through June 1936 of $314,000,000, disbursements through June 1934 amounted to $266,000,000, three-quarters of which was loaned in six states, Massachusetts, New York, Maryland, Ohio, Texas and California.

Some of the loans made since October 1934 have been made to active companies, in an effort to furnish additional funds to the mortgage market rather than to extend relief to the companies to whom the loans are made.

The corporation was also authorized by the Act of January 31, 1935, to purchase non-assessable stock of mortgage loan companies. The only such purchases consummated have been for the RFC Mortgage Company, formed in March 1935. Through this subsidiary the RFC endeavors to complement the activities of other lenders on mortgages, both in refinancing and for new construction. Mortgages insured by the FHA are purchased. Loans are also made to distressed holders of fundamentally sound mortgage bonds or certificates. Industrial loans are not made. 1/ By June 30, 1936, the RFC had advanced $19,000,000 through this subsidiary, and in July this was increased to $30,000,000.

Forty percent of the RFC's advances to or through mortgage loan companies remained outstanding on June 30, 1936. Undisbursed commitments and agreements were almost as large as loans outstanding, amounting to $120,000,000. Commitments on the books have amounted to more than $110,000,000 ever since October 1933; of this more than $75,000,000 has been in New York State. 2/

Loans to Insurance Companies and to Building and Loan Associations: Advances to insurance companies and to building and loan associations were made largely before March 1933 and have been almost completely retired. Of the $39,000,000 outstanding on June 30, 1936, $22,000,000 were loans on preferred stock of insurance companies in Maryland made in 1934.

1/ RFC Mortgage Co. Circular No. 1 (Revised), April 1935.
2/ At least since June 30, 1934, the first date for which state data were published. Unfortunately the report to Congress for October 1933 which would show to what companies the authorizations of that month, totalling $90,000,000, were made has not yet been obtained.

Loans to Agricultural Financing Institutions: Loans to joint-stock land banks and to agricultural and livestock credit corporations were made principally in 1932 and 1933. Only $3,000,000 remained outstanding on June 30, 1936. No loans have been made to Federal agricultural agencies since November 1934 when the RFC ceased discounting for the Regional Agricultural Credit Corporations. Outstanding loans to the Federal Land Banks were $34,000,000.

Loans to Commodity Credit Corporation: The operations of the Commodity Credit Corporation are discussed elsewhere. By substituting a capital subscription of $97,000,000 for loans of an equal amount in accordance with the Act of April 10, 1936, the RFC enabled the CCC to go into the market on July 13 with an issue of 6-month collateral trust notes at $\frac{1}{2}$ percent secured by collateral giving a margin of more than 40 percent. By August 5 the CCC had received subscriptions from 105 banks and trust companies for $71,440,000 of the $150,000,000. This permitted reduction of the RFC's loans to $92,000,000 by the end of July. The purchase of stock will incidentally allow the RFC eventually to show 100 percent repayment of its loans to the CCC, though not of its stock subscription.

Preferred Stock of the Export-Import Banks: The RFC purchased preferred stock of the two Export-Import banks in February and March 1934, in amounts equal to ten times their appropriated capital. The Second Bank, which was finally liquidated in July 1936 retired its preferred stock of $2,500,000 in June 1935. The preferred stock of the other bank was increased from $10,000,000 to $17,000,000 in April 1936 and to $20,000,000 in August. This enabled the bank to take over the RFC's loan to the Chinese Government on which a balance of $13,537,000 remained unpaid.

Loans on Agricultural Commodities: Loans on agricultural commodities, other than those made to the Commodity Credit Corporation, were made under Section 201 (c) of the Emergency Relief and Construction Act of 1932; to 5 borrowers, including the Secretary of Agriculture and the Government of China, and under Section 201 (d) to 97 borrowers, many of which were agricultural cooperatives. Loans authorized to the Secretary of Agriculture under Section 5 of the Agricultural Adjustment Act of 1933 to finance the AAA cotton pool were largely undisbursed, since the pool was able to borrow from banks. The largest number of loans was made in 1933. The total advanced under these sections of law, other than to China, amounted by June 30, 1936, only to $25,300,000 of which $1,500,000 was still outstanding.

Other Classes of Loans

The remaining classes of loans all continue to be relatively active.

Through its emergency loans to railroads the RFC has actively entered the field of investment banking with no far-reaching effects. In making industrial loans, as well as some loans to mortgage loan companies discussed in the preceding section, the RFC is active in fields normally occupied by commercial banking, but in general has so conducted its operations as to offer no competition to private institutions.

The RFC has been called on by Congress to make a number of types of relief loans, including loans to finance repair of earthquake, tornado and flood damage and loans to finance debt of agricultural improvement districts. Only in the latter category do outstanding balances and current advances amount to any considerable sums of money. The RFC has also served as agent for the Government in financing public works, at first as an administrative authority and then as underwriter and distributor. It is questionable whether private enterprises would have undertaken this financing.

Loans to Industry: Loans to industry actually disbursed by June 30, 1936, totalled $60,000,000 (including $2,000,000 to fishing and mining concerns) of which $54,000,000 remained outstanding. Commitments exclusive of a small sum of conditional agreements amounted to $44,000,000 (including $8,000,000 for mining companies.) The larger part of this was for direct loans; undisbursed authorizations of loans in which the RFC was participating or had agreed to participate with a bank were only $6,000,000 on March 31, 1936. Loans were authorized to 161 new borrowers in the first quarter of 1936, bringing the total number by then to 1,482. 1/

On July 13, 1936, the interest rate charged on these loans was reduced from a uniform 5 percent to a 4-5 percent scale depending on the character of the loan and the circumstances of the borrower.

Loans to Railroads: Loans had been made to 73 railroads by June 30, 1936, and loans to 52 railroads were still outstanding. Loans to 14 railroads still exceeded $10,000,000 out of 15 to which loans at least that large had been advanced. The total amount outstanding was $388,000,000 out of $498,000,000 advanced. During July three large loans were completely retired by repayments of $46,000,000. An undisbursed commitment of $99,000,000 was outstanding to the Great Northern, which represented the only large loan authorized during 1936.

Through provisions of law requiring Interstate Commerce Commission approval in certain cases Congress has attempted to guard against Government support of

1/ 1,919 loans had been authorized by the end of 1935, from a total of 4,699 applications acted on at Washington and 6,952 received at loan agencies.

untenable financial positions of railroads. The RFC on its part, to judge from occasional newspaper reports, has in a number of cases exerted the influence resulting from its creditor position so as to require reductions in interest rates charged railroads by creditor banks. It has also taken care to safeguard its own position in cases of refinancing or renewals of loans. In some cases it has taken an active part in proposing reorganization schemes.

The RFC railroad loan situation remains active in the sense that the RFC is engaged in large-scale financial operations, but because the railroad situation in general is improving it may be expected that eventually many of the RFC's debtors will be able to refund their loans through capital flotations as the Southern Pacific recently did.

Loans for Self-liquidating Projects: The RFC furnished public works funds, on advances with long maturities, directly to local Government bodies, regulated housing corporations, private corporations for public works such as bridges, railroads (with the approval of the Interstate Commerce Commission), and regulated forestation projects, before the PWA was set up. Loans were made to 176 borrowers before June 30, 1933, and authorizations since then have been entirely for additional loans to some of these borrowers. 1/ Disbursements of loans have been made as needed, at a rate of from 50 to 60 million dollars a year continuing up to the present. By June 30, 1936, total disbursements were $223,000,000, outstanding balances $170,000,000, and outstanding commitments $105,000,000.

1/ Aside from a few loans to finance repair of earthquake and tornado damage and a considerable number of very small flood damage loans, which were not required to be self-liquidating.

No provision is contained in the law for the resale to other investors by the RFC of securities received by it in connection with these advances.

Securities Purchased from PWA: The RFC was authorized in 1934 to purchase and resell to the public securities acquired by the PWA and to have invested at any one time not more than $250,000,000. To the end of June 1936 the RFC had purchased and resold, in many cases at a premium, securities of par value of $260,000,000. Other securities totalling $30,000,000 were held and subsequently collected, and $130,000,000 were held by the RFC on June 30.

Loans to Drainage, Levee and Irrigation Districts: Loans to agricultural improvement districts have been made since the latter part of 1933 to refinance indebtedness. New authorizations continue to be made at a rate of about $50,-000,000 a year; by June 30, 1936, loans of $56,000,000 were outstanding and outstanding commitments were $65,000,000. The number of borrowers by March 31, 1936, was 587. These loans are made for long maturities, and borrowers are required to reduce their taxes and assessments with the result that their capacity to pay is in no way improved.

Other Loans: Loans have also been made to the Chicago Board of Education, to the Board of Deposits of Wisconsin, to credit unions, $600,000; and to finance processing tax payments, $15,000. The RFC was authorized by the Act of May 20, 1936, to lend up to $50,000,000 to the Rural Electrification Administration; no loans have been made to date.

Appendix material on the subject matter in the above paragraphs is being prepared to cover RFC investments in banks and retirements of investments, by States and by classes of banks, and historical data on authorizations, disbursements, and repayments of certain types of loans.