

FEDERAL RESERVE BANK OF BOSTON



June 14, 1945

WAGNER-SPENCE BILL

To All Member Banks,
First Federal Reserve District:

As you are aware, much thought and study is today being given to the problem of financing small business enterprises during the postwar period. It is important that banks keep themselves informed concerning the various bills designed to aid this type of borrower. Two of these bills now before the Senate and House committees on banking and currency are the Spence Bill (H.R. 591) and its companion bill introduced by Senator Wagner (S-511). These bills, commonly referred to as the Wagner-Spence Bill, would permit Federal Reserve Banks to guarantee a financing institution against loss on any loan made by it to a business enterprise and to make commitments to purchase such loans.

As to the availability of bank credit there is little complaint from the well managed and established business enterprise. As in the past, bank credit will continue to be available to this type of borrower. The real problem concerns the so-called marginal business enterprise and the use of bank credit for the establishment of new business enterprises. In some of these cases bank credit will neither be justified nor warranted. On the other hand, there will be many deserving cases that will be entitled to bank credit. It is to this class of borrower that careful consideration must be given if banks are to keep them from going over to direct government lending agencies and others.

While we anticipate that generally banks will supply the legitimate credit needs of business enterprises without resorting to guarantees there may be cases, particularly with respect to the smaller bank, where guarantees will not only be justified but will also be the means of aiding, stimulating and encouraging banks to aid small business.

The Federal Reserve System has important responsibilities with respect "to the maintenance of monetary and credit conditions favorable to sound business activities" and in the supervision of banks. Expansion of government lending agencies will tend to dilute this control. Under the Wagner-Spence Bill, Federal Reserve Banks would guarantee loans only so long as the need existed. When the demand no longer existed, this function of the Federal Reserve Banks would cease. There would be no permanent government lending agency to perpetuate. Furthermore, the bill does not permit Federal Reserve Banks to make direct advances nor to carry any portion of the loan prior to purchase. Thus all incentive to compete with financing institutions is eliminated. It would keep guaranteed loans within the structure of our private banking system under the guidance of the Reserve Banks which are well qualified to extend this service by their experience and knowledge gained since 1934 in making loans to marginal producers, and more recently their administration of the V-loan program. In addition, no appropriation from Congress would be required as funds now held by the Secretary of the Treasury equivalent to the amount previously paid by Reserve Banks for stock of the Federal Deposit Insurance Corporation in the approximate amount of \$139,000,000 would be utilized.

We cannot say what the final form of the Wagner-Spence Bill will be when and if it is reported out of committee. However, we believe this Bill as now drawn has considerable merit and is of sufficient importance and interest to our member banks and our private banking system in general to justify our calling it to your attention at this time.

Very truly yours,

A handwritten signature in cursive script that reads "Ralph E. Flanders".

President.