

July 11, 1938

Honorable William O. Douglas, Chairman  
Securities and Exchange Commission  
Washington, D. C.

Dear Mr. Douglas:

I am enclosing herewith a copy of a paper which Secretary Wallace had brought to the President's attention and the latter handed it to me when I was at the White House last week. He thought it might be of interest to yourself and myself but did not ask for any report or memorandum.

My reaction to the proposal is that it would be a fine springboard for Wasserman and his associates. The joint financial arrangements with the R. F. C. remind me of the old story of the rabbit stew, about fifty-fifty rabbit and horse, namely one rabbit and one horse.

Sincerely yours,

M. S. Eccles  
Chairman

enclosure  
LC/fgr

Memorandum Re: THE AMERICAN INDUSTRIAL EQUIPMENT BANK

PURPOSE

Under the Banking Act of 1933 it was required by the banking system, quite properly, that they divorce from themselves their former security affiliates, primarily because it was believed and had been proven that the banks had abused the great power thus afforded. It was, however, indefinite in said Banking Act of 1933 in that there was no provision made for the organization of a new type of intermediate financing group to take the place of the old bank affiliates. By that I mean the type of institution that could directly loan money to a growing organization, supply it with its capital needs until that business had matured to a point where its securities could be sold to the public. In addition, for some time it has been recognized that the present banking system is unable to make the sort of loans that small business desperately needs, namely, loans sufficient in length of time to finance the purchase of new equipment. At the same time the small business man is unable to go to the investment banker to obtain money for these purposes because the costs of handling such applications and distributing the loan in turn to the general public are prohibitive. Nevertheless, the purchases of equipment by small manufacturers is the fulcrum of our whole economy. The business cycle swings on the pendulum of equipment buying. It can be safely said that the purchase of equipment is even more important industrially to the country than the automobile business and that in its effect on the general economy the repercussions are actually greater.

The experiences of the 1930-33 depression have created a craze for bank liquidity, perhaps justifiably so with the result that the average bank is not only unable but unwilling to raise equipment capital. With these thoughts in mind I propose the establishment of a new bank which for want of a better name might be called "The American Industrial Equipment Bank". This bank would actually lend to small and medium sized manufacturers monies for the purchase primarily of new equipment. It would be authorized, however, to make intermediate loans on inventories and accounts receivable and to aid wherever feasible in the intermediate financing of these manufacturers. A percentage of its capital might also be used for the actual purchase of equities where the Board felt that such a type of financing was more desirable. The loans would extend from perhaps a minimum of \$10,000 to a maximum of \$250,000 or even more in exceptional cases. The loans would be secured by an adequate lien on the equipment or the equivalent value. New industries and new technique would be especially favored. The interest rate would be moderate but the bank in making a loan would have three choices -

1. the loan could be converted into the equities of the borrowing corporation at the discretion of the bank.
2. the loan could carry a bonus of common stock of the borrowing company.
3. the loan could carry an option warrant to buy common stock of the borrowing company.

Inasmuch as the percentage of risk in loaning to small corporations is considerably greater than in loaning to large corporations and inasmuch as we desire to keep the interest rate moderate, it is absolutely important to keep every avenue of profit to the corporation open so that whatever losses might occur can be made good by the extraordinary profits that might arise from these three sources of additional income. Nevertheless, it must be pointed out that although loaning to small businesses carries with it a certain hazard, there is a very strong relative degree of safety because the loaning corporation has security collateral behind its loan, a first lien on the most modern industrial equipment of the country. In the early stages of the corporation the equipment will be absolutely new and it will be the policy of the bank to see to it that no loans are made except on that equipment which is the most technologically perfect and advanced. It, therefore, can be fairly stated inasmuch as the maximum loan period will be 8 years or perhaps even 7, none of the equipment securing the loans of the bank will ever be out-dated and the major part of the loan will have been repaid long before the 7 year period has been reached.

**FINANCIAL  
STRUCTURE**

The group which I represent, namely, W. S. Wasserman Co., The Investment Corporation of Philadelphia and The Delaware Fund, Inc., will gladly raise the equity money for this enterprise on the following conditions:

1. We will undertake to buy \$500,000 par value of common stock.
2. We will ask the Government through the R. F. C. to subscribe to \$10,000,000 of cumulative first preferred stock carrying an interest rate for the first year at 2%, second year at 3% and the third year and thereafter at 4%.

Said stock to be bought by the R. F. C. from the corporation as loans are made. In other words, the corporation only wishes its capital to be subscribed to as it slowly develops its field. Therefore, the R. F. C. would subscribe over a period of a year to the specified amount of preferred stock.

3. 20% of the profits of the corporation, after adequate reserves have been set up would be allotted to the retirement of the preferred stock.
4. By charter, the corporation should be entitled to issue its own debentures up to a specified amount of double the combined equity capital, that is, a combination of the common, preferred and whatever surplus there is in the corporation.
5. The corporation furthermore should have the privilege

of expanding its capitalization on the same proportional ratio as now proposed.

The management and sponsorship of the corporation would rest in the hands of the equity capital group, namely, **MANAGEMENT** W. S. Wasserman Co., The Investment Corporation of Philadelphia, The Delaware Fund, Inc., and Dr. Luther Harr, formerly Secretary of the Department of Banking, Pennsylvania, and now City Treasurer, Philadelphia, who will choose their own technical staff.

JUNE 28, 1938

W. S. WASSERMAN

**ADDENDUM -**

The management group would have no objection in having on its Board a member representing the Government and a member representing labor as a visible proof that the forces of Government, capital and labor can work harmoniously together in creating a profitable enterprise.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

OFFICE OF THE CHAIRMAN

July 15, 1938

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

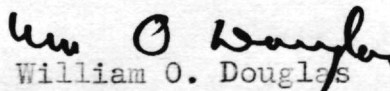
Dear Mr. Eccles:

Thank you for your letter of July 11 enclosing a plan submitted by Mr. W. S. Wasserman for an American Industrial Equipment Bank.

The general concept of a bank or other organization to extend intermediate credit is of considerable interest to me, particularly as it is somewhat along the lines we have been thinking. However, as to the details of the financial structure and the relative contribution of Wasserman's group and the R.F.C., I certainly agree with you that it is reminiscent of the fabled rabbit stew.

If you hear anything further on this plan, I should appreciate your keeping me informed.

Yours faithfully,

  
William O. Douglas  
Chairman

Received in  
Chairman's Office

JUL 18 1938

Board of Governors  
OF THE  
Federal Reserve System