

*File
Mead Bill*

**FEDERAL RESERVE BANK
OF NEW YORK**

December 8, 1939.

Dear Chairman Eccles:

Recently we have been studying the new Mead Bill (S.2998 introduced by Senator Mead on October 31, 1939, and referred to the Senate Committee on Banking and Currency). We are not prepared at this time to add anything to our previous statements as to the need for and desirability and probable effect of legislation of this general character. Our letter of July 21, 1939, with the two memoranda which accompanied it included the statement of our general position at that time.

There is one feature of the new Mead Bill, however, to which we feel particular attention should be called. Under the terms of the bill the Secretary of the Treasury would be required to return to the Federal Reserve Banks the amount paid by the banks for Federal Deposit Insurance Corporation stock in excess of the net amount which has already been returned to the banks under the provisions of the existing Section 13b. The banks would then be required to pay this money, together with the net amount previously received from the Treasury, to the proposed Industrial Loan Corporation. The sums so paid would be in full payment of the corporation's capital stock which would be issued in the name of the United States. This would not only eliminate the present 13b surplus accounts of the Federal Reserve Banks, but would require in addition debits against the ordinary surplus accounts equal in amount to any losses charged against the 13b surplus on account of loans made under that section. The bill further provides that all loans and commitments by each Federal Reserve Bank then outstanding should be turned over to the new Industrial Loan Corporation at their appraised value.

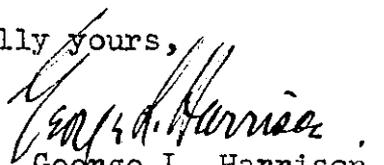
The effect of these provisions would be that the net losses and expenses on loans heretofore made under the provisions of Section 13b would have to be absorbed by each Federal Reserve Bank out of its surplus account. We estimate that the net losses of this bank in connection with loans made under this section will be not less than one-half million dollars. By net losses and expenses is meant losses and expenses in excess of all income derived from these loans or commitments to make loans.

This is so contrary to what was the general understanding when the present Section 13b was enacted, that I doubt whether Congress would wish to accomplish this result. When the present law was enacted it included provision for the return to the banks of certain amounts. This provision was for the protection of the banks

and also to encourage them to be as liberal as possible in the extension of credit. It seems inequitable at this time to enact legislation which would completely deprive the banks of this protection and require them to absorb the losses taken as a result of their endeavor to cooperate in making credit available in accord with not only the letter, but the spirit of the original Section 13b.

If a bill along the general lines of the Mead Bill should be enacted, it would seem only fair that it should provide that each Federal Reserve Bank would be reimbursed, out of the amount paid to it by the Secretary of the Treasury under the terms of Section 13b of the Federal Reserve Act, for the net losses and expenses incurred by it in connection with its loans and commitments made under the provisions of that section.

Faithfully yours,


George L. Harrison,
President.

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