

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

To Chairman Eccles

Date November 14, 1945.

From Mr. Smead

Subject: _____

Mr. Thurston told me that Congressman Spence had expressed a doubt as to whether the guaranteed portion of a loan made under the proposed amendment to Section 13b as contained in H.R. 591 and S. 511 would be exempt from the limitations imposed by Section 5200 of the Revised Statutes. I read the applicable portion of the above bills to Mr. Robertson, Deputy Comptroller of the Currency, and he said that, in his opinion, the tenth paragraph of Section 5200, quoted below, exempts the guaranteed portions of such loans from the limitations of that Section provided the guarantees are unconditional. The tenth paragraph of Section 5200 was added to that Section by an amendment dated June 11, 1942, and reads as follows:

"(10) Obligations shall not be subject under this section to any limitation based upon such capital and surplus to the extent that such obligations are secured or covered by guarantees, or by commitments or agreements to take over or to purchase, made by any Federal Reserve bank or by the United States or any department, bureau, board, commission, or establishment of the United States, including any corporation wholly owned directly or indirectly by the United States: Provided, That such guarantees, agreements, or commitments are unconditional and must be performed by payment of cash or its equivalent within sixty days after demand. The Comptroller of the Currency is hereby authorized to define the terms herein used if and when he may deem it necessary."

According to the third paragraph of Section 24 of the Federal Reserve Act, loans secured by real estate and guaranteed under Section 13b of the Federal Reserve Act are not subject to the restrictions imposed by Section 24 if they are made to established industrial or commercial businesses. Paragraph 3 of Section 24 reads as follows:

"Loans made to established industrial or commercial businesses (a) which are in whole or in part discounted or purchased or loaned against as security by a Federal Reserve bank under the provisions of section 13b of this Act, (b) for any part of which a commitment shall have been made by a Federal Reserve bank under the provisions of said section, (c) in the making of which a Federal Reserve bank participates under the provisions of said section, or (d) in which the Reconstruction Finance

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Corporation cooperates or purchases a participation under the provisions of section 5d of the Reconstruction Finance Corporation Act, shall not be subject to the restrictions or limitations of this section upon loans secured by real estate."

