

Chairman Eccles:

This is the matter you asked me to look up for you last evening. Burke Knapp had it already available, so he wrote it up.

A handwritten signature in black ink, consisting of the letters 'AKC' written in a stylized, cursive-like font. The letters are connected and slanted to the right.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date April 16, 1947

To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Knapp

*AK*

The following are some comments concerning foreign experience in central bank credit to small business.

In the first place, many central banks throughout the world, especially in Continental Europe and Latin America, have always done a large direct commercial banking business. The Bank of France is an outstanding example; it has hundreds of branches scattered through the country which offer direct advances and discounts to the business community.

The Bank of England and the Bank of Canada, on the other hand, are almost purely "bankers' banks" so far as their own operations are concerned, but there are other banking institutions closely affiliated with these central banks which have been set up to provide direct financing of industrial enterprise (usually through direct loans rather than through guaranteeing commercial bank credits--we do not know of any exact parallel to this latter practice).

In the United Kingdom there has existed for some time an official financial institution for the emergency financing of large industrial enterprises. This was reorganized in 1945 under the name of the Finance Corporation for Industry; the Bank of England has a 30 per cent share in this institution, the rest being held by a large group of insurance companies. The minimum loan by this Corporation is £200,000 (nearly a million dollars) and it has total resources of 500 million dollars. Since its creation this institution has been very inactive and may come into large scale operation only in time of depression.

Another institution, the Industrial and Commercial Finance Corporation, has been set up to provide medium-term working capital to smaller businesses. It has total resources of 180 million dollars, mostly provided by the commercial banks. The Bank of England has a token participation, and nominates the Chairman of the Board. This institution has lent 5 to 10 million pounds to small business which could not obtain adequate credit facilities from the commercial banking system.

The Industrial and Development Bank in Canada is a wholly owned subsidiary of the Bank of Canada, having the same Board of Directors but a separate management. It is designed to supply the medium-term working capital needs of small- and medium-sized business to which "credit would not otherwise be available on reasonable terms and conditions". It has resources of 100 million dollars, but not more than 15 million dollars can be placed in loans exceeding 200,000 dollars each. Most of the loans are repayable in

installments over 5 to 10 years, they are normally secured by real estate or chattel mortgages, and a standard interest rate of 5 per cent has been charged to all applicants. As of last September, this institution had authorized loans of nearly 10 million dollars, of which 5 million was outstanding.