

July 23, 1937.

Dear Mr. Opper:

In compliance with the request in your letter of July 12th, I am enclosing a statement prepared by our Division of Research and Statistics regarding industrial loans made by the Federal Reserve banks and by the Reconstruction Finance Corporation under legislation which resulted from the President's letter of March 19, 1934, to Senator Fletcher and Representative Steagall.

I trust that this is what is wanted, but if further information is desired, please advise me.

Sincerely yours,

M. S. Eccles,  
Chairman.

Mr. Clarence Opper,  
Treasury Department,  
Washington, D. C.

enclosure

ET:b

INDUSTRIAL ADVANCES BY FEDERAL RESERVE BANKS  
AND BY  
THE RECONSTRUCTION FINANCE CORPORATION\*

On March 19, 1934, the President addressed a letter to the Banking and Currency Committees of both houses in Congress stating that in numerous cases the working capital of small industries had been lost or seriously depleted and that the situation called for immediate relief. Such enterprises found it difficult to obtain their requirements of working capital through the capital market, while commercial banks and other financial institutions, in many cases, were hesitant about undertaking on their single responsibility the risks involved in making relatively long-time loans for working-capital purposes.

By an act of Congress approved on June 19, 1934, the Federal Reserve banks and the Reconstruction Finance Corporation were authorized, within prescribed limitations, to make credit available for the purpose of supplying working capital to established industrial and commercial businesses. Federal Reserve banks were given broad powers to enable them to make advances, or commitments for advances, for such working capital, through the medium of banks, trust companies, and other financing institutions, provided the financing institution obligated itself for at least 20 percent of any loss sustained. In addition, it was provided that direct loans could be made by the Federal

\*Detailed information may be obtained from Federal Reserve Bulletins and Annual Reports of the Board of Governors for 1934 and subsequent years, especially article on pages 337-340 of the Bulletin for June, 1935; for Reconstruction Finance Corporation, from publications of the Reconstruction Finance Corporation, especially circular No. 13 and current operating reports, also House hearings on the independent offices appropriation bill of 1938.

Reserve banks in exceptional circumstances, when credit was not obtainable on a reasonable basis from the usual sources, and provided the loan was made on a reasonable and sound basis. Advances made by financing institutions under the act have about equalled those made by the Reserve banks. Most of the advances by the Reserve banks have been made directly to the industrial borrower.

The law required that loans should be made for the purpose of supplying working capital to established industrial or commercial businesses and that the loans have maturities not exceeding 5 years. The law also provided for the appointment of an industrial advisory committee in each of the 12 Federal Reserve districts. Members of these advisory committees were selected by the third week in July, 1934, and the consideration of applications by the committees and by the Reserve banks began immediately. On August 1, 1934, the Federal Reserve Bank of Minneapolis made the first industrial advance. The Reserve banks received many inquiries and informal applications for industrial advances immediately following the passage of the act, but by the end of 1934 the number of applications was much diminished.

The volume of advances outstanding reached a peak of approximately \$35,000,000 in October, 1935, but by June 30, 1937, they had been reduced to \$25,000,000. In addition, the Reserve banks were under commitment for about \$17,000,000 of advances made by other fi-

nancing institutions. In the entire period through June, 1937, the Reserve banks acted upon 8,500 applications for advances or commitments involving \$350,000,000. Over 2,350 applications were approved, with or without conditions, amounting to \$145,000,000. Most of the other loans applied for were either ineligible under the conditions imposed by the act or were without a satisfactory credit base.

Industrial advances by the Reconstruction Finance Corporation were made directly or in cooperation with the Federal Reserve banks and other banks or lending agencies, subject to much the same conditions as those made by the Federal Reserve banks, except that no loan could have a maturity extending beyond January 31, 1945, nor be in an amount in excess of \$500,000. Loans approved by the Reconstruction Finance Corporation were about equal in number and in total amount to those approved by the Federal Reserve banks.

During the period June 19, 1934 to June 30, 1937, the Reconstruction Finance Corporation under this act authorized over 2,400 loans amounting to about \$160,000,000, including a small amount of conditional agreements to make loans which were in force on the latter date. The number of loans approved was about half the number requested in formal applications and a considerably smaller proportion of all applications received. The rate at which loans were approved was heaviest in the middle of 1935 when the monthly average was about \$8,000,000. By the last quarter of 1936 the average monthly amount had declined to \$5,000,000 and by the second quarter of 1937 to about \$1,500,000.

About 30 percent of the amount of loans authorized was either cancelled or withdrawn and actual loans paid out during the period from June 19, 1934 to June 30, 1937, totalled \$88,000,000. On June 30, 1937, \$71,000,000 of such loans were outstanding, nearly all of which were made directly.