INDUSTRIAL LOAN CORPORATION

Proposal

Provide for an Industrial Loan Corporation with authority to make loans to commercial or industrial businesses, to purchase obligations of such businesses from financing institutions, to make commitments to make such loans or purchases, and to purchase preferred stock in corporations engaged in such business. No funds in excess of $1,000,000 to be provided for any one commercial or industrial business or to any such business which is able to obtain adequate funds on a reasonable basis from private financing institutions. Credit to be extended on a reasonably sound basis. The Corporation to have power to issue debentures in an amount not exceeding five times its capital funds. The Corporation to be authorized to set up an Insurance Fund to insure financing institutions on loans to commercial or industrial businesses.

The board of directors of the Corporation to consist of three members of the Board of Governors of the Federal Reserve System, with alternates from its other members or staff. The Corporation to utilize Federal Reserve banks or other local agents in the performance of its functions.

The Secretary of the Treasury to purchase from Federal Reserve banks the F.D.I.C. stock which was issued to them. Proceeds to be used by Federal Reserve banks to provide capital of $100,000,000 and a paid-in surplus of between $35,000,000 and $40,000,000 for the Corporation. The existing mechanism for extending industrial loans by Federal Reserve banks to be discontinued.

Local committees to be authorized to assist applicants for funds. Upon dissolution assets of the Corporation would go to the United States.

Discussion

A number of proposals have been made for setting up an agency to provide additional credit facilities to industrial and commercial business, particularly small businesses. If additional facilities are to be provided by the Government for furnishing funds to business, it is believed that the most efficient and economical method is to establish an agency which can utilize to advantage the existing facilities of the Federal Reserve banks.

The Federal Reserve banks have lending facilities already established in 36 cities (12 Federal Reserve banks and 24 branches). It would thus be possible to commence actual operations at a much earlier date than would be the case with an agency which would have to set up new local facilities throughout the country. Moreover, the Federal Reserve banks for nearly five years have been engaged in making industrial loans to established businesses under certain restrictions, and the experience which these banks and their personnel have gained in this way would be of great aid in performing the proposed functions as agents of the new Industrial Loan Corporation. The present authority of the Federal Reserve banks to make industrial loans is not sufficiently comprehensive because of restrictions in the law, particularly the requirements that such loans be made only for working capital purposes and for periods of not more than five years.

While the proposal would give authority for the insurance of loans made by financing institutions to business, the Corporation would not be required to engage in this business. It would be in a position to do so, however, in the event its authority to make loans and commitments appeared to be inadequate to meet the situation.

It is proposed that the Treasury supply the capital funds for the Corporation. In 1933 the Federal Reserve banks were required by Act of Congress to subscribe an amount equal to half of their surplus, or about $139,000,000, to stock in the F.D.I.C. In 1934 the Secretary of the Treasury was authorized to pay to the Federal Reserve banks the amount of such stock in order to provide funds for the making of industrial loans and $27,000,000 of this amount has been paid. It is now proposed that the Secretary of the Treasury purchase the F.D.I.C. stock which was issued to the Federal Reserve banks, paying therefor the face amount of the stock less the amount which he has already paid to the Federal Reserve banks. The amount thus paid by the Secretary, together with amounts previously paid by him, would be used by the Federal Reserve banks to provide the capital funds for the Corporation.

The net effect of the proposed plan would be that the amounts taken from the Federal Reserve banks in 1933 for the F.D.I.C. stock would be returned to them by the Secretary of the Treasury in accordance with authority now existing in the law, and the Federal Reserve banks would use the amounts thus returned to supply capital funds for the Corporation; but upon dissolution of the Corporation all of its assets would go to the United States.

The proposal would avoid adding to the existing multiplicity of Federal credit agencies and would assure that the proposed loans to business enterprises would be handled in conformity with national credit policies.