Copied

November 26, 1934.

MEMORANDUM:

TO- MR. VINER

FROM- MR. ECCLES

In checking over my unfinished business in connection with my leaving the Treasury I find a plan for Consumers Credit Corporation which you sent to me sometime ago and upon which I wrote a memorandum to you under date of September 4th. I am, therefore, returning this file to you with my memorandum.

The suggestions which I made were after a very hurried survey of the matter and without any attempt to study all of the problems involved in consumer credit.

MSE:VE

September 4, 1934

Dr. Viner

Mr. Eccles

Re: Proposed consumer credit bill of National Retail Credit Association

There is probably a place in our financial system for institutions that will provide for purchasing or rediscounting of consumer credit paper, not only as a means of unlocking certain frozen consumer credit but also as a permanent aid to the establishment of greater accommodations to consumers and to the development of more uniform lending practices. In order that such rediscounting facilities be made available immediately will probably require governmental assistance and I see no reason why this should not be a proper use for R. F. C. funds.

If estimates upon the shrinkage in the volume of consumer credit during this depression are reliable it would seem desirable for several reasons that a greater attempt be made to obtain a more normal volume of such credit. A funding of existing debt would tend to relieve pressure of liquidation and head off possible bankruptcies. Also it would enable business concerns to carry larger amounts of consumer credit if the present frozen credit were unlocked. If rediscounting facilities were offered there would be a greater incentive to offer credit accommodations to consumers and if financed properly would lead to a desirable increase in the supply of money in the country.

Also commercial banks would probably be more willing to make advances to institutions of this type provided they are soundly capitalized. Considering the small volume of acceptable loan applications from business firms and the large volume of excess reserves held by banks, loans to consumer credit rediscounting agencies offer a field that the banks of the country might profitably exploit. Of course the paper is not eligible for rediscount at the Federal Reserve and this fact might prove somewhat of a deterrent.

So far as the present bill is concerned it seems to me that it is too obviously for the benefit of the present creditors rather than the consumers and that any bill must more equitably treat both parties in the picture to receive Administration support. The cost to consumers is probably too high as outlined in this bill, and there should be practically no profit allowed from the rediscounting operations to the merchants who use the facilities of these institutions.

A tentative proposal might be that the entire face value of the loans which are turned over to the corporations by merchant creditors should not be paid out in full but that a 15% deferred credit should be held by the corporation to protect it against possible losses from the consumers failure to meet their instalments. As loans are paid off the deferred credits would then be made available to the creditors who had rediscounted or sold paper to the institutions. How much return should be allowed on these funds would depend upon the profits of the institution but probably there should be a rather low maximum that may be paid and that if greater profits appear consumers should benefit by obtaining lower interest charges. What percentage should be kept as deferred credit is of course difficult to say but it seems to me that it would be better to start out with a figure like 15% which would be relatively high and then as new loans are offered to the institutions in the future there might be a provision which would permit the R. F. C. to require more or less to remain with the institutions as experience in losses is obtained through actual operation. The R. F. C's contribution to preferred stock should be large enough to secure adequate capitalization.

In regard to the management of these institutions it might be all right to have the directors appointed by the borrowers who would have voting rights in proportion to the amount of deferred credits which they have with the institutions. However, the R. F. C. should have the power of examination and supervision of the institutions and should see that losses are promptly charged off and that the handling of the institutions is such that consumers are given the advantage of as low rates as possible.