

Office Correspondence

Date May 11, 1935.To Governor Eccles.Subject: Digest and Comment on KopplemannFrom Mr. Edmiston. H.K.Intermediate Credit Corporation Bill.

GPO 16-552

Creation of Corporation.

The bill establishes an Intermediate Industrial Credit Corporation with its principal office in the District of Columbia and branches in all the cities where Federal reserve banks are located. The corporation may establish additional branch offices if deemed necessary.

Control and Management.

The control and management is vested in a bi-partisan board of nine directors appointed by the President with salaries of \$10,000 a year. The term of office to be six years.

Powers of Corporation.

1. Discounts for financial institutions: The corporation may discount and purchase from financial institutions, including member banks, any obligations the proceeds of which have been advanced originally for industrial or commercial purposes. The borrowing institutions, however, must maintain a separate and distinct department for the acceptance of time deposits and the making of intermediate or long-term loans, and such business shall be entirely separated from its commercial business and be subject to the supervision of the Intermediate Industrial Credit Corporation. This type of provision, it seems to me, would preclude large discounting operations by the corporation because under the terms of the new Banking Act, member banks will be able and willing to make such loans and would not have to go to the trouble of setting up a separate department, of segregating assets, and of being subject to supervision of another Federal agency.

2. Direct loans: The corporation may make loans directly to individuals and corporations engaged in producing goods and services, provided the borrower furnishes proper security as defined in the law.

3. Term of loans: Loans and discounts of the corporation shall have a maturity of not less than six months nor more than five years. However, the corporation may extend payment to not exceeding ten years.

4. Size of loans: Aggregate amount of loans to one borrower shall not exceed \$500,000.

5. Rates: Rates charged on rediscounts shall not be more than $1\frac{1}{2}\%$ more than the rate of interest paid by the corporation on its own debentures. In the case of direct loans, the rate shall be not less than 1% nor more than 2% above the corporation's rediscount rate. Service charges of certain amounts are also allowed.

Source of Funds.

The Secretary of the Treasury shall subscribe ~~to~~ the capital stock of the corporation in the amount of \$100,000,000. The corporation may sell debentures to the public but the aggregate amount outstanding at any one time shall not exceed \$1,000,000,000. These debentures shall be fully guaranteed by the United States Government and shall be exempt from all taxation except surtaxes, estate, inheritance and gift taxes. The Secretary of the Treasury is permitted to purchase the corporation's debentures.

Objections to the Establishment of such a Corporation.

1. Inconsistent with aims of Banking Bill: The establishment of such a corporation to meet the requirements of small businesses from one to five-year loans would be inconsistent with certain aims of the proposed Banking Act of 1935. In order for commercial banks to serve their communities and to make a living, it is essential that they seek other uses for their funds besides short-term commercial loans. One such use of bank credit is the providing of intermediate credit needs of business enterprises. The Banking Bill, by giving the Federal Reserve Board increased powers for monetary control and the mandate of preventing the rapid contraction of the money supply in the future, should enable commercial banks to meet continuously the needs for intermediate term business credit. Of course, an individual bank may lose deposits, but the Banking Bill provides that a bank which has made sound loans may borrow on them from its reserve bank in case of need. It would appear, therefore, that if the Banking Bill is passed, the commercial banks of the country will be able to meet the requirements for intermediate credit, and the establishment of this corporation is unnecessary. The real question at issue is whether or not the Government shall take over a type of credit extension which the banks can more effectively furnish.

2. Current demand for intermediate credit exaggerated:

The experience of the Federal reserve banks in making working capital loans seems to indicate that the current demand for intermediate term loans, which is not being met by banks, is exaggerated. Thus far the weekly applications for industrial advances have averaged sixty-five and the total amount applied for weekly has averaged about \$2,300,000. Moreover, the volume of new applications seems to be decreasing.