

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 22, 1947

To Chairman Eccles

Subject: Extension of Reconstruction

From Mr. Solomon

Finance Corporation.

In accordance with your telephone conversation with Mr. Vest, there is attached a brief summary of the recent act extending the Reconstruction Finance Corporation. As you requested, the summary touches especially upon the Reconstruction Finance Corporation activities regarding rubber, metals, and Veterans' loans.



EXTENSION OF RECONSTRUCTION FINANCE CORPORATION

The Joint Resolution of June 30, 1947 extended the life of the RFC to June 30, 1948. It also revised and consolidated the RFC statutes.

The RFC can now exercise four general credit powers, as follows: (1) lend to or purchase the obligations of business enterprises, (2) lend to financial institutions, (3) lend to or purchase the securities of municipalities or public agencies to finance specific public projects, and (4) make disaster loans up to \$25 million outstanding at one time.

The total amount of the four kinds of financing granted after June 30, 1947 and outstanding at one time is limited to \$2 billion. Except for the disaster loans, such credit can be granted only if it "is not otherwise available on reasonable terms." As before, loans may be made either directly or in participation with lending institutions, but the report of the House Committee says the act "terminates the existing authority for blanket participation in bank loans."

The act leaves in effect an earlier statute that provides a one year limitation on disbursements following a commitment to make a loan, and also one providing, in effect, that loans shall mature not later than January 31, 1955. The language of the latter provision is not entirely clear, but the committee reports indicate that the intention was to retain it as such a limitation.

The act repealed several RFC powers, including the authority to purchase preferred stock (and capital notes and debentures) of banks, to purchase stock of insurance companies, to make foreign loans, to supply capital to other Government agencies, to create subsidiary corporations, and to "purchase" loans guaranteed or insured under the Servicemen's Readjustment Act.

Under its general powers listed above, the RFC can still make business loans that are guaranteed or insured under the Servicemen's Readjustment Act, and it can lend to financial institutions on either business or home loans that are so guaranteed or insured. The repeal of the authority to "purchase" such loans was apparently due to the fact that, as stated in the report of the House Committee, the RFC was "purchasing such loans without recourse which has the effect of allowing the original lending institution to refinance the loan on a 100 percent basis with the Government."

The RFC Mortgage Company and the Federal Loan Agency were dissolved, and their assets, liabilities and records were transferred to RFC. The Federal National Mortgage Association was not dissolved. The U. S. Commercial Company was continued until June 30, 1948.

Under the Joint Resolution of June 30, 1945, the Defense Plant Corporation, Defense Supplies Corporation, Metal Reserve Company, and

Rubber Reserve Company had already been dissolved and their functions were being exercised by RFC. The new law continues these RFC functions, "but only with respect to programs, projects, or commitments outstanding on June 30, 1947." The report of the House Committee said that this would continue certain "essential" programs "such as the continued operation of the Texas City tin smelter, the production of synthetic rubber, certain defense-plant operations, and the continuation of a limited number of strategic - and critical-materials programs until Congress has had an opportunity to determine what the policy of the Government should be with respect to each."