2/21/38

Board
Burley
Wayne Taylor

MEMORANDUM REGARDING ATTACHED PLAN FOR
CAPITAL AID TO SMALL INDUSTRY

The plan is only a general outline in preliminary form, many details as to organization and operation being omitted.

In view of the continuance of unsettled conditions in the capital market it has been suggested that government aid for business should be extended to larger corporations as well as to the smaller ones. This could be accomplished by amending the attached plan as follows:

1. Removing the maximum limitation of $1 million to any one borrower.

2. Permitting the corporation to invest in existing securities either to assist the capital market by absorbing undigested issues or for any other reason.

It has also been suggested that with the recession having continued so long, any capital aid must now be on a more liberal basis in order to be of substantial help as a recovery move. Such a policy could be carried out under the proposed plan by providing that debentures issued by the corporation should be guaranteed by the government and made tax exempt.

February 11, 1938

CAPITAL AID FOR SMALL BUSINESS

(Alternate plan, including insurance of loans)

Insert text of "PROGRAM FOR CAPITAL AID TO SMALL BUSINESS" (draft of February 5, 1938), omitting the sentence which reads "The plan does not propose to provide a bailing out mechanism for unsuccessful enterprizes or provide equity capital in order to permit businesses to be operated on a shoe string."
At the end, add the following:

INSURED CAPITAL LOANS FOR SMALL BUSINESS

It is proposed that the Industrial Loan Corporation be authorized to segregate and set aside from time to time out of its capital funds not more than $10,000,000, as an Insurance Fund, which would be utilized to insure banks and financing institutions against losses on loans and advances to commercial and industrial businesses made for any of the purposes for which the corporation may make loans. Each such bank or financing institution, which is approved by the corporation for the purpose, would be insured against losses up to 10 per cent of the aggregate amount of all loans and advances of this character which it might make. The maximum amount of any loan entitled to participate in such insurance would be $50,000, but a loan exceeding ________________ would be submitted to the corporation or its agent for approval before being made. Each insured bank or financing institution would be required to pay to the corporation a premium of not to exceed one per cent per annum on the average amount of each insured loan outstanding. This premium would be credited to the Insurance Fund. The total liability for insurance which the corporation might have outstanding at any time plus amounts paid in settlement of insurance claims could not exceed the amount of the Insurance Fund as increased by premiums credited thereto (or in the alternate: twice the amount of the Insurance Fund as increased by premiums credited thereto). Any insured loan would have a maximum maturity of five years and provide for some form of amortization or partial payments under which the entire loan would be retired not later than the date of maturity. Insurance of loans would be subject to broad regulatory authority in the corporation, with the right in the Board of Governors to review and revise the regulations from time to time.

NOTE: The proposed arrangement does not provide for a system of different pools within the insurance fund, because the nature of the loans is similar to that of the loans insured under Title I of the Housing Act, which does not utilize such pools. In view of the character of these loans and the fact that they would probably be made in some volume by banks and financing institutions, a pool arrangement would appear to be unworkable.