

United Loans
to fund

April 6, 1939

PLAN TO CREATE A PERMANENT AGENCY TO PROVIDE FUNDS
FOR SMALL BUSINESS ENTERPRISES UNABLE TO OBTAIN
ADEQUATE FINANCIAL ASSISTANCE FROM OTHER
SOURCES

The following is an outline of a proposal for the creation by Congress of an Industrial Loan Corporation to provide funds for commercial and industrial enterprises which are unable to obtain needed assistance from existing financing institutions.

Amount of capital and surplus and source thereof. - The Secretary of the Treasury would be directed to purchase the stock of the Federal Deposit Insurance Corporation heretofore subscribed for by the Federal Reserve banks, paying therefor \$139,299,556.99 less the sums which have been paid to the Federal Reserve banks under the provisions of section 13b of the Federal Reserve Act, and not returned to the Treasury. The amount so received by the Federal Reserve banks would be used by them to supply the capital and surplus of the Industrial Loan Corporation. (As of December 31, 1938, this amount would be \$112,574,509.41.) Of this amount \$100,000,000 would be represented by nonvoting stock held by the reserve banks and the remainder would be paid-in surplus. The provisions of section 13b would be repealed, with provision, however, for the orderly liquidation of outstanding loans and commitments. The amounts realized by the Federal Reserve banks from the liquidation of outstanding loans and commitments made from funds received from the Secretary of the Treasury, including assets acquired in settlement therefor, would, under regulations prescribed by the Board of Governors of the Federal Reserve System, be paid to and become a part of the surplus of the Corporation. (As of December 31, 1938, the maximum amount of such additions to the surplus of the Corporation which might be made by the Federal Reserve banks would be \$26,725,047.58.)

Board of directors. - The governing body of the Industrial Loan Corporation would consist of a board of directors of three members. The Board of Governors of the Federal Reserve System from time to time would designate three of its own members as directors and also designate three alternate directors from among the remaining members of the Board of Governors or members of its staff.

Utilization of Board of Governors and Federal Reserve banks. The Corporation would utilize, as officers and employees, such officers and employees of the Board of Governors of the Federal Reserve System as might be necessary and would be authorized to utilize the Federal Reserve banks, branches and agencies as its agents, to designate other agents or set up its own agents to carry out its functions.

No director of the Corporation and no officer or employee of the Board of Governors or a Federal Reserve bank, branch or agency would receive any additional compensation for his services for the corporation.

The Corporation would reimburse the Board of Governors, the Federal Reserve banks, or other agencies of the Corporation for their expenses on a basis to be determined by the Board of Governors.

Extension of credit by Corporation. - The Corporation would be authorized through the acquisition of notes, debentures, bonds or similar obligations to supply credit, or to enter into commitments to supply credit, to commercial, and industrial enterprises or to purchase preferred stock in such commercial and industrial enterprises and would designate agents for the purpose of receiving applications for and extending credit and acquiring obligations in the name of the Corporation. All such extensions of credit and purchases of preferred stock, including the maximum maturity of obligations, would be subject to regulations of the Corporation. The maximum amount of funds that could be supplied to any one business would be \$1,000,000. Transactions entered into by the Corporation could be either direct or in cooperation with banks or other financing institutions. No direct advances of credit to or purchases of obligations or preferred stock of any business enterprise could be made by the Corporation or its agents if such business enterprise were able to obtain funds on a reasonable basis from existing financing institutions. Discounts, loans and purchases by the Corporation would have to be on a reasonably sound basis.

Insurance fund. - The Corporation would be authorized to set aside a part of its capital funds as an insurance fund for the purpose of insuring loans made by financing institutions to commercial and industrial enterprises. Loans would be insured subject to such regulations as the Corporation might prescribe, including limitations on amount both on individual loans and in the aggregate and including requirements for payment of premiums by the insured.

Local committees. - The Corporation would be authorized to encourage the selection and assist in the formation of committees of representatives of small business enterprises in local communities to explain to prospective borrowers the facilities of the Corporation and to advise with and assist prospective borrowers in connection with their applications for financial assistance from the Corporation.

Debentures. - The Corporation would have authority to issue and have outstanding debentures equal to five times the unimpaired

capital and surplus of the Corporation, exclusive of that portion of its capital set aside as an insurance fund. Such debentures could be secured in such manner as the Corporation might determine. The debentures would not be guaranteed by the United States but would have the usual tax exemption possessed by obligations of similar Government corporations.

Regulations. - All of the operations of the Corporation, including rates, would be subject to a broad authority in the Corporation to make rules, regulations and requirements, with the right in the Board of Governors of the Federal Reserve System to review and revise such rules, regulations and requirements from time to time.

Disposition of earnings and surplus. - All net earnings of the Corporation would be retained in surplus after making the necessary provisions for losses. In case of liquidation of the Corporation all of its capital and surplus would become the property of the United States.

Annual report. - The Board of Governors of the Federal Reserve System would transmit to Congress with each of its annual reports an annual report of the Corporation regarding the latter's operations.