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United States Senate

COMMITTEE ON COMMERCE

May 29, 1939.

*Direct Loans
to Industries*

Marriner S. Eccles, Chairman,
Federal Reserve Board,
Federal Reserve Building,
Washington, D. C.

Dear Mr. Eccles:

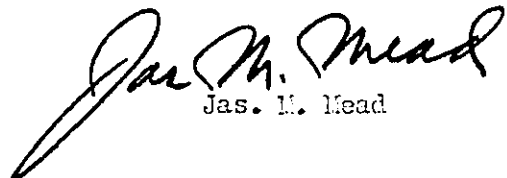
This is to inform you that hearings will be conducted on the attached bill by the Senate Banking and Currency Committee on May 31 and June 1 of this week at 10:30 A. M.

In view of your interest in small business loans, I most cordially invite you to attend the hearings and to make any comment you desire.

Any arrangements as to time may be made with the Committee clerk.

With kindest personal regards, I am

Sincerely yours,


Jas. M. Mead

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IN THE SENATE OF THE UNITED STATES

MAY 8, 1939

Mr. MEAD introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To provide for the insurance of loans to business, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Insured Business Loans
4 Act of 1939."

5 SEC. 2. When used in this Act, unless the context other-
6 wise requires—

7 (a) "Corporation" means the Reconstruction Finance
8 Corporation.

9 (b) "Bank" means any "insured bank" as defined in
10 section 12B (c) (8) of the Federal Reserve Act, as
11 amended.

1 (c) "Federal Reserve Board" means the Board of
2 Governors of the Federal Reserve System.

3 (d) "Loan" means any loan, extension of credit, or
4 renewal thereof.

5 (e) "Person" means an individual, a corporation, a
6 partnership, an association, a joint-stock company, a business
7 trust, or an unincorporated organization.

8 SEC. 3. (a) Subject to the provisions of this Act, the
9 Corporation, upon application, is authorized to insure any
10 bank against the whole or any part of the loss or losses, in
11 respect of principal or interest or both, which such bank may
12 sustain in excess of an amount equal to 10 per centum of the
13 principal amount of any loan which such bank may make to
14 any person for any business purpose, and for the purposes of
15 this Act the Corporation is authorized to determine what
16 constitutes a business purpose. For such insurance the Cor-
17 poration shall charge a premium of not less than one-fourth
18 of 1 per centum nor more than 1 per centum per annum of
19 the unpaid balance of such loan: *Provided*, That the Cor-
20 poration in its discretion may charge a higher premium, or
21 may refuse to grant insurance altogether on loans of any
22 bank which in the judgment of the Corporation pursues a
23 policy of insuring only the more doubtful of its loans eligible
24 for insurance. The Corporation shall from time to time fix
25 the premium rates to be charged for the insurance of loans

1 which rates may be adjusted in accordance with appropriate
2 classifications based, among other things, upon the nature of
3 the loans and the character of the risks involved, and the
4 premium rates for which the Corporation undertakes to insure
5 any particular loan shall not be increased during the life
6 of such loan.

7 (b) No loan shall be insured by the Corporation (1) if
8 the aggregate principal amount of the borrower's insured
9 indebtedness exceeds \$1,000,000; (2) if the loan is made
10 for a period less than one year or more than ten years; (3) if
11 the loan bears interest (exclusive of premium charge for
12 insurance and service charge) at a rate exceeding 4 per
13 centum of the principal amount of the unpaid balance of the
14 loan outstanding: *Provided*, That the Corporation by regu-
15 lation shall have power to decrease or increase the per-
16 missible rate of interest if and to the extent that it finds such
17 decrease or increase is necessary to insure the adequate use,
18 or deter the excessive use, of the insurance facilities provided
19 in this Act; (4) if the loan provides for a service charge, fee,
20 or commission aggregating during the life of the loan more
21 than one-fourth of 1 per centum of the principal amount of
22 such loan; (5) if the loan is made to any person, of which
23 an officer, director, or security holder owning more than 10
24 per centum of any class of its stock is, or has been within
25 the preceding twelve months, a director of the bank making

1 such loan; or (6) if the loan is made in contravention of
2 any rule or regulation which the Corporation shall prescribe
3 as necessary or appropriate to carry out the purposes of this
4 Act or to prevent the abuse of the credit facilities herein
5 provided.

6 (c) Nothing in this Act shall prevent the Corporation
7 in appropriate cases insuring loans which are subordinated
8 to short-term indebtedness incurred in the ordinary course
9 of business.

10 (d) The Corporation shall have power to insert in
11 the insurance contract covering any loan insured under this
12 Act such terms and conditions as it may deem necessary or
13 appropriate to carry out the purposes of this Act or to pre-
14 vent the abuse of the credit facilities herein provided.

15 SEC. 4. (a) It shall be the duty of any bank having
16 a loan insured by the Corporation, and of any assignee of
17 such loan, to make such reports on the condition of such loan
18 as the Corporation may require. In the event of any de-
19 fault on any loan insured by the Corporation, the bank or
20 its assignee shall promptly notify the Corporation and take
21 such steps for the protection of such loan as the Corporation
22 may require. At any time after any such default shall have
23 been continued for sixty days, such bank or its assignee
24 (upon making a good and sufficient assignment of such loan
25 to the Corporation) shall be entitled to demand from the

1 Corporation, and the Corporation shall pay, the full amount
2 of insurance due on account of such loan. Thereupon the
3 Corporation shall be fully subrogated to the rights of the
4 bank or its assignee or both in respect of such loan, but
5 shall remit to the bank or its assignee or the borrower as
6 their interests may appear any moneys collected in excess
7 of the insurance paid and the cost of collection.

8 (b) Subject to the provisions of this Act and the terms
9 of the insurance contract, the insurance on any loan shall
10 inure to the benefit of any assignee to whom such loan
11 shall have been assigned, or of any purchaser to whom the
12 obligation evidencing such loan shall have been transferred.

13 SEC. 5. (a) Upon the endorsement of any bank, which
14 shall be deemed a waiver of demand, notice, and protest
15 by such bank as to its own endorsement exclusively, and
16 subject to such regulations as may be prescribed by the
17 Federal Reserve Board, any loan insured under this Act
18 shall be eligible for rediscount by the Federal Reserve bank
19 for the Federal Reserve district in which such bank is
20 located, and for purposes of rediscount such loan shall be
21 valued at not less than the full amount of the insurance
22 payable by the Corporation in respect of such loan. Such
23 loan shall be eligible for rediscount whether or not the bank
24 offering the loan for rediscount is a member bank of the
25 Federal Reserve System and whether or not such bank

1 acquired the loan from the borrower or acquired it by trans-
2 fer from another person.

3 (b) Every Federal Reserve bank shall have power to
4 buy and sell, at home or abroad, obligations evidencing
5 loans insured under this Act, such purchases and sales to
6 be made in accordance with such rules and regulations as
7 the Federal Reserve Board shall prescribe.

70TH CONGRESS
1ST SESSION

S. 2343

A BILL

To provide for the insurance of loans to business, and for other purposes.

By Mr. MEAD

MAY 8, 1939

Read twice and referred to the Committee on
Banking and Currency