BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 23, 1944.

To Chairman Eccles

Subject:

From Mr. Smead

Amounts that would be payable to the Board of Governors under H.R. 4804:

By the Secretary of the Treasury	$111,753,246
By the Federal Reserve Banks*	27,546,311
Total (Amount paid by Federal Reserve Banks for stock in F.D.I.C.)	$139,299,557

Under Paragraph (e) of Section 13b of the Federal Reserve Act the Federal Reserve Banks are required to pay to the Secretary of the Treasury up to 2 per cent annually, if earned, on the amounts they have received from the Secretary of the Treasury for the purpose of making industrial loans and commitments. The amounts thus paid to the Secretary of the Treasury to the end of 1943 aggregate $1,511,859.

*Aggregate of amounts paid to Federal Reserve Banks by the Secretary of the Treasury pursuant to Paragraph (e) of Section 13b of the Federal Reserve Act.

SUMMARY OF OPERATIONS UNDER SECTION 13b
1934-1943

Total earnings	$ 9,015,620
Current expenses	4,573,123
Current net earnings	4,442,497
Additions to current net earnings	74,286
Deductions from current net earnings:	
Losses and provisions for losses (net)	3,052,430
All other	41,442
Net earnings	1,422,911
Distribution of net earnings:	
Payments to Secretary of the Treasury	1,511,859
Transferred to surplus (Sec. 13b)	-581,420
Transferred to surplus (Sec. 7)	492,472
Allowances for estimated losses, Dec. 31, 1943	1,712,997

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	(In thousands of dollars)
Federal Reserve Bank loans outstanding July 31, 1944	
Current	10,837
Past due	278
Federal Reserve Bank commitments outstanding, July 31, 1944	3,975
Total	15,090
Financing institutions' participations outstanding July 31, 1944	10,841

Macimum amount invested in or committed to industrial loan operations was about $70,000,000 in December 1935, including financing institutions' participations about $9,000,000.

S. 1918 AS A SUPPLEMENT TO A TERMINATION LOAN

Assume:

A contractor borrows from his bank under a T loan $100,000

The proceeds of this loan are used to pay accounts payable, accrued payroll, taxes and other expenses, including amounts necessary to keep the business alive until it can resume civilian production and receive payment for goods shipped. Let us assume, however, that pending final settlement of cancelled contracts the contractor has left over from the proceeds of the T loan the sum of 50,000

There is on hand in the borrower's plant certain inventory and machinery with respect to which he would negotiate a favorable proposition with the contracting agency. The price, however, is around $50,000 and if he paid these funds out he would then have to borrow additional working capital from his bank. His unsettled claims are assigned to the bank to pay off the T loan and hence he has no collateral available to support any new working capital loan. The bank takes the position that it cannot extend him any additional credit if he takes all his remaining working capital and invests it in machinery and an abnormal supply of inventory. During such an impasse the contracting agency declares the inventory of machinery to be surplus and it passes to the control of the Surplus Property Administrator and is hauled out of the borrower's plant and stored elsewhere.

Under S. 1918, however, the borrower would go to his bank, outline the desirability of buying machinery and the abnormal inventory referred to above, and the bank, although unwilling to loan without some protection, would approve a loan of $50,000, say for five years, providing the Federal Reserve Bank would guarantee the loan. If this were done the borrower can fund the purchase of the machinery and abnormal inventory and would still have on hand for the miscellaneous expenses referred to above the sum of 50,000

At the same time the final settlement of his cancelled contracts would entirely liquidate the T loan.