

LIMITATION ON SIZE OF GUARANTEES UNDER S. 1918

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The proposed amendment to S. 1918 which is attached provides in effect that the aggregate amount of guarantees and commitments made by Federal Reserve Banks and outstanding at any time may not exceed four times the amount of the fund provided for under the bill for meeting losses on such guarantees; in other words, the amount of guarantees and commitments may not exceed four times the fund of \$139,299,657 as increased by income or decreased by losses.

In addition, however, the proposed amendment provides that the aggregate of the guarantees and commitments which are individually in excess of \$100,000 and are outstanding at one time may not exceed 50 per cent of the maximum permissible amount of such guarantees and commitments. In other words, the aggregate of guarantees which are in excess of \$100,000 may not exceed twice the amount of the fund provided to meet losses. It is to be noted that this is not a limitation on the amount of guarantees of \$100,000 and less, but is a limitation on the aggregate amount of guarantees which individually are in excess of that amount. There would always be reserved for the making of small guarantees, i.e., guarantees of \$100,000 or less, at least one-half of the total volume of guarantees permissible. Moreover, if the aggregate amount of larger guarantees had not reached the limit, the amount used for such small guarantees could go above 50 per cent and might become a much higher percentage of the total.

It is noteworthy in this connection that during the first three and one-half years of experience with the existing provisions of section 13b of the Federal Reserve Act, the aggregate amount of loans of \$100,000 and under was 36.5 of the total amount of such loans. Loans of \$100,000 and under authorized by the Smaller War Plants Corporation constitute about 33 per cent of the total of the Corporation's loans. Loans of \$100,000 and under guaranteed under the Regulation V program pursuant to Executive Order 9112 were a very much smaller percentage of the total amount of V-loans. It is evident, therefore, that a 50 per cent limitation on the aggregate amount of guarantees in excess of \$100,000, as would be provided in the attached amendment to S. 1918, would be a very real restriction and one which would limit the amount of larger guarantees by the Federal Reserve Banks to a much smaller portion of the total, and would reserve for the making of small guarantees a much larger portion of the total, than has been the experience under section 13b heretofore, under the Smaller War Plants Corporation program, or under the V-loan program.

In addition to the restraint upon the guaranteeing of larger loans imposed by the amendment itself, the Board of Governors would have authority to issue "regulations, limitations, and conditions" governing the operations of the Federal Reserve Banks in this connection. It would be the policy of the Board to see to it that the guarantees and commitments by the Federal Reserve Banks are spread as far as practicable among smaller borrowers.

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POSSIBLE AMENDMENT TO S. 1918 -- OVERALL LIMITATION
AND LIMITATION ON SIZE OF GUARANTEES

Insert the following new subsection (d) just before the present subsection (d) and change the lettering of subsequent subsections accordingly:

(d) No Federal Reserve Bank shall make any guarantee or commitment under this section if the aggregate amount of guarantees and commitments made by all Federal Reserve Banks under this section and then outstanding equals or exceeds four times the then existing amount of the fund provided for in subsection (b) hereof as such fund may have been increased or decreased in accordance with the provisions of such subsection. The aggregate amount of such guarantees and commitments which individually are in excess of \$100,000 and which are outstanding at any one time shall not exceed 50 per cent of the aggregate amount of guarantees and commitments which may be made under this section as specified in the preceding sentence.

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