

January 19, 1945

Honorable Robert F. Wagner, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C.

Dear Senator Wagner:

You advised me in our recent conversation that you were desirous of reintroducing the Wagner-Spence bill, S. 1918 of the last session, which would amend section 13b of the Federal Reserve Act. As you know, Chairman Spence introduced this bill on January 3, 1945, as H. R. 591.

You will recall that during the course of the hearings before your Committee, I suggested some amendments which I thought would make the bill more specific and acceptable. The members of the Committee expressed approval of these amendments. Thinking that you would prefer to introduce the bill with these amendments incorporated in it, I am enclosing herewith a redraft of the bill with amendments covering the following:

1. Limiting the percentage of guarantee or commitment on any loan to 90 per cent.
2. Limiting the aggregate amount of outstanding guarantees or commitments at any time to four times the then existing amount of the fund.
3. Terminating the authority of the Federal Reserve Banks to make further guarantees or commitments after December 31, 1949.

In addition to the foregoing amendments which were discussed during the hearings, an amendment is added as follows:

4. Authorizing the Board of Governors to define certain terms used in the bill.

This last amendment has been added in order to satisfy some doubts recently expressed as to the meaning of some of the terms used in the bill.

As you are no doubt aware, this legislation was strongly recommended by Honorable James F. Byrnes, Director of War Mobilization and Reconversion. In his report to the Congress dated January 1, 1945, it is stated on page 14:

Honorable Robert F. Wagner - (2)

"SMALL BUSINESS FINANCING.

"Small business has been the backbone of American prosperity. Its future requires the establishment of a readily available source of credit. The Wagner-Spence bill has this purpose in view. In revoking the present authority of the Federal Reserve banks to make loans direct to industry, it substitutes authority for them to guarantee the principal and interest of loans by commercial banks to business enterprise. It, or other forms of legislation to this end, deserves the immediate consideration of the Congress."

Moreover, on January 9, at Mr. Byrnes' request, I met with him and his Advisory Committee to discuss this legislation in detail and, as a result of this discussion, I am in a position to advise you that both Mr. Byrnes and his Committee favor its prompt enactment.

In view of the foregoing, it is my hope that at your early convenience you will reintroduce the bill in the form enclosed and that it will receive the prompt and favorable consideration of the Senate Banking and Currency Committee.

With kind personal regards, I am

Sincerely yours,

(Signed) M. S. Eccles.

M. S. Eccles,
Chairman.

Enclosure

A B I L L

To amend section 13b of the Federal Reserve Act, as amended.

Be it enacted by the Senate and House of Representatives
of the United States of America in Congress assembled, That section
13b of the Federal Reserve Act, as amended, is amended to read as
follows:

SEC. 13b. (a) Each Federal Reserve bank is authorized (1)
to guarantee a financing institution against loss of principal or
interest on any loan made to a business enterprise and (2) to make
commitments to purchase and thereafter to purchase from a financing
institution any loan made to a business enterprise. No Federal Reserve
bank under this section shall guarantee, or make a commitment to pur-
chase, more than 90 per cent of the amount of any loan.

(b) Each Federal Reserve bank shall pay to the Board of
Governors of the Federal Reserve System, upon request of the Board,
the aggregate amount which the Secretary of the Treasury has hereto-
fore paid to such bank under the provisions of this section. The
amount of \$139,299,557 (the amount which was paid by the Federal Re-
serve banks for stock of the Federal Deposit Insurance Corporation),
less all amounts heretofore paid to the Federal Reserve banks by the
Secretary of the Treasury under the provisions of this section, shall
be paid by the Secretary of the Treasury to the Board upon its request;
and for the purpose of enabling the Secretary of the Treasury to make
such payment, the unexpended balance of the appropriation made by the

last sentence of subsection (e) of this section as originally enacted by the Act of June 19, 1934, and now carried on the books of the Treasury under the title "Payments to Federal Reserve banks for industrial loans (sec. 13b, Federal Reserve Act, as amended)" is hereby made available. All amounts paid to the Board under this section shall constitute a fund which shall be utilized by the Board, on such basis as the Board may deem proper, to provide for losses (which may in the Board's discretion include expenses to the extent not covered by earnings) heretofore or hereafter incurred by Federal Reserve banks through operations under this section. From time to time the Board shall make payments out of such fund in such sums and to such Federal Reserve Banks as the Board may deem necessary to provide for any such losses. The Board may deposit all or part of such fund with any Federal Reserve bank, subject to the Board's order, and may, in its discretion, invest any part of such fund not currently needed for the purposes of this section in obligations of the United States or obligations fully guaranteed by the United States as to principal and interest; and any income derived from such investments shall be added to and become a part of such fund. The determination of the existence and amount of any loss incurred by a Federal Reserve bank through operations under this section shall be made by such bank with the approval of the Board. Whenever a payment has been made under this section to a Federal Reserve bank to reimburse it for any loss, any amount subsequently recovered by such bank which reduces the amount of the loss for which such bank has received reimbursement shall be paid to the Board and shall become a part of such fund.

(c) The stock of the Federal Deposit Insurance Corporation heretofore subscribed for by and issued to each Federal Reserve bank is hereby transferred to the United States. The certificates of stock of the Federal Deposit Insurance Corporation heretofore issued to the Federal Reserve banks shall be surrendered and canceled and appropriate evidence of the ownership of such stock by the United States shall be issued by the Corporation to the Secretary of the Treasury. Neither the Board nor any Federal Reserve bank shall hereafter have any obligation or liability to the United States or to the Secretary of the Treasury by reason of this section, as heretofore or now existing, or by reason of any action pursuant thereto.

(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.

(e) All actions and operations of the Federal Reserve banks under this section shall be subject to such regulations, limitations, and conditions as the Board of Governors of the Federal Reserve System may from time to time prescribe. The said Board is authorized to define, for the purposes of this section, the terms "financing institution", "business enterprise", "guarantee", "loan", and other terms used in this section.

(f) The provisions of the Securities Act of 1933 shall not apply to any obligation evidencing a loan all or part of which is guaranteed or is the subject of a commitment pursuant to the provisions of subsection (a) of this section.

(g) No Federal Reserve bank shall make any guarantee or commitment under this section after December 31, 1949, but this shall not affect the power of any Federal Reserve bank to disburse funds under, or carry out, any guarantee or commitment made pursuant to this section prior to or on such date, or to take any action deemed by it to be necessary to preserve or protect its interests in any amounts advanced or paid out in carrying on operations under this section. As soon as practicable after such date, the amount of the fund provided for by subsection (b) hereof, as increased or decreased in accordance with such subsection and as determined by the Board of Governors of the Federal Reserve System, shall be paid to and become the property of the United States. Such payment shall be made in such sums and at such times as, in the judgment of the Board, orderly liquidation of operations under this section will permit.

FROM PRESIDENT ROOSEVELT'S ANNUAL MESSAGE TO THE CONGRESS, JANUARY 6, 1945

"We must make sure that private enterprise works as it is supposed to work -- on the basis of initiative and vigorous competition, without the stifling presence of monopolies and cartels.

"During the war we have guaranteed investment in enterprise essential to the war effort. We should also take appropriate measures in peacetime to secure opportunities for new small enterprises and for productive business expansion for which finance would otherwise be unavailable.

"This necessary expansion of our peacetime productive capacity will require new facilities, new plants and new equipment.

"It will require large outlays of money which should be raised through normal investment channels. But while private capital should finance this expansion program, the Government should recognize its responsibility for sharing part of any special or abnormal risk of loss attached to such financing."