

6/20/47

Mr. Cherry advises that Mr. Hill deleted the first sentence of the last paragraph, "It would be a mistake to fail to enact S. 408 for an additional reason."

GUARANTEE OF LOANS BY FEDERAL RESERVE BANKS AND
EXTENSION OF RECONSTRUCTION FINANCE CORPORATION

Enactment by Congress of S. 408, which would permit the Federal Reserve System to continue aid, particularly to small business, by partial guarantee of loans made by private banks, is necessary irrespective of whether Congress, as is now proposed, extends the RFC for one year. S. 408 is not a substitute for or duplication of RFC functions.

It does provide an important stand-by service especially in the case of term loans up to ten years to private enterprise that cannot afford to go to the capital markets for funds and to which private banks may not be in a position to extend needed credit without guarantee of some part of the loan.

S. 408 does not provide for new powers in Federal Reserve Banks since for a dozen years they have had authority to make direct loans or participate in loans to industry. However, the bill does away with the direct lending authority and improves the guarantee authority.

Moreover, it provides for returning to the Treasury the 139 million dollars set aside for the direct loans. The return of this money to the Treasury carries out a recommendation in the President's Budget Message. Under S. 408 the Reserve Banks will rely on their reserve funds in making guarantees. Appropriated money would not be involved.

It would be a mistake to fail to enact S. 408 for an additional reason. If a year hence Congress, after studying the matter, decided to discontinue RFC there would be no stand-by authority left to assist indirectly in small business financing such as is provided by S. 408.