

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 13, 1946

To Chairman Eccles

Subject: Proposals for industrial loan

From Mr. Vest

legislation by Federal Reserve Banks.

At Governor Draper's request I am submitting to you herewith the following: (1) A revision of section 13b of the Federal Reserve Act as it would appear if amended in accordance with the suggestions of the Presidents' Conference and its Subcommittee on Legislation; (2) a copy of the latest form of the Board's proposal as prepared several months ago; and (3) a brief memorandum which Mr. Hackley has worked up to show the principal differences between the two proposals.

Attachments



REVISION OF SECTION 13b PROPOSED BY CONFERENCE OF PRESIDENTS

Sec. 13b. (a) When it appears to the satisfaction of a Federal reserve bank that an industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the Federal reserve bank, pursuant to authority granted by the Board of Governors of the Federal Reserve System, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding five years.

(b) Each Federal reserve bank shall also have power to discount for, or purchase from, any bank, trust company, mortgage company, credit corporation for industry, or other financing institution operating in its district acting for itself or as agent or trustee for itself and other participating financing institutions, obligations having maturities not exceeding five years, entered into by any industrial or commercial business which is unable, in the judgment of the Federal Reserve Bank, to obtain requisite financial assistance on a reasonable basis from the usual sources; to make loans or advances direct to any such financing institution on the security of such obligations; and to make commitments with regard to such discount or purchase of obligations or with respect to such loans or advances on the security thereof, including commitments made in advance of the actual undertaking of such obligations. Each such financing institution shall obligate itself to the satisfaction of the Federal reserve bank for at least 20 per centum of any loss which may be sustained by such bank upon any of the obligations acquired from such financing institution, the existence and amount of any such loss to be determined in accordance with regulations of the Board of Governors of the Federal Reserve System.

(c) The aggregate amount of loans, advances, and commitments of the Federal reserve banks outstanding under this section at any one time, plus the amount of purchases and discounts under this section held at the same time, shall not exceed the combined surplus of the Federal reserve banks, and all operations of the Federal reserve banks under this section shall be subject to such regulations as the Board of Governors of the Federal Reserve System may prescribe.

(d) Subsection 13b (e) of the Federal Reserve Act (12 U.S.C., section 352a) is hereby repealed; but such repeal shall not affect the power of any Federal reserve bank to carry out, or to protect its interest under, any agreement heretofore made in carrying on operations under that section. Within sixty (60) days after the enactment of this Act, each Federal reserve bank shall pay to the United States the aggregate amount which the Secretary of the Treasury has heretofore paid to such bank under the provisions of section 13b of the Federal Reserve Act, together with any net earnings thereon for the period from January 1, 1946 to the date on which such payment to the United States is made; and such payment shall constitute a full discharge of any obligation or liability of the Federal reserve bank to the United States or to the Secretary of the Treasury arising out of subsection (e) of said section 13b or any agreement thereunder.

A BILL

To repeal section 13b of the Federal Reserve Act, to amend the last paragraph of section 13 of the said Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section 1. Repeal of section 13b of the Federal Reserve Act. Section 13b of the Federal Reserve Act (12 U.S.C., section 352a) is hereby repealed; but such repeal shall not affect the power of any Federal Reserve Bank to carry out, or to protect its interest under, any agreement heretofore made in carrying on operations under that section. Within sixty (60) days after the enactment of this Act, each Federal Reserve Bank shall pay to the United States the aggregate amount which the Secretary of the Treasury has heretofore paid to such bank under the provisions of section 13b of the Federal Reserve Act, together with any net earnings thereon for the period from January 1, 1946, to the date on which such payment to the United States is made; and such payment shall constitute a full discharge of any obligation or liability of the Federal Reserve Bank to the United States or to the Secretary of the Treasury arising out of subsection (e) of said section 13b or any agreement thereunder.

Sec. 2. Amendment of last paragraph of section 13 of the Federal Reserve Act. The last paragraph of section 13 of the Federal Reserve Act (12 U.S.C., section 347c) is hereby amended as follows:

(a) Strike out the following language: "secured by direct obligations of the United States. Such advances shall be made for periods not exceeding 90 days and shall bear interest at rates fixed from time to time by the Federal reserve bank, subject to the review and determination of the Board of Governors of the Federal Reserve System."

(b) Substitute for the language thus stricken out the following new language: "when satisfied that the requisite financial assistance is not obtainable on a reasonable basis from the usual sources; may guarantee any financing institution against loss of principal or interest on any loan made to a business enterprise; may make a commitment to purchase and thereafter purchase any such loan from a financing institution; or may participate in making any such advance, guarantee, commitment or purchase."

(c) As thus amended, the last paragraph of section 13 of the Federal Reserve Act shall read as follows:

"Subject to such limitations, restrictions and regulations as the Board of Governors of the Federal Reserve System may prescribe, any Federal Reserve Bank may make advances to any individual, partnership or corporation on the promissory notes of such individual, partnership or corporation when satisfied that the requisite financial assistance is not obtainable on a reasonable basis from the usual sources; may guarantee any financing institution against loss of principal or interest on any loan made to a business enterprise; may make a commitment to purchase and thereafter purchase any such loan from a financing institution; or may participate in making any such advance, guarantee, commitment or purchase.

[Note: When the bill is introduced in Congress, paragraphs (a) and (b) of section 2 could be omitted, if desired, with appropriate minor changes in the introductory language.]

COMPARISON OF INDUSTRIAL LOAN BILLS PROPOSED BY
CONFERENCE OF PRESIDENTS AND BY BOARD OF GOVERNORS

Both bills would repeal --

1. The requirement that a business be "established".
2. The requirement that advances be made only for "working capital".
3. Provisions for industrial advisory committees.
4. Provisions of present subsection (e) regarding payments by the Secretary of the Treasury to the Federal Reserve Banks (both bills would require the Federal Reserve Banks to repay to the United States all amounts heretofore paid to them by the Secretary of the Treasury).

The bills differ in the following respects --

1. The Board bill would eliminate any requirement as to maturity; the bill of the Conference of Presidents would retain the present five year limitation.
2. The Board bill omits the present requirement that direct advances shall be made "on a reasonable and sound basis"; the bill of the Conference of Presidents would retain this requirement.
3. The Board bill contains the requirement that the requisite financial assistance must not be obtainable on a reasonable basis from the usual sources only with respect to direct advances; the bill of the Conference of Presidents makes this requirement both as to direct advances and as to commitments or guarantees.
4. The Board bill would permit guarantees and commitments up to 90 per cent; the bill of the Conference of Presidents would retain the present provisions permitting the Federal Reserve Banks to make commitments or guarantees only up to 80 per cent.
5. The Board bill contains no limitation upon aggregate amount; the bill of the Conference of Presidents limits the aggregate amount of all loans, advances, and commitments to the combined surplus of the Federal Reserve Banks.

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