

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 20, 1947

Mr. Musgrave

Subject: Analysis of Budget Estimates

From Miss Burr and Mrs. Sette

for the Reconstruction Finance Corporation.

SSB ERS

Cash needs of the Treasury to meet requirements of the Reconstruction Finance Corporation in the fiscal year ending June 30, 1948, as shown in the Budget, will total about 675 million dollars. Because of the inclusion of certain non-cash payments, this total is 100 million less than estimated net expenditures from the Corporation's checking accounts. Estimated net expenditures for 1947-48 by major categories, compared with actual expenditures for 1945-46 and estimates for 1946-47, are shown in Table 1.

The estimates assume continuation of the RFC during the fiscal year 1947-48. On this the Message states, "I recommend that the statutory authority of the Reconstruction Finance Corporation be extended beyond the present expiration date of June 30, 1947. Such extension is assumed in the expenditure estimates in this Budget. The new charter to be submitted will provide for the repeal of all powers not required for peacetime activities. It will also provide for a reduction of 2.5 billion dollars in the Corporation's borrowing power. With the receipts anticipated from liquidation of war activities the reduced authority should prove adequate."

The principal cash needs of the RFC in the fiscal year 1947-48 will be about 490 million dollars for housing aids, 300 million for rural electrification loans, and 90 million for business loans and guarantees. These requirements will be offset in part by net receipts of about 75 million dollars from continued liquidation of loans and investments of the 1930's and about 200 million from further liquidation of war activities.

Review of budget plans for the RFC to determine the effect of termination of its active powers on June 30, 1947, the expiration date set by present law, indicates that cash requirements of the Treasury would be reduced by about 200 million dollars, assuming discontinuance of its business lending program but continuance of aids to housing and rural electrification loans under the administration of other Government agencies. The liquidation of assets acquired through its emergency operations during the 1930's and the war would probably be carried on according to budget plans if the RFC were placed in liquidation.

Table 1

Net Expenditures of the Reconstruction Finance Corporation
(From checking accounts of U.S. Treasury,
in millions of dollars)

	Actual 1945-46	Estimated 1946-47	1947-48
Housing and community facilities, total	- 51	268	487
Purchase of mortgages			
Veterans' program		198	385
Other <u>1/</u>	- 45	35	58
Premium payments	2	60	
Public housing programs	- 7	- 49	
Provision of community facilities	<u>2/</u>	25	44
Rural electrification	74	200	300
Business loans and guarantees, excluding national defense <u>3/</u>	104	79	91
Liquidation of loans and investments from de- pression years <u>4/</u>	-141	- 96	- 74
War activities			
Food subsidies	849	115	
Activities supporting defense			
Transfer to Treasury military stockpiles <u>5/</u>	--	- 87	-210
Other--sales of critical materials to public, etc.	- 53	-337	-121
Business loans for national defense			
Retirement of SWPC stock			<u>5/</u> 100
Other	-215	-100	- 34
Insurance for war damage	- 2	1	<u>5/</u> 211
International reconstruction, etc.			
Philippine aid program	--	75	--
Loan to United Kingdom	- 38	- 39	- 40
Other	-223	20	<u>2/</u>
Other: General administrative	- 17	62	66
Total expenditures (net)	286	161	776
Total excluding noncash items <u>5/</u>	286	248	676

Source: Budget of the United States for the fiscal year ending June 30, 1948, p. A 112, text tables in Budget Message, and pp. 1064-65 (Schedule C-2 b).

1/ FEA insured mortgages and uninsured mortgages.

2/ Less than \$500,000.

3/ Totals for loans and guarantees, less retirement of SWPC stock and net repayments on loans for national defense.

4/ Includes: ^{also} loans to drainage, levee, and irrigation districts and loans for farm tenancy and rural rehabilitation.

5/ Noncash expenditures: transfers to Treasury military stockpile, retirement of SWPC stock, transfer of profits from insurance for war damage.

The principal factors involved in discontinuance of the RFC on June 30, 1947, relate to three programs:

(1) Government aid to housing. Estimated expenditures of the RFC include 487 million dollars for aids to housing, largely for the purchase of home mortgages to assure a ready market to private institutions.

Here two major questions are involved: (1) Are such purchases by a Government agency necessary in the current housing situation and (2) if necessary, can they be financed without using the RFC? The greater part of the proposed purchases of home mortgages will be made under the act approved August 7, 1946, which provides for the purchase of veterans' guaranteed or insured loans. It seems likely that the RFC plans merely reflect a policy recently established by Congress. However, it might be possible to use two existing agencies, namely, the RFC Mortgage Company, which the RFC plans to dissolve this year, and the Federal National Mortgage Association, which is scheduled to continue operations in 1948, to support the home mortgage market. It might be possible for these agencies to obtain funds directly from the Treasury, instead of from the Treasury via the RFC.

(2) Rural electrification. A program of Federal loans to encourage greater use of electric power in rural communities is well established; in fact, the large increase in such expenditures planned for 1948 reflects indirectly the unavoidable delays in making these loans during the war. Funds for such loans, however, might be secured directly from the Treasury.

(3) Business loans and guarantees. If the Tobey bill (S. 408) amending Section 13 of the Federal Reserve Act is approved, guarantees and participations in loans to business made by the banking system will be provided through the Federal Reserve System, which will require no Government expenditures. If RFC loans and guarantees of loans to business were discontinued on June 30, 1947, cash budget requirements for 1947-48 would be reduced by more than 200 million dollars. Estimated net expenditures reflect disbursements of 150 million and repayments of 65 million on account of such loans, excluding business loans for national defense, which are already in process of liquidation.

Except for the three programs outlined above, the RFC will be engaged in liquidating assets acquired directly or by its subsidiaries in emergency operations first during the 1930's and then during the war. Liquidation of loans and investments made during the depression emergency is almost completed; available data indicate that there will be only about 340 million of such loans and investments remaining at the end of 1948; these are discussed on pages 12 to 14. Continued liquidation of wartime activities in 1948 will involve a variety of detailed activities, as indicated by the following summary of assets acquired for war purposes:

- 4 -
Summary of Assets Acquired for War Purposes

	June 30		
	Actual	Estimated	
	1945	1947	1948
	(billion dollars)		
Land, structures, and equipment	6.8	1.5	1.3
Commodities, supplies, and materials	0.9	0.4	0.2
Accounts, notes receivable, and advances to contractors	0.7	0.1	1/
Loans to foreign governments	0.3	0.3	0.2
Investments in subsidiaries	0.5	1/	0.1
Total	9.2	2.3	1.8

1/ Less than \$50,000,000.

Note:--Figures include assets of war subsidiaries which are now merged with the parent company. See Table 2, footnote 1.

Assets resulting from war activities will have been reduced from more than 9 billion dollars to less than 2 billion by June 30, 1948. The two major items remaining on that date--land, structures, and equipment and loans to foreign governments--may be reduced slowly in subsequent years. It is expected that about 500 million dollars of plant facilities will either be retained for further use by military agencies or be operating on long-term leases. The loan to the United Kingdom is scheduled for slow repayment from income on the securities that were put up as collateral against it, and no plans appear to have been made for repayment of the recent loan to the Philippine Government.

The principal assets of the RFC on June 30, 1945 (that is, just before V-J day), and estimated assets on June 30, 1947 and 1948, are shown in Table 2. Further details concerning the current loan and investment program and the liquidation of war activities and of depression financing appear in the following paragraphs.

RFC Programs Scheduled for Expansion

Aids to housing

Net expenditures of nearly 500 million dollars are planned by the RFC for the fiscal year 1947-48 to aid in the acute housing shortage. As shown in Table 1, these include 385 million dollars (net) for purchase of veterans' guaranteed or insured mortgages, 58 million for other mortgages, and 44 million of advances to public bodies for the construction of community facilities. The proposed purchase of veterans' mortgages is discussed in a memorandum prepared by Mr. Wood. The

Table 2

Assets of the Reconstruction Finance Corporation
(June 30 figures, in millions of dollars)

	Actual 1945 1/	Estimated 1947	Estimated 1948
Total assets	11,250	4,104	4,251
Loans receivable, total 2/	1,420	1,572	2,300
Expanding programs, total	370	1,054	1,385
To aid home owners	30	282	711
To business (excluding national defense)	50	258	360
For rural electrification	240	514	814
War programs			
To foreign governments	272	269	229
To business for national defense, etc. 3/	367	51	17
All other	464	279	260
Cash	40	26	28
Investments other than in subsidiaries	688	323	4/267
Land, structures, and equipment 5/	6,803	1,546	1,267
Commodities, supplies, and materials 5/	945	440	178
Accounts, notes receivable, and advances to contractors	710	50	22
Investments in subsidiaries	542	6/23	6/61
All other assets	102	124	128

Source: Budget of the United States for the fiscal year ending June 30, 1948, pp. 1047 and 1063 (Exhibit C and Schedule C-2 a, Reconstruction Finance Corporation).

1/ Figures differ from those shown in regular Treasury statement for Government corporations and credit agencies, largely because they include figures on a consolidated basis for the following agencies, which have been or will be merged: Defense Plant Corporation, Defense Supplies Corporation, Metals Reserve Company, Rubber Reserve Company, and Disaster Loan Corporation, all merged on July 1, 1945; War Damage Corporation, Rubber Development Corporation, and the RFC Mortgage Corporation, to be merged by June 30, 1947.

2/ Net loans, after reserves for revaluation (which are not shown separately) as follows, in millions of dollars: 1945, 53; 1947, 82; 1948, 92.

3/ National defense loans and purchases and loans acquired from SNPC.

4/ Includes 100 million dollars of preferred stock, capital notes, and debentures of banks and trust companies.

5/ Details shown in Table 3, p. 11.

5/ Capital stock and surplus and bonds or notes of Federal National Mortgage Association and U. S. Commercial Company.

purchase of other mortgages, which would include both FHA insured mortgages and uninsured mortgages, relates to activities formerly under the RFC Mortgage Company, which is being liquidated.^{1/}

Rural electrification loans

Estimated net expenditures of the RFC on advances for rural electrification programs, as indicated in the 1948 Budget, will amount to about 300 million dollars. The Rural Electrification Administration was created in May 1935, to carry out the Nation's program for expanding the use of electrical energy in rural communities. Its funds were secured through advances from the RFC; these are supplemented by repayments on loans. The Budget indicates that this method of financing will be continued. Almost all the loans of the REA have been made to locally owned and locally operated cooperative groups of farm people organized for the specific purpose of obtaining electric service.

The REA continued throughout the war period to make allotments and loan contracts, although in many instances it was not possible, because of material shortages, for cooperatives to carry out expansion plans. Funds advanced, which had averaged about 50 million dollars annually during the 6-year period ending June 1941, dropped to an average of about 30 million during the next three years, the latest data available. The increase to 200 and 300 million in this agency's prospective needs for fiscal years 1947 and 1948, respectively, is indicative of the marked step-up in expansion that was delayed during the war period.

Precedents for direct Treasury advances

Direct Treasury financing of both the housing program and rural electrification programs would be in keeping with financing policies already set up for other Government agencies, for example, the Commodity Credit Corporation and the Export-Import Bank. The former, originally financed by the RFC, has been financed by the Treasury since 1938. As for the Export-Import Bank, the Treasury took over the RFC investment of 174 million dollars in preferred stock of that institution in accordance with the act approved July 31, 1945, which provided that a substantial increase in the capital stock of the Export-Import Bank be subscribed by the Treasury.

An agency added only recently to the list of those directly-financed is the Farmers' Home Corporation. Funds for FHC activities, according to terms of the Farmers' Home Administration Act, will be appropriated by Congress; this is reflected in Budget requests for an appropriation of 154 million dollars for the FHC in 1948.

^{1/} Purchases of the Federal National Mortgage Association are also included.

Loans to commercial and industrial businesses

Recent lending activities of the RFC have consisted of loans to industrial and commercial businesses as authorized by Section 5d of the RFC Act. Lending authority for such loans was granted in 1934, at the time that Congress added Section 13b to the Federal Reserve Act authorizing the Federal Reserve Banks in certain circumstances and under certain restrictions to make direct loans, and to participate with banks in loans, to commercial and industrial businesses.

The outstanding amount of RFC loans under its authority had grown to 129 million dollars when the defense program was inaugurated in 1940; as a result of loans for war purposes, as shown below, the total increased to 419 million on September 30, 1944. By November 30, 1946, the latest data thus classified, the total had declined to 294 million, reflecting a reduction of 235 million in loans for war purposes and an increase of 110 million in those for other purposes.

RFC Loans to Industrial and Commercial Businesses
(In millions of dollars)

	Sept. 30, 1944	Nov. 30, 1946	Change
Total	419	294	-125
For national defense purposes	386	151	-235
Other	33	143	+110

A large portion of the business loans made by the RFC in the past two years have apparently been made under the Blanket Participation Agreement program. Under this program, which was in effect during the period April 1945-January 1947, the RFC agreed to guarantee, up to 75 per cent, any business loan authorized by a bank which had signed a Blanket Participation Agreement. Authorizations for credit under this program increased rather sharply after January 1946, when the RFC took over the lending functions of the SWPC, and loans authorized under the program constituted about two-thirds of all loans--both number and amount--authorized by the Corporation during the interval February-November 1946.

The BPA program was terminated on January 22, 1947. All loans authorized under the program prior to that date will continue to be guaranteed under the original Agreement. In announcing the end of the program, the RFC stated that future demands of small business for long-term credit will be supplied under the Agency's regular deferred participation program inaugurated in 1934.

Budget estimates, however, were based on the assumption that the BPA program would be continued; they indicate RFC expenditures of about 90 million dollars (net) on loans to business in the 1948 fiscal year, reflecting anticipated disbursements of about 150 million dollars and repayments of about 65 million.

Liquidation of business lending for national defense purposes is represented in RFC estimates for 1947-48 by net repayments of 34 million dollars on loans (including repayments on SWPC loans) and retirement of 100 million of SWPC stock held by the Treasury (a non-cash expenditure).

Liquidation of Emergency Agencies a Government Policy

The RFC's statutory authority will terminate under present law on June 30, 1947. As indicated earlier, the President, in his Budget Message, recommended that the Corporation be extended beyond that date. Several plans for its extension have been discussed, but only one has been incorporated in a bill and been introduced in Congress. This bill would extend the Corporation with its present powers until June 30, 1952. The RFC is reported to have advanced a preliminary plan for its extension that is substantially less liberal than the bill now in Congress; this plan would extend the agency for only one year and would strip it of some of its outmoded lending authority, and would permit the loan and investment program now provided for in the Budget. The President's recommendation in the Budget Message appears to be in line with this preliminary plan of the RFC.

In view of the fact that various phases of the RFC's current program might well be handled by existing agencies, as indicated above, there is considerable doubt as to the need for maintaining the RFC solely for such purposes. Moreover, liquidation of the agency would be in keeping with the mandates of recent legislation. The Reorganization Act of 1945 calls for consolidation of Government agencies having similar functions and elimination of overlapping functions; consolidation of agencies and functions of the Government according to major purposes; and finally reduction in expenditures to the fullest extent consistent with efficient operation of the Government. Steps taken in recent years to liquidate other emergency lending agencies of the depression years have been in line with the objectives of such legislation.

The legislation creating the EOLC in 1933 provided for the winding up of its affairs by 1952, and provision was made later for termination of its lending activities in 1936. In 1943 a recommendation for liquidation by June 30, 1945, was made by a Congressional Investigating Committee. Officials of the Corporation reporting to Congress opposed these plans on the grounds that losses incurred in liquidating assets by the earlier date would not be justified. Congress took no action, and the Corporation has proceeded according

to original plans. Disposal of outstanding mortgage loans and properties has been proceeding ahead of schedule, largely as a result of the favorable housing market of the war period. The HOLC is expected to liquidate by 1952 without any loss to the Federal Government.

Amendments to the Federal Farm Loan Act and the Federal Farm Mortgage Corporation Act in June 1945 were directed toward liquidation of the Federal Farm Mortgage Corporation, another depression agency, by July 1, 1946. These amendments permitted Federal land banks to acquire Land Bank Commissioner loans as a step in this direction and also liberalized the authority of the land banks in making new loans, by increasing the amount that may be loaned from 50 to 65 per cent of the appraised value of farms. In July 1946, however, the Federal Farm Mortgage Corporation's authority to make Commissioner loans was extended until July 1, 1947; at the same time the Farm Credit Administration was directed to make a study and report to Congress on ways of making available to farmers Federal land bank loans similar to those now made through the Federal Farm Mortgage Corporation. In line with the potential curtailment of this agency's activities, the Budget for the fiscal year 1948 proposes a reduction in its borrowing authority from 2 billion dollars. It is estimated on the basis of current conditions that by June 30, 1948, the FPMC will have retired all but a few thousand dollars of the capital stock owned by the Treasury and that its earned surplus will exceed 100 million dollars. It should be noted that, according to the Budget, the Federal land banks are also expected in the fiscal year 1948 to complete retirement of Government-owned capital stock, thus acquiring for themselves the status of cooperative institutions.

Other corporations now being liquidated are for the most part among those that were created during the war period; these include, in addition to subsidiaries of the RFC, which will be discussed below, the Institute of Inter-American Affairs, Inter-American Navigation Corporation, Defense Homes Corporation, Prencinradio, Federal Surplus Commodities Corporation, and the U. S. Spruce Corporation. The 1948 Budget recommends the liquidation of the Inter-American Educational Foundation and the Tennessee Valley Associated Cooperatives; the Inland Waterways is also scheduled to absorb its subsidiary, the Warrior River Terminal Company.

RFC Programs Already Being Liquidated

War activities

Present plans for further liquidation of the war activities of the RFC are presented in some detail in the Budget, pages 1,029-38. The initial stages of such liquidation, which were completed during the

fiscal year 1946, included mainly the merging of major war subsidiaries with the parent company^{1/} and the establishment of procedures for disposal of surplus property, largely through an independent agency--the War Assets Administration. The extent of actual liquidation to be accomplished by June 30, 1947, is indicated in the summarized statement of RFC assets shown in Table 2; this is a consolidated statement of the RFC and the subsidiaries already merged or shortly to be merged with the parent company. Assets originating in war activities, which totaled more than 9 billion dollars on June 30, 1945, will be reduced to less than 2.5 billion by June 30, 1947; further liquidation according to Budget plans will reduce this total by an additional 1/2 billion to 1.8 billion by June 30, 1948. Additional details concerning the liquidation of physical assets are shown in Table 3.

War plant facilities.--The greater part of the end-of-war assets of the RFC consisted of plant facilities totaling 6.8 billion dollars on June 30, 1945. Reduction of these investments by June 30, 1947, to 1.5 billion will be the result of (1) declarations as surplus to the War Assets Administration and therefore available for sale, and (2) creation of substantial reserves to cover losses anticipated in the ultimate disposition of these assets. By June 30, 1948, according to present plans, about one billion dollars of wartime plant facilities that have not been declared surplus will remain on the books of the RFC; this total will include about 500 million dollars that will be held merely pending surplus declaration or sale (an interim stage), about 400 million held by the sponsoring agencies for future use (presumably by the military), and about 100 million that will still be operating on long-term lease agreements.

Strategic supplies, metals, and minerals.--Assets of the RFC in the form of strategic supplies and strategic metals and minerals totaled over 900 million dollars on June 30, 1945. By the end of the current fiscal year these holdings will be reduced to about 400 million, in part by sale and in part by transfer to the permanent national stockpile as provided by law. Further transfers to the permanent national stockpile or sales are expected to reduce this total to less than 200 million by June 30, 1948, of which only 70 million will be held for sale or stockpiling.

Other.--As indicated earlier, most of the war-created subsidiaries were merged with the parent company during the fiscal year 1946. During the current fiscal year the War Damage Corporation, the Rubber Development Corporation, and the RFC Mortgage Corporation will be dissolved. In connection with the dissolution of the War Damage Corporation, the RFC budget for 1948 reflects the return to the Treasury of the 210 million of profits made by the agency on war damage insurance. During the fiscal year 1948 liquidation of assets of the Smaller War Plants Corporation that were transferred to the RFC will be practically

^{1/} For a list of these subsidiaries see Table 2, footnote 1.

Details Concerning Physical Assets of the Reconstruction Finance Corporation
(June 30 figures, in millions of dollars)

	Actual 1945	Estimated 1947 1948	
Land, structures and equipment, net	6,803	1,546	1,267
Wartime facilities			
Declared surplus	1	3,067	3,502
Not declared surplus	6,797	2,287	1,018
General land, buildings, and equipment	10	11	11
<u>Less</u> reserve for depreciation and revaluation ^{1/}	4	3,819	3,270
Commodities, supplies and material, net	945	440	178
Held for sale <u>or</u> stockpiling	850	368	70
Held for permanent stockpile ^{2/}	--	43	70
Declared surplus to War Assets Administration	<u>3/</u>	22	15
Held for use in operations	95	41	41
<u>Less</u> reserve for revaluation	--	34	19

Source: Budget of the United States for the fiscal year ending June 30, 1948, p. 1047 (Exhibit C - Reconstruction Finance Corporation).

^{1/} Reserves established represent full loss anticipated upon ultimate disposition of property (Budget for 1948, p. 1041).

^{2/} These are held for transfer under the Strategic and Critical Materials Stockpiling Act; the Corporation is reimbursed in the amount of the fair market value. The Corporation is also required under Section 22 of the Surplus Property Act to transfer to the national stockpile, without reimbursement, certain inventories of strategic and critical materials.

^{3/} Less than \$500,000.

completed, and its capital stock of 100 million dollars will be retired. The only remaining war subsidiary will be the U. S. Commercial Company; continuation of this Company beyond June 30, 1947, its present expiration date, is recommended because of its temporary use in financing exports necessary to the economic revival of occupied areas.

The loan of 1941 to the United Kingdom, secured by investments in this country and serviced by earnings on these investments, could very properly be handled by the Treasury Department. The 1948 Budget indicates that this loan, which had been reduced from its peak of 385 million dollars in February 1942 to 220 million at the end of November 1946, will be further reduced to 154 million by June 30, 1948. The Treasury might handle also the 75 million dollar loan made to the Philippine Republic in the fiscal year 1946-47, which was intended to finance the current budget of the Republic.

Liquidation of the Corporation's loans to business for defense purposes has been covered in an earlier section of this memorandum.

Emergency financing of the 1930's

Budget estimates indicate that outstanding loans and investments from the emergency financing of the early 1930's will be reduced to about 340 million dollars by June 30, 1948. The RFC was the first emergency agency created by Congress for dealing with financial problems arising out of the depression. Prior to the bank holiday in early 1933 the Corporation made loans to tide over financial institutions and railroads whose assets were frozen. After the bank holiday funds for such purposes were made available to banks by investment in preferred stock, capital notes, and debentures, while loans were made chiefly to closed banks--largely to receivers and mortgage loan companies--for the purpose of expediting the payment of dividends to depositors of closed banks. RFC loans to financial institutions and railroads reached a peak of about 1.4 billion dollars in 1933; its investments in the capital structure of banks, made largely in 1934, resulted in a peak of outstanding loans and investments of nearly 2.3 billion at the end of 1934.

Since the end of 1934 these early loans and investments have been gradually reduced. The total had declined to about 1.4 billion dollars when the national defense program was started in 1940 and will be about 340 million dollars by June 30, 1948. Figures for individual types of loans are shown in the following table:

Outstanding Loans and Investments from Emergency Financing of the 1930's

	Dec. 31, 1934	Dec. 31, 1940	June 30, 1948 (estimated)
Loans to financial institutions	840	172	23
Preferred stock, capital notes and debentures	834	452	100
Loans on preferred stock of banks and trust companies	47	53	3
Loans to railroads	377	474	141
Loans to drainage, levee, and irrigation districts	12	83	10
Loans for self-liquidating projects	123	36	3
Other loans	20	5	2
Securities purchased from the Public Works Admin.	<u>2</u>	<u>116</u>	<u>56</u>
Total	2,255	1,391	338

Estimates of loans outstanding for June 30, 1947, are not available, but the amounts will probably be only slightly above those for June 30, 1948, shown in the table. Liquidation on either date would therefore involve approximately the same amounts. Of the outstanding balance anticipated on June 30, 1948, about 236 million dollars could perhaps be turned over to private financing institutions under some systematic arrangement for the sale of these assets and for the writing off of losses; into this group would fall the remaining holdings of securities purchased from the Public Works Administration (56 million dollars), outstanding loans to drainage and irrigation districts and for self-liquidating projects (13 million); loans to railroads (141 million); and loans to banks and other financial institutions (26 million).

One of the problems to consider is the extent to which these loans and investments are likely to be attractive to private financing institutions. The unusual amount of funds available during the war has resulted in extensive repayment of private debts. The remaining balances of the groups of loans and investments referred to above were reduced by about 650 million dollars from 1940 to 1946; repayments appear to have been falling off recently, however, and it is estimated that the total reduction for the 18 months ending June 1948 will be only about 60 million. Loans not retired during the war and early postwar period may represent liabilities of businesses in poor condition, and it is possible that a large proportion of these loans would have to be written off as losses.

It might also be possible to return to private hands a part of the remaining investment of 190 million dollars in preferred stock, capital notes, and debentures of banks, which the Budget for 1948 estimates will be reduced to about 100 million by June 30, 1948. Funds raised through sales of common stock might be used to take up part of this special RFC investment; to the extent that this could not be accomplished, the investment might be transferred to a Federal bank supervisory agency for gradual liquidation.

Other investments: non-war affiliates and agencies

On September 30, 1946, the RFC owned stock in two non-war affiliates, the RFC Mortgage Company and the Federal National Mortgage Association, whose combined assets totaled 29 million dollars, including 20 million of home mortgage loans. These agencies were organized in the 1930's to assist in establishing a market for FHA insured home mortgage loans. Gradual liquidation of both agencies has been in process for some time.

Budget plans indicate that liquidation of the RFC Mortgage Company will be speeded up in an effort to terminate the agency by June 30, 1947, and that its operations after that date will be handled by the RFC itself. In the case of the FNMA, however, renewed expansion is planned. As more new housing becomes available and the volume of mortgage loans insured by the FHA increases, it is anticipated that the FNMA will be called upon to buy more insured loans, especially mortgages of nonveterans. Assets of the Association, which will total about 16 million on June 30, 1947, are scheduled to increase to about 65 million during the next year, largely as a result of investment in insured loans. In case the RFC is liquidated, however, the administration of this agency might be handled by the National Housing Agency.

There would remain also the problem of disposing of the RFC's loans to and investments in other Government agencies. The largest of these is its investment in capital stock of the Federal Home Loan Banks which has remained practically unchanged at 125 million dollars since February 1941. This stock might be taken over by the Treasury or transferred to the National Housing Agency.

The only other remaining item^{is} outstanding advances of the RFC to the Secretary of Agriculture for supplying funds to the Farm Security Administration, which, according to Budget estimates, will amount to about 105 million dollars on June 30, 1947. Liquidation of these advances, as Farm Security Administration loans are repaid, might well be turned over to its successor, the Farmers' Home Corporation.