

TREASURY

March 21, 1947

My dear Mr. Chairman:

Reference is made to your request for the views of this Department on two bills, S. 217, "To make credit available to small business enterprise and to continue the Reconstruction Finance Corporation for the purpose of effectuating a policy of credit assistance to competitive small business enterprise", and S. 408, "To repeal section 13b of the Federal Reserve Act, to amend section 13 of the said Act, and for other purposes". You have also requested the views of the Comptroller of the Currency on the former bill and this will serve as a reply to that request.

S. 217 would extend the life of the Reconstruction Finance Corporation for a period of five years and the title of the bill would indicate that the extension is intended to be for the primary purpose of effectuating a policy of credit assistance to competitive small business enterprise. In that connection, I would like to state that the Department feels that the extension of credit by the Reconstruction Finance Corporation to small business is desirable when it can be shown that their legitimate credit needs are not being met by private enterprise. The Corporation has such authority at present under its general lending powers and has been making such loans. This is evidenced by the statement of the President in his Budget Message of January 3, 1947, to the effect that the Corporation in its peacetime business loan program has been authorizing about 1,000 loans a month, chiefly to small business. The Department favors a continuance of that authority for legitimate credit needs.

However, it would appear that section 6 of the bill would continue the Reconstruction Finance Corporation not only for making loans to small business but would also continue all the present statutory powers of the Corporation. That is, section 6 would appear to provide for a blanket continuation of the Corporation and its powers. In that regard, the President in his Budget Message stated that a new charter for the Corporation to be submitted will provide for the repeal of all powers not required for peacetime activities. This Department is in accord with the position that the life of the Corporation should be extended but that powers of the Corporation not required for peacetime activities should be eliminated. Also, it would seem that the authority to make loans to small business should be considered in connection with the general extension of the lending powers of the Corporation rather than individually.

Section 1 of S. 408 would repeal section 13b of the Federal Reserve Act which set aside the gold increment fund for making advances to Federal Reserve banks for industrial loans. The repeal of that section would be in accord with the recommendation of the President in his Budget Message and would release to the Treasury the funds reserved for that purpose.

Section 2 of S. 408 would authorize Federal Reserve banks to guarantee loans made by financial institutions and to make commitments to purchase loans from such institutions, if the loans have a maturity of not more than 10 years. Such guarantees or commitments could not be in an amount more than 90 percent of the unpaid balance of the loan and the aggregate amount of guarantees and commitments would be limited to the combined surplus of the Federal Reserve banks. Individual loans over \$100,000 could not exceed 50 percent of the combined surplus of the banks. You are advised that this Department would interpose no objection to granting such authority to the Federal Reserve banks. However, your Committee may wish to consider the question of whether this authority might not in some measure cause some duplication in the field of authority of the Reconstruction Finance Corporation to make loans, assuming that such authority of the Corporation is continued.

In view of the hearing which you are holding on March 25 on S. 217 and in view of your request for expedition of our report on this bill, it has not been possible to secure the usual clearance from the Bureau of the Budget.

Very truly yours,

/s/ JOHN W. SNYDER

Secretary of the Treasury

Honorable Charles W. Tobey
Chairman, Committee on Banking
and Currency
United States Senate
Washington, D. C.