

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 15, 1947

To Mr. Thurston

Subject: Recent RFC Developments

From Miss Burr and Mrs. Sette

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The current condition of the RFC on the basis of June 30, 1947 data (the most recent) is briefly as follows:

(1) Less than one-third of its outstanding loans and investments represent lending powers continued until June 30, 1948, under the legislation enacted last June. The outstanding total of 580 million dollars for these loans and investments compares with a maximum statutory limit of 2 billion dollars set for such loans.

(2) About one-third of total RFC loans and investments on June 30, 1947 consisted of stock in or advances to other Government agencies that were to be transferred to the Treasury Department as of the close of business on June 30 or shortly thereafter.

(3) Of the remaining 800 million dollars, 235 million represented advances made during the period January-June 1947; these included a loan of 60 million to the Philippine Government and 175 million of temporary advances to the Secretary of State for aid to Greece and Turkey and to war devastated areas.

(4) Total assets of the RFC, as shown by its condition statement submitted to the Treasury Department, had been reduced by June 30, 1947, to one-fifth of the wartime total of the RFC and its affiliates. The decline of 8 billion dollars resulted largely from the declaration of property as surplus, and consequently for disposition by the War Assets Administration, and the setting up of substantial depreciation reserves against property still held for future use or sale.

Recent developments of RFC activities center in the amendment to the RFC Act approved June 30, 1947 (Public Law 132, 80th Congress). These amendments were summarized in a memorandum to Chairman Eccles by Mr. Solomon, dated July 22, 1947.

Loans and investments

Recent changes in RFC activities may be summarized on the basis of outstanding loans and investments on June 30, 1947, the most recent data available, together with changes from December 31, 1946. This summary is presented in Table 1 in which the loans and investments are arranged in three groups: (a) loans and investments of the type which the RFC has authority to make under the recent revision of the law, (b) loans and investments to be transferred to the Treasury Department, and (c) all other, largely loans and investments no longer authorized. Comments on these categories follow:

Table 1

Reconstruction Finance Corporation Loans and Investments Outstanding
Dec. 31, 1946 and June 30, 1947
(In millions of dollars)

| | June 30, 1947 | Dec. 31, 1946 | Change |
|---|------------------|------------------|--------|
| A. Outstanding loans grouped according to lending powers in Public Law 132, 80th Congress: | | | |
| (1) Loans to, or investments in, obligations of business: | | | |
| Railroads | 144 | 146 | - 2 |
| Mining businesses | 5 | 5 | 0 |
| Other businesses | | | |
| For national defense | 127 | 145 | - 18 |
| Other | 188 | 147 | + 41 |
| (2) Loans to financial institutions: | | | |
| Banks and trust companies | 1 | 12 | - 11 |
| Mortgage loan companies and insurance companies | 1/ | 10 | - 9 |
| Loans secured by preferred stock of insurance cos. | 4 | 2 | + 2 |
| (3) Loans to, or investments in, securities of municipalities or public agencies to finance specific public projects: | | | |
| Loans and security purchases to aid in financing self-liquidating projects | 45 | 36 | + 9 |
| Securities purchased from Public Works Admin. | 61 | 64 | - 3 |
| (4) Disaster loans | 1 | 1 | 0 |
| Subtotal | 576 | 568 | + 9 |
| B. Loans and investments transferred to the Sec. of the Treasury: | | | |
| Stock of the Federal Home Loan Bank | 123 | 124 | - 1 |
| Loans to the Rural Electrification Administration | 511 | 387 | +124 |
| Rural rehabilitation and farm tenancy loans | 40 | 174 | -134 |
| Subtotal | 674 | 685 | - 11 |
| C. Other: | | | |
| Absorption of RFC Mortgage Co. by parent corporation | 25 | 28 | - 3 |
| Interagency loans and investments: | | | |
| Federal National Mortgage Association | 11 | 11 | 0 |
| Tennessee Valley Authority | - | 2 | - 2 |
| National defense companies | 167 | 198 | - 31 |
| Allocation to Secretary of State for aid to Greece and Turkey and War Devastated Areas | 175 | - | +175 |
| Other loans and investments: | | | |
| Preferred stock, capital notes, and debentures | 158 | 188 | - 30 |
| Loans to foreign governments: | | | |
| Great Britain | 194 | 214 | - 20 |
| Philippines | 60 | - | + 60 |
| Other loans | 17 | 18 | - 1 |
| Total loans | 2,057 | 1,912 | +145 |

1/ Less than \$500,000.

Source: Reconstruction Finance Corporation.

(1) The recent legislation designated four lending powers for the RFC which are listed in the first section of the table. These powers, however, are fairly broad since they represent in part a consolidation of lending authority formerly provided in separate sections of the law. For example, loans to financial institutions covers a number of types of loans and types of institutions formerly designated separately. Also loans to or investments in obligations of businesses includes railroads and mining companies, which were formerly covered separately, as well as the former general category of loans to business.

It may be noted that although these powers are broad, there are various limits on lending powers included in the new law, such as the termination of lending activities on June 30, 1948; a maximum limit of 2 billion dollars on total outstanding loans, investments, purchases, or commitments at any one time; the requirement of approval of the Interstate Commerce Commission or the Civil Aeronautics Board for loans to or investments in obligations of railroads or air carriers, respectively; and a limit of 25 million dollars on disaster loans outstanding at any one time.

On June 30, 1947, the total of outstanding loans and investments of the type which the RFC is now authorized to make was about 580 million dollars, or nearly 30 per cent of all outstanding loans and investments on that date. The total for these types of loans had increased only slightly in the first half of 1947, largely because those now on the books of the RFC are loans made during the 1930's or during the war period, which are now being liquidated. Businesses continued to liquidate their earlier loans for national defense purposes and loans to railroads were reduced, while other loans to businesses increased by 41 million dollars during the period. Loans to financial institutions declined, and those to municipalities and other public bodies increased slightly. The latter group may become of increasing interest, however, in view of the large volume of issues by special authorities that is currently being planned and the lack of an established market for securities of this type.

(2) About one-third of total outstanding loans and investments on June 30, 1947, were to be transferred to the Treasury Department. The investment of 123 million dollars in stock of the Federal Home Loan Banks is to be transferred as soon as practicable.^{1/} Loans to the Secretary of Agriculture for rural rehabilitation and farm tenancy and to the Rural Electrification Administration, which amounted to 40 and 511 million dollars respectively on June 30, were to be transferred as of the close of business that day.^{2/}

(3) Among the remaining loans and investments the following deserve comment:

^{1/} Public Law 132, 80th Congress, Sec. 205.

^{2/} Public Law 266, 80th Congress, Title I, sections on Farmers' Home Administration (pages 25-26) and Rural Electrification Administration (pages 26-28).

The largest advance made by the RFC in the first half of 1947 and outstanding at the end of that period was 175 million dollars of temporary advances (termed "allocations") to the Secretary of State for aid to Greece and Turkey and for relief in war devastated areas. These advances were made as directed by legislation enacted in May; they were made prior to the appropriation of funds for the purposes specified and are to be repaid from appropriations when made.^{2/}

The RFC was directed to absorb its subsidiary, the RFC Mortgage Company, whose assets were largely mortgage loans. This took place as of June 30, 1947. At the same time the RFC powers to provide a guaranteed market for home mortgage loans to veterans lapsed.^{4/}

Continued liquidation may be expected in other types of RFC loans and investments. Within the 6 months, January to June, the only increase in this group was a loan of 60 million dollars to the Philippine Government.

The recent legislation provided for succession of the U.S. Commercial Company, one of the RFC subsidiaries, until June 30, 1948. The activities of this company are not reflected in loans and investments.

Asset position on June 30, 1947

By mid-1947 total assets as shown in the condition statement of the RFC and its affiliates totalled less than one-fifth of the total just before the end of the war. The greater part of assets acquired for war purposes had been declared surplus with large reserves for losses, had been sold, or had been written off. Nearly 60 per cent of the total assets on June 30, 1947 consisted of loans (net of reserves for losses) and cash.

The corporation's assets on June 30, 1947^{5/} are summarized in Table 2 compared with June 30, 1945, just before the end of the war, and December 31, 1946.

Total assets declined during the two-year period from 10 billion dollars to less than 2 billion. This decline reflects almost entirely the accounting for property acquired in connection with the war. Land, structures, and equipment, which amounted to 6.8 billion dollars on June 30, 1945, totalled less than 50 million dollars net of reserves by mid-1947.

^{3/} Public Law 75, 80th Congress, approved May 27, 1947, to provide for assistance to Greece and Turkey, and Public Law 84, 80th Congress, approved May 31, 1947, to provide for relief assistance to people of countries devastated by war.

^{4/} Public Law 132, 80th Congress, Sec. 206, second paragraph (2).

^{5/} Figures for June 30, 1947 must be regarded as confidential until released by the Treasury Department soon after the middle of October.

To: Mr. Thurston

- 5 -

About two-thirds had been declared surplus and would, therefore, be disposed of by the War Assets Administration. Against this total, a reserve of 100 per cent is provided for losses. The balance is held for sale or use, against which depreciation reserves are nearly 100 per cent. Commodities, supplies and materials, which amounted to almost 800 million dollars on June 30, 1945, were reduced by about half during the subsequent two years.

Changes in loans and investments during the six months ending June 30, 1947 were discussed in preceding paragraphs. The RFC investment in capital stock and surplus of Government corporations, as shown in Table 2, was 165 million dollars on June 30, 1947. It should be noted that this is made up largely of the 123 million stock of the Federal Home Loan Banks to be transferred to the Treasury and 25 million of stock of the RFC Mortgage Company, which was merged with the RFC on June 30.

Table 2

Assets of the Reconstruction Finance Corporation
(In millions of dollars)

| | June 30, 1947* | Dec. 31, 1946 | June 30, 1945 |
|--|-------------------|------------------|------------------|
| Total assets | <u>1,912</u> | <u>5,182</u> | <u>10,081</u> |
| Loans receivable, total ^{1/} | 840 | 720 | 1,100 |
| Cash | 265 | 53 | 36 |
| Investments: | | | |
| United States Government securities, direct & guaranteed | 2 | 48 | 79 |
| Capital stock and surplus of Gov't corporations | 165 | 166 | 361 |
| Preferred stock of banks and trust companies | 124 | 160 | 261 |
| Land, structures, and equipment | | | |
| Held for use or sale | <u>2,264</u> | | |
| Net, after reserve for depreciation | 43 | | |
| Property declared surplus | <u>4,179</u> | | |
| Net, after reserve for depreciation | 0 | | |
| Total | <u>43</u> | 2,854 | 6,769 |
| Commodities, supplies, and materials | ^{2/} 348 | 667 | 768 |
| Accounts and notes receivable, and advances to contractors | 72 | 187 | 236 |
| Other assets | 54 | 326 | 469 |

*Figures for June 30, 1947 must be regarded as confidential until released by the Treasury Department soon after the middle of October.

^{1/} Interagency loans are excluded in all cases. Reserves for losses have been deducted.

^{2/} Net, after deduction of 113 million dollars of reserves for losses.

Note. - Figures are on basis of compilation by U. S. Treasury Department and are somewhat different from those presented in the Budget. Data for war affiliates are included in order to make the Treasury series more nearly comparable with Budget presentation.