

Form F. R. 511

TO Governor Draper

FROM Mr. Thurston

REMARKS:

1/22/46

Have you seen the attached? Would appreciate having your opinion of it, particularly its references to the Reserve System.

E.T.


CHAIRMAN'S OFFICE



THE SECRETARY OF COMMERCE
WASHINGTON 25

January 16, 1946

Honorable Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C.

My dear Mr. Chairman:

I take pleasure in sending you the enclosed copy of
"Government Financial Aids to Small Business".

It reviews the lending activities, as they relate to
smaller enterprises, of the Reconstruction Finance Corporation,
the Federal Reserve System, the Smaller War Plants Corporation,
and the Veterans Administration.

The cooperation of your organization in the preparation
of this pamphlet is very much appreciated.

Sincerely yours,

A handwritten signature in cursive script that reads "Howard Wallace".

Secretary of Commerce.

Enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

file
Office Correspondence

Date January 23, 1946.

To Mr. Thurston

Subject: _____

From Mr. Draper

Yes, I know about this pamphlet. It outlines the situation in rather effective fashion. Maybe I am prejudiced, but I certainly receive the impression that this pamphlet is slanted considerably in the direction of the RFC. While we are on the subject you may be interested in the following excerpt from the "State of the Union" address by the President.

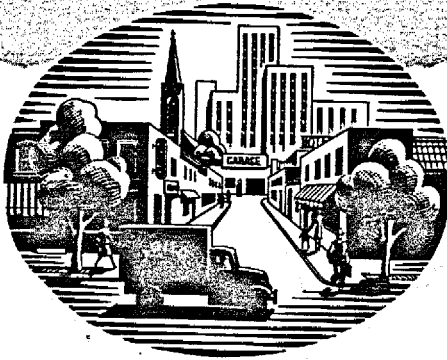
He says:--

"Many gaps exist in the private financial mechanism, especially in the provision of long-term funds for small and medium sized enterprises. In the peacetime economy the Reconstruction Finance Corporation will take the leadership in assuring adequate financing for small enterprises which cannot secure funds from other sources. Most of the funds should and will be provided by private lenders; but the Reconstruction Finance Corporation will share any unusual risks through guarantees of private loans, with direct loans only when private capital is unwilling to participate on a reasonable basis."

CD.

*Government
Financial Aids*
to
SMALL BUSINESS

Economic (Small Business) Series No. 48



DEPARTMENT OF COMMERCE
BUREAU OF FOREIGN AND DOMESTIC COMMERCE

Government Financial Aids to Small Business

By

BURT W. ROPER

Division of Small Business

Economic (Small Business) Series No. 48



DEPARTMENT OF COMMERCE

BUREAU OF FOREIGN AND DOMESTIC COMMERCE

1945

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Foreword

Adequate capital and credit facilities have long been recognized as essential factors to sound business management. The need for financial assistance is particularly compelling in the establishment and operation of smaller enterprises.

During the past decade the role of the Government in financing private businesses has continued to grow. This survey reviews the lending activities, as they relate to smaller enterprises, of the Reconstruction Finance Corporation, the Federal Reserve System, the Smaller War Plants Corporation, and the Veterans Administration.

It was prepared by Burt W. Roper under the supervision of Wilford White, Acting Chief of the Division of Small Business.

AMOS E. TAYLOR, *Director,*
Bureau of Foreign and Domestic Commerce.

OCTOBER 1945.

Introduction

The availability and adequacy of credit and capital facilities are of prime importance to small business. Among the important factors contributing to business failures is lack of adequate financing. The depression of the thirties, which brought about a tightening of the credit and capital market, emphasized the needs of small business in this respect.

The Reconstruction Finance Corporation, created in 1932, was designed to alleviate conditions existing in the nation as a whole by the exercise of special lending powers. Legislative recognition of the serious difficulties faced by smaller enterprises and their acute financial problems occurred in 1934. During June of that year Congress authorized the Reconstruction Finance Corporation and the Federal Reserve banks to make loans to businesses both directly and in cooperation with banks.

Slightly more than a decade of lending activities, during which Federal legislation authorized loans for a wide variety of private business purposes, has produced some interesting results. Since 1934, when loans to industrial and commercial businesses were provided for through the Reconstruction Finance Corporation and Federal Reserve banks, the role of the Government in small business financing has continued to grow. A substantial part of this growth was occasioned by defense measures and later by war production.

More recent developments include creation of the Smaller War Plants Corporation and enactment of the Servicemen's Readjustment Act of 1944. The Smaller War Plants Corporation was established in 1942 under authority of the Small Business Mobilization Act which empowered the Corporation to make loans to small business concerns for war or essential civilian purposes. Reaching into the postwar period, Congress provided, in the Servicemen's Readjustment Act, for Government guaranty of loans to veterans for business purposes.

This pamphlet reviews the following legislative enactments, adopted since 1934, which have special application to small business financing:

1. Act of June 19, 1934 (48 Stat. 1108) which added section 5d to the Reconstruction Finance Corporation Act.¹
2. Act of June 19, 1934 (48 Stat. 1105) which added section 13b to the Federal Reserve Act.²
3. Act of June 11, 1942 (56 Stat. 353) which created the Smaller War Plants Corporation.³

¹ Appendix A.

² Appendix B.

³ Appendix C.

4. Act of June 22, 1944 (58 Stat. 291) which provided for Government guaranty of business loans to veterans.⁴

The Act of June 19, 1934 was a measure providing, among other things, for several amendments and additions to the Reconstruction Finance Corporation and Federal Reserve Acts. In its original form, Section 5d of the Reconstruction Finance Corporation Act, as added in 1934, authorized loans by the Corporation to industrial or commercial businesses when credit at prevailing bank rates for the character of loans applied for was not otherwise available at banks. Maximum maturities were fixed at 5 years and the aggregate amount of loans to any one borrower limited to \$500,000.

Section 13b of the Federal Reserve Act, also added by the Act of June 19, 1934, authorized loans, for working capital, by Federal Reserve banks to industrial or commercial businesses which were unable to obtain requisite financial assistance on a reasonable basis from the usual sources. While maximum maturities of five years were provided for, no limitation on the amount to any one borrower was specified.

Section 4 of the act of June 11, 1942, to mobilize the productive facilities of small business in the interests of successful prosecution of the war, provided for establishment of the Smaller War Plants Corporation. The Corporation was empowered to make loans or advances, upon its own terms and conditions, to enable small business concerns to finance plant construction, conversion, or expansion, or to finance the acquisition of equipment, facilities, machinery, supplies, or materials, or to supply such concerns with capital, to be used in the manufacture of articles, equipment, supplies, or materials for war or essential civilian purposes.

Title III of the Servicemen's Readjustment Act of 1944 authorized Government guaranty of home, farm, and business loans to veterans. The latter feature of the law—loans for the purchase of business property—was designed to assist servicemen in establishing small enterprises. The Government guaranty, not to exceed \$2,000 to any one person, was limited to 50 percent of a loan.

The foregoing, in brief, outlines the salient features of the four provisions of Federal law with which this survey deals. A separate and more detailed review of each of the relevant acts, including amendments of significance, appears later in the report.

Access to adequate credit and capital facilities is generally recognized to be of vital importance to smaller enterprises. In a comprehensive survey of the financial needs of little business, completed before the

⁴ Appendix D.

outbreak of war, the authors of the Temporary National Economic Committee Monograph on the Problems of Small Business concluded:

It must be recognized that by and large, efficiency of operation is only one factor in the problem of small business, and a factor moreover not independent of the ability to obtain funds when most needed. Financial strength itself is an important factor in business success, especially during an era of severe business contractions and slow recovery. The firm that cannot tap the community's supply of long-term capital except at high cost, and that cannot rely upon an immediate short-term credit when opportunity knocks, is evidently at a disadvantage for that reason alone. The role of capital and credit in business expansion and success should not be underestimated. Whatever other causes may have contributed to the weakness of small business, this may be recognized as an essential factor.⁵

Similarly, the Baruch-Hancock Report emphasized the need for credit during the postwar period. In a letter of transmittal to the Director of the Office of War Mobilization it was stated:

Our specific assignment was to study the immediate demobilization policies which have to do, necessarily, with the stimulation of the war effort, since victory is the first essential, and with the preparation for peace to follow victory—to win the war and to prepare for peace.

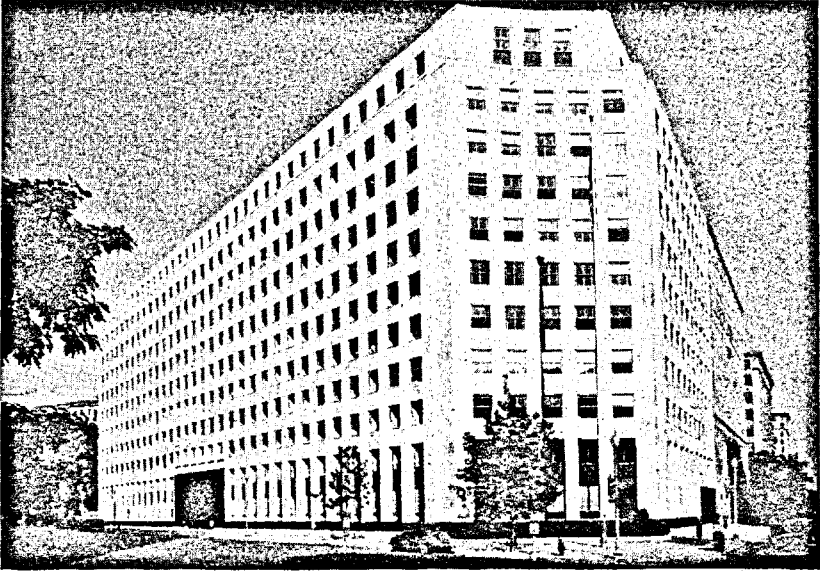
In the development of this theme we find certain considerations to be of first importance. They include:

8. Provide credit means for those requiring it during the adjustment-period, particularly for the smaller business groups and returning servicemen.⁶

The detailed proposals of the Baruch-Hancock Report, in connection with the credit and capital needs of small business, are covered more fully in the conclusion of this study.

⁵ T. N. E. C. Monograph No. 17, 1941, p. 241.

⁶ Report on War and Post-War Adjustment Policy, Senate Document No. 154, 78th Congress, 2d Session, pp. 1, 2.



Reconstruction Finance Corporation Building, Washington, D. C.

Reconstruction Finance Corporation

THE Reconstruction Finance Corporation, created by Act of January 22, 1932, was formally organized and its operations begun on February 2, 1932. The scope of the Corporation's functions has been expanded and modified from time to time by amendatory and supplemental legislation. Its succession, originally established at 10 years, has been extended to January 22, 1947.

As originally enacted in 1934, section 5d of the Act provided:

For the purpose of maintaining and increasing the employment of labor, when credit at prevailing bank rates for the character of loans applied for is not otherwise available at banks, the Corporation is authorized and empowered to make loans to any industrial or commercial business, which shall include the fishing industry, established prior to January 1, 1934. Such loans shall in the opinion of the board of directors of the Corporation be adequately secured, may be made directly, or in cooperation with banks or other lending institutions, or by the purchase of participations, shall have maturities not to exceed 5 years, shall be made only when deemed to offer reasonable assurance of continued or increased employment of labor, shall be made only

when, in the opinion of the board of directors of the Corporation, the borrower is solvent, shall not exceed \$300,000,000 in aggregate amount at any one time outstanding, and shall be subject to such terms, conditions and restrictions as the board of directors of the Corporation may determine. The aggregate amount of loans to any one borrower under this section shall not exceed \$500,000.

The power to make loans given herein shall terminate on January 31, 1935, or on such earlier date as the President shall by proclamation fix; but no provision of law terminating any of the functions of the Corporation shall be construed to prohibit disbursement of funds on loans and commitments, or agreements to make loans, made under this section prior to January 31, 1935, or such earlier date.

The test of the present section 5d¹ has, by amendment, been expanded considerably since 1934. For example, the section authorizes the Corporation to provide funds to the Export-Import Bank of Washington, to organize corporations in order to aid in national defense, and to make loans to foreign governments. This discussion, however, is confined to those provisions regarding loans to business enterprises.

The opening phrase of the 1934 addition to the Act authorizing loans "for the purpose of maintaining and increasing the employment of labor" indicates the special character of the legislation. The statute limited loans to solvent industrial or commercial businesses established prior to January 1, 1934. The maximum amount to any one borrower was fixed at \$500,000 and maturities were limited to 5 years. Loans could be made only when credit at prevailing bank rates was not available "at banks". Adequate security was required and the Corporation was authorized to make loans directly, in cooperation with banks, or by the purchase of participations.

Section 5d was amended by Act of January 31, 1935 (49 Stat. 4) in several respects. The restriction of loans to businesses established prior to January 1, 1934, was removed and loans authorized to new enterprises. The provision fixing maximum maturities at 5 years was changed to authorize maturity dates not later than January 31, 1945. Similarly, the limitation on amount to any one borrower was removed.

Further liberalization occurred with enactment of the Glass-Steagall bill on April 13, 1938 (52 Stat. 212). Limitation on loan maturities was removed entirely and the definition of borrowers changed from "any industrial or commercial business" to "any business enterprise". With respect to security, the 1934 enactment provided "adequately secured"; the 1935 amendment specified "so secured as reasonably to assure repayment"; while the 1938 amendment stipulated "of such sound value, or so secured, as reasonably to assure retirement or re-

¹ Appendix A.

payment". In addition, the Corporation was authorized to purchase securities and obligations of businesses, as well as to make loans. The general objective of the law was changed from "maintaining and increasing the employment of labor" to "maintaining and promoting the economic stability of the country or encouraging the employment of labor".

Subsequent amendments to section 5d relate primarily to the defense and war lending activities of the Corporation. The power conferred with respect to business loans originally scheduled to expire on January 1, 1935, has been extended by amendments to January 22, 1947.

The Reconstruction Finance Corporation has issued an explanatory circular in connection with loans to business enterprises.² It enumerates the following requirements imposed by law:

- (a) Capital or credit, at prevailing rates for the character of loan applied for, must not be otherwise available.
- (b) All purchases of securities and obligations and all loans made shall be, in the opinion of the board of directors of the Corporation, of such sound value, or so secured, as reasonably to assure retirement or repayment.
- (c) All purchases of securities and obligations and all loans shall be made only when, in the opinion of the board of directors of the Corporation, the business enterprise is solvent.
- (d) Securities and obligations may be purchased, and loans may be made, with such maturities as the Corporation may determine.
- (e) All purchases of securities and obligations and all loans shall be made under such terms, conditions, and restrictions as the Corporation may determine.

The Corporation determines maturities of loans in each case. For established industries, needing principally shorter term credit, repayment is usually required within 5 years or less. When loans are primarily to finance capital expenditures, a longer repayment program may be considered.

Loans will be made by the Corporation for the following purposes:

- (a) Loans for labor and materials.
- (b) Loans for the purchase of machinery.
- (c) Loans for new business enterprises and for the expansion of existing business enterprises.
- (d) Loans to finance industrial construction.
- (e) Loans to pay existing indebtedness and taxes.

Applications are received from any business enterprise whether a corporation, a partnership, or an individual proprietorship. Security may consist of one or more of the following: a first mortgage on real estate, plant, and equipment; an assignment of warehouse receipts for

² Circular No. 13. (Revised) of the RFC, "Information Regarding Loans to Business Enterprises", January 1942.

marketable merchandise; a first mortgage on chattels; or an assignment of current receivables. Second mortgages, franchises, patents, or good will are not usually considered as satisfactory primary security.

In addition to the power to make loans directly to business enterprises (described in RFC Circular No. 13) the Corporation is authorized to make loans to any business enterprise in cooperation with banks or other lending institutions through agreements to participate, by the purchase of participations, or otherwise.³ Participation agreements are entered into only with respect to loans, the terms, conditions, and purposes of which are in accordance with provisions set forth in Circular No. 13.

Table 1 lists the statutory requirements for business loans set forth in section 5d of the Reconstruction Finance Corporation Act. In addition, it enumerates the comparable provisions of section 13b of the Federal Reserve Act. While both the Reconstruction Finance Corporation and Federal Reserve banks have substantially similar powers, the former is governed by fewer statutory restrictions.

TABLE 1.—*Comparison of Statutory Provisions of Federal Reserve and Reconstruction Finance Corporation Acts Relating to Loans to Business Enterprises*

	Federal Reserve Banks	Reconstruction Finance Corporation
Type of business	An industrial or commercial business..	Any business enterprise.
Age of business	An established business	New and established businesses.
Financial status	No provision	Solvent, in the opinion of the Board of Directors of the Corporation.
Credit position	Unable to obtain requisite financial assistance on a reasonable basis from the usual sources.	When credit at prevailing rates for the character of loans applied for is not otherwise available.
Purpose of loan	For working capital	For "maintaining and promoting the economic stability of the country or encouraging the employment of labor."
Maturity of obligation	Not over 5 years	No limit.
Security required	"On reasonable and sound basis"	In the opinion of the Board of Directors of the Corporation, of sound value or so secured as reasonably to assure repayment or retirement.
Amount of any one loan	No limit	No limit.
Form of transaction	(a) Direct loan	(a) Direct loan.
	(b) Discount for or purchase from financial institutions.	(b) Loan in cooperation with bank.
	(c) Advance to financial institution on the security of such obligations.	(c) Purchase or agreement to purchase participation.
	(d) Commitments with regard to such loan or advance to financial institution.	(d) Purchase of securities from businesses.

Source: Revision of table appearing in T. N. E. C. Monograph No. 17, p. 235.

Supplementary to the power to make loans to business enterprises, originally granted in 1934, further lending authority with respect to defense and war financing has been given the Corporation. These measures include, among others, authorization to make loans to business

³ Circular No. 15 (Revised) of the RFC, "Information Regarding Loans to Business Enterprises in Cooperation with Banks and other Lending Institutions", January 1942.

enterprises when deemed advantageous to the national defense and, also, to dealers in rationed products.

The Small Business Mobilization Act, which created the Smaller War Plants Corporation, gave additional authority to the Reconstruction Finance Corporation in connection with war financing. Section 5d (2) of the Reconstruction Finance Corporation Act ⁴ authorizes the Corporation to make loans to and purchase the obligations of any business enterprise, including subscription to capital stock, for any purpose deemed advantageous to the national defense. Financing of this type may be undertaken upon such terms and conditions and with such maturities as the Corporation may determine. The War and Navy Departments are empowered to participate in or guaranty such loans.

Authority to make loans to dealers in rationed products is contained in section 5h of the Reconstruction Finance Corporation Act.⁵ The Corporation is empowered, in order to prevent and relieve distress among dealers in articles or commodities rationed in connection with the war effort, to purchase or make loans upon the security of any rationed article or commodity, subject to enumerated terms and conditions.

In connection with the scope of the Reconstruction Finance Corporation program, the following tables summarize lending operations during more than a decade of the Corporation's existence. Tables 2, 3 and 4 show the number and dollar volume of loans and commitments authorized to business enterprises through December 31, 1944.

Table 2, covering all authorizations to business enterprises with specified exceptions, indicates that 22,000 loans and commitments for \$2,650,000,000 have been authorized. While 31.6 percent of authori-

TABLE 2.—*Size of all Loans and Commitments Authorized to Business Enterprises by the Reconstruction Finance Corporation Through Dec. 31, 1944*

[Excludes loans and commitments to subsidiaries of Reconstruction Finance Corporation, Defense Homes and Great Britain]

	Number ¹	Percent ¹	Amount ²	Percent ³
\$5,000 and under.....	6,052	31.6	\$17,833,029.18	0.7
\$5,001 to \$10,000.....	3,414	15.5	26,833,069.30	1.0
\$10,001 to \$25,000.....	4,552	20.7	79,400,139.27	3.0
\$25,001 to \$50,000.....	2,761	12.5	104,493,006.01	3.9
\$50,001 to \$100,000.....	2,121	9.6	161,109,072.27	6.1
\$100,001 to \$200,000.....	1,034	4.7	154,063,829.08	5.8
\$200,001 to \$500,000.....	697	3.2	226,079,299.55	8.5
\$500,001 to \$1,000,000.....	218	1.0	161,498,530.47	6.1
Over \$1,000,000.....	259	1.2	1,721,131,974.03	64.9
Total.....	22,008	100.0	2,651,451,849.16	100.0

Source: ¹ Hearings on S. 375, Jan. 24 and 25, 1945, to provide for the administration of certain lending agencies of the Federal Government, p. 57.

² Mimeographed release of RFC, dated Jan. 10, 1945.

⁴ Appendix A.

⁵ Added by Act of May 11, 1942, 56 Stat. 275, 15 U. S. C. A., sec. 606b-3.

zations have been for \$5,000 or less, this group constitutes only 0.7 percent in dollar amount. On the other hand, authorizations of over \$1,000,000 represent 64.9 percent of dollar volume and 1.2 percent of the total number.

Breakdowns of loans and commitments to business enterprises for defense and nondefense purposes appear in tables 3 and 4. Defense authorizations number slightly over 11,000 and aggregate close to \$2,000,000,000 in amount; nondefense authorizations number slightly less than 11,000 and comprise \$660,000,000 in amount. Table 3 shows that 26.8 percent of defense authorizations were for \$5,000 or less, but represented only 0.4 percent of dollar volume. Defense authorizations for over \$1,000,000 constituted 1.8 percent of the total number and 73.5 percent of dollar amount. Table 4 indicates that 36.6 percent of

TABLE 3.—*Size of Loans and Commitments Authorized to Business Enterprises for Defense by the Reconstruction Finance Corporation Through Dec. 31, 1944*

A. On Rationed Commodities (including purchases)				
	Number ¹	Percent ¹	Amount ²	Percent ²
\$5,000 and under.....	1,411	38.5	3,165,139.35	4.2
\$5,001 to \$10,000.....	622	17.0	4,523,438.59	6.0
\$10,001 to \$25,000.....	796	21.7	12,740,423.32	16.9
\$25,001 to \$50,000.....	449	12.2	15,941,210.82	21.1
\$50,001 to \$100,000.....	271	7.4	18,804,315.35	24.9
\$100,001 to \$200,000.....	99	2.7	13,383,908.52	17.7
\$200,001 to \$500,000.....	16	.4	4,647,238.88	6.2
\$500,001 to \$1,000,000.....	3	.1	2,252,971.09	3.0
Over \$1,000,000.....				
Total.....	3,667	100.0	75,463,645.92	100.0
B. All Other—For Defense				
\$5,000 and under.....	1,594	21.1	5,395,991.25	0.3
\$5,001 to \$10,000.....	1,077	14.3	8,526,352.71	0.4
\$10,001 to \$25,000.....	1,665	22.1	29,295,777.30	1.5
\$25,001 to \$50,000.....	1,069	14.2	39,991,123.13	2.1
\$50,001 to \$100,000.....	974	12.9	74,428,455.34	3.9
\$100,001 to \$200,000.....	472	6.2	70,719,101.90	3.7
\$200,001 to \$500,000.....	353	4.7	117,084,221.30	6.1
\$500,001 to \$1,000,000.....	144	1.9	105,690,563.14	5.6
Over \$1,000,000.....	196	2.6	1,462,592,989.04	76.4
Total.....	7,549	100.0	1,914,721,675.11	100.0
C. Grand Total—Defense				
\$5,000 and under.....	3,005	26.8	8,561,130.60	0.4
\$5,001 to \$10,000.....	1,699	15.2	13,049,789.30	0.7
\$10,001 to \$25,000.....	2,461	21.9	42,036,202.62	2.1
\$25,001 to \$50,000.....	1,518	13.5	55,932,333.95	2.8
\$50,001 to \$100,000.....	1,245	11.1	93,232,770.69	4.7
\$100,001 to \$200,000.....	571	5.1	84,105,010.42	4.2
\$200,001 to \$500,000.....	374	3.3	121,731,460.18	6.1
\$500,001 to \$1,000,000.....	147	1.3	108,943,634.23	5.5
Over \$1,000,000.....	196	1.8	1,462,592,989.04	73.5
Total.....	11,216	100.0	1,990,185,321.03	100.0

Source: ¹ Hearings on S. 375, Jan. 24 and 25, 1945, to provide for the administration of certain lending agencies of the Federal Government, p. 57.

² Mimeographed release of R.F.C., dated Jan. 10, 1945.

TABLE 4.—Size of Loans and Commitments Authorized to Business Enterprises Except for Defense by the Reconstruction Finance Corporation Through Dec. 31, 1944

	Number ¹	Percent ¹	Amount ²	Percent ²
\$5,000 and under.....	3,947	36.6	\$9,272,798.58	1.4
\$5,001 to \$10,000.....	1,715	15.9	13,783,280.00	2.1
\$10,001 to \$25,000.....	2,091	19.4	37,372,936.65	5.7
\$25,001 to \$50,000.....	1,243	11.5	48,560,672.06	7.3
\$50,001 to \$100,000.....	876	8.1	67,876,301.58	10.3
\$100,001 to \$200,000.....	463	4.3	69,958,818.66	10.6
\$200,001 to \$500,000.....	323	3.0	103,347,839.37	15.6
\$500,001 to \$1,000,000.....	71	0.6	52,554,896.24	7.9
Over \$1,000,000.....	63	0.6	258,538,984.99	39.1
Total.....	10,792	100.0	661,266,528.13	100.0

¹ Source: ¹ Hearings on S. 375, Jan. 24 and 25, 1945, to provide for the administration of certain lending agencies of the Federal Government, p. 53.

² Mimeographed release of RFC, dated Jan. 10, 1945.

nondefense authorizations were for \$5,000 or less and comprised 1.4 percent of dollar amount. Nondefense authorizations of over \$1,000,000 were 0.6 percent in number and 39.1 percent in value.

Tables 5 and 6, submitted by Senator Pepper during the course of the hearings on S. 375,⁶ list authorizations and disbursements, by size of loan, cumulative as of February 29, 1940 and March 31, 1944. By far the largest percentage increase in dollar amount of both authoriza-

TABLE 5.—Reconstruction Finance Corporation: Amount of Business Loans Authorized and Disbursed, Cumulative as of Feb. 29, 1940, and Mar. 31, 1944, by Size of Loan

[Percentages and millions of dollars]

Size of Loan	As of Feb. 29, 1940 ¹				As of Mar. 31, 1944 ²				Percentage changes over 1940	
	Authorized		Disbursed (actual)		Authorized		Disbursed (estimated)		Authorizations (percent)	Disbursements (percent)
	Value	Percent	Value	Percent	Value	Percent	Value	Percent		
Under \$5,000.....	\$7.5	1.6	\$4.9	1.7	\$17.2	0.7	\$6.9	0.7	129.3	40.8
\$5,000 to \$10,000.....	11.5	2.5	7.0	2.4	25.7	1.0	10.3	1.0	123.5	47.1
\$10,001 to \$25,000.....	32.1	6.9	19.9	6.8	75.6	3.0	30.5	3.0	135.5	53.3
\$25,001 to \$50,000.....	41.1	8.8	23.8	8.1	98.4	3.9	39.6	3.9	139.4	66.4
\$50,001 to \$100,000.....	61.7	13.2	38.3	13.0	149.8	5.9	60.3	5.9	142.8	57.4
\$100,001 to \$200,000.....	64.4	13.8	42.5	14.5	140.7	5.5	56.7	5.5	118.5	33.4
\$200,001 to \$500,000.....	90.7	19.5	62.1	21.1	202.3	7.9	81.4	7.9	123.0	31.1
\$500,001 to \$1,000,000.....	47.3	10.1	31.9	10.8	139.6	5.5	56.2	5.5	195.1	76.2
Over \$1,000,000.....	109.9	23.6	63.4	21.6	1,691.0	66.6	680.9	66.6	1,438.7	974.0
Total.....	466.2	100.0	293.8	100.0	2,540.3	100.0	1,022.8	100.0	444.9	248.1

¹ Temporary National Economic Committee Monograph No. 17, Problems of Small Business, p. 300.

² Reconstruction Finance Corporation Summary of Authorizations. Disbursements are estimated on the basis of total disbursement figure of \$1,022,800,000 furnished by the Reconstruction Finance Corporation by assuming a distribution parallel to that of authorizations. Note that total disbursement figure of \$1,022,800,000 disagrees slightly with the disbursement of \$1,008,000,000 used by Mr. Jones in Washington Star (Jan. 7, 1945).

Source: Hearings on S. 375, Jan. 24 and 25, 1945, to provide for the administration of certain lending agencies of the Federal Government, p. 127.

⁶ Hearings on S. 375, Jan. 24 and 25, 1945, to provide for the administration of certain lending agencies of the Federal Government, p. 127.

TABLE 6.—*Reconstruction Finance Corporation: Number of Business Loans Authorized and Disbursed, Cumulative as of Feb. 29, 1940, and Mar. 31, 1944, by Size of Loan*

Size of loan	Feb. 29, 1940 ¹				Mar. 31, 1944 ²		
	Authorized		Disbursed		Authorized		Percent increase, 1940 to 1944
	Number	Percent	Number	Percent	Number	Percent	
Under \$5,000.....	3,332	36.6	2,462	40.5	6,738	32.3	102.2
\$5,001 to \$10,000.....	1,412	15.5	874	14.4	3,262	15.6	131.0
\$10,001 to \$25,000.....	1,739	19.1	1,095	18.0	4,331	20.7	149.1
\$25,001 to \$50,000.....	1,032	11.4	605	9.9	2,599	12.5	151.8
\$50,001 to \$100,000.....	786	8.6	502	8.3	1,964	9.4	149.9
\$100,001 to \$200,000.....	421	4.6	282	4.6	946	4.5	124.7
\$200,001 to \$500,000.....	278	3.1	193	3.2	627	3.0	125.5
\$500,001 to \$1,000,000.....	63	.7	44	.7	187	.9	196.8
Over \$1,000,000.....	40	.4	26	.4	228	1.1	470.0
Total.....	9,103	100.0	6,083	100.0	20,882	100.0	129.4

¹ Temporary National Economic Committee Monograph No. 17, Problems of Small Business, p. 300.

² Reconstruction Finance Corporation—Number and distribution of disbursements to Mar. 31, 1944 not available.

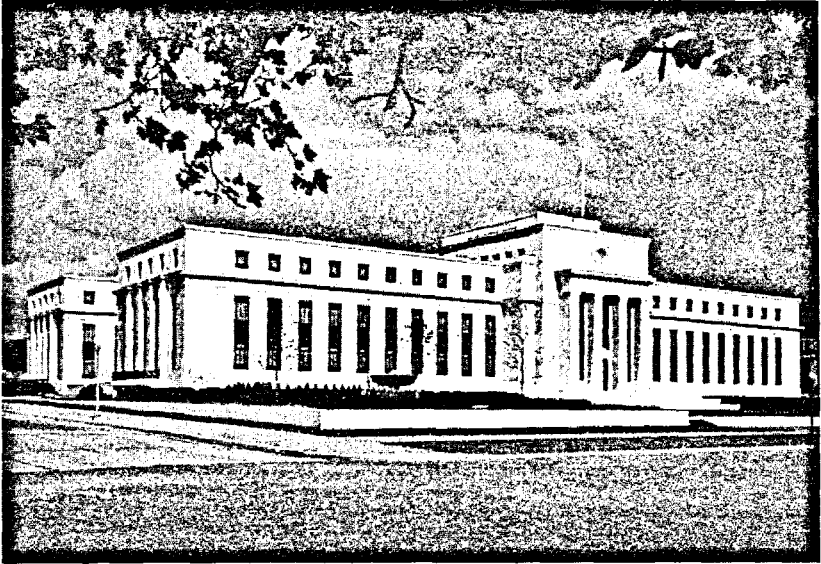
Source: Hearings on S. 375, Jan. 24 and 25, 1945, to provide for the administration of certain lending agencies of the Federal Government, p. 127.

tions and disbursements occurred in the \$1,000,000 and over size group. While total authorizations as of March 31, 1944, equalled \$2,540,000,000, estimated disbursements as of the same date amounted to only \$1,022,000,000.

The effectiveness of the Reconstruction Finance Corporation lending program, in terms of aid to small business, has been a controversial subject. In 1939, RFC Chairman Jesse Jones claimed: "Any deserving borrower, who can furnish security that will reasonably assure repayment of his loan, can have a loan, if he will apply to the RFC for it, and on very generous terms, provided the loan will serve a useful purpose and is consistent with the law."⁷ On the other hand, the Final Report of the Executive Secretary of the Temporary National Economic Committee, issued in 1941, concluded its discussion of Government financial aids with the statement: "Whatever the reasons, the facts indicate that the role played by both organizations (Reconstruction Finance Corporation and Federal Reserve banks) in solving the financial problems of small business has been relatively slight."⁸

⁷ Hearings on S. 1482 and S. 2343, May-June, 1939, to provide for insurance of loans, p. 408.

⁸ T. N. E. C. Final Report of the Executive Secretary, 1941, p. 313.



Federal Reserve Building, Washington, D. C.

Federal Reserve System

THE Federal Reserve System program of loans to industrial and commercial businesses was inaugurated a decade ago. The Act of June 19, 1934, authorizing loans to business enterprises by the Reconstruction Finance Corporation, granted similar powers to the Federal Reserve banks.

In contrast to section 5d of the Reconstruction Finance Corporation Act which has been broadened considerably by amendment, the text of the present section 13b of the Federal Reserve Act¹ has not been materially changed. Similarly, the wider latitude granted RFC in its lending operations by amendatory legislation has not been extended to the Federal Reserve banks. As is indicated in table 1, the former is governed by fewer statutory restrictions than the latter.

Subdivision (a) of section 13b of the Act provides:

In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established 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

¹ Appendix B.

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, for the purpose of providing it with working capital, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding 5 years.

The law enumerates the following specific requirements:

- (a) The circumstances must be exceptional.
- (b) The Federal Reserve bank must be satisfied that the established industrial or commercial business is unable to obtain requisite financial assistance on a reasonable basis from the usual sources.
- (c) The purpose of the loan must be to provide working capital.
- (d) The loan must be made on a reasonable and sound basis.
- (e) The maturity must not exceed 5 years.

In addition to the provisions for direct advances to borrowers, subsection (b) of section 13b authorizes indirect advances through or in cooperation with financing institutions. Each Federal Reserve bank is empowered to discount obligations for, purchase obligations from, and make direct loans on the security of such obligations to, any financing institution in its district. The financing institution must obligate itself to pay at least 20 percent of any loss which may be sustained by the Federal Reserve bank upon such obligation. In the alternative, the financing institution may advance at least 20 percent of the working capital.

The law further provides for the appointment of an industrial advisory committee by the Federal Reserve bank in each district. The committees consist of five members actively engaged in some industrial pursuit in the particular districts. Applications are submitted to and examined by the appropriate committee and then transmitted to the Federal Reserve bank with the committee's recommendations.

In the foreword to revised Regulation S² it is stated that any attempt to prescribe technical definitions of such terms as "working capital", "established industrial or commercial business" and "financing institution" has been avoided, lest it have the effect of restricting or hampering the operations of the Federal Reserve banks under the statute. The foreword further states that the law permits Federal Reserve banks to make direct loans to established industrial and commercial businesses only when authorized by the Board of Governors of the Federal Reserve System. However, in order to avoid the necessity of having applications passed on in Washington, the Board has continued in the revised regulation the blanket authority to all Federal Reserve banks to grant accommodations directly on their own responsibility.

² Regulation S of the Board of Governors of the Federal Reserve System, "Industrial Loans by Federal Reserve Banks", April 30, 1942.

The scope of the Federal Reserve industrial loan program under section 13b is indicated in table 7. A breakdown of approved applications according to size of loan appears in table 8.

While data in table 7 with respect to approved applications is reported through 1944, data on applications received is not listed after 1937. However, these figures indicate that the larger proportion of applications, both as to number and dollar amount, have been disapproved. A comparison of applications approved from year to year, with respect to number and amount, indicates a distinct trend, particularly since 1941, toward larger loans.

Through 1944 applications totalling \$525,532,000 in amount and 3,489 in number were approved. The comparable RFC authorizations for purposes other than defense, shown in table 4, are \$661,266,000 in amount and 10,792 in number. Thus, the average size of Federal Reserve approvals has been considerably larger than that of RFC authorizations.

TABLE 7.—*Industrial Loans by Federal Reserve Banks*
[Amounts in thousands of dollars]

Year	Application received ¹		Year	Application approved ²	
	Number	Amount		Number	Amount
1934.....	5,053	187,696	1934.....	984	49,634
1935.....	7,615	306,708	1935.....	1,993	124,493
1936.....	8,379	342,699	1936.....	2,280	139,829
1937.....	8,677	363,292	1937.....	2,406	150,987
			1938.....	2,653	175,013
			1939.....	2,781	188,222
			1940.....	2,908	212,510
			1941.....	3,202	279,860
			1942.....	3,423	408,737
			1943.....	3,471	491,342
			1944.....	3,489	525,532

Source: ¹ Twenty-fourth Annual Report of the Board of Governors of the Federal Reserve System, 1937, p. 61.

² Federal Reserve Bulletin, February 1945, p. 145.

Table 8 lists applications approved by size of loan. A total of 2,406 applications for \$150,982,000 had been approved through 1937. Although 23.5 percent of approvals were for \$5,000 or less, this group represented only 1.2 percent of dollar volume. On the other hand, approved applications over \$400,000 constituted 29.9 percent of dollar amount and 1.7 percent of the total number.

In reviewing the results of the Federal Reserve industrial loan program, the authors of the Temporary National Economic Committee Monograph on the Problems of Small Business stated: "At no time have there been more than 32 million of Federal Reserve bank advances outstanding; hence, if there did exist over the period 1934-39

TABLE 8.—*Applications for Industrial Advances (Including Commitments) Approved by Federal Reserve Banks, Classified According to Size, June 19, 1934, to December 29, 1937*

[Amounts in thousands of dollars]

	Total amount of applications approved	Percent of total	Total number of applications approved	Percent of total
\$2,500 and under.....	354	.2	221	9.2
\$2,501 to \$5,000.....	1,449	1.0	343	14.3
\$5,001 to \$10,000.....	2,900	1.9	335	13.9
\$10,001 to \$25,000.....	10,325	6.8	526	21.8
\$25,001 to \$50,000.....	17,060	11.3	418	17.4
\$50,001 to \$100,000.....	22,970	15.2	285	11.8
\$100,001 to \$200,000.....	22,802	15.1	144	6.0
\$200,001 to \$400,000.....	23,059	18.6	94	3.9
Over \$400,000.....	45,063	29.9	40	1.7
Total.....	150,982	100.0	2,406	100.0

Source: Study prepared in the Bureau of Labor Statistics, United States Department of Labor, by I. J. Gromfne (July, 1943), and distributed by the Smaller War Plants Corporation for administrative use, p. 50. (Table based upon Twenty-Fourth Annual Report of the Board of Governors of the Federal Reserve System, 1937, p. 61.)

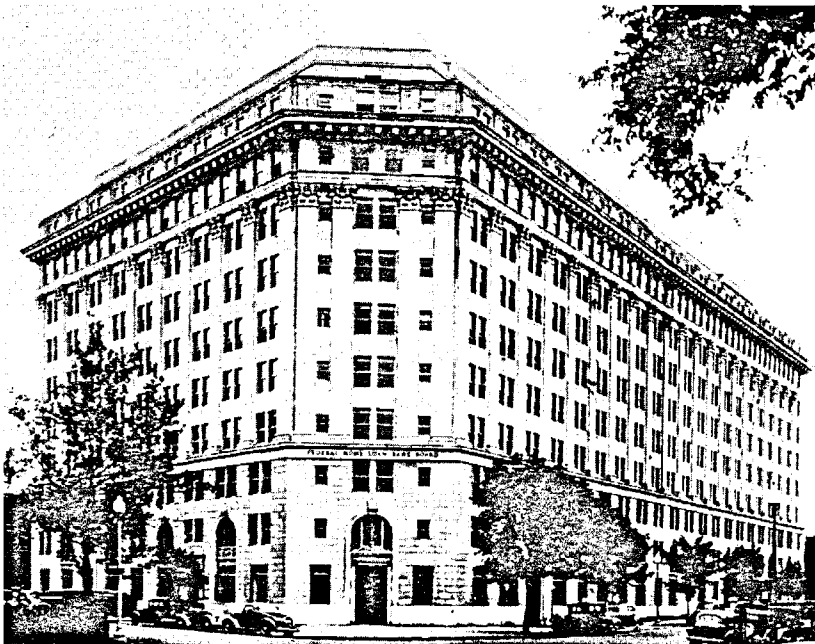
any substantial unsatisfied demand for credit, the Federal Reserve program has certainly been of little significance in meeting it. The reason most usually cited for the small volume of loans and of applications for loans has been the limitation of the law restricting advances to those for working capital purposes.”³ Emphasizing the restrictions imposed by section 13b, Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, stated in 1939: “Many loans which might otherwise have been made have had to be declined because of the restrictions in the law. . . .”⁴

The Final Report of the Executive Secretary of the Temporary National Economic Committee reaches the following conclusions: “It is clear that both the Reconstruction Finance Corporation and the Federal Reserve banks are operating in the same area and with essentially the same powers, although the Reconstruction Finance Corporation is less restricted by statute than the Reserve banks. . . . Whatever the reasons, the facts indicate that the role played by both organizations in solving the financial problems of small business has been relatively slight.”⁵

³ T. N. E. C. Monograph No. 17, 1941, p. 234.

⁴ Hearings on S. 1482 and S. 2343, May-June 1939, to provide for insurance of loans, pp. 90, 91.

⁵ T. N. E. C. Final Report of the Executive Secretary, 1941, p. 313.



Washington Headquarters of the Smaller War Plants Corporation

Smaller War Plants Corporation

THE Smaller War Plants Corporation was created by Act of June 11, 1942 for the declared purpose of mobilizing the facilities of small business in war production. The Small Business Mobilization Act, section 4 of which¹ provides for establishment of the Smaller War Plants Corporation, was sponsored by the Senate and House Small Business Committees.

In addition to financial aid furnished small companies by the Smaller War Plants Corporation, including loans of funds and leases of facilities, it aids in securing prime and subcontracts and maintains a technical advisory service. Subdivision (f) of section 4 of the Act empowers the Corporation to:

- (a) Make loans directly or in cooperation with lending institutions to small concerns for war or essential civilian purposes;

¹ Appendix C.

- (b) Lease or sell land, plants, equipment, facilities, machinery, materials or supplies, acquired by the Corporation, to small companies;
- (c) Enter into contracts with Government agencies and arrange for their performance by letting subcontracts to small concerns.

The Contract Settlement, Surplus Property, and War Mobilization and Reconversion Acts, all enacted in 1944, impose additional duties and responsibilities upon the Corporation. These include activities which reach into the reconversion and postwar periods.

The Contract Settlement Act ² grants new powers to the Corporation including the authority to furnish interim financing pending settlement of termination claims. Under the Surplus Property Act ³ broad functions with regard to the acquisition of surpluses by small business are specified for the Corporation. They include purchase of surplus property for resale to small concerns and making loans to small enterprises for the acquisition of surplus plants and facilities. The War Mobilization and Reconversion Act, ⁴ while not providing for financial aid by the Corporation, imposes duties upon it with regard to allocation of materials for nonwar use by small plants.

The law creating the Smaller War Plants Corporation has been amended twice since its enactment in 1942. Shortly before adjournment of the 78th Congress, the capitalization of the Corporation was increased from \$150,000,000 to \$350,000,000 ⁵ to enable it to continue lending functions under the Small Business Mobilization Act and to undertake additional financing activities in connection with contract termination and surplus disposal. The present Congress extended the term of the Corporation from July 1, 1945, to December 31, 1946, and provided for appointment of its Board of Directors by the President, with the consent of the Senate, in lieu of appointment by the Chairman of the War Production Board. ⁶

In a review of the activities of the Loan Bureau of the Smaller War Plants Corporation the following basic loan policies are enumerated:

- (a) Applicant must be a small manufacturing plant.
- (b) Applicant must be engaged in the production of goods for war or essential civilian purposes.
- (c) Applicant must show a reasonable likelihood of repaying the loan.
- (d) Applicant's bank must be requested to make all or part of the loan. ⁷

² Act of July 1, 1944 (Public Law 395, 78th Congress).

³ Act of October 3, 1944 (Public Law 457, 78th Congress).

⁴ Act of October 3, 1944 (Public Law 458, 78th Congress).

⁵ Act of December 8, 1944 (Public Law 474, 78th Congress).

⁶ Act of April 27, 1945 (Public Law 42, 79th Congress).

⁷ Unpublished report of SWPC, "History of Loan Bureau", January 25, 1945, p. 13.

Generally, to be regarded as a smaller plant, an applicant for financial assistance must employ less than 500 wage earners, exclusive of office and sales personnel. In practice, plants employing less than 250 have received 95.5 percent of the number and 79.4 percent of the value of all the Corporation's loans drawn against.⁸

Broad statutory authority is granted to the Corporation to make loans upon such terms and conditions, and with such maturities, as it may determine. In contrast to the 5d and 13b programs of the Reconstruction Finance Corporation and the Federal Reserve banks, the Smaller War Plants Corporation is governed by relatively few statutory restrictions. However, following Reconstruction Finance Corporation and Federal Reserve policy, it does not render financial aid if commercial credit facilities are available and urges bank participation in loans.

Since the formation of the Smaller War Plants Corporation in 1942, the scope of its lending activities has expanded considerably. Table 9 indicates that 3,174 applications for a total of \$225,633,000 had been approved by the end of 1944. The volume of approved applications has increased substantially during each successive period of the Corporation's operations. While only 370 applications totalling \$12,740,000 were approved during the first half of 1943, the number amounted to 1,040 for a total of \$120,407,000 during the last six months of 1944. Of the approved applications, the large majority were for loans rather than for leases of facilities and equipment.

TABLE 9.—*Applications Approved by the Smaller War Plants Corporation From September 1942 to December 31, 1944*

Year and Period	Number		Value	
	Number	Percent	Amount	Percent
Sept.-Dec., 1942.....	40	1.3	\$3,632,385	1.4
Jan.-June, 1943.....	370	11.6	12,740,360	5.0
July-Dec., 1943.....	745	23.5	42,119,601	16.5
Jan.-June, 1944.....	979	30.8	76,734,527	30.0
July-Dec., 1944.....	1,040	32.8	120,407,013	47.1
Total.....	3,174	100.0	\$225,633,886	100.0

Source: Smaller War Plants Corporation.

A summary of the lending operations of the Smaller War Plants Corporation, through 1944, appears in table 10. More than half of the applications for assistance, both in number and amount, have been approved. The average value of applications, cumulative to December 31, 1944, was \$94,000 for loans and \$32,000 for leases. It is interesting

⁸ Sixteenth Progress Report of SWPC, December 1944-January 1945, p. 13.

TABLE 10.—*Summary of Activities of Smaller War Plants Corporation Loan Bureau From September 1942 to December 31, 1944*

	Number	Value or Percent
Inquiries for assistance.....	11,470	\$603,076,196
Applications for assistance.....	5,502	431,018,328
Applications approved.....	3,174	255,633,686
Applications disapproved.....	1,485	137,945,493
Applications withdrawn.....	986	55,088,120
Applications pending.....	354	37,716,152
Net funds authorized (less cancellations).....		217,560,188
Average Value of Loan Applications:		
A. Cumulative to January 1, 1944.....		\$67,764
B. Cumulative to December 31, 1944.....		93,910
Average Value of Lease Applications:		
A. Cumulative to January 1, 1944.....		38,834
B. Cumulative to December 31, 1944.....		31,917
Size of Firms Receiving Financial Assistance:		
Employing less than 100.....	2,633	82.9%
Employing between 100 to 250.....	390	12.2
Employing between 251 to 500.....	133	4.1
Employing more than 500.....	28	.8
Total.....	3,174	100.0%
Size of Loans and Leases:		
\$5,000 or less.....	427	13.5%
\$5,001 to \$10,000.....	540	17.1
\$10,001 to \$25,000.....	1,063	33.5
\$25,001 to \$50,000.....	398	12.5
\$50,001 to \$100,000.....	290	9.1
Over \$100,000.....	456	14.3
Total.....	3,174	100.0%

Source: Unpublished report of SWPC, "History of Loan Bureau", Jan. 25, 1945, pp. 40, 41.

to note that 82.9 percent of the number of approved applications have been for small companies employing less than 100. In connection with size of loans and leases, 85.7 percent of the number of applications approved have been for \$100,000 or less.

In testimony urging extension of the term of the Smaller War Plants Corporation, Chairman Maury Maverick stated: "I think it (SWPC) has accomplished a great deal. I believe we are doing a great deal of good in a rather substantial way."⁹ The following excerpt from a report of the Corporation is similar in tone: "Direct loans have been made to small manufacturers when loans were not otherwise available. . . . It must be pointed out, too, that the mere existence of the Corporation with its Congressional mandate to help small business has acted as a moral force of great value. Likewise, the existence of the Corporation has helped little business in general, and manufacturers in particular who have been unable to get contracts and financial help elsewhere, without even applying to this Corporation."¹⁰

A recent report of the Senate Small Business Committee, reviewing

⁹ Hearings on S. 105, Feb. 6, 1945, to extend the life of SWPC, p. 13.

¹⁰ Fourteenth Progress Report of SWPC, August-September 1944, p. 1.

the activities of the Smaller War Plants Corporation, made these observations: "While its operating problems have by no means disappeared, the Corporation is today well over the hump of its earlier difficulties. . . . The record of prime and subcontracts placed with small concerns through the Corporation shows distinct improvement. . . . Its record of financial aid to small concerns, though much improved, is still short of what the committee regards as the volume required by the necessities of total war."¹¹

¹¹ Progress Report of the Senate Small Business Committee, Senate Committee Print No. 1, 79th Congress, 1st Session, p. 10.



Veterans Administration Building, Washington, D. C.

Veterans Administration

REACHING into the reconversion and postwar periods, the 78th Congress granted liberal readjustment rights to veterans. One type of benefit, under Title III of the Servicemen's Readjustment Act of 1944,¹ relates to guaranty by the Government of home, farm and business loans. The latter feature of the law—loans for the purchase of business property—constitutes another phase of Federal financial aid to small enterprises. It differs from the Reconstruction Finance Corporation, Federal Reserve and Smaller War Plants Coporation programs in that no provision is made for direct Government loans. The Veterans Administration is only authorized, under certain conditions, to guaranty loans for business purposes.

The lender ordinarily will be a private financing institution, although in some situations a veteran may be eligible for a loan from the Reconstruction Finance Corporation, Federal Reserve banks or Smaller War Plants Corporation. However, financial aid from these sources is sepa-

¹ Appendix D.

rate and distinct from the right to a guaranty under the Servicemen's Readjustment Act.

In December of 1944 the Veterans' Administration issued comprehensive regulations governing guaranty of business loans.² These regulations supplement the Act and provide detailed administrative and procedural machinery. The Act and the regulations constitute a part of each contract of guaranty issued by the Administrator of Veterans Affairs.

The Administrator may guaranty up to 50 percent of a loan. However, the maximum amount of guaranty for any one person is \$2,000, although there is no limitation on the face amount of the loan. Interest charged may not exceed 4 percent. The Administrator will pay the interest on the guaranteed amount for the first year. This constitutes the only direct financial contribution made by the Government.

All guaranteed loans must be paid off within 20 years or less. However, this maximum term will usually apply only to real estate since loans for equipment or machinery may not extend beyond the accepted useful life of the property.

All expenses customarily borne by purchasers may be charged against a veteran borrowing under the Act, but no charge may be made for the guaranty of a loan or for any services connected with securing such a guaranty.

The Administrator may guaranty a loan for the purchase of any business, land, buildings, supplies, equipment, machinery, or tools to be used by an applicant in a gainful occupation if he finds that: (a) The loan will be used in the bona fide pursuit of such gainful occupation; (b) such property will be useful in and reasonably necessary for the efficient and successful pursuit of such occupation; (c) the ability and experience of the veteran indicate that there is a reasonable likelihood that he will be successful; (d) the purchase price does not exceed the reasonable value; and (e) the loan appears practicable.

Business loans are eligible for guaranty if made for one or more of the following basic purposes enumerated in the regulations: (a) Loans for the acquisition of an existing business; (b) loans for the purchase of equipment, machinery, or tools; (c) loans for the purchase of supplies; and (d) loans for the purchase of business realty. Neither the statute nor the regulations cover loans for inventory, stock, or working capital.

While loans solely for the acquisition of inventory or working capital are not provided for, in the purchase of an existing business a guaranty would cover a loan for all assets, including inventory and working

² Veterans Administration, Regulations under Title III of the Servicemen's Readjustment Act of 1944 (Purchases of Businesses, etc.), December 20, 1944.

capital. However, loans for the acquisition of additional inventory or for other working capital are not eligible for guaranty.

Loans for the purchase of new or used equipment, machinery, or tools may not have an ultimate maturity in excess of 3 years if the loan is for the entire purchase price. A loan for the initial payment on such articles may not exceed one-third of the purchase price and, subject to the same limitation, may not exceed \$1,000. The maturity of such loans may not be in excess of 1 year if the amount is \$500 or less, or 2 years if over \$500.

Limitations on amounts of such loans are applicable only where a partial payment is made on the purchase price. They do not apply where a loan covers the full purchase price. Equipment, machinery, and tools include all such articles commonly so described and which are required for use, other than resale, in pursuing a gainful occupation.

A loan for the purchase of supplies may be made if the amount does not exceed \$1,000 and the maturity is not over 1 year. Supplies are defined as articles normally used, necessary, and expended in the operation of a business, including those required by the service industries, both personal and industrial.

Loans for the purchase of business realty must be amortized, principal and interest, within not more than 20 years. A business realty loan is one for the purchase of land or buildings, or both, to be used by a veteran in pursuing a gainful occupation.

Applicable to all loans is a provision in the regulations that the amount of the guaranty shall decrease pro rata with any decrease in the amount of the unpaid principal of the loan. Thus, if a loan for \$4,000 is made, \$2,000 of which is guaranteed, and \$1,000 is repaid, the guaranty applies only to half of the unpaid balance of \$3,000.

In general, but with some exceptions, loans must be secured by first liens. The regulations recognize that a certain amount of latitude is desirable. For example, loans for the purchase of supplies, defined as expendable, may be unsecured if security is not practicable or customary.

Title III of the Servicemen's Readjustment Act makes provision for designation by the Administrator of agencies for the purpose of determining whether guaranty of loans should be approved. Pursuant to this authorization the Reconstruction Finance Corporation and the Smaller War Plants Corporation have been appointed as processing agents for recommending to the Administrator approval or disapproval of applications.

The number and value of approved business loan guaranty applications, more than four months after promulgation of the regulations, were

extremely small. Table 11 indicates that of the 411 guaranty applications received by the Veterans Administration, 289 representing \$321,000 in commitments had been executed.

TABLE 11.—*Veterans Administration: Loan Guaranty Applications Received and Executed, Cumulative to May 5, 1945*

Type	Number of loan guaranty applications received	Number of loan guaranty applications executed	Amount of guaranty commitments
Home.....	7,552	5,615	\$9,267,230
Farm.....	215	115	122,592
Business.....	411	289	321,311
Total.....	8,178	6,019	9,711,133

Source: Typewritten report of the Veterans Administration, Loan Guarantee Division, May 5, 1945.

While it is too early to predict the effect of readjustment benefits upon establishment of new businesses or reopening of those closed during the war, encouragement given veterans and the attitude of lenders will undoubtedly have a strong bearing on the number who actually engage in business. In this connection, the following statement of policy of the Veterans Administration is significant:

It was the clear intent of Congress that all eligible veterans should have available to them the full benefits of Title III (Loans for the Purchase or Construction of Homes, Farms, and Business Property). It is the duty and the desire of the Administrator of Veterans Affairs to give effect to this intent in such manner that, while following the provisions of the Act, a minimum of delay or difficulty will be encountered by any applicant. The Administrator feels justified in depending upon the support and wholehearted cooperation of all who are in any manner connected with home, farm or business financing to the end that this task, which should be undertaken as a privilege, will be so performed as to gratify all concerned.³

³ Veterans Administration, Handbook for Lenders (Home Loans) under the Servicemen's Readjustment Act of 1944.

Conclusion

Somewhat more than a decade of Congressional activity has produced numerous and varied attempts to solve the financial problems of smaller enterprises. A survey of proposals considered in Congress in behalf of small business from 1933 to 1942¹ indicates that legislative emphasis has been placed upon financial assistance measures. More than 25 percent of 390 selected bills introduced during this period concerned small business financing. The proposals related primarily to broadening the commercial and industrial credit facilities of the Reconstruction Finance Corporation and the Federal Reserve banks, and to the creation of industrial banks and loan corporations.

While interest in small business financing predominated, only two of 100 bills considered, exclusive of a few measures of limited application, became law. The first authorized the Federal Reserve and Reconstruction Finance Corporation industrial advance program, while the second provided for creation of the Smaller War Plants Corporation. Since 1942, another law, the Servicemen's Readjustment Act of 1944 carrying limited provisions for guaranty of small business loans, has been enacted.

Brief mention may be made of a few of the more recent measures introduced during the early part of the 79th Congress. Comprehensive reviews of earlier Federal financial aid bills appear in surveys of the Department of Commerce,² the Department of Labor³ and the Temporary National Economic Committee.⁴

Similar bills, introduced by Senator Wagner and Representative Spence, seek to liberalize the Federal Reserve System's powers under section 13b.⁵ In lieu of the existing authority of the Federal Reserve banks to make loans, under restrictions previously discussed, they would be empowered to guaranty financing institutions against loss on loans made to business enterprises or to make commitments to purchase such loans.

Companion bills were sponsored by Mr. Vandenberg in the Senate and Mr. Randolph in the House to facilitate financing of small security

¹ "390 Bills—A Digest of Proposals Considered in Congress in Behalf of Small Business, 1933-1942", Bureau of Foreign and Domestic Commerce, United States Department of Commerce.

² *Ibid.*, pp. 25-49.

³ Study prepared in the Bureau of Labor Statistics, United States Department of Labor, by I. J. Gromfne (July 1943), and distributed by the Smaller War Plants Corporation for administrative use, pp. 78-97.

⁴ T. N. E. C. Monograph No. 17, 1941, pp. 236-239.

⁵ S. 511, 79th Congress, February 12, 1945; H. R. 591, 79th Congress, January 3, 1945.

issues by amendment to the Securities Act of 1933.⁶ The exemption of security issues not exceeding \$100,000 from the registration provisions of the Act was raised to \$300,000 with the enactment of Public Law 55 on May 15, 1945.

Companion measures, introduced by Senator Johnson of Colorado and Representative Rankin, would liberalize the business loan guaranty provisions of the Servicemen's Readjustment Act.⁷ Among other amendments, guaranty of loans for the purchase of merchandise, not covered under the present Act, would be authorized.

A bill was introduced by Representative Voorhis authorizing the Smaller War Plants Corporation to make or guaranty loans to small businesses for the purposes of facilitating reconversion, reestablishing those affected by the war, promoting expansion of peacetime production, developing new enterprises, and aiding businesses undertaken by veterans.⁸ Another measure, sponsored by Representative Randolph, seeks to amend section 13b of the Federal Reserve Act. It provides for establishment, within the Federal Reserve System, of a Small Business Finance Corporation with broad powers to make loans, purchase stock and guaranty obligations.⁹

The impact of war on small enterprises has served to focus attention more sharply upon their financial problems. The necessity for providing adequate capital and credit facilities, particularly during the reconversion period, is generally recognized. In this connection, the following specific recommendations appear in the Baruch-Hancock Report:

(1) That the lending authority of the Smaller War Plants Corporation, at present restricted to purposes of war production, be extended to permit short-term loans to assist small business in the "change-over" from war to peace.

Particular attention should be given to credit needs for physical reconversion, or to businesses, curtailed during the war, which seek revival with sound prospects and under sound management. . . .

(2) As a permanent source of credit for small and medium-sized enterprises on a basis of broader risks than banks can be expected to assume, that the Federal Reserve System's authority to make industrial loans or commitments be expanded and liberalized. . . .

These loans should be made in such a way as to supplement, not compete with, private investment, for which enormous funds are available. . . .

⁶ S. 62, 79th Congress, January 6, 1945; H. R. 280, 79th Congress, January 3, 1945.

⁷ S. 738, 79th Congress, March 14, 1945; H. R. 2627, 79th Congress, March 15, 1945.

⁸ H. R. 52, 79th Congress, January 3, 1945.

⁹ H. R. 2994, 79th Congress, April 23, 1945.

Careful study of the availability of credit shows further:

An enormous volume of personal savings in the hands of individuals and in the banks, many tens of billions, which should be tapped.

The profit position of business during the war has been generally good.

The Reconstruction Finance Corporation has a broad lending authority even to buying the capital stock of industrial concerns.

All of these available sources, plus the provisions we have made for prompt payment of terminated war contracts, should remove any doubt as to the existence of an adequate pool of credit for the financing of new enterprises or for the changeover.¹⁰

Secretary of Commerce Henry Wallace, in a recent statement, emphasized the need for some form of governmental financial assistance to small business. His proposals, predicated upon the premise that the Government would merely facilitate financing without in any way acquiring ownership or controlling management, follow:

I think it is not of overwhelming importance which of several methods we use to help provide financing for small business. It is important only that the Government assist small business in securing from private investors some of its risk capital. It is important to do so without fostering ill-conceived, ill-advised, and highly speculative ventures and without putting the Government in business. The essence of free enterprise is to give well-conceived new business a chance to prove its worth. The capital needed by free enterprise must come from private investors. The role of the Government must be limited to that of an insurer of the extraordinary risks that private investors cannot assume in full. We must make sure that financing such enterprises is possible if we are to have free enterprise providing productive employment to American labor and good markets for American agriculture.

The program which I suggested was that the Government should play its part in helping stimulate the growth and expansion of business enterprises in this country in a manner comparable to the way in which this Government stimulated small home building and home modernization under the Federal Housing Administration program. Just as under the Federal Housing Administration program private homes were built and modernized by private contractors, and financed by private institutions, so under the program I have suggested the business enterprises would be privately owned, privately operated, and privately financed. Just as under the Federal Housing Administration program the Government shared with private lenders certain risks involved in financing the building and modernizing of small homes, so under the program I have suggested the Government would be sharing with the private investors certain risks involved in financing the growth of new business and the expansion of existing business. The Government would merely facilitate financing, without in any way acquiring ownership or assuming responsibility for management.¹¹

¹⁰ Report on War and Post-War Adjustment Policy, Senate Document No. 154, 78th Congress—2d Session, pp. 25, 26.

¹¹ Hearings on S. 375, Jan. 24 and 25, 1945, to provide for the administration of certain lending agencies of the Federal Government, p. 120.

Appendix of Statutes

Appendix A

Loans to Business Enterprises

Reconstruction Finance Corporation Act

SEC. 5d. For the purpose of maintaining and promoting the economic stability of the country or encouraging the employment of labor the Corporation is authorized and empowered, under such terms, conditions, and restrictions as the Corporation may determine, to make loans to, or contracts with, States, municipalities, and political subdivisions of States, with public agencies and instrumentalities of one or more States, municipalities, and political subdivisions of States, and with public corporations, boards, and commissions, to aid in financing projects under Federal, State, or municipal law, such loans or contracts to be made through the purchase of their securities, or otherwise, and for such purpose the Corporation is authorized to bid for such securities. The Corporation is further authorized and empowered to purchase the securities and obligations of, and to make loans to, any business enterprise when capital or credit, at prevailing rates for the character of loan applied for, is not otherwise available: *Provided*, That all such purchases of securities and obligations and all such loans shall be, in the opinion of the board of directors, of such sound value, or so secured, as reasonably to assure retirement or repayment; may be made or effected either directly or in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participations, or otherwise; shall be made only when, in the opinion of the board of directors, the business enterprise is solvent; and shall be made under such terms, conditions, and restrictions as the corporation may determine: *Provided further*, That in carrying out the provisions of this section, the Corporation may purchase securities and obligations, and may make loans, with such maturities as the Corporation may determine, notwithstanding any other provision of law.

The powers granted to the Corporation by this section shall terminate on January 22, 1947, or on such earlier date as the President shall determine; but no provision of law terminating any of the functions of the Corporation shall be construed (1) to prohibit disbursement of funds on purchases of securities and obligations, on loans, or on commitments or agreements to make such purchases or loans, made under

this section prior to the close of business on January 22, 1947, or such earlier date, or (2) to affect the validity or performance of any agreement to participate in any purchase or loan authorized by this section.

Nothing in this section shall be construed to authorize the Corporation (1) to purchase, or to make any commitment or agreement to purchase, any securities or obligations of any railroad engaged in interstate commerce the obligations of which may be purchased or guaranteed by the Corporation under section 5 of this Act only with the approval of the Interstate Commerce Commission, or (2) to make any loan, or any commitment or agreement to make a loan, to any such railroad or to any receiver or trustee thereof.

In order to aid the Government of the United States in its national-defense program, the Corporation is authorized—

(1) To assist in the development of the resources, the stabilization of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere by supplying funds, not to exceed \$500,000,000 outstanding at any one time, to the Export-Import Bank of Washington, through loans to, or by subscriptions to preferred stock of, such bank, to enable such bank, to make loans to any governments, their central banks, or any other acceptable banking institutions and, when guaranteed by any such government, a central bank, or any other acceptable banking institution, to a political subdivision, agency, or national of any such government, notwithstanding any other provisions of law insofar as they may restrict or prohibit loans or other extensions of credit to, or other transactions with, the governments of the countries of the Western Hemisphere or their agencies or nationals: *Provided*, That no such loans shall be made in violation of international law as interpreted by the Department of State, or of the Act of April 13, 1934 (48 Stat. 574), or of the Neutrality Act of 1939. Upon the written request of the Federal Loan Administrator, with the approval of the President, the bank is authorized, subject to such conditions and limitations as may be set forth in such request or approval, to exercise the powers and perform the functions herein set forth. Such loans may be made and administered in such manner and upon such terms and conditions as the bank may determine.

(2) To make loans to and purchase the obligations of any business enterprise, including, when requested by the Secretary of Commerce, subscription to the capital stock thereof, for any purpose deemed by the Corporation to be advantageous to the national defense. Such loans, purchases, or subscriptions shall be made under such terms and conditions and with such maturities as the Corporation may determine. The

War Department and the Navy Department are hereby authorized to participate in or to guarantee any loans made by the Reconstruction Finance Corporation pursuant to this provision, and, in connection therewith, they may use any funds heretofore or hereafter made available for purposes of procuring war materials, supplies, and equipment.

(3) When requested by the Federal Loan Administrator, with the approval of the President, to create or organize, at any time prior to July 1, 1943, a corporation or corporations, with power (a) to produce, acquire, carry, sell, or otherwise deal in strategic and critical materials as defined by the President; (b) to purchase and lease land, purchase, lease, build, and expand plants, and purchase and produce equipment, facilities, machinery, materials, and supplies for the manufacture of strategic and critical materials, arms, ammunition, and implements of war, any other articles, equipment, facilities, and supplies necessary to the national defense, and such other articles, equipment, supplies, and materials as may be required in the manufacture or use of any of the foregoing or otherwise necessary in connection therewith; (c) to lease, sell, or otherwise dispose of such land, plants, facilities, and machinery to others to engage in such manufacture; (d) to engage in such manufacture itself, if the President finds that it is necessary for a Government agency to engage in such manufacture; (e) to produce, lease, purchase, or otherwise acquire railroad equipment (including rolling stock), and commercial aircraft, and parts, equipment, facilities, and supplies necessary in connection with such railroad equipment and aircraft, and to lease, sell, or otherwise dispose of the same; (f) to purchase, lease, build, expand, or otherwise acquire facilities for the training of aviators and to operate or lease, sell, or otherwise dispose of such facilities to others to engage in such training; and (g) to take such other action as the President and the Federal Loan Administrator may deem necessary to expedite the national-defense program, but the aggregate amount of the funds of the Reconstruction Finance Corporation which may be outstanding at any one time for carrying out this clause (g) shall not exceed \$200,000,000; *Provided*, That nothing in this subsection shall be construed to authorize the Corporation to take any action, directly or indirectly, with respect to the proposals heretofore considered by the Congress and known as the Great Lakes-St. Lawrence seaway, Passamaquoddy, Florida ship canal, and Tombigbee River projects, or to the project known as the Nicaragua Canal. The powers of every corporation hereafter created or organized under this subsection shall be set out in a charter which shall be valid only when certified copies thereof are filed with the Secretary of the Senate and the Clerk of the House of Repre-

sentatives and published in the Federal Register, and all amendments to such charters shall be valid only when similarly filed and published. The charters of corporations heretofore so created or organized shall be so filed and published before July 1, 1941, and amendments thereto shall be valid only when certified copies thereof are hereafter so filed and published. No corporation heretofore or hereafter created or organized by the Corporation pursuant to this subsection shall have succession beyond January 22, 1947, except for purposes of liquidation, unless the life of such corporation is extended beyond such date pursuant to an Act of Congress. The Corporation may make loans to, or purchase the capital stock of, any such corporation for any purpose within the powers of the corporation as above set forth related to the national-defense program, on such terms and conditions as the Corporation may determine.

(4) When requested by the Federal Loan Administrator, with the approval of the President, and subject to such conditions and limitations as may be set forth in such request, to make loans, notwithstanding the provisions of any other law, to any foreign governments, to their central banks, or to any person, commission, association, corporation, or bank acting for or on behalf of such government, for the purpose of achieving the maximum dollar exchange value in the United States for the securities or property of any such government, central bank, person, commission, association, corporation, or bank. Such loans may be made only upon the security of bonds, debentures, stocks, or other such obligations of (a) the Government of the United States or any State, municipality, or political subdivision of any State, or (b) any private corporation organized under the laws of the United States or any State.

(5) To acquire real estate and any right or interest therein by purchase, lease, condemnation, or otherwise, determined by the Corporation to be necessary or advantageous to the carrying out of any authority vested in any corporation created or organized pursuant to this section. The Corporation is also authorized to sell, lease, or otherwise dispose of any such real estate. Proceedings for such condemnation shall be instituted in the name of the United States pursuant to the provisions of the Act approved August 1, 1888 (25 Stat. 357), as amended, and any real estate already devoted to public use which would be subject to condemnation in proceedings instituted upon application of any officer of the Government shall likewise be subject to condemnation in proceedings instituted upon application of the Corporation as herein provided. Sections 1, 2, and 4 of the Act approved February 26, 1931 (46 Stat.

1421), as amended, shall be applicable in any such proceeding. Any judgment rendered against the United States in any such proceeding shall promptly be paid by the Corporation. Immediately upon the vesting of title in the United States of America in any such proceeding, the Secretary of Commerce, by deed executed by him in the name of the United States of America, shall transfer the entire title or interest so acquired to the Corporation, and the Corporation shall thereupon have the same rights with respect to any real estate so acquired as it has with respect to real estate acquired by purchase. The power to institute proceedings for condemnation in pursuance of this section shall terminate on June 30, 1944, or upon such earlier date as the Congress by concurrent resolution, or the President by proclamation, may designate, but no such proceedings instituted prior to such termination shall abate by reason thereof.

Any corporation created or organized by the Corporation under the preceding paragraph is also authorized, with the approval of the President, to make payments against the purchase price to be paid for strategic and critical materials in advance of the delivery of such materials. Whenever practicable, the Corporation may require the payments so made to be used for purchases of raw or manufactured agricultural commodities to be exported from the United States.

The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized to issue and have outstanding at any one time under existing law is hereby increased by \$1,500,000,000.

Note

Section added by Act of June 19, 1934, 48 Stat. 1108, 15 U. S. C. A. sec. 606b. Amended by Act of Jan. 31, 1935, 49 Stat. 4; Act of April 13, 1938, 52 Stat. 212; Act of June 25, 1940, 54 Stat. 573; Act of Sept. 26, 1940, 54 Stat. 961; Act of June 10, 1941, 55 Stat. 249; Act of Mar. 27, 1942, 56 Stat. 174; Act of June 11, 1942, 56 Stat. 356.

Appendix B

Loans to Industrial or Commercial Businesses Federal Reserve Act

SEC. 13b. (a) In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established 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, for the purpose of providing it with working capital, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding 5 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, obligations having maturities not exceeding 5 years, entered into for the purpose of obtaining working capital for any such established industrial or commercial business; 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: *Provided*, That in lieu of such obligation against loss any such financing institution may advance at least 20 per centum of such working capital for any established industrial or commercial business without obligating itself to the Federal Reserve bank against loss on the amount advanced by the Federal Reserve bank: *Provided, however*, That such advances by the financing institution and the Federal Reserve bank shall be considered as one advance, and repayment shall be made pro rata under such regulations as the Board of Governors of the Federal Reserve System may prescribe.

(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 as of July 1, 1934, plus all amounts paid to the Federal Reserve banks by the Secretary of the Treasury under subsection (e) of this section, 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) For the purpose of aiding the Federal Reserve banks in carrying out the provisions of this section, there is hereby established in each Federal Reserve district an industrial advisory committee, to be appointed by the Federal Reserve bank subject to the approval and regulations of the Board of Governors of the Federal Reserve System, and to be composed of not less than three nor more than five members as determined by the Board of Governors of the Federal Reserve System. Each member of such committee shall be actively engaged in some industrial pursuit within the Federal Reserve district in which the committee is established, and each such member shall serve without compensation but shall be entitled to receive from the Federal Reserve bank of such district his necessary expenses while engaged in the business of the committee, or a per diem allowance in lieu thereof to be fixed by the Board of Governors of the Federal Reserve System. Each application for any such loan, advance, purchase, discount, or commitment shall be submitted to the appropriate committee and, after an examination by it of the business with respect to which the application is made, the application shall be transmitted to the Federal Reserve bank, together with the recommendation of the committee.

(e) In order to enable the Federal Reserve banks to make the loans, discounts, advances, purchases, and commitments provided for in this section, the Secretary of the Treasury, on and after June 19, 1934, is authorized, under such rules and regulations as he shall prescribe, to pay to each Federal Reserve bank not to exceed such portion of the sum of \$139,299,557 as may be represented by the amount paid by each Federal Reserve bank for stock of the Federal Deposit Insurance Corporation, upon the execution by each Federal Reserve bank of its agreement (to be endorsed on the certificate of such stock) to hold such stock unencumbered and to pay to the United States all dividends, all payments on liquidation, and all other proceeds of such stock, for which dividends, payments, and proceeds the United States shall be secured by such stock itself up to the total amount paid to each Federal Reserve bank by the

Secretary of the Treasury under this section. Each Federal Reserve bank, in addition, shall agree that, in the event such dividends, payments, and other proceeds in any calendar year do not aggregate 2 per centum of the total payment made by the Secretary of the Treasury, under this section, it will pay to the United States in such year such further amount, if any, up to 2 per centum of the said total payment, as shall be covered by the net earnings of the bank for that year derived from the use of the sum so paid by the Secretary of the Treasury, and that for said amount so due the United States shall have a first claim against such earnings and stock, and further that it will continue such payments until the final liquidation of said stock by the Federal Deposit Insurance Corporation. The sum so paid to each Federal Reserve bank by the Secretary of the Treasury shall become a part of the surplus fund of such Federal Reserve bank within the meaning of this section. All amounts required to be expended by the Secretary of the Treasury in order to carry out the provisions of this section shall be paid out of the miscellaneous receipts of the Treasury created by the increment resulting from the reduction of the weight of the gold dollar under the President's proclamation of January 31, 1934; and there is hereby appropriated, out of such receipts, such sum as shall be required for such purpose.

Note

Section added by Act of June 19, 1934, 48 Stat. 1105, 12 U. S. C. A. sec. 352a. Amended by Act of Aug. 23, 1935, 49 Stat. 714.

Appendix C

Loans to Small Business Concerns Small Business Mobilization Act

(Smaller War Plants Corporation)

SEC. 4. (a) There is hereby created a body corporate under the name "Smaller War Plants Corporation" (hereinafter referred to as the "Corporation"). The principal office of the Corporation shall be located in the District of Columbia, but the Corporation may establish such branch offices in other places in the United States as may be determined by the board of directors.

(b) The Corporation shall have capital stock of \$350,000,000 subscribed for by the United States through the Secretary of the Treasury, and payment for which shall be subject to call in whole or in part by the board of directors of the Corporation. There is hereby authorized to be appropriated the sum of \$350,000,000 for the purpose of enabling the Secretary of the Treasury to make payment for such capital stock when payment is called by the board of directors. Receipts for payments by the United States for or on account of such capital stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership by the United States.

(c) The management of the Corporation shall be vested in a board of five directors who shall be appointed by the President, by and with the advice and consent of the Senate, from among individuals who are familiar with the problems of small business. The President shall designate one of the members as chairman.

(d) The Corporation shall not have succession, beyond December 31, 1946, except for purposes of liquidation, unless its life is extended beyond such date pursuant to an Act of Congress. It shall have power to adopt, alter, and use a corporate seal, which shall be judicially noticed; to make contracts; to lease such real estate as may be necessary for the transaction of its business; to sue and be sued, to complain and to defend, in any court of competent jurisdiction, State or Federal; to select, employ, and fix the compensation of such officers, employees, attorneys, and agents as shall be necessary for the transaction of the business of the Corporation; to define their authority and duties, require bonds of them, and fix the penalties thereof; and to prescribe, amend, and repeal, by its board of directors, bylaws, rules, and regulations governing the manner in which its general business may be con-

ducted and the powers granted to it by law may be exercised and enjoyed. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation, with the consent of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, facilities, officers, and employees thereof in carrying out the provisions of this Act.

(e) All moneys of the Corporation not otherwise employed may be deposited with the Treasurer of the United States subject to check by authority of the Corporation or in any Federal Reserve bank. The Federal Reserve banks are authorized and directed to act as depositaries, custodians, and fiscal agents for the Corporation in the general performance of its powers conferred by this Act. All insured banks, when designated by the Secretary of the Treasury, shall act as depositaries, custodians, and financial agents for the Corporation.

(f) The Corporation is empowered (1) to make loans or advances, on such terms and conditions and with such maturities as it may determine, to enable small business concerns to finance plant construction, conversion, or expansion, or to finance the acquisition of equipment, facilities, machinery, supplies, or materials, or to supply such concerns with capital, to be used in the manufacture of articles, equipment, supplies, or materials for war or essential civilian purposes; and such loans or advances may be made or effected either directly or in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participations, or otherwise; (2) to purchase or lease such land, to purchase, lease, build, or expand such plants, and to purchase or produce such equipment, facilities, machinery, materials, or supplies, as may be needed to enable the Corporation to provide small business concerns with such land, plants, equipment, facilities, machinery, materials, or supplies as such concerns may require to engage in the production of such articles, equipment, supplies, or materials; (3) to lease, sell, or otherwise dispose of to any small business concern any such land, plants, equipment, facilities, machinery, materials, or supplies; (4) to enter into contracts with the United States Government and any department, agency, or officer thereof having procurement powers obligating the Corporation to furnish articles, equipment, supplies, or materials to the Government; and (5) to arrange for the performance of such contracts by letting subcontracts to small business

concerns or others for the manufacture, supply, or assembly of such articles, equipment, supplies, or materials, or parts thereof, or servicing or processing in connection therewith, or such management services as may be necessary to enable the Corporation to perform such contracts. In any case in which the Chairman of the War Production Board certifies to the Secretary of War, the Secretary of the Navy, the Director of the Procurement Division of the Treasury, or to any other officer of the Government having procurement powers, that the Smaller War Plants Corporation is competent to perform any specific Government procurement contract to be let by any such officer, it shall be the duty of such officer to let such procurement contract to such Corporation upon such terms and conditions as may be specified by the Chairman of the War Production Board. Such subcontracts may be let upon such terms and conditions as the Corporation may deem appropriate in accordance with such regulations as may be prescribed under section 201 of the First War Powers Act, 1941.

(g) (1) Whoever makes any statement knowing it to be false, or whoever willfully overvalues any security, for the purpose of obtaining for himself or for any applicant any loan, or extension thereof by renewal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, or for the purpose of influencing in any way the action of the Corporation, or for the purpose of obtaining money, property, or anything of value, under this Act, shall be punished by a fine of not more than \$5,000 or by imprisonment for not more than 2 years, or both.

(2) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise entrusted to it, or (2) with intent to defraud the Corporation or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or, without being duly authorized, draws any order or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, or (3) with intent to defraud, participates, shares, receives directly or indirectly any money, profit, property, or benefit through any transaction, loan, commission, contract, or any other act of the Corporation, or (4) gives any unauthorized information concerning any future action or plan of the Corporation which might affect the value of securities, or, having such knowledge, invests or speculates, directly or indirectly, in the securities or

property of any company or corporation receiving loans or other assistance from the Corporation, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than 5 years, or both.

(3) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18 ch. 5, secs. 202 to 207, inclusive), insofar as applicable, are extended to apply to contracts or agreements with the Corporation under this Act.

Note

Act of June 11, 1942, 56 Stat. 353, 50 U. S. C. A. App. sec. 1104. Amended by Act of December 8, 1944, Public Law 474, c. 549; Act of April 27, 1945, Public Law 42, c. 98.

Appendix D

Loans for the Purchase of Business Property Servicemen's Readjustment Act of 1944—Title III

SEC. 500. (a) Any person who shall have served in the active military or naval service of the United States at any time on or after September 16, 1940, and prior to the termination of the present war and who shall have been discharged or released therefrom under conditions other than dishonorable after active service of 90 days or more, or by reason of an injury or disability incurred in service in line of duty, shall be eligible for the benefits of this title. Any such veteran may apply within 2 years after separation from the military or naval forces, or 2 years after termination of the war, whichever is the later date, but in no event more than 5 years after the termination of the war, to the Administrator of Veterans' Affairs for the guaranty by the Administrator of not to exceed 50 per centum of a loan or loans for any of the purposes specified in sections 501, 502 and 503; *Provided*, That the aggregate amount guaranteed shall not exceed \$2,000. If the Administrator finds that the veteran is eligible for the benefits of this title and that the loan applied for appears practicable, the Administrator shall guarantee the payment of the part thereof as set forth in this title.

(b) Interest for the first year on that part of the loan guaranteed by the Administrator shall be paid by the Administrator out of available appropriations. No security for the guaranty of a loan shall be required except the right to be subrogated to the lien rights of the holder of the obligation which is guaranteed: *Provided*, That pursuant to regulations to be issued by the Administrator the mortgagor and mortgagee shall agree that before beginning foreclosure proceedings for default in payment of principal or interest due, the Administrator shall have at least 30 days' notice with the option of bidding in the property on foreclosure or of refinancing the loan with any other agency or by any other means available.

(c) Loans guaranteed by the Administrator under this title shall be payable under such terms and conditions as may be approved by the Administrator: *Provided*, That the liability under the guaranty, within the limitations of this title, shall decrease or increase pro rata with any decrease or increase of the amount of the unpaid portion of the obligation: *Provided further*, That loans guaranteed by the Administrator

shall bear interest at a rate not exceeding 4 per centum per annum and shall be payable in full in not more than 20 years. The Administrator is authorized and directed to guarantee loans to veterans subject to the provisions of this title on approved applications made to persons, firms, associations, and corporations and to governmental agencies and corporations, either State or Federal.

SEC. 503. Any application made under this title for the guaranty of a loan to be used in purchasing any business, land, buildings, supplies, equipment, machinery, or tools, to be used by the applicant in pursuing a gainful occupation (other than farming) may be approved by the Administrator of Veterans' Affairs if he finds—

(1) that the proceeds of such loan will be used for payment for real or personal property purchased or to be purchased by the veteran and used by him in the bona fide pursuit of such gainful occupation;

(2) that such property will be useful in and reasonably necessary for the efficient and successful pursuit of such occupation;

(3) that the ability and experience of the veteran, and the conditions under which he proposes to pursue such occupation, are such that there is a reasonable likelihood that he will be successful in the pursuit of such occupation; and

(4) that the purchase price paid or to be paid by the veteran for such property does not exceed the reasonable normal value thereof as determined by proper appraisal.

SEC. 504. The Administrator of Veterans' Affairs is authorized to promulgate such rules and regulations as are deemed necessary and appropriate for carrying out the provisions of this title, and may delegate to a subordinate employee authority to approve loans subject to the provisions of this title and the rules promulgated thereunder.

SEC. 505. (a) The Administrator shall designate such agency or agencies, if any, as he finds equipped to determine whether the guaranty of loan should be approved under this title. In any case wherein a principal loan, for any of the purposes stated in section 501, 502, or 503, is approved by a Federal agency to be made or guaranteed or insured by it pursuant to applicable law and regulations, and the veteran is in need of a second loan to cover the remainder of the purchase price or cost, or a part thereof, the Administrator, subject otherwise to the provisions of this title, including the limitation of \$2,000 on the total amount which may be guaranteed, may guarantee the full amount of the second loan; *Provided*, That such second loan shall not exceed 20 per centum of the purchase price or cost and that the rate of interest thereon shall not exceed that on the principal loan by more than 1 per centum; *And provided further*, That regulations to be promulgated jointly by the Administrator and the head of such agency may provide

for servicing of both loans by such agency and for refinancing of the principal loan to include any unpaid portion of the secondary loan with accrued interest, if any, after the curtailment thereon equals twice the amount of the secondary loan.

(b) Any person who is found by the Administrator of Veterans' Affairs to be a veteran eligible for the benefits of this title, as provided in section 500 hereof, and who is found by the Secretary of Agriculture, by reason of his ability and experience, including training as a vocational trainee, to be likely to carry out successfully undertakings required of him under a loan which may be made under the Bankhead-Jones Farm Tenant Act, shall be eligible for the benefits of such Act to the same extent as if he were a farm tenant.

Note

Act of June 22, 1944, 58 Stat. 291, 38 U. S. C. A. secs. 694, 694c, 694d, 694e.

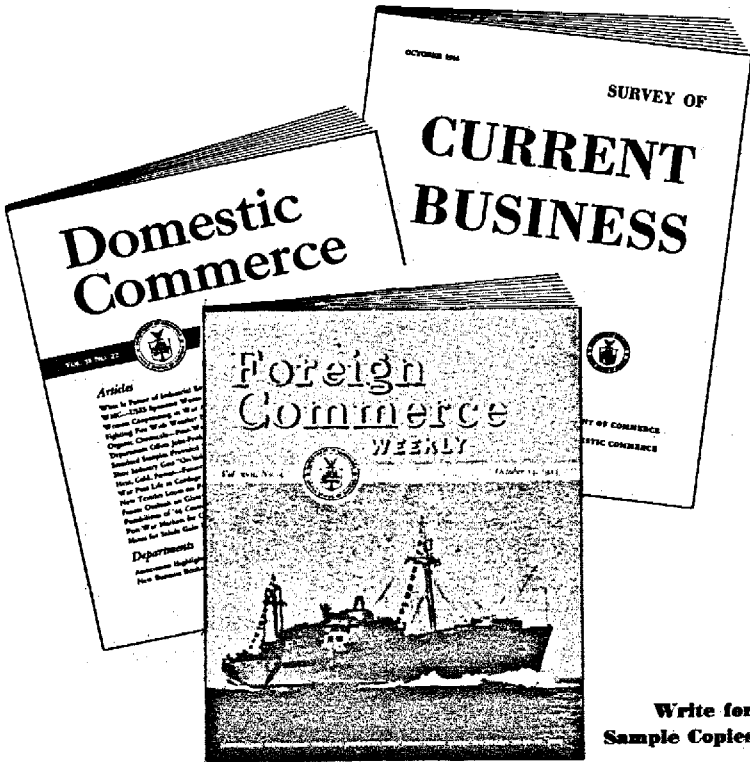


DEPARTMENT OF COMMERCE

FIELD SERVICE

Atlanta 8, Ga., 603 Rhodes Bldg.
Boston 9, Mass., 1800 Customhouse.
Buffalo 3, N. Y., 242 Federal Bldg.
Charleston 3, S. C., Chamber of Commerce Bldg.
Chicago 4, Ill., 357 U. S. Courthouse.
Cincinnati 2, Ohio, Chamber of Commerce.
Cleveland 14, Ohio, 753 Union Commerce Bldg., Euclid
Ave. at East 9th St.
Dallas 2, Tex., Chamber of Commerce Bldg.
Denver 2, Colo., 566 Customhouse.
Detroit 26, Mich., 1028 New Federal Bldg.
Houston 14, Tex., 603 Federal Office Bldg.
Jacksonville 1, Fla., 425 Federal Bldg.
Kansas City 6, Mo., 724 Dwight Bldg.
Los Angeles 12, Calif., 1540 U. S. Post Office and Court-
house.
Memphis 3, Tenn., 229 Federal Bldg.
Minneapolis 1, Minn., 201 Federal Office Bldg.
New Orleans 12, La., 408 Maritime Bldg.
New York 18, N. Y., 61 Broadway, Fifth Floor.
Philadelphia 2, Pa., 1510 Chestnut St.
Pittsburgh 19, Pa., 1013 New Federal Bldg.
Portland 4, Oreg., Room 313, 520 SW. Morrison St.
Richmond 19, Va., Room 2, Mezzanine, 801 Broad St.
St. Louis 1, Mo., 107 New Federal Bldg.
San Francisco 11, Calif., 307 Customhouse.
Savannah, Ga., 513 Liberty National Bank and Trust Bldg.,
Bull and Broughtin Sts.
Seattle 4, Wash., 809 Federal Office Bldg.

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