

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 29, 1947.

To Chairman Eccles

Subject: Guarantee of loans by

From Mr. Vest

Federal Reserve Banks

In connection with your contemplated appearance before the House Banking and Currency Committee, I wish to call to your attention the differences between the Senate Bill, S. 408, and the bill introduced by Representative Hays of Arkansas, H.R. 3268, and also a possible amendment which may be desirable and which has just been brought to my attention.

Differences between the Two Bills. - There are three differences between S. 408 and H.R. 3268, introduced by Mr. Hays:

(1) Whereas S. 408 refers to "chartered banking institution" in two places, the House Bill refers to "chartered bank" in one of those places and to "financing institution" in the other instance.

(2) The Senate Bill authorizes guarantees only when it appears to the satisfaction of the Reserve Bank that the business enterprise is unable to obtain requisite financial assistance on a reasonable basis from the usual sources; while the House Bill authorizes such guarantees only where the loan "could not be secured through ordinary banking channels at reasonable rates and terms". The provisions of the House Bill seem to me to be slightly more restrictive on this point than is the language of the Senate Bill which was suggested by the Federal Advisory Council and the Board.

(3) The most important difference between the two bills is that the Senate Bill provides for the termination of the authority of the Reserve Banks after June 30, 1952, whereas the House Bill contains no time limitation.

Possible Amendment to the Bill. - An attorney for a national bank has raised the question whether loans guaranteed by Federal Reserve Banks under the proposed new authority would be exempt from the restrictions on real estate loans made by national banks under section 24 of the Federal Reserve Act. These restrictions relate to such matters as first liens, improved real estate, 50 per cent of appraised value, etc. Loans guaranteed under existing 13b are exempt from such limitations, but, since 13b would be repealed, it is very questionable whether the exemption would apply to loans guaranteed under the new authority. It seems desirable that this exemption of the present law should be continued in effect; and a one-sentence amendment to the bill would take care of the matter. I attach a brief statement which describes this problem and suggests an amendment.

GBV

**EXEMPTIONS OF LOANS GUARANTEED BY FEDERAL
RESERVE BANKS FROM LIMITATIONS ON REAL ESTATE LOANS**

Section 24 of the Federal Reserve Act imposes certain limitations upon the making of real estate loans by national banks. For example, such loans may be made only on the security of first liens, only upon improved real estate, only up to 50 per cent of the appraised value of the real estate, and only with maturities not exceeding five years (except in the case of amortized loans which may have maturities up to 10 years).

Loans to businesses made by a national bank with a commitment to purchase on the part of the Federal Reserve Bank under the present section 13b of the Federal Reserve Act are expressly exempted from the above limitations on real estate loans by a specific provision of existing statute. However, since that exemption refers specifically to Federal Reserve Bank commitments under section 13b and not to commitments made under other provisions of law, there is some question whether the exemption would continue to apply to loans made by a national bank and guaranteed by a Federal Reserve Bank under the new paragraph proposed to be added to section 13 of the Federal Reserve Act.

It is important that this exemption from real estate loan restrictions be continued in effect so that business loans guaranteed by Federal Reserve Banks, when made by national banks on the security of real estate, will not necessarily have to be based upon first liens or upon improved real estate or subject to the other restrictions contained in section 24 of the Federal Reserve Act. In order that there may be no question that the present exemption from real estate loan restrictions with respect to loans guaranteed under section 13b will be carried over to apply also to loans guaranteed under the new authority contained in section 13, it is recommended that the following additional sentence be added to the proposed new paragraph in section 13:

"A loan made to a business enterprise, any part of which is subject to a guaranty or commitment under this paragraph, shall not be subject to the restrictions or limitations of section 24 of this Act upon loans secured by real estate."

GBV:jc
5-29-47