

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

How. Ecker

Office Correspondence

Date April 23, 1951

To Mr. Schmidt *CHS*

Subject: Statement of Reconstruction
Finance Corporation Director, Walter
E. Cosgriffe

From Miss Harris

Reconstruction Finance Corporation Director Walter E. Cosgriffe recently stated, in a private interview to the press, that the 19-year old RFC must continue "because the nation's private banking system is either unable or unwilling to meet national credit needs."

It is alleged by Mr. Cosgriffe that of 631,351 business loans made over 19 years totalling 16 billion dollars, only 134 million represented "bad loans" and that a 600 million dollar profit has accrued to the Federal Government on these lending operations. The RFC is also claimed to have had a loss record of only about 1 per cent on more than 600,000 loans, each of them made after the applicant produced certifications from the bank with which he does business, and one other, that credit was unavailable. That RFC's "bank reject" loans pay out 99 per cent is said to be sufficient evidence that the private banking system is not servicing legitimate credit needs and that "American bankers have turned their backs on the business loans with which America was built."

The Reconstruction Finance Corporation has not in fact supplied the Federal Treasury, on balance, with profits during its 19-year existence, as Mr. Cosgriffe states. The Treasury has supplied the RFC with capital with which to carry out its lending operations, a procedure which has had the effect of overstating RFC's profits and of understating its losses. The interest costs incurred by the Treasury of the United States in providing this interest-free capital for financing RFC's activities are not assessed against the corporation in full and, accordingly, are not fully reflected in its accounting records or in its financial statement.

For example, the interest paid in the fiscal year 1949 by the Treasury on funds employed without charge in the lending activities of the Reconstruction Finance Corporation has been estimated by Theodore Herz, Direct of the staff of the Congressional Subcommittee on the RFC, to be about \$11,674,000. This calculated interest cost to the Treasury was computed by the staff by applying an average 1-7/8 per cent rate on an average interest-free capital balance at RFC's disposal of 622.7 million dollars during the 1949 fiscal year. When this cost is applied against the RFC's fiscal 1949 profit, estimated at \$5,226,000, the reported profit is wiped out entirely and in its place is an estimated 1949 loss of \$6,448,000.

Business Loan Authorizations of the Reconstruction Finance Corporation
Jan. 1, 1948 through Mar. 31, 1950

Size of loan	Loans		Dollar amounts (in millions)			
	No.	Percent	Mass.	Percent	RFG Amount	Percent
5,000 + under	1,497	15.6	4.4	0.4	4.2	0.5
5,001 - 10,000	1,286	13.4	10.0	1.0	9.1	1.1
10,001 - 25,000	2,249	23.5	40.3	4.2	34.9	4.0
25,000 - 50,000	1,917	20.0	74.3	7.6	63.6	7.3
50,001 - 100,000	1,577	16.5	124.3	12.6	106.4	12.3
100,001 - 200,000	457	4.8	70.2	7.2	61.2	7.0
200,001 - 500,000	377	3.9	121.1	12.3	105.7	12.2
500,001 - 1,000,000	115	1.2	83.4	8.5	75.2	8.7
Over 1,000,000	103	1.1	453.5	46.2	406.9	46.9
<u>Total</u>	<u>9578</u>	<u>100.0</u>	<u>961.8</u>	<u>100.0</u>	<u>867.2</u>	<u>100.0</u>