

TRANSFER

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RESERVE BANK OF CLEVELAND

**FEDERAL RESERVE BANK
OF ST. LOUIS**

March 15, 1938.

To All Banks in the Eighth Federal Reserve District:

On June 19, 1934, Section 13b of the Federal Reserve Act, as amended, became effective. The intent of Congress in passing this Act was to make working capital available to industrial and commercial concerns which were not able to obtain requisite financial assistance on a reasonable basis from the usual sources. The Section provides that financial assistance may be extended, either in the form of loans direct to industry and commerce, or in the form of commitments by Federal reserve banks to commercial banks, agreeing to take up from them, during the life of the commitments, loans made to industry and commerce, to provide working capital.

Under the terms of the commitments, the Reserve banks and commercial banks each assume an agreed proportion of any loss that might be incurred in the final liquidation of the loans; the proportion of loss assumed by each differs in the light of varying conditions and circumstances. In no event shall the percentage assumed by commercial banks be less than 20%.

Since Section 13b became effective June 19, 1934, this bank has endeavored to supply, on a sound and reasonable basis, working capital to established industrial and commercial concerns which were unable to obtain such working capital from the usual sources. Several letters have been sent to you by the Federal Reserve Bank of St. Louis, giving general information in connection with the making of 13b loans. Your attention is especially directed to our letter dated March 4, 1935.

From the date Section 13b became effective to and including February 16, 1938, we have considered applications as follows:

Approved 159 advances and commitments, aggregating in amount \$9,967,678. The 159 advances and commitments were approved to 47 different types of industry, and 47.9% were in amounts ranging from \$300. to \$25,000.

Of the number approved, 22 were withdrawn by applicants, said withdrawals aggregating \$1,611,500. In a number of cases the applications were withdrawn because the applicants were able to obtain their financial requirements from the usual sources.

Actual advances and commitments in the number of 137 were made, totaling \$7,950,990. Of the advances and commitments made, there were 36 advances aggregating \$740,510, and 101 commitments totaling \$7,210,480. Of this total, 89% has been repaid. The balance of advances and commitments now outstanding is \$687,567.

The employees of concerns accommodated under Section 13b according to the applications aggregated in number 9,939.

From the beginning, the Federal Reserve Bank of St. Louis encouraged banks to participate in the advances, and to carry the entire loan with a commitment from the Reserve bank to take the loan up at any time during the life of the commitment. This enabled the commercial bank to get all of the interest (less the commitment fee) on a liquid asset. We feel that this is the basis on which the 13b loans should properly be made, as we do not desire to even seem to be in competition with commercial banks.

Should it come to your attention that there are any established industrial or commercial concerns in the Eighth Federal Reserve District which are unable to obtain working capital from the usual sources, but which could, in your opinion, furnish a sound and reasonable basis on which they might be supplied working capital, we shall appreciate it if you will bring the matter to our attention. We shall be glad to discuss it with you, or with the prospective applicant.

Very truly yours,
WILLIAM McC. MARTIN,
President.