

March 11, 1946

The Honorable Fred M. Vinson  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

I am requesting the National Advisory Council to reconsider its action of last September relating to the interest rate policy of the Export-Import Bank.

As you will recall, the Council recommended on September 27, 1945, that the Bank's general rate of interest on loans to foreign governments for reconstruction and development should be 3% and that this rate should be uniform for all governments. An exception was made of loans to finance goods which had been requisitioned under lend-lease, which were to be made at 2-3/8%.

The Bank has followed the Council's recommendation strictly with respect to its reconstruction loans. However, since the Council's action, the Bank has consummated a few development loans to agencies of foreign governments (e.g., to the Chilean Fomento Corporation) at 4% rather than 3% in accordance with the terms of resolutions approved by the Board of the Bank prior to the date of the Council's action. Thus, although the letter of the Council's recommendation has been observed, it could be argued that the rate on these loans should have been 3%.

This is one aspect of the matter. Another aspect is that the Bank, by charging a lower rate on government-to-government loans (as in the case of reconstruction loans) than on loans in favor of domestic exporters to finance specific exports, creates a preference on the part of both the borrowing country and the domestic exporter for government-to-government credits. The differential in interest would alone create this preference. But there is another factor involved; for the Bank usually requires domestic exporters to carry a part of the risk of the credits required for financing specific export transactions. By contrast, the government-to-government type of financing places the foreign government borrower in a position to pay the American exporter cash against documents, so that he is relieved of all risk at an early stage in the transaction.

There is still another aspect of the matter. A rate of 3% on foreign government obligations is a serious and perhaps insurmountable barrier to the sale of such paper by the Export-Import Bank to commercial banks and private investors. This argument was put forward by the Bank at the time the NAC was considering the question of interest rates on the Bank's long-term loans to governments. At that time, however, the arguments in favor of a lower rate in order to ease the burden on liberated and war-devastated countries were considered to carry greater weight, particularly since the 3% rate was calculated to cover the Bank's cost of operation. These counter-arguments, however, applied mostly to reconstruction loans rather than to development loans.

For the reasons outlined above, it seems to me that the NAC might agree to modify the action of last September by restricting its application to reconstruction loans. The rate on other loans by the Bank might then become the present typical rate of 4% per annum and would apply equally to loans to foreign governments, the agencies of foreign governments, domestic exporters or importers, or foreign private persons.

If this policy were adopted, it would have the following desirable consequences:

- (1) It would remove the rate discrimination as between government-to-government loans and other loans as soon as the reconstruction phase of the Bank's operations is ended (which will presumably be some time this year);
- (2) It would legitimize the rate on recent development loans to the agencies of foreign governments;
- (3) It would make the Bank's paper more readily saleable to private investors;
- (4) It would bring the Bank's rate closer to the rate which the International Bank will be obliged to charge on long-term loans for reconstruction and development; and
- (5) It would improve the possibility of obtaining an average rate of 3% on the Bank's whole portfolio, as is probably necessary if the Bank is to operate on a self-sustaining basis. (That is, a substantial part of the Bank's portfolio must carry a rate higher than 3% in order to offset the 2-3/8% rate on \$655,000,000 in lend-lease credits.)

Sincerely yours,

(SIGNED) Wm. McC. Martin, Jr.  
Wm. McC. Martin, Jr.  
Chairman