

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
November 20-21, 1939

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 20, 1939

The fourth statutory meeting of the Federal Advisory Council for 1939 was convened in the Board Room of the Federal Reserve Building, Washington, D. C., the Vice President, Mr. Loeb, in the Chair.

Present:

Mr. Thomas M. Steele	District No. 1
Mr. Leon Fraser	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. T. J. Davis	District No. 4
Mr. Robert M. Hanes	District No. 5
Mr. William V. Crowley (Alternate for Mr. Edward Ball)	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Sidney Maestre (Alternate for Mr. Walter W. Smith)	District No. 8
Mr. John Crosby	District No. 9
Mr. John Evans	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

On motion, duly made and seconded, the minutes of the meeting of the Council of October 8-10, 1939, copies of which had been previously sent to the members, were approved.

The Secretary announced that Messrs. Ball and Smith had found it impossible to be present at the meeting, and that Messrs. Crowley and Maestre, respectively, were serving in the places of the absent members.

A discussion took place regarding the future order of the meetings of the Council, as outlined in a letter of the Secretary of the Board of Governors to the Secretary of the Council, dated November 2. It was voted to discuss this matter with the Board of Governors at the meeting to take place on November 21.

The question of Sunday meetings was discussed, and it was decided to leave this in the future, as in the past, to the discretion of the President of the Council. If any other member of the Council desired to have a Sunday meeting, he should communicate with the Secretary of the Council, who, in turn, was to consult the President of the Council.

In respect to the question of how the minutes of the Council are to be regarded and whether they are to be treated as strictly confidential, it was decided that this should be left to the discretion of each member of the Council.

Mr. Hanes discussed at some length the plan of the American Bankers Association to collect information to be used in connection with the investigation of the banking structure of the country by the Banking and Currency Committee of the Senate.

Mr. Brown suggested that the Federal Advisory Council should request the Board of Governors of the Federal Reserve System to submit to the Council any proposals it intended to present to the Committee on Banking and Currency of the Senate prior to such submission to the Senate Committee.

At 11:05 A.M. Dr. E. A. Goldenweiser, Director, Division of Research and Statistics of the Board of Governors, appeared before the Council and discussed the general financial and business situation. Dr. Goldenweiser left at 12 o'clock.

Mr. Hanes continued the discussion of the A. B. A. program in relation to the proposed Wagner investigation.

Mr. Steele suggested that a formal resolution be passed, asking that if the Board of Governors should plan to make recommendations to the Wagner Committee, that these be submitted to the Federal Advisory Council before being sent to the Committee on Banking and Currency of the Senate. However, it was decided to have the Vice President of the Council informally ask the Board of Governors to take such action and to give the Council an opportunity to confer with the Board before submitting recommendations to the Wagner Committee.

The committee appointed at the last meeting of the Council, consisting of Messrs. Dick, Steele, and Hanes, for the purpose of reporting on the amendments to the Federal Home Loan Bank Act, etc., made its report, which was read by the Secretary.

A discussion took place regarding the report, and Mr. Fraser moved that the report be adopted, with the request to the Board of Governors that it be sent to the appropriate committees of the Congress as expressing the views of the Federal Advisory Council.

The Council adjourned at 1 P.M. for luncheon with Vice Chairman Ronald Ransom.

The meeting reconvened at 2:50 P.M., and the discussion in relation to the amendments to the Federal Home Loan Bank Act, etc., ~~was~~ resumed.

Mr. Fraser changed his motion, made before luncheon, to the effect that the Council accepts in principle the document submitted by Mr. Dick's committee, with the request that it be abbreviated. Mr. Crosby seconded the motion, and it was unanimously passed.

A discussion took place regarding the new Mead Bill (S. 2998).

It was voted, on motion by Mr. Hanes, seconded by Mr. Dick, that the Vice Chairman appoint a committee to study this new Mead Bill and furnish the Executive Committee of the Council with such information as might be needed in case the Executive Committee should find it necessary to take action before the next meeting of the Council. Furthermore, it was voted that in the event the Executive Committee found it necessary to take action before the next meeting of the Council, it should have full power to act in the name of the Council.

There was a brief discussion regarding the two other matters on the agenda:

Efforts in respect to bringing about complete unification of the Federal Reserve System.

Efforts made to enlarge the par clearance of items.

No action was taken.

Mr. Fraser presented a resolution which, after some minor alterations were made, read as follows:

"Referring to its resolution of October 9, 1939, the Council is pleased to observe that the Open Market Committee has recently initiated some sales from the System's portfolio of long term Governments. This action has not been attended by any disturbance in the market or by any apprehension on the part of banks lest the action represent a profound alteration in credit policy. On the contrary, the price of long term Governments advanced after the sales, as well as before. When the Council passed its resolution on October 9, last, the quotation of the two longest issues was 101-7/32. On November 16 it was 104-7/32.

"The Council recommends that the volume of sales be promptly expanded in an orderly manner. It is not believed to be consistent with sound central banking principles that the System retain an unduly large quantity of long term Governments especially at a time when nearly all insurance companies and many banks are desirous of acquiring these securities. Furthermore, from the current earnings record of the System, it does not appear that the retention of all the bonds purchased last September is really requisite. The System should seize the opportunity in an orderly market to clear the decks so that when and if another grave emergency develops, it will be in a position to act without then having on hand an unnecessarily heavy inventory of long term Government bonds."

Mr. Fraser moved to adopt the resolution, seconded by Mr. Hanes.

Mr. Steele, seconded by Mr. Davis, moved an amendment that the resolution be a formal recommendation of the Council to the Board of Governors.

On a vote being taken, the amendment was lost, and thereupon the resolution was passed unanimously.

The meeting adjourned at 4:05 P.M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 21, 1939

At 10:10 A.M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, the Vice President, Mr. Loeb, in the Chair.

Present: Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, W. V. Crowley, Edward E. Brown, Sidney Maestre, John Crosby, John Evans, R. E. Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

Mr. Loeb announced that he had appointed the following committee to study the new Mead Bill (S. 2998): Messrs. Brown, Chairman; Fraser and Hanes.

The Secretary read a letter from Mr. Walter W. Smith, thanking the Council for the flowers sent him upon his return from the hospital.

The Secretary read a telegram, announcing that the Federal Reserve Bank of Atlanta had elected Mr. Ryburn G. Clay, President, Fulton National Bank of Atlanta, a member of the Federal Advisory Council for the year 1940, vice Mr. Edward Ball.

Mr. Dick's committee presented the revised report dealing with the proposed amendments to the Federal Home Loan Bank Act, etc. It was voted to adopt the revised report and the reading of it was waived.

Mr. Brown reported regarding an interview he and Mr. Hanes had had yesterday afternoon with Mr. Emil Schram, Chairman of the Reconstruction Finance Corporation, on the subject of the new Mead Bill.

The meeting adjourned at 10:25 A.M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

November 21, 1939

At 10:40 A.M. a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Elliott Thurston, Special Assistant to the Chairman; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; J. P. Dreibelbis, Assistant General Counsel of the Board of Governors; L. H. Paulger, Chief, Division of Examinations; R. F. Leonard, Assistant Chief, Division of Examinations; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics; E. L. Smead, Chief of Division of Bank Operations; and C. E. Parry, Chief of the Division of Security Loans of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, W. V. Crowley, Edward E. Brown, Sidney Maestre, John Crosby, John Evans, R. E. Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the resolution adopted by the Council at its meetings that morning dealing with the Federal Home Loan Bank Act, etc.

There was some discussion and the Council agreed to certain minor changes in the report. The report in its final form is attached to and made a part of these minutes.

The Vice President of the Council, on behalf of the Council, requested that, if and when this bill is taken up by the appropriate committees of the Congress, the Board of Governors transmit copies of the memorandum of the Council to the chairmen of the respective committees of the two Houses of Congress at such time as may seem appropriate to the Board of Governors. If, however, the Council should find it desirable to have the memorandum transmitted to the committees of the Congress prior to the time that the Board of Governors decides to do so, the Council reserves the right to request the Board of Governors to transmit the memorandum at such time as the Council may think it desirable.

The Secretary of the Council read the resolution on Open Market Policy which it had adopted at its meeting on November 20.

The Vice President of the Council raised the question of the proposed change in the order of meetings of the Council. A lengthy discussion took place. It was found that on the whole the Board of Governors of the Federal Reserve System approved of the suggested change.

The Secretary of the Council was instructed in the future to send a copy of the agenda of each meeting of the Council in advance of such meeting to the Secretary of the Board of Governors.

Governor Ransom stated that an informal suggestion had come to him that it might be advisable for the Federal Advisory Council to appoint an assistant secretary who would be permanently in residence in Washington with an office in the Federal Reserve Building, in order to keep the members and the Secretary of the Federal Advisory Council in constant touch with the Board of Governors of the Federal Reserve System.

The Vice President of the Council stated that the Council understood a study was being conducted under the direction of Governor Ransom for the purpose of accumulating factual material for possible submission to the Committee on Banking and Currency of the Senate when it began its investigation of the banking structure of the country. He expressed the hope, on behalf of the Council, that the Board of Governors would submit the study, when completed, and any recommendations it might desire to make, to the Council before submitting these to the Committee on Banking and Currency of the Senate.

Governor Draper presented a memorandum he had prepared on the new Mead Bill, which was read by the Assistant Secretary of the Board of Governors, Mr. S. R. Carpenter. The memorandum is attached to and made a part of these minutes.

A lengthy discussion took place regarding the Mead Bill.

The meeting adjourned at 12:30 P.M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 21, 1939

At 12:35 P.M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the Vice President, Mr. Loeb, in the Chair.

Present: Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, W. V. Crowley, Edward E. Brown, Sidney Maestre, John Crosby, John Evans, R. E. Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council stated that it was his understanding that the program of future meetings of the Council would be as follows:

1. Meetings on Sunday to convene at the Mayflower Hotel at two o'clock in the afternoon.

2. Informal meetings with the Board of Governors to convene in the Board Room of the Federal Reserve Building on Mondays at 10:15 A.M. It is understood that at this first meeting of the Board of Governors with the Council, the Board will review with the Council the list of topics regarding which either the Board desires the advice of the Council or regarding which the Council desires to make recommendations to the Board of Governors, or concerning which information may be desired by members of the Council. It is presumed that at these informal meetings it will not be necessary to have present a large number of the staff of the Board of Governors.

3. Monday afternoons after luncheon, Dr. Goldenweiser will talk to the Council on the current business and financial situation.

4. The Council will meet alone and prepare recommendations, resolutions, etc. for further discussion with the Board of Governors.

5. On Tuesday mornings, the formal meeting of the Board of Governors of the Federal Reserve System and the Federal Advisory Council will take place, at which the Council will present its recommendations, resolutions, etc.

6. If necessary, the Council can meet again after the adjournment of the meeting with the Board of Governors.

Following a suggestion made by Governor Ransom at the meeting of the Board of Governors and the Federal Advisory Council, it was voted that the Council arrange to have an assistant secretary, resident in Washington, with an office in the Federal Reserve Building, in order to keep the members and the Secretary of the Federal Advisory Council in constant contact with the Board of Governors of the Federal Reserve System. It was, furthermore, voted to give the Executive Committee of the Council full authority to select the person to be the resident assistant secretary of the Council.

The meeting adjourned at 12:50 P.M.

WALTER LICHTENSTEIN,
Secretary.

PROPOSED AMENDMENTS TO THE FEDERAL HOME LOAN BANK ACT, HOME OWNERS' LOAN ACT, AND TITLE IV OF THE NATIONAL HOUSING ACT.

House Bill #6971, introduced June 23, 1939, by the Hon. Henry B. Steagall, of Alabama, proposes certain amendments to the Federal Home Loan Bank Act, Home Owners' Loan Act, and Title IV of the National Housing Act. The ostensible purpose of the amendments is to liberalize the acts so as to promote or create activity in home-building. They would lessen the periodic payments required to be made by increasing the time limit on loans, and also include for financing under the plan types of buildings not permissible under the original acts. All this financing, of course, is to be done through building and loan associations, savings and loan associations and similar organizations holding membership in the Federal Home Loan Banks.

Other institutions making mortgage loans and not holding memberships in the Federal Home Loan Banks -- commercial banks, savings banks, insurance companies, building and loan savings and loan associations organized under state charter -- are opposing the amendments on the ground that such "liberalization" would create a preferred field for these federally-chartered organizations; in fact, give them a virtual monopoly. And the amendments, moreover, would cause the acts to depart from their original intent, which was to encourage home building by the people who would use those homes. Structures of a purely investment type could be financed through the federal institutions, and the funds, in some measure at least, would be withdrawn or withheld from institutions which could not compete for one reason or another.

In its study of these proposed amendments the Council, in addition to its examination of the proposed measures themselves, has studied as much of the available literature as it found reasonably available. There are two admirable presentations of the subject, too long to incorporate in this report, but which the Council warmly commends and with the major conclusions of which the Council finds itself in full agreement. These are -

- (1) The so-called "Minority Report" (really a Majority Report) of the House Committee on Banking & Currency accompanying HR-6971, being Part 2 of House Report No. 933, submitted at the First Session of the 76th Congress.
- (2) A letter from Chairman Eccles of the Board of Governors of the Federal Reserve System to Honorable Henry B. Steagall, Chairman of the House Committee on Banking and Currency, dated June 7th, 1939, and printed on page 439 et seq. of the Hearings Before the Committee on Banking & Currency.

The Council wishes to lay stress on the following points:

The first nine sections of the Federal Home Loan Bank Act are administrative, and such slight changes as may be made in them are not important. The first real controversy or objection to amendments comes with Section 10, and there are quoted below portions of this important section. The parentheses represent the deletions from the original Act

and the underscored portions represent new matter. To read the Act as it is proposed to be amended, therefore, it is necessary only to omit the parentheses.

SEC. 10 (a) Upon such terms and restrictions as the Board may impose, each (Each) Federal Home Loan Bank is authorized to make advances to its members, upon the security of (home mortgages, or) (a) home mortgages, (b) first mortgages on real estate upon which is located a structure or structures designed principally for residential use for more than four families in the aggregate, irrespective of whether any such structure has a party wall or is otherwise physically connected with any other structure or structures, or (c) obligations of (the United States) or (obligations) fully guaranteed as to principal and interest by the United States (subject to such regulations, restrictions and limitations as the Board may prescribe. Any such advance shall be) subject to the following limitations as to amount:

Sub-sections (1), (2) and (4) not changed; change of sub-section (3) relatively unimportant.

(b) No (home) mortgage shall be accepted as collateral security for an advance by a Federal Home Loan Bank if, at the time such advance is made ((1)) the (home) mortgage loan secured by (1) has more than (twenty) twenty-five years to run to maturity, or (2) (the home mortgage) exceeds (\$20,000) \$100,000 or (3) is past due more than six months when presented, unless the amount of the debt secured by such (home) mortgage is less than 50 per centum of the value of the real estate with respect to which the (home) mortgage was given, as such real estate was appraised when the (home) mortgage was made (.)

; each Federal Home Loan Bank may make advances to its members secured by obligations issued pursuant to this Act, the National Housing Act, or other obligations acceptable to the Board, which a member may lawfully have available, but no such advance shall exceed the market price or face value of such obligation, whichever is lower, and no such obligation shall be accepted as collateral security for an advance if such obligation is in default.

The original act provided that advances could be made to members on the security of "home mortgages" only, and it specifically defined a home mortgage. To be included were only single-family, two-family, three-family and four-family structures. Anything beyond a four-family building presumably was left to investment capital, banks, insurance companies and thrift organizations. If Congress, in the original act, had intended to throw open an unlimited building campaign, loans would not have been limited to a "home mortgage" on structures having not more than four families. The act, if amended, would remove this restriction as to size (housing capacity) of the

structure, thus opening the way for financing large apartment houses and kindred buildings. Amount of mortgages serving as collateral is raised from \$20,000 to \$100,000. There is danger in raising the time limit from twenty to twenty-five years. Even a twenty-year mortgage is sometimes difficult to defend, but with the extension of another five years, builders of the homes are really paying a low rental, in monthly installments, on property of comparable value; and there is no real deterrent to abandonment of the property in times of adversity.

Another objectionable amendment is (i) of Section 11, all of which is new, and reads as follows:

(i) The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations issued under the provisions of this Act or Title IV of the National Housing Act, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include such purchases. The Secretary of the Treasury may, at any time, sell any of the obligations acquired by him under this sub-section. All redemptions, purchases, and sales by the Secretary of the Treasury of such obligations shall be treated as public-debt transactions of the United States.

If the act, as amended, will make federally chartered building and loan and savings and loan associations favored investment organizations in the mortgage field -- and it does no less -- commercial banks must supply a large share of the capital which the Secretary of the Treasury will use in helping to finance Federal Home Loan Banks, and they are deprived, for competitive reasons, from sharing in this mortgage loan business. The amendment stands condemned from the standpoint of equity. But over and above the question of right or wrong, it carries a potential stepping-up of the public debt, contingently at least, equal to the aggregate amount of the capital, bonds and other obligations of the Federal Home Loan Banks. Other provisions of the act enable Federal Home Loan Banks to make advances to non-member institutions over which the Board exercises little or no control, and the danger here is obvious. These advances, if the non-member should get into financial difficulty, tend to diminish the capital of Federal Home Loan Banks, and in the final analysis, the loss must be borne by the Treasury.

It seems quite apparent that the Federal Home Loan Banks, with all the rights and privileges granted under the amended act, would be a third banking system, cut loose from tried regulatory measures. They would not be answerable to the Federal Reserve System or the Federal Deposit Insurance Corporation, nor would the Comptroller have anything to say about examinations. The Board has complete jurisdiction in the matter of examinations, and whereas the original act provided for two examinations a year, the number is halved by a proposed amendment.

The Federal Savings & Loan Insurance Corporation (the name of which will be shortened to Federal Savings Insurance Corporation under the proposed amendment) will insure its Federal Savings & Loan Associations in the same way as the Federal Deposit Insurance Corporation does its insured banks. Its capital was provided by the Home Owners Loan Corporation, another government organization, and in the event of loss upon liquidation, the loss would fall upon the Treasury. When the act was passed in 1933 creating this relief to home builders, a survey showed that the average amount invested by individuals in the shares of savings and loan associations was approximately \$700. Therefore the average amount of liability of a savings and loan association to its shareholders was a like amount, and it would seem that under the circumstances, the insurance feature should have been gauged by the amount of liability. Instead, a maximum insurance on each deposit (account) of \$5000 was provided, the same as for banks making up the membership of Federal Deposit Insurance Corporation. But savings and loan associations are essentially thrift organizations, intended to accumulate small deposits until the customer can make a down-payment on a home, whereas commercial banks are depositories of excess funds of whatever source or intended application. With the same protection on a mis-named "thrift" account as if it were carried in a commercial bank, a depositor is influenced in leaving his money with a savings and loan association, for in the absence of special circumstances, he will receive a greater return on it. The depositor is lured into leaving his money with the savings and loan association by the promise of larger dividends, and the savings and loan association is tempted into making loose or unsound investments in order to have greater earnings to pay these larger dividends.

Notwithstanding the more obvious risk in accounts insured in the Federal Savings and Loan Insurance Corporation, it is now proposed to lower the rate to 1/12th of one percent, the same as for banks which are members of the Federal Deposit Insurance Corporation. A portion of Section 404 of the National Housing Act is quoted.

Sec. 404. () Each institution whose application for insurance is approved by the Corporation shall pay to the Corporation, in such manner as it shall prescribe, a premium charge for such insurance equal to (one-eighth) one-twelfth of 1 per centum of the total amount of all accounts of the insured members of such institution plus any creditor obligations of such institution.

The utmost in concession was made when the higher limit was fixed for insured accounts, and if now the cost of this insurance is made the same as for Federal Deposit Insurance Corporation members, the savings and loan associations will have gained a point far-reaching in its effect.

The principles which underlie opposition to governmental paternalism apply clearly here in view of the extent to which enactment of the proposed legislation will put Federal savings and loan associations in the savings-bank business in competition with savings banks, cooperative banks,

mutual savings banks, state-chartered building and loan associations and other thrift institutions. They could even go a step farther and crowd out all these presently-existing institutions by having decidedly more latitude -- by not being hedged about with safeguards and having the added advantage of being tax-exempt.

Rarely does such a controversial bill run the gauntlet of the Committee on Banking and Currency, and this one did it only by the merest accident. It was reported out of Committee by a bare majority of one, and had it not been for the absence of two committeemen whose views are stated to have been adverse, the bill would have been killed in committee.

The so-called minority report of this Committee, referred to at the outset, so well supplemented by the objections presented by Chairman Eccles to Chairman Steagall, offers, in the opinion of the Council, an unanswerable argument against the enactment of the proposed measure.

THE NEW MEAD BILL

S-2998

During the recent special session of Congress Senator Mead introduced a bill, S-2998, which provides for the creation of an Industrial Loan Corporation as an integral part of the Federal Reserve System. Before discussing the details of this bill I should like to give you a brief comparative picture of the amount of credit extended to business and industry by the Federal Reserve banks and the Reconstruction Finance Corporation. As you know, the authority of the Reconstruction Finance Corporation in this respect has been broadened by Congressional action on two different occasions, first in January 1935 and again in April 1938. Section 13b of the Federal Reserve Act, however, has never been amended.

From June 1934, the date the Federal Reserve and Reconstruction Finance Corporation industrial loan acts were passed, to January 30, 1935, when Congress first liberalized the Reconstruction Finance Corporation Act, the Federal Reserve banks made advances and commitments aggregating approximately \$32,000,000 against approximately \$9,000,000 for the Reconstruction Finance Corporation. From June 1934 until April 1938, when the Reconstruction Finance Corporation Act was further broadened and practically all hampering restrictions eliminated, the Federal Reserve banks made advances and commitments aggregating approximately \$111,000,000 against approximately \$105,000,000 for the Reconstruction Finance Corporation. Up to that time, therefore, the Federal Reserve banks had made \$6,000,000 more of advances and

commitments than had the Reconstruction Finance Corporation. Subsequent to the April 1938 amendment of the Reconstruction Finance Corporation Act, the Corporation received a large increase in the number of applications for loans, whereas the number of applications received by the Federal Reserve banks fell off very substantially. From that date to June 30, 1939, the Federal Reserve banks made advances and commitments of approximately \$21,000,000, as compared with Reconstruction Finance Corporation authorizations of about \$235,000,000, of which only about \$73,000,000 was actually disbursed. Some of the authorizations approved by both the Federal Reserve banks and the Reconstruction Finance Corporation have been cancelled, but the cancellations of the Reconstruction Finance Corporation authorizations have been proportionately much greater than those of the Federal Reserve banks.

The amount of losses on advances and commitments of the Federal Reserve banks has not been determined but there is reason to believe that they will not be excessive and, in fact, they may be relatively small. No indication has been given by officials of the Reconstruction Finance Corporation as to the amount of its probable losses but it is believed they will be relatively greater than the losses of the Federal Reserve banks.

In the hearings on the Reconstruction Finance Corporation bill, introduced by Senator Mead at the last session of Congress.

Chairman Eccles and I both pointed out what we considered the weaknesses of the proposed legislation and Chairman Eccles suggested to the Committee that in addition to or in lieu of the proposed legislation an Industrial Loan Corporation be created as an agency of and within the Federal Reserve System for the purpose of supplying credit to small business enterprises.

Recently Senator Mead asked for more details with respect to the plan proposed by Chairman Eccles than were contained in his testimony. Such details were given to him with the understanding that they were the Chairman's personal views and that they had not been discussed by the Board. The bill, S-2998, introduced by Senator Mead during the special session, embodies the suggestions contained in Chairman Eccles' testimony.

The proposed Industrial Loan Corporation would utilize existing machinery. Its creation would involve no additional borrowing by the Government, and would not add to the public debt since it is proposed to use funds previously earmarked by Section 13b for making industrial advances. The Industrial Loan Corporation bill provides that the Board of Governors of the Federal Reserve System would be the Board of Directors of the Corporation and that the twelve Federal Reserve banks and their twenty-four branches would be the field agencies to receive and pass on business loan applications. It also provides for the creation of local committees to advise and

assist prospective borrowers. Under the bill not more than \$1,000,000 might be advanced to any single borrower. Intermediate and long term loans could be made by financing institutions protected by commitments of the Corporation, and the Corporation would be authorized to purchase preferred stock. The Corporation would have \$100,000,000 of capital and \$39,000,000 of surplus, and would have power to issue \$500,000,000 of Government guaranteed debentures. Provision is also made for the creation of an insurance fund of \$25,000,000 to be set aside out of the Corporation's surplus for insuring loans not exceeding \$25,000. Under this provision the Industrial Loan Corporation could guarantee say 10 per cent of any lender's aggregate insured loans so that the loss on any loan, even up to 100 per cent, would be absorbed by the Corporation so long as aggregate losses did not exceed one-tenth of the lender's insured loans. This is the principle embodied in Title I of the National Housing Act.

As you know, the present Section 13b contains a number of limiting restrictions, most of which are eliminated in the new Mead bill. These limiting restrictions are:

1. Loans can be made for not exceeding five years.
2. Loans can be made for working capital only.
3. Loans can be made only to established concerns.

In conclusion, may I stress the fact that, in my opinion, the purpose of such an agency as Chairman Eccles has suggested should be to supplement, but not to compete with, existing banking institutions. An agency set up within the framework of the Federal Reserve System would be ideally fitted for this work since it could expand or contract its operations in accordance with the legitimate demand for small business credit. In fact, there is a provision in the present bill to allow the Board of Directors of the proposed Industrial Loan Corporation to abolish it altogether (I am quoting from the bill) - "Whenever it shall appear to the Board of Governors of the Federal Reserve System that there is no longer a reasonable need for the continuance of the facilities of the Corporation." On the other hand, should an independent Government agency be established for lending to small business (and there is no doubt but that efforts are being made in this direction), it would only be a question of time, I believe, before such an agency would actively compete with present banking institutions.

We shall be glad to have any comments you may care to offer, either now or in the future, regarding Senator Mead's new bill or any other phase of the problem relating to credit facilities for small business enterprises.