

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1501]
January 17, 1935]

INDUSTRIAL LOANS TO PROVIDE WORKING CAPITAL UNDER
SECTION 13b OF THE FEDERAL RESERVE ACT.

*To All Banking Institutions in the
Second Federal Reserve District:*

A period of more than six months now has elapsed since the passage of the law which added Section 13b to the Federal Reserve Act, authorizing Federal Reserve Banks to make loans for the purpose of providing working capital to established industrial and commercial businesses that are unable to obtain requisite financial assistance on a reasonable basis from the usual sources. During this period this bank, with the cooperation of banks and other financial institutions in this district, has been operating under Section 13b, and the purpose of this circular is to report briefly concerning such operations.

Shortly after Section 13b became effective, an Industrial Advisory Committee for the Second Federal Reserve District was appointed, in accordance with the provisions of the law, to consider applications for loans or commitments under Section 13b and to make recommendations to this bank with regard to such applications. The members of the Industrial Advisory Committee for this district are the following:

- MR. WILLIAM H. POUCH, (*Chairman*),
President, Concrete Steel Company, New York, N. Y.
- MR. JOHN A. HARTFORD, (*Vice Chairman*),
President, Great Atlantic & Pacific Tea Company, New York, N. Y.
- MR. JOHN B. CLARK,
President, Clark Thread Company, Newark, N. J.
- MR. ALBERT A. HOPEMAN,
President, A. W. Hopeman & Sons Co., Rochester, N. Y.
- MR. ARTHUR G. NELSON,
Treasurer, A. G. Nelson Paper Company, New York, N. Y.

On July 6, 1934, this bank issued its circular No. 1397 transmitting copies of Federal Reserve Board Regulation S with respect to loans, discounts, purchases and commitments by Federal Reserve Banks under the provisions of Section 13b, and announcing that this bank was prepared to receive applications for such discounts, purchases, loans and commitments.

Thereafter, a series of meetings, arranged in cooperation with the New York and New Jersey State Bankers Associations, was held at this bank, at which all banks in the district were invited to be represented, in order that they might be informed more fully as to the purpose of Section 13b and as to the procedure to be followed in connection with applications for loans or commitments thereunder. At these meetings the representatives of the banks were urged to ascertain the need, in their localities, for working capital loans on the part of businesses to which reasonably sound loans could be made and to encourage the filing of applications for such loans. The possibility and desirability of participation in such loans by the banks, as contemplated by the law, also were pointed out.

Since these meetings this bank has continued the policy of endeavoring to keep the bankers of this district informed regarding the subject of working capital loans and to increase their interest in it; and to this end representatives of this bank have visited the banks throughout the district.

The following table shows the number and amounts of applications for loans and commitments under Section 13b of the Federal Reserve Act received at the Federal Reserve Bank of New York to and including January 17, 1935, and the action taken on such applications:

	<i>Number</i>	<i>Amount</i>
Applications received	573	\$41,867,585
Applications withdrawn.....	13	1,144,450
	<hr/>	<hr/>
Net applications received.....	560	\$40,723,135
Applications approved.....	188	18,762,440
Applications declined.....	313	14,637,335
Applications still under investigation.....	59	7,323,360

The approved loans and commitments are being extended to a wide variety of businesses and include many for relatively small amounts.

Each application filed with this bank is carefully investigated and, in the majority of cases, a representative of this bank or of the Industrial Advisory Committee talks with the applicant personally. In the case of manufacturing enterprises a survey of the plant of the applicant often must be undertaken. These investigations and discussions have, we believe, been of value to the applicants, and we have been so advised by a number of them including some whose applications for loans were declined. Moreover, in a number of instances, the investigations have resulted in the applicants obtaining the needed funds from other sources. The general effect upon business and employment of operations under Section 13b therefore has been somewhat greater than the figures above would indicate.

Progress in making loans of the character contemplated under Section 13b necessarily is slow. The facilities of the Federal Reserve Bank in this field of credit only gradually are becoming known and understood. Each case offers unusual problems, since by the terms of the law loans can only be made to businesses which cannot obtain requisite financial assistance on a reasonable basis from the usual sources. In many cases some reorganization or readjustment is required before a reasonably sound loan can be made. The strengthening of a weak situation in this way in many cases is more important than the loan itself. The necessity of dealing with these problems accounts in large part for the length of time which elapses in many cases between the approval of a loan and its consummation by the actual advancement of funds or the execution of a commitment. (Only the latter figures, of course, appear in the weekly statements of this bank.)

Since the first rush of applications for credit under Section 13b, there has been a fairly constant number of such applications submitted each week, indicating a continuing demand for this type of credit. Furthermore, the number and character of the applications coming to us through banks, that is to say with offers on the part of such banks to participate in the loans, indicate that a considerable number of banks have found the procedure under Section 13b a desirable method of extending credit to certain of their customers. The proportion of applications received with offers of bank participation is substantially greater in the more recently received applications than in the earlier ones.

We take this opportunity to express our appreciation of the assistance given to us by banks in this district in carrying on our work in connection with the extension of credit under Section 13b of the Federal Reserve Act, and to request their continued cooperation.

GEORGE L. HARRISON,
Governor.