

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

Released for publication  
for morning papers  
June 28, 1934

June 27, 1934.

The Federal Reserve Board has prepared, approved and issues here-  
with Regulation S, Series of 1934, which deals with loans by Federal re-  
serve banks for industrial purposes. The regulation analyses the provi-  
sions of the law and prescribes the procedure to be followed in applying  
for such loans. The regulation has been considered at a conference of the  
Board with the Chairmen and Governors of the twelve Federal Reserve Banks  
and has been approved by that conference.

The need for this character of loans has become increasingly apparent  
in recent months. Many small industrial establishments have suffered  
severe capital losses during the depression and are now short of working  
capital. A survey made by the Federal Reserve Board through the Reserve  
Banks and the chambers of commerce showed that this condition is wide-  
spread and is not being met by existing facilities. Small industries  
find it difficult at present to obtain their requirements of working cap-  
ital through the capital market, while commercial banks and other financial  
institutions, in many cases, are hesitant about undertaking on their single  
responsibility the risks involved in making relatively long-time loans  
for working capital purposes.

Recognizing the need of these industrial and commercial businesses  
for additional working capital to enable them to continue or resume normal  
operations and to maintain employment or provide additional employment,

Congress has granted the Federal reserve banks broad powers to enable them to provide such working capital, either through the medium of other banks, trust companies and other financing institutions or, in exceptional circumstances, directly to such commercial and industrial businesses. It is believed that the facilities thus afforded will aid in the recovery of business, the increase of employment and the general betterment of conditions throughout the country.

The Federal Reserve Banks are authorized to have outstanding such loans in an aggregate amount not exceeding approximately \$280,000,000, but additional loans may be made out of funds received through repayment of outstanding loans, so that the aggregate amount of credit to be extended under this authority may be several times as large as the initial amount. These loans are to be made by the Federal Reserve Banks in their own districts and applications for such loans should be directed to these banks. The Federal Reserve Board in its regulation gives authority to all Federal reserve banks to make such loans without referring them to Washington for approval.

In making these loans the Federal Reserve Banks will have the aid of advisory committees consisting of five active industrialists resident in the district. Progress has been made in the selection of such committees, and the banks are now ready to consider such loans.

The reserve banks are authorized to make loans or advances or commitments for such loans or advances to financing institutions, which in

turn advance the funds for working capital purposes to established industrial or commercial enterprises. Maturity of the loans must not exceed five years and the financing institutions must assume at least 20 per cent of the risk of any loss that may occur.

In exceptional circumstances the Federal Reserve Banks may also make direct advances to industrial or commercial undertakings that are not able to obtain the required funds from usual banking sources on reasonable terms. It is expected, however, that the Federal Reserve Banks will not compete with local banks, but rather will assist and cooperate with them in meeting local requirements for working capital. The Federal Reserve Board and the Federal Reserve Banks are confident that the banks of the country will join with the system in this endeavor to hasten economic recovery.

At the recent conference the Governors and Chairmen of the twelve reserve banks all reported that there was need for this class of loans in their districts and undertook to set up promptly the necessary machinery for considering applications for such loans and to carry out vigorously the purposes of this additional power of the system to serve commerce and industry. The reserve banks will undertake through the advisory committees of industrialists to canvass the situations in their districts with a view to determining where loans for working capital purposes can be made in the public interest to industrial and commercial enterprises.

It was agreed that these loans would be made chiefly to small and

medium-size enterprises, which have the greatest need for such assistance, to whose needs primary consideration was given by the Congress, and in the improvement of whose condition the Reserve system under this law is primarily concerned.