

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-8046


October 6, 1934

Dear Sir:

The representatives of the Industrial Advisory Committees, at their meeting in Washington on September 27, stated they felt that member banks do not understand how industrial loans, made under the provisions of Section 13(b) of the Federal Reserve Act, are to be reflected in condition and examination reports, and expressed the opinion that it is important that they be advised in this regard. The Board concurs in this opinion and, accordingly, requests that you send the attached letter to each State bank member in your district and a copy thereof to the State banking department of each state the capital of which is situated in your district. The Board is sending a copy of the letter to the Chairman of the Industrial Advisory Committee in each district for his information.

The Comptroller of the Currency is sending a similar letter to National banks and copies to National bank examiners.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Inclosure

TO ALL FEDERAL RESERVE AGENTS

TO THE BANK ADDRESSED:

The Act of Congress approved June 19, 1934, relating to direct loans for industrial purposes by Federal Reserve banks, published on pages 430-434 of the July 1934 issue of the Federal Reserve Bulletin, added a new section, 13(b) to the Federal Reserve Act, paragraph (b) of which authorizes each Federal reserve bank to discount for, or purchase from, any member bank or other financing institution operating in its district, obligations having maturities not exceeding five years entered into for the purpose of furnishing working capital to an established industrial or commercial business; to make loans or advances direct to any member bank or financing institution on the security of such obligations; and to make commitments with regard thereto, including commitments made in advance of the actual undertaking of such obligations.

The Act also provides that a member bank or other financing institution, which discounts or sells such an obligation to a Federal Reserve bank, shall obligate itself to the satisfaction of the Federal reserve bank for at least 20 percent of any loss which may be sustained thereon; also that, in lieu of so obligating itself to the Federal reserve bank, a member bank or financing institution may advance at least 20 percent of a working capital loan to an established industrial or commercial business and the Federal reserve bank the remainder, provided the total of such loan is considered as one advance and repayment made prorata under such regulations as the Federal Reserve Board may prescribe.

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In view of the apparent misunderstanding on the part of some member banks on this subject, the Federal Reserve Board has requested me to advise you as follows in regard to the manner in which these loans should be included in condition reports submitted to the Federal reserve bank and in examination reports made by examiners for the Federal Reserve banks.

1. If your bank discounts with, or sells to, the Federal reserve bank any obligation of an industrial or commercial business issued for working capital purposes, only that portion of such obligation rediscounted with, or sold to, the Reserve bank on which your bank has obligated itself to the Federal reserve bank for any loss sustained thereon is to be included among the assets and liabilities of your bank in condition reports submitted to the Federal reserve bank. The amount of such obligation on which your bank is liable for any loss sustained is to be included in loans or investments and shown among liabilities as "Obligations on industrial advances transferred to Federal Reserve Bank".

2. If, instead of discounting a working capital obligation with, or selling it to, the Federal reserve bank, your bank advances not less than 20 percent of such obligation and the remainder is advanced by the Federal reserve bank, only the amount of the advance by your bank should be included in the loans or investments in condition reports submitted to the Federal reserve bank. The amount advanced by the Federal

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reserve bank should not be included in the balance sheet of your bank.

3. When your bank makes an industrial advance of the kind described in the Act of June 19, 1934, and obtains a commitment from a Federal reserve bank in regard thereto, the total advance should be included in the loans or investments of your bank in condition reports submitted to the Federal reserve bank, but the commitment obtained from the Federal reserve bank should not be shown in the balance sheet of your bank.

4. Examiners for the Federal reserve banks have been instructed not to include in the loan classification the portion of a working capital advance which has been transferred to the Federal reserve bank without obligation on the part of your bank for any loss thereon or which, in accordance with a commitment obtained from the Federal reserve bank, may be so transferred, and not to classify, except with respect to apparent losses, the remaining portion of such working capital advance.

Very truly yours,