FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9252

July 1, 1935.

Dear Sir:

There are attached a copy of the minutes of the meeting of the Chairmen of the Industrial Advisory Committees held in Washington on June 24, 1935, and a copy of a summary statement of the meeting of members of the Federal Reserve Board and its staff with representatives of the Industrial Advisory Committees on June 25, 1935. It will be appreciated if you will hand to the other members of your Committee the extra copies of the minutes and statement which are inclosed.

The only matter considered by the Chairmen of the Industrial Advisory Committees which required action by the Federal Reserve Board was the recommendation that a study be made of the problem of furnishing to worthy industries such permanent capital as in the judgement of the Board may be required, and on June 27, 1935, a letter was addressed to the Chairmen of the Industrial Advisory Committees advising of a resolution adopted by the Board in this connection.

The Federal Reserve Board is very grateful for the continued interest of the members of the Industrial Advisory Committees in the advancement of the industrial loan program and renews its assurance that it will be glad to be of assistance to the Committees in the discharge of their responsibilities.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

THE ABOVE LETTER IS TO BE SENT TO THE FOLLOWING:

Mr. Albert M. Creighton
Mr. William H. Pouch
Mr. J. Ebert Butterworth
Mr. F. A. Smythe
Mr. J. G. Holtzclaw
Mr. W. A. Parker
Mr. Max Epstein
Mr. William K. Norris
Mr. Sheldon V. Wood
Mr. D. Bruce Forrester
Mr. Clarence Ousley
Mr. Ralph Burnside

(6 copies of minutes and statement to be inclosed with this letter.)

Upon call of the Chairman, Mr. A. M. Creighton, a supper meeting of the Chairmen of the Industrial Advisory Committees was held at the Carlton Hotel at seven o'clock - Monday, June 24, 1935, with the following present:

Mr. A. M. Creighton - Boston
Mr. Wm. H. Pouch - New York
Mr. J. E. Butterworth - Philadelphia
Mr. F. A. Smythe - Cleveland
Mr. W. A. Parker - Atlanta
Mr. Wm. K. Norris - St. Louis
Mr. S. V. Wood - Minneapolis
Mr. Clarence Ousley - Dallas
Mr. Ralph Burnside - San Francisco

Also present:

Mr. S. F. Gilmore - St. Louis
Mr. J. W. Barton - Minneapolis
Mr. W. B. Marsh - Dallas
Mr. B. P. Adams - Public Relations
Mr. A. M. Stone - Secretary to Mr. Szymczak

The following matters were presented and discussed:

1) The Kopplemann Bill:

The committee consisting of Messrs. Smythe, Burnside and Parker offered the following resolution:

The so-called Kopplemann Bill providing for the creation of an Intermediate Industrial Credit Corporation undertakes to furnish to industry and commerce financial credit practically identical in character to that now made available by Federal Reserve Bank loans to industry and commerce and that which is available through the Reconstruction Finance Corporation. It therefore represents very largely if not altogether, a duplication of credit service which in our opinion is not necessary nor demanded under existing conditions. It is our firm belief that every application to Federal Reserve Banks has received the consideration which it has merited and that loans have been approved by the Federal Reserve Banks wherever such loans could be deemed sound and reasonable. It is believed that a material proportion of the requirements for credit assistance that are justifiable have been cared for by the combined action of the two existing agencies and that the organizations already set up and in operation for the investigation and consideration of applications for loans are efficient, economical and entirely without prejudice. The funds available are apparently sufficient to complete the task which has been undertaken. The creation of another agency at this time would seem uncalled for.

2) Mr. Creighton's report on his trip to Europe, on the subject of industrial loans:

The committee consisting of Messrs. Norris, Pouch and Butterworth offered the following resolution:

Having received and discussed the report made by Chairman Creighton dated June 4, 1935, entitled "Industrial Loans Here and Abroad", the Committee desires to thank Chairman Creighton for his personal study of European effort to relieve industry in their respective countries and move that the report be approved and spread on the minutes of this meeting as a permanent record and for future reference. That proper publication be given based upon this report. (A copy of the report is attached as a part of the official record of this meeting.)

3) Discussion of publicity and public relations of present, past and plans for future:

Mr. Adams described publicity to date and was instructed to prepare a statement for the press following the meeting of the Charimen of the Industrial Advisory Committees on Tuesday - June 25, 1935.

4) Formulation of plans for future activity on industrial loans:

There was no discussion on this point.

Upon motion of Mr. Pouch and seconded by Mr. Norris, Mr. J. E. Butterworth was elected Treasurer for the Committee.

Motion approved.

Mr. J. E. Butterworth presented the following resolution which was unanimously approved:

Resolved that this committee is very sensible of the valuable secretarial assistance given it by Mr. A. M. Stone, and takes this opportunity to publicly express to him its sincere appreciation.

The meeting adjourned at 12:15 a. m.

(S) J. E. Butterworth
Secretary

Approved:
(S) A. M. Creighton
Chairman

INDUSTRIAL LOANS HERE AND ABROAD

Report Made By

Albert M. Creighton,
Chairman, Industrial Advisory Committee

June 4, 1935

INDUSTRIAL LOANS HERE AND ABROAD

IN MAKING A RECENT INVESTIGATION OF WHAT SOME OF THE EUROPEAN COUNTRIES HAVE DONE TO AID INDUSTRY, PARTICULARLY AS REGARDS THE MAKING OF LOANS, EITHER SPONSORED OR GUARANTEED BY GOVERNMENTS, I HAVE VISITED DURING THE PAST SIX WEEKS, ENGLAND, GERMANY, POLAND, AUSTRIA AND FRANCE.

IN THE FOLLOWING SUMMARY, I WILL GIVE A BRIEF OUTLINE OF WHAT HAS BEEN ACCOMPLISHED IN EACH OF THESE COUNTRIES:

ENGLAND

THE ACTIVITIES OF ENGLAND'S INDUSTRIAL FINANCING CENTER AROUND THE FOLLOWING INSTITUTIONS:

SECURITIES MANAGEMENT TRUST (SMT).
THE BANKERS INDUSTRIAL DEVELOPMENT COMPANY (BIDCO).
CREDIT FOR INDUSTRY, LTD. (CFI).
EXPORT CREDITS GUARANTEED DEPARTMENT.

THE SECURITIES MANAGEMENT TRUST,

IS A PRIVATE LIMITED COMPANY, WITH A NOMINAL CAPITAL HELD BY THE BANK OF ENGLAND, AND MANAGED BY THE INDUSTRIALIST OF THE BANK - MR. BRUCE GARDNER - WHO IS ALSO THE ACTIVE DIRECTOR OF THE BANKERS INDUSTRIAL DEVELOPMENT COMPANY.

THIS SUBSIDIARY OF THE BANK OF ENGLAND OWES ITS ORGANIZATION TO THE DECISION OF THE BANK TO DISCONTINUE COMMERCIAL ACCOUNTS. THE PRIMARY ACTIVITY OF THE SECURITIES MANAGEMENT TRUST HAS BEEN THE MANAGEMENT OF THE REMAINDER OF THE COMMERCIAL INVESTMENTS OF THE BANK OF ENGLAND.

THE BANKERS INDUSTRIAL DEVELOPMENT COMPANY, WAS FORMED IN 1930, UNDER THE AUSPICES OF THE BANK OF ENGLAND, WITH THE OBJECT OF PROMOTING THE RATIONALIZATION OF BRITISH INDUSTRY. THIS IS A PRIVATE LIMITED COMPANY, WITH ALL THE LEADING BANKS AND FINANCIAL HOUSES AS SHAREHOLDERS, AND THE BANK OF ENGLAND AS THE CONTROLLING PARTNER.

IN THE BEGINNING THIS ORGANIZATION WAS FORMED FOR A PERIOD OF FIVE YEARS - IT HAS ALREADY BEEN EXTENDED FOR A FURTHER PERIOD OF FIVE YEARS. THE CAPITAL OF THE INSTITUTION IS £6,000,000, ONE-QUARTER OF WHICH IS OWNED BY THE BANK OF ENGLAND, AND THREE-QUARTERS BY THE JOINT STOCK BANKS, AND ALL OF THE PRIVATE BANKING HOUSES.

BIDCO HAS DONE MUCH WORK FOR FOUR KEY INDUSTRIES. FOR INSTANCE - THE SHIPBUILDING INDUSTRY WAS HELPED TO FINANCE THE SCRAPPING OF REDUNDANT YARDS THROUGH A VOLUNTARY LEVY ON THE TONNAGE PRODUCED BY THE REMAINING YARDS. HELP WAS ALSO GIVEN TO THE LANCASTER COTTON INDUSTRY, WHICH ELIMINATED TEN MILLION SPINDLES, THUS PUTTING THIS INDUSTRY, WHICH WAS PRACTICALLY WRECKED AT THE TIME, ON A STABLE FOUNDATION. THE STEEL AND WOOLCOMBING INDUSTRIES HAVE ALSO BEEN MUCH BENEFITED BY LOANS GUARANTEED BY BIDCO.

BEHIND THE SCENE HOWEVER, IT IS BELIEVED THAT THE BANKERS INDUSTRIAL DEVELOPMENT COMPANY HAS BEEN A VERY USEFUL INFLUENCE IN ENCOURAGING AND BRINGING ABOUT AMALGAMATIONS AND MERGERS ON THE PART OF PRIVATE CONCERNS, RESULTING IN A GREATER EFFICIENCY OF PRODUCTION.

THROUGHOUT THE ENTIRE WORK OF BIDCO, THERE HAS BEEN AN ENDEAVOR TO

ELIMINATE THE INEFFICIENT PRODUCERS AND THE EXCESS ORGANIZATIONS, AS A PART OF THIS BIG RATIONALIZATION PLAN.

CREDIT FOR INDUSTRY, INC.,

IN JUNE, 1934, AT THE VERY TIME OF THE ADOPTION OF SECTION 13B OF THE FEDERAL RESERVE ACT, CREDIT FOR INDUSTRY, INC., WAS ESTABLISHED. ITS FUNCTIONS VERY NEARLY PARALLEL THE WORK OF THE INDUSTRIAL ADVISORY COMMITTEE, AND OF THE FEDERAL RESERVE BANKS AS REGARDS THE MAKING OF SOUND LOANS TO INDUSTRY FOR WORKING CAPITAL PURPOSES.

IN ENGLAND, CAPITAL AS WELL AS WORKING CAPITAL LOANS MAY BE MADE FOR A PERIOD NOT EXCEEDING TWENTY YEARS. THERE WAS IN ENGLAND THE SAME CRITICISM AS IN THE UNITED STATES - THAT THE SMALL BUSINESS MAN COULD NOT SECURE LOANS FROM HIS BANKS. IN THE BEGINNING THE CFI WAS INUNDATED WITH APPLICATIONS FOR LOANS, BUT IN THE MAJORITY OF CASES IT WAS FOUND THAT THE "WOULD-BE" BORROWER HAD NO SOUND OR REASONABLE BASIS FOR CREDIT. MANY WERE NOT EVEN ACTUALLY ENGAGED IN BUSINESS. MOST OF THEM FELT THAT THEY COULD BUILD A BUSINESS IF SOMEONE ELSE WOULD PROVIDE THE MONEY.

THE COMMERCIAL BANKS DO NOT PARTICIPATE IN ANY LOANS GRANTED BY THE CFI, BUT, IN ALL CASES, ONE OF THE CONDITIONS IS THAT THE BORROWER SHOULD INFORM HIS BANK OF THE PROPOSED TRANSACTION IN ORDER THAT THE CFI MAY BE CERTAIN THAT HIS NECESSARY AND ORDINARY BANKING FACILITIES ARE NOT WITHDRAWN. THE RESULT HAS BEEN THAT IN MANY CASES THE JOINT BANKS THEMSELVES HAVE MADE THE LOANS.

CFI IS OWNED 100% BY UNITED DOMINIONS TRUST, LTD., WHICH IN TURN IS

PARTIALLY OWNED BY THE BANK OF ENGLAND. THE CAPITAL AT PRESENT IS £250,000. OF THE LOANS ACTUALLY MADE TO DATE, SOME HAVE BEEN AS LOW AS £100 AND THE HIGHEST HAS NOT EXCEEDED £30,000, ALTHOUGH THE COMPANY IS PREPARED TO LOAN AS HIGH AS £50,000.

THERE HAS BEEN A LIMITED SUM SPENT IN ADVERTISING, BUT ENORMOUS FREE PUBLICITY HAS BEEN SECURED FROM THE EDITIORIAL COLUMNS OF THE NATIONAL PRESS. EXPERIENCE TO DATE PROVES THAT THE LEGITIMATE DEMAND AT THE PRESENT MOMENT FOR THE KIND OF FINANCING WHICH CFI WAS ORGANIZED TO EXTEND IS RELATIVELY SMALL. HOWEVER, WITH ANY REAL REVIVAL IN INDUSTRY, IT IS BELIEVED THAT THE DEMAND WOULD VERY MATERIALLY INCREASE. SO FAR, ONLY ABOUT $1,500,000 HAS BEEN LOANED TO INDUSTRY BY CFI., INC. THERE IS UNDOUBTEDLY A PLACE IN THE BRITISH BANKING SYSTEM FOR THIS TYPE OF ORGANIZATION, BUT THE DEVELOPMENT WILL BE MUCH SLOWER THAN IT HAS BEEN IN THE UNITED STATES.

DURING THE SAME PERIOD THAT THE CFI HAS BEEN IN OPERATION, OUR INDUSTRIAL ADVISORY COMMITTEES HAVE RECOMMENDED LOANS TOTALLING ABOUT $90,000,000 FOR WORKING CAPITAL PURPOSES. FURTHERMORE, THE R.F.C. HAS MADE A SUBSTANTIAL AMOUNT OF LOANS TO SMALL AND MEDIUM SIZE ORGANIZATIONS.

EXPORT CREDITS GUARANTEED DEPARTMENT

THERE IS ALSO ONE OTHER ORGANIZATION KNOWN AS THE EXPORT CREDITS GUARANTEED DEPARTMENT, WHICH PROVIDES MEDIUM-TERM CREDITS FOR PERIODS OF TWO, FIVE, OR TEN YEARS, TO BUSINESSES CATERING TO THE EXPORT TRADE.

FORMERLY THE EXPORT CREDITS GUARANTEED BY THIS DEPARTMENT WERE NEARLY ALL SHORT-TERM CREDITS, MOSTLY FOR THREE MONTHS AND SIX MONTHS (EXCEPTING ON RUSSIAN BUSINESS). NOW, HOWEVER, THERE IS AN INCREASING AMOUNT OF MEDIUM-TERM BUSINESS BEING DONE TO ASSIST THE FINANCING OF IMPORTANT CONSTRUCTION CONTRACTS IN FOREIGN COUNTRIES, i. e., THE BUILDING OF AN ELECTRIC RAILWAY IN BRAZIL, AND IMPORTANT ELECTRICAL INSTALLATIONS IN POLAND.

GERMANY

IN GERMANY, ALL CREDIT IS CONTROLLED BY THE GOVERNMENT.

THE METHODS UTILIZED TO SUPPORT INDUSTRY MAY BE CLASSIFIED UNDER THREE MAIN HEADINGS:

1-- Direct subsidies have been issued. Especially was this done in the case of the construction industries, and considerable money has been released for the repair of old and the construction of new buildings.

2-- Indirect subsidies were also made use of to a great extent in the form of lower freight rates, tax rebates on various new investments such as the replacement of obsolete equipment, and reduction or even elimination of taxation on certain industrial products. The automobile and machinery industries may be noted as examples of those particularly benefiting from this type of subsidy.

3-- Finally, loans were granted outright or Government guarantees of private loans were offered. Industries assisted in this way seem to be primarily those engaged in the manufacture of armaments.

IN THE ABSENCE OF OFFICIAL STATISTICS, IT IS DIFFICULT TO OBTAIN ANY AUTHORITATIVE FIGURE AS TO THE AMOUNT EXPENDED THUS FAR FOR THESE

PURPOSES. HOWEVER, IT IS ESTIMATED THAT AT THE END OF 1934 5,518 MILLION REICHMARKS HAD BEEN APPROPRIATED FOR THE GOVERNMENT'S CREATION OF WORK PROGRAM - A FIGURE CONSIDERED EXTREMELY CONSERVATIVE IN MANY WELL INFORMED QUARTERS. OF THIS AMOUNT, A GREAT PROPORTION HAS CERTAINLY BEEN USED FOR SUBSIDIZING INDUSTRY IN THE WAYS INDICATED ABOVE.

THE GOVERNMENT CONTROLS THE EXTENSION OF EXISTING INDUSTRIAL AND COMMERCIAL ENTERPRISES, AND THE FORMATION OF NEW ENTERPRISES. IT WILL NOT PERMIT STARTING A NEW COMPANY IN A FIELD IN WHICH THERE IS OVERPRODUCTION. ON THE OTHER HAND, IT IS FORCING PRIVATE INVESTMENT IN THE PRODUCTION OF ARTIFICIAL RAW MATERIALS. THE GOVERNMENT IS TRYING TO FOSTER THE AUTOMOBILE EXPORT BUSINESS BY HAVING EVERY AUTOMOBILE MANUFACTURER SUBSCRIBE TO A FUND TO FINANCE AUTOMOBILE EXPORTS, AND IS TAKING SIMILAR ACTION TO ENCOURAGE OTHER EXPORTS.

MEDIUM TERM CREDIT IN GERMANY BEFORE THE WAR WAS LARGELY IN THE HANDS OF BANKS RECEIVING SAVINGS DEPOSITS. BUT AFTER THE WAR, AND THE CRASH OF THE GERMAN BANKING SYSTEM, SHORT AND MEDIUM-TERM CREDITS WERE PRETTY WELL FROZEN. BUT SEVERAL LARGE GERMAN BANKS DID MANAGE TO FURNISH MEDIUM TERM CREDITS EITHER THROUGH FOREIGN CREDITS OR BY SELLING BONDS, OR THROUGH THE LOANING OUT OF PUBLIC FUNDS. PERHAPS THE NEAREST THING TO THE INDUSTRIAL LOAN FUNCTION OF THE R.F.C. AND THE RESERVE BANKS IS THAT OF THE INDUSTRIEBANK. IT WAS STARTED IN 1924, TO COOPERATE IN RAISING REPARATION PAYMENTS. AS PART OF ITS PRESENT WORK, IT GRANTS CREDITS TO WORTHY SMALL-SIZED UNITS IN INDUSTRY AND COMMERCE.

THE MATURITY IS USUALLY FIVE YEARS, AND LOANS HAVE BEEN AS SMALL AS 500 REICHMARKS AND AS LARGE AS 300,000 REICHMARKS. CREDITS ARE USED TO PAY OFF FROZEN SHORT-TERM LIABILITIES OR FOR WORKING CAPITAL. THERE MUST BE ADEQUATE SECURITY. LOANS GRANTED SO FAR BY THE INDUSTRIEBANK HAVE AMOUNTED TO MORE THAN 100 MILLION REICHMARKS.

FRANCE

IN FRANCE THERE HAS BEEN NO LEGISLATION ON THIS SUBJECT, ALTHOUGH CERTAIN SPECIAL LOANS HAVE BEEN MADE TO KEEP A FEW IMPORTANT CONCERNS (NOTABLY CITRÖEN AUTOMOBILE COMPANY) FROM LIQUIDATION.

POLAND - AUSTRIA

NOTHING WORTHY OF MENTION HAS BEEN DONE IN EITHER OF THESE COUNTRIES TO ASSIST THE SMALL INDUSTRIALIST.

CONCLUSIONS

IN GENERAL, I FOUND THAT ALMOST WITHOUT EXCEPTION, AND PARTICULARLY IN ENGLAND, THERE HAD BEEN NUMEROUS COMPLAINTS SINCE THE DEPRESSION BY BUSINESS MEN AND INDUSTRIALISTS (MORE PARTICULARLY FROM THE SMALLER ORGANIZATIONS) THAT IT WAS NOT POSSIBLE FOR THEM TO SECURE LOANS FROM THE BANKS. IN MANY INSTANCES, THESE COMPLAINTS WERE SO NUMEROUS AND SO FORCIBLY PRESENTED THAT THERE WAS MUCH PRESSURE EXERTED UPON THE VARIOUS ADMINISTRATIONS.

HOWEVER, IT HAS BEEN FOUND, AS IN THE UNITED STATES THAT THE CLAIMS

WERE MUCH EXAGGERATED, AND THAT, BARRING A SMALL PERCENTAGE OF EXCEPTIONS, THE WORTHY BUSINESS MAN COULD BORROW FROM HIS BANKS, BUT NOT FOR CAPITAL REQUIREMENTS.

AFTER THE VARIOUS EMERGENCY LOANING ORGANIZATIONS HAD BEEN ESTABLISHED, A LARGE PERCENTAGE OF THE APPLICANTS, ESPECIALLY IN ENGLAND, WERE REPRESENTED BY THOSE WHO WERE FOUND UPON CAREFUL INVESTIGATION TO BE UNWORTHY OF CREDIT AND BY THOSE WHO WANTED TO START NEW BUSINESSES, ETC.

PERHAPS THE MOST SIGNIFICANT DIFFERENCE IN POINT OF VIEW IS THAT THE EUROPEAN GOVERNMENTAL POLICY IS DEFINITELY DIRECTED TOWARD DISCOURAGING AID TO INEFFICIENT AND SUB-MARGINAL CONCERNS, AND IT IS EVEN DESIRED, PARTICULARLY IN GERMANY AND ENGLAND, TO ELIMINATE THEM COMPLETELY, IN THE INTEREST OF INDUSTRY AS A WHOLE.

THERE IS NO QUESTION THAT THE FEDERAL RESERVE BANKS UNDER SECTION 13B HAVE DONE FAR MORE FOR THE SMALL INDUSTRIALIST THAN HAS BEEN DONE ANYWHERE IN EUROPE. UNDER OUR SECTION 13b THE FEDERAL RESERVE BANKS ARE GIVING QUICK, EFFICIENT, SYMPATHETIC SERVICE, AND ARE AIDING INDUSTRY IN ACCORDANCE WITH THE WISHES OF THOSE WHO SPONSORED THE PASSAGE OF THIS ACT.

THE SETUP, IN THE RESERVE BANKS AND IN THE R.F.C., COMPLETELY COVERS THE NEEDS AND DESIRES OF AMERICAN BUSINESSES AND CAN PROVIDE FOR ANY SOUND AND REASONABLE DEMAND, UNLESS IT IS DESIRED TO GO INTO THE BUSINESS OF KEEPING ALIVE SUB-MARGINAL OR INEFFICIENT ORGANIZATIONS,

WHICH, I FEEL, WOULD NOT BE DESIRABLE. THE FORMATION OF INTERMEDIATE CREDIT BANKS OR OTHER AGENCIES, WILL GREATLY COMPLICATE THE SITUATION AND DUPLICATE THE PRESENT ORGANIZATION.

FURTHERMORE, THERE IS A LARGER FUND AVAILABLE FOR THESE WORKING CAPITAL LOANS THAN IN ANY OF THE OTHER COUNTRIES, AND THE AMOUNT THAT MAY BE LOANED IN ANY CASE IS PRACTICALLY UNLIMITED IN THE UNITED STATES.

RECOMMENDATIONS

1. THEREFORE, MY CONCLUSION IS THAT THE R.F.C. AND FEDERAL RESERVE UNDER SECTION 13b SHOULD BE ALLOWED TO FUNCTION AS AT PRESENT, WITH NO THOUGHT OF SUPPLEMENTING THIS WORK WITH ADDITIONAL PLANS FOR THE MAKING OF SOUND LOANS TO INDUSTRY.

2. I DO BELIEVE, HOWEVER, THAT THERE SHOULD BE MORE PUBLICITY EMANATING FROM WASHINGTON. THERE HAS BEEN A FAIR AMOUNT WITHIN THE DISTRICTS, BUT THE NATIONAL PUBLICITY, SUPPLEMENTING THIS WORK WILL BE PARTICULARLY HELPFUL IN THE FUTURE. EVERY PROSPECTIVE BORROWER IN THIS COUNTRY SHOULD KNOW ABOUT THE EXISTING FACILITIES IN CONNECTION WITH INDUSTRIAL LOANS, AND SHOULD UNDERSTAND HOW TO TAKE ADVANTAGE OF THEM. THIS CALLS FOR A DEFINITE CAMPAIGN OF PUBLICITY FROM WASHINGTON, AS WELL AS FROM THE RESPECTIVE RESERVE BANKS. BUSINESS MEN, AS WELL AS BANKERS THROUGHOUT THE COUNTRY, SHOULD BE MADE 13b CONSCIOUS.

APPENDIX

SUPPLEMENTING THIS REPORT, I HAVE DESCRIPTIVE LETTERS FROM THE FOLLOWING:

PROFESSOR CLAY, ECONOMIST OF THE BANK OF ENGLAND, REGARDING INDUSTRIAL LOANS.

ALSO LETTERS FROM:

MR. JAMES SOMERVILLE, COMMERCIAL ATTACHE OF THE AMERICAN EMBASSY IN LONDON, and

FREDERIC D. GRAB, COMMERCIAL ATTACHE OF THE EMBASSY IN LONDON.

LETTER FROM - J. GIBSON JARVIE - TOGETHER WITH DETAIL EXPLANATIONS OF HIS ORGANIZATION "MONEY FOR INDUSTRY, INC". (BOOKLETS ISSUED FOR DISTRIBUTION ATTACHED).

REPORT FROM DR. BLESSING OF THE REICHSBANK.

CONFIDENTIAL REPORT - LETTER FROM MR. DOUGLAS JENKINS, AMERICAN CONSUL GENERAL IN BERLIN.

AMONG MANY OTHERS, I TALKED WITH THE FOLLOWING OFFICIALS:

England

GOVERNOR NORMAN OF THE BANK OF ENGLAND.

MR. BRUCE GARDNER, INDUSTRIALIST OF THE BANK OF ENGLAND.

PROFESSOR CLAY, ECONOMIST.

MR. NIGEL CAMPBELL, CHAIRMAN OF THE BANKERS INDUSTRIAL DEVELOPMENT CORP.

MR. J. GIBSON JARVIE, THE HEAD OF CREDITS FOR INDUSTRY, INC.

MR. JAMES SOMERVILLE, AMERICAN COMMERCIAL ATTACHE, LONDON.

MR. FREDERIC GRAB, AMERICAN COMMERCIAL ATTACHE, LONDON.

APPENDIX - CONTINUED

Germany

MR. DOUGLAS JENKINS, AMERICAN CONSUL GENERAL.
DR. BLESSING OF THE REICHSBANK.

Poland

MR. CROSBY, COUNCILLOR OF THE U.S.-EMBASSY IN WARSAW.

Austria

DR. KIENBACK, PRESIDENT OF THE OESTERREICHISCHE BANK, NATIONAL BANK OF AUSTRIA.

At the meeting held in Washington on June 25, 1935, at 10 a. m. of members of the Federal Reserve Board and members of its staff with representatives of the Industrial Advisory Committees, the following individuals were present:

Mr. M. S. Szymczak, Member, Federal Reserve Board
Mr. A. C. Miller, Member, Federal Reserve Board
Mr. George R. James, Member, Federal Reserve Board

Messrs. Albert M. Creighton, William H. Pouch, J. Ebert Butterworth, F. A. Smythe, William K. Norris, Sheldon V. Wood and Clarence Ousley, Chairmen of the Industrial Advisory Committees of the First, Second, Third, Fourth, Eighth, Ninth and Eleventh Federal Reserve Districts, respectively.
Messrs. Wm. A. Parker, Will B. Marsh and Ralph Burnside, Members of the Industrial Advisory Committees of the Sixth, Eleventh and Twelfth Federal Reserve Districts, respectively.
Messrs. A. L. Wilson and J. W. Barton, Secretary of the Industrial Advisory Committee of the Seventh Federal Reserve District, and manager of the Industrial Loan Department of the Federal Reserve Bank of Minneapolis, respectively.

Mr. Chester Morrill, Secretary, Federal Reserve Board
Mr. L. P. Bethea, Assistant Secretary, Federal Reserve Board
Mr. S. R. Carpenter, Assistant Secretary, Federal Reserve Board
Mr. Lawrence Clayton, Assistant to the Governor, Federal Reserve Board
Mr. Elliott Thurston, Special Assistant to the Governor, Federal Reserve Board
Mr. Walter Wyatt, General Counsel, Federal Reserve Board
Mr. E. L. Smead, Chief, Division of Bank Operations, Federal Reserve Board
Mr. Bray Hammond, Division of Bank Operations, Federal Reserve Board
Mr. H. F. Conniff, Deputy Governor, Federal Reserve Bank of Atlanta
Mr. S. F. Gilmore, Controller, Federal Reserve Bank of St. Louis
Mr. B. P. Adams, Federal Reserve Board

Mr. Creighton stated that at a supper meeting on the evening of June 24, 1935, the following matters were discussed in detail:

The Kopplemann Bill
Report of the Advisory Council of the Department of Commerce
Mr. Creighton's report on his trip to Europe
Publicity and public relations of the past and present and plans for future
Preparation of a statement for the press
Other matters of importance to the Chairmen

He called attention to the fact that the Industrial Advisory Committees had been in existence approximately one year and referred briefly to the industrial loan applications approved and under consideration by the Committees.

The minutes of the meeting of the Chairmen of the Industrial Advisory Committees held in Washington on December 18, 1934, were read by Mr. J. Ebert Butterworth, Secretary of the meeting, and approved by the representatives of the Industrial Advisory Committees present.

Mr. Butterworth stated that advice had been received that the Industrial Advisory Committees of the Fifth and Tenth Federal Reserve Districts would not be represented at this meeting and that Mr. A. L. Wilson would represent the Industrial Advisory Committee for the Seventh Federal Reserve District.

Mr. Szymczak then addressed the meeting on the subject of industrial loans and a copy of his statement is attached as exhibit A.

> Mr. Pouch moved that a vote of thanks and appreciation be extended to Mr. Szymczak for his statement.
>
> Mr. Pouch's motion was approved unanimously

by the representatives of the Industrial Advisory Committees.

At the conclusion of Mr. Szymczak's statement, Mr. Miller left the room.

Mr. James stated that he desired to express to the representatives of the Industrial Advisory Committees his appreciation of their efficient and faithful service in connection with the industrial loan program. He said that he felt that the spirit of cooperation which they were evidencing would be a contribution to the movement of recovery of the country from the depression.

Mr. Creighton read and elaborated briefly upon the report prepared by him following his return from a trip to Europe where he made an investigation of what some of the European countries have done through banking channels to aid industry, particularly as regards the making of loans. A copy of Mr. Creighton's report has been made a part of the minutes of the meeting of the Chairmen of the Industrial Advisory Committees on June 24, 1935.

Mr. Norris read the following resolution which was offered at the supper meeting of the Chairmen of the Industrial Advisory Committees yesterday evening:

> "Having received and discussed the report made by Chairman Creighton dated June 4, 1935 entitled 'Industrial Loans Here and Abroad', the Committee desires to thank Chairman Creighton for his personal study of European effort to relieve industry in their respective countries and move that the report be approved and spread on the minutes of this meeting as a permanent record and for future reference. That proper publication be given based upon this report."

Upon motion by Mr. Ousley, the resolution was unanimously adopted by the representatives of the Industrial Advisory Committees.

Mr. Szymczak stated that the Federal Reserve Board and the Federal Reserve System appreciated very much the fact that Mr. Creighton at his own expense had made this trip to Europe and had studied the industrial loan situation in European countries.

Mr. Creighton stated that at the supper meeting of the representatives of the Industrial Advisory Committees yesterday evening a detailed discussion was had of the so-called Kopplemann Bill (H.R. 5918), and that a committee consisting of Messrs. Smythe, Burnside and Parker was appointed to draft a resolution which would express the attitude of the meeting toward the bill.

Mr. Smythe read the following resolution which had been offered by his committee at the supper meeting yesterday evening:

"The so-called Kopplemann Bill providing for the creation of an Intermediate Industrial Credit Corporation undertakes to furnish to industry and commerce financial credit practically identical in character to that now made available by Federal Reserve Bank loans to industry and commerce and that which is available through the Reconstruction Finance Corporation. It therefore represents very largely, if not altogether, a duplication of credit service which in our opinion is not necessary nor demanded under existing conditions. It is our firm belief that every application to Federal Reserve Banks has received the consideration which it has merited and that loans have been approved by the Federal Reserve Banks wherever such loans could be deemed sound and reasonable. It is believed that a material proportion of the requirements for credit assistance that are justifiable have been cared for by the combined action of the two existing agencies and that the organizations already set up and in operation for the investigation and consideration of applications for loans are efficient, economical and entirely without prejudice. The funds available are apparently sufficient to complete the task "which has been undertaken. The creation of another agency at this time would seem uncalled for."

Mr. Smythe also made a statement outlining the considerations upon which the conclusion set forth in the resolution was based.

Mr. Szymczak inquired whether the representatives of the Industrial Advisory Committees have observed any indication as to whether applicants have any preference for the Federal reserve banks or the Reconstruction Finance Corporation in filing their applications.

Mr. Smythe expressed the opinion that the applicants prefer to apply at the Federal reserve banks because of the possibility of obtaining quicker action on their applications, but that inasmuch as the Federal reserve banks are authorized to make loans only for working capital, the Federal reserve banks were without authority to consider applications for certain loans which could be made by the Reconstruction Finance Corporation. This matter was discussed briefly and it was indicated as the consensus of the representatives of the Industrial Advisory Committees present that there is not a clear distinction in the public mind between the Federal reserve banks and the Reconstruction Finance Corporation, and that applications are most apt to be filed with the agency first coming to the attention of the applicant.

Mr. Smythe moved adoption of the resolution read by him with regard to the Kopplemann Bill.

Mr. Smythe's motion was unanimously approved by the representatives of the Industrial Advisory Committees.

Mr. Burnside called attention to the reference in Mr. Szymczak's statement to the desirability of having the industrial loan activities of the Federal reserve banks take the form of commitments to financing institutions wherever possible rather than the form of direct loans to industry and he related an incident in his district where a bank which had refused to participate in industrial loans had, for the first time, investigated the industrial loan program in connection with an application for a loan from one of its directors, and had reached the conclusion that the industrial loan program offered it an opportunity to be of assistance to its customers. He said that he felt there were other banks which would find in the industrial loan program a means by which they would be able to come to the aid of their customers.

Mr. Szymczak stated that an industrial loan by a financing institution with a commitment from a Federal reserve bank was desirable because it protected the bank and permitted it to make a profit on the loan, and, what was more important, established or preserved the relationship between the bank and the customer, the natural result of which would be, when more nearly normal conditions were attained, for the bank to make loans to the customer without going to the Federal reserve bank for a commitment.

Following an inquiry by Mr. Norris with regard to cooperation between the Federal reserve banks and the agencies of the Reconstruction Finance Corporation, the representatives of the Industrial Advisory Committees indicated that there is close cooperation between the banks and the agencies in all districts. Mr. Norris pointed out that the Reconstruction Finance Corporation is authorized by law to make certain industrial loans which the Federal reserve banks cannot make and stated that it had been the practice in his district when an application for such a loan was received by the committee to refer the applicant to the Reconstruction Finance Corporation. He also stated that it had come to his attention that certain applicants were aware that industrial loans could be made both by the Federal reserve banks and the Reconstruction Finance Corporation and were filing applications in both places, and that he felt close cooperation should be maintained between the banks and the Reconstruction Finance Corporation agencies to prevent any possibility of unnecessary duplication of effort in the investigation of applications.

Mr. Szymczak inquired as to the reaction of applicants when they learn that their applications are considered first by the Industrial Advisory Committees, and the representatives of the Industrial Advisory Committees present expressed the opinion that the reaction is a favorable one because of the fact that the committees are composed of active industrialists.

Mr. Szymczak stated that he had attended a meeting of the board of directors of a Federal reserve bank and had inquired of one of the Class A directors whether his bank would be willing to make industrial loans and that the banker had raised the question whether, in the event his bank should make such a loan with a commitment from the Federal reserve bank and should find it necessary to rediscount the loan, such action would be a reflection on the member bank. Mr. Szymczak said that it should be made clear to all financing institutions that the rediscounting of industrial loans with the Federal reserve banks would not be considered in any sense as a reflection upon the institution.

Mr. Creighton read comparative figures of loans made by the Federal Reserve Bank of Boston and the Reconstruction Finance Corporation in the First Federal Reserve District and stated that he felt there was some criticism of the Reconstruction Finance Corporation because of delay in handling applications. In this connection, Mr. Norris expressed the opinion that if something could be done to expedite consideration of applications by the Reconstruction Finance Corporation which is authorized under the law to make capital loans to industry, all of the objectives sought by the Kopplemann Bill could be achieved under existing legislation.

Mr. Pouch made the suggestion that very desirable results would be obtained if officers of local banks were invited to attend meetings of the Industrial Advisory Committees at which industrial loan applications were considered. He stated that in his district the committee had invited officers of banks to meet with the members of the Industrial Advisory Committee at luncheon and attend the meetings of the committee in order that they may observe at first hand how the committee functions, how information regarding applications is obtained, and the extent to which the committee investigates loans, and that the results obtained from this approach had been very satisfactory.

Mr. Wood inquired whether it is the practice of some Federal reserve banks to make commitments for the entire life of the loan and it was pointed out that a majority of commitments are for periods of six months to a year. Mr. Wood stated that there is considerable difference between the amount of commitments made by the Federal Reserve Bank of Minneapolis and other Federal reserve banks and that he was wondering whether this difference was due in part to the fact that some of the other Federal reserve banks might be making commitments for the entire term of the loan. He also raised the question as to the desirability of having all commitments run for the entire term. This matter was discussed briefly but no conclusions were reached.

Mr. Creighton stated that Mr. Pouch, Chairman of the Committee on Public Relations, would lead a discussion on the subject of publicity, public relations and plans for the future. Mr. Pouch said that Mr. B. P. Adams has been making a study of publicity for the industrial loan program and that he would make a statement to the meeting.

Mr. Adams expressed the opinion that there was a demand on the part of the public for more information on the industrial loan program and that, in addition, steps must be taken to correct any misinformation given to the public with regard to industrial loans. He outlined in considerable detail the steps which he was taking to make available to trade papers and magazines and other periodicals information with regard to the industrial loan program and for the publication in such periodicals of articles relating to industrial loans. He also outlined his ideas with regard to the use of radio addresses and stated that, on the basis of the inquiries received following Mr. Szymczak's address before the Illinois Bankers Association, he felt there is a large number of people who have not been reached by the industrial loan publicity and that until an effort was made to reach each group of business men and industrialists, the System could not be certain that the publicity activities with regard to industrial loans had effectively been completed. He also stressed the desirability of making it known that the Federal reserve banks are willing to discuss the financial problems of applicants even though no loans are made. He concluded with the statement that he desired to get all the suggestions and help he could from the members of the Industrial Advisory Committees with regard to the problem of publicity.

Mr. Smythe inquired whether the Industrial Advisory Committees would be advised of the appearance of articles in trade and other magazines and suggested that such advice would be helpful as it would enable the committees to call such articles to the attention of interested parties in the various Federal reserve districts. Mr. Szymczak stated that arrangements would be made to advise the Industrial Advisory Committees and the Federal reserve banks of the appearance of important articles.

Mr. Creighton advised that the Committee on Public Relations would issue a statement to the press along the lines outlined at the supper meeting yesterday evening. (A copy of the press statement issued is attached as exhibit B.)

Mr. Szymczak stated that the publicity program outlined by Mr. Adams was not conceived with the idea of soliciting anyone to borrow under the industrial loan program but to make certain that effective information with regard to industrial loans is made available to everyone who might be interested in order that they may make applications for loans should they desire to do so. Mr. Szymczak then read a letter received by the Federal Reserve Bank of New York from counsel for an industrial borrower expressing appreciation of the treatment accorded the borrower by the Federal reserve bank. Mr. Szymczak stated that the Federal reserve banks have received a number of such letters which indicate that the purposes of section 13b of the Federal Reserve Act are being attained at least in part.

Mr. Creighton requested Mr. Szymczak to discuss the report made to the Secretary of Commerce by the Buiness Advisory Council for the Department of Commerce on the subject of credit and capital requirements of small industry and to what extent the rediscounting authority of the Federal reserve banks would be enlarged by the passage of the proposed Banking Act of 1935. Mr. Szymczak stated that the Board was familiar with the body of the report of the Business Advisory Council before it was issued but was surprised by the last paragraph of the summary of the report which recommends an immediate study by the Reconstruction Finance Corporation, the Federal Reserve Board, and the Securities Exchange Commission, in cooperation with the investment bankers of the country, to the end that facilities be offered sound, small industries for the acquisition of needed capital. He said that the recommendation had been discussed with representatives of the Council and that it appeared that the Council had no specific data on which to base its recommendation or specific suggestions as to the nature of the study which should be undertaken. (A copy of the report of the Council is attached as exhibit C.)

Mr. Szymczak also stated that the Banking Act of 1935 would permit any Federal reserve bank, subject to such regulations as to maturities and other matters as the Federal Reserve Board may prescribe, to rediscount for member banks any commercial, agricultural or industrial paper and to make advances to any member bank on its promissory notes secured by any sound assets of such member bank, and under this authority the Federal reserve banks would be able to rediscount longer term paper than is now possible.

Mr. Creighton stated that at the supper meeting yesterday evening the representatives of the Industrial Advisory Committees had considered informally a resolution prepared by a committee consisting of Messrs. Wood, Norris and Ousley with regard to the report of the Business Advisory Council and that Mr. Wood would make a statement regarding the matter.

Mr. Wood said that the discussion of the report had led to the consideration of the difference between working capital and investment capital and that the question had been raised as to whether there was any possibility of doing something under new legislation which the Federal reserve banks and the Reconstruction Finance Corporation are not authorized to do under present law.

Mr. Szymczak stated that he did not see what could be accomplished by the study recommended in the report of the Business Advisory Council and that if the representatives of the Industrial Advisory Committees had anything to suggest as to what could be accomplished, he felt their suggestions should be specific in character.

Mr. Ousley called attention to the paragraph in the summary of the report of the Business Advisory Council reading as follows:

> "As a matter of fact, long-term financing for small industry has always been difficult. It is not simply a depression problem. Through private investment bankers, it has been available only to concerns of sufficient size and standing to warrant the investment bankers in bringing out an issue as small as, for instance, $1,000,000. So it may be said that this facility has been practically denied to smaller concerns. Such enterprises have been obliged to develop their capital structures gradually out of undistributed earnings or to attract the participation of individual capitalists. They have not received the benefits of recourse to the capital markets for their long-term requirements."

He referred to the difficulty experienced by small concerns in obtaining capital as a pre-depression problem, and suggested that the report considers the Reconstruction Finance Corporation as a temporary emergency agency and that the recommendation of the Council was made with the idea of developing some permanent means by which the capital needs of small industries may be met.

Mr. Norris suggested that the Council may have had in mind that the Securities Exchange Act of 1934 acts as a deterrent to the acquisition of necessary capital funds by small industries and that it might be of assistance to work out a solution to that problem.

During the discussion of the matter Mr. Wood read the following resolution offered by his committee at the supper meeting yesterday evening:

> "We recommend that the Federal Reserve Board in cooperation with such other credit and investment agencies as they may select make an early study of the problem of furnishing to worthy and needed industries such permanent capital as may in their judgment be required."

Mr. Clayton stated that it would appear that the resolution as offered carries the implication that the existing agencies can supply the capital requirements of industry without additional legislation and he suggested that if the resolution were adopted by the representatives of the Industrial Advisory Committees it might be well to incorporate a suggestion that the study recommended include a suggestion that the need for additional legislation should be studied.

Mr. Wood stated that it was not the intention of the committee that its resolution should carry the implication referred to by Mr. Clayton.

Mr. James suggested that the need of the small industry is primarily the creation of some authority which would pass upon the financial status of the small industrial enterprise and place a value thereon which would be made available to investors, who would then be able to determine whether or not they desired to invest in the enterprise. He stated that in his opinion an arrangement of this character would do much to enable the worthy small industries to obtain additional capital when needed.

At the conclusion of the discussion, Mr. Wood submitted the following resolution for consideration of the representatives of the Industrial Advisory Committees:

"We recommend that the Federal Reserve Board make an early study of the problem of furnishing to worthy industries such permanent capital as may in their judgment be required."

Mr. Norris moved that the resolution be amended to read as follows:

"Recognizing that there is nothing in the present act governing the industrial loans of the Federal reserve banks which would permit us to take care of capital loans, we recommend that the Federal Reserve Board make an early study of the problem of furnishing to worthy industries such permanent capital as may in their judgment be required."

Mr. Norris' motion was approved and the resolution in its amended form was adopted unanimously by the representatives of the Industrial Advisory Committees.

At this point Governor Eccles joined the meeting and stated that he regretted that, because of other engagements, he had been unable to attend the meeting. He expressed appreciation of the efficient and effective manner in which the Industrial Advisory Committees were assisting in making the industrial loan program successful. He said that while there were some who questioned the advisability of the Federal reserve banks making direct loans to industry, the Federal Reserve Board and the Federal reserve banks had taken the position that as Congress had passed the legislation authorizing the banks to make such loans it was the duty of everyone concerned to do everything possible to carry out the provisions of the law, and that the Board felt that through the cooperation of the Industrial Advisory Committees a record has been made which was a full justification of the activities of the Federal Reserve System. The Governor then referred briefly to the status of the proposed Banking Bill of 1935 and expressed the opinion that if it is passed it will contribute toward the expansion of private credit with a corresponding contraction of Government lending.

Mr. Szymczak suggested that the Governor express his opinion as to whether the enlarged authority of the Federal reserve banks to rediscount paper for their member banks would aid in making working capital available to industry. Governor Eccles said that the banks have an abundance of funds at the present time and there is no occasion for them to borrow from the Federal reserve banks, but that he felt that the enlarged rediscounting powers which would be given to the Federal reserve banks by the Banking Bill of 1935 would assist in the removal of the "liquidity complex" of bankers and focus their attention upon the fundamental soundness of assets rather than primarily on maturities, because in times of depression the only assets, whether in the nature of loans or investments, that are really liquid are assets which can be rediscounted at the central bank. He also stated that in his opinion it is desirable that the law be changed as contemplated by the Banking Bill of 1935 to permit banks to invest time and savings funds in long term amortized real estate mortgages, and he outlined briefly his views as to the effect of the passage of the Banking Bill of 1935 on short and long term money rates.

Mr. Ousley moved adoption of the following resolution:

"We record our appreciation of the courtesies, facilities and services afforded us by Governor Eccles, the members and employees of the Federal Reserve Board for our accommodation and comfort."

The resolution was approved by all of the representatives of the Industrial Advisory Committees present.

During the meeting there were distributed copies of a statement of industrial advances and commitments under Section 13B of the Federal Reserve Act made by Federal reserve banks to June 19, 1935.

Thereupon the meeting adjourned.

Secretary.

Approved:

Chairman, Executive Committee

EXHIBIT "A"

DISCUSSION OF INDUSTRIAL LOANS

by

M. S. SZYMCZAK

at a meeting of

CHAIRMEN OF THE INDUSTRIAL ADVISORY COMMITTEES

Washington, D. C.

June 25, 1935

Gentlemen:

A year ago last Wednesday the Act was approved which authorizes the Federal Reserve banks to make industrial loans; and a year ago today there was a conference of chairmen and governors of the Federal Reserve banks here in Washington at which means of implementing the Act were discussed. A draft of Regulation "S" had been prepared which, after discussion at the conference, was adopted by the Board and released. At the same time it was announced that Industrial Advisory Committees were being selected and that the Reserve banks were ready to consider applications for loans.

Shortly after that meeting I made a visit to three Federal Reserve Districts to discuss with the directors and officers of the banks and bankers of those districts the subject of industrial loans. I returned about the middle of July, reported the result of my efforts to the Board and proceeded again on the first of August to cover the rest of the districts. By the middle of September I had covered all but three of the districts. These were visited in December, January and February. On these trips I discussed industrial loans under Section 13b not only with the directors and officers of the Federal Reserve banks, but with bankers, industrialists and businessmen. To date, I have visited every Federal Reserve bank and about 90 per cent of the branches at least once in connection with the industrial loans program, and I have visited some of the districts several times. On May 20, at the meeting of the Illinois Bankers Association at Decatur, I gave an address on the subject.

The Federal Advisory Council at its meeting in Washington on September 17-18, 1934, discussed the subject of industrial loans in detail;

and at several of its meetings since that date the Advisory Council has, upon the request of the Board, discussed the cooperation of member banks with the Federal Reserve banks in this matter.

On September 27 a conference of the Chairmen of the Industrial Advisory Committees was held in Washington for consideration of the provisions of Section 13b. By this time the administration of the section had been under way for some weeks and it was possible to consider the program in the light of actual experience. Among other things, as you remember, consideration was given at this conference to the report that many member banks were reluctant to make industrial loans because they were uncertain of the attitude that might be taken by bank examiners toward such loans when found in the bank's portfolio. It was recommended that a definite announcement be made as to the policy to be followed by examiners.

In compliance with this suggestion the Federal Reserve Board on October 6 issued instructions as to the manner in which industrial loans should be included in condition reports and examination reports. About the same time the Comptroller of the Currency issued corresponding instructions. The purpose of these statements by the Board and by the Comptroller was to clear up such doubt as might exist as to the classification of such loans and the net effect was to assure member banks that industrial loans with long maturities which were covered by commitments from the Federal Reserve banks or the Reconstruction Finance Corporation would not be classified as "slow".

On December 11 and 12 a Conference of representatives of the Federal Reserve banks, the Industrial Advisory Committees and the Federal Reserve Board was held at Cleveland to consider the procedure being followed by the banks and the committees in passing on applications, for it was realized that much of the success of the program depended upon a smooth and expeditious handling of applications.

On December 19 another conference of the Chairmen of the Industrial Advisory Committees was held in Washington to review the work done by the Industrial Advisory Committees and to consider means of furthering the program.

In addition to all these conferences and to continuous study of the situation the Federal Reserve banks, as you know, have actively canvassed their districts in order to inform financing institutions and prospective borrowers of the new provisions of the law. Constant effort has been made through pamphlets, letters, addresses, personal calls and even by radio to make the new functions of the Federal Reserve banks widely known.

Very shortly after the Board's issuance of Regulation "S" a year ago tomorrow, and of its announcement that the Reserve banks were ready to consider applications for loans under the terms of Section 13b, applications began to be submitted.

On August 1 the first loan was approved, and a month later 2,662 applications amounting to $89,000,000 had been received. Up to that time 247 applications amounting to $14,000,000 had been recommended for approval by the Industrial Advisory Committees, and 164 applications amounting to $7,000,000 had been approved by the Federal Reserve banks.

To June 19 (last Wednesday) applications had been received to the number of 6,571 in the amount of $260,000,000. Of these 1,798 amounting to $101,000,000 had been approved by the Industrial Advisory

Committees and 1,636 applications amounting to $ 88,600,000 had been approved by the Federal Reserve banks.

The activity up to June 19, the latest reporting date, is indicated in the wall chart which shows cumulatively the applications approved by the Federal Reserve banks, the amount of advances and commitments made, and the amount under consideration.

The chart shows that the totals have continued to mount. The increase in approved loans, however has not been uniform at all Federal Reserve banks. During a recent period of five weeks one Industrial Advisory Committee did not approve an application, and another Committee approved only one. In the same period one Federal Reserve bank did not approve a single application, and two Reserve banks approved only one each.

In the week ending June 5 nine Advisory Committees and eight Reserve banks approved no applications; the other four Reserve banks approved only 14. These 14 applications amounted to $520,000. Eleven banks received payments on loans and at nine banks these repayments for the week exceeded new loans made. The other three banks advanced enough in excess of repayments to make the loans outstanding for the twelve banks increase that week by only $45,000.

During the same week commitments increased $263,000, but this increase was accounted for by five banks; at the other seven banks commitments either decreased or stood still.

In other respects the recent figures have shown considerable activity. Applications under consideration have turned up vigorously after a long decline.

The average amount of applications received per week in May was $3,800,000. This was the highest of any month this year; it was almost twice what was received in April and was over twice what was received in January. The average applications per week for each month since September are as follows:

APPLICATIONS RECEIVED - NET

	Number	Amount
September, 1934	177	4,806,000
October	184	6,891,000
November	124	7,085,000
December	105	5,316,000
January, 1935	46	1,603,000
February	78	2,468,000
March	76	3,044,000
April	58	2,036,000
May	60	3,836,000

So far this month the average per week is $5,100,000. This volume is due principally to applications received at two Federal Reserve banks.

The figures indicate therefore that there is still a substantial demand for the industrial credit authorized by Section 13b. There is also other evidence of this demand.

On May 20, as I have already said, I addressed the Illinois Bankers Association on the subject of industrial loans. The address was reported in the press and it was also mentioned in one of the Kiplinger letters. To date over eleven hundred requests for that address have been received. They have come from every State in the Union, except North Dakota and South Caroline, and from Hawaii. A hundred of them came from banks; in fact every

Federal Reserve district but one was represented by these requests from banks. A great majority came from industrial and commercial concerns. Many of these requests were doubtless made by people who already had some knowledge of the subject or interest in it, but it is difficult to imagine why there was such an interest in the address unless a large number who wrote in for it wanted to know how to get credit. This is confirmed by the fact the most of the requests seem to have been instigated by the Kiplinger Washington letter, which in its issue of May 18, described tersely and clearly the industrial loans program of the Federal Reserve banks, and suggested that copies of the address be asked for, since it gave information as to how loans were being made.

As you know, we have had experience in the past with publicity which was not selective and which brought in a large number of applications that had to be rejected. I feel, however, that these inquiries which we received as a result of the Kiplinger publicity represent to a large extent prospective borrowers with some credit standing. And I feel, in view of this response that there is still a potential and legitimate demand for industrial credit which we can supply. We cannot accept the idea that an effective demand no longer exists. Yet in spite of everything we have done, the fact that the Federal Reserve banks are in a position to make industrial credit available remains too little known. It is evident that a demand by prospective borrowers of good standing still exists, and that we still have to solve the problem of how to reach potential borrowers.

This is something upon which both the Reserve banks and the Board must work together. And in this connection you will be interested in knowing that at the suggestion of Mr. Pouch and Mr. Creighton the Board has temporarily retained Mr. B. P. Adams of New York to work on the problem of publicity. Mr. Adams is preparing articles particularly with a view to publication in trade journals. The

Federal Reserve Bank of St. Louis recently reported to the Board an opportunity to have information about industrial loans published in the official journal of the National Automobile Dealers Association, and Mr. Adams is reviewing the draft of an article for this purpose in order to adapt it as fully as possible to the interests of the publication's readers. He is also preparing material which it is hoped will appeal especially to member banks and stimulate their interest in industrial loans. You will hear from Mr. Adams later.

As you know, it has been our policy all along to encourage local banks to make these loans under protection of commitments from the Federal Reserve banks. As you also know, the effort has not been conspicuously successful. At the present time (June 19) loans by the Federal Reserve banks outstanding are $27,000,000, and commitments are only $20,000,000.

It would seem, of course, that banks would find it substantially advantageous to make loans which the Federal Reserve banks will take over on request without recourse as to 80 percent of any loss. The fact remains that they do not do so - at least to the extent to be expected. There are probably two reasons for this. One is that the banks do not understand that the arrangement means what it says, but think that they are simply being asked to make capital loans. The other reason is that the Federal Reserve banks probably find it difficult to encourage an arrangement which is distinctly less profitable to them than making loans direct or that is definitely unprofitable. In granting a commitment they have the same expense of investigation as if a direct loan were being made, they/have either greater risk if they leave the servicing of the loan to the bank making the loan, or else equal expense if they service it themselves, and they get say 1 percent per annum instead of 4 to 6 percent.

It was not the idea of the Act, however, to provide sources of revenue for the Federal Reserve banks. The idea was that credit should be made available to industries which were in need of it, preferably from the usual sources, but if it were not available from the usual sources then, in exceptional circumstances, it was to be furnished by the Federal Reserve banks direct. We are under obligation to carry out the obvious intent of the Act.

The fact that at several of the Reserve banks commitments exceed direct loans indicates that this can be done. At two of the Reserve banks, St. Louis and San Francisco, commitments are about three times as large as direct loans. One Reserve Bank, as I understand, does not talk to member banks about participations and commitments simply in general terms. It takes up every loan application which has merit with some member bank and tries to get the bank to handle the loan. It points out in concrete terms the advantage to the bank of carrying the loan on a commitment basis. It makes a specific proposition to which the banker must say yes or no. The banker may decide that he does not want the loan, but at any rate he has a definite idea of what industrial loans and commitments are, and the next time he may be more willing. Meanwhile, the Reserve bank tries another banker, and if necessary still another.

We must remember that these industrial loans are something that bankers have been trained to avoid. When one is suggested they react from habit. The idea that objectionable features have been removed by the Federal Reserve bank commitment does not register. They must be told over and over again in specific terms.

The members of the Industrial Advisory Committeesare in a position to understand this difficulty better than the bankers can; and when you are considering applications I hope you will give consideration not merely to the question whether the loan should be made, but also to the possibility that a member bank may be induced to take it under Federal Reserve commitment. You are interested in having the local banks perform their normal function, and your point of view should be valuable to the Federal Reserve bank in getting member bank cooperation. It will be extremely helpful, accordingly, if you as industrialists assisting the Federal Reserve System in this program, will do what you can to bring the local banks more and more into the picture.

As of May 31. the accrued earnings of the twelve Federal Reserve banks from industrial loans and commitments were $704,000. On the same date, the accrued expense chargeable thereto was $938,000. There was, therefore, irrespective of any losses that may be sustained, an accrued deficit of $234,000 covering the period since the industrial loans program began.

This deficit was not shared by all the banks, however; three banks showed a profit.

Moreover the figures have shifted from the red to the black so far as momth to month operations are concerned. Beginning with November they are as follows for all the Reserve banks combined:

November	Loss	$ 65,400
December	"	44,400
January	"	10,600
February	"	100
March	Gain	17,100
April	"	42,400
May	"	52,000

In April all but two banks showed a profit on the month's operations, and in May all but four showed a profit.

The total amount which the Federal Reserve banks have available for industrial loans and commitments under the law is $277,683,000. Of this amount the Federal Reserve banks as of June 19 had outstanding in the form of loans and commitments $47,790,000 or 17.2 percent. The percentages outstanding of the total available for each Federal Reserve bank were as follows:

Richmond	53.7
Minneapolis	30.5
Dallas	27.1
Boston	25.3
St. Louis	23.5
Kansas City	17.6
Atlanta	16.8
New York	16.8
Philadelphia	15.2
San Francisco	13.6
Cleveland	10.8
Chicago	6.1

As industrialists you are interested, I imagine, in the figures which we have compiled as to the kinds of business represented by the loans that have been approved. These figures were given in full in my address before the Illinois Bankers Association. As of May 1, out of a total of $83,000,000 approved, $12,000,000 was for the automobile industry. Next came machinery and machine tools, $7,000,000, and metals another $7,000,000; then textiles $6,000,000, and lumber $5,500,000.

Most loans have been for manufacturing, which accounts for $62,000,000 out of the total of $83,000,000. Wholesale and retail trades have obtained $12,000,000 and miscellaneous lines of business, such as construction, printing and publishing, mines and quarries, hotels, etc., have $8,500,000.

The largest number of applications has been approved for manufacturers of food products, namely, 95. Manufacturers of machinery and tools, follow with 84 applications approved, manufacturers of wearing apparel 82, dealers in lumber and builders supplies 82, and wholesalers and retailers of food 80.

The smallest loan made so far is one for $250 to a manufacturer of cut glass in the Dallas district. The largest is one for $6,000,000 to the Hudson Motor Car Company which was participated in by the Federal Reserve banks of New York and Chicago and by the Commercial Investment Trust of New York.

You will also be interested in the classification of outstanding loans according to size. As of May 31, the Reserve banks had 633 loans outstanding; these loans amounted to $27,000,000. Very nearly half of them (302) were of $10,000 or under. All but 94 were of $50,000 or less, and only 48 exceeded $100,000. The figures are as follows:

		Number	Amount
Less than	1,000	27	$ 18,078
1,000 -	10,000	275	1,292,716
10,001 -	25,000	141	2,530,996
25,001 -	50,000	96	3,627,843
50,001 -	100,000	46	3,431,252
100,001 -	300,000	39	6,961,713
300,001 -	500,000	4	1,619,333
500,001 -	1,000,000	3	2,219,236
More than	1,000,000	2	5,266,359
	Total	633	$26,967,526

You probably have heard something about a bill that has been introduced in Congress (H.R.5918) to provide for the creation of an Intermediate Industrial Credit Corporation to aid in financing small and medium sized commercial and industrial establishments. This corporation would rediscount obligations the proceeds of which have been advanced or used originally for any industrial or commercial purpose, and would lend directly to borrowers engaged in producing or marketing goods or services on the security of warehouse receipts, shipping documents, mortgages or "other evidences of probability of repayment of the loan when due". The loans and discounts would have maturities of not less than six months nor more than five years, but the corporation could grant renewals up to ten years from the date the loans were originally made. The capital of the corporation would be $100,000,000 owned by the United States, and it would be authorized to have bonds outstanding not to exceed $1,000,000,000 fully and unconditionally guaranteed by the Federal Government.

If banks wanted to use the facilities of the proposed Intermediate Industrial Credit Corporation they would have to have a separate and distinct department for their time deposits and subject such department to the supervision of the Intermediate Industrial Credit Corporation.

On April 15, the Business Advisory Council for the Department of Commerce submitted a report based on several months of study of the small industries situation through the country. The Council stated that it was particularly impressed with the zeal and energy shown by the Federal Reserve Board in exercising the powers granted by the Act of June 19, 1934. The report of the Council indicated that the credit requirements of industrial concerns which cannot be satisfied from normal sources are not so large as they appeared to be six months ago, and that the credit needs of small industries are being more adequately met by commercial banks and other financial institutions.

Notwithstanding this indication, the Council "strongly recommended an immediate study by the Reconstruction Finance Corporation, Federal Reserve Board, and Securities and Exchange Commission in cooperation with the investment bankers of the country, to the end that facilities be offered sound, small industries for the acquisition of needed capital."

During a trip to Europe from which he returned a few weeks ago, Mr. Creighton made inquiry as to what was being done in England, France, Germany, Poland and Austria in the way of providing working capital to industry. He found that in England especially efforts were being made to provide credit, but they were part of a program of rationalization which generally sought elimination of inefficient units and rehabilitation of specific lines of industry. In the other countries comparatively little even along this line was being done. The aims and the means adopted in Europe and America differ widely, but there seems to be nothing in European experience to throw any doubt upon the desirability of such a program as we have. We continue to pioneer. You will hear from Mr. Creighton personally on this matter.

It is obvious to me that we have not yet done all that we can or all that is expected of us. Congress has given us the task of meeting a very real demand for credit. We are expected moreover to meet that demand in a way that utilizes local and existing facilities as much as possible. We are not expected to encourage the Federal Reserve System to encroach on the field of private financing. In carrying out its task in the way it was intended to be carried out, the Federal Reserve System has been provided with the assistance of the Industrial Advisory Committees,and the System is grateful to you for the service you have been and are rendering without compensation. The function of these committees of which you gentlemen are chairmen is not merely to make recommendations regarding one loan application after another. The Industrial Advisory Committees were established, in the words of the law, "for the purpose of aiding the Federal Reserve banks in carrying out the provisions" of Section 13b. That language is comprehensive. It seems clearly to contemplate a general situation where the bankers' point of view alone is inadequate, and where the industrialists' is indispensable, and it does not seem to be limited to passing on applications. Moreover your power of recommendation is not restricted. I know that you feelit part of your duty to consider now how local credit agencies may be stimulated to cooperate with the Federal Reserve banks in making industrial loans, and that both in general and in connection with specific applications you will offer your recommendations as to the steps that may be taken by your Federal Reserve bank to enlist local bank cooperation.

STATEMENT FOR THE PRESS
BY MR. W. H. POUCH FOR THE INDUSTRIAL ADVISORY COMMITTEES OF THE FEDERAL RESERVE BANKS.

For release in the Morning Papers,
Wednesday, June 26, 1935.

June 25, 1935.

Much more is being done to aid the small business man in this country than anywhere else in the world; and existing facilities here are fully capable of meeting the demand for credit to industry. This is, in brief, the conclusion reached by Mr. Albert M. Creighton of Boston after visiting England, Germany, Poland, Austria and France.

Mr. Creighton is Chairman of the Chairmen of the Industrial Advisory Committees in the twelve Federal reserve districts, which aid in the making of direct loans to industry by the Federal reserve banks. The meeting of these Chairmen yesterday in Washington was in the nature of an anniversary. Section 13b, providing for loans to industry, was enacted June 19, 1934, and $280,000,000 was made available through the Reserve banks. Exactly one year later, June 19, 1935, there had been received 6,571 loan applications totaling $260,373,000; the Advisory Committees had approved 1,798 loans totaling $100,751,000; the Federal reserve banks had approved 1,636 loans totaling $88,601,000; advances made totaled $31,447,000, with commitments of $20,404,000, or $51,851,000 altogether.

Mr. Creighton presented a report on credit facilities abroad in which he stated that "almost without exception, and particularly in England, there have been numerous complaints since the depression by business men and industrialists that it was not possible for them to secure loans from the banks", but as various emergency loaning organizations had been established, it was found that the claims were much exaggerated and that a large percentage of the applicants really wanted to start new businesses or were found on investigation to be unsatisfactory credit risks. It was pointed out that, in England especially, credit needs of industry were being considered as part of a program of rationalization which generally sought elimination of inefficient units and rehabilitation of specific lines of industry.

There is a much larger fund available in the United States for loans to industry than in any other country, and there is no question, said Mr. Creighton, "that the Federal reserve banks under Section 13b have done far more for the small industrialists than has been done anywhere in Europe; under Section 13b the Federal reserve banks are giving quick, efficient, sympathetic service and are aiding industry in accordance with the wishes of those who sponsored the passage of this Act."

Mr. Creighton believes that the Reserve banks and the Reconstruction Finance Corporation under present legislation can provide for any sound and reasonable demand for credit to industry. He therefore reaches the conclusion that "the Reconstruction Finance Corporation and the Federal Reserve System under Section 13b should be allowed to function as at present with no thought of supplementing this work with additional plans for the making of sound loans to industry." In other words, the formation of such additional agencies, as Intermediate Credit Banks, would merely duplicate already existing facilities. The immediate need is that "every prospective borrower in this country should know about the existing facilities in connection with industrial loans and should understand how to take advantage of them."

INDUSTRIAL ADVANCES AND COMMITMENTS UNDER SECTION 13b OF THE FEDERAL RESERVE ACT
SUMMARY BY FEDERAL RESERVE BANKS, JUNE 19, 1934 TO JUNE 19, 1935

(Amounts in thousands of dollars) B-817

Federal Reserve Bank	Applications received - net		Applications under consideration		Total applications recommended for approval by Industrial Advisory Committee*		Total applications approved by Federal Reserve Bank*		Advances made	Commitments outstanding
	Number	Amount	Number	Amount	Number	Amount	Number	Amount		
Boston	379	21,133	24	3,389	129	9,163	85	6,389	2,460	2,869
New York	769	59,265	40	5,777	275	23,265	287	25,159	6,943	8,146
Philadelphia	442	27,265	17	7,306	143	14,102	110	9,533	5,022	733
Cleveland	515	14,611	14	477	144	5,897	126	5,134	1,702	1,491
Richmond	449	16,986	8	459	139	8,439	139	8,388	4,696	1,511
Atlanta	431	10,645	18	233	145	3,773	139	3,527	1,377	672
Chicago	867	38,338	30	2,233	115	8,692	90	6,071	2,318	499
St. Louis	291	10,479	3	133	99	4,883	98	4,892	711	1,794
Minneapolis	880	16,631	43	1,002	240	5,735	214	4,627	2,438	77
Kansas City	318	10,619	7	2,129	71	5,456	63	3,367	1,226	227
Dallas	404	10,517	12	565	95	3,838	90	3,634	1,838	400
San Francisco	826	23,884	69	3,638	203	7,508	195	7,880	716	1,985
TOTAL	6,571	260,373	285	27,341	1,798	100,751	1,636	88,601	31,447	20,404

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JUNE 24, 1935.

*With and without conditions.

X-9252-c

Exhibit C

April 15, 1935.

CREDIT AND CAPITAL REQUIREMENTS OF SMALL INDUSTRY

Summary of Report to the Secretary of Commerce by the Business Advisory Council for the Department of Commerce.

At the outset of its study of the credit difficulties of small manufacturers, the Council found itself faced with a paucity of direct and up-to-date information as to the character and prevalence of the difficulties of individual concerns.

To obtain a factual basis for its study a survey was made, on behalf of the Council, by the Bureau of the Census of the Department of Commerce. Questionnaires prepared by that Bureau were sent, with few exceptions, to manufacturers employing an average of from 30 to 190 wage earners in 1933; but for the final tabulations, returns from concerns employing not less than 21 nor more than 250 wage earners were included. Of the 16,500 firms to which questionnaires were sent, 7,669, or over 46 percent, submitted returns. Of these, 6,158 were found to be suitable for tabulation.

Of the 6,158 concerns covered in this survey, 4,387, or 71 percent, were classified as borrowers and 1,771 or 29 percent, as non-borrowers or as concerns with no credit experience. Of the 4,387 reported borrowing concerns, 1,964, or 45 percent, reported credit difficulties. These however, constituted only 32 percent of the total number of the concerns covered.

Of the 1,964 concerns reporting credit difficulties, 1,872 indicated the sources customarily used by them. Of this number about 82 percent reported that they depended normally upon commercial banks for credit for working capital purposes.

Of the 2,423 concerns reporting no credit difficulty, 2,217 indicated their customary sources of credit, 90 percent of these stating that banks were the normal source of their working capital loans.

Nearly two-thirds of the manufacturers reporting credit difficulty (1,253 of the 1,964) estimated that they would need $50,915,000 during 1934 to meet maturing obligations. Uneasiness over the disinclination of banks to renew outstanding obligations was unquestionably wide spread in the summer of 1934, when the returns to the Census questionnaire were made. Banks generally had relaxed but little their efforts to achieve greater liquidity and were still under pressure from official examiners to reduce the proportion of slow or bad loans and to be "realistic" in the valuation of their assets.

Regarding the attitude of the banks at that time, it should be recalled that many of them had only recently emerged from the difficulties that culminated in the closing of all of the banks of the country in March 1933. Many banks failed to reopen after this "bank holiday" and a considerable number that resumed operations had to be extremely cautious for a long period. Thousands of banks had failed or suspended operations in previous years and concerns that relied on these banks for credit accommodation found it difficult to establish new banking connections.

Although the facts regarding the progress of the depression are generally known, it might be well to review briefly the effects of the depression on the banks. The decline in commodity prices which began in the summer of 1929, proceeded with but few interruptions until March 1933, when it assumed almost catastrophic proportions. This decline impaired the value of the security behind bank loans -- not merely the loans collateralled by commodities but also those based on the earning capacity of the borrowers, the value of whose inventories declined correspondingly and whose margin of profit was either sharply reduced or wiped out. Moreover, as prices declined, the tendency on the part of all classes of buyers to defer purchases increased and production fell off. Railroad movement of freight became lower and lower and the earnings of railrodads reached their lowest levels in years. As large holders of railroad bonds, many banks were seriously affected by the ensuing decline in the prices of their securities, which they were obliged to sell in order to obtain funds to meet increasing withdrawals of deposits. The calling of loans against securities which had been expanded greatly during the boom also added to the difficulties of the banks, since it resulted, of course, in the lowering of the value not only of the collateral behind such loans but also of the securities held by the banks for their own account. Thus, the vast majority of banks were caught in a destructive downward spiral and were practically powerless to extricate themselves. The establishment of the Reconstruction Finance Corporation in 1932 was a splendid effort to arrest these depressive forces but it proved to be somewhat belated.

It is not surprising, therefore, that as late as the summer of 1934 most of the banks were still putting their houses in order, either on their own initiative or at the behest of bank examining authorities who had been sharply criticized for their previous disinclination to force banks to call slow loans or write off doubtful ones. What is surprising, in view of the conditions existing in the middle of 1934, is that so large a proportion of the reported borrowing concerns included in the Census survey, 2,423 out of 4,387, reported no credit difficulty, although 90 percent of them stated that banks were the normal source of their working capital loans, whereas only 82 percent of the concerns reporting credit difficulty stated that they relied on banks for such accommodation.

Another fact to be borne in mind in considering the statistics based upon the returns to the Census questionnaire is that the great bulk of these returns were made within two or three months after the passage of the Act of June 19, 1934, which authorized the Federal Reserve banks and the Reconstruction Finance Corporation to make direct loans to industry. This legislation, it should be noted in passing, was a clear recognition of the inability of the banks as a whole to finance industry as freely as could be desired.

The Council is particularly impressed with the zeal and energy shown by the Federal Reserve Board in exercising the power granted by the Act of June 19, 1934, and feels that a special tribute should be paid to the late Eugene Black, who was then Governor of the Reserve Board, for the inspiring enthusiasm and the tireless energy he poured into this activity of the Federal Reserve system. But despite the evident desire to cut corners and eliminate red tape, several months were required before the Industrial Advisory Committees of the several Federal Reserve banks could begin to function effectively. A certain minimum period of time is required to organize, and to establish a working procedure for, an undertaking which involves the loaning of many millions.

In view of what has been accomplished by the Federal Reserve banks and the Reconstruction Finance Corporation under the Act of June 19, 1934, it may well be that a considerable proportion of the concerns that reported credit difficulty at the time they made their returns to the Census questionnaire, were subsequently accommodated by these agencies.

Since the summer of 1934 the policies of the federal examining authorities have become more liberal with respect to "slow" loans. The problem of the proper treatment of "slow" loans was considered at a meeting of the chief examiners of the federal examining agencies on September 10 and 11, 1934. Subsequently, the Comptroller of the Currency instructed national bank examiners that real estate and capital loans were not to be classified as "slow", if there was reasonable assurance of repayment, and that working capital loans with maturities up to five years were not to be so classified, if covered by commitments from Federal Reserve banks. The Federal Deposit Insurance Corporation likewise instructed its examiners to differentiate between "slow" loans which were sound because adequately secured or because collectible ultimately and "slow" loans which were unsound.

On January 14, 1935, the Reconstruction Finance Corporation announced a liberalization of its policies with respect to direct loans to industry. To quote, "one change provides that consideration will be given to applications where a 'substantial' rather than 'incidental' portion of the proceeds is to be used to satisfy or compromise existing indebtedness. The second modification, designed to be of assistance in the stimulation of demand for capital goods, provides for the consideration of applications where the money is to be used principally for the replacement and modernization of plant and equipment."

Still more recently the statutory regulations governing the direct lending activities of the Reconstruction Finance Corporation were amended in important particulars by act of Congress. A bill finally approved on January 31, 1935, extended the life of the Corporation for two years from that date and provided, among other things, that the Corporation could make industrial loans so secured as reasonably to assure repayment; and that the Corporation could make loans or renewals up to January 31, 1945, instead of to January 31, 1940, as previously stipulated. This act also authorized the Corporation to purchase stock in mortgage loan institutions for the purpose of the re-establishment of a normal mortgage market. The first of these provisions makes possible a continuation of the direct lending activities of the Corporation; the second relieves it of the "adequate security" requirement for loans to industry, a requirement which had seriously curtailed the number and the amount of its loans; the third makes possible the authorization of loans which can be repaid only over a term of years; and the last facilitates the securing of long-term credit by business concerns through the pledging of fixed assets.

There has been a pronounced extension of the direct lending activities of the Federal Reserve banks with the able and vigorous assistance of the Industrial Advisory Committees. In spite of this fact, both the number of applications received per week and the amount of the loans applied for continue at a low level. This evidence, as well as that afforded by the total number of applications received and the total amount applied for, suggests that the credit requirements of industrial concerns which cannot be satisfied from normal sources are not so large as they appeared to be six months ago, and that the credit needs of small industry are being more adequately met by commercial banks and by other financial institutions.

The total amount of credit made available to manufacturing concerns through the activities of the direct lending agencies is substantial. To the amount of the loans approved by the Federal Reserve banks ($56,000,000 to February 27, 1935) must be added the loans and commitments authorized by the Reconstruction Finance Corporation ($35,800,000 as of February 20, 1935).[1/] The actual disbursements of these agencies are much less than the amount of the loans approved. Nevertheless,

1/ These figures exclude advances and commitments made to miscellaneous concerns and those in the wholesale and retail trades.

when account is taken of the loans made or renewed by commercial banks and other financial institutions as a result of the change in their policy induced by the efforts of the Industrial Advisory Committees, the total credit made available to industry through the activities of the direct lending agencies may have satisfied a large proportion of the legitimate needs.

Between June 19, 1934, and February 27, 1935, the Federal Reserve banks had received 5,595 applications for advances under the Act of June 19, 1934, in amounts totaling $205,580,858, distributed by principal groups of applicants as follows:

Class of borrower.	Number of applications (net)	Amount applied for.
Manufacturers	2,573	$140,224,668
Wholesale and retail trades	2,034	36,184,876
Miscellaneous	988	29,171,314
Total	5,595	$205,580,858

The number of applications approved by the Federal Reserve Banks with and without conditions and the amount of the commitments and advances thus provided for were as follows:

Class of borrower	Commitments		Advances	
	Number	Amount	Number	Amount
Manufacturers	266	$25,425,440	448	$30,597,167
Wholesale and retail trades	113	4,204,400	256	4,915,200
Miscellaneous	49	2,830,500	136	4,551,200
Total	428	32,460,340	840	40,063,567

In other words, the Federal Reserve banks had approved 1,268, or nearly 23 percent, of the applications made to February 27, 1935. The amounts covered by the applications approved totaled $72,523,907, or slightly more than 35 percent of the total amount applied for on the total number of applications.

Limiting our observations to applications of manufacturers, it will be noted that of the 2,573 applications from concerns in this classification, 714 were approved. The applications approved called for advances and commitments aggregating $56,022,607. Thus, nearly 28 percent of the applications from manufacturers were approved and the loans so approved constituted about 40 percent of the total amount applied for by all applicants.

Of the $40,063,567 which the Federal Reserve banks had agreed to advance to all classes, $21,729,054 had actually been loaned to February 27, 1935, -- $353,791 for 3 months or less; $3,236,777 for 3 to 6 months; $2,849,984 for 6 to 12 months; and the balance, $15,288,502, for one to 5 years, as much as $9,258,417 being loaned for 4 to 5 years.

There is a tendency in some quarters to minimize the results obtained by the Federal Reserve banks by stressing the figure of $21,729,054. But such criticism ignores the fact that a large part of the advances which those banks agreed to make had not been availed of and the fact that the banks had agreed to assume $32,460,340 of loans made by commercial banks under the commitments they had taken.

Incidentally it should be noted that the proportions of approved loan applications in the case both of the wholesale and retail trades and of the miscellaneous group were very much lower, both in number and in amounts, than in the case of applications from manufacturers.

That the great bulk of the advances made by the Federal Reserve banks were for periods of more than 6 months, more than one-half of the total advanced being loaned for from 4 to 5 years, confirms the impression held by well-informed persons that a pressing need of industry was for a type of loan which commercial banks could not, or should not, make, even in normal times. It also serves to support the view of those who assert that at the present stage in the prolonged depression a large number of the smaller industrial concerns must strengthen their capital structures.

No data are available as to the usance of the loans on which the Federal Reserve banks have taken commitments. It is fair, however, to assume that, although the bulk of them run for periods longer than the loaning banks would wish to provide under existing conditions, they are, on the average, for much shorter periods than the advances made by the Federal Reserve banks directly. They are probably more in the nature of working capital loans.

The Reconstruction Finance Corporation also has been far more active in making advances under the authority conferred by the Act of June 19, 1934, than is generally believed. To February 20, 1935, the Corporation had received 1,717 applications for loans or commitments involving a total of $156,896,399, and had approved 790 applications in the total amount of $42,852,759. Of the loans approved, 625 were for manufacturing concerns, the total of such loans amounting to $35,821,324, or about $57,300 per application approved.

Incidentally, it might be noted that the Reconstruction Finance Corporation catered more largely to the textile, food, and lumber industries, nearly one-half of its loans and commitments being made to concerns in these groups. On the other hand, nearly 22 percent of the advances and commitments of the Federal Reserve banks were made for the account of concerns manufacturing automobiles, trucks, and accessories; about 11.5 percent, for concerns producing machinery and machine tools; and nearly 11 percent, for manufacturers of metals. In view of the rapid rise in the production of automobiles and trucks since last November, the latter figures appear significant.

Loans by the Reconstruction Finance Corporation to concerns making iron and steel and their products, machinery, and transportation equipment and by the Federal Reserve banks to textile and food manufacturers were also important.

With the continued restoration of business activity the need of small industry for intermediate and long-term capital has become increasingly urgent. There seems to be little doubt that a large number of the smaller manufacturing concerns have been able to withstand the effects of the long-drawn-out depression in part, through sharp curtailment of expenditures on repairs of building and equipment and, in part, through the reduction of inventories of raw materials, parts and supplies to a hand-to-mouth basis. Not only is existing equipment wearing out at a rapid rate but it is also becoming obsolete. The necessity for buying raw materials, etc., in limited quantities prevents concerns from acquiring them at satisfactory prices. Both factors operate to increase manufacturing costs and to reduce profits.

It is clear that the capital structure of American industry as a whole has been impaired by these and other factors and the ability of the smaller industrial concerns, in particular, to borrow from the banks for working capital purposes has been correspondingly lowered. In this connection, the Council has been greatly impressed by the fact that the bulk of the advances and commitments made by the Federal Reserve banks have been for periods of more than one year.

The inability of the smaller concerns to modernize thier machinery and equipment explains in no small measure the continued depression in many of the capital goods industries.

The need for long-time capital on the part of small industries is quite evident from the Council's study of the facts disclosed in the Census survey, in the survey made by the Treasury Department of conditions in the Seventh Federal Reserve District (the Viner-Hardy report), and in a survey made by the National Industrial Conference Board, and of the results of the operations of the Federal Reserve banks and the Reconstruction Finance Corporation under the act of June 19, 1934, as well as from its consideration of the testimony of individual leaders and bankers.

As a matter of fact, long-term financing for small industry has always been difficult. It is not simply a depression problem. Through private investment bankers, it has been available only to concerns of sufficient size and standing to warrant the investment banker in bringing out an issue as small as, for instance, $1,000,000. So it may be said that this facility has been practically denied to smaller concerns. Such enterprises have been obliged to develop their capital structures gradually out of undistributed earnings or to attract the participation of individual capitalists. They have not received the benefits of recourse to the capital markets for their long-term requirements.

Since small industry plays a very important part in the economic life of the nation and since its activities contribute so much to those of the larger plants, it would seem the part of wisdom to provide the smaller, sound industrial concerns with the long-term credit facilities which they require. This would make for safer commercial banking as well as for cheaper and better financing for industry as a whole.

This is and should be a natural function of the investment banker acting as the channel for the safe investment of private funds in small enterprises.

At the moment, this channel is blocked by the too rigid requirements of the Securities Act; by a general fear of the future on the part of investment bankers; and by the waiting attitude of the investing public.

The need exists and is of paramount importance to recovery. Mainly it is an investment need, rather than a credit need. It should be filled.

The Council strongly recommends an immediate study by the Reconstruction Finance Corporation, Federal Reserve Board, and Securities and Exchange Commission in cooperation with the investment bankers of the country, to the end that facilities be offered sound, small industries for the acquisition of needed capital.