

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-656
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1940

Dear Sir:

Under date of April 24, 1940, Senator Mead introduced in the Senate a bill, S.3839, to amend Section 13b of the Federal Reserve Act for the purpose of liberalizing the authority of the Federal Reserve Banks to make industrial loans. A companion bill, H.R. 9530, was introduced by Congressman Thomas F. Ford of California in the House of Representatives on April 25, 1940.

A copy of H.R.9530, an analysis of the changes which the bill would effect in the present law, and a brief statement with respect to legislation enacted and proposed on this subject are being sent to you with this letter.

You will note that the Mead bill would eliminate from Section 13b the requirements that loans must be for working capital purposes, that they may be made only to established business enterprises, and that maturities may not exceed five years. The bill would require each financing institution to obligate itself, to the satisfaction of the Federal Reserve Bank, for at least 10 per cent, instead of 20 per cent, as provided in the present law, of any loss which may be sustained on obligations acquired from it and would direct the Secretary of the Treasury to pay to each Federal Reserve Bank from time to time such amounts, up to the amount subscribed by the Bank for stock of the Federal Deposit Insurance Corporation, as in the judgment of the Board of Governors are necessary to enable the Federal Reserve Banks to grant the credit authorized by Section 13b.

The Board has no means of knowing whether these bills will be given active consideration by Congress during the present session, but would be glad to know whether, in the light of the experience of your Bank, your directors and officers would favor the Mead-Ford proposal, the Frank proposal, or some other type of legislation.

The Board would also appreciate receiving any comments with respect to this matter that you think would be helpful to it, even though they may relate to points not covered in either the Mead or Frank proposals.

Very truly yours,



Chester Morrill,
Secretary.

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TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS