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# APPENDIXES

# APPENDIX A

## Summary Tables

### TABLE A-1

Credit Extended by Federal Agencies, by Type of Financial Aid, 1918–1953
(*in thousands*)

| | VOLUME DURING YEAR | | | OUTSTANDINGS AT YEAR END | | |
|---|---|---|---|---|---|---|
| YEAR | *Direct Loans* | *Loan Insurance or Guarantees* | *Stock Purchases* | *Direct Loans* | *Loan Insurance or Guarantees* | *Stock Purchases* |
| 1918 | $ 136,475 | .. | .. | $ 34,214 | .. | .. |
| 1919 | 241,271 | .. | .. | 101,264 | .. | .. |
| 1920 | 666,028 | .. | .. | 684,367 | .. | .. |
| 1921 | 287,743 | .. | .. | 827,603 | .. | .. |
| 1922 | 281,895 | .. | .. | 662,637 | .. | .. |
| 1923 | 144,894 | .. | .. | 587,973 | .. | .. |
| 1924 | 42,571 | .. | .. | 495,545 | .. | .. |
| 1925 | 12,608 | .. | .. | 387,097 | .. | .. |
| 1926 | 11,383 | .. | .. | 352,554 | .. | .. |
| 1927 | 13,683 | .. | .. | 236,312 | .. | .. |
| 1928 | 18,301 | .. | .. | 152,687 | .. | .. |
| 1929 | 47,821 | .. | .. | 195,582 | .. | .. |
| 1930 | 399,990 | .. | .. | 439,494 | .. | .. |
| 1931 | 633,027 | .. | .. | 718,060 | .. | .. |
| 1932 | 1,905,954 | .. | .. | 2,072,611 | .. | .. |

(*continued on next page*)

## TABLE A-1 (*continued*)
(*in thousands*)

| YEAR | VOLUME DURING YEAR: *Direct Loans* | VOLUME DURING YEAR: *Loan Insurance or Guarantees* | VOLUME DURING YEAR: *Stock Purchases* | OUTSTANDINGS AT YEAR END: *Direct Loans* | OUTSTANDINGS AT YEAR END: *Loan Insurance or Guarantees* | OUTSTANDINGS AT YEAR END: *Stock Purchases* |
|---|---|---|---|---|---|---|
| 1933 | $1,840,740 | .. | $268,740 | $2,854,651 | .. | $268,582 |
| 1934 | 3,891,650 | $ 31,575 | 697,716 | 5,577,318 | $ 31,513 | 893,442 |
| 1935 | 1,556,412 | 322,667 | 161,539 | 6,187,015 | 310,445 | 986,287 |
| 1936 | 691,447 | 559,948 | 132,069 | 5,929,135 | 705,134 | 868,263 |
| 1937 | 445,261 | 496,110 | 98,378 | 5,553,324 | 1,023,352 | 848,148 |
| 1938 | 819,340 | 729,138 | 39,818 | 5,207,082 | 1,545,464 | 832,953 |
| 1939 | 1,090,106 | 984,519 | 27,906 | 5,294,086 | 2,233,883 | 772,823 |
| 1940 | 1,395,154 | 1,034,244 | 45,977 | 5,434,714 | 3,078,736 | 726,372 |
| 1941 | 1,435,751 | 1,205,560 | 3,399 | 5,604,722 | 3,744,043 | 645,146 |
| 1942 | 1,203,797 | 2,172,845 | 14,519 | 5,599,097 | 5,081,518 | 592,002 |
| 1943 | 934,664 | 5,122,473 | 563 | 5,032,695 | 6,335,060 | 459,743 |
| 1944 | 753,070 | 4,300,637 | 16 | 4,512,151 | 6,332,584 | 374,266 |
| 1945 | 703,352 | 2,609,938 | 269 | 3,792,117 | 5,517,565 | 307,859 |
| 1946 | 1,499,278 | 2,392,010 | .. | 4,436,113 | 6,097,340 | 206,565 |
| 1947 | 1,603,909 | 3,680,900 | 5,000 | 5,317,819 | 8,238,784 | 160,469 |
| 1948 | 1,243,416 | 4,466,798 | .. | 6,181,249 | 11,166,088 | 134,696 |
| 1949 | 1,652,058 | 4,737,171 | 3,000 | 7,010,730 | 14,317,517 | 116,314 |
| 1950 | 2,165,619 | 6,179,633 | .. | 7,583,272 | 18,600,515 | 102,971 |
| 1951 | 2,224,080 | 6,816,885 | .. | 8,773,078 | 22,876,391 | 84,344 |
| 1952 | 2,647,853 | 7,186,812 | .. | 9,979,664 | 25,737,086 | 46,776 |
| 1953 | 2,837,651 | 7,859,747 | .. | 10,513,814 | 29,326,600 | 41,539 |

Based on data shown in Tables A-3 and A-5 to A-8. For greater detail see Tables A-9 to A-24 and A-27 to A-33. Types of financial aid are defined, as to amounts included, in Chapter 2, footnote 1.

## TABLE A-2

Credit Extended by Federally Sponsored Agencies, by Type of Financial Aid, 1917–1953
*(in thousands)*

| | Volume During Year | | Outstandings at Year End | |
|---|---|---|---|---|
| Year | *Direct Loans* | *Stock Purchases* | *Direct Loans* | *Stock Purchases* |
| 1917 | $ 39,112 | .. | $ 38,800 | .. |
| 1918 | 118,130 | .. | 156,214 | .. |
| 1919 | 144,987 | .. | 293,595 | .. |
| 1920 | 66,985 | .. | 349,843 | .. |
| 1921 | 91,030 | .. | 432,870 | .. |
| 1922 | 224,301 | .. | 639,863 | .. |
| 1923 | 236,969 | .. | 842,601 | .. |
| 1924 | 282,737 | .. | 991,098 | .. |
| 1925 | 281,086 | .. | 1,088,411 | .. |
| 1926 | 308,780 | .. | 1,174,420 | .. |
| 1927 | 278,544 | .. | 1,237,753 | .. |
| 1928 | 239,375 | .. | 1,285,188 | .. |
| 1929 | 202,508 | .. | 1,290,044 | .. |
| 1930 | 266,945 | .. | 1,339,441 | .. |
| 1931 | 310,009 | .. | 1,312,786 | .. |
| 1932 | 269,231 | .. | 1,251,496 | .. |
| 1933 | 437,765 | $ 2,430 | 1,448,807 | $ 2,430 |
| 1934 | 1,116,777 | 89,405 | 2,237,815 | 90,086 |
| 1935 | 774,717 | 11,999 | 2,457,862 | 77,017 |
| 1936 | 643,629 | 3,895 | 2,523,809 | 75,038 |
| 1937 | 701,269 | 4,824 | 2,605,222 | 76,146 |
| 1938 | 659,708 | 2,419 | 2,553,518 | 75,788 |
| 1939 | 675,932 | 2,558 | 2,455,823 | 75,370 |
| 1940 | 783,039 | 1,301 | 2,447,710 | 61,445 |
| 1941 | 996,943 | 21,464 | 2,458,245 | 81,498 |
| 1942 | 1,129,327 | 1,920 | 2,243,345 | 81,621 |
| 1943 | 1,381,886 | 621 | 2,054,839 | 76,090 |
| 1944 | 1,427,758 | 538 | 1,796,109 | 63,587 |
| 1945 | 1,460,500 | 596 | 1,672,174 | 55,491 |
| 1946 | 1,766,148 | 292 | 1,734,354 | 46,034 |
| 1947 | 2,147,955 | 225 | 1,946,615 | 34,918 |
| 1948 | 2,397,843 | 30 | 2,124,791 | 29,139 |
| 1949 | 2,210,826 | 115 | 2,091,773 | 22,296 |
| 1950 | 2,807,950 | 965 | 2,633,573 | 15,728 |
| 1951 | 3,192,420 | 1,015 | 2,875,279 | 11,371 |
| 1952 | 3,309,383 | 100 | 3,046,164 | 7,596 |
| 1953 | 3,258,486 | 640 | 3,101,541 | 4,946 |

Based on data shown in Tables A-4 to A-6. For greater detail see Tables A-25 to A-27 inclusive. Types of financial aid are defined, as to amounts included, in Chapter 2, footnote 1.

## TABLE A-3

### Credit Extended to Agriculture by Federal Agencies, by Type of Financial Aid, 1918–1953
*(in thousands)*

| | VOLUME DURING YEAR | | | | OUTSTANDINGS AT YEAR END | | | |
|---|---|---|---|---|---|---|---|---|
| | Direct Loans | | | | Direct Loans | | | |
| YEAR | Real Estate[a] | Non-Real-Estate[b] | Loan Insurance or Guarantees[c] | Stock Purchases[d] | Real Estate[a] | Non-Real-Estate[b] | Loan Insurance or Guarantees[c] | Stock Purchases[d] |
| 1918 | .. | $ 8,504 | .. | .. | .. | $ 3,079 | .. | .. |
| 1919 | .. | 3,524 | .. | .. | .. | 5,660 | .. | .. |
| 1920 | .. | 1 | .. | .. | .. | 4,731 | .. | .. |
| 1921 | .. | 84,924 | .. | .. | .. | 86,408 | .. | .. |
| 1922 | .. | 187,623 | .. | .. | .. | 151,577 | .. | .. |
| 1923 | .. | 18,135 | .. | .. | .. | 72,560 | .. | .. |
| 1924 | .. | 10,286 | .. | .. | .. | 42,782 | .. | .. |
| 1925 | .. | 937 | .. | .. | .. | 17,796 | .. | .. |
| 1926 | .. | 599 | .. | .. | .. | 9,771 | .. | .. |
| 1927 | .. | 178 | .. | .. | .. | 3,654 | .. | .. |
| 1928 | .. | 126 | .. | .. | .. | 2,700 | .. | .. |
| 1929 | .. | 20,582 | .. | .. | .. | 22,647 | .. | .. |
| 1930 | .. | 353,892 | .. | .. | .. | 242,761 | .. | .. |
| 1931 | .. | 574,121 | .. | .. | .. | 487,581 | .. | .. |
| 1932 | .. | 319,268 | .. | .. | .. | 583,993 | .. | .. |
| 1933 | $ 70,812 | 338,678 | .. | .. | $ 70,738 | 581,333 | .. | .. |
| 1934 | 553,136 | 239,501 | .. | .. | 616,825 | 371,492 | .. | .. |
| 1935 | 196,395 | 200,814 | .. | .. | 794,752 | 419,117 | .. | .. |
| 1936 | 77,258 | 79,593 | .. | .. | 837,274 | 451,347 | .. | .. |
| 1937 | 40,020 | 92,815 | .. | .. | 815,001 | 450,012 | .. | .. |
| 1938 | 39,670 | 195,372 | .. | $29 | 767,985 | 564,398 | .. | $29 |
| 1939 | 53,993 | 245,775 | .. | 5 | 732,661 | 708,787 | .. | 34 |

(continued on next page)

TABLE A-3 (*continued*)
(*in thousands*)

| | VOLUME DURING YEAR | | | | OUTSTANDINGS AT YEAR END | | | |
|---|---|---|---|---|---|---|---|---|
| | Direct Loans | | | | Direct Loans | | | |
| YEAR | Real Estate[a] | Non-Real-Estate[b] | Loan Insurance or Guarantees[c] | Stock Purchases[d] | Real Estate[a] | Non-Real-Estate[b] | Loan Insurance or Guarantees[c] | Stock Purchases[d] |
| 1940 | $76,377 | $205,096 | .. | .. | $728,486 | $ 752,142 | .. | $34 |
| 1941 | 98,196 | 232,289 | .. | .. | 732,284 | 864,262 | .. | 34 |
| 1942 | 59,964 | 240,077 | .. | .. | 693,183 | 923,659 | .. | 34 |
| 1943 | 59,495 | 230,409 | .. | .. | 600,656 | 910,070 | .. | 34 |
| 1944 | 60,120 | 128,303 | .. | .. | 526,604 | 848,508 | .. | 34 |
| 1945 | 58,113 | 157,520 | $ 1,238 | .. | 426,297 | 847,653 | e | 34 |
| 1946 | 61,937 | 264,384 | 29,853 | .. | 343,627 | 952,219 | $ 30,654 | 34 |
| 1947 | 46,906 | 320,159 | 36,634 | .. | 309,524 | 1,124,608 | 64,531 | 34 |
| 1948 | 21,500 | 373,582 | 21,533 | .. | 273,921 | 1,358,506 | 80,644 | .. |
| 1949 | 17,907 | 439,708 | 17,291 | .. | 254,246 | 1,666,045 | 91,550 | .. |
| 1950 | 46,640 | 402,301 | 25,602 | .. | 264,927 | 1,891,929 | 109,068 | .. |
| 1951 | 47,356 | 379,035 | 21,829 | .. | 273,120 | 2,067,089 | 119,022 | .. |
| 1952 | 50,914 | 408,935 | 13,771 | .. | 289,159 | 2,281,042 | 122,566 | .. |
| 1953 | 33,234 | 425,063 | 12,114 | .. | 292,852 | 2,497,577 | 124,097 | .. |

[a] Covers Federal Farm Mortgage Corporation "Commissioner" loans and Farmers Home Administration farm-ownership and farm housing loans. Volume figures for 1942, 1944, and 1945 are partially estimated. For sources of the components of these totals, see Tables A-15 and A-24.

[b] Covers non-real-estate loans made by the Farmers Home Administration and loans made by the Electric Home and Farm Authority, the Agricultural Marketing Act Revolving Fund, the Emergency Crop and Feed Loan Division of the Farm Credit Administration, the Farmers Seed Loan Office, the Reconstruction Finance Corporation, the regional agricultural credit corporations, the Rural Electrification Administration, the Tennessee Valley Associated Cooperatives, Inc., the Virgin Islands Corporation, and the War Finance Corporation. Volumes series for 1918–1923, 1934–1942, and 1944–1946, and outstandings for 1918–1934 and 1946–1947, are partially estimated. Advances on loans made by the Farmers Home Administration in 1934–1937 and by the Virgin Islands Corporation in 1949–1953 are excluded because annual data are lacking. Outstandings of the Emergency Crop and Feed Loan Division are not available for 1918, and those of the Electric Home and Farm Authority from 1942 on are carried in the RFC business loan series in Table A-9. For sources of the components of these totals, see Tables A-9, A-12, A-15, and A-21 to A-24.

[c] Refers to amount of commitments under loan insurance and guarantees written by the Farmers Home Administration and the Veterans' Administration. Volume series for 1945–1946 and all year-end outstandings are partially estimated. For sources of the components of these totals, see Tables A-10 and A-15.

[d] Represents purchases of stock of agricultural cooperative associations by the Tennessee Valley Associated Cooperatives, Inc. For sources, see Table A-23.

[e] Data not available.

## TABLE A-4

Credit Extended to Agriculture by Federally Sponsored Agencies, by Type of Financial Aid, 1917–1953
(*in thousands*)

| | VOLUME DURING YEAR | | | OUTSTANDINGS AT YEAR END | | |
|---|---|---|---|---|---|---|
| | Direct Loans | | | Direct Loans | | |
| YEAR | Real Estate[a] | Non-Real Estate[b] | Stock Purchases[c] | Real Estate[a] | Non-Real Estate[b] | Stock Purchases[c] |
| 1917 | $ 39,112 | .. | .. | $ 38,800 | .. | .. |
| 1918 | 118,130 | .. | .. | 156,214 | .. | .. |
| 1919 | 144,987 | .. | .. | 293,595 | .. | .. |
| 1920 | 66,985 | .. | .. | 349,843 | .. | .. |
| 1921 | 91,030 | .. | .. | 432,870 | .. | .. |
| 1922 | 224,301 | .. | .. | 639,863 | .. | .. |
| 1923 | 192,083 | $ 44,886 | .. | 799,869 | $ 42,732 | .. |
| 1924 | 165,510 | 117,227 | .. | 928,831 | 62,267 | .. |
| 1925 | 127,355 | 153,731 | .. | 1,008,359 | 80,052 | .. |
| 1926 | 131,318 | 177,462 | .. | 1,081,986 | 92,434 | .. |
| 1927 | 140,384 | 138,160 | .. | 1,161,838 | 75,915 | .. |
| 1928 | 102,236 | 137,139 | .. | 1,203,911 | 81,277 | .. |
| 1929 | 64,253 | 138,255 | .. | 1,213,953 | 76,091 | .. |
| 1930 | 47,971 | 218,974 | .. | 1,209,431 | 130,010 | .. |
| 1931 | 42,015 | 267,994 | .. | 1,192,918 | 119,868 | .. |
| 1932 | 27,570 | 240,823 | .. | 1,158,274 | 92,384 | .. |
| 1933 | 151,634 | 196,099 | $ 2,430 | 1,268,441 | 94,924 | $ 2,430 |
| 1934 | 730,367 | 332,850 | 89,405 | 1,959,106 | 178,517 | 90,086 |

(*continued on next page*)

TABLE A-4 (*continued*)
(*in thousands*)

| | VOLUME DURING YEAR | | | OUTSTANDINGS AT YEAR END | | |
|---|---|---|---|---|---|---|
| | *Direct Loans* | | | *Direct Loans* | | |
| YEAR | *Real Estate*[a] | *Non-Real Estate*[b] | *Stock Purchases*[c] | *Real Estate*[a] | *Non-Real Estate*[b] | *Stock Purchases*[c] |
| 1935 | 248,671 | 438,437 | 11,999 | 2,126,117 | 196,566 | 77,017 |
| 1936 | 109,170 | 432,683 | 3,895 | 2,133,192 | 219,864 | 75,038 |
| 1937 | 63,092 | 509,994 | 4,824 | 2,119,018 | 265,950 | 76,146 |
| 1938 | 51,418 | 519,832 | 2,419 | 2,072,262 | 265,069 | 75,788 |
| 1939 | 51,582 | 525,764 | 2,558 | 2,002,061 | 258,766 | 75,370 |
| 1940 | 64,275 | 581,692 | 1,301 | 1,955,616 | 281,450 | 61,445 |
| 1941 | 65,068 | 758,580 | 21,464 | 1,879,901 | 348,561 | 81,498 |
| 1942 | 53,974 | 907,859 | 1,920 | 1,717,697 | 382,309 | 81,621 |
| 1943 | 61,900 | 1,102,796 | 621 | 1,456,334 | 477,905 | 76,090 |
| 1944 | 70,275 | 1,097,848 | 538 | 1,214,801 | 446,851 | 63,587 |
| 1945 | 92,986 | 1,075,723 | 596 | 1,086,488 | 388,819 | 55,491 |
| 1946 | 130,162 | 1,303,309 | 292 | 985,477 | 454,868 | 46,034 |
| 1947 | 138,764 | 1,648,816 | 225 | 898,417 | 611,239 | 34,918 |
| 1948 | 150,514 | 1,871,722 | 30 | 878,586 | 730,194 | 29,139 |
| 1949 | 182,357 | 1,768,802 | 115 | 916,862 | 739,304 | 22,296 |
| 1950 | 205,933 | 1,920,730 | 965 | 959,789 | 855,195 | 15,728 |
| 1951 | 214,220 | 2,527,568 | 1,015 | 1,007,695 | 1,056,960 | 11,371 |
| 1952 | 254,581 | 2,437,796 | 100 | 1,086,289 | 1,091,765 | 7,596 |
| 1953 | 289,772 | 2,219,173 | 640 | 1,185,781 | 962,305 | 4,946 |

[a] Represents mortgage loans made by the federal land banks. Outstandings cover regular and purchase money mortgages and real estate sales contracts. The volume series, however, exclude purchase money mortgages and sales contracts because annual data are lacking. Outstandings for 1917 are estimated. For sources, see Table A-26.

[b] Covers loans made by the Central Bank for Cooperatives and the twelve district banks, and by the federal intermediate credit banks. For sources of the components of these totals, see Table A-25.

[c] Represents purchases of Class A stock of the production credit associations by the production credit corporations. For source, see Table A-26.

# TABLE A-5

## Credit Extended to Business Enterprises by Federal and Federally Sponsored Agencies, by Type of Financial Aid, 1918–1953
*(in thousands)*

| | FEDERAL AGENCIES | | | | FEDERALLY SPONSORED AGENCIES | |
|---|---|---|---|---|---|---|
| | *Volume during Year* | | *Year-End Outstandings* | | *Volume* | *Outstandings* |
| YEAR | *Direct Loans*[a] | *Loan Insurance or Guarantees*[b] | *Direct Loans*[a] | *Loan Insurance or Guarantees*[b] | *Direct Loans*[c] | *Direct Loans*[c] |
| 1918 | $ 122,792 | .. | $ 29,629 | .. | .. | .. |
| 1919 | 237,667 | .. | 93,928 | .. | .. | .. |
| 1920 | 665,959 | .. | 679,577 | .. | .. | .. |
| 1921 | 201,119 | .. | 740,443 | .. | .. | .. |
| 1922 | 92,016 | .. | 506,229 | .. | .. | .. |
| 1923 | 122,950 | .. | 507,773 | .. | .. | .. |
| 1924 | 26,850 | .. | 441,690 | .. | .. | .. |
| 1925 | 4,760 | .. | 353,351 | .. | .. | .. |
| 1926 | 2,146 | .. | 320,775 | .. | .. | .. |
| 1927 | 3,162 | .. | 203,579 | .. | .. | .. |
| 1928 | 5,471 | .. | 112,580 | .. | .. | .. |
| 1929 | 6,729 | .. | 119,977 | .. | .. | .. |
| 1930 | 20,384 | .. | 125,110 | .. | .. | .. |
| 1931 | 28,705 | .. | 140,088 | .. | .. | .. |
| 1932 | 335,130 | .. | 450,197 | .. | .. | .. |
| 1933 | 174,203 | .. | 532,776 | .. | .. | .. |
| 1934 | 158,582 | $ 1,124 | 689,482 | $ 1,062 | $14,884 | $13,589 |

(continued on next page)

## TABLE A-5 (*continued*)
(*in thousands*)

| | Federal Agencies | | | | Federally Sponsored Agencies | |
|---|---|---|---|---|---|---|
| | *Volume during Year* | | *Year-End Outstandings* | | *Volume* | *Outstandings* |
| Year | *Direct Loans*[a] | *Loan Insurance or Guarantees*[b] | *Direct Loans*[a] | *Loan Insurance or Guarantees*[b] | *Direct Loans*[c] | *Direct Loans*[c] |
| 1935 | 143,163 | 2,810 | 738,251 | 2,630 | 28,479 | 32,493 |
| 1936 | 96,486 | 2,752 | 616,498 | 3,819 | 8,519 | 25,526 |
| 1937 | 52,321 | 871 | 618,177 | 3,748 | 4,932 | 20,216 |
| 1938 | 159,167 | 35,508 | 710,090 | 34,193 | 6,500 | 17,345 |
| 1939 | 147,616 | 30,183 | 754,809 | 46,910 | 3,805 | 13,683 |
| 1940 | 245,088 | 8,265 | 842,403 | 34,898 | 2,860 | 9,152 |
| 1941 | 234,598 | 19,141 | 902,048 | 38,078 | 15,695 | 10,337 |
| 1942 | 439,420 | 1,037,618 | 1,082,192 | 726,820 | 68,032 | 14,126 |
| 1943 | 396,138 | 4,179,307 | 1,159,453 | 1,715,309 | 60,265 | 10,532 |
| 1944 | 456,768 | 3,410,386 | 1,142,991 | 1,564,191 | 20,381 | 3,894 |
| 1945 | 433,679 | 1,854,434 | 916,122 | 537,414 | 14,043 | 1,995 |
| 1946 | 1,106,963 | 471,339 | 1,795,552 | 394,640 | 3,445 | 554 |
| 1947 | 1,026,830 | 224,532 | 2,581,153 | 381,310 | 9,296 | 1,387 |
| 1948 | 531,902 | 93,030 | 3,110,901 | 290,445 | 15,994 | 995 |
| 1949 | 424,526 | 85,987 | 3,242,186 | 245,511 | 4,005 | 2,178 |
| 1950 | 456,080 | 51,053 | 3,198,782 | 191,380 | 6,530 | 2,632 |
| 1951 | 485,015 | 1,362,533 | 3,324,506 | 732,923 | 27,656 | 4,687 |
| 1952 | 683,919 | 2,352,091 | 3,477,466 | 928,948 | 31,193 | 3,921 |
| 1953 | 821,117 | 1,996,178 | 3,755,378 | 765,162 | 22,009 | 1,900 |

(*continued on next page*)

TABLE A-5 (*continued*)

[a] Covers loans made by the Departments of Army and Navy, the Director General of Railroads and the Interstate Commerce Commission, the Export-Import Bank of Washington, the Housing and Home Finance Agency, the Public Works Administration, the Maritime Administration, the Reconstruction Finance Corporation, the Smaller War Plants Corporation, the Virgin Islands Corporation, and the War Finance Corporation. All yearly data on outstandings and data on volume for 1919–1937, 1942–1944, and 1950–1952 are partially estimated. Annual volume data are unavailable for the Maritime Administration in 1921–1923, and the Virgin Islands Corporation in 1950–1953; end-of-year outstandings are unavailable for the Director General in 1919, and the Public Works Administration in 1933 and 1951-1953. For sources of the components of these totals, see Tables A-9, A-12, A-13, A-14, A-16, A-18, A-21, A-27, A-30, and A-32.

[b] Refers to amount of commitments under loan guarantees written by the Veterans' Administration, and by the War and Navy Departments and the U.S. Maritime Commission under Regulation V, and by the Department of Defense, the Department of Commerce, the Atomic Energy Commission, and the General Services Administration under the Defense Production Act of 1950; also to ship mortgage insurance, and commitments to insure, written by the Maritime Administration; and to commitments under deferred participations made by the Reconstruction Finance Corporation. Outstandings for 1939–1953 and data on volume for 1939–1946, 1949, and 1951–1953 are partially estimated. Information is unavailable for outstanding amounts of VA guarantees in 1945 and for volume of guarantees made by the Defense Department in 1950 and the Atomic Energy Commission in 1951–1953. For sources of the components of these totals, see Tables A-9, A-10, A-16, A-30, A-32, and A-33.

[c] Data, supplied by the Board of Governors of the Federal Reserve System, represent Federal Reserve Bank loans, and participations in loans of private financing institutions, to business firms under Section 13b of the Federal Reserve Act.

TABLE A-6

Credit Extended to Financial Institutions by Federal and Federally Sponsored Agencies, by Type of Financial Aid, 1918–1953
(*in thousands*)

| | FEDERAL AGENCIES | | | | FEDERALLY SPONSORED AGENCIES | |
|---|---|---|---|---|---|---|
| | *Volume during Year* | | *Year-End Outstandings* | | *Volume* | *Outstandings* |
| YEAR | *Direct Loans*[a] | *Stock Purchases*[b] | *Direct Loans*[a] | *Stock Purchases*[b] | *Direct Loans*[c] | *Direct Loans*[c] |
| 1918 | $ 5,179 | .. | $ 1,506 | .. | .. | .. |
| 1919 | 80 | .. | 1,676 | .. | .. | .. |
| 1920 | 9 | .. | .. | .. | .. | .. |
| 1921 | .. | .. | .. | .. | .. | .. |
| 1922 | .. | .. | .. | .. | .. | .. |
| 1923 | .. | .. | .. | .. | .. | .. |
| 1924 | .. | .. | .. | .. | .. | .. |
| 1925 | .. | .. | .. | .. | .. | .. |
| 1926 | .. | .. | .. | .. | .. | .. |
| 1927 | .. | .. | .. | .. | .. | .. |
| 1928 | .. | .. | .. | .. | .. | .. |
| 1929 | .. | .. | .. | .. | .. | .. |
| 1930 | .. | .. | .. | .. | .. | .. |
| 1931 | .. | .. | .. | .. | .. | .. |
| 1932 | 1,119,419 | .. | 831,432 | .. | $ 838 | $ 838 |
| 1933 | 758,614 | $268,740 | 1,035,208 | $268,582 | 90,032 | 85,442 |
| 1934 | 460,961 | 697,716 | 841,676 | 893,442 | 38,676 | 86,603 |
| 1935 | 138,328 | 161,539 | 519,628 | 986,287 | 59,130 | 102,686 |
| 1936 | 68,223 | 132,069 | 322,854 | 868,263 | 93,257 | 145,227 |
| 1937 | 41,865 | 98,378 | 249,961 | 848,148 | 123,251 | 200,038 |
| 1938 | 30,442 | 39,789 | 208,541 | 832,924 | 81,958 | 198,842 |
| 1939 | 15,764 | 27,901 | 171,207 | 772,789 | 94,781 | 181,313 |

(*continued on next page*)

TABLE A-6 (*continued*)
(*in thousands*)

| YEAR | Federal Agencies: Volume during Year: Direct Loans[a] | Federal Agencies: Volume during Year: Stock Purchases[b] | Federal Agencies: Year-End Outstandings: Direct Loans[a] | Federal Agencies: Year-End Outstandings: Stock Purchases[b] | Federally Sponsored Agencies: Volume: Direct Loans[c] | Federally Sponsored Agencies: Outstandings: Direct Loans[c] |
|---|---|---|---|---|---|---|
| 1940 | 45,063 | 45,977 | 172,353 | 726,338 | 134,212 | 201,492 |
| 1941 | 4,640 | 3,399 | 117,537 | 645,112 | 157,600 | 219,446 |
| 1942 | 29,097 | 14,519 | 111,076 | 591,968 | 99,462 | 129,213 |
| 1943 | 8,409 | 563 | 80,103 | 459,709 | 156,925 | 110,068 |
| 1944 | 260 | 16 | 29,921 | 374,232 | 239,254 | 130,563 |
| 1945 | 3,274 | 269 | 25,418 | 307,825 | 277,748 | 194,872 |
| 1946 | .. | .. | 21,841 | 206,531 | 329,232 | 293,455 |
| 1947 | .. | 5,000 | 887 | 160,435 | 351,079 | 435,572 |
| 1948 | .. | .. | 344 | 134,696 | 359,613 | 515,016 |
| 1949 | .. | 3,000 | 29 | 116,314 | 255,662 | 433,429 |
| 1950 | .. | .. | 27 | 102,971 | 674,757 | 815,957 |
| 1951 | .. | .. | 26 | 84,344 | 422,976 | 805,937 |
| 1952 | .. | .. | 24 | 46,776 | 585,813 | 864,189 |
| 1953 | .. | .. | 24 | 41,539 | 727,532 | 951,555 |

[a] Covers loans made by the Federal Housing Administration, the Reconstruction Finance Corporation, and the War Finance Corporation. Outstandings for 1918 (estimated) and for 1919 are as of November 30. For sources of the components of these totals, see Tables A-9, A-12, and A-17.

[b] Refers to purchases of, and loans on, preferred stock of banks and insurance companies, and purchases of capital notes and debentures of banks, by the Reconstruction Finance Corporation; purchases of shares of insured federal and state savings and loan associations by the Home Owners' Loan Corporation; and purchases of shares of federal savings and loan associations by the Treasury Department. For sources of the components of these totals, see Tables A-9, A-11, and A-19.

[c] Data, from *Housing Statistics* (Housing and Home Finance Agency, January 1954, p. 43), represent advances made by the federal home loan banks to financial institutions which are members of the Federal Home Loan Bank system.

## TABLE A-7

Credit Extended for Housing by Federal Agencies, by Type of Financial Aid, 1933–1953
*(in thousands)*

| YEAR | VOLUME DURING YEAR: Direct Loans[a] | VOLUME DURING YEAR: Loan Insurance or Guarantees[b] | OUTSTANDINGS AT YEAR END: Direct Loans[a] | OUTSTANDINGS AT YEAR END: Loan Insurance or Guarantees[b] |
|---|---|---|---|---|
| 1933 | $ 141,604 | .. | $ 141,520 | .. |
| 1934 | 2,240,162 | $ 30,451 | 2,366,463 | $ 30,451 |
| 1935 | 602,822 | 319,857 | 2,903,275 | 307,815 |
| 1936 | 168,298 | 557,196 | 2,806,510 | 701,315 |
| 1937 | 86,036 | 495,239 | 2,474,317 | 1,019,604 |
| 1938 | 233,258 | 693,630 | 2,314,216 | 1,511,271 |
| 1939 | 311,107 | 954,336 | 2,253,708 | 2,135,846 |
| 1940 | 253,761 | 1,025,979 | 2,227,147 | 2,795,975 |
| 1941 | 170,236 | 1,186,419 | 2,089,872 | 3,502,923 |
| 1942 | 138,745 | 1,135,227 | 1,917,050 | 4,095,955 |
| 1943 | 124,550 | 943,166 | 1,549,255 | 4,394,416 |
| 1944 | 90,564 | 890,251 | 1,279,275 | 4,542,369[c] |
| 1945 | 30,734 | 754,266 | 931,837 | 4,750,933 |
| 1946 | 18,243 | 1,890,818 | 694,081 | 5,438,327 |
| 1947 | 134,854 | 3,419,734 | 651,423 | 7,567,442 |
| 1948 | 232,487 | 4,352,235 | 746,314 | 10,576,342 |
| 1949 | 698,964 | 4,633,893 | 1,244,404 | 13,759,829 |

*(continued on next page)*

TABLE A-7 (*continued*)
(*in thousands*)

| YEAR | VOLUME DURING YEAR: *Direct Loans*[a] | VOLUME DURING YEAR: *Loan Insurance or Guarantees*[b] | OUTSTANDINGS AT YEAR END: *Direct Loans*[a] | OUTSTANDINGS AT YEAR END: *Loan Insurance or Guarantees*[b] |
|---|---|---|---|---|
| 1950 | 1,090,538 | 6,102,978 | 1,543,468 | 17,886,064 |
| 1951 | 828,449 | 5,432,523 | 2,160,521 | 21,218,521 |
| 1952 | 653,907 | 4,820,950 | 2,637,953 | 23,618,324 |
| 1953 | 723,412 | 5,851,455 | 3,003,134 | 26,504,388 |

[a] Covers loans made by the Defense Homes Corporation, the Federal Housing Administration, the Federal National Mortgage Association, the Home Owners' Loan Corporation, the Housing and Home Finance Agency, the RFC Mortgage Company, and the Veterans' Administration. Volume figures for 1935–1937, 1941–1944, and 1947–1948, and data on outstandings for 1934 and 1947, are partially estimated. Data for 1945–1946 on volume and for 1945–1947 on outstandings exclude VA loans because annual figures are unavailable. Outstandings of the Defense Homes Corporation from 1947 on are carried in the RFC business loan series in Table A-9. For sources of the components of these totals, see Tables A-10, A-11, A-14, A-17, A-28, and A-30.

[b] Refers to amount of commitments under loan insurance and guarantees written by the Federal Housing Administration and the Veterans' Administration. Volume data for 1944–1945 and outstandings for 1934–1953 are partially estimated. For sources, see Tables A-10 and A-17.

[c] Excludes outstanding guarantees on VA-guaranteed loans.

## TABLE A-8

### Credit Extended to Minor Governmental Units and for Miscellaneous Purposes by Federal Agencies, by Type of Financial Aid, 1920–1953

*(in thousands)*

| YEAR | MINOR GOVERNMENTAL UNITS: Direct Loans[a] Volume | MINOR GOVERNMENTAL UNITS: Direct Loans[a] Outstandings | MINOR GOVERNMENTAL UNITS: Loan Guarantees[b] Outstandings | MISCELLANEOUS PURPOSES[c]: Direct Loans Volume | MISCELLANEOUS PURPOSES[c]: Direct Loans Outstandings |
|---|---|---|---|---|---|
| 1920 | .. | .. | .. | $ 59 | $ 59 |
| 1921 | $ 890 | d | .. | 810 | 752 |
| 1922 | .. | $ 2,150 | .. | 2,256 | 2,681 |
| 1923 | .. | 1,918 | .. | 3,809 | 5,722 |
| 1924 | .. | 1,198 | .. | 5,435 | 9,875 |
| 1925 | .. | 1,101 | .. | 6,911 | 14,849 |
| 1926 | 60 | 1,073 | .. | 8,578 | 20,935 |
| 1927 | 15 | 861 | .. | 10,328 | 28,218 |
| 1928 | 12 | 823 | .. | 12,692 | 36,584 |
| 1929 | 5 | 828 | .. | 20,505 | 52,130 |
| 1930 | 5 | 793 | .. | 25,709 | 70,830 |
| 1931 | .. | 731 | .. | 30,201 | 89,660 |
| 1932 | 95,704 | 96,347 | .. | 36,433 | 110,642 |
| 1933 | 323,446 | 368,620 | .. | 33,383 | 124,456 |
| 1934 | 211,080 | 561,428 | .. | 28,228 | 129,952 |
| 1935 | 252,165 | 675,255 | .. | 22,725 | 136,737 |
| 1936 | 180,842 | 755,236 | .. | 20,747 | 139,416 |
| 1937 | 98,597 | 790,241 | d | 33,607 | 155,615 |
| 1938 | 132,241 | 478,324 | d | 29,190 | 163,528 |
| 1939 | 276,341 | 495,515 | $ 51,127 | 39,510 | 177,399 |
| 1940 | 541,046 | 532,535 | 247,863 | 28,723 | 179,648 |
| 1941 | 673,795 | 723,127 | 203,042 | 21,997 | 175,592 |
| 1942 | 280,276 | 711,046 | 258,743 | 16,218 | 160,891 |
| 1943 | 99,546 | 584,038 | 225,335 | 16,117 | 149,120 |
| 1944 | 5,396 | 543,852 | 226,024 | 11,659 | 141,000 |

*(continued on next page)*

TABLE A-8 (*continued*)

(*in thousands*)

| YEAR | MINOR GOVERNMENTAL UNITS: Direct Loans[a] Volume | MINOR GOVERNMENTAL UNITS: Direct Loans[a] Outstandings | MINOR GOVERNMENTAL UNITS: Loan Guarantees[b] Outstandings | MISCELLANEOUS PURPOSES[c]: Direct Loans Volume | MISCELLANEOUS PURPOSES[c]: Direct Loans Outstandings |
|---|---|---|---|---|---|
| 1945 | 9,247 | 512,517 | 229,218 | 10,785 | 132,273 |
| 1946 | 32,467 | 499,602 | 233,719 | 15,284 | 129,191 |
| 1947 | 55,301 | 520,046 | 225,501 | 19,859 | 130,178 |
| 1948 | 57,618 | 547,169 | 218,657 | 26,327 | 144,094 |
| 1949 | 38,463 | 442,625 | 220,627 | 32,490 | 161,195 |
| 1950 | 132,640 | 502,511 | 414,003 | 37,420 | 181,628 |
| 1951 | 433,883 | 738,288 | 805,925 | 50,342 | 209,528 |
| 1952 | 800,639 | 1,061,464 | 1,067,248 | 49,539 | 232,556 |
| 1953 | 763,869 | 689,891 | 1,932,953 | 70,956 | 274,958 |

[a] Covers loans made by the Bureau of Community Facilities, the Housing and Home Finance Agency, the Inland Waterways Corporation, the Public Housing Administration, the Public Works Administration, the Reconstruction Finance Corporation, and the Tennessee Valley Authority. Data on volume for 1933–1953 are partially estimated. Advances made by the Bureau of Community Facilities are excluded because annual data are lacking. Year-end outstandings for 1922–1923 and 1934–1953 are partially estimated, and the relatively small amounts of oustandings on loans by the Inland Waterways Corporation in 1921 and the Public Works Administration in 1933 are excluded for lack of information. For sources of the components of these totals, see Tables A-9, A-13, A-14, A-20, and A-29.

[b] Refers to amount of commitments under loan guarantees written by the Public Housing Administration. Annual volume figures are not available. For details see Table A-20.

[c] Covers loans made by the Federal Security Agency, the Bureau of Indian Affairs of the Department of the Interior, Prencinradio, Inc., the Reconstruction Finance Corporation, the Housing and Home Finance Agency, the Disaster Loan Corporation, the Puerto Rico Reconstruction Administration, the Treasury Department, the Small Business Administration, and the Veterans' Administration. The volume series excludes advances made by the Puerto Rico Reconstruction Administration, because annual data are lacking. Volume series for 1934–1953 are partially estimated. Data for the Bureau of Indian Affairs are unavailable on year-end outstandings before 1936 and on volume before 1934; outstandings for Prencinradio, Inc. are unavailable for 1943 and 1944. For sources of the components of these totals, see Tables A-9, A-10, A-14, A-19, A-21, and A-31.

[d] Data not available.

## TABLE A-9

### Reconstruction Finance Corporation Lending and Loan Guaranteeing Activity, 1932–1953
*(in thousands)*

| Year | Direct Loans: Agriculture[a] | Direct Loans: Business[b] | Direct Loans: Financial Institutions[c] | Direct Loans: Minor Governmental Units[d] | Direct Loans: Miscellaneous Purposes[e] | Loan Guarantees: Business[f] | Stock Purchases: Financial Institutions[g] |
|---|---|---|---|---|---|---|---|
| | | | VOLUME DURING YEAR | | | | |
| 1932 | $ 1,440 | $284,312 | $1,119,419 | $ 95,704 | .. | .. | .. |
| 1933 | 11,475 | 109,789 | 758,614 | 273,425 | $2,761 | .. | $268,722 |
| 1934 | 18,448 | 60,684 | 460,961 | 96,937 | 5,859 | $ 1,124 | 687,009 |
| 1935 | 5,277 | 77,412 | 138,203 | 99,908 | 1,169 | 2,810 | 103,118 |
| 1936 | 2,508 | 63,153 | 68,207 | 75,217 | 1,624 | 2,752 | 26,294 |
| 1937 | 560 | 44,571 | 41,865 | 60,023 | 570 | 871 | 17,379 |
| 1938 | 20,073 | 140,567 | 30,442 | 61,447 | 19 | 35,508 | 30,868 |
| 1939 | 7,161 | 93,916 | 15,764 | 70,028 | .. | 29,208 | 23,516 |
| 1940 | .. | 149,788 | 45,063 | 56,222 | .. | 7,915 | 44,257 |
| 1941 | 2 | 117,798 | 4,640 | 150,813 | .. | 12,841 | 1,786 |
| 1942 | .. | 385,706 | 29,097 | 12,275 | .. | 109,118 | 13,921 |
| 1943 | .. | 287,849 | 8,409 | 3,773 | .. | 132,242 | 563 |
| 1944 | .. | 198,883 | 260 | 1,896 | .. | 95,386 | 16 |
| 1945 | .. | 227,895 | 3,274 | 1,123 | 82 | 127,524 | 269 |
| 1946 | .. | 53,871 | .. | 12,796 | 61 | 351,952 | .. |
| 1947 | .. | 200,038 | .. | 18,419 | 518 | 177,188 | 5,000 |
| 1948 | .. | 102,996 | .. | 13,806 | 2,259 | 71,683 | .. |
| 1949 | .. | 239,726 | .. | 7,060 | 2,509 | 74,119 | 3,000 |
| 1950 | .. | 246,680 | .. | 1,624 | 655 | 42,481 | .. |
| 1951 | .. | 181,074 | .. | 1,909 | 10,342 | 10,586 | .. |
| 1952 | .. | 171,577 | .. | 8,167 | 7,579 | 5,068 | .. |
| 1953 | .. | 154,472 | .. | 11,079 | 2,195 | 5,308 | .. |

*(continued on next page)*

TABLE A-9 (*continued*)

(*in thousands*)

| YEAR | Direct Loans: *Agriculture*[a] | Direct Loans: *Business*[b] | Direct Loans: *Financial Institutions*[c] | Direct Loans: *Minor Governmental Units*[d] | Direct Loans: *Miscellaneous Purposes*[e] | Loan Guarantees: *Business*[f] | Stock Purchases: *Financial Institutions*[g] |
|---|---|---|---|---|---|---|---|
| | | | OUTSTANDINGS AT YEAR END | | | | |
| 1932 | $ 1,325 | $272,472 | $ 831,432 | $ 95,704 | .. | .. | .. |
| 1933 | 10,389 | 337,087 | 1,035,208 | 368,002 | $ 2,692 | .. | $268,564 |
| 1934 | 19,434 | 388,340 | 841,676 | 425,083 | 8,272 | $ 1,062 | 882,717 |
| 1935 | 22,246 | 442,568 | 519,518 | 485,837 | 9,157 | 2,630 | 917,168 |
| 1936 | 1,369 | 414,261 | 322,836 | 546,319 | 8,722 | 3,819 | 693,651 |
| 1937 | 991 | 434,735 | 249,959 | 591,807 | 6,401 | 3,748 | 593,622 |
| 1938 | 20,743 | 547,161 | 208,541 | 268,089 | 2,481 | 34,193 | 571,070 |
| 1939 | 856 | 581,296 | 171,207 | 170,346 | 1,668 | 45,935 | 521,657 |
| 1940 | 490 | 596,570 | 172,353 | 126,878 | 1,234 | 33,631 | 505,326 |
| 1941 | 434 | 616,087 | 117,537 | 132,433 | 1,027 | 30,596 | 448,661 |
| 1942 | 339 | 794,838 | 111,076 | 136,044 | 936 | 88,718 | 422,109 |
| 1943 | 57 | 775,876 | 80,103 | 97,670 | 656 | 109,348 | 389,539 |
| 1944 | 55 | 718,136 | 29,921 | 79,167 | 509 | 80,523 | 336,192 |
| 1945 | 55 | 486,924 | 25,418 | 62,982 | 1,464 | 102,069 | 284,422 |
| 1946 | 55 | 393,689 | 21,841 | 55,955 | 940 | 326,162 | 190,189 |
| 1947 | 55 | 458,160 | 887 | 68,990 | 1,178 | 291,029 | 151,817 |
| 1948 | 47 | 450,495 | 344 | 77,836 | 3,034 | 196,385 | 128,566 |
| 1949 | 44 | 572,941 | 29 | 18,766 | 4,745 | 156,690 | 114,362 |
| 1950 | 44 | 527,018 | 27 | 13,623 | 4,090 | 107,767 | 102,557 |
| 1951 | .. | 532,426 | 26 | 12,780 | 13,112 | 66,683 | 84,344 |
| 1952 | .. | 542,743 | 24 | 18,442 | 17,130 | 40,942 | 46,776 |
| 1953 | .. | 528,574 | 24 | 26,956 | 16,022 | 28,058 | 41,539 |

Data are from the *Quarterly Reports* of, and material supplied by, the Reconstruction Finance Corporation. Outstanding amounts of loans to business and to minor governmental units in 1947 are partially estimated.

(*continued on next page*)

TABLE A-9 (*continued*)

[a] Covers loans for financing exports of agricultural surpluses, livestock marketing, and the storage and marketing of agricultural commodities, except those made to the Commodity Credit Corporation.

[b] Covers loans to railroads; loans, and immediate participations in loans, to business enterprises (including those engaged in defense production); loans to business enterprises through mortgage loan companies and banks; loans to the fishing industry, to mining, milling and smelting companies (including those engaged in defense production), and to processors or distributors of farm products subject to processing taxes; loans, and immediate participations in loans, to manufacturers of prefabricated housing, as authorized under Sec. 102 of the Housing Act of 1948 and Sec. 4(a)(1) of the RFC Act as amended; loans on rationed articles and commodities; Contract Settlement Act loans; loans and purchases of participations in connection with the transfer of certain functions of the Smaller War Plants Corporation to the RFC, effective January 28, 1946; loans under Sections 302 and 714 of the Defense Production Act of 1950; and loans under Section 409 of the Federal Civil Defense Act. Outstanding amounts of loans to business and mining enterprises in 1947 are estimated by linear interpolation of repayments for the period July 1, 1947 to March 31, 1948.

[c] Represents loans to banks and trust companies, to closed banks through mortgage loan companies, and to livestock credit corporations; loans on assets of closed banks; loans to trustees, liquidating agents, and conservators of closed banks and trust companies; and loans to insurance companies, building and loan associations, mortgage loan companies, credit unions, joint stock land banks, and agricultural and livestock credit corporations.

[d] Covers construction loans to public agencies for defense and non-defense projects; loans to drainage, levee, and similar districts; loans to establish state funds for securing repayment of deposits of public moneys in banks and other depositories; loans to refinance obligations of public school districts; and loans for payment of teachers' salaries, for self-liquidating public works, and for relief and work relief under the Emergency Relief and Construction Act of 1932 as amended. Outstanding amounts of construction loans to public agencies in 1947 are estimated by linear interpolation of repayments for the period July 1, 1947 to March 31, 1948.

[e] Represents loans to repair damage caused by floods and other catastrophes.

[f] Refers to amounts authorized and commitments outstanding under agreements to participate with private lenders on a deferred basis in loans to business enterprises (including those engaged in defense production), to transportation companies other than railroads, and to manufacturers of prefabricated housing. The (deferred) participations made through blanket agreements are included, as are those connected with Contract Settlement Act loans; with loans made in connection with the transfer of certain functions of the Smaller War Plants Corporation to the RFC, effective January 28, 1946; with loans under Sections 302 and 714 of the Defense Production Act of 1950; and with loans under Section 409 of the Federal Civil Defense Act.

[g] Covers loans on, and subscriptions for, preferred stock of insurance companies and of banks and trust companies; and purchases of capital notes and debentures of banks.

## TABLE A-10

### Veterans' Administration Loan Guaranteeing and Direct Lending Activity, 1920–1953
*(in thousands)*

| | Direct Loans | | | Loan Insurance or Guarantees | | |
|---|---|---|---|---|---|---|
| | | Housing | | | | |
| Year | *Miscellaneous Purposes*[a] | *Vendee Accts.*[b] | *Rural Areas*[c] | *Agriculture*[d] | *Business*[e] | *Housing*[f] |
| | | | Volume During Year | | | |
| 1920 | $ 59 | .. | .. | .. | .. | .. |
| 1921 | 810 | .. | .. | .. | .. | .. |
| 1922 | 2,256 | .. | .. | .. | .. | .. |
| 1923 | 3,809 | .. | .. | .. | .. | .. |
| 1924 | 5,435 | .. | .. | .. | .. | .. |
| 1925 | 6,911 | .. | .. | .. | .. | .. |
| 1926 | 8,578 | .. | .. | .. | .. | .. |
| 1927 | 10,328 | .. | .. | .. | .. | .. |
| 1928 | 12,692 | .. | .. | .. | .. | .. |
| 1929 | 20,505 | .. | .. | .. | .. | .. |
| 1930 | 25,709 | .. | .. | .. | .. | .. |
| 1931 | 30,201 | .. | .. | .. | .. | .. |
| 1932 | 36,433 | .. | .. | .. | .. | .. |
| 1933 | 30,622 | .. | .. | .. | .. | .. |
| 1934 | 22,230 | .. | .. | .. | .. | .. |
| 1935 | 21,351 | .. | .. | .. | .. | .. |
| 1936 | 18,779 | .. | .. | .. | .. | .. |
| 1937 | 24,390 | .. | .. | .. | .. | .. |
| 1938 | 24,728 | .. | .. | .. | .. | .. |
| 1939 | 23,461 | .. | .. | .. | .. | .. |
| 1940 | 22,614 | .. | .. | .. | .. | .. |
| 1941 | 18,783 | .. | .. | .. | .. | .. |
| 1942 | 12,883 | .. | .. | .. | .. | .. |
| 1943 | 11,157 | .. | .. | .. | .. | .. |
| 1944 | 9,294 | .. | .. | .. | .. | $ 1,568 |
| 1945 | 9,470 | .. | .. | $ 1,238 | $ 3,910 | 71,181 |
| 1946 | 13,832 | .. | .. | 29,853 | 49,387 | 1,092,891 |
| 1947 | 17,127 | $ 130[g] | .. | 36,634 | 47,344 | 1,558,700 |
| 1948 | 22,161 | 1,133 | .. | 18,561 | 21,347 | 927,580 |
| 1949 | 27,742 | 3,111 | .. | 7,564 | 9,468 | 726,004 |
| 1950 | 33,792 | 6,716 | $ 6,342 | 7,970 | 8,572 | 1,663,721 |
| 1951 | 37,347 | 12,191 | 103,095 | 5,930 | 14,968 | 2,124,245 |
| 1952 | 34,851 | 12,082 | 67,522 | 2,615 | 11,199 | 1,588,885 |
| 1953 | 42,594 | 11,877 | 113,899 | 1,641 | 5,882 | 1,781,450 |

(*continued on next page*)

TABLE A-10 (*continued*)
(*in thousands*)

| YEAR | DIRECT LOANS: Miscellaneous Purposes[a] | DIRECT LOANS: Housing: Vendee Accts.[b] | DIRECT LOANS: Housing: Rural Areas[c] | LOAN INSURANCE OR GUARANTEES: Agriculture[d] | LOAN INSURANCE OR GUARANTEES: Business[e] | LOAN INSURANCE OR GUARANTEES: Housing[f] |
|---|---|---|---|---|---|---|
| | OUTSTANDINGS AT YEAR END | | | | | |
| 1920 | $ 59 | .. | .. | .. | .. | .. |
| 1921 | 752 | .. | .. | .. | .. | .. |
| 1922 | 2,681 | .. | .. | .. | .. | .. |
| 1923 | 5,722 | .. | .. | .. | .. | .. |
| 1924 | 9,875 | .. | .. | .. | .. | .. |
| 1925 | 14,849 | .. | .. | .. | .. | .. |
| 1926 | 20,935 | .. | .. | .. | .. | .. |
| 1927 | 28,218 | .. | .. | .. | .. | .. |
| 1928 | 36,584 | .. | .. | .. | .. | .. |
| 1929 | 52,130 | .. | .. | .. | .. | .. |
| 1930 | 70,830 | .. | .. | .. | .. | .. |
| 1931 | 89,660 | .. | .. | .. | .. | .. |
| 1932 | 110,642 | .. | .. | .. | .. | .. |
| 1933 | 121,764 | .. | .. | .. | .. | .. |
| 1934 | 121,680 | .. | .. | .. | .. | .. |
| 1935 | 127,580 | .. | .. | .. | .. | .. |
| 1936 | 128,560 | .. | .. | .. | .. | .. |
| 1937 | 138,468 | .. | .. | .. | .. | .. |
| 1938 | 147,426 | .. | .. | .. | .. | .. |
| 1939 | 149,663 | .. | .. | .. | .. | .. |
| 1940 | 150,645 | .. | .. | .. | .. | .. |
| 1941 | 151,206 | .. | .. | .. | .. | .. |
| 1942 | 144,762 | .. | .. | .. | .. | .. |
| 1943 | 133,415 | .. | .. | .. | .. | .. |
| 1944 | 123,125 | .. | .. | .. | .. | h |
| 1945 | 116,379 | h | .. | h | h | $ 250,000 |
| 1946 | 114,506 | h | .. | $30,654 | $51,024 | 1,200,000 |
| 1947 | 115,554 | h | .. | 64,531 | 88,098 | 2,600,000 |
| 1948 | 125,562 | $ 1,239 | .. | 77,736 | 92,876 | 3,300,000 |
| 1949 | 139,676 | 4,173 | .. | 79,154 | 85,657 | 3,800,000 |
| 1950 | 157,270 | 10,453 | $ 6,342 | 79,709 | 80,636 | 5,100,000 |
| 1951 | 175,238 | 21,633 | 108,000 | 75,938 | 83,106 | 6,750,000 |
| 1952 | 188,637 | 31,891 | 167,000 | 70,967 | 82,542 | 7,700,000 |
| 1953 | 208,002 | 41,111 | 274,684 | 65,562 | 67,780 | 8,980,000 |

Data were supplied by the Veterans' Administration or compiled from *Finance, Guaranty of Loans* (Office of Assistant Administrator, Veterans' Administration, 1946–50 Supplement, pp. 28–32), *Housing Statistics Handbook* (Housing and Home Finance Agency, 1948, p. 130) and the *Sixth Annual Report*, Housing and Home Finance Agency, (1952, p. 145).

Volume of loan guarantees for agriculture and for business was estimated for 1945 by deducting from the cumulative amount of guarantees through January 1946 an estimate of the amount guaranteed in January, and for 1946 by adding the January 1946 estimate to the

(*continued on next page*)

TABLE A-10 (*continued*)

February–December amount. Volume of loan guarantees for housing in 1944 and 1945 was estimated by assuming that the amount guaranteed from November 1944 through March 1945 was evenly distributed over the period. All data on outstanding amounts of guarantees 1945–1953 were estimated. For the agricultural and business sectors, estimates were obtained by deducting cumulated amount of guarantees-paid-in-full loans, plus the cumulated amount of net claims paid, from the cumulated amount of guarantees or insurance on loans closed. Estimates of outstanding guarantees on housing loans were prepared by the Veterans' Administration.

[a] Represents loans to holders of United States Government and National Service Life Insurance policies based on the amount of paid-up insurance. Excludes loans arising from federal guarantees of premiums on commercial private life insurance policies held by servicemen as provided under the Soldiers' and Sailors' Civil Relief Act. As of June 30, 1953 outstandings on such loans were less than $500,000.

[b] Covers purchase money mortgages and real estate sales contracts made in connection with the term sale of properties acquired through foreclosure of VA-guaranteed business, farm, and home loans.

[c] Represents direct loans to veterans for purchase or construction of housing in small towns and rural areas and for construction or improvement of farm houses as authorized under the Housing Act of 1950.

[d] Refers to the amount of VA's commitments on loans made by private financing institutions to veterans for purchase or improvement of farm properties and guaranteed (or insured) under Title III, Sections 502 and 507 of the Servicemen's Readjustment Act of 1944.

[e] Refers to the amount of VA's commitments on loans made by private lending institutions to veterans for the establishment or expansion of business enterprises and guaranteed (or insured) under Title III, Sections 503 and 507 of the Servicemen's Readjustment Act.

[f] Refers to the amount of VA's commitments on home mortgage loans guaranteed (or insured) under Title III, Sections 501, 505, and 507 of the Servicemen's Readjustment Act.

[g] Cumulative from 1945 through February 29, 1948.

[h] Data not available.

APPENDIX A

## TABLE A-11

Home Owners' Loan Corporation Lending Activity, 1933–1950
*(in thousands)*

| | VOLUME DURING YEAR | | OUTSTANDINGS AT YEAR END | |
|---|---|---|---|---|
| | *Direct Loans* | *Stock Purchases* | *Direct Loans* | *Stock Purchases* |
| YEAR | *Housing*[a] | *Financial Institutions*[b] | *Housing*[a] | *Financial Institutions*[b] |
| 1933 | $ 141,604 | .. | $ 141,520 | .. |
| 1934 | 2,240,162 | .. | 2,366,463 | .. |
| 1935 | 596,631 | $ 19,846 | 2,897,162 | $ 19,846 |
| 1936 | 128,533 | 105,775 | 2,765,098 | 125,621 |
| 1937 | 33,703 | 80,999 | 2,397,646 | 206,475 |
| 1938 | 109,135 | 8,921 | 2,168,100 | 214,801 |
| 1939 | 203,196 | 4,385 | 2,035,716 | 211,453 |
| 1940 | 166,448 | 1,720 | 1,955,572 | 194,264 |
| 1941 | 84,323 | 1,613 | 1,776,918 | 175,167 |
| 1942 | 53,838 | 598 | 1,566,971 | 152,311 |
| 1943 | 73,534 | .. | 1,338,102 | 63,286 |
| 1944 | 41,816 | .. | 1,091,363 | 34,551 |
| 1945 | 5,314 | .. | 852,319 | 21,421 |
| 1946 | 1,896 | .. | 636,463 | 15,192 |
| 1947 | 2,065 | .. | 485,909 | 8,063 |
| 1948 | 2,050 | .. | 368,908 | 5,883 |
| 1949 | 2,097 | .. | 230,623 | 1,952 |
| 1950 | 868 | .. | 9,592 | 414 |

[a] Data, supplied by the Home Owners' Loan Corporation, cover loans to refinance defaulted or otherwise distressed mortgages of home owners and to finance the sale of properties acquired through foreclosure. The volume series for 1935–1937 includes estimates for credit sales of foreclosed properties derived by adding estimated yearly repayments to annual net change in amounts outstanding. Outstandings for 1934 were estimated by assuming repayments in 1934 to be six-sevenths of repayments from July 1, 1934 through January 31, 1935 and subtracting these from the sum of outstandings as of June 30, 1934 and disbursements from July 31 to December 31, 1934.

[b] Data were supplied by the Federal Savings and Loan Insurance Corporation of the Housing and Home Finance Agency, and represent HOLC's investments in shares of insured federal and state savings and loan associations. Responsibility for administering these investments was vested in the Federal Home Loan Bank Board by Section 5(j) of the Home Owners' Loan Act of 1933.

## TABLE A-12

### War Finance Corporation Lending Activity, 1918–1939
*(in thousands)*

| | VOLUME DURING YEAR | | | OUTSTANDINGS AT YEAR END | | |
|---|---|---|---|---|---|---|
| | *Direct Loans* | | | *Direct Loans* | | |
| YEAR | *Agriculture*[a] | *Business*[b] | *Financial Institutions*[c] | *Agriculture*[a] | *Business*[b] | *Financial Institutions*[c] |
| 1918 | $ 6,403 | $122,792 | $5,179 | $ 3,079 | $ 29,629 | $1,506 |
| 1919 | 1,424 | 171,826 | 80 | 1,459 | 93,928 | 1,676 |
| 1920 | 1 | 45,348 | 9 | 793 | 116,934 | .. |
| 1921 | 82,967 | 28,639 | .. | 82,997 | 104,680 | .. |
| 1922 | 186,143 | 10,015 | .. | 148,692 | 29,533 | .. |
| 1923 | 18,135 | .. | .. | 70,201 | 28,204 | .. |
| 1924 | 9,872 | .. | .. | 40,269 | 16,945 | .. |
| 1925 | 937 | .. | .. | 15,589 | 16,945 | .. |
| 1926 | 355 | .. | .. | 7,670 | 16,745 | .. |
| 1927 | 178 | .. | .. | 1,362 | 1,030 | .. |
| 1928 | 126 | .. | .. | 454 | 190 | .. |
| 1929 | .. | .. | .. | 161 | 170 | .. |
| 1930 | .. | .. | .. | 59 | 170 | .. |
| 1931 | .. | .. | .. | 45 | 170 | .. |
| 1932 | .. | .. | .. | 14 | 170 | .. |
| 1933 | .. | .. | .. | 13 | 138 | .. |
| 1934 | .. | .. | .. | 9 | 119 | .. |
| 1935 | .. | .. | .. | 8 | .. | .. |
| 1936 | .. | .. | .. | 7 | .. | .. |
| 1937 | .. | .. | .. | 4 | .. | .. |
| 1938 | .. | .. | .. | 3 | .. | .. |
| 1939 | .. | .. | .. | .. | .. | .. |

[a] Covers loans made in 1918–1923 to cattle raisers under Section 9 of the War Finance Corporation Act of 1918 and loans made in 1921–1924 to banks and other financial institutions, livestock loan companies, and cooperative marketing associations for agricultural and livestock purposes under Section 24 of the Agricultural Credits Act of August 24, 1921. Data were compiled from the *Annual Reports* of the War Finance Corporation, and the *Liquidation* of the *War Finance Corporation* (Treasury Department, 1943). Volume data for 1918–1920, and the part for 1921–1923 representing loans to cattle raisers, are for fiscal years ending November 30, (1920 having been estimated); volume after 1924 represents expense advances incident to the liquidation of the Corporation's assets. Outstandings in 1918–1920, and the part in 1921–1925 concerning loans to cattle raisers, are for November 30. Outstandings for 1918 were prorated among the agricultural, business, and financial sectors according to the sectors' respective shares in the year's volume.

[b] Data are from the *Annual Reports* of the War Finance Corporation and refer to loans through banks to public utilities, industrial corporations, railroads, and canning firms under Section 9 of the War Finance Corporation Act, and export advances under Sections 21 and 22 of the Agricultural Credits Act of 1921. Volume figures in 1921 are for January 1–November 30, and in 1922 for the fiscal year ending November 30. Data on outstandings in 1918–1928 are as of November 30 (estimated for 1918 as explained above).

[c] Data are from the *Annual Reports* of the War Finance Corporation and represent loans to commercial and savings banks, and building and loan associations, under Sections 7 and 8 of the War Finance Corporation Act. Outstandings are as of November 30 (estimated for 1918 as indicated in note a).

## TABLE A-13

### Public Works Administration Lending Activity, 1933–1953
*(in thousands)*

| | VOLUME DURING YEAR | | OUTSTANDINGS AT YEAR END | |
|---|---|---|---|---|
| | *Direct Loans* | | *Direct Loans* | |
| YEAR | *Business*[a] | *Minor Gov't Units*[b] | *Business*[a] | *Minor Gov't Units*[b] |
| 1933 | $39,864 | $ 50,021 | c | c |
| 1934 | 93,615 | 113,929 | $133,478 | $135,655 |
| 1935 | 55,113 | 151,728 | 148,780 | 188,290 |
| 1936 | 12,233 | 104,900 | 57,107 | 207,115 |
| 1937 | 150 | 36,251 | 50,731 | 186,230[d] |
| 1938 | .. | 40,921 | 46,506 | 175,574 |
| 1939 | .. | 66,679 | 22,011 | 197,380 |
| 1940 | .. | 33,471 | 13,548 | 215,531 |
| 1941 | .. | 14,947 | 11,696 | 218,857 |
| 1942 | .. | 6,973 | 10,877 | 204,869 |
| 1943 | .. | 270 | 10,188 | 160,635 |
| 1944 | .. | .. | 9,457 | 152,030 |
| 1945 | .. | .. | 7,839 | 147,986 |
| 1946 | .. | .. | 5,990 | 134,738 |
| 1947 | .. | .. | 3,035 | 133,383 |
| 1948 | .. | .. | 3,035 | 147,001[e] |
| 1949 | .. | .. | 2,123 | 102,899 |
| 1950 | .. | .. | 2,123 | 100,457 |
| 1951 | .. | .. | f | 92,108 |
| 1952 | .. | .. | f | 89,825 |
| 1953 | .. | .. | f | 88,366 |

Volume of loans to business was estimated from the records of the Federal Works Agency: 1933 by linear interpolation of fiscal year data and 1934–1937 by obtaining estimates on a semiannual basis using data on outstandings and repayments. Volume of loans to minor governmental units is from records of the Federal Works Agency and *Financial Statements of Certain Government Agencies* (S. Doc. 172, Part 2, 76th Cong., 3rd sess., 1940, pp. 860 and 871) except that the amounts for 1941–1943 were estimated by linear interpolation of fiscal year data, and those for 1933–1936 include estimates for loans to limited dividend housing corporations. The latter were obtained by computing net change in outstandings between fiscal year ends and then combining on a calendar year basis by linear interpolation (in fiscal 1935 repayments were added to net change before interpolating).

Outstandings were estimated from Senate Document Number 172, pp. 860 and 871, the *Daily Statements* of the Treasury Department, and records of the Reconstruction Finance Corporation and the Federal Works Agency. For business loans, in 1934–1937 they reflect the par value of securities held by PWA plus the par value of securities purchased from PWA and held by the RFC (in 1935, estimated from outstandings, repayments, and disbursements for 1936); after 1937, the estimated par value of securities held by the RFC. For loans to minor

*(continued on next page)*

TABLE A-13 (*continued*)

governmental units, in 1934–1953 they reflect the par value of securities held by PWA plus the par value (estimated for 1937–1953) of securities purchased from PWA and held by the RFC.

[a] Represents loans to railroads for operational and maintenance purposes.

[b] Represents net payments (bonds purchased less bonds canceled in lieu of grant payments) on loans to states, municipalities, other public agencies, and private corporations for the construction of community facilities and low-cost housing projects; and net payments on loans to limited dividend housing corporations.

[c] Data not available.

[d] Excludes $10,142,400 outstanding on loans to limited dividend housing corporations. As of November 1, 1937 this account was transferred to the U.S. Housing Authority, the predecessor of the Public Housing Administration.

[e] Includes $13,900,000 in revenue bonds transferred in 1948 from the Department of the Interior pursuant to Executive Order 9839 of April 14, 1947.

[f] Probably extinguished.

## TABLE A-14

### Housing and Home Finance Agency Lending Activity, 1945–1953
*(in thousands)*

| | DIRECT LOANS | | | |
|---|---|---|---|---|
| YEAR | *Business*[a] | *Housing*[b] | *Minor Governmental Units*[c] | *Miscellaneous Purposes*[d] |
| | | VOLUME DURING YEAR | | |
| 1945 | .. | .. | $ 6,624 | .. |
| 1946 | .. | .. | 18,271 | .. |
| 1947 | .. | .. | 12,282 | .. |
| 1948 | .. | .. | 6,812 | .. |
| 1949 | .. | .. | 6,403 | .. |
| 1950 | $ 9,500[e] | $1,594[f] | 7,216[g] | .. |
| 1951 | 11,390 | 3,742 | 9,174 | $ 85[h] |
| 1952 | 4,983 | 6,577 | 19,072 | 5,339 |
| 1953 | 8,837 | 5,839 | 25,490 | 23,498 |
| | | OUTSTANDINGS AT YEAR END | | |
| 1945 | .. | .. | $ 6,624 | .. |
| 1946 | .. | .. | 24,625 | .. |
| 1947 | .. | .. | 35,425 | .. |
| 1948 | .. | .. | 33,884 | .. |
| 1949 | .. | .. | 33,246 | .. |
| 1950 | $21,917 | $ 1,594 | 34,203 | .. |
| 1951 | 30,425 | 5,274 | 37,228 | $ 85 |
| 1952 | 13,893 | 10,748 | 51,504 | 5,414 |
| 1953 | 12,918 | 11,863 | 62,041 | 28,887 |

Data supplied by the Housing and Home Finance Agency, Office of the Administrator.

[a] Covers loans to prefabricated housing manufacturers for the production, distribution, sale, or erection of such units as authorized under Section 102 of the Housing Act of 1948, Section 4(a)(1) of the RFC Act as amended, and Public Law 139. Loans prior to 1950, when the program was administered by the RFC, are included in the RFC business loan series given in Table A-9.

[b] Represents loans to the Alaska Housing Authority, as authorized by the Alaska Housing Act of 1949 (Public Law 52, approved April 23, 1949), for residential construction and property improvement.

[c] Covers advances to state and local governments for the planning of public works as authorized under Title V of the War Mobilization and Reconversion Act of 1944, and under Public Law 352 approved October 13, 1949; advances under Title I of the Housing Act of 1949 (Public Law 171, approved July 15, 1949) to communities and local public agencies to assist in planning urban development projects, in acquiring land for their construction, and in financing such urban redevelopment and slum clearance projects; and loans to communities in critical defense areas to assist in providing necessary community facilities as authorized under Title III, Section 313(a) of the Defense Housing and Community Facilities and Services Act (Public Law 139, approved September 1, 1951).

[d] Covers loans to institutions of higher learning, as authorized under Title IV of the Housing Act of 1950 (Public Law 475, April 20, 1950), for provision of housing facilities for students and faculty.

[e] Computed by subtracting from the total disbursements on active loans reported by HHFA through December 31, 1950 ($26.4 million), the outstanding loan balances as of September 7, 1950 reported by RFC as transferred to the HHFA ($16.9 million).

[f] Cumulative from April 23, 1949.

[g] Includes data for the second half of 1949 for the Slum Clearance and Urban Redevelopment (P.L. 171) and Second Advance Planning (P.L. 352) programs.

[h] Cumulative from April 20, 1950.

## TABLE A-15

Farmers Home Administration Lending and Loan Insuring Activity, 1934–1953
*(in thousands)*

| | VOLUME DURING YEAR | | | OUTSTANDINGS AT YEAR END | | |
|---|---|---|---|---|---|---|
| | *Direct Farm Loans* | | | *Direct Farm Loans* | | |
| YEAR | *Real Estate*[a] | *Non-Real-Estate*[b] | *Farm Loan Insurance*[c] | *Real Estate*[a] | *Non-Real-Estate*[b] | *Farm Loan Insurance*[c] |
| 1934 | .. | d | .. | .. | $ 5,600 | .. |
| 1935 | .. | d | .. | .. | 62,900 | .. |
| 1936 | .. | d | .. | .. | 131,600 | .. |
| 1937 | .. | d | .. | .. | 121,685 | .. |
| 1938 | $10,275 | $ 80,692 | .. | $ 10,275 | 173,171 | .. |
| 1939 | 26,576 | 111,746 | .. | 32,301 | 249,173 | .. |
| 1940 | 39,713 | 95,426 | .. | 66,286 | 296,724 | .. |
| 1941 | 60,663 | 114,188 | .. | 116,610 | 337,385 | .. |
| 1942 | 31,430 | 172,108 | .. | 160,258 | 403,912 | .. |
| 1943 | 28,998 | 122,869 | .. | 174,946 | 375,272 | .. |
| 1944 | 25,103 | 65,510 | .. | 179,840 | 332,230 | .. |
| 1945 | 28,651 | 73,763 | .. | 185,060 | 300,105 | .. |
| 1946 | 46,902 | 112,766 | .. | 194,622 | 301,175 | .. |
| 1947 | 36,300 | 93,271 | .. | 200,185 | 279,553 | .. |
| 1948 | 21,483 | 87,781 | $ 2,972 | 194,035 | 266,162 | $ 2,908 |
| 1949 | 17,888 | 111,547 | 9,727 | 193,902 | 290,607 | 12,396 |
| 1950 | 46,615 | 128,342 | 17,632 | 219,503 | 292,494 | 29,359 |
| 1951 | 47,298 | 137,110 | 15,899 | 239,161 | 283,924 | 43,084 |
| 1952 | 50,873 | 180,340 | 11,156 | 264,294 | 330,656 | 51,599 |
| 1953 | 33,194 | 197,042 | 10,473 | 274,455 | 381,020 | 58,535 |

Volume data were supplied by the Farmers Home Administration except that the amount for real estate loans in 1942 was obtained by deducting cumulative loan advances through 1941 (*Agricultural Statistics, 1950,* Department of Agriculture, Tables 720 and 733, pp. 672 and 690) from cumulative advances through 1942 (FHA). Real estate loans for 1944–1945 were partially estimated by linear interpolation of data for the preceding and following half years; and data on non-real-estate loans in 1944 include estimates for certain quarters based on linear interpolation of the available quarterly figures.

Data on outstandings were supplied by the FHA except that those for 1934 through 1936 were compiled from *Agricultural Finance Review* (Department of Agriculture, Bureau of Agricultural Economics, Vol. 12, Supplement May 1950, Table 17, p. 25).

[a] Represents loans made from federal funds and state rural rehabilitation corporation trust funds to tenants, sharecroppers, and farm laborers for the purchase, enlargement, and development of family-type farms; loans or construction or repair of farm houses and buildings; and receivables from individuals purchasing surplus real property of rural rehabilitation projects.

[b] Covers operating and production loans to farmers and stockmen; loans to cooperative associations for rehabilitation purposes; water facilities loans to farmers, ranchers, and cooperatives; production disaster loans; and loans authorized July 14, 1953 under the Special Livestock and Emergency Loan Programs. Lending under the first two broad categories became a function of the Resettlement Administration in 1935 (when the functions of the Rural Rehabilitation Division of the Federal Emergency Relief Administration were transferred) and was continued by its successors, the Farm Security Administration and the Farmers Home Administration. Data prior to 1943 exclude loans made in the territorial possessions. Annual data on loan advances during 1934–1937 are not available, but as of December 31, 1937 the volume of loans made totaled approximately $160,000,000.

[c] Refers to amount of commitments under FHA insurance of loans made by private lenders to tenants, sharecroppers, and farm laborers for the purchase, enlargement, and development of family-type farms.

[d] Data not available.

## APPENDIX A

### TABLE A-16

Lending and Loan Insuring Activity of the Maritime Administration and its Predecessors, 1921–1953

| | VOLUME DURING YEAR | | OUTSTANDINGS AT YEAR END | |
|---|---|---|---|---|
| YEAR | *Direct Business Loans*[a] | *Business Loan Insurance*[b] | *Direct Business Loans*[a] | *Business Loan Insurance*[b] |
| 1921 | c | .. | $ 67,291 | .. |
| 1922 | c | .. | 38,752 | .. |
| 1923 | c | .. | 45,188 | .. |
| 1924 | $ 400 | .. | 41,906 | .. |
| 1925 | 4,760 | .. | 28,699 | .. |
| 1926 | 2,146 | .. | 39,232 | .. |
| 1927 | 3,162 | .. | 50,003 | .. |
| 1928 | 5,471 | .. | 43,736 | .. |
| 1929 | 6,729 | .. | 61,062 | .. |
| 1930 | 20,384 | .. | 77,573 | .. |
| 1931 | 28,705 | .. | 100,484 | .. |
| 1932 | 50,818 | .. | 138,851 | .. |
| 1933 | 24,550 | .. | 157,454 | .. |
| 1934 | 483 | .. | 133,093 | .. |
| 1935 | 338 | .. | 111,688 | .. |
| 1936 | .. | .. | 97,292 | .. |
| 1937 | .. | .. | 85,081 | .. |
| 1938 | .. | .. | 59,993 | .. |
| 1939 | .. | $ 975 | 56,116 | $ 975 |
| 1940 | .. | 350 | 71,205 | 1,267 |
| 1941 | .. | 6,300 | 62,952 | 7,482 |
| 1942 | .. | 500 | 68,872 | 5,628 |
| 1943 | .. | 65 | 123,780 | 4,443 |
| 1944 | .. | .. | 100,762 | 1,630 |
| 1945 | .. | .. | 111,435 | .. |
| 1946 | .. | .. | 126,356 | .. |
| 1947 | .. | .. | 131,877 | .. |
| 1948 | .. | .. | 502,075 | .. |
| 1949 | .. | 2,400 | 471,266 | 2,400 |
| 1950 | .. | .. | 412,081 | 2,313 |
| 1951 | 80,401 | .. | 448,775 | 553 |
| 1952 | 21,600 | .. | 405,909 | 446 |
| 1953 | .. | .. | 355,717 | 371 |

Volume of direct loans refers to fiscal years ending June 30 and was compiled from *United States Shipping Board,* by D. H. Smith and P. V. Betters (Brookings Institution, Service Monograph No. 63, 1931, p. 285), the *Annual Reports* of the U.S. Shipping Board, and material supplied by the Maritime Administration. Volume of loan insurance, compiled from the *Annual Reports* of the U.S. Maritime Commission, refers to fiscal years ending October 25, 1939; September 30, 1940 and 1941; and June 30, 1942, 1943, and 1949.

(*continued on next page*)

## TABLE A-16 (*continued*)

Outstanding amounts of direct loans for 1921–1933 and 1947–1953 are given as of June 30 (estimated in 1922–1927 and 1929–1933) and for 1934–1946 as of December 31, and were compiled from the *Annual Reports* of the U.S. Shipping Board, the *Annual Reports* and the *Daily Statements* of the Treasury Department, and from material supplied by the Treasury and the Maritime Administration. In 1947, outstandings on ship sales notes as of March 31 are included. Outstanding amounts of loan insurance were compiled from *Annual Reports* of the U.S. Maritime Commission and material supplied by the Maritime Administration, and refer to the following dates: October 31, 1939; September 30, 1940 and 1941; June 30, 1942 through 1953.

[a] Covers construction loans to American shipowners as authorized by Section 11 of the Merchant Marine Act of 1920; and outstandings also cover advances made to finance the sale of government-owned ships. The volume series, however, excludes mortgage loans made in 1921–1950 in connection with the sale of government-owned ships, because annual data are lacking.

[b] Refers to insurance of, and commitments to insure, mortgage loans to American shipowners, as authorized by the Merchant Marine Act of 1936.

[c] Data not available.

## TABLE A-17

Federal Housing Administration Lending and Loan Insuring Activity, 1934–1953
*(in thousands)*

| | VOLUME DURING YEAR | | | OUTSTANDINGS AT YEAR END | | |
|---|---|---|---|---|---|---|
| YEAR | *Direct Housing Loans*[a] | *Housing Loan Insurance*[b] | *Direct Loans to Financial Institutions*[c] | *Direct Housing Loans*[a] | *Housing Loan Insurance*[b] | *Direct Loans to Financial Institutions*[c] |
| 1934 | .. | $ 30,451 | .. | .. | $ 30,451 | .. |
| 1935 | $ 447 | 319,857 | $125 | $ 408 | 307,815 | $110 |
| 1936 | 5,885 | 557,196 | 16 | 5,286 | 701,315 | 18 |
| 1937 | 6,938 | 495,239 | .. | 9,137 | 1,019,604 | 2 |
| 1938 | 6,641 | 693,630 | .. | 11,623 | 1,511,271 | .. |
| 1939 | 6,006 | 954,336 | .. | 13,855 | 2,135,846 | .. |
| 1940 | 13,123 | 1,025,979 | .. | 23,174 | 2,795,975 | .. |
| 1941 | 14,468 | 1,186,419 | .. | 32,948 | 3,502,923 | .. |
| 1942 | 15,655 | 1,135,227 | .. | 41,016 | 4,095,955 | .. |
| 1943 | 7,494 | 943,166 | .. | 41,127 | 4,394,416 | .. |
| 1944 | 3,473 | 888,683 | .. | 32,342 | 4,542,369 | .. |
| 1945 | 7,927 | 683,085 | .. | 31,935 | 4,500,933 | .. |
| 1946 | 13,599 | 797,927 | .. | 37,630 | 4,238,327 | .. |
| 1947 | 8,855 | 1,861,034 | .. | 38,379 | 4,967,442 | .. |
| 1948 | 15,299 | 3,424,655 | .. | 45,576 | 7,276,342 | .. |
| 1949 | 21,543 | 3,907,889 | .. | 58,601 | 9,959,829 | .. |
| 1950 | 30,723 | 4,439,257 | .. | 76,914 | 12,786,064 | .. |
| 1951 | 32,112 | 3,308,278 | .. | 97,603 | 14,468,521 | .. |
| 1952 | 29,854 | 3,232,065 | .. | 114,727 | 15,918,324 | .. |
| 1953 | 49,340 | 4,070,005 | .. | 148,310 | 17,524,388 | .. |

Housing loan data, volume of housing loans insured, and estimates of insured loans outstanding were supplied by the Federal Housing Administration, except that the insurance outstandings in 1934–1938 were estimated by the National Bureau of Economic Research as follows: Data on Title I loans for 1934 were estimated by assuming no terminations or amortization, leaving the volume of loans insured equal to outstandings at the end of the year; for 1935–1938, by subtracting repayments during the second half of each year (which were estimated to be one-third of the amount outstanding as of June 30), from the sum of outstandings on June 30 and loans insured during the second half of each year. Also included are amounts for mortgages insured under Section 203 (estimated by linear interpolation of the ratio between estimated insurance outstanding and cumulated mortgages insured at fiscal year ends 1935–1938 so as to apply that ratio to the cumulated volume figures at calendar year ends) and under Section 207 (obtained by assuming insurance in force equal to insurance outstanding, a relationship which existed at fiscal year ends 1935–1938).

Data on loans to financial institutions are from the *Annual Reports* of the Federal Housing Administration and the report of the Joint Committee on Reduction of Nonessential Federal Expenditures, *Federal Lending 1934–1948* (S. Doc. 103, 80th Cong., 1st sess., 1947, p. 37).

[a] Refers to mortgage loans to individuals to finance the sales of properties acquired through foreclosure of FHA-insured mortgages; claims paid on defaulted Title I notes acquired by FHA; and the amounts of debentures and cash adjustments on insured mortgages assigned to

*(continued on next page)*

TABLE A-17 (*continued*)

FHA. Volume data for assigned mortgages represent annual net changes in the amounts of debentures and cash adjustments covered by mortgage notes on hand at year end.

[b] Covers insurance of property improvement loans (Section 2, Class 1 and 2 of the National Housing Act), mortgage loans on new and existing one- to four-family dwellings (Class 3 of Section 2, and Sections 8, 203, and 603), loans on site-fabricated houses (Section 611), mortgage loans on cooperative housing projects (Section 213), mortgage loans on rental housing projects (Sections 207, 207-10, and 608), short-term loans to finance the production of prefabricated houses (Section 609), mortgage loans on publicly constructed housing (Sections 603-10 and 608-10), loans to finance construction of housing for military and civilian employees of U.S. military posts (Section 803), and loans to finance housing in critical defense areas (Sections 903 for one- and two-family dwellings and 908 for rental projects of twelve or more units). Data are based on original face amount of loans insured.

[c] Represents loans, as authorized under Section 3 of the National Housing Act, to financial institutions which are insured under Section 2. Section 3 was repealed by the amendment of April 3, 1936.

## TABLE A-18

Export-Import Bank Lending Activity, 1934–1953
*(in thousands)*

| | VOLUME DURING YEAR | | OUTSTANDINGS AT YEAR END | |
|---|---|---|---|---|
| | *Direct Business Loans* | | *Direct Business Loans* | |
| YEAR | *Regular Lending*[a] | *Other*[b] | *Regular Lending*[a] | *Other*[b] |
| 1934 | $ 3,800 | .. | .. | .. |
| 1935 | 10,300 | .. | $ 4,300 | .. |
| 1936 | 21,100 | .. | 17,600 | .. |
| 1937 | 7,600 | .. | 17,400 | .. |
| 1938 | 18,600 | .. | 26,200 | .. |
| 1939 | 53,700 | .. | 65,200 | .. |
| 1940 | 95,300 | .. | 131,000 | .. |
| 1941 | 116,800 | .. | 186,100 | .. |
| 1942 | 50,500 | .. | 181,500 | .. |
| 1943 | 51,000 | .. | 200,200 | .. |
| 1944 | 47,500 | .. | 217,700 | .. |
| 1945 | 79,600 | .. | 245,300 | .. |
| 1946 | 1,036,500 | .. | 1,241,700 | .. |
| 1947 | 824,500 | .. | 1,970,700 | .. |
| 1948 | 428,900 | .. | 2,138,500 | .. |
| 1949 | 184,800 | .. | 2,179,600 | .. |
| 1950 | 199,900 | .. | 2,219,500 | .. |
| 1951 | 204,100 | .. | 2,289,000 | .. |
| 1952 | 478,200 | $ 217 | 2,496,100 | $ 188 |
| 1953 | 647,000 | 7,674 | 2,833,300 | 7,863 |

Data for 1934–1945 were supplied by the Export-Import Bank of Washington; for 1946–1953, were compiled from the *Semi-Annual Reports* of the Export-Import Bank. Amounts for regular lending (i.e. under the Export-Import Bank Act of 1945 as amended) are rounded to one-tenth of a million.

[a] Covers direct loans to finance exports and imports and to assist in reconstruction, development, and stabilization of foreign economies, and loans in connection with lend lease terminations. Also included, because the annual data do not permit separate treatment, are loans for similar purposes made by commercial banks and other private lenders under Export-Import Bank guaranty (the so-called agency agreements under which the lender, usually a commercial bank, is protected against nonpayment by an Export-Import Bank guarantee to reimburse the bank upon demand). Of the total advanced under Export-Import Bank risk through December 31, 1953 ($311.6 million) $300.5 million or 97 percent was disbursed before the end of 1946. Outstandings on such loans have represented a declining share of total year-end outstandings since the end of 1946 (from 15 percent in 1946 to 1 percent in 1953).

[b] Represents loans (including participations in loans) to private business enterprises for the expansion, development, and production of essential materials where such operations are conducted in foreign countries, as authorized under Section 302 of the Defense Production Act of 1950.

## TABLE A-19

Treasury Department Lending Activity, 1933–1953
*(in thousands)*

| | VOLUME DURING YEAR | | OUTSTANDINGS AT YEAR END | |
|---|---|---|---|---|
| | *Direct Loans* | *Stock Purchases* | *Direct Loans* | *Stock Purchases* |
| YEAR | *Miscellaneous Purposes*[a] | *Financial Institutions*[b] | *Miscellaneous Purposes*[a] | *Financial Institutions*[b] |
| 1933 | .. | $ 18 | .. | $ 18 |
| 1934 | .. | 10,707 | .. | 10,725 |
| 1935 | .. | 38,575 | .. | 49,273 |
| 1936 | .. | .. | .. | 48,991 |
| 1937 | .. | .. | .. | 48,051 |
| 1938 | .. | .. | .. | 47,053 |
| 1939 | .. | .. | .. | 39,679 |
| 1940 | .. | .. | .. | 26,748 |
| 1941 | .. | .. | .. | 21,284 |
| 1942 | $ 800 | .. | $ 800 | 17,548 |
| 1943 | 900 | .. | 701 | 6,884 |
| 1944 | 200 | .. | .. | 3,489 |
| 1945 | .. | .. | .. | 1,982 |
| 1946 | .. | .. | .. | 1,150 |
| 1947 | .. | .. | .. | 555 |
| 1948 | .. | .. | .. | 247 |
| 1949 | .. | .. | .. | .. |
| 1950 | .. | .. | .. | .. |
| 1951 | .. | .. | .. | .. |
| 1952 | .. | .. | .. | .. |
| 1953 | 1,900 | .. | 1,900 | .. |

Volume of direct loans in 1942–1944 was estimated from fiscal year data in the report of the Joint Committee on Reduction of Nonessential Federal Expenditures, *Federal Lending 1934–1948* (S. Doc. 103, 80th Cong., 1st sess. 1947, Table 1); volume in 1953 and outstandings throughout were supplied by the Treasury Department.

Data on stock purchases were supplied by the Federal Savings and Loan Insurance Corporation.

[a] Represents loans to the District of Columbia for civilian defense and other purposes during 1942–1944 and for construction of public works in 1953 (pursuant to Public Law 533 of June 2, 1950).

[b] Refers to purchases of shares of federal savings and loan associations. Responsibility for administering these investments was vested in the Federal Home Loan Bank Board by Section 5(j) of the Home Owners' Loan Act of 1933.

APPENDIX A

## TABLE A-20

### Public Housing Administration Lending and Loan Guaranteeing Activity, 1937–1953

| | VOLUME DURING YEAR | OUTSTANDINGS AT YEAR END | |
|---|---|---|---|
| YEAR | *Direct Loans to Minor Governmental Units*[a] | *Direct Loans, Minor Gov.*[a] | *Loan Guarantees, Minor Gov.*[b] |
| 1937 | $ 1,500 | $ 10,024 | c |
| 1938 | 29,000 | 31,604 | c |
| 1939 | 138,500 | 122,755 | $ 51,127 |
| 1940 | 450,500 | 185,519 | 247,863 |
| 1941 | 507,900 | 367,410 | 203,042 |
| 1942 | 261,000 | 365,808 | 258,743 |
| 1943 | 95,500 | 318,364 | 225,335 |
| 1944 | 3,500 | 304,711 | 226,024 |
| 1945 | 1,500 | 285,706 | 229,218 |
| 1946 | 1,400 | 278,300 | 233,719 |
| 1947 | 24,600 | 277,632 | 225,501 |
| 1948 | 37,000 | 285,406 | 218,657 |
| 1949 | 25,000 | 285,489 | 220,627 |
| 1950 | 123,800 | 352,319 | 414,003 |
| 1951 | 422,800 | 594,665 | 805,925 |
| 1952 | 773,400 | 900,316 | 1,067,248 |
| 1953 | 727,300 | 511,433 | 1,932,953 |

Volume data (rounded to one-tenth millions) were estimated by linear interpolation of fiscal year data for 1937–1945 from the report of the Joint Committee on Reduction of Nonessential Federal Expenditures, *Federal Lending 1934–1948* (S. Doc. 103, 80th Cong., 1st sess., 1947, Table 1) and for 1946–1953 from material supplied by the Housing and Home Finance Agency.

Outstandings are from the *Daily Statements* of, and material supplied by, the Treasury Department.

[a] Represents loans to local housing authorities for the construction and operation of low-rent housing and slum clearance projects, as authorized by the Housing Act of 1937 (Public Law 412), by Public Law 671 (enacted as a war emergency measure), and by the Housing Act of 1949 (Public Law 171), and advances in fiscal 1939 on loans to limited dividend housing corporations which were made originally by the Public Works Administration during 1933–1937. Outstandings from 1937 on also include outstanding balances on PWA loans to limited dividend housing corporations transferred to PHA as of November 1, 1937. At time of transfer, balance of such loans totaled $10,142,182.

[b] Refers to outstanding commitments of PHA in connection with temporary financing obtained by local housing authorities through private sources for which PHA holds escrow notes, and with long-term obligations issued by local authorities to private investors and secured by annual contributions contracts of the local authorities with PHA. Annual volume data of such guarantees are not available.

[c] Data not available.

## TABLE A-21

Lending Activity of the Small Business Administration, 1953, and the Virgin Islands Corporation, 1949–1953
(*in thousands*)

| | SMALL BUSINESS ADMINISTRATION[a] | | VIRGIN ISLANDS CORPORATION[b] | | | |
|---|---|---|---|---|---|---|
| | *Direct Loans for Miscellaneous Purposes* | | *Direct Loan Volume* | | *Outstandings at Year End* | |
| YEAR | *Volume* | *Out-standings* | *Agric.* | *Bus.* | *Agric.* | *Bus.* |
| 1949 | .. | .. | c | .. | $4 | .. |
| 1950 | .. | .. | c | c | 4 | $ 3 |
| 1951 | .. | .. | c | c | 4 | 87 |
| 1952 | .. | .. | c | c | 9 | 15 |
| 1953 | $4 | $4 | c | c | 1 | 33 |

[a] Data were supplied by the Small Business Administration. Represents loans to victims of floods or other catastrophes. The Small Business Administration was established under the Small Business Act of 1953 for the primary purpose of making loans to small business concerns. As of December 31, 1953 no disbursements on business loans had been made.

[b] Data were supplied by the Treasury Department and refer to loans to aid agriculture and business enterprises in the Virgin Islands.

[c] Data not available.

## TABLE A-22

### Lending Activity of the Agricultural Marketing Act Revolving Fund, 1929–1952, and the Emergency Crop and Feed Loan Division, 1918–1953
*(in thousands)*

| | AGRICULTURAL MARKETING ACT REVOLVING FUND[a] | | EMERGENCY CROP AND FEED LOAN DIVISION[b] | |
|---|---|---|---|---|
| | *Direct Farm Loans* | | *Direct Farm Loans* | |
| YEAR | *Volume during Year* | *Outstandings at Year End* | *Volume during Year* | *Outstandings at Year End* |
| 1918 | .. | .. | $ 2,101 | c |
| 1919 | .. | .. | 2,100 | $ 4,201 |
| 1920 | .. | .. | .. | 3,938 |
| 1921 | .. | .. | 1,957 | 3,411 |
| 1922 | .. | .. | 1,480 | 2,885 |
| 1923 | .. | .. | .. | 2,359 |
| 1924 | .. | .. | 414 | 2,513 |
| 1925 | .. | .. | .. | 2,207 |
| 1926 | .. | .. | 244 | 2,101 |
| 1927 | .. | .. | .. | 2,292 |
| 1928 | .. | .. | .. | 2,246 |
| 1929 | $ 14,823 | $ 14,510 | 5,759 | 7,976 |
| 1930 | 348,552 | 233,756 | 5,340 | 8,946 |
| 1931 | 516,821 | 436,254 | 55,787 | 49,769 |
| 1932 | 229,026 | 466,501 | 64,205 | 90,353 |
| 1933 | 46,711 | 334,092 | 57,376 | 90,863 |
| 1934 | 9,555 | 146,911 | 70,471 | 111,238 |
| 1935 | 7,402 | 115,859 | 96,382 | 172,863 |
| 1936 | 20,450 | 121,762 | 16,135 | 165,369 |
| 1937 | 5,936 | 98,971 | 31,815 | 172,701 |
| 1938 | 7,911 | 91,183 | 19,648 | 171,489 |
| 1939 | 1,214 | 87,207 | 15,080 | 168,330 |
| 1940 | 3,094 | 16,461 | 19,517 | 168,438 |
| 1941 | 3,990 | 16,914 | 18,346 | 164,974 |
| 1942 | 5,017 | 12,551 | 19,698 | 156,675 |
| 1943 | 1,417 | 7,351 | 18,699 | 147,650 |
| 1944 | 809 | 3,067 | 18,444 | 139,541 |
| 1945 | 660 | 2,693 | 16,465 | 130,505 |
| 1946 | 975 | 2,232 | 16,972 | 118,120 |
| 1947 | 1,400 | 2,603 | —2[d] | 106,259 |
| 1948 | 1,000 | 1,315 | .. | 90,240 |
| 1949 | 700 | 1,365 | .. | 71,341 |
| 1950 | 700 | 1,309 | —2[d] | 53,347 |
| 1951 | 700 | 1,451 | .. | 38,235 |
| 1952 | 375 | 905 | .. | 27,955 |
| 1953 | .. | .. | .. | 19,976 |

*(continued on next page)*

TABLE A-22 (*continued*)

[a] Compiled from the *Loans and Discounts Reports* and the *Annual Reports* of the Farm Credit Administration. Covers loans to farmers' cooperatives for marketing and operating purposes, for construction or purchase of physical facilities, and for refinancing debt incurred in acquiring such facilities, and loans to stabilization corporations to support farm commodity prices.

[b] Covers operating loans to farmers to relieve distress conditions caused by drought and flood in United States and possessions. Loans were made from 1918 to 1933 under the Department of Agriculture and thereafter (May 27, 1933 to October 1946) under the Farm Credit Administration. Also included are drought relief loans made in 1934–1935 and orchard rehabilitation loans made since 1942. The program is now being liquidated by the Farmers Home Administration.

Data were supplied by the Farm Credit Administration and the Farmers Home Administration. Volume for 1918 and 1919 was estimated by dividing equally the total of loans made in the two years; data for 1946 represent advances through October 31, 1946. Outstandings for 1919 represent total amount advanced in 1918 and 1919 without adjustment for repayments; 1920–1922 data represent estimates of the outstanding balances as of June 30 of each year; 1923–1930 data are for the year ending June 30.

[c] Data not available.

[d] Represent adjustments for noncash advances, etc., made after the lending program was discontinued.

# TABLE A-23

Lending Activity of the Electric Home and Farm Authority, 1934–1942, the Farmers Seed Loan Office, 1931–1953, the Regional Agricultural Credit Corporations, 1932–1953, and the Tennessee Valley Associated Cooperatives, Inc., 1934–1947

*(in thousands)*

| | ELECTRIC HOME AND FARM AUTHORITY[a] | | FARMERS SEED LOAN OFFICE[b] | | REGIONAL AGRICULTURAL CREDIT CORPORATIONS[c] | | TENNESSEE VALLEY ASSOCIATED COOPERATIVES, INC. | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Direct Farm Loans* | | *Direct Farm Loans* | | *Direct Farm Loans* | | *Direct Farm Loans*[d] | | *Stock Purchases*[e] | |
| YEAR | *Volume* | *Out-standings* | *Volume* | *Out-standings* | *Volume* | *Out-standings* | *Volume* | *Out-standings* | *Volume* | *Out-standings* |
| 1931 | .. | .. | $1,513 | $1,513 | .. | .. | .. | .. | .. | .. |
| 1932 | .. | .. | .. | 1,427 | $ 24,597 | $ 24,373 | .. | .. | .. | .. |
| 1933 | .. | .. | .. | 1,340 | 223,116 | 144,636 | .. | .. | .. | .. |
| 1934 | $ 386 | $ 116 | .. | 1,009 | 140,589 | 87,102 | $ 52 | $ 73 | .. | .. |
| 1935 | 1,009 | 986 | .. | 678 | 90,656 | 43,400 | 78 | 167 | .. | .. |
| 1936 | 2,426 | 1,913 | .. | 570 | 34,667 | 25,288 | 79 | 131 | .. | .. |
| 1937 | 4,804 | 5,092 | .. | 482 | 18,604 | 15,592 | 97 | 179 | .. | .. |
| 1938 | 7,211 | 7,871 | .. | 454 | 5,719 | 11,081 | 111 | 262 | $29 | $29 |
| 1939 | 10,106 | 11,228 | .. | 439 | 4,665 | 8,005 | 49 | 256 | 5 | 34 |
| 1940 | 13,013 | 14,305 | .. | 362 | 4,804 | 5,855 | 7 | 258 | .. | 34 |
| 1941 | 10,306 | 15,934 | .. | 306 | 6,759 | 5,531 | 1 | 253 | .. | 34 |
| 1942 | 3,203 | .. | .. | 295 | 7,759 | 3,991 | 1 | 252 | .. | 34 |
| 1943 | .. | .. | .. | 279 | 73,253 | 32,047 | .. | 242 | .. | 34 |
| 1944 | .. | .. | .. | 254 | 15,666 | 12,195 | .. | 236 | .. | 34 |
| 1945 | .. | .. | .. | 203 | 9,647 | 6,151 | 14 | 253 | .. | 34 |
| 1946 | .. | .. | .. | 124 | 1,470 | 2,560 | 13 | 131 | .. | 34 |
| 1947 | .. | .. | .. | 100 | 77 | 1,862 | .. | 41 | .. | 34 |
| 1948 | .. | .. | .. | 88 | 77 | 1,522 | .. | .. | .. | .. |
| 1949 | .. | .. | .. | 88 | 130 | 1,273 | .. | .. | .. | .. |
| 1950 | .. | .. | .. | 88 | 9 | 1,236 | .. | .. | .. | .. |
| 1951 | .. | .. | .. | 88 | .. | 868 | .. | .. | .. | .. |
| 1952 | .. | .. | .. | 88 | .. | 656 | .. | .. | .. | .. |
| 1953 | .. | .. | .. | 84 | .. | 501 | .. | .. | .. | .. |

*(continued on next page)*

## TABLE A-23 (*continued*)

[a] The series refer to discounts of dealers' paper originating in the sale or installation of electrical and gas appliances and equipment. Outstanding accounts were transferred to the Reconstruction Finance Corporation in 1942 for liquidation and are included in the RFC business loan series in Table A-9. Volume for 1934–1941 refers to amount of contracts accepted, estimated by linear interpolation of fiscal year data in the *Annual Reports* of the Electric Home and Farm Authority; 1942 volume refers to estimated amount disbursed, from the *U.S. Treasury Bulletin*, August 1942. Although the Electric Home and Farm Authority operated for a few weeks in 1933, contracts accepted in that year are included in the data for 1934. Data on year-end outstandings are from the *Daily Statements* of, and material supplied by, the Treasury Department.

[b] Data refer to loans made in 1931 to farmers and stockmen for purchase of stock in agricultural credit corporations and livestock loan companies, and were compiled from *Annual Reports* of, and material supplied by, the Farm Credit Administration, and from material supplied by the Farmers Home Administration. On the assumption that no repayments were made during 1931, outstandings as of the end of that year are based on loan volume during the year; data for 1932 and 1934 are estimated by linear interpolation between the outstandings at the preceding and following year ends (but the 1933 figure is for November 30); for 1946 and 1947, by linear interpolation of change in outstandings 1945–1948. The program is now being liquidated by the Farmers Home Administration.

[c] Compiled from the *Annual Reports* of the Farm Credit Administration, the *Agricultural Finance Review* (Department of Agriculture, Bureau of Agricultural Economics, Vol. 12, November 1949, Table 13), and material supplied by the Farmers Home Administration. Represents short-term production loans to farmers and stockmen made by the twelve regional agricultural credit corporations, including loans for regular operating and marketing purposes; loans to fruit growers in Washington; World War II food production loans (including those made under Section 2 of the Department of Agriculture Appropriation Act of 1944); and fur loans. The program is now being liquidated by the Farmers Home Administration.

[d] Calendar year data on volume were estimated by linear interpolation of semiannual information taken from the report of the Joint Committee on Reduction of Nonessential Federal Expenditures, *Federal Lending, 1934–1948* (S. Doc. 103, 80th Cong., 1st sess., 1947, Table 1). Data on year-end outstandings are from the *Daily Statements* of, and material supplied by, the Treasury Department. The series cover loans to cooperatives in the Tennessee Valley to assist in their development and thereby improve the economic welfare of the area's inhabitants. Liquidation of the program was begun in September 1947; the corporation was dissolved in December 1948, assets being transferred to the Treasury.

[e] Refers to purchases of stock of agricultural cooperatives and canning associations. Volume data are from the *Report on the Audit of the Tennessee Valley Associated Cooperatives, Inc.* (H. Doc. 234, 81st Cong., 1st sess., 1949); year-end outstandings are from the *Daily Statements* of the Treasury Department.

## TABLE A-24

### Lending Activity of the Federal Farm Mortgage Corporation, 1933–1953, and the Rural Electrification Administration, 1935–1953

*(in thousands)*

| | FEDERAL FARM MORTGAGE CORPORATION[a] Direct Real Estate Loans | | RURAL ELECTRIFICATION ADMINISTRATION[b] Direct Non-Real-Estate Loans | |
|---|---|---|---|---|
| YEAR | Volume during Year | Outstandings at Year End | Volume during Year | Outstandings at Year End |
| 1933 | $ 70,812 | $ 70,738 | .. | .. |
| 1934 | 553,136 | 616,825 | .. | .. |
| 1935 | 196,395 | 794,752 | $ 10 | $ 10 |
| 1936 | 77,258 | 837,274 | 3,328 | 3,338 |
| 1937 | 40,020 | 815,001 | 30,999 | 34,315 |
| 1938 | 29,395 | 757,710 | 54,007 | 88,141 |
| 1939 | 27,417 | 700,360 | 95,754 | 183,293 |
| 1940 | 36,664 | 662,200 | 69,235 | 249,249 |
| 1941 | 37,533 | 615,674 | 78,697 | 322,531 |
| 1942 | 28,534 | 532,925 | 32,291 | 345,644 |
| 1943 | 30,497 | 425,710 | 14,171 | 347,172 |
| 1944 | 35,017 | 346,764 | 27,874 | 360,930 |
| 1945 | 29,462 | 241,237 | 56,971 | 407,688 |
| 1946 | 15,035 | 149,005 | 132,188 | 527,822 |
| 1947 | 10,606 | 109,339 | 225,413 | 734,135 |
| 1948 | 17 | 79,886 | 284,724 | 999,132 |
| 1949 | 19 | 60,344 | 327,331 | 1,301,323 |
| 1950 | 25 | 45,424 | 273,252 | 1,543,407 |
| 1951 | 58 | 33,959 | 241,225 | 1,742,519 |
| 1952 | 41 | 24,865 | 228,220 | 1,920,773 |
| 1953 | 40 | 18,397 | 228,021 | 2,095,995 |

[a] Data were compiled from the *Loans and Discounts Reports* of, and material supplied by, the Farm Credit Administration, and cover first and second farm mortgage loans made by the Land Bank Commissioner in the United States and possessions. Outstandings also include purchase money mortgages and real estate sales contracts, which are excluded from the volume series because annual data are lacking.

[b] Data, supplied by the Rural Electrification Administration, represent self-liquidating loans made in the United States and possessions to local enterprises (cooperatives, public power districts, local government authorities, and private power companies) for construction of electric facilities and for purchase and installation of electric appliances and plumbing; also loans for the construction and operation of new, and the expansion and improvement of existing, telephone facilities in rural areas. Volume data represent net advances after the return of unused loan funds; outstandings are cumulative net advances less principal repayments.

## TABLE A-25

Lending Activity of the Central and Regional Banks for Cooperatives, 1933–1953, and the Federal Intermediate Credit Banks, 1923–1953

| | CENTRAL & REGIONAL BANKS FOR COOPERATIVES[a] | | FEDERAL INTERMEDIATE CREDIT BANKS[b] | | | |
|---|---|---|---|---|---|---|
| | Direct Loans, Agric. | | Volume during Year | | Year-End Outstandings | |
| YEAR | Volume during Year | Outstandings at Year End | Loans to Farmers' Cooperatives[c] | Other Agric. Loans[d] | Loans to Farmers' Cooperatives[c] | Other Agric. Loans[d] |
| 1923 | .. | .. | $ 35,519 | $ 9,367 | $33,627 | $ 9,105 |
| 1924 | .. | .. | 83,223 | 34,004 | 43,507 | 18,760 |
| 1925 | .. | .. | 100,243 | 53,488 | 53,780 | 26,272 |
| 1926 | .. | .. | 103,941 | 73,521 | 52,704 | 39,730 |
| 1927 | .. | .. | 51,039 | 87,121 | 31,991 | 43,924 |
| 1928 | .. | .. | 53,571 | 83,568 | 36,174 | 45,103 |
| 1929 | .. | .. | 43,588 | 94,667 | 26,073 | 50,018 |
| 1930 | .. | .. | 109,927 | 109,047 | 64,377 | 65,633 |
| 1931 | .. | .. | 145,127 | 122,867 | 45,177 | 74,691 |
| 1932 | .. | .. | 89,245 | 151,578 | 9,866 | 82,518 |
| 1933 | $ 27,144 | $ 18,697 | 27,910 | 141,045 | 15,211 | 61,016 |
| 1934 | 40,371 | 27,851 | 57,369 | 235,110 | 33,969 | 116,697 |
| 1935 | 66,348 | 50,013 | 44,509 | 327,580 | 2,731 | 143,822 |
| 1936 | 81,294 | 69,647 | 3,755 | 347,634 | 1,641 | 148,576 |
| 1937 | 97,584 | 87,633 | 5,129 | 407,281 | 1,813 | 176,504 |
| 1938 | 94,945 | 87,496 | 2,668 | 422,219 | 920 | 176,653 |
| 1939 | 83,361 | 76,252 | 4,156 | 438,247 | 1,835 | 180,679 |
| 1940 | 101,231 | 74,741 | 4,593 | 475,868 | 1,490 | 205,219 |
| 1941 | 181,569 | 113,444 | 5,651 | 571,360 | 2,152 | 232,965 |
| 1942 | 252,380 | 144,644 | 9,397 | 646,082 | 2,000 | 235,665 |
| 1943 | 398,581 | 235,174 | 5,000 | 699,215 | 2,000 | 240,731 |
| 1944 | 363,637 | 212,835 | 3,402 | 730,809 | 700 | 233,316 |
| 1945 | 333,702 | 157,545 | 4,032 | 737,989 | 2,042 | 229,232 |
| 1946 | 399,769 | 181,550 | 11,579 | 891,961 | 4,151 | 269,167 |
| 1947 | 530,248 | 274,777 | 14,128 | 1,104,440 | 4,000 | 332,462 |
| 1948 | 494,678 | 304,684 | 13,639 | 1,363,405 | 4,709 | 420,801 |
| 1949 | 382,617 | 301,887 | 9,900 | 1,376,285 | 2,400 | 435,017 |
| 1950 | 402,176 | 344,978 | 9,044 | 1,509,510 | 3,233 | 506,984 |
| 1951 | 568,961 | 423,952 | 15,176 | 1,943,431 | 4,000 | 629,008 |
| 1952 | 528,118 | 418,504 | 8,000 | 1,901,678 | 2,000 | 671,261 |
| 1953 | 497,016 | 372,110 | 4,000 | 1,718,157 | 500 | 589,695 |

[a] Compiled from the *Loans and Discounts Reports* of the Farm Credit Administration; refers to loans made by the Central Bank for Cooperatives and the twelve district banks to farmers' groups for general farm operating purposes, the marketing of agricultural commodities, and construction or acquisition of marketing facilities.

[b] Data were supplied by the Farm Credit Administration, and are exclusive of loans to, and discounts for, regional agricultural credit corporations (1933 through 1935) and the central and regional banks for cooperatives.

[c] Represents loans to farmers' groups for production and general farm operating purposes.

[d] Represents loans to, and discounts of agricultural and livestock paper for, production credit associations, agricultural and livestock credit corporations organized under state laws, and commercial banks. Renewals are included.

## TABLE A-26

### Lending Activity of the Federal Land Banks, 1917–1953, and the Production Credit Corporations, 1933–1953
*(in thousands)*

| YEAR | FEDERAL LAND BANKS[a] Direct Farm Real Estate Loans: *Volume during Year* | FEDERAL LAND BANKS[a] Direct Farm Real Estate Loans: *Outstandings at Year End* | PRODUCTION CREDIT CORPORATIONS[b] Stock Purchases for Farm Production Credit: *Volume during Year* | PRODUCTION CREDIT CORPORATIONS[b] Stock Purchases for Farm Production Credit: *Outstandings at Year End* |
|---|---|---|---|---|
| 1917 | $ 39,112 | $ 38,800 | .. | .. |
| 1918 | 118,130 | 156,214 | .. | .. |
| 1919 | 144,987 | 293,595 | .. | .. |
| 1920 | 66,985 | 349,843 | .. | .. |
| 1921 | 91,030 | 432,870[c] | .. | .. |
| 1922 | 224,301 | 639,863 | .. | .. |
| 1923 | 192,083 | 799,869 | .. | .. |
| 1924 | 165,510 | 928,831 | .. | .. |
| 1925 | 127,355 | 1,008,359 | .. | .. |
| 1926 | 131,318 | 1,081,986 | .. | .. |
| 1927 | 140,384 | 1,161,838 | .. | .. |
| 1928 | 102,236 | 1,203,911 | .. | .. |
| 1929 | 64,253 | 1,213,953 | .. | .. |
| 1930 | 47,971 | 1,209,431 | .. | .. |
| 1931 | 42,015 | 1,192,918 | .. | .. |
| 1932 | 27,570 | 1,158,274 | .. | .. |
| 1933 | 151,634 | 1,268,441 | $ 2,430 | $ 2,430 |
| 1934 | 730,367 | 1,959,106 | 89,405 | 90,086 |
| 1935 | 248,671 | 2,126,117 | 11,999 | 77,017 |
| 1936 | 109,170 | 2,133,192 | 3,895 | 75,038 |
| 1937 | 63,092 | 2,119,018 | 4,824 | 76,146 |
| 1938 | 51,418 | 2,072,262 | 2,419 | 75,788 |
| 1939 | 51,582 | 2,002,061 | 2,558 | 75,370 |
| 1940 | 64,275 | 1,955,616 | 1,301 | 61,445 |
| 1941 | 65,068 | 1,879,901 | 21,464 | 81,498 |
| 1942 | 53,974 | 1,717,697 | 1,920 | 81,621 |
| 1943 | 61,900 | 1,456,334 | 621 | 76,090 |
| 1944 | 70,275 | 1,214,801 | 538 | 63,587 |

*(continued on next page)*

TABLE A-26 (*continued*)

| | FEDERAL LAND BANKS[a] | | PRODUCTION CREDIT CORPORATIONS[b] | |
|---|---|---|---|---|
| | *Direct Farm Real Estate Loans* | | *Stock Purchases for Farm Production Credit* | |
| YEAR | *Volume during Year* | *Outstandings at Year End* | *Volume during Year* | *Outstandings at Year End* |
| 1945 | $ 92,986 | $1,086,488 | $ 596 | $55,491 |
| 1946 | 130,162 | 985,477 | 292 | 46,034 |
| 1947 | 138,764 | 898,417 | 225 | 34,918 |
| 1948 | 150,514 | 878,586 | 30 | 29,139 |
| 1949 | 182,357 | 916,862 | 115 | 22,296 |
| 1950 | 205,933 | 959,789 | 965 | 15,728 |
| 1951 | 214,220 | 1,007,695 | 1,015 | 11,371 |
| 1952 | 254,581 | 1,086,289 | 100 | 7,596 |
| 1953 | 289,772 | 1,185,781 | 640 | 4,946 |

[a] Volume data were compiled from the *Annual Reports* and the *Loans and Discounts Reports* of the Farm Credit Administration. Outstandings for 1917 are based on loans made through that year less the amount estimated to have been repaid during December; other outstandings data were compiled from the above-mentioned reports and from material supplied by the FCA. Both series cover regular mortgage loans made in the United States and Puerto Rico. Outstandings also include purchase money mortgages and real estate sales contracts, which are excluded from the volume series because annual data are lacking. For Land Bank Commissioner loans, see Table A-24.

[b] Data, supplied by the Farm Credit Administration, represent purchases by the production credit corporations of Class A stock of the production credit associations.

[c] Includes outstandings as of November 30 for purchase money mortgages and real estate sales contracts.

## TABLE A-27

Lending Activity of the Director General of the Railroads and the Interstate Commerce Commission, 1919–1953, the Federal Home Loan Banks, 1932–1953, and the Federal Reserve Banks, 1934–1953
*(in thousands)*

| | DIRECTOR GEN'L OF RAILROADS AND ICC[a] | | FEDERAL HOME LOAN BANKS[b] | | FEDERAL RESERVE BANKS[c] | |
|---|---|---|---|---|---|---|
| | *Direct Business Loans* | | *Direct Loans to Financial Institutions* | | *Direct Business Loans* | |
| YEAR | *Volume* | *Outstandings* | *Volume* | *Outstandings* | *Volume* | *Outstandings* |
| 1919 | $ 65,841 | d | .. | .. | .. | .. |
| 1920 | 620,611 | $562,643 | .. | .. | .. | .. |
| 1921 | 172,480 | 568,472 | .. | .. | .. | .. |
| 1922 | 82,001 | 437,944 | .. | .. | .. | .. |
| 1923 | 122,950 | 434,381 | .. | .. | .. | .. |
| 1924 | 26,450 | 382,839 | .. | .. | .. | .. |
| 1925 | .. | 307,707 | .. | .. | .. | .. |
| 1926 | .. | 264,798 | .. | .. | .. | .. |
| 1927 | .. | 152,546 | .. | .. | .. | .. |
| 1928 | .. | 68,654 | .. | .. | .. | .. |
| 1929 | .. | 58,745 | .. | .. | .. | .. |
| 1930 | .. | 47,367 | .. | .. | .. | .. |
| 1931 | .. | 39,434 | .. | .. | .. | .. |
| 1932 | .. | 38,704 | $ 838 | $ 838 | .. | .. |
| 1933 | .. | 38,097 | 90,032 | 85,442 | .. | .. |
| 1934 | .. | 34,452 | 38,676 | 86,603 | $14,884 | $13,589 |
| 1935 | .. | 30,915 | 59,130 | 102,686 | 28,479 | 32,493 |
| 1936 | .. | 30,238 | 93,257 | 145,227 | 8,519 | 25,526 |
| 1937 | .. | 30,230 | 123,251 | 200,038 | 4,932 | 20,216 |
| 1938 | .. | 30,230 | 81,958 | 198,842 | 6,500 | 17,345 |
| 1939 | .. | 30,186 | 94,781 | 181,313 | 3,805 | 13,683 |
| 1940 | .. | 30,080 | 134,212 | 201,492 | 2,860 | 9,152 |
| 1941 | .. | 25,213 | 157,600 | 219,446 | 15,695 | 10,337 |
| 1942 | .. | 25,213 | 99,462 | 129,213 | 68,032 | 14,126 |
| 1943 | .. | 25,121 | 156,925 | 110,068 | 60,265 | 10,532 |
| 1944 | .. | 21,598 | 239,254 | 130,563 | 20,381 | 3,894 |
| 1945 | .. | 21,598 | 277,748 | 194,872 | 14,043 | 1,995 |
| 1946 | .. | 21,598 | 329,232 | 293,455 | 3,445 | 554 |
| 1947 | .. | 11,964 | 351,079 | 435,572 | 9,296 | 1,387 |
| 1948 | .. | 11,929 | 359,613 | 515,016 | 15,994 | 995 |
| 1949 | .. | 11,805 | 255,662 | 433,429 | 4,005 | 2,178 |
| 1950 | .. | 11,805 | 674,757 | 815,957 | 6,530 | 2,632 |
| 1951 | .. | 11,805 | 422,976 | 805,937 | 27,656 | 4,687 |
| 1952 | .. | 6,019 | 585,813 | 864,189 | 31,193 | 3,921 |
| 1953 | .. | 5,759 | 727,532 | 951,555 | 22,009 | 1,900 |

*(continued on next page)*

TABLE A-27 (*continued*)

[a] The series represent operating loans to railroads made by the Director General as authorized under Section 7 of the Federal Control Act of 1918, equipment trust notes taken by him in connection with the transfer of railroad equipment to private hands at the cessation of federal control, operating loans to railroads by the Treasury Department upon certification by the Interstate Commerce Commission, as authorized under Section 210 of the Transportation Act of 1920, and loans to the carriers by the Director General, as authorized under Section 207 of the Transportation Act of 1920. Outstandings also include securities accepted in the reorganization of railroads pursuant to Executive Order 8533 of September 6, 1940. Loans made by the Director General under Section 12 of the Federal Control Act are excluded for lack of annual data. The total advanced under Section 12 was $62,103,453.

Volume figures were estimated from data in the *Annual Reports* of the Director General of Railroads and of the Secretary of the Treasury. In 1919 they represent purchases of equipment trust notes, estimated as one-fifth of the outstanding balance of June 30, 1920. In 1920 they include estimates constructed as follows: Section 7 loans were assumed to equal their amount outstanding as of June 30, 1920; Section 210 loans at year end were estimated as equal to outstandings at December 31 (estimated by linear interpolation between fiscal year dates); equipment trust notes were estimated by subtracting 1919 data from data on total advances. In 1921–1924 they were estimated from fiscal year data for Section 210 loans by assuming a constant monthly volume and then combining monthly data on a calendar year basis.

Year-end outstandings were compiled from the *Annual Reports* of and materials supplied by, the Treasury Department. For years before 1935, they were estimated by linear interpolation of outstandings for June 30 of the preceding and following years; in 1920 they exclude outstandings on Section 207 loans; and in 1944–1952 they include outstandings on securities received in the reorganization of certain carriers (in 1947–1951, $5,785,872 face value of bonds and script of Seaboard Air Line Railroad accepted and held by the RFC is included, but common and preferred stock also received in reorganization are excluded from the estimates, there being no valuation of these items).

[b] Data are from *Housing Statistics*, Housing and Home Finance Agency, January 1954, p. 43, and cover advances to savings and loan, building and loan, and homestead associations, to savings and cooperative banks, and to insurance companies which are members of the Federal Home Loan Bank system; outstandings are as at year ends.

[c] Data were supplied by the Board of Governors of the Federal Reserve System and represent loans, and participations in loans, to industrial and commercial businesses under Section 13b of the Federal Reserve Act as amended; outstandings are year-end figures.

[d] Data not available.

## TABLE A-28

Lending Activity of the Federal National Mortgage Association, 1938–1953, and the RFC Mortgage Company, 1935–1953
*(in thousands)*

| | FEDERAL NATIONAL MORTGAGE ASSOCIATION[a] Direct Housing Loans | | RFC MORTGAGE COMPANY[b] Direct Housing Loans | |
|---|---|---|---|---|
| YEAR | *Volume during Year* | *Outstandings at Year End* | *Volume during Year* | *Outstandings at Year End* |
| 1935 | .. | .. | $ 5,744 | $ 5,705 |
| 1936 | .. | .. | 33,880 | 36,126 |
| 1937 | .. | .. | 45,395 | 67,534 |
| 1938 | $ 82,166 | $ 80,266 | 35,316 | 54,227 |
| 1939 | 74,081 | 146,760 | 27,824 | 57,377 |
| 1940 | 48,042 | 181,101 | 26,148 | 67,300 |
| 1941 | 42,321 | 206,840 | 29,034 | 73,036 |
| 1942 | 23,178 | 210,928 | 45,646 | 97,578 |
| 1943 | 1,502 | 64,487 | 41,625 | 104,634 |
| 1944 | 200 | 52,423 | 45,048 | 102,211 |
| 1945 | 57 | 7,442 | 17,436 | 39,240 |
| 1946 | 33 | 5,591 | 2,715 | 13,610 |
| 1947 | 60 | 4,420 | 123,744 | 122,715 |
| 1948 | 197,945 | 199,295 | 16,060 | 131,296 |
| 1949 | 672,213 | 828,354 | .. | 122,653 |
| 1950 | 1,044,295 | 1,346,664 | .. | 91,909 |
| 1951 | 677,309 | 1,849,534 | .. | 78,477 |
| 1952 | 537,872 | 2,241,667 | .. | 71,920 |
| 1953 | 542,457 | 2,461,637 | .. | 65,529 |

[a] Data were supplied by the Federal National Mortgage Association and the Reconstruction Finance Corporation, or are from the *Semi-Annual Reports* of FNMA. They cover purchases of housing project and home mortgage loans insured by the Federal Housing Administration under Titles I, II, VI, VIII, and IX of the National Housing Act of 1934 or guaranteed by the Veterans' Administration under Title III of the Servicemen's Readjustment Act of 1944; also direct mortgage loans, made by FNMA under FHA insurance, on Alaskan properties as authorized by the Alaska Housing Act of 1949; and direct, FHA-insured loans on rental properties.

[b] Data were supplied by the Reconstruction Finance Corporation. Volume in 1947 and 1948 was partially estimated by assuming a constant monthly volume from October 1947 through March 1948; outstandings for 1947 were derived from estimated disbursements and repayments during the year. Both series cover the following: purchases of large-scale housing and home mortgage loans insured by the Federal Housing Administration under Titles I, II, and VI of the National Housing Act, and of VA-guaranteed home mortgage loans; loans on, and purchases of, mortgages secured by new and existing income-producing properties; loans to holders of mortgage bonds and certificates of deposit on such properties, in adverse circumstances; a loan for purchase of property and for building construction; and refunding loans to owners of business properties adversely affected by war conditions. The operations of the RFC Mortgage Company were discontinued in June 1947, but disbursements under previously approved commitments continued through 1948.

## TABLE A-29

Lending Activity of the Bureau of Community Facilities, 1942–1953, the Inland Waterways Corporation, 1921–1953, and the Tennessee Valley Authority, 1934–1951
*(in thousands)*

| | DIRECT LOANS TO MINOR GOVERNMENTAL UNITS | | | | |
|---|---|---|---|---|---|
| | *Bureau of Community Facilities*[a] | *Inland Waterways Corporation*[b] | | *Tennessee Valley Authority*[c] | |
| YEAR | *Outstandings* | *Volume* | *Outstandings* | *Volume* | *Outstandings* |
| 1921 | .. | $890 | d | .. | .. |
| 1922 | .. | .. | $2,150 | .. | .. |
| 1923 | .. | .. | 1,918 | .. | .. |
| 1924 | .. | .. | 1,198 | .. | .. |
| 1925 | .. | .. | 1,101 | .. | .. |
| 1926 | .. | 60 | 1,073 | .. | .. |
| 1927 | .. | 15 | 861 | .. | .. |
| 1928 | .. | 12 | 823 | .. | .. |
| 1929 | .. | 5 | 828 | .. | .. |
| 1930 | .. | 5 | 793 | .. | .. |
| 1931 | .. | .. | 731 | .. | |
| 1932 | .. | .. | 643 | .. | .. |
| 1933 | .. | .. | 618 | .. | .. |
| 1934 | .. | .. | 594 | $ 214 | $ 96 |
| 1935 | .. | 38 | 604 | 491 | 524 |
| 1936 | .. | .. | 576 | 725 | 1,226 |
| 1937 | .. | .. | 547 | 823 | 1,633 |
| 1938 | .. | .. | 514 | 873 | 2,543 |
| 1939 | .. | .. | 456 | 1,134 | 4,578 |
| 1940 | .. | .. | 435 | 853 | 4,172 |
| 1941 | .. | .. | 409 | 135 | 4,018 |
| 1942 | $ 324 | .. | 390 | 28 | 3,611 |
| 1943 | 3,711 | .. | 363 | 3 | 3,295 |
| 1944 | 4,663 | .. | 343 | .. | 2,938 |
| 1945 | 6,477 | .. | 314 | .. | 2,428 |
| 1946 | 4,996 | .. | 264 | .. | 724 |
| 1947 | 4,294 | .. | 224 | .. | 98 |
| 1948 | 2,784 | .. | 189 | .. | 69 |
| 1949 | 1,940 | .. | 271 | .. | 14 |
| 1950 | 1,681 | .. | 219 | .. | 9 |
| 1951 | 1,319 | .. | 185 | .. | 3 |
| 1952 | 1,268 | .. | 109 | .. | .. |
| 1953 | 1,022 | .. | 73 | .. | .. |

*(continued on next page)*

TABLE A-29 (*continued*)

[a] Year-end data, from the *Daily Statements* of, and material supplied by, the Treasury Department; represents loans for the construction of community facilities in defense production areas as authorized under Title II of the Lanham Act. Annual loan volume is not available; the total advanced under Title II was approximately $8,115,000. Data for the First and Second Advance Planning Programs (P.L. 458 and 352) are included in Table A-14.

[b] Data represent loans to states, municipalities, and transportation companies for the construction of terminal facilities as authorized under Section 201(c) of the Transportation Act of 1920. The volume series excludes approximately $385,000 in loans to private companies for which annual data are lacking. Year-end outstandings in 1953 exclude a $9 million mortgage received from the sale of the corporation's property and operating equipment.

Information on volume was compiled from *Public Aids to Transportation* (Federal Coordinator of Transportation, Vol. 3, Part 2, pp. 229 and 262f.) and on year-end outstandings, from the *Annual Reports* of the Inland and Coastwise Waterways Service and of the Inland Waterways Corporation, and from the *Daily Statements* of, and material supplied by, the Treasury Department. Outstandings for 1922 were estimated by linear interpolation between June 30 data for 1922 and 1923; 1923 data were estimated by computing monthly average change in outstandings between June 30, 1923 and December 31, 1924 and subtracting the average change for the six months after June 30, 1923. Outstandings for 1945 and 1947–1952 are for November 30.

[c] Data, supplied by the Tennessee Valley Authority, refer to loans under Section 12a of the Tennessee Valley Authority Act to municipalities and cooperative wholesale power distribution companies for acquisition and operation of power plants and distribution facilities. The figures for 1948–1950 exclude the amounts of the outstanding loan balance in connection with the sale of Norris Village on June 15, 1948. Outstandings are as at calendar year ends. Volume figures were estimated by linear interpolation of fiscal year data.

[d] Data not available.

## TABLE A-30

Lending Activity of the Defense Homes Corporation, 1941–1946, the Smaller War Plants Corporation, 1942–1946, and the War and Navy Departments and U.S. Maritime Commission, 1942–1953
*(in thousands)*

| | DEFENSE HOMES CORPORATION[a] | | SMALLER WAR PLANTS CORPORATION[b] | | WAR & NAVY DEPTS. AND U.S. MARITIME COMM.[c] | |
|---|---|---|---|---|---|---|
| | *Direct Housing Loans* | | *Direct Business Loans* | | *Business Loan Guarantees* | |
| YEAR | *Volume* | *Outstandings* | *Volume* | *Outstandings* | *Volume* | *Outstandings* |
| 1941 | $ 90 | $130 | .. | .. | .. | .. |
| 1942 | 428 | 557 | $ 3,090 | $ 774 | $ 928,000 | $ 632,474 |
| 1943 | 395 | 905 | 46,686 | 14,519 | 4,047,000 | 1,601,518 |
| 1944 | 27 | 936 | 167,767 | 35,756 | 3,315,000 | 1,482,038 |
| 1945 | .. | 901 | 120,794 | 28,500 | 1,723,000 | 435,345 |
| 1946 | .. | 787 | 12,183 | .. | 70,000 | 17,454 |
| 1947 | .. | ... | .. | .. | .. | 2,183 |
| 1948 | .. | .. | .. | .. | .. | 1,184 |
| 1949 | .. | .. | .. | .. | .. | 764 |
| 1950 | .. | .. | .. | .. | .. | 664 |
| 1951 | .. | .. | .. | .. | .. | 636 |
| 1952 | .. | .. | .. | .. | .. | 613 |
| 1953 | .. | .. | .. | .. | .. | 613 |

[a] Data represent mortgage loans for construction of housing in defense production areas. The program was transferred to the Reconstruction Finance Corporation for liquidation in March 1947; outstandings on unpaid loans are included in the RFC business loan series in Table A-9.

Volume estimates were made by linear interpolation of fiscal year data in the report of the Joint Committee on Reduction of Nonessential Federal Expenditures, *Federal Lending 1934–1948* (S. Doc. 103, 80th Cong., 1st sess., 1947, Table 1); outstandings as at calendar year ends were supplied by the Treasury Department.

[b] Data refer to loans, and participations in loans, to small business concerns engaged in the production of war and essential civilian goods. The accounts were transferred to the Reconstruction Finance Corporation for liquidation in January 1946; outstandings on unpaid loans are included in the RFC business loan series in Table A-9.

The volume data were supplied by the Reconstruction Finance Corporation; those for 1942–1944 were estimated by reducing approved authorizations by the proportion of the cumulative net amount authorized to the cumulated amount of applications approved by December 31, 1944. Year-end outstandings are from the *Daily Statements* of the Treasury Department.

[c] The estimates concern amounts of guarantees on loans to war contractors made by private financing institutions and guaranteed by the War Department, the Navy Department, or the U.S. Maritime Commission under Regulation V.

Volume was estimated from data in *A Statistical Study of Regulation V Loans,* by Susan S. Burr and Elizabeth B. Sette (Board of Governors of the Federal Reserve System, 1950, Tables 2 and 17, pp. 14 and 47) by reducing the principal amount of authorizations by the weighted average ratio of amount guaranteed to principal amount authorized. Year-end outstandings are from the *Federal Reserve Bulletin,* May 1949, p. 535, and from data supplied by the Board of Governors of the Federal Reserve System.

## TABLE A-31

Lending Activity of the Bureau of Indian Affairs, 1934–1953, the Disaster Loan Corporation, 1937–1945, the Federal Security Agency, 1942–1953, Prencinradio, Inc., 1943–1948, and the Puerto Rico Reconstruction Administration, 1936–1953

*(in thousands)*

| | DIRECT LOANS FOR MISCELLANEOUS PURPOSES | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Bureau of Indian Affairs*[a] | | *Disaster Loan Corporation*[b] | | *Federal Security Agency*[c] | | *Prencinradio, Inc.*[d] | | *Puerto Rico Reconstruction Adm.*[e] |
| YEAR | *Vol.* | *Outst.* | *Vol.* | *Outst.* | *Vol.* | *Outst.* | *Vol.* | *Outst.* | *Outst.* |
| 1934 | $ 139 | f | .. | .. | .. | .. | .. | .. | .. |
| 1935 | 205 | f | .. | .. | .. | .. | .. | .. | .. |
| 1936 | 344 | $ 179 | .. | .. | .. | .. | .. | .. | $1,955 |
| 1937 | 1,076 | 849 | $ 7,571 | $ 5,907 | .. | .. | .. | .. | 3,990 |
| 1938 | 1,461 | 2,091 | 2,982 | 6,932 | .. | .. | .. | .. | 4,598 |
| 1939 | 1,073 | 2,624 | 14,976 | 19,302 | .. | .. | .. | .. | 4,142 |
| 1940 | 665 | 2,648 | 5,444 | 20,905 | .. | .. | .. | .. | 4,216 |
| 1941 | 619 | 2,788 | 2,595 | 16,290 | .. | .. | .. | .. | 4,281 |
| 1942 | 775 | 2,700 | 1,108 | 6,876 | $ 652 | $ 652 | .. | .. | 4,165 |
| 1943 | 875 | 2,569 | 603 | 2,677 | 2,468 | 3,125 | $114 | f | 5,977 |
| 1944 | 1,011 | 5,879 | 848 | 1,735 | 209 | 3,044 | 97 | f | 6,708 |
| 1945 | 1,019 | 5,576 | 188 | .. | .. | 2,698 | 26 | $119 | 6,037 |
| 1946 | 1,381 | 5,808 | .. | .. | .. | 2,273 | 10 | 76 | 5,588 |
| 1947 | 2,214 | 6,132 | .. | .. | .. | 1,871 | .. | 25 | 5,418 |
| 1948 | 1,907 | 6,952 | .. | .. | .. | 1,577 | .. | 10 | 6,959 |
| 1949 | 2,239 | 7,537 | .. | .. | .. | 1,329 | .. | .. | 7,908 |
| 1950 | 2,973 | 9,984 | .. | .. | .. | 1,154 | .. | .. | 9,130 |
| 1951 | 2,568 | 11,197 | .. | .. | .. | 1,018 | .. | .. | 8,878 |
| 1952 | 1,770 | 11,693 | .. | .. | .. | 924 | .. | .. | 8,758 |
| 1953 | 765 | 11,208 | .. | .. | .. | 837 | .. | .. | 8,098 |

*(continued on next page)*

## TABLE A-31 (*continued*)

[a] Covers loans to Indians to promote industry and self-support made under yearly appropriations beginning in 1911, loans for educational purposes, as authorized under the Act of June 18, 1934, loans to Indians and Indian organizations such as tribes, credit associations, and cooperatives from a revolving fund established under the Acts of June 18, 1934 and June 28, 1936, and loans for emergency relief and rehabilitation made during 1935–1937. The volume series was estimated by linear interpolation of fiscal year data from the report of the Joint Committee on Reduction of Nonessential Federal Expenditures, *Federal Lending, 1934–1948* (S. Doc. 103, 80th Cong., 1st sess., 1947, Table 1) and from material supplied by the Bureau of Indian Affairs. Annual data on loans to promote industry are available only since 1934 and for education loans since 1939. Advances for 1911–1933 for the former totaled $5,441,000. Volume figures for emergency relief loans are also excluded for lack of annual data. Year-end outstandings are from the *Daily Statements* of, and material supplied by, the Treasury Department. For loans to promote industry and for education loans they are available only since 1944.

[b] Represents loans to victims of floods and other catastrophes occurring after January 1, 1936. The corporation was dissolved June 30, 1945; outstanding loan balances were transferred to the RFC and are included in the RFC miscellaneous loan series in Table A-9. Volume data, supplied by the RFC, represent annual withdrawals from funds held by the RFC for the Disaster Loan Corporation; as such they overstate somewhat the annual volume of loan disbursements. Outstandings as at year ends were supplied by the Treasury Department.

[c] Represents loans made by the Office of Education to students enrolled in accelerated courses during the war emergency period. In 1953 the Federal Security Agency was dissolved and its activities transferred to the Department of Health, Education, and Welfare. Volume data were estimated by linear interpolation of fiscal year data in the *Annual Reports* of the Federal Security Agency, except the 1942 figure, which was assumed to equal outstandings at December 31. Year-end outstandings are from the *Daily Statements* of, and material supplied by, the Treasury Department.

[d] Volume data were estimated by linear interpolation of fiscal year data from Senate Document 103 cited above. Year-end outstandings were supplied by the Treasury Department. The figures represent loans to radio stations in Uruguay and advances to Mexican motion picture producers, made through the Banco de Mexico as trustee, to finance the purchase of motion picture production equipment.

[e] Year-end outstandings, from the *Daily Statements* of, and material supplied by, the Treasury Department, refer to loans to farmers, farm tenants, laborers, and stockmen, and to cooperative associations and farm partnerships, for rural rehabilitation. Annual loan volume is not available. Liquidation of PRRA by February 14, 1955 was approved on August 15, 1953.

[f] Data not available.

## TABLE A-32

Lending and Loan Guaranteeing Activity of the Department of Defense, 1942–1953
(*in thousands*)

| | VOLUME DURING YEAR | | OUTSTANDINGS AT YEAR END | |
|---|---|---|---|---|
| YEAR | *Direct Business Loans*[a] | *Business Loan Guarantees*[b] | *Direct Business Loans*[a] | *Business Loan Guarantees*[b] |
| 1942 | $ 124 | c | $ 118 | c |
| 1943 | 10,603 | c | 9,769 | c |
| 1944 | 42,618 | c | 39,582 | c |
| 1945 | 5,390 | c | 14,526 | c |
| 1946 | 4,409 | c | 6,219 | c |
| 1947 | 2,292 | .. | 5,417 | c |
| 1948 | 6 | .. | 4,867 | c |
| 1949 | .. | .. | 4,451 | c |
| 1950 | .. | d | 4,335 | c |
| 1951 | 8,050 | $1,179,310[d] | 11,988 | $543,868 |
| 1952 | 7,342 | 2,223,924 | 12,599 | 703,338 |
| 1953 | 3,134 | 1,935,284 | 11,214 | 568,655 |

Compiled from material supplied by the Department of Defense and the Treasury Department.

[a] Covers direct loans to war contractors made by the War Department in 1943–1945, purchases of guaranteed portions of principal balances of loans guaranteed by the Navy and War Departments under Regulation V of World War II, and purchases of guaranteed portions of principal balances of loans guaranteed by the Army and Navy under Section 301 of the Defense Production Act of 1950.

[b] Refers to amount of commitments under loan guarantees written by the Departments of Army, Navy, and Airforce under Section 301 of the Defense Production Act of 1950. Guarantees on loans disbursed by the Reconstruction Finance Corporation are excluded, since covered in the RFC activity shown in Table A-9. Volume figures were estimated by reducing the total annual loan disbursements by yearly averages of percentage guaranteed on loans authorized.

[c] Data for guaranteeing activity of the Navy and War Departments under Regulation V are reported on a combined basis in Table A-30.

[d] The relatively small amount of activity in 1950 is included in the 1951 figure.

## TABLE A-33

Loan Guaranteeing Activity of the Atomic Energy Commission, the General Services Administration, and the Department of Commerce, 1951–1953

*(in thousands)*

| | BUSINESS LOAN GUARANTEES | | |
|---|---|---|---|
| YEAR | *Atomic Energy Commission*[a] | *General Services Administration*[b] | *Department of Commerce*[a] |
| | | VOLUME DURING YEAR | |
| 1951 | c | $157,129 | $540 |
| 1952 | c | 111,517 | 383 |
| 1953 | c | 49,614 | 90 |
| | | OUTSTANDINGS AT YEAR END | |
| 1951 | $163 | $ 37,374 | $540 |
| 1952 | 512 | 100,470 | 85 |
| 1953 | 370 | 99,191 | 124 |

Volume data were supplied by General Services Administration and the Department of Commerce; outstandings, by the Treasury Department.

[a] Represents the amount of commitments on loans guaranteed under Section 301 of the Defense Production Act of 1950.

[b] Refers to amount of commitments on loans guaranteed under Section 301 of the Defense Production Act of 1950; and the amounts covered by letters of credit issued by GSA (and its predecessor, the Defense Materials Procurement Agency) as authorized under Section 303 of the Defense Production Act of 1950 to finance the overseas procurement of commodities. Excludes guarantees on Defense Production Act loans disbursed by the Reconstruction Finance Corporation, since they are included under RFC activity in Table A-9. The volume data were estimated by reducing total annual disbursements by yearly averages of percentage guaranteed on loans authorized.

[c] Data not available.

## APPENDIX B

# An Analysis of the Business Loans of the Reconstruction Finance Corporation, 1934-1951

PART of the research undertaken in preparing this volume was a detailed analysis of the business loans of the Reconstruction Finance Corporation. Only a few tabulations of RFC business loan data appear in the foregoing chapters, and in order that the statistics concerning this excursion of the federal government into the business credit market may be available in detail, the analysis as a whole is included here.

### *Objects of the Study*

Of all federal lending agencies, the Reconstruction Finance Corporation had probably the most complex history. Its influence, from 1932 up to its termination in 1953 was pervasive; posed difficult problems of public policy; and drew more congressional attention than perhaps any other federal enterprise.

The business loan program was only one category of RFC activity. Begun in the early thirties as an anti-depression measure, it never reached the dimensions of the RFC programs for defense plant financing and construction, rubber and tin production, and stockpiling. Yet by its nature and continuity, the business loan program probably was the most controversial of RFC's operations.

#### LEADING ISSUES

Among the issues posed by RFC business lending were these: Should the federal government continuously operate an agency for the financing of private business? What functions could a federal source of business credit perform? Were there "gaps" in private finance which only a government agency could fill? If such gaps were not always present, did they emerge in time of war or deep economic depression? Was RFC needed in times of high employment as a stand-by source of credit? What effect did the program have upon the efficiency with which economic resources were utilized? Upon the vigor of private enterprise? Upon private financial institutions and markets?

A description of the business loans made by RFC during the seventeen-year period from mid-1934 through 1951 and comparisons of them, where practicable, with term loans to businesses by commercial banks will make it possible:

(1) To assess the magnitude of RFC business credit in relation to the total amount of business term credit.
(2) To compare the characteristics of businesses that borrowed money from RFC with those of businesses that were customers of private financial institutions.
(3) To compare the characteristics of RFC business loans with those of loans made by private lending agencies.
(4) To show what changes occurred in the business loans of RFC over its history.
(5) To contrast the record of repayment, default, and loss on RFC loans with that for business loans made by private institutions.
(6) To ascertain the types of RFC loans on which experience was favorable and the types that did not turn out well.

A number of questions also arise in connection with RFC's cooperation with commercial banks in lending money to business. Did "participation" loans perform a unique economic function, or did they merely transfer to a public agency risks which private banks would otherwise have borne? In particular,

(1) What types of businesses borrowed under RFC-bank participation agreements, and how did they compare with firms which borrowed directly from banks or from the RFC?
(2) How did the characteristics of participation loans compare with those of nonparticipation credits?
(3) What kind of commercial banks participated with RFC in business lending, and in what respects did banks participating frequently differ from banks which participated on only one occasion?
(4) What were the reasons for bank participation?

The importance of the policy questions involved was not diminished by the 1953 action of Congress in replacing RFC with a Small Business Administration. The basic issues remain, and a systematic analysis of RFC business loan experience can help to solve them.

### SOURCES OF DATA AND METHODS OF STUDY

RFC was required by law to make monthly reports to Congress stating the name and address of each borrower and the amount of the loan authorized. For national security reasons these reports were discontinued in World War II. RFC also made quarterly and annual reports to Congress summarizing the number and amounts of loans authorized, canceled, disbursed, repaid, and outstanding. Another source of information about the Corporation's business loans are the reports of investigating committees of Congress. Supplementing published reports of RFC, these records give data on number of loans (by size and industry), loans in default, and losses. Detailed information about methods of appraising credit and servicing business loans was also assembled. Finally, the reports of the Comptroller General contain analyses of the costs of RFC business lending.

Despite all of this, comprehensive data on all RFC loans to business, giving details on the characteristics of loans and of the borrowing firms, have been lacking. To fill this gap, two special studies were undertaken by the National Bureau of Economic Research during 1952 with the cooperation of RFC. The first was a sample study of nonparticipation loans authorized by RFC through June 30, 1951 and disbursed before the end of 1951; the second, an analysis of participation loans authorized up to July 1, 1947. The account of RFC business lending which follows is based mainly on these data.

Even with comprehensive loan information, the account is not exhaustive. Being confined to a description of loans authorized or disbursed by RFC, it does not adequately describe the influence exercised by the Corporation in handling thousands of loan applications, in contacts with banks in behalf of borrowers, and in its mere existence as a "court of last resort" for business credit.

A brief review of the original purposes of Congress in granting to the Corporation powers to make direct loans to business enterprises, of subsequent alterations in those powers, and of the organization of operations precedes the analysis of loans, lending experience, and costs.

### *Evolution of RFC's Statutory Power to Make Business Loans*

The Reconstruction Finance Corporation Act of 1932 was an anti-depression measure intended to aid agriculture, commerce, and industry by strengthening the national credit structure.[1] On the assumption that the rehabilitation of banking institutions and the restoration of confidence in them would promote recovery, the lending powers of RFC were originally confined to the relief of financial institutions,[2] primarily commercial banks, insurance companies, and mortgage institutions. Direct loans to commercial and industrial firms were not contemplated.

[1] P.L. 2, 72nd Cong., January 22, 1932.

[2] The one exception was the railroad industry. For analysis of RFC activities in aid of railroads and financial institutions, see *The Reconstruction Finance Corporation, 1932–41*, by James B. Eckert (unpublished dissertation, Cornell University, 1947). See also *Fifty Billion Dollars: My Thirteen Years with the RFC (1932–1945)*, by Jesse H. Jones with Edward Angly (Macmillan, 1951), Chaps. I–XI.

By 1934 the financial crisis had been surmounted, but economic recovery was incomplete. Hearings held then by the House Committee on Banking and Currency indicated that RFC had not succeeded in helping small businesses, and a bill was introduced in the Senate designed to make the credit facilities of the Federal Reserve Banks available for industrial purposes. An amendment to the original bill extended the same power to the RFC.[3]

### THE ACTS OF 1934 THROUGH 1938

The business lending activities of RFC began with the approval, in June 1934, of "An act relating to direct loans for industrial purposes by the Federal Reserve Banks, and for other purposes."[4] This authorized RFC to make loans to any industrial or commercial enterprise established before January 1, 1934. Such loans could be made by RFC alone or in cooperation with banks or other lending institutions.

The dominant purpose of the act was to maintain and increase employment by making RFC loans available to solvent business enterprises unable to obtain credit through normal channels. Loans were to be subject to such terms, conditions, and restrictions as the Board of Directors of the RFC might determine. The statute placed specific limitations upon the maturity, collateral security, and volume of loans to be made. The maximum maturity of business loans was five years; all loans were to be adequately secured; the aggregate outstanding amount was limited to $300 million and the aggregate amount for any one borrower to $500,000. The power to make loans under the act was to terminate on or before January 31, 1935. The act specifically authorized loans to the fishing and mining industries, subject to the same terms, conditions, and limitations.

Although severe limitations were imposed by the 1934 law, Congress was disappointed that a large volume of loans did not develop. In a letter to the President dated January 17, 1935, RFC chairman Jesse Jones stated that few business loans had been made because most of the businesses that needed help were unable to comply with the requirements of the law. Consequently, Congress passed on January 31, 1935, "An Act to extend the functions of the RFC for two years, and for other purposes."[5]

The original law had required that loans be adequately secured, and RFC interpreted this to mean that the current market value of collateral must be at least equal to the principal amount of a loan. The 1935 act provided merely that "loans shall be so secured as reasonably to assure repayment."

3 *Loans to Industry*, H. Rept. 1719 to accompany S. 3487, 73rd Cong., 2nd sess., May 21, 1934.

4 P.L. 417, 73rd Cong., June 19, 1934.

5 P.L. 1, 74th Cong., January 31, 1935.

Secondly, whereas the 1934 statute had provided that all disbursements must be made within one year from the date of commitment, the 1935 act permitted disbursements at any time up to January 31, 1936 on commitments made before the new act. This change gave recognition to the fact that in many instances, especially in the case of receivers' loans, it was impossible to make disbursement within one year.

Thirdly, in order to avoid strain on the borrower resulting from a requirement of rapid repayment, the 1935 act provided that advances, renewals, or extensions of loans were to mature at such time as the RFC might determine, but not later than January 31, 1945. Since the previous maturity limit had been February 1, 1940, the effect was to extend the maximum maturity of RFC loans from five years to ten.

Fourth, the 1935 act struck out the provision that the aggregate of loans to any one borrower must be limited to $500,000.

The 1935 act also expanded the list of industries or operations specifically mentioned as eligible for RFC credit. Thus, it authorized loans to "any institution, now or hereafter established, financing principally the sale of electrical, plumbing, or air conditioning appliances or equipment or other appliances, both urban and rural"; and loans in the field of mining, milling, or smelting ores could be made for the development of sources of gold, silver, or tin ore as well as to producing firms.

The concern of Congress—that the direct lending powers of RFC were granted temporarily on an emergency basis to supply credit not otherwise available—was clearly indicated by the act of January 26, 1937 "to continue the functions of the RFC, and for other purposes."[6] This provided that the President might suspend any RFC lending activity when it was shown that any class of authorized borrowers had credit sufficiently available from private sources, upon fair terms and rates, to meet its legitimate demands. By that means the act intended to facilitate a withdrawal of the credit functions of the RFC during the two-year extension of its lending authority that was provided; but events moved in an unexpected direction.

Early in 1938 it became apparent that the nation was again in the throes of economic recession and a variety of corrective measures were prepared. One of these was an act, approved in April 1938, designed to liberalize the requirements relating to RFC business loans.[7] The act authorized RFC to purchase the securities and obligations of any business enterprise, thus enabling the Corporation to provide credit *and* capital when either was not otherwise available on reasonable terms and conditions from private sources. In accordance with this new provision, the collateral security requirements of the law were expanded to provide that

[6] P.L. 2, 75th Cong., January 26, 1937.
[7] P.L. 479, 75th Cong., April 13, 1938.

all purchases of securities and loans were to be of such sound value or so secured as to reasonably assure retirement of repayment. The limitation on maturities was removed and RFC authorized to set maturity dates by administrative decision.

DEFENSE LOAN POWERS IN 1940 AND THEREAFTER

The national defense and war programs brought further expansions of RFC's business lending powers. The first law relating to the wartime activities of RFC, approved in June 1940, authorized RFC to make loans to, or to purchase the capital stock of, any corporation for the purpose of developing and producing strategic and critical materials; for plant construction, expansion, and equipment; and for working capital, "to be used by the corporation in the manufacture of equipment and supplies necessary to the national defense."[8] Important nonlending functions were added: RFC was authorized to organize subsidiary corporations to produce or to aid in the production of critical materials, to purchase and lease land and other property for producing war materials, and to lease such property to private corporations.[9] All such activities were to be subject to such terms and conditions as the RFC might determine.

Although RFC had possessed authority to make loans for mineral development for some time, the acute shortage of certain critical minerals indicated that more definite legislation was needed. Accordingly, an act of September 1940 authorized the Corporation "to make loans for the development of deposits of strategic and critical minerals which, in the opinion of the Corporation, would be of value to the United States in time of war."[10] As before, loans were not to exceed $10,000,000 in the aggregate, and the total of loans to any one borrower was limited to $20,000, except that an additional $20,000 might be advanced if the borrower had expended funds previously obtained from RFC in such a manner as to justify another loan.

A further liberalization of the wartime powers of RFC occurred under an act approved in June 1941, which made a *carte blanche* extension of the emergency powers of the Corporation by authorizing *any* action which, in the opinion of the President and the Federal Loan Administrator, might

[8] P.L. 664, 76th Cong., June 25, 1940.

[9] This power was extended by P.L. 506, 77th Cong., March 27, 1942, which authorized the RFC to acquire real estate by purchase, lease, condemnation, or otherwise, in order to carry out the provisions of the law relating to the authority of subsidiary corporations created pursuant to Section 5(d) of the RFC Act as amended.

The Defense Plant Corporation, the Metals Reserve Company, the Rubber Reserve Company, and the Defense Supplies Corporation created by an act of June 25, 1940 were dissolved by a joint resolution approved June 30, 1945 (P.L. 109, 79th Cong.), and the power of the RFC to create such corporations was removed in 1947 by joint resolution (P.L. 132, 80th Cong., June 30, 1947).

[10] P.L. 784, 76th Cong., September 16, 1940.

expedite the defense program. The aggregate amount of funds authorized to be outstanding in carrying out the provision was limited to $200,000,000.[11]

Finally, the wartime role of RFC was enlarged by the passage on June 11, 1942 of "An act to mobilize the productive facilities of small business in the interests of successful prosecution of the war, and for other purposes." This authorized RFC to make loans to, to purchase the obligations of, and to subscribe to the capital stock of any business enterprise for any purpose deemed by the Corporation to be advantageous to the national defense, subject to such terms and conditions as the Corporation might determine. The act also authorized the War and Navy Departments to participate in or to guarantee any loan made by the RFC pursuant to the above provision.[12]

### THE 1947 CHARTER AND THE 1948 ACT

Up to the end of World War II the business lending powers of RFC were successively widened by a series of amendments to the RFC Act. The life of the Corporation itself—originally conceived to be a temporary agency—was extended from time to time. In 1947 Congress approved a joint resolution repealing most of the existing legislation affecting RFC, and provided a new charter for the Corporation.[13] The law was designed to codify the functions of the RFC, to terminate most of its war powers, and to maintain it with greatly diminished powers as a government financial agency whose activities could be expanded should circumstances require.

As to the maturity and the collateral security of business loans the 1947 charter made no change; but in order to compel the liquidation of some outstanding loans and security holdings, the aggregate of loans, purchases, investments, and commitments authorized to be outstanding at any one time under all programs was limited to $2 billion. The requirement that loans and other commitments could be made only if private credit was not available on reasonable terms and conditions was retained; in fact, it was strongly emphasized in a House committee report that no loans or other commitment should be made unless the RFC had tangible evidence that credit was not otherwise available on reasonable terms.[14] The report also made clear that RFC should extend credit only on such terms and conditions as would not have the practical effect of making the Corporation a competitive source of business credit.

The congressional investigation that was largely responsible for these changes was still in process on June 30, 1947, the date previously set for the expiration of the Corporation. The joint resolution of 1947

[11] P.L. 108, 77th Cong., June 10, 1941.

[12] P.L. 603, 77th Cong., June 11, 1942. [13] P.L. 132, 80th Cong., June 30, 1947.

[14] *Reconstruction Finance Corporation Act*, House Report No. 626, Committee of the Whole House on the State of the Union, 80th Cong., 1st sess., June 21, 1947.

therefore extended the succession and powers of the RFC for only one additional year. When the hearings were concluded and the final report of the investigations committee was submitted in 1948, a plenary revision of the statutes relating to the RFC was undertaken. In May 1948 a new RFC act became law.[15]

Senate debates reveal that the May 25, 1948 act was a turning point in the congressional view of RFC's business lending purposes and methods.[16] The committee on banking and currency concluded that four basic considerations should thereafter govern RFC's operations: (1) RFC should not compete with private sources of credit, (2) loans should be made only when the public interest was served thereby, (3) all lending activities should be self-sustaining as far as possible, and (4) the activities of the Corporation should be sharply curtailed in times of inflation. The committee apparently was of the opinion that the normal decline of applications in good times would automatically tend to reduce RFC's activity; it also advocated a limit on outstandings, and regular congressional review of operations. Under the 1948 act the aggregate of investments, loans, purchases, and commitments outstanding under all programs after June 30, 1947 was not to exceed $1.5 billion (later increased), and the Corporation was required to report regularly to Congress each direct loan of $100,000 or more to any one borrower, each loan in which the Corporation had a participation, and each investment of $100,000 or more in securities.

In accordance with the foregoing basic principles, the 1948 act continued the business lending powers and functions of the RFC subject to certain limitations: First, no loan or other commitment was to be made unless credit was not otherwise available on reasonable terms from private sources. Secondly, all securities or other obligations purchased by the Corporation, and all loans made by it, were to be of such sound value or so secured as to reasonably assure retirement or repayment. Thirdly, a ten-year maturity limitation was applied to loans, excepting that any loan made before July 1, 1947 might be renewed or extended in the interest of national defense or to aid in its orderly liquidation, and loans made for the purpose of construction of industrial facilities could have a maturity of ten years *plus* such additional period as might be required to complete the construction. Fourthly, in the case of deferred participation agreements, participation by the RFC was limited to 70 percent of the balance of the loan outstanding at the time of the disbursement in those cases where the total amount borrowed was $100,000, or less, and to 60 percent where the amount exceeded $100,000.

15 P.L. 548, 80th Cong., May 25, 1948.

16 Senate Report 974, 80th Cong., 2nd sess., March 1948. Committee on Banking and Currency, *Report on the Operations of the Reconstruction Finance Corporation* to accompany S. 2287.

Special statutory authority to make loans to particular types of business had been conferred on RFC by previous legislation, but experience had clearly shown that supplying credit on special terms resulted in extensive losses.[17] The 1948 act granted no such special authority.[18]

The capital stock of the RFC held by the U.S. Treasury was reduced to $100,000,000. Since all funds in excess of authorized capital stock and of accumulated surplus above $250,000,000 were to be paid by RFC into the Treasury, the effect was to compel RFC to pay interest thereafter on most of the funds used in conducting its operations.

In late 1950 RFC was directed to give priority under its regular lending programs to loans that would promote national defense; and in 1951 and 1952 it was given special lending powers to aid defense production.

### *Administration of the Business Loan Program*

#### CENTRAL ORGANIZATION

The management of RFC was vested by law in its board of directors. For many years the Corporation functioned without a president or general manager. Jesse H. Jones served as chief executive while holding the office of Chairman of the Board of Directors (and later the office of Federal Loan Administrator) up to his resignation in 1945. The Corporation continued to operate with a five-member board of directors under a succession of chairmen up to May 1951, when, under Reorganization Plan 1 of 1951, the board of directors was replaced by an Administrator and a Loan Policy Board (responsible for basic lending policies) composed of the Secretaries of the Treasury and of Commerce, the RFC Administrator, and the RFC Deputy Administrator. The reorganization plan also established a Board of Review within the Corporation, composed of five loan examiners, to which all loan applications were referred. The Administrator could act contrary to the recommendation of the Board of

17 During the war RFC had expanded its program of assistance for mineral development purposes: many loans were not repaid.

18 On August 10, 1948, one special provision was added by P.L. 901 (80th Cong.). In order to aid in housing construction, the RFC was authorized to make loans to and purchase the obligations of any business enterprise for the purpose of providing financial assistance for the production of prefabricated houses or prefabricated housing components, or for large-scale modernized site construction. Terms, maturities, and conditions were to be such as the Corporation might determine. To the extent that the proceeds of such loans or purchases were used for the purchase of plant and equipment or machinery, the principal obligation was not to exceed 75 percent of the purchase price. The total authorized to be made available under this act was limited to $50,000,000 outstanding at any one time; and it was stipulated that no aid under the act was to be forthcoming unless it was not otherwise available on reasonable terms. As of September 7, 1950, this power was transferred to the Housing and Home Finance Agency by Reorganization Plan 23 of 1950.

Review, but only if he placed in the record a statement of his reasons for so doing.[19]

As of June 30, 1945 the activities of the Corporation were organized into the following divisions: Agency Division; Examining Division; Self-Liquidating [Loan] Division; Railroad Division; Legal Division; Treasurer's Office; Auditing Division; Statistical and Economic Division; Secretary's Office; Division of Personnel; Division of Information; Warehousing Division; Real Estate Division. During 1946 the office of Controller was established within the Corporation. It will be observed that the primary basis of RFC's internal organization was functional, the only exceptions being the divisions responsible for self-liquidating and railroad loans. One consequence of this is that the cost of administering any single program is difficult to determine.

### FIELD OFFICE ORGANIZATION AND FUNCTIONS

Not long after RFC began operations in 1932, field offices or "loan agencies" were set up throughout the United States. During most of the period covered by business loan operations, RFC had 31 such agencies. So great was the volume of business, and so urgent were the loan applications, that the Board of Directors delegated to the managers of loan agencies authority to make final decisions on loans within certain limits. The extent of this delegation of authority varied from time to time, depending on the Board's view of the relative importance of policy uniformity and speed; in general, the administration after the early years and through World War II provided for a large measure of decentralization of the lending process.

As described in Senate hearings during 1947,[20] the procedure was that all business loan applications were filed initially with a loan agency. Agency managers were authorized to make direct loans up to $100,000, and participation loans up to $350,000 (provided a bank took at least a 25 percent participation) without prior Board approval. Applications recommended by the agency for decline were forwarded to Washington for a final decision.

Direct loan applications were assigned at once to an examiner. He determined the loan's eligibility (whether it would promote employment, was affected with a public interest, etc.), ascertained whether the borrower could obtain a loan through normal banking channels (by communicating with the applicant's banker), and analyzed the nature of the applicant's

[19] *Annual Report and Financial Statements*, Reconstruction Finance Corporation, 1951, p. 4.

[20] *Hearings* before a Subcommittee of the Committee on Banking and Currency, U.S. Senate, 80th Cong., 1st sess., on S. Res. 132, "A Resolution for an Inquiry into the Operation of the Reconstruction Finance Corporation and Its Subsidiaries"; Part 1, December 1947, pp. 32f., 219.

business, his managerial record and methods, his credit standing, and the security offered for the loan. The examiner's report and recommendation, if favorable, suggested terms and conditions.

The examiner's report was next reviewed by the agency review committee, composed of the senior credit examiners of the agency, and then submitted to the agency manager along with the committee's recommendations. If a loan of less than $50,000 was recommended, the agency manager could act finally, if affirmatively. If the proposed loan exceeded $50,000, it was reviewed by the agency advisory committee, consisting of experienced businessmen and bankers in the community. Agency managers were free to accept or reject the advice of the advisory committee.

A loan application that involved a larger credit than the agency office could approve, or one that was viewed negatively by the agency manager, was forwarded to Washington, along with the local examiner's report and the agency manager's recommendation. There it was assigned to another examiner, who obtained supplemental information, if necessary, and made his own report. This report, along with the entire loan file, was examined by the Washington review committee, whose chairman submitted the application finally to the RFC Board with the committee's recommendation.

Thus managers of loan agencies had final authority to act on the large majority of separate applications for direct or participation loans; and under the blanket participation program announced in March 1945[21] their powers, though subject to Board approval of the agreement with each bank, were considerable. This program provided, in effect, for an automatic guaranty by RFC of up to 75 percent of a loan made by an approved bank to a business enterprise which met the requirements of a blanket participation agreement between the bank and RFC. Each such agreement was subject to approval of the RFC Board; and with respect to each loan made under such an agreement, loan agency managers had power to approve of the reasonableness of the salaries and compensation paid to officers and key executives of the borrowing firm—a statutory requirement for all RFC direct or participation loans. As will be shown later, a very large volume of bank lending developed under such blanket participation agreements.

Appreciable divergence of lending practices among the agencies was possible, despite review in Washington of all large and all rejected loan applications. Partly because of congressional criticism, as of May 1951 RFC Administrator Symington withdrew from the loan agencies authority to approve of any loans, excepting disaster loans, and returned this authority to the Washington office. The result was a more uniform loan policy throughout the nation, but at the cost of slower processing of applications.

21 RFC Circular No. 25, *Information Regarding Blanket Participation in Loans Made by Banks to Business Enterprises*, March 1945.

## APPENDIX B

EFFICIENCY OF BUSINESS LOAN ADMINISTRATION

Any attempt to appraise the quality of administration of the business loan program confronts the difficulty that the criteria ordinarily applicable to the management of a business enterprise were inapplicable in the case of RFC. RFC did not seek to maximize profit in any sense; nor, indeed, to realize any profit at all. It necessarily took risks which led to abnormally high ratios of losses to funds disbursed. Congress charged it with the duty of making many loans which, by their nature, were bound to end in loss. One is therefore forced to rely upon qualitative factors in judging the administration of RFC's business programs. Were its personnel able and experienced? Were its policies and procedures designed to give a searching review of the salient features of loan applications?

RFC attracted an unusually large number of experienced and competent financial men during the thirties, because alternative opportunities were limited. The wide range of financial operations undertaken by RFC during World War II also attracted men of ability.[22] During the post-World War II period, disclosures of "influence" and political favoritism in the administration of certain business loans suggest that there was some deterioration at that time in the quality of RFC personnel.

A reading of a large number of business loan files in the Corporation's hands reveals that investigations of loan applicants were characteristically conducted with thoroughness, that judgments of collateral values—though not infallible—reflected a careful weighing of the evidence, and that normally every precaution was taken to assure the repayment of sums advanced.

### *Characteristics of RFC Direct Business Loans*

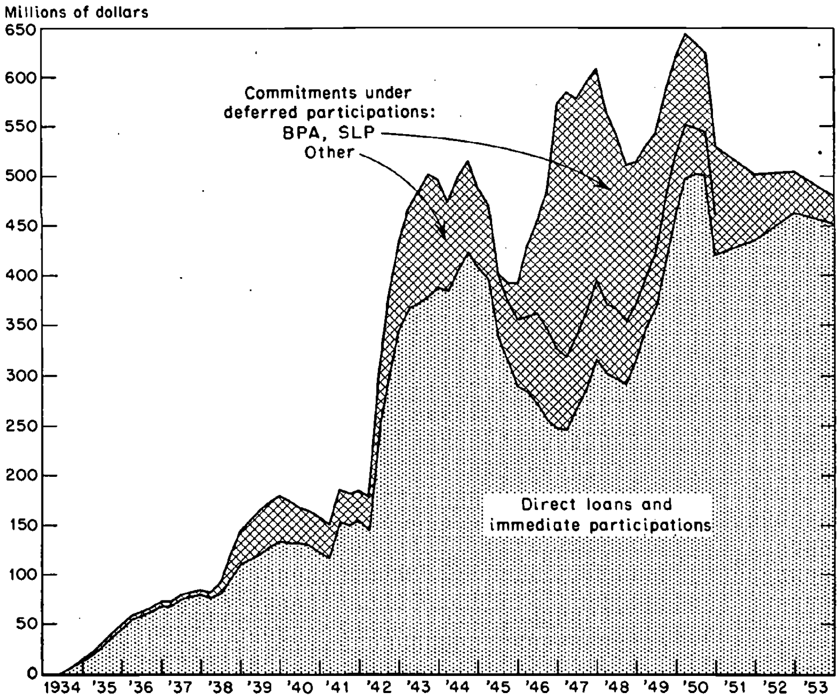
The course of RFC's business lending and loan guaranteeing activity over the full period of the Corporation's existence and including all types of programs is shown in Chart B-1, quarterly through 1950 and annually thereafter. Outstanding balances of direct loans cover those made under regular and wartime powers, and include RFC's share in immediate participation loans made with commercial banks. Commitments outstanding distinguish between two classes of deferred participations: those authorized under both regular and wartime powers where each loan was separately appraised by RFC, and those authorized under the blanket participation program that began in 1945 and continued in slightly restricted form after 1947 as the small loan participation program.

The long-term sweep of RFC business credit activity is seen in the chart as a rising trend, with commitments under deferred participations always a material fraction of the total except in the earliest years. Yet

[22] Although perhaps not fully representative, the list of "Some RFC Alumni Who Have Done Well" given by Jesse H. Jones is illustrative of the high caliber of personnel obtained by RFC. See *Fifty Billion Dollars* (cited in footnote 2), p. 602ff.

CHART B-1

RFC Business Lending and Loan Guaranteeing: Amounts Outstanding Quarterly 1934–1953




Covers loans and guarantee commitments (deferred participations) under both regular and wartime powers. Through June 30, 1947 data are from "Quarterly Reports" of the RFC; thereafter from records supplied by that agency, with adjustment of direct loans 1951–1953 to exclude outstanding railroad loans (from "Daily Statements" of the Treasury Department).

outstandings did not rise above $200 million until 1942; during the war period they rose sharply, to more than $500 million in 1944. After a brief decline, the entry of the BPA program in the reconversion period brought total outstandings to still higher levels by the end of 1946, and they remained above $500 million through 1952. Apart from the blanket participation programs the marked decline after 1944 continued until late 1946, but steep rises followed, especially in direct lending. Even at the highest, however, RFC direct loan outstandings would appear but small in comparison with commercial bank term lending: in 1946 the bank outstandings totaled $4.6 billion.[23]

For a summary of RFC activity in terms of number of loans, somewhat

[23] Duncan McC. Holthausen, "Term Lending to Business by Commercial Banks in 1946," *Federal Reserve Bulletin*, May 1947, Table 1, p. 499.

less comprehensive figures are available. From the beginning in June 1934 through mid-1951 approximately 47,000 business loans were authorized out of about 88,000 applications, totals that cover direct loans under both regular and wartime powers and also participation loans except under the BPA program. Of the 47,000, not quite half (about 23,100) were regular loans made solely by RFC. Of these, at least 5,900 were canceled, so that funds were disbursed on perhaps 17,000. To them the analysis now turns, reserving the participation programs to a later section.

The development of the business lending operations of RFC as sole lender and under peacetime laws may logically be studied in the following series of phases corresponding to strategic changes in the authority of the Corporation:

(1) *June 1934 to January 1935* marked the beginning of business lending operations, under rather restrictive statutory powers.
(2) *February 1935 to April 1938* began with the relaxation of RFC's statutory authority to omit the requirement of 100 percent collateralization of loans, to extend maximum term from 5 to 10 years, and to remove the limit of $500,000 to any one borrower.
(3) *May 1938 to May 1940* was marked by a further liberalization of RFC lending powers, notably by enabling the Corporation to purchase securities and obligations of any business.
(4) *June 1940 to February 1945,* during which RFC was empowered to make loans to or purchase securities of businesses engaged in national defense operations, without restrictions as to collateral, maturity, or use of proceeds; relatively little lending was done under the regular programs.
(5) *March 1945 to January 1947,* a period of postwar reconversion.
(6) *February 1947 to May 1948,* beginning with a new charter for RFC repealing its war powers and requiring it to have tangible evidence that a borrower could not obtain credit elsewhere.
(7) *June 1948 to June 1951,* beginning with enactment of a new RFC act specifying that RFC should not compete with private sources of credit, that loans should serve the public interest, and that activities should be curtailed in times of inflation.

Table B-1 presents estimates of the number and amount of direct business loans disbursed by RFC during each phase of the Corporation's program through 1951.[24] Over the entire seventeen-year period, the Corporation is estimated to have disbursed nearly $1.2 billion on the more than

[24] The analysis of RFC direct business loans in this chapter and the next is based on a sample survey, made by the National Bureau of Economic Research, of all such loans authorized by the RFC under its regular lending authority from the beginning of the program in June 1934 through June 1951. Besides loans to firms generally classified as manufacturing and merchandising enterprises, those to mining companies, transportation companies other than railroads, and housing

## APPENDIX B

### TABLE B-1

Estimated Number and Amount of RFC Direct Business Loans Disbursed 1934–1951, by Periods of the Business Lending Program

| PERIOD OF LOAN AUTHORIZATION | NUMBER | AMOUNT (THOUSANDS) | PERCENTAGE DISTRIBUTION | |
|---|---|---|---|---|
| | | | *Number* | *Amount* |
| June 1934 to January 1935 | 389 | $ 20,947 | 2.4% | 1.8% |
| February 1935 to April 1938 | 1,118 | 87,609 | 7.0 | 7.6 |
| May 1938 to May 1940 | 2,140 | 106,277 | 13.3 | 9.2 |
| June 1940 to February 1945 | 600 | 67,279 | 3.7 | 5.8 |
| March 1945 to January 1947 | 2,792 | 191,752 | 17.4 | 16.5 |
| February 1947 to May 1948 | 2,397 | 120,256 | 14.9 | 10.4 |
| June 1948 to June 1951 | 6,607 | 565,520 | 41.2 | 48.8 |
| Total | 16,043 | $1,159,640 | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans. The sample includes 2,851 loans and covers disbursements through December 1951 on loans authorized through June 30, 1951, exclusive of participation loans and national defense loans.

16,000 loans authorized through mid-1951. It is apparent that apart from the excluded national defense loans the program was of comparatively small dimensions until the postwar years 1945 and thereafter. Nearly three-quarters of the loans, by number and by amount, were made after February 1945; not far from half during the period beginning in June 1948. This acceleration shows that RFC credit to business was not used as a counter-cyclical measure after 1940. On the contrary, it expanded during a period of general economic prosperity and price inflation.

In the detailed analysis that follows, tabulations will usually cover the full seventeen-year span, with comment in the text on significant changes within the shorter periods.

#### CHARACTERISTICS OF THE LOANS

RFC regular business loans were predominantly in the middle size brackets, in comparison with the term loans held by commercial banks. A size classification of RFC loans made over the years 1934–1951 and of term loans made by Federal Reserve member banks in the year preceding November 20, 1946 discloses that 65 percent of the bank loans were in original amounts under $5,000, whereas only 28 percent of RFC loans

construction and manufacturing firms are included. From a total of about 17,000 net authorizations, a sample of 2,851 loans was drawn covering all loans of $500,000 or more and a random selection of the smaller loans: roughly 10 percent of the loans of $100,000 or less, and nearly half the loans in the intermediate range. Before tabulating the results, the data for each size stratum below $500,000 were inflated by the reciprocal of the sampling ratios to obtain estimated full coverage. Tested against complete totals by region, industry, size of loan authorization, and year authorized, the estimates appeared representative of the population sampled.

were of such small amount (Table B-2).[25] Obviously, the RFC direct loan program cannot be described as filling a "gap" in the private financial markets for small term loans, because commercial banks had penetrated far more extensively into that market by 1946. The Corporation was not as well geared as were commercial banks to serve very small businesses. Higher up the loan-size scale, RFC had noticeably higher percentages of the number of its term loans to business in the $10,000 to $100,000 brackets than did commercial banks. As regards the amounts of funds disbursed, both RFC and commercial banks had nearly half their funds in loans of $1 million or over.

There were three periods, however, during which RFC shifted noticeably into smaller loans. Between May 1938 and May 1940 about 50 percent of the loans disbursed were under $10,000. Again, in 1945 and 1946 more than two-thirds of the loans, and during 1947 and up to May 1948 more than one-half, were under this amount. During mid-1948 through mid-1951, however, there was a marked shift toward loans of larger amount, possibly as a result of price inflation. Since 1935 it had consistently been true, nevertheless, that upwards of three-quarters of the funds disbursed to business by RFC represented loans of $100,000 or more.

Because of the widespread complaints of businessmen during the thirties, special interest attaches to the maturity terms of RFC loans. Commercial banks traditionally made business loans maturing in one year or less; only during the past fifteen years or so have they engaged actively in the extension of term credits. The Federal Reserve survey of the business loans held by member banks on November 20, 1946 revealed that, of an estimated 673,000 business loans aggregating $13.2 billion held by member banks at that date, 144,400 loans aggregating $4.6 billion had an original maturity in excess of one year. That is, 22 percent of the number and 34 percent of the amount of business loans of commercial banks were term loans.[26] In contrast, RFC operated almost exclusively in the field of term credit. Of its loans made during 1934–1951, less than half of one percent of the number and one percent of the amount had a term to maturity of under one year.

A comparison of the term loans made by RFC with those made by commercial banks, though inexact because of nonuniform class intervals, indicates that the RFC credit was of much longer duration. Of the term loans made by banks during the year ending November 20, 1946, no less

[25] The comparison somewhat understates the amounts disbursed by banks, because the size distribution refers to amounts outstanding in November 1946 (i.e. exclusive of amounts repaid twelve months or less after origination); but repayments within so short a period could scarcely affect the great contrast shown.

[26] Cf. Albert R. Koch, "Business Loans of Member Banks," *Federal Reserve Bulletin*, March 1947, Table 1, p. 255, and Holthausen, *op.cit.*, Table 13, p. 511.

## TABLE B-2

### Distributions by Size of Loan and Term to Maturity for RFC Direct Business Loans Disbursed 1934–1951 and for Commercial Bank Term Loans to Business Made in 1946

| LOAN CHARACTERISTICS | NUMBER OF LOANS | | AMOUNT OF LOANS | |
|---|---|---|---|---|
| | *RFC 1934–1951* | *Member Banks 1946* | *RFC 1934–1951* | *Member Banks 1946* |
| SIZE OF LOAN[a] | | | | |
| Under $1,000 | 2.0% | 19.7% | b | 0.4% |
| $1,000–4,999 | 26.3 | 45.6 | 1.0% | 3.8 |
| 5,000–9,999 | 14.5 | 13.9 | 1.3 | 3.2 |
| 10,000–24,999 | 21.7 | 10.7 | 4.2 | 5.1 |
| 25,000–49,999 | 13.2 | 4.1 | 5.7 | 4.2 |
| 50,000–99,999 | 12.0 | 2.5 | 9.8 | 5.0 |
| 100,000–499,999 | 8.2 | 2.4 | 19.0 | 16.3 |
| 500,000–999,999 | 1.1 | 0.6 | 9.5 | 12.4 |
| 1 million and over | 1.0 | 0.5 | 49.5 | 49.8 |
| TERM TO MATURITY[c] | | | | |
| 1 year | 8.1% | 45.2% | 8.5% | 18.3% |
| 2 yrs. | 11.6 | | 7.4 | |
| 3, 4 yrs. | 28.5 | 34.3 | 12.8 | 27.4 |
| 5–9 yrs. | 43.9 | 17.5 | 41.3 | 47.5 |
| 10 yrs. and over | 6.3 | 3.0 | 28.5 | 6.8 |
| Other[d] | 1.6 | .. | 1.5 | .. |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

RFC data are based on the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-1. Bank data are from a sample survey by the Board of Governors of the Federal Reserve System covering 2,000 member banks, and represent an estimated 119,900 term loans to industrial and commercial businesses made between November 1, 1945 and November 20, 1946 and still outstanding (to an estimated amount of $3.2 billion) on the latter date; see "Term Lending to Business by Commercial Banks in 1946," by Duncan McC. Holthausen, *Federal Reserve Bulletin*, May 1947, Tables 6 and 14, pp. 505 and 513.

a Size classes, for FRC loans, refer to amount authorized; for bank loans, to amount outstanding.

b Less than 0.05 percent.

c The class intervals differ for the two samples as follows:

| *RFC* | *Member Banks* |
|---|---|
| 7–18 mos. | 12–24 mos. |
| 19–30 | |
| 31–54 | 25–60 |
| 55–114 | 61–120 |
| 115 and over | 121 and over |

d Includes loans with terms of six months or less, and a few loans payable "on demand" or whose term to maturity was unknown.

than 45 percent of the number and 18 percent of the amount had an original maturity of two years or less. Only a fifth of the commercial bank term loans, accounting for 54 percent of the total amount, had original maturities of over five years. In contrast, fully half of RFC loans, accounting for nearly 70 percent of the amount disbursed from 1934 through 1951, had original maturities of five years and over (Table B-2). Clearly, a salient distinction between RFC and commercial banking term credit has been the greater length of RFC terms.

Tabulations (not shown) of the maturity distribution of RFC loans made at different periods indicate that a smaller than usual proportion of the loans made during the war and immediate postwar periods—30 to 40 percent—had maturities of five years and over; up to 1940, and again from mid-1948 on, the proportion ranged from about half to three-quarters. As to amount, the longer-term loans consistently accounted for more than half of RFC credit disbursed. In fact, from 1935 through 1946, more than 80 percent of the credit was for terms of five years or more; and in 1945 and 1946 nearly three-fourths of the amount advanced was for ten years or more. The record reveals more stability than change, five to nine years being the modal maturity except from 1945 to mid-1948, when about one-third of the loans were made with terms of three to four years.

RFC was required by statute to lend money in support of employment and production, an injunction that was broadly interpreted to mean that it could lend to prevent reductions in production and employment. This made it possible to approve loans to refund outstanding debt. However, the principal use of loans by borrowers was to augment working capital: just under 34 percent of the number of loans, accounting for 38 percent of the amount of credit disbursed, were of this type (Table B-3). Re-

TABLE B-3

Distribution by Borrower's Use of Proceeds, for RFC Direct Business Loans Disbursed 1934–1951

| *Principal Use of Proceeds* | *Number* | *Amount Disbursed* |
|---|---|---|
| Construction of plant | 11.0% | 11.8% |
| Purchase of equipment | 27.5 | 12.4 |
| Repayment or retirement of debt | 21.2 | 35.5 |
| Addition to working capital | 33.9 | 38.4 |
| Purchase of land and buildings | 3.6 | 0.8 |
| Purchase of existing business | 2.6 | 0.9 |
| Not available | 0.2 | 0.2 |
| Total | 100.0% | 100.0% |

From the National Bureal of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-1.

payment of outstanding loans, federal taxes, trade debt, and other obligations was the principal use of 21 percent of the loans, accounting for 36 percent of the amount of credit disbursed. Another frequent principal purpose of RFC loans was to purchase machinery and equipment, this being the dominant motive behind 28 percent of the number and 12 percent of the amount of credit. These three principal purposes jointly accounted for 83 percent of the number and 86 percent of the amount of funds disbursed by RFC. Construction of plant, purchase of business assets, and purchase of existing enterprises were comparatively unimportant as principal uses of RFC funds, although they may have constituted secondary uses in many loan transactions.

An analysis of the term loans to business firms held by a sample of commercial banks about June 30, 1941 indicates that retirement of outstanding obligations, increase of working capital, and purchase of machinery and equipment have also been the dominant uses of commercial bank term credit.[27] Apparently, businesses have used RFC credit for about the same purposes as they have used bank term loans.

Older, established enterprises tended to use the proceeds of RFC loans predominantly to augment their working capital, whereas new and recently established firms tended to use the funds primarily to purchase machinery and equipment. This is an interesting divergence, which may help to explain the comparative default and loss experience of RFC in its loans to enterprises of various ages, to which reference is made subsequently.

### CHARACTERISTICS OF THE BORROWING BUSINESSES

We may now turn to the characteristics of RFC's borrowing enterprises, especially their size, age, industry, and region.

Table B-4 presents percentage distributions by size of borrowing business for RFC loans disbursed during 1934–1951. Table B-5 compares that information with a similar distribution for business term loans held by Federal Reserve member banks late in 1946. It is apparent that nearly three-quarters of the number of bank term credits went to businesses with assets of under $50,000, whereas only about half of the RFC loans went to such small firms. At the other end of the scale, a considerably higher proportion of the amount of bank term loans than of RFC loans went to firms with assets of $5 million or more. Evidently, RFC found the market for its credit services to business relatively largest among the medium-sized firms, with assets between $50,000 and $5 million. The notion that RFC mainly provided credit to "small business" is clearly without foundation in the comparative sense; for although RFC did extend credit to many

[27] Neil H. Jacoby and R. J. Saulnier, *Term Lending to Business* (National Bureau of Economic Research, Financial Research Program, 1942), pp. 51f.

## TABLE B-4

Business Size Distribution
of RFC Direct Business Loans Disbursed 1934–1951

| *Size of Business*[a] | *Number* | *Amount Disbursed* |
|---|---|---|
| Less than $5,000 | 7.2% | 0.3% |
| $5,000–24,999 | 18.7 | 1.5 |
| 25,000–49,999 | 14.2 | 2.3 |
| 50,000–99,999 | 13.0 | 4.2 |
| 100,000–249,999 | 13.0 | 8.8 |
| 250,000–499,999 | 7.4 | 7.2 |
| 500,000–749,999 | 3.1 | 5.7 |
| 750,000–999,999 | 1.5 | 4.0 |
| 1–4.9 million | 3.2 | 19.7 |
| 5–49.9 million | 0.8 | 18.5 |
| 50 million and over | 0.1 | 11.8 |
| Not available | 17.7 | 16.0 |
| Total | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-1.

[a] Based on total assets of borrowers at time of loan application.

## TABLE B-5

Business Size Distributions of RFC Direct Business Loans Disbursed 1934–1951 and Commercial Bank Term Loans to Business Outstanding November 20, 1946

| | NUMBER OF LOANS | | AMOUNT OF LOANS | |
|---|---|---|---|---|
| SIZE OF BUSINESS (TOTAL ASSETS) | *Made by RFC*[a] *1934–1951* | *Held by Member Banks,*[a] *1946* | *Made by RFC*[a] *1934–1951* | *Held by Member Banks,*[a] *1946* |
| Under $50,000 | 48.7% | 74.0% | 4.9% | 7.9% |
| $50,000–249,999 | 31.6 | 17.1 | 15.5 | 8.6 |
| 250,000–749,999 | 12.8 | 3.7 | 15.4 | 5.3 |
| 750,000–4,999,999 | 5.8 | 2.2 | 28.2 | 11.6 |
| 5,000,000 and over | 1.1 | 3.0 | 36.0 | 66.6 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

RFC data are from the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-1. The underlying bank data are estimates from a nationwide survey of 2,000 member banks and cover 144,400 term loans to commercial and industrial businesses, totaling $4.6 billion, that were outstanding November 20, 1946; see "Term Lending to Business by Commercial Banks in 1946," by Duncan McC. Holthausen, *Federal Reserve Bulletin,* May 1947, Table 7, p. 506.

[a] Excludes loans unclassified by business size of borrower.

small firms with assets under $50,000, the concentration of commercial bank term loans in that field was much greater, both in number and amount.[28]

As its business loan program progressed, the percentages of RFC loans made to small and medium-sized borrowers combined were quite stable; but the proportion of loans to the smaller firms of that group increased. Firms with assets between $50,000 and $1 million received about three times as many loans, up to 1938, as did smaller firms; but from May 1938 through May 1948 the greater number went to the small firms, after which the situation again reversed. In amount, the small firms' share never exceeded 6 percent, and the principal shift for the other size groups was a greatly increased share for large firms during the war—June 1940 through February 1945—perhaps because smaller borrowers were being served through the defense loans of RFC, which are not included among the loans analyzed here.

As to age of borrowing firm: Only one-seventh of the business loans made by the RFC from 1934 to mid-1951 were for financing the establishment of new business ventures (Table B-6). The proportion varied markedly within the period. Relatively few loans to establish new businesses were made up to World War II; from June 1940 through February 1945, such loans formed only 6 percent of the small number of nondefense loans covered by the sample; but during 1945 and 1946 nearly half the loans went to businesses just starting. In amount such loans were never an important part of the total, even in 1945 and 1946 ac-

TABLE B-6

Distribution by Year Borrowing Firm Was Established, for RFC Direct Business Loans Disbursed 1934–1951

| *Year Borrower Established* | *Number* | *Amount Disbursed* |
|---|---|---|
| Before 1931 | 25.2% | 40.2% |
| 1931–1942 | 20.2 | 31.6 |
| 1943–1949 | 36.3 | 24.5 |
| 1950–1951 | 2.3 | 1.1 |
| Newly forming at time of loan | 14.3 | 1.5 |
| Not available | 1.7 | 1.1 |
| Total | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-1.

[28] Nearly a fifth of bank term loans to businesses with total assets under $50,000 are unsecured, "character" loans, a type of loan RFC was forbidden to make.

counting for less than 4 percent. As to the proportion going to new businesses in a broader sense—that is, to firms organized within three years or less before date of loan as well as to newly forming ventures—Table B-9, below, gives information covering the full period. About 36 percent of RFC direct loans, accounting for 11 percent of the amount disbursed, went to such firms. Unfortunately, these data are not commensurable with the available information on commercial bank term loans.[29]

Taking the period 1934–1951 as a whole, the conclusion is inescapable that RFC business loans were heavily concentrated in the manufacturing segment of business (Table B-7). Nearly two-thirds of operating businesses in the American economy in 1946 were in retail trade (43 percent of the total) and service (21 percent—mostly small ventures not generally using institutional credit. Nevertheless, over half of the business term loans held by Federal Reserve member banks in November 1946 had been made to those groups (retail trade, 37 percent; services, 17 percent). Of RFC business loans made during 1934–1951 only three-tenths went to the retail and service groups (about 15 percent each). On the other hand, manufacturing firms, which comprised less than 10 percent of the business population and were accountable for about 15 percent of the business term loans outstanding in commercial banks in 1946, received about 45 percent of RFC business loans made through mid-1951.

In dollar amount the contrasts are equally striking, with retail and service firms accounting for larger shares of bank outstandings than of RFC loans made, and with three-quarters of RFC credit extended to manufacturing firms, as against somewhat more than half of the bank outstandings. Even more striking is the heavy concentration of RFC credit in the metals group of manufacturing firms. Two out of every five dollars advanced to business by RFC went to that group; but of the amount of bank holdings, only about one-sixth was owed by manufacturers in the metals industry. Presumably such firms were particularly subject to business cycle fluctuations and often found it comparatively difficult to obtain credit from private sources. Also notable are the relatively heavier concentrations of bank holdings in the groups including petroleum, coal, chemicals, rubber, and transportation, communications, utilities; and of RFC credit in the textiles, apparel, leather group and in miscellaneous manufacturing—lumber, stone, clay, glass, paper and printing, etc.

In all subperiods, metals and machinery producers were important among RFC borrowers. Through May 1938 they received about one-fourth of the loans and three-tenths of the amount disbursed. Thereafter only about a seventh of the loans went to the metals industry, but its share

[29] Of member bank term loans outstanding November 20, 1946, 44 percent of the number and 9 percent of the amount were obligations of firms three years old or less on that date (Holthausen, *op.cit.*, Table 4, p. 504).

TABLE B-7

Industry Distributions of RFC Direct Business Loans Disbursed 1934–1951, of Commercial Bank Business Term Loans Outstanding in 1946, and of All Operating Businesses in 1946

| INDUSTRY | NUMBER OF OPERATING BUSINESSES SEPT. 1946 | NUMBER OF LOANS: *Made by RFC 1934–1951* | NUMBER OF LOANS: *Held by Member Banks Nov. 1946* | AMOUNT OF LOANS: *Made by RFC 1934–1951* | AMOUNT OF LOANS: *Held by Member Banks Nov. 1946* |
|---|---|---|---|---|---|
| Total manufacturing and mining[a] | 9.4% | 48.0% | 14.6% | 76.2% | 52.0% |
| Food, liquor, and tobacco | 1.0 | 8.2 | 1.8 | 6.5 | 8.6 |
| Textiles, apparel, and leather | 1.3 | 5.4 | 1.0 | 7.9 | 2.2 |
| Metals and metal products[b] | 1.8 | 13.8 | 4.2 | 40.3 | 15.6 |
| Petroleum, coal, chemicals and rubber | 0.8 | 3.0 | 1.6 | 5.6 | 16.6 |
| Other[c] | 4.5 | 17.6 | 5.9 | 15.9 | 9.0 |
| Retail trade | 43.4 | 15.5 | 37.3 | 2.8 | 9.0 |
| Wholesale trade | 5.0 | 4.6 | 6.8 | 1.4 | 4.9 |
| Construction | 7.0 | 6.3 | 5.3 | 3.0 | 1.4 |
| Transportation, communications, and public utilities[d] | 4.6 | 8.3 | 11.7 | 8.1 | 21.1 |
| Services | 21.4 | 14.6 | 16.7 | 3.0 | 5.1 |
| Finance, insurance, and real estate[e] | 9.2 | 0.5 | 0.2 | 5.1 | 1.6 |
| All other[f] | g | 2.1 | 7.4 | 0.4 | 4.9 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Bank data are from Table 2 of "Term Lending to Business by Commercial Banks in 1946," by Duncan McC. Holthausen, *Federal Reserve Bulletin,* May 1947, p. 502. The underlying figures—144,400 loans totaling $4.6 billion—are estimates of outstanding term loans of all member banks to commercial and industrial businesses on November 20, 1946 and were developed from a nationwide sample survey of business loans held by almost 2,000 member banks.

RFC data are based on the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-1.

Data for the business population cover all firms outside of agriculture, forestry, fishing, and the professional services which were in operation on September 30, 1946 and are from the *Survey of Current Business* (Department of Commerce), June 1949, p. 21. A firm is defined as a business organization under one management and includes self-employed persons provided they have one or more employees or an established place of business.

[a] Mining companies represent just under one percent of all business firms in operation in late 1946, and among RFC borrowers account for only 3 percent of both the number and amount of loans disbursed. A breakdown of the combined total owed to banks by manufacturing and mining firms is not available.

[b] Besides metal mining the series for all operating businesses includes coal mining companies, but these two types combined formed less than 0.3 percent of the business population. Metal mining firms obtained under one percent of both the number and amount of loans made by the RFC.

[c] Covers lumber and lumber products; paper and allied products or industries, such as printing; stone, clay, and glass products (including nonmetallic mining or quarrying), and other miscellaneous manufactured products.

[d] Data for the RFC exclude railroads.

[e] For member banks, includes only sales finance companies.

[f] For the RFC, covers farming and fishing; for member banks, includes forestry, fishing, and real estate as well as a few cases for which type of business was unknown.

[g] Not covered in the Department of Commerce estimates of the business population.

of the funds did not diminish except briefly, and increased to 45 percent during 1945–1951; in the reconversion years, 1945 and 1946, such firms received over 70 percent of RFC disbursements. Manufacturers of textiles, apparel, and leather goods, a group which in the mid-thirties received about a fifth of the number and amount of loans, had a steadily decreasing share thereafter—only about one-twentieth during 1945–1951. Producers of lumber, furniture, paper, stone, clay, and glass received about a third of the amount disbursed up to mid-1938 and a fourth of the number of loans until 1944, but then their share declined, to roughly one-seventh of the number and amount of loans made in 1945–1951. In the war period, transportation, communications, and public utility firms were heavy borrowers, judging by the nondefense loans covered here, receiving about a tenth of the loans and 37 percent of the funds disbursed. Retail and service enterprises, inconspicuous among RFC borrowers in the early years, became more important after the thirties as to number of loans, so much that during 1945–1951 their share equaled that of all manufacturers combined, roughly one-third of all loans; presumably many of these retail and service credits were in aid of small businesses owned by veterans, for in amount they were less than a tenth of the total. Similar ventures in local trucking may explain the high frequency and small average amount of loans to transportation firms during 1945 and 1946.

Table B-8, comparing the distribution of RFC loans by location of the borrowing firm with the distribution of all operating businesses, affords an indication of the direction in which RFC affected the regional flow of credit. It is clear that firms in highly industrialized states—California and the Middle Atlantic and East North Central groups—received a relatively small share of RFC loans: only about 25 percent, whereas they included more than 50 percent of the nation's business population in 1948. Conversely, relatively large numbers of RFC loans were made in states whose business population was small, for instance in the southern and far western sections of the country. Firms in Texas obtained nearly 14 percent of all RFC loans, although only 5 percent of the nation's business firms were located there. Oklahoma, Arkansas, Tennessee, Georgia, and Florida show similar disparities. For Washington and Oregon, too, the percentage share of RFC loans was about three times their share of the business population. Altogether, the states mentioned accounted for nearly half of all RFC loans, but for only about 15 percent of the business population.

The differences in the regional distribution of public and private loans probably reflect a somewhat lesser sufficiency of private banking facilities, at least in places of smaller population, in the areas where RFC was relatively most active, and some tendency for these areas to have a more

# TABLE B-8

## Geographic Distribution of RFC Direct Business Loans Disbursed 1934–1951, of Business Loans Held by Commercial Banks in 1941 and 1951, and of All Operating Businesses in 1948

| REGION AND STATE | OPERATING FIRMS IN CONTINENTAL U.S., 1948[a] | RFC LOANS, 1934–1951 | | OUTSTANDINGS ON COMMERCIAL BANK LOANS | |
|---|---|---|---|---|---|
| | | *Number* | *Amount* | *June 30, 1951* | *Dec. 31, 1941* |
| New England | 6.91% | 3.61% | 5.78% | 6.06% | 6.94% |
| Maine | 0.74 | 0.11 | 0.61 | 0.28 | 0.30 |
| New Hampshire | 0.44 | 0.19 | 0.14 | 0.17 | 0.16 |
| Vermont | 0.28 | 0.14 | 0.11 | 0.09 | 0.14 |
| Massachusetts | 3.44 | 2.20 | 3.19 | 4.17 | 4.16 |
| Rhode Island | 0.55 | 0.12 | 0.10 | 0.51 | 0.47 |
| Connecticut | 1.46 | 0.85 | 1.63 | 0.84 | 0.71 |
| Middle Atlantic | 22.86 | 10.17 | 18.44 | 41.82 | 43.91 |
| New York | 13.07 | 5.27 | 9.93 | 32.86 | 35.10 |
| New Jersey | 3.61 | 1.56 | 3.22 | 1.64 | 1.62 |
| Pennsylvania | 6.18 | 3.34 | 5.29 | 7.32 | 7.19 |
| East North Central | 20.66 | 10.30 | 21.19 | 16.42 | 17.85 |
| Ohio | 4.91 | 2.19 | 4.92 | 3.54 | 3.79 |
| Indiana | 2.50 | 1.18 | 1.29 | 1.03 | 1.02 |
| Illinois | 6.75 | 2.64 | 3.28 | 8.67 | 9.86 |
| Michigan | 4.00 | 3.45 | 10.47 | 1.91 | 1.78 |
| Wisconsin | 2.50 | 0.85 | 1.23 | 1.27 | 1.40 |
| West North Central | 9.91 | 5.58 | 3.71 | 6.33 | 6.48 |
| Minnesota | 2.01 | 1.13 | 0.42 | 1.53 | 1.63 |
| Iowa | 1.92 | 0.54 | 0.50 | 0.74 | 0.78 |
| Missouri | 2.77 | 1.94 | 2.06 | 2.75 | 3.02 |
| North Dakota | 0.37 | 0.33 | 0.24 | 0.09 | 0.08 |
| South Dakota | 0.44 | 0.19 | 0.02 | 0.12 | 0.08 |
| Nebraska | 0.97 | 0.83 | 0.28 | 0.52 | 0.44 |
| Kansas | 1.43 | 0.62 | 0.19 | 0.58 | 0.45 |
| South Atlantic | 11.07 | 15.13 | 13.55 | 6.14 | 6.47 |
| Delaware | 0.23 | 0.06 | 0.07 | 0.27 | 0.28 |
| Maryland | 1.27 | 1.16 | 5.08 | 0.57 | 0.75 |
| District of Columbia | 0.58 | 0.06 | 0.29 | 0.57 | 0.48 |
| Virginia | 1.66 | 0.70 | 1.13 | 0.92 | 1.05 |
| West Virginia | 0.96 | 0.22 | 0.22 | 0.25 | 0.37 |
| North Carolina | 1.78 | 1.18 | 1.20 | 1.16 | 1.00 |
| South Carolina | 0.88 | 0.27 | 0.28 | 0.30 | 0.32 |
| Georgia | 1.62 | 5.11 | 2.58 | 1.29 | 1.39 |
| Florida | 2.09 | 6.37 | 2.69 | 0.81 | 0.83 |
| East South Central | 4.97% | 10.52% | 4.98% | 2.85% | 2.97% |
| Kentucky | 1.33 | 2.24 | 0.84 | 0.70 | 0.86 |
| Tennessee | 1.50 | 4.54 | 2.40 | 1.29 | 1.30 |
| Alabama | 1.33 | 2.77 | 1.08 | 0.59 | 0.62 |
| Mississippi | 0.81 | 0.97 | 0.66 | 0.27 | 0.19 |

(*continued on next page*)

TABLE B-8 (*continued*)

| REGION AND STATE | OPERATING FIRMS IN CONTINENTAL U.S., 1948a | RFC LOANS, 1934–1951 Number | RFC LOANS, 1934–1951 Amount | OUTSTANDINGS ON COMMERCIAL BANK LOANS June 30, 1951 | OUTSTANDINGS ON COMMERCIAL BANK LOANS Dec. 31, 1941 |
|---|---|---|---|---|---|
| West South Central | 8.78 | 23.54 | 9.01 | 7.49 | 5.68 |
| Arkansas | 1.00 | 3.97 | 1.53 | 0.24 | 0.21 |
| Louisiana | 1.23 | 0.83 | 0.40 | 0.95 | 1.05 |
| Oklahoma | 1.38 | 4.83 | 0.95 | 0.98 | 0.97 |
| Texas | 5.17 | 13.91 | 6.13 | 5.32 | 3.45 |
| Mountain | 3.40 | 6.55 | 2.16 | 1.62 | 1.17 |
| Montana | 0.46 | 1.08 | 0.35 | 0.14 | 0.10 |
| Idaho | 0.39 | 1.18 | 0.33 | 0.18 | 0.10 |
| Wyoming | 0.21 | 0.14 | 0.05 | 0.08 | 0.05 |
| Colorado | 0.92 | 2.39 | 0.83 | 0.51 | 0.43 |
| New Mexico | 0.40 | 0.61 | 0.26 | 0.17 | 0.09 |
| Arizona | 0.48 | 0.33 | 0.07 | 0.23 | 0.12 |
| Utah | 0.39 | 0.59 | 0.22 | 0.27 | 0.25 |
| Nevada | 0.15 | 0.23 | 0.05 | 0.04 | 0.03 |
| Pacific | 11.46 | 13.69 | 20.50 | 10.71 | 8.52 |
| Washington | 1.71 | 6.50 | 2.51 | 1.38 | 1.39 |
| Oregon | 1.21 | 3.68 | 2.19 | 0.89 | 0.61 |
| California | 8.54 | 3.51 | 15.80 | 8.44 | 6.52 |
| Possessions | .. | 0.91 | 0.68 | 0.56 | 0.01 |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

RFC data are from the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-1. Bank series, which refer to commercial and industrial loans held by insured commercial banks at the end of 1941 and by all operating banks in mid-1951, were computed from data in *Assets and Liabilities of Operating Insured Banks* (Federal Deposit Insurance Corporation), December 31, 1941, Report No. 16, pp. 4–28, and *Assets, Liabilities, and Capital Accounts . . . Commercial and Mutual Savings Banks, id.*, June 30, 1951, Report No. 35, p. 8. Numbers of business firms in operation in March 1948 are from *Survey of Current Business*, December 1949, Table 6, p. 14.

proportionate share of new firms and of firms in new industries. Whatever, the reason, relatively large numbers of RFC loans were made in capital deficit areas, and relatively small numbers in areas of capital surplus.

The amounts of RFC credit advanced to businesses in the different states over the period 1934–1951 may also be compared, in Table B-8, with the amounts of commercial and industrial loans held by banks at mid-1951 and at the end of 1941. It appears that the regional pull of RFC loan disbursements was similar to that noted above in terms of the number of firms aided, though in a few states differences between public and private lending are traceable to a few very large RFC loans. Thus the number of California firms receiving RFC aid was, as noted previously, disproportionately small, but those firms received nearly 16 percent of RFC credit, whereas banks in California held only 8 percent of the national total of commercial and industrial loans in mid-1951. The various loans to Henry Kaiser enterprises centered in this state no doubt explain the disparity. Similarly, the loan to the Kaiser-Fraser Company in Michigan helps explain why that state received 10 percent of all RFC credit and yet had not quite 2 percent of commercial and industrial loans held by banks in mid-1951.

Up to mid-1938 firms in the Middle Atlantic region obtained about three-tenths of the number and one-fourth the amount of loans, and together with the East North Central states accounted for about half of the RFC credit totals. After 1938, firms in more recently industrializing regions—notably the East South Central, West South Central, and Pacific areas—tended to obtain increasing shares. Because these were areas of rapid economic growth, it may be inferred that RFC tended, through time, to engage in venture financing in regions where the capital demand was high in relation to supply and investment opportunities were comparatively large. It is notable that over the entire seventeen-year period, nearly 24 percent of the number of loans were made in the West South Central area (mainly Texas), aggregating only 9 percent of the amount disbursed in the nation. Evidently a comparatively large number of smaller-than-average loans were made in this area. The Pacific area obtained 14 percent of the number and about 20 percent of the amount of loans disbursed—also larger figures than the relative economic importance of the region would suggest.

The majority of firms that borrowed from RFC—probably not less than seven out of every ten—received only one loan. But 20 percent of all RFC loans during the full period 1934–1951 went to repeat borrowers, and these repeat loans were of very large size, accounting for more than half of the total amount disbursed. During the period June 1940 through February 1945 (a period of few loans, in the present sample, because those made under wartime powers are excluded) the proportion of repeat loans rose to 38 percent by number and 64 percent by amount. In short, a substantial part of the RFC credit volume was generated by firms which had used such aid before. In some cases the borrowing firm had not been financially rehabilitated by the first loan and remained unable to raise credit from private sources. In other cases, the firm's credit requirements increased after the first loan, and RFC increased the size of its commitment by a new loan.

#### FINANCIAL STRENGTH AND CREDIT RATINGS OF RFC BORROWERS

Under its regular programs RFC had authority to lend to business firms only when they were unable to procure credit on reasonable terms from customary sources, and the most frequent reason why businesses are unable to obtain funds from commercial banks is that they lack the requisite financial strength. Special interest therefore attaches to a study of the creditworthiness of RFC borrowers. In the present investigation creditworthiness was measured by trends in sales, in net income, in net worth, and in the current ratios of borrowing firms during the three years preceding the loan authorization. Indexes for the year last preceding the negotiation of the loan were also utilized: the current ratio, the ratio of net worth to debt, and the credit rating assigned by Dun & Bradstreet.

Did RFC tend to finance firms whose sales trends during the three years prior to their loan applications were strongly upward, horizontal, or declining? Of the number of loans disbursed over the whole period 1934–1951, 23 percent were to firms with strong or moderate uptrends in sales prior to loan authorization, 20 percent were to firms with horizontal or mixed trends, and 9 percent were to firms with moderate or strong down-trends; 36 percent were to firms so recently established as to have no data for judging sales trend, and the remainder to established firms for which no data were available (Table B-9). With respect to amount, 45 percent of the credit went to businesses with horizontal or mixed sales trends, 27 percent to firms with rising sales, 12 percent to firms with falling sales, and the balance to firms for which data were lacking or inadequate.

Thus the striking feature of the record, besides the numerous loans to new and young enterprises, is the extent to which RFC funds were concentrated in financing firms with apparently stable business volumes. However, in 1934 about 30 percent of RFC credit went to depression-hit businesses with sharply declining sales. During 1935 through April 1938 over a third of both the number and amount of RFC loans went to firms with strong uptrends in sales, and very little went to firms with sales declines. During the period of war and postwar readjustment, especially the latter, a much increased fraction of the number of loans went to new firms without sales records sufficient to show trends (in fact, 69 percent during March 1945 through mid-1948). Though firms with horizontal sales trends received relatively fewer loans, as did other categories of established firms, by amount their share nevertheless increased.

The over-all distribution of RFC loans by three-year net income trend of borrower resembles that by sales trend, except that firms with sharp declines appear more important here, receiving about a tenth of the loans and a fifth of the amount (Table B-9). Numerous loans to new businesses, and a preponderance of funds going to firms with stable or mixed net income trends, stand out.

Time changes in the distribution by net income trend also resemble

## TABLE B-9

Distributions of RFC Direct Business Loans Disbursed 1934–1951, by Trends in Borrower's Sales, Net Income, Net Worth, and Current Ratio during Three Fiscal Years Prior to Loan Authorization

| NATURE OF TREND IN BORROWER'S FINANCIAL CONDITION[a] | NUMBER OF LOANS | | | | AMOUNT DISBURSED | | | |
|---|---|---|---|---|---|---|---|---|
| | *Sales* | *Net Income* | *Net Worth* | *Current Ratio* | *Sales* | *Net Income* | *Net Worth* | *Current Ratio* |
| Sharply upward | 18.0% | 16.1% | 4.6% | 3.8% | 22.0% | 17.6% | 16.3% | 11.5% |
| Moderately upward | 5.4 | 1.4 | 3.1 | 1.5 | 4.5 | 0.7 | 6.6 | 7.0 |
| Horizontal or mixed | 20.4 | 23.1 | 8.6 | 8.4 | 44.7 | 43.9 | 24.2 | 27.5 |
| Moderately downward | 5.2 | 1.8 | 3.2 | 2.7 | 4.5 | 1.6 | 7.6 | 5.7 |
| Sharply downward | 4.2 | 10.8 | 1.9 | 4.2 | 7.6 | 19.7 | 5.4 | 8.1 |
| New businesses[b] | 35.8 | 35.8 | 35.8 | 35.8 | 10.6 | 10.6 | 10.6 | 10.7 |
| Records not available | 11.0 | 10.9 | 42.7 | 43.5 | 6.1 | 5.9 | 29.3 | 29.5 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-1.

[a] "Sharply" upward or downward refers to average annual expansion or contraction of 20.5 percent or more; "moderately," to expansions or contractions averaging between 5.5 and 20.5 percent. "Horizontal" refers to average annual contractions or expansions less than 5.5 percent, and the class includes movements of divergent direction.

[b] Includes firms newly organizing at time of loan or too young to have calculable trends.

those observed for sales trend. Until mid-1940 the percentages of both the number and amount of loans that went to firms with favorable profit trends were quite substantial: about 25 to 30 percent, even in the earliest year. During the immediate postwar period, with the greatly increased share of loans to new firms, a smaller share went to established firms; but, as in the past, firms with apparently stable profit trends received the major portion of all disbursements.

The trend of net worth measures the growth or erosion of owners' equity in an enterprise, and often reflects the profitability of the business. Besides the many loans to newly forming or young firms, loans to other firms not supplying records bulk large in the distribution by net worth trend, so that among loans to firms old enough to show trends (64 percent of the total), for only one-third (21 percent of the total) were the requisite data available (Table B-9). By amount the coverage is better, with information available for two-thirds of the credit extended to firms old enough to show trends. As to the businesses with known trends, again there was a preponderance of credit for those with stable or mixed trends over the three years preceding the loan. Also notable is the large share of credit going to firms with sharply rising net worth: over one-fourth of the amount disbursed to established firms supplying figures.

The deficiencies of the data forbid detailed comparison between subperiods, but there is reliable evidence on several points. During the thirties most of the RFC credit went to firms with stable or declining net worths. After World War II, while most of the loans went to new businesses, most of the credit went to established firms with expanding net worths. Thus during the period of postwar inflation the shift toward financing new firms was accompanied by a shift also toward growing firms.

The trend in the current ratio normally reveals whether a firm has become more or less liquid. As with net worth, current ratios were unavailable for many borrowers in addition to those too new to have calculable trends (Table B-9). Where the history is known, again the firms with stable or mixed trends are seen to have received the largest share of RFC credit. Somewhat larger proportions of the number of RFC loans went to firms with declining than with expanding current ratio trends, but they involved less credit than the loans to firms with expanding trends.

Up to about 1940, loans to firms with adverse current ratio trends bulked large in the aggregate number and amount of RFC credit. Thereafter, this group became relatively small, while loans to new firms or firms with no records became quite important—a finding that bears out the observations made previously regarding a fundamental change in the financial condition of RFC borrowers about 1940.

So far, creditworthiness has been weighed in terms of three-year trends in the borrowing firms' financial conditions. A somewhat sharper measure of financial strength is afforded by the values of the current ratio, the net worth to debt ratio, and the Dun & Bradstreet credit rating based on the borrower's financial statement for the fiscal year immediately preceding loan authorization.

Nearly half of the number of loans, involving more than half of the amount of the credit, were made to businesses whose current ratios in the last fiscal year preceding authorization were less than 2/1 (Table B-10).

TABLE B-10

Distributions of RFC Direct Business Loans Disbursed 1934–1951, by Borrower's Current Ratio, Net Worth to Debt Ratio, and Credit Rating during Fiscal Year Preceding Loan Authorization

| *Borrower's Financial Condition* | *Number* | *Amount* |
|---|---|---|
| CURRENT RATIO | | |
| Less than 1.00 | 22.2% | 19.1% |
| 1.00–1.49 | 15.4 | 19.1 |
| 1.50–1.99 | 9.0 | 16.1 |
| 2.00–2.99 | 9.7 | 14.5 |
| 3.00–4.99 | 5.7 | 7.5 |
| 5.00 and over | 5.0 | 5.0 |
| Not available[a] | 33.0 | 18.6 |
| NET WORTH/TOTAL DEBT | | |
| Less than 0.5 | 7.2% | 16.5% |
| 0.5–0.9 | 13.5 | 18.4 |
| 1.0–1.9 | 20.5 | 25.6 |
| 2.0–3.9 | 15.4 | 10.2 |
| 4.0–9.9 | 9.2 | 4.1 |
| 10 and over | 4.7 | 3.7 |
| Debt under $500 | 10.2 | 1.0 |
| Negative ratio[b] | 0.5 | 3.6 |
| Not available[a] | 18.7 | 16.9 |
| CREDIT RATING | | |
| High | 3.2% | 9.7% |
| Good | 41.3 | 55.4 |
| Fair | 23.0 | 14.0 |
| Limited | 3.7 | 2.2 |
| Not available[c] | 28.7 | 18.7 |
| Total | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-1.

[a] Includes firms just forming at time of loan, and other firms not supplying information.

[b] Liabilities in excess of assets.

[c] Loans to firms for which Dun & Bradstreet had credit reports but assigned no rating were included here unless the RFC file contained additional information that permitted assigning them to one of the rating classes. Also included are loans to firms for which credit reports were entirely lacking (firms just organizing, and others), and a very few loans rated "high to good," "fair to high," or "limited to fair."

Since the current ratio is an important gauge of liquidity, and private bankers usually decline to lend money to firms whose current ratio is less than 2/1, it appears that RFC did supply credit to many enterprises ordinarily unacceptable to private term lenders. Moreover, this situation appears to have obtained throughout nearly all periods of the RFC business loan program. An exception is the postwar period 1945–1948, when the proportions of loans made to businesses with subnormal current ratios fell sharply and there was an increase in the proportions of loans going to firms for which no data on current ratio were available (probably because of loans to newly organized ventures). Otherwise the distribution of borrowers according to current ratio during the last fiscal year preceding loan authorization did not change appreciably.

RFC tended to finance businesses whose indebtedness was large in relation to their equity. The ratio of net worth to debt of a business is usually taken to be a significant measure of the extent to which the firm is "trading on the equity," is exposed to the risk of default, and is worthy of additional credit. For the nation's businesses as a whole, net worth has averaged about twice total debt.[30] For the business loans of RFC over the whole seventeen-year period, about a fifth of the number, involving more than one-third of the amount, went to firms with a net worth to debt ratio of less than 1/1; 41 percent of the loans, comprising 61 percent of the credit, went to firms whose ratio was less than 2/1 (Table B-10). Clearly, RFC's borrowing clientele consisted largely of firms with more slender margins of equity than the average for all businesses. That such a large proportion of the firms borrowing from commercial banks would have subnormal ratios of net worth to debt is highly improbable. The condition held true of all periods of RFC lending to business, excepting the initial period June 1934 to January 1935, when a very strict statute resulted in few loans going to borrowers with ratios under 2/1, and the period March 1945 through 1946.

The credit ratings assigned by Dun & Bradstreet are widely used by private bankers and commercial creditors as a guide to the creditworthiness of businesses. Ratings or similar credit information were available in RFC files for about seven out of every ten loans in the sample. About 41 percent of the loans, comprising 55 percent of the amount of money disbursed, went to firms rated "good"; 23 percent of the number and 14 percent of the amount went to firms rated "fair" (Table B-10). Relatively few loans were made to borrowers with "high" credit ratings—as would be expected for a lending agency required to restrict its loans to firms unable to procure private credit. This situation appears to have obtained throughout all phases of RFC lending activity.

[30] Neil H. Jacoby and R. J. Saulnier, *Business Finance and Banking* (National Bureau of Economic Research, Financial Research Program, 1947), p. 33.

## APPENDIX B

### *Experience on RFC Direct Business Loans*

Study of the loans that fell short of contract performances during RFC's extensive lending experience, and comparisons of them with the loans that turned out well, should reveal something as to the sources of loss in business lending and may help guide business lending policies in the future. We shall consider in turn the frequency of default, of foreclosure, and of loss, and finally the extent of the losses incurred.

#### DELINQUENCY STATUS OF LOANS OUTSTANDING AT THE END OF 1951

Our information on the frequency with which breach of contract in some respect was encountered by RFC is derived from the group of about 5,700 direct business loans outstanding at the end of 1951. Most of these loans were of rather recent origin and stemmed from the period of greatest RFC business lending activity. Approximately two-fifths of the number and one-half of the amount of all RFC loans made during 1934–1951 originated between June 1948 and June 1951, and such loans comprised upwards of four-fifths of the number and amount of all outstanding loans at December 31, 1951.

About 87 percent of the active loans (by amount, 90 percent) were classified by RFC as being in good standing (Table B-11). Of the 13 percent that were in distress, about one-third had become delinquent rather recently, most were "problem" loans with more serious default, and a few were "in liquidation" (that is, proceedings for termination at the lender's option were being prepared). These three groups will be

TABLE B-11

Delinquency Status of RFC Direct Business Loans Outstanding December 31, 1951
(*dollar figures in thousands*)

| STATUS | NUMBER OF LOANS | AMOUNT DISBURSED | PERCENTAGE DISTRIBUTION | |
|---|---|---|---|---|
| | | | *Number* | *Amount* |
| In good standing | 4,946 | $406,923 | 86.8% | 90.4% |
| Delinquent 2–6 months | 242 | 9,185 | 4.2 | 2.0 |
| "Problem" loans | 435 | 27,673 | 7.6 | 6.2 |
| Loans in liquidation | 77 | 6,054 | 1.4 | 1.4 |
| All loans | 5,700 | $449,925 | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans. Amounts cover disbursements through December 31, 1951 on loans authorized up to June 30 of that year and outstanding at year end.

combined in the analysis, without further regard to differences in degree of delinquency. It is not possible to compare the indicated quality of the RFC business loan portfolio directly with that of the business term loans held by commercial banks. However, it is known that of the total loans and discounts held by all insured commercial banks and appraised by bank examiners during the calendar year 1951, 99 percent of the amount was "not criticized" and less than 1 percent was classified as "substandard" in quality.[31] Assuming that currently delinquent loans held by RFC would surely have been classified as substandard by bank examiners, it follows that the quality of the RFC business loan portfolio was considerably lower than that of the loan and discount portfolios of commercial banks.

Surprisingly, no significant relationship appeared between the delinquency status of loans and their size, except in the over-all sense that loans in default averaged smaller than loans in good standing ($57,000 as against $82,300; Table B-11). Few loans of less than $1,000 were outstanding in 1951, as Table B-12 shows. And although there are reasons for expecting the proportion of delinquent loans to move inversely with size, the several classes above $1,000 show default ratios deviating rather moderately from the average, in an erratic pattern.

There was a decreasing frequency of delinquency for loan groups with successively longer maturities (Table B-12). The extremely high percentage of delinquency among loans maturing within a year should be regarded with some caution because of the small number of loans to judge by; but the distinct and regular improvement along the scale of increasing contract lengths is significant. A comparison of the ratios by amount with those by number shows that among loans in the two-year class it was the smaller ones that were relatively more often delinquent.

There were sharp differences in default ratios as between industry groups of RFC loans (Table B-13). The transportation, communications, and public utilities group had the highest percentage of delinquency—about one loan in five—and the status for loans to producers of consumer goods such as textiles and foods was not much better. In the groups including transportation and textile firms, delinquent loans averaged distinctly smaller than those in good standing within the same industry class. Less than average delinquency is shown for the following groups: metals and metal products; petroleum, coal, chemicals, rubber; miscellaneous manufacturing; construction; wholesale trade, and service. For the construction group, delinquent loans were of notably larger original size, on the average, than those in good standing.

Among regions, the South Atlantic states had the highest ratio of

[31] *Annual Report of the Federal Deposit Insurance Corporation*, 1951, Table 108, p. 154.

## TABLE B-12

### Relation of Loan Size and Term to Maturity to Proportion of Outstanding RFC Direct Business Loans in Default

| LOAN CHARACTERISTICS | RATIO OF LOANS IN DEFAULT TO ALL ACTIVE LOANS | | DISTRIBUTION OF ACTIVE LOANS | |
|---|---|---|---|---|
| | *Number* | *Amount* | *Number* | *Amount* |
| AMOUNT AUTHORIZED | | | | |
| Less than $500 | .. | .. | .. | .. |
| $500–999 | 50.0% | 50.0% | 0.5% | a |
| 1,000–4,999 | 11.5 | 8.1 | 13.6 | 0.5% |
| 5,000–9,999 | 13.9 | 14.0 | 13.2 | 1.1 |
| 10,000–24,999 | 11.4 | 12.0 | 27.6 | 4.7 |
| 25,000–49,999 | 15.9 | 16.2 | 16.5 | 6.4 |
| 50,000–99,999 | 14.1 | 16.7 | 16.8 | 12.5 |
| 100,000–499,999 | 12.4 | 15.2 | 9.8 | 19.8 |
| 500,000–999,999 | 12.7 | 9.0 | 1.1 | 10.4 |
| 1 million and over | 9.6 | 3.8 | 0.9 | 44.5 |
| TERM TO MATURITY | | | | |
| Less than six months | .. | .. | .. | .. |
| 1 year | 43.3% | 42.3% | 1.5% | 1.8% |
| 2 yrs. | 18.8 | 1.9 | 4.2 | 6.4 |
| 3, 4 yrs. | 15.7 | 7.9 | 24.9 | 13.3 |
| 5–9 yrs. | 11.5 | 11.2 | 57.5 | 54.2 |
| 10 yrs. and over | 9.9 | 6.1 | 11.3 | 24.0 |
| Payable on demand | .. | .. | .. | .. |
| Not available | 20.0 | 30.5 | 0.6 | 0.3 |
| All loans | 13.2% | 9.6% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-11.

[a] Less than 0.05 percent.

delinquent loans (17 percent), with the percentage for the East South Central and Mountain states also worse than average. The conspicuously low ratios are those for the West North Central and West South Central regions.

Default ratios were about twice as large where borrowing firms used the proceeds of loans principally to pay debt or to increase working capital as for loans used mainly to construct or purchase plants, and were half again as large as for loans used chiefly to purchase machinery and equipment. Among the few outstanding loans used to purchase an existing business delinquency was very high, about one loan in four.

The somewhat better than average record for loans to most size classes of borrowing firms from the smallest up to the $250,000 level, and for those to firms of unknown size (mainly, but not entirely, new ventures), is noteworthy. Three of the size classes, however—$25,000 to $50,000 assets, $250,000 to $500,000, and one to five million—showed about one

## TABLE B-13

Relation of Borrower's Industry, Region, and Use of Proceeds to Proportion of Outstanding RFC Direct Business Loans in Default

| BORROWER CHARACTERISTICS | RATIO OF LOANS IN DEFAULT TO ALL ACTIVE LOANS | | DISTRIBUTION OF ACTIVE LOANS | |
|---|---|---|---|---|
| | *Number* | *Amount* | *Number* | *Amount* |
| INDUSTRY | | | | |
| Manufacturing and mining[a] | 13.3% | 8.9% | 43.7% | 72.6% |
| Food, liquor, and tobacco | 17.0 | 18.7 | 10.0 | 8.9 |
| Textiles, apparel, leather | 16.9 | 4.4 | 3.2 | 5.7 |
| Metals and metal products | 11.8 | 6.0 | 12.9 | 34.7 |
| Petroleum, coal, chemicals, rubber | 10.6 | 4.2 | 3.2 | 10.1 |
| Other[b] | 11.7 | 15.7 | 14.4 | 13.2 |
| Retail trade | 13.9 | 19.0 | 16.9 | 3.7 |
| Wholesale trade | 11.2 | 9.4 | 4.8 | 1.9 |
| Construction | 10.0 | 20.1 | 6.2 | 4.0 |
| Transportation, communications, public utilities[c] | 20.4 | 8.4 | 5.8 | 4.6 |
| Services | 12.0 | 18.2 | 20.2 | 4.9 |
| Finance, insurance, and real estate | 0 | 0 | 0.4 | 7.8 |
| All other[d] | 15.7 | 21.2 | 1.9 | 0.5 |
| REGION[e] | | | | |
| New England | 13.6 | 4.5 | 4.8 | 5.3 |
| Middle Atlantic | 12.2 | 10.4 | 7.0 | 17.2 |
| East North Central | 12.8 | 2.9 | 10.3 | 24.8 |
| West North Central | 9.4 | 7.8 | 5.6 | 3.0 |
| South Atlantic | 17.4 | 8.0 | 11.8 | 14.3 |
| East South Central | 14.0 | 7.4 | 13.7 | 8.4 |
| West South Central | 11.1 | 15.1 | 24.3 | 13.4 |
| Mountain | 15.1 | 41.7 | 6.3 | 2.3 |
| Pacific | 13.4 | 22.0 | 14.8 | 10.9 |
| Possessions | 19.2 | 15.5 | 1.4 | 0.4 |
| PRINCIPAL USE OF PROCEEDS | | | | |
| Construction of plant | 6.6 | 4.9 | 17.0 | 16.3 |
| Purchase of equipment | 11.2 | 7.8 | 20.4 | 19.7 |
| Retirement of debt | 16.8 | 14.2 | 27.0 | 23.9 |
| Addition to working capital | 15.6 | 10.0 | 27.2 | 37.4 |
| Purchase of land or bldgs. | 6.5 | 2.2 | 6.1 | 1.5 |
| Purchase of existing business | 28.7 | 5.5 | 2.3 | 1.3 |
| Not available | .. | .. | .. | .. |
| All loans | 13.2% | 9.6% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-11.

[a] Mainly manufacturing.

[b] Covers lumber and lumber products; paper and allied products or industries, such as printing; stone, clay, and glass products (including nonmetallic mining or quarrying), and other miscellaneous manufactured products.

[c] Excludes railroads.

[d] Mainly fisheries and farming (fruit, poultry, truck, etc.).

[e] For states included in the regions, see Table B-8.

loan delinquent in every five, where most other groups showed about one in eight (Table B-14).

Loans to firms just organizing at time of loan had remarkably little delinquency: about one loan in twenty. Nearly 70 percent of the newly forming businesses referred to were started between mid-1948 and mid-1951, as is known by the loan dates. Thus their record may be considered alongside that of loans to another group of businesses organized at that time—firms established before date of loan but as recently as 1950 and 1951. The latter showed a higher delinquency percentage: nearly one loan in six. Taken together, the default ratios and the distribution of outstandings suggest that as a combined group the brand-new and very young firms indebted to RFC as of 1951 were fulfilling their loan contracts as frequently as older firms were, and perhaps somewhat more so, a point on which further evidence will be added.

## TABLE B-14

Relation of Borrower's Asset Size, and of Year Business Established, to Proportion of Outstanding RFC Direct Business Loans in Default

| BORROWER CHARACTERISTICS | RATIO OF LOANS IN DEFAULT TO ALL ACTIVE LOANS | | DISTRIBUTION OF ACTIVE LOANS | |
|---|---|---|---|---|
| | *Number* | *Amount* | *Number* | *Amount* |
| TOTAL ASSETS[a] | | | | |
| Less than $5,000 | 11.1% | 3.6% | 3.5% | 0.1% |
| $5,000–24,999 | 12.0 | 8.7 | 15.3 | 1.1 |
| 25,000–49,999 | 17.4 | 22.0 | 18.1 | 3.0 |
| 50,000–99,999 | 11.1 | 14.0 | 17.7 | 5.2 |
| 100,000–249,999 | 12.3 | 11.0 | 17.3 | 11.2 |
| 250,000–499,999 | 20.7 | 19.1 | 8.5 | 9.1 |
| 500,000–999,999 | 11.6 | 19.2 | 3.9 | 8.6 |
| 1–4.9 million | 18.7 | 11.6 | 2.9 | 21.4 |
| 5–49.9 million | 4.5 | 2.8 | 0.4 | 14.0 |
| 50 million and over | 0 | 0 | 0.1 | 19.3 |
| Not available | 8.1 | 8.4 | 12.3 | 7.0 |
| YEAR BUSINESS ESTABLISHED | | | | |
| Before 1931 | 14.0 | 6.9 | 15.3 | 34.4 |
| 1931–1942 | 13.6 | 17.6 | 19.7 | 21.3 |
| 1943–1949 | 13.9 | 7.9 | 50.0 | 39.6 |
| 1950–1951 | 15.9 | 8.5 | 5.8 | 2.6 |
| Newly forming at time of loan | 4.4 | 3.7 | 8.8 | 1.9 |
| Not available | 46.8 | 1.0 | 0.3 | 0.2 |
| All loans | 13.2% | 9.6% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-11.

[a] At time of loan application.

We have some evidence as to whether trends in the financial condition of borrowing firms before their applications for loans had a predictive value concerning default. The data are assembled in Table B-15.

One out of every four outstanding loans to firms with declining sales trends was delinquent, but no more than one in nine for firms that had stable or rising sales over the three years before loan authorization. A similar contrast, but considerably less marked, shows in the default ratios by net income trend. Businesses that were newly forming at time of loan authorization, together with those whose date of organization showed they were too young at time of loan to have calculable trends, had somewhat less than average delinquency—12.8 percent, as against 13.2 percent for all outstanding loans at the end of 1951. Among loans to older firms not supplying the requisite information the default ratio was higher than average: about 15 percent. In assessing such differences, it should be remembered that there was a considerable range of discretionary action open to RFC, both in classifying a loan as "in good standing" or "in default" and also in changing the status of a delinquent loan by rewriting the loan agreement; hence, the status at any given point of time is in many cases somewhat arbitrary.

Much more than with sales or profit trends, lack of information affects the figures relating the net worth and current ratio trends to delinquency status. Here, as elsewhere in Table B-15, it is observable that in almost all categories delinquent loans averaged smaller than those in good standing. But the reverse was true among loans to firms whose trend in financial condition was unknown.

In so far as the loan sample produced sufficient evidence, it appears that for RFC's comparatively high-risk portfolio the three-year trends in borrower's financial condition before loan authorization were serviceable at least in a general way as indicators of the probability of default. Similar comparisons focusing on the borrower's financial condition in the year preceding the loan, while they show, as would be expected, high default ratios for firms whose current liabilities exceeded their current assets, are otherwise unpatterned (Table B-16).

### FREQUENCY OF FORECLOSURE AMONG EXTINGUISHED LOANS

From observing the default status of loans outstanding near the end of RFC's lending activity, we turn to the record of extinguished loans. It is estimated that of some 16,000 business loans on which $1,160 million were disbursed by RFC from June 1934 to the end of 1951, about 10,300 loans, involving disbursements of $710 million, had been extinguished by December 31, 1951. The overwhelming majority of them—78 percent of the number and 73 percent of the amount—were extinguished by the borrower's full repayment of principal and interest (Table B-17). Eight percent of the number and 12 percent of the amount of all loans extin-

TABLE B-15

Relation of Three-Year Trends in Borrower's Financial Condition before Loan Authorization to Proportion of Outstanding RFC Direct Business Loans in Default

| NATURE OF TREND IN BORROWER'S FINANCIAL CONDITION[a] | RATIO OF LOANS IN DEFAULT TO ALL ACTIVE LOANS | | DISTRIBUTION OF ACTIVE LOANS | |
|---|---|---|---|---|
| | *Number* | *Amount* | *Number* | *Amount* |
| NET SALES | | | | |
| Sharply upward | 11.9% | 6.7% | 21.3% | 26.9% |
| Moderately upward | 6.3 | 8.6 | 5.0 | 3.8 |
| Horizontal or mixed | 10.1 | 8.1 | 21.2 | 38.5 |
| Moderately downward | 24.3 | 16.4 | 5.6 | 4.8 |
| Sharply downward | 26.5 | 14.4 | 4.9 | 9.2 |
| New business[b] | 12.8 | 9.3 | 31.3 | 13.3 |
| Not available | 14.6 | 27.1 | 10.7 | 3.4 |
| NET INCOME | | | | |
| Sharply upward | 12.2 | 7.5 | 17.1 | 17.6 |
| Moderately upward | 3.0 | 7.6 | 1.3 | 1.0 |
| Horizontal or mixed | 12.8 | 8.6 | 24.6 | 43.9 |
| Moderately downward | 16.3 | 17.3 | 2.4 | 1.3 |
| Sharply downward | 15.0 | 10.0 | 13.3 | 19.8 |
| New business[b] | 12.8 | 9.3 | 31.3 | 13.3 |
| Not available | 15.5 | 29.3 | 10.0 | 3.4 |
| NET WORTH | | | | |
| Sharply upward | 11.4 | 4.5 | 5.6 | 25.6 |
| Moderately upward | 0 | 0 | 3.3 | 8.8 |
| Horizontal or mixed | 10.3 | 10.5 | 5.8 | 21.2 |
| Moderately downward | 13.7 | 9.2 | 1.3 | 3.1 |
| Sharply downward | 41.1 | 9.4 | 1.8 | 5.9 |
| New business[b] | 12.8 | 9.3 | 31.3 | 13.3 |
| Not available | 13.9 | 18.6 | 50.9 | 22.1 |
| CURRENT RATIO | | | | |
| Sharply upward | 8.1 | 4.9 | 3.4 | 17.5 |
| Moderately upward | 9.6 | 0.7 | 1.4 | 15.0 |
| Horizontal or mixed | 5.4 | 5.8 | 5.1 | 19.7 |
| Moderately downward | 31.2 | 22.4 | 1.8 | 5.2 |
| Sharply downward | 16.5 | 13.5 | 3.9 | 6.4 |
| New business[b] | 12.8 | 9.3 | 31.3 | 13.3 |
| Not available | 13.8 | 18.3 | 53.1 | 22.8 |
| All loans | 13.2% | 9.6% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-11.

[a] "Strongly" upward or downward refers to average annual expansion or contraction of 20.5 percent or more; "moderately," to expansions or contractions averaging between 5.5 and 20.5 percent. "Horizontal" refers to average annual contractions or expansions less than 5.5 percent, and the class includes movements of divergent direction.

[b] Includes firms newly organizing at time of loan or too young to have calculable trends.

## TABLE B-16

### Relation of Borrower's Financial Condition at Time of Loan Authorization to Proportion of Outstanding RFC Direct Business Loans in Default

| BORROWER'S FINANCIAL CONDITION | RATIO OF LOANS IN DEFAULT TO ALL ACTIVE LOANS | | DISTRIBUTION OF ACTIVE LOANS | |
|---|---|---|---|---|
| | *Number* | *Amount* | *Number* | *Amount* |
| CURRENT RATIO | | | | |
| Less than 1.00 | 17.8% | 17.5% | 30.9% | 20.8% |
| 1.00–1.49 | 12.0 | 11.4 | 15.8 | 17.8 |
| 1.50–1.99 | 14.5 | 8.6 | 8.2 | 14.1 |
| 2.00–2.99 | 11.9 | 2.0 | 9.6 | 23.5 |
| 3.00–4.99 | 13.9 | 8.0 | 5.4 | 10.9 |
| 5.00 and over | 7.5 | 11.9 | 5.5 | 3.7 |
| Not available[a] | 9.5 | 9.5 | 24.6 | 9.3 |
| NET WORTH/TOTAL DEBT | | | | |
| Less than 0.5 | 13.8 | 16.2 | 7.8 | 15.6 |
| 0.5–0.9 | 14.8 | 8.6 | 16.8 | 23.1 |
| 1.0–1.9 | 12.5 | 3.2 | 21.9 | 35.9 |
| 2.0–3.9 | 20.1 | 23.5 | 15.5 | 9.4 |
| 4.0–9.9 | 7.5 | 3.3 | 10.5 | 2.9 |
| 10 and over | 15.8 | 14.9 | 5.9 | 3.5 |
| Debt under $500 | 11.7 | 22.2 | 8.2 | 1.1 |
| Negative ratio[b] | 27.4 | 18.5 | 0.5 | 1.3 |
| Not available[a] | 7.7 | 8.2 | 12.8 | 7.1 |
| CREDIT RATING | | | | |
| High | 4.3 | 0.5 | 3.9 | 11.4 |
| Good | 14.0 | 5.0 | 33.6 | 45.5 |
| Fair | 15.2 | 16.9 | 27.2 | 20.5 |
| Limited | 11.9 | 20.5 | 3.3 | 3.8 |
| Not available[c] | 12.0 | 15.8 | 31.9 | 18.8 |
| All loans | 13.2% | 9.6% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of loans, see Table B-11.

[a] Includes firms just forming at time of loan, and other firms not supplying information.

[b] Liabilities in excess of assets.

[c] Loans to firms for which Dun & Bradstreet had credit reports but assigned no rating were included here unless the RFC file contained additional information that permitted assigning them to one of the rating classes. Also included are loans to firms for which credit reports were entirely lacking (firms just organizing, and others), and a very few loans rated "high to good" and "fair to good."

guished were terminated by RFC making another loan to enable the borrower to repay the debt due under a previous loan. RFC terminated 13 percent of the number and 9 percent of the amount of its business loans by foreclosing on the borrower's collateral security or otherwise

## TABLE B-17

Method of Extinguishment for RFC Direct Business Loans, 1934–1951
*(dollar figures in thousands)*

| METHOD OF EXTINGUISHMENT | NUMBER OF LOANS | AMOUNT DISBURSED | PERCENTAGE DISTRIBUTION | |
|---|---|---|---|---|
| | | | *Number* | *Amount* |
| Repaid in full | 8,099 | $514,344 | 78.3% | 72.5% |
| Repaid by means of RFC refunding loan | 850 | 88,088 | 8.2 | 12.4 |
| Terminated by foreclosure[a] | 1,338 | 60,895 | 13.0 | 8.6 |
| Transferred to other lending institutions | 56 | 46,388 | 0.5 | 6.5 |
| Total | 10,343 | $709,715 | 100.0% | 100.0% |

From the National Bureau of Economic Research sample survey of RFC direct business loans exclusive of participations and national defense loans.

[a] Or by other liquidation proceedings at lender's option.

exercising its claim on the borrower's assets. The remainder was terminated by transfer to banks or to the Housing and Home Finance Agency.

The frequency measure chosen for analyzing the liquidated loans is the "foreclosure rate," here defined as the number (or amount) of loans foreclosed or otherwise liquidated at the option of RFC as a percentage of the number (or amount) of all loans disbursed during the entire period 1934–1951. Comprehensively, the estimates for loans terminated at the lender's option—1,338 in number, $60,895,000 in amount—yield foreclosure rates of 8.3 percent by number and 5.3 percent by amount. Adequate comparative data are not available on the foreclosure rates of privately made term loans to business. But it is clear that private lending agencies do not foreclose on as much as one loan of every twelve they make or one dollar in every twenty dollars loaned.

The foreclosure rates on RFC business loans were unusually high for loans up to $10,000 in amount and for loans for less than five years' term to maturity (Table B-18); within the latter group, comparison of the data by number and amount shows that among the loans of shortest contract length it was the originally larger ones that more often went into foreclosure, whereas with maturities of two to four years it was mainly the smaller loans. Foreclosure rates were high on loans to manufacturers of metal and metal products and to transportation enterprises borrowing small amounts (Table B-19). Borrowers in the East North Central and Mountain regions had high foreclosure rates by both number and amount. The relatively numerous foreclosures in the South Atlantic and West South Central regions evidently arose mainly from the smaller loans; in the West North Central states and especially in the territorial possessions, although foreclosures were relatively few, they

## TABLE B-18

Foreclosure Rates on RFC Direct Business Loans, by Size of Loan and Term to Maturity

| LOAN CHARACTERISTICS | RATIO OF FORECLOSED LOANS TO ALL LOANS DISBURSED | |
|---|---|---|
| | *Number* | *Amount* |
| AMOUNT AUTHORIZED | | |
| Less than $1,000 | 9.8% | 9.1% |
| $1,000–4,999 | 12.7 | 14.4 |
| 5,000–9,999 | 11.2 | 10.9 |
| 10,000–24,999 | 5.1 | 5.3 |
| 25,000–49,999 | 6.7 | 6.8 |
| 50,000–99,999 | 5.4 | 5.0 |
| 100,000–499,999 | 5.0 | 5.7 |
| 500,000–999,999 | 4.9 | 4.1 |
| 1 million and over | 6.4 | 4.8 |
| TERM TO MATURITY | | |
| Less than six months | 5.3 | 45.1 |
| 1 year | 9.6 | 21.0 |
| 2 yrs. | 18.8 | 8.2 |
| 3, 4 yrs. | 12.1 | 4.2 |
| 5–9 yrs. | 4.4 | 4.1 |
| 10 yrs. and over | 4.9 | 1.5 |
| Payable on demand | 51.6 | 41.5 |
| Not available | 14.6 | 17.1 |
| PREVIOUS ACTION | | |
| Repeat loan | 6.7 | 6.4 |
| Initial loan | 8.7 | 3.9 |
| All loans | 8.3% | 5.3% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans. Based on records of disbursements and of extinguishments through December 1951 on loans authorized from June 1934 through June 1951; see Tables B-1 and B-17 for number and amount of loans.

occurred with loans in which RFC's original investment had been larger than the average for all the extinguished loans within the region. High foreclosure rates are also found on loans to firms with assets under $25,000; to enterprises established during 1943–1949, those just organizing at time of loan application, and those on which age data were unavailable; and to businesses with a moderately downward net income trend, and firms too young to have calculable trends (Tables B-20 and B-21). Firms with a current ratio at time of loan application of less than 1.00 had high foreclosure rates, and the results for loans classified by borrower's credit rating are mixed, with a relatively bad record for firms rated "good" or "limited" at time of loan authorization (Table B-22). The over-all foreclosure rate fluctuated widely for various phases of

## TABLE B-19

### Industrial and Regional Differences in Foreclosure Rates on RFC Direct Business Loans

| BORROWER CHARACTERISTICS | RATIO OF FORECLOSED LOANS TO ALL LOANS DISBURSED *Number* | *Amount* |
|---|---|---|
| INDUSTRY | | |
| Manufacturing and mining[a] | 7.8% | 5.2% |
| Food, liquor, and tobacco | 5.5 | 3.7 |
| Textiles, apparel, and leather | 6.8 | 6.5 |
| Metals and metal products | 9.1 | 7.4 |
| Petroleum, coal, chemicals, rubber | 8.7 | 4.4 |
| Other[b] | 7.9 | 5.2 |
| Retail trade | 6.9 | 4.0 |
| Wholesale trade | 2.0 | 1.4 |
| Construction | 8.1 | 2.4 |
| Transportation, communications, and public utilities[c] | 18.4 | 1.6 |
| Services | 7.9 | 2.9 |
| Finance, insurance, and real estate | 0 | 0 |
| All other[d] | 11.2 | 4.7 |
| REGION[e] | | |
| New England | 4.6 | 2.0 |
| Middle Atlantic | 6.5 | 4.6 |
| East North Central | 9.5 | 11.6 |
| West North Central | 6.1 | 7.5 |
| South Atlantic | 10.4 | 2.6 |
| East South Central | 7.9 | 1.9 |
| West South Central | 9.3 | 4.3 |
| Mountain | 12.1 | 6.5 |
| Pacific | 5.5 | 1.6 |
| Possessions | 5.8 | 34.9 |
| All loans | 8.3% | 5.3% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans. Based on records of disbursements and of extinguishments through December 1951 on loans authorized from June 1934 through June 1951; see Tables B-1 and B-17 for number and amount of loans.

[a] Mainly manufacturing; loans to mining companies form only 3 percent of the number and amount of all loans made.

[b] Covers lumber and lumber products; paper and allied products or industries, such as printing; stone, clay, and glass products (including nonmetallic mining or quarrying), and other miscellaneous manufactured products.

[c] Excludes railroads.

[d] Mainly fisheries and farming (fruit, poultry, truck, etc.).

[e] For states included in the regions, see Table B-8.

TABLE B-20

Relation of Borrower's Asset Size and of Year Business Established to Foreclosure Rates on RFC Direct Business Loans

| BORROWER CHARACTERISTICS | RATIO OF FORECLOSED LOANS TO ALL LOANS DISBURSED | |
|---|---|---|
| | *Number* | *Amount* |
| TOTAL ASSETS[a] | | |
| Less than $5,000 | 20.0% | 27.6% |
| $5,000–24,999 | 9.9 | 11.3 |
| 25,000–49,999 | 3.6 | 3.5 |
| 50,000–99,999 | 4.7 | 4.4 |
| 100,000–249,999 | 6.5 | 7.3 |
| 250,000–499,999 | 5.0 | 5.6 |
| 500,000–749,999 | 7.5 | 4.9 |
| 750,000–999,999 | 4.9 | 5.1 |
| 1–4.9 million | 3.0 | 3.7 |
| 5–49.9 million | 5.1 | 10.5 |
| 50 million and over | 0 | 0 |
| Not available | 12.7 | 3.3 |
| YEAR BUSINESS ESTABLISHED | | |
| Before 1931 | 6.3 | 3.1 |
| 1931–42 | 4.1 | 2.9 |
| 1943–49 | 8.8 | 10.8 |
| 1950–51 | 0 | 0 |
| Newly forming at time of loan | 16.6 | 13.0 |
| Not available | 21.3 | 22.6 |
| All loans | 8.3% | 5.3% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans. Based on records of disbursements and of extinguishments through December 1951 on loans authorized from June 1934 through June 1951; see Tables B-1 and B-17 for number and amount of loans.

[a] At time of loan application.

RFC's business lending operations. Foreclosures were relatively frequent on loans made during the earlier period—June 1934 to April 1938—fell considerably with economic recovery in 1939 and with the onset of World War II; rose again after the war and during the period of postwar reconversion; and dropped during the inflationary boom of June 1948–June 1951.

FREQUENCY OF LOSS

It is estimated that 1,338 RFC business loans foreclosed or otherwise terminated at the lender's option during 1934–1951, 959 were extinguished with some loss to RFC or were still in process of settlement at the end of 1951 with loss anticipated (Table B-23). Among all loans made and extinguished during 1934–1951, those eventuating in some loss comprised

## TABLE B-21

Foreclosure Rates on RFC Direct Business Loans, by Three-Year Trends in Borrower's Financial Condition before Loan Authorization

| NATURE OF TREND IN BORROWER'S FINANCIAL CONDITION[a] | RATIO OF FORECLOSED LOANS TO ALL LOANS DISBURSED | |
|---|---|---|
| | *Number* | *Amount* |
| SALES | | |
| Sharply upward | 3.3% | 3.2% |
| Moderately upward | 3.1 | 3.3 |
| Horizontal or mixed | 3.8 | 2.1 |
| Moderately downward | 7.3 | 6.8 |
| Sharply downward | 4.9 | 2.8 |
| New business[b] | 14.2 | 5.4 |
| Not available | 10.2 | 39.0 |
| NET INCOME | | |
| Sharply upward | 2.8 | 1.5 |
| Moderately upward | 3.4 | 4.6 |
| Horizontal or mixed | 4.7 | 2.9 |
| Moderately downward | 9.1 | 12.5 |
| Sharply downward | 3.6 | 2.8 |
| New business[b] | 14.2 | 5.4 |
| Not available | 10.3 | 40.1 |
| NET WORTH | | |
| Sharply upward | 1.1 | 0.4 |
| Moderately upward | 1.7 | 3.0 |
| Horizontal or mixed | 7.6 | 3.5 |
| Moderately downward | 9.2 | 4.5 |
| Sharply downward | 11.4 | 4.0 |
| New business[b] | 14.2 | 5.4 |
| Not available | 4.6 | 10.2 |
| CURRENT RATIO | | |
| Sharply upward | 4.8 | 3.0 |
| Moderately upward | 3.4 | 0.5 |
| Horizontal or mixed | 6.2 | 2.3 |
| Moderately downward | 5.1 | 4.9 |
| Sharply downward | 8.0 | 4.7 |
| New business[b] | 14.2 | 5.4 |
| Not available | 4.7 | 10.2 |
| All loans | 8.3% | 5.3% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans. Foreclosure rates are based on records of disbursements and of extinguishments through December 1951 on loans authorized from June 1934 through June 1951; see Tables B-1 and B-17 for number and amount of loans.

[a] "Sharply" upward or downward refers to average annual expansion or contraction of 20.5 percent or more; "moderately," to expansions or contractions averaging between 5.5 and 20.5 percent. "Horizontal" refers to average annual contractions or expansions less than 5.5 percent, and the class includes movements of divergent direction.

[b] Includes firms newly organizing at time of loan or too young to have calculable trends.

## TABLE B-22

### Foreclosure Rates on RFC Direct Business Loans, by Borrower's Financial Condition at Time of Loan Authorization

| BORROWER CHARACTERISTICS | RATIO OF FORECLOSED LOANS TO ALL LOANS DISBURSED | |
|---|---|---|
| | *Number* | *Amount* |
| CURRENT RATIO | | |
| Less than 1.00 | 8.3% | 15.8% |
| 1.00–1.49 | 5.4 | 3.7 |
| 1.50–1.99 | 4.5 | 2.4 |
| 2.00–2.99 | 3.6 | 1.0 |
| 3.00–4.99 | 5.2 | 1.7 |
| 5.00 and over | 4.9 | 2.7 |
| Not available[a] | 13.2 | 3.9 |
| NET WORTH/TOTAL DEBT | | |
| Less than 0.5 | 7.8 | 4.9 |
| 0.5–0.9 | 7.7 | 3.0 |
| 1.0–1.9 | 5.4 | 2.6 |
| 2.0–3.9 | 6.9 | 3.8 |
| 4.0–9.9 | 5.0 | 1.9 |
| 10 and over | 3.3 | 3.2 |
| Debt under $500 | 12.7 | 8.1 |
| Negative ratio[b] | 29.1 | 54.8 |
| Not available[a] | 13.4 | 3.4 |
| CREDIT RATING | | |
| High | 0.4 | 0.4 |
| Good | 12.4 | 7.0 |
| Fair | 4.5 | 2.3 |
| Limited | 9.9 | 8.3 |
| Not available[c] | 6.3 | 4.5 |
| All loans | 8.3% | 5.3% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans. Foreclosure rates are based on records of disbursements and of extinguishments through December 1951 on loans authorized from June 1934 through June 1951; see Tables B-1 and B-17 for number and amount of loans.

[a] Includes firms just forming at time of loan, and other firms not supplying information.

[b] Liabilities in excess of assets.

[c] Includes loans to firms for which Dun & Bradstreet rating or similar information was lacking, and a few loans rated "high to good" and the like.

9.3 percent of the number and 7.4 percent of the amount disbursed. These percentages illustrate the "loss-loan ratio" which will be used to compare the frequency of loss on RFC loans grouped by salient characteristics of loan and of borrower. Information is lacking for the application of such a measure to commercial bank business term loans, but it is unlikely that so high a frequency of loss would be found there as one loan in every

TABLE B-23

RFC Direct Business Loans Extinguished with and without Loss, to December 31, 1951
*(dollar figures in thousands)*

| | *Number* | *Amount Disbursed* |
|---|---|---|
| Extinguished with loss | 959 | $ 52,618 |
| Extinguished without loss | 9,384 | 657,097 |
| Total | 10,343 | $709,715 |
| Ratio of loss loans to all extinguished loans | 9.3% | 7.4% |

From the National Bureau of Economic Research sample survey of RFC direct business loans exclusive of participations and national defense loans. The records cover disbursements and extinguishments through December 1951 on loans authorized from June 1934 through June 1951. Foreclosed loans in process of settlement at the end of 1951 on which loss was anticipated are classified as loss loans.

eleven that were made and extinguished. RFC had a relatively unfavorable experience with its business loans, notwithstanding that it was more patient than most private bankers in dealing with defaulting firms. However, this result is not unexpected in view of the less creditworthy group of firms with which RFC dealt.

The ratios of loss loans to total loans extinguished varied significantly among the different periods of RFC business lending activity. On loans made up to mid-1938 frequency of loss was more than average, yet only moderately so (Table B-24). The record for loans made from May 1938

TABLE B-24

Period of Lending Activity and Proportion of RFC Direct Business Loans Extinguished with Loss

| PERIOD LOAN MADE | RATIO OF LOSS LOANS TO ALL EXTINGUISHED LOANS | | DISTRIBUTION OF EXTINGUISHED LOANS | |
|---|---|---|---|---|
| | *Number* | *Amount* | *Number* | *Amount* |
| June 1934–January 1935 | 10.7% | 10.5% | 3.8% | 2.9% |
| February 1935–April 1938 | 9.9 | 9.7 | 10.8 | 12.2 |
| May 1938–May 1940 | 4.1 | 3.7 | 20.7 | 15.0 |
| June 1940–February 1945 | 1.2 | 0.2 | 5.8 | 9.4 |
| March 1945–January 1947 | 16.6 | 6.8 | 23.8 | 23.2 |
| February 1947–May 1948 | 13.0 | 6.5 | 18.3 | 10.6 |
| June 1948–June 1951 | 3.3 | 12.1 | 16.8 | 26.7 |
| All loans | 9.3% | 7.4% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of extinguished loans, 1934–1951, see Table B-23.

through February 1945—from which our sample excludes those made under special wartime powers—shows up as very much better than average. The highest loss-loan ratio came in 1945 and 1946, with one out of every six loans extinguished having involved some loss to RFC; as is shown by comparing the ratio by amount with that by number, trouble occurred mainly with the smaller of the loans in original amount. The next years of lending, through mid-1948, brought similar results. Just the reverse is true for the three last years covered, with loss infrequent and occurring mainly with the larger of the loans. Partly the high loss frequency for the immediate postwar years resulted from the many GI business loans which turned out unfavorably. The record may also reflect variations in the rigor with which loan agreements were policed by RFC.

The proportion of loans involving loss was significantly higher for loans in the $1,000 to $10,000 range than for any other size class of loan, about one out of every nine loans of this size having been extinguished with loss, as compared with one out of eleven for loans of all sizes (Table B-25). Because small loans were ordinarily made to rela-

TABLE B-25

Relation of Loan Size and Term to Maturity to Proportion of RFC Direct Business Loans Extinguished with Loss

| LOAN CHARACTERISTICS | RATIO OF LOSS LOANS TO ALL EXTINGUISHED LOANS: *Number* | RATIO OF LOSS LOANS TO ALL EXTINGUISHED LOANS: *Amount* |
|---|---|---|
| AMOUNT AUTHORIZED | | |
| Less than $1,000 | 5.1% | 3.7% |
| $1,000–4,999 | 10.8 | 12.3 |
| 5,000–9,999 | 12.7 | 12.8 |
| 10,000–24,999 | 7.8 | 7.6 |
| 25,000–49,999 | 7.0 | 7.2 |
| 50,000–99,999 | 6.9 | 6.6 |
| 100,000–499,999 | 7.3 | 7.9 |
| 500,000–999,999 | 5.7 | 5.5 |
| 1 million and over | 9.6 | 7.4 |
| TERM TO MATURITY | | |
| Less than six months | 5.3 | 45.1 |
| 1 year | 7.9 | 21.0 |
| 2 yrs. | 11.6 | 2.1 |
| 3, 4 yrs. | 12.8 | 5.0 |
| 5–9 yrs. | 5.2 | 7.1 |
| 10 yrs. and over | 13.5 | 2.3 |
| Payable on demand | 51.6 | 41.5 |
| Not available | 6.4 | 12.2 |
| All loans | 9.3% | 7.4% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of extinguished loans, 1934–1951, see Table B-23.

tively small businesses, and the risks of failure for small firms were definitely larger than for medium or large firms, this result is understandable; but contrary to expectation there was no clear tendency for the loss-loan ratio to increase with original term to maturity. In fact, the highest ratios were for the relatively few loans payable on demand.

Industrially, the highest frequency of loss appears among the extinguished loans that had been made to transportation, communications, and public utility firms; and their low loss-loan ratio by amount indicates (as other information, not shown, does also) that it was principally small loans during 1945 and 1946, probably in aid of veterans' trucking businesses, that accounted for the high over-all loss frequency in that loan group. Of the four industrial divisions in which RFC made the most loans, two show higher than average frequency of loss: metal and metal products manufacturing, and services (Table B-26). Loans to retail trade and miscellaneous manufacturing firms (stone, clay, glass, lumber, paper) were also numerous, but had less than average frequency of loss. Among divisions where RFC loans were few but sufficient for measurement, two show above-average loss-loan ratios—manufacturing firms in the fuel, chemicals, and rubber field; and fishing and farming—and the others (wholesale trade and construction) show smaller than average ratios. Loans to manufacturers of consumer goods such as textiles and foods also had less than average frequency of loss. The loss-loan ratios by amount are usually lower than the ratios by number, and when higher are not extremely so; that is, loss loans averaged smaller in total amount disbursed than other extinguished loans within most industry groups as well as when compared for the sample as a whole.

Regionally, among extinguished loans the highest frequency of loss was that in the Mountain states, where one loan in seven (against a national average of one in eleven) brought some loss to RFC; next worst are the ratios for the East South Central region and the territorial possessions, roughly one loan in eight. The distinctly good records are those for the New England, Middle Atlantic, West North Central, and Pacific regions. Again, most of the ratios by amount show that loss loans averaged smaller in original size than other loans in the same group, but here the exceptions are more marked. In the territorial possessions, where the loans made averaged considerably smaller than the average size for all regions, loans on which losses occurred averaged larger in original amount than other extinguished loans. In the East North Central states, where the loans made were typically large, loss loans were also of large average size, even for that region.

Loss was relatively frequent where the major use of RFC credit was to purchase land, buildings, or equipment (Table B-27). Where borrowing firms used loan proceeds principally to construct plant or to acquire going concerns, the incidence of loss was comparatively low, roughly one

TABLE B-26

Industrial and Regional Differences in Proportion of RFC Direct Business Loans Extinguished with Loss

| BORROWER CHARACTERISTICS | RATIO OF LOSS LOANS TO ALL EXTINGUISHED LOANS | |
|---|---|---|
| | *Number* | *Amount* |
| INDUSTRY | | |
| Manufacturing and mining[a] | 8.8% | 8.9% |
| Food, liquor, and tobacco | 7.6 | 6.7 |
| Textiles, apparel, and leather | 7.2 | 8.3 |
| Metals and metal products | 11.4 | 10.3 |
| Petroleum, coal, chemicals, and rubber | 11.4 | 13.8 |
| Other[b] | 7.5 | 5.7 |
| Retail trade | 6.4 | 2.6 |
| Wholesale trade | 1.6 | 2.6 |
| Construction | 6.8 | 2.6 |
| Transportation, communications, and public utilities[c] | 19.2 | 1.5 |
| Services | 10.6 | 5.5 |
| Finance, insurance, real estate | 0 | 0 |
| All other[d] | 13.3 | 7.9 |
| REGION[e] | | |
| New England | 5.6 | 1.4 |
| Middle Atlantic | 6.1 | 6.5 |
| East North Central | 9.9 | 20.6 |
| West North Central | 6.8 | 8.9 |
| South Atlantic | 10.3 | 2.5 |
| East South Central | 13.1 | 5.3 |
| West South Central | 9.2 | 7.6 |
| Mountain | 15.1 | 7.2 |
| Pacific | 6.6 | 1.2 |
| Possessions | 12.4 | 43.7 |
| All loans | 9.3% | 7.4% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of extinguished loans, 1934–1951, see Table B-23.

[a] Mainly manufacturing.

[b] Covers lumber and lumber products; paper and allied products or industries, such as printing; stone, clay, and glass products (including nonmetallic mining or quarrying), and other miscellaneous manufactured products.

[c] Excludes railroads.

[d] Mainly fisheries and farming (fruit, poultry, truck, etc.).

[e] For states included in the regions, see Table B-8.

loss loan in twenty loans extinguished; it was somewhat greater, but still below average, where the proceeds went mainly to augment working capital or to repay debt. The information-lacking group contains negligibly few loans, and the ratios by amount differ too little from those by number to occasion comment. In the breakdown of loans by the year the borrow-

## TABLE B-27

### Relation of Borrower's Use of Proceeds, and of Year Business Established, to Proportion of RFC Direct Business Loans Extinguished with Loss

| BORROWER CHARACTERISTICS | RATIO OF LOSS LOANS TO ALL EXTINGUISHED LOANS | |
|---|---|---|
| | *Number* | *Amount* |
| PRINCIPAL USE OF PROCEEDS | | |
| Construction of plant | 4.3% | 4.9% |
| Purchase of equipment | 13.3 | 7.5 |
| Retirement of debt | 8.2 | 4.9 |
| Addition to working capital | 7.2 | 10.7 |
| Purchase of land or buildings | 16.1 | 14.7 |
| Purchase of existing business | 5.2 | 0.9 |
| Not available | 21.8 | 20.0 |
| YEAR BUSINESS ESTABLISHED | | |
| Before 1931 | 5.4 | 3.8 |
| 1931–1942 | 4.7 | 8.4 |
| 1943–1949 | 13.2 | 25.7 |
| 1950–1951 | 0 | 0 |
| Newly forming at time of loan | 14.2 | 16.8 |
| Not available | 16.7 | 22.3 |
| All loans | 9.3% | 7.4% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of extinguished loans, 1934–1951, see Table B-23.

ing firm was established, the notable figures are the high loss-loan ratios for businesses just organizing at time of loan, and for firms organized during 1943–1949.

In Table B-28, the data relating loss frequency to three-year trends in the borrower's sales and net income up to date of loan are the most reliable. It is shown that loans to firms too young to record trends had a high loss-loan ratio, over one loan in seven that had been extinguished. The ratio was also high for firms old enough to record trends but not supplying information. Among extinguished loans to firms with downward sales trends, about one in thirteen brought some loss, whereas for firms with stable or rising trends the ratio was better than one in twenty. Among the loans to young businesses, those on which loss was incurred averaged smaller in original size than others; but where, for other reasons, sales and profit performance were unknown, the reverse was true. Also notable are the high loss frequency where borrowers' net income trends were declining moderately, and the much lesser frequency of loss where the profit declines were sharp. The evidence provided by trends in net worth and current ratio must be regarded as unclear—with information-lacking loans (apart from those to young firms) comprising

## TABLE B-28

### Relation of Three-Year Trends in Borrower's Financial Condition before Loan Authorization to Proportion of RFC Direct Business Loans Extinguished with Loss

| NATURE OF TREND IN BORROWER'S FINANCIAL CONDITION[a] | RATIO OF LOSS LOANS TO ALL EXTINGUISHED LOANS | |
|---|---|---|
| | *Number* | *Amount* |
| NET SALES | | |
| Sharply upward | 2.7% | 4.1% |
| Moderately upward | 4.6 | 5.0 |
| Horizontal or mixed | 4.5 | 2.7 |
| Moderately downward | 7.5 | 9.7 |
| Sharply downward | 6.5 | 4.6 |
| New business[b] | 15.1 | 8.2 |
| Not available | 11.3 | 46.6 |
| NET INCOME | | |
| Sharply upward | 2.5 | 0.9 |
| Moderately upward | 5.0 | 9.9 |
| Horizontal or mixed | 5.3 | 4.0 |
| Moderately downward | 12.5 | 17.4 |
| Sharply downward | 4.1 | 4.2 |
| New business[b] | 15.1 | 8.2 |
| Not available | 11.1 | 47.1 |
| NET WORTH | | |
| Sharply upward | 2.0 | 1.0 |
| Moderately upward | 0.3 | 6.2 |
| Horizontal or mixed | 6.0 | 4.1 |
| Moderately downward | 7.4 | 5.0 |
| Sharply downward | 13.4 | 6.1 |
| New business[b] | 15.1 | 8.2 |
| Not available | 5.7 | 12.8 |
| CURRENT RATIO | | |
| Sharply upward | 4.7 | 5.4 |
| Moderately upward | 5.0 | 2.8 |
| Horizontal or mixed | 4.9 | 2.6 |
| Moderately downward | 4.4 | 7.4 |
| Sharply downward | 8.6 | 6.0 |
| New business[b] | 15.1 | 8.2 |
| Not available | 5.7 | 12.9 |
| All loans | 9.3% | 7.4% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of extinguished loans, 1934–1951, see Table B-23.

[a] "Sharply" upward or downward refers to average annual expansion or contraction of 20.5 percent or more; "moderately," to expansions or contractions averaging between 5.5 and 20.5 percent. "Horizontal" refers to average annual contractions or expansions less than 5.5 percent, and the class includes movements of divergent direction.

[b] Includes firms newly organizing at time of loan or too young to have calculable trends.

about 40 percent of all extinguished loans—even though the variations in the known cases are not particularly implausible.

Loss-loan ratios by indicators of the borrower's financial condition shortly before loan date show a clear-cut relationship between the current ratio and the frequency of loss (Table B-29). The proportion of loans extinguished with loss was almost one in every nine where the current ratio was less than one (a loss frequency nearly twice as high as where current assets equaled or exceeded current liabilities), and the loss loans

TABLE B-29

Relation of Borrower's Financial Condition at Time of Loan Authorization to Proportion of RFC Direct Business Loans Extinguished with Loss

| BORROWER'S FINANCIAL CONDITION | RATIO OF LOSS LOANS TO ALL EXTINGUISHED LOANS | |
|---|---|---|
| | *Number* | *Amount* |
| CURRENT RATIO | | |
| Less than 1.00 | 10.8% | 25.0% |
| 1.00–1.49 | 5.9 | 4.6 |
| 1.50–1.99 | 5.7 | 2.4 |
| 2.00–2.99 | 4.1 | 2.3 |
| 3.00–4.99 | 6.6 | 3.7 |
| 5.00 and over | 6.5 | 3.5 |
| Not available[a] | 12.9 | 4.0 |
| NET WORTH/TOTAL DEBT | | |
| Less than 0.5 | 9.4 | 6.1 |
| 0.5–0.9 | 10.0 | 4.1 |
| 1.0–1.9 | 7.3 | 4.9 |
| 2.0–3.9 | 5.6 | 3.8 |
| 4.0–9.9 | 7.6 | 2.5 |
| 10 and over | 2.3 | 4.3 |
| Debt under $500 | 13.3 | 10.9 |
| Negative ratio[b] | 51.2 | 64.0 |
| Not available[a] | 12.3 | 3.4 |
| CREDIT RATING | | |
| High | 0.7 | 0.7 |
| Good | 14.2 | 9.3 |
| Fair | 3.9 | 2.9 |
| Limited | 10.9 | 25.1 |
| Not available[c] | 6.0 | 6.0 |
| All loans | 9.3% | 7.4% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of extinguished loans, 1934–1951, see Table B-23.

[a] Includes firms just forming at time of loan, and other firms not supplying information.

[b] Liabilities in excess of assets.

[c] Includes loans to firms for which Dun & Bradstreet rating or similar information was lacking, and a few loans rated "high to good" and the like.

tended to average larger in original size than other loans in that group. Loss was most frequent where information on the current ratio was lacking; but in this case the trouble related more to the smaller of the loans. As regards the ratio of net worth to debt: Few loans were made to firms with liabilities in excess of assets, but they averaged exceptionally large in original amount, and over half of them brought loss. The next highest loss frequencies were those among loans where debt totaled less than $500—probably to small and new establishments—and where information was not supplied. Loans to firms whose debt exceeded their net worth had distinctly higher loss-loan ratios than where firms were less heavily indebted. The evidence from the borrower's credit rating is mixed.

### EXTENT OF LOSS

On the loans made during 1934–1951 and foreclosed (or otherwise liquidated at the option of RFC) by the end of 1951, the sample indicates that losses totaled 37.5 percent of the amount originally disbursed, or about $14.6 million. This may be compared with $710 million that had been disbursed on all loans extinguished, to yield a loss ratio of about 2.1 percent. In other words, RFC lost about 2 cents and collected 98 cents of every dollar of principal originally disbursed or business loans extinguished up to December 31, 1951.

Comparable loss ratios are not reported by commercial banks for their business term loans, but the RFC figure is greatly in excess of that considered normal by private lending agencies. During 1951, all insured commercial banks reported losses, charge-offs, and transfers to reserve account of less than one-half of one percent of all loans and discounts held by them.[32] Considering that the weighted average term to maturity of these credits was probably under two years, this implies a loss ratio of under 1 percent of the amount of all loans and discounts extinguished during the year, and there is no evidence that term loans had a poorer record of loss than other commercial bank loans.

In studying the extent of loss according to different characteristics of RFC loans and borrowers, loss loans will be considered first as among other foreclosed loans, and then as among all extinguished loans and all loans made. Loss ratios on liquidated loans varied widely among industry groups of loans: for two of the divisions where our earlier materials showed that foreclosure was frequent—namely, with metal and metal products manufacturers, and for the petroleum, coal, chemicals, rubber group—losses on the foreclosed loans were very heavy (Table B-30). Regionally, the loss ratios were highest in the Middle Atlantic, Mountain, and Pacific regions, among which only the Mountain states showed high frequency of foreclosure. Relatively few loans maturing in ten years or

[32] *Annual Report of Federal Deposit Insurance Corporation*, 1951, pp. 154, 162.

## TABLE B-30

### Industrial and Regional Differences in Loss Rates on Foreclosed RFC Direct Business Loans

| Borrower Characteristics | Realized Net Loss as a Percentage of Amount Disbursed on Foreclosed Loans | Distribution of Foreclosed Loans: *Number* | Distribution of Foreclosed Loans: *Amount* |
|---|---|---|---|
| INDUSTRY | | | |
| Manufacturing and mining[a] | 40.6% | 44.5% | 86.8% |
| Food, liquor, and tobacco | 35.7 | 5.4 | 7.3 |
| Textiles, apparel, and leather | 33.1 | 4.4 | 15.2 |
| Metals and metal products | 50.4 | 14.8 | 32.3 |
| Petroleum, coal, chemicals, and rubber | 61.6 | 3.1 | 7.4 |
| Other[b] | 27.3 | 16.8 | 24.6 |
| Retail trade | 6.9 | 12.9 | 3.3 |
| Wholesale trade | 22.9 | 1.1 | 0.6 |
| Construction | 18.8 | 6.2 | 2.2 |
| Transportation, communications, and public utilities[c] | 25.2 | 18.5 | 3.9 |
| Services | 16.1 | 14.0 | 2.6 |
| Finance, insurance, real estate | .. | .. | .. |
| All other[d] | 26.6 | 2.8 | 0.6 |
| REGION[e] | | | |
| New England | 27.5 | 2.0 | 8.4 |
| Middle Atlantic | 47.7 | 8.0 | 25.3 |
| East North Central | 35.5 | 11.4 | 16.7 |
| West North Central | 13.6 | 4.1 | 8.4 |
| South Atlantic | 19.7 | 18.9 | 10.5 |
| East South Central | 32.4 | 10.1 | 2.8 |
| West South Central | 28.1 | 26.3 | 11.6 |
| Mountain | 73.8 | 9.5 | 4.2 |
| Pacific | 47.1 | 9.1 | 10.0 |
| Possessions | 48.3 | 0.6 | 7.1 |
| All loans | 37.5% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of foreclosed loans, 1934–1951, see Table B-17. Foreclosed loans whose settlement record was not complete are included, with losses to December 31, 1951, excepting six large ones where substantial recoveries on collateral security were anticipated.

[a] Mainly manufacturing.

[b] Covers lumber and lumber products; paper and allied products or industries, such as printing; stone, clay, and glass products (including nonmetallic mining or quarrying), and other miscellaneous manufactured products.

[c] Excludes railroads.

[d] Mainly fisheries and farming (fruit, poultry, truck, etc.).

[e] For states included in the regions, see Table B-8.

more were foreclosed, but of the original investment in the loans foreclosed, half had to be written off; the same is true, but with losses not quite so heavy, for the five- through nine-year range (Table B-31). Loans of $500,000 and over had better than average records as to frequency of foreclosure, but worse than average loss records on liquidated loans, with over half of RFC's original investment lost. Similarly heavy losses were incurred on foreclosed loans in the $10,000 to $25,000 range.

As to size of borrower, heavy losses were sustained on the foreclosed loans to firms with assets of $25,000 to $50,000 and of $1 million and over (Table B-32). Both those groups had relatively low frequency of foreclosure. In the $5,000 to $25,000 range, there was above-average

TABLE B-31

Loss Rates on Foreclosed RFC Direct Business Loans, by Size of Loan and Term to Maturity

| LOAN CHARACTERISTICS | REALIZED NET LOSS AS A PERCENTAGE OF AMOUNT DISBURSED ON FORECLOSED LOANS | DISTRIBUTION OF FORECLOSED LOANS | |
|---|---|---|---|
| | | *Number* | *Amount* |
| AMOUNT AUTHORIZED | | | |
| Less than $1,000 | 20.0% | 2.3% | 0.1% |
| $1,000–4,999 | 16.9 | 40.3 | 4.2 |
| 5,000–9,999 | 33.8 | 19.6 | 4.2 |
| 10,000–24,999 | 57.1 | 13.4 | 6.8 |
| 25,000–49,999 | 14.2 | 10.7 | 11.5 |
| 50,000–99,999 | 32.3 | 7.8 | 14.7 |
| 100,000–499,999 | 35.3 | 5.0 | 32.0 |
| 500,000–999,999 | 61.6 | 0.6 | 11.7 |
| 1 million and over | 44.8 | 0.3 | 14.8 |
| TERM TO MATURITY | | | |
| Less than six months | .. | .. | .. |
| 1 year | 19.7 | 9.2 | 9.6 |
| 2 yrs. | 20.2 | 19.3 | 7.0 |
| 3, 4 yrs. | 20.1 | 41.6 | 16.1 |
| 5–9 yrs. | 43.3 | 23.3 | 50.4 |
| 10 yrs. and over | 51.5 | 3.7 | 13.2 |
| Payable on demand[a] | 63.8 | 2.9 | 3.7 |
| PREVIOUS ACTION | | | |
| Repeat loan | 40.7 | 16.2 | 45.3 |
| Initial loan | 34.9 | 83.8 | 54.7 |
| All loans | 37.5% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of foreclosed loans, 1934–1951, see Table B-17. Foreclosed loans whose settlement record was not complete are included, with losses to December 31, 1951, excepting six large ones where substantial recoveries on collateral security were anticipated.

[a] Includes loans of unknown term, on which losses were light.

frequency of foreclosure, with two-fifths of the amount of the disbursements finally written off.

Receipts on liquidated loans to businesses newly forming at time of loan, which had a poor record as to frequency of foreclosure, were better than average (Table B-32). The relatively heavy losses on foreclosed loans came with firms established during 1931–1942, comparatively few of whose loans went into foreclosure. Firms with moderately declining net income trends up to loan date, which had the worst foreclosure rate so far as trends were known, also apparently had a very poor loss record on foreclosed loans, with RFC receiving less than four dollars out of every ten originally invested.

Loss rates relating the amount of RFC losses to the total amount of extinguished loans and of all loans made are given for different classes of loan and of borrower in Tables B-33, B-34, and B-35.

Manufacturing firms, it may be recalled, received most of the credit extended by RFC, by far the largest share going to metal and metal products manufacturers (40 percent of the RFC total), and the second largest share to the miscellaneous group (lumber, paper, stone, clay, glass; 16 percent). Loans in the metals group had high foreclosure rates, high incidence of loss, and poor receipts on liquidated loans as compared to RFC's average experience. Yet their loss rate, by either of the measures shown, differed little from the over-all average (Table B-33). The explanation is that while the average size of loans to metals firms was large (about $211,000, as against an over-all average of $72,300), trouble arose mainly from the smaller of them, and the good performance of many large loans improved the loss rates for the group. Loss rates for the miscellaneous manufacturing group, also close to the over-all averages, are not surprising in view of the experience data given earlier.

The worst loss rates among industries are those for the petroleum, coal, chemicals, rubber division. Those for the textile, apparel, leather group are also high. Relatively low loss rates appear for construction, for trade, and for service; also for the transportation, communications, public utility group, notwithstanding a high frequency of distress among the smaller of the loans. Loans in the insurance, real estate, financial group were very few and brought no losses in the period covered.

Almost three-quarters of the total credit extended by RFC was concentrated in four regions: the East North Central and Pacific, each with one-fifth, and the Middle Atlantic and South Atlantic with smaller but sizable shares. Three of the four had relatively low loss rates: the East North Central, where loss-loan frequency was somewhat high and involved loans in which RFC's original investment had been large, but where receipts on liquidated loans were better than average; the Pacific, where such receipts were poor but foreclosure and loss infrequent and pertaining unusually to the smaller of the loans; and the South Atlantic,

## TABLE B-32

### Loss Rates on Foreclosed RFC Direct Business Loans, by Borrower's Asset Size, Year Established, Net Income Trend, and Current Ratio

| BORROWER CHARACTERISTICS | REALIZED NET LOSS AS A PERCENTAGE OF AMOUNT DISBURSED ON FORECLOSED LOANS | DISTRIBUTION OF FORECLOSED LOANS | |
|---|---|---|---|
| | | *Number* | *Amount* |
| TOTAL ASSETS[a] | | | |
| Less than $5,000 | 22.4% | 17.4% | 2.3% |
| $5,000–24,999 | 40.7 | 22.4 | 5.0 |
| 25,000–49,999 | 49.5 | 6.2 | 2.4 |
| 50,000–99,999 | 25.1 | 7.3 | 5.5 |
| 100,000–249,999 | 39.6 | 10.2 | 19.4 |
| 250,000–499,999 | 21.5 | 4.5 | 12.2 |
| 500,000–749,999 | 18.1 | 2.8 | 8.3 |
| 750,000–999,999 | 19.5 | 0.9 | 6.0 |
| 1 million and over | 44.4 | 1.3 | 23.3 |
| Not available | 58.3 | 27.1 | 15.5 |
| YEAR BUSINESS ESTABLISHED | | | |
| Before 1931 | 34.7 | 19.1 | 36.6 |
| 1931–1942 | 46.3 | 9.9 | 27.7 |
| 1943–1949 | 16.2 | 38.1 | 22.1 |
| 1950–1951 | .. | .. | .. |
| Newly forming at time of loan | 29.4 | 28.6 | 5.9 |
| Not available | 87.0 | 4.2 | 7.7 |
| NET INCOME TREND[b] | | | |
| Sharply upward | 12.1 | 5.5 | 7.6 |
| Moderately upward | 42.2 | 0.6 | 1.0 |
| Horizontal or mixed | 34.7 | 13.0 | 37.8 |
| Moderately downward | 63.7 | 2.0 | 5.8 |
| Sharply downward | 31.9 | 4.6 | 11.5 |
| New business[c] | 28.7 | 61.2 | 17.1 |
| Not available | 56.1 | 13.1 | 19.2 |
| CURRENT RATIO[a] | | | |
| Less than 1.00 | 38.5 | 21.8 | 33.6 |
| 1.00–1.49 | 27.0 | 10.1 | 20.9 |
| 1.50–1.99 | 12.2 | 4.9 | 11.7 |
| 2.00–2.99 | 39.6 | 4.2 | 4.5 |
| 3.00–4.99 | 44.3 | 3.5 | 3.7 |
| 5.00 and over | 82.0 | 3.0 | 4.1 |
| Not available[d] | 50.1 | 52.5 | 21.5 |
| All loans | 37.5% | 100.0% | 100.0% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans; for number and amount of foreclosed loans, 1934–1951, see Table B-17. Foreclosed loans whose settlement record was not complete are included, with losses to December 31, 1951, excepting six large ones where substantial recoveries on collateral security were anticipated.

[a] At time of loan application.

[b] During three fiscal years prior to loan authorization. For classification used, see Table B-28.

[c] Firms newly forming at time of loan or too young to have calculable trend.

[d] Includes firms just forming at time of loan, and other firms not supplying information.

## TABLE B-33

### Loss Rates on RFC Direct Business Loans Made, and on Extinguished Loans, by Borrower's Industry, Region, and Year Established

| BORROWER CHARACTERISTICS | REALIZED NET LOSS AS A PERCENTAGE OF AMOUNT DISBURSED: *On All Loans Made* | *On Extinguished Loans* |
|---|---|---|
| INDUSTRY | | |
| Manufacturing and mining[a] | 1.6% | 2.5% |
| Food, liquor, and tobacco | 1.3 | 2.9 |
| Textiles, apparel, and leather | 2.1 | 3.0 |
| Metals and metal products[b] | 1.4 | 2.0 |
| Petroleum, coal, chemicals, and rubber | 2.7 | 9.2 |
| Other[c] | 1.4 | 2.1 |
| Retail trade | 0.3 | 0.5 |
| Wholesale trade | 0.3 | 0.7 |
| Construction | 0.5 | 0.9 |
| Transportation, communications, and public utilities[d] | 0.4 | 0.5 |
| Services | 0.5 | 1.3 |
| Finance, insurance, real estate | 0 | 0 |
| All Other[e] | 1.3 | 2.6 |
| REGION[f] | | |
| New England | 0.5 | 0.8 |
| Middle Atlantic | 2.2 | 3.5 |
| East North Central[b] | 0.9 | 1.7 |
| West North Central | 1.0 | 1.5 |
| South Atlantic | 0.5 | 0.9 |
| East South Central | 0.6 | 1.8 |
| West South Central | 1.2 | 2.9 |
| Mountain | 4.8 | 3.0 |
| Pacific | 0.8 | 1.0 |
| Possessions | 16.9 | 21.1 |
| YEAR BUSINESS ESTABLISHED | | |
| Before 1931 | 1.1 | 1.6 |
| 1931–1942 | 1.4 | 1.8 |
| 1943–1949[b] | 0.5 | 1.3 |
| 1950–1951 | 0 | 0 |
| Newly forming at time of loan | 3.8 | 7.5 |
| Not available | 19.7 | 20.8 |
| All loans | 1.3% | 2.1% |

From the National Bureau of Economic Research sample survey of RFC direct business loans exclusive of participations and national defense loans. The record covers disbursements and losses through December 1951 on loans authorized from June 1934 through June 1951; for number and amount of loans made and loans extinguished, see Tables B-1 and B-17.

[a] Mainly manufacturing. Loans to mining companies account for 3 percent of the number and amount of loans disbursed.

[b] Loss on six loans in process of settlement at the end of 1951 is excluded.

[c] Covers lumber and lumber products; paper and allied products or industries, such as printing; stone, clay, and glass products (including nonmetallic mining or quarrying), and other miscellaneous manufactured products.

[d] Excludes railroads.

[e] Mainly fisheries and farming (fruit, poultry, truck, etc.).

[f] For states included in the regions, see Table B-8.

where slightly higher than average foreclosure and loss frequency concerned mainly small loans, and where receipts on liquidated loans were very good.

The very high loss rates for the territorial possessions—where loans were few and usually small—reflect bad experience with a small number of loans much larger than others in the group. The Mountain states, another area of small loans as compared to the RFC average, show high loss rates accordant with their high frequency of foreclosure and loss and their poor record of receipts on liquidated loans. They also show a high loss frequency of default among loans still outstanding at the end of 1951. The West South Central states, a rapidly developing region to which RFC made a large share of its loans (nearly one-fourth of the total number), but where, again, loan size averaged relatively small, had a loss rate somewhat above average as measured by total extinguishments but somewhat below average as measured by the amount of all loans made—a difference explained by the good record of receipts on liquidated loans. The delinquency status for loans still active in 1951 in the West South Central region was also good as compared to RFC loans elsewhere.

Loans to newly forming enterprises (which received less than 2 percent of the total amount of RFC credit) brought very high loss rates. Differences in the loss experience with established firms dating from the forties, the thirties, and before are not striking. Firms established during 1931–1942 had the least good record. Delinquency among loans still active in 1951 was slightly less frequent for that group than for the other two, but concerned the larger of its loans as to original amount.

Earlier measures of experience showed rather irregular patterns for size classes of RFC loans, except that frequency of foreclosure was worse than average for loans below $10,000 size and better than average for the groups above that amount. The irregularity reappears when extent of loss is measured (Table B-34). It may be worth noting that among loans still active in 1951 (hence not includable in the loss measures) the highest default ratios appeared for the size classes that show up best as to loss rates on all loans made ($25,000 to $100,000) and a better than average default ratio for one of the poorer groups as to loss rates ($10,000 to $25,000). On the record of extinguishments through 1951, the extremely low loss rates for very large loans, $1 million and over, stand out; and the default status of that group among loans still active in 1951 was also good. Half of all RFC credit extended during 1934–1951 went into loans of $1 million or over; thus their comparatively good record counts heavily in the over-all loss rates on RFC business lending.

Among the loss rates by term to maturity, those for loans of unknown term, or payable on demand or in less than six months, concern very few cases. The loan group with 5- through 9-year contract lengths, where 41 percent of RFC business credit was concentrated, brought losses roughly twice as high, in proportion to the amount of loans made, as those of the other considerable groups (Table B-34). Loans still active in 1951, it may be recalled, showed lower frequency of default the longer the term to maturity. The opposite pattern appears in the extent of loss on extinguished loans, except for the relatively good record of those with maturities of 10 years and over.

In general, the loss rates on RFC loans were worse the smaller the asset size of the borrower; but firms in the $100,000 to $250,000 range are an exception, with loss rates higher than any other loan group except those to businesses with assets of less than $25,000 (Table B-35).

RFC credit to firms that were old enough to have three-year net income trends before date of loan yet failed to supply information was not negligible in amount (6 percent of the total) and brought heavy losses. Loans to businesses too young to have calculable profit trends had loss rates worse than the RFC average, yet not extremely so. Since that group of firms received 11 percent of total RFC credit, and since only about one-seventh of their share represented loans to enterprises just organizing at time of loan, the loss rates for "new" businesses given in Table B-35 pertain mainly to young rather than to brand-new enterprises. Heavy losses were sustained on the less than 2 percent of RFC credit that went to firms with moderately declining net income trends, and distinctly above-average losses on the still smaller amount that went to firms with moderate rises. Eleven percent of the number and 20 percent of the amount of RFC loans went to firms with sharply downward profit trends, and brought smaller than average loss rates—better than those for the large share of RFC credit (44 percent) that went to firms with stable or mixed trends. As would be expected from the other measures of loan performance, borrowers with current liabilities exceeding current assets at time of loan produced a poor loss record.

### *Analysis of RFC Participation Loans*

A large part of RFC's credit activity in the business loan field involved commercial banks. From the beginning of its business lending operations, RFC stood ready to participate with a commercial bank on either an "immediate" or a "deferred" basis. Immediate participation occurred when the RFC and a bank each advanced a specified part of the funds under a single loan agreement, initiated either by the bank or by RFC. Deferred participation occurred when a bank advanced the total amount of a loan from its own funds and RFC agreed to take up any amount not exceeding a specified proportion of the loan upon demand by the bank, in effect guaranteeing to the bank repayment of that part of the loan. RFC charged the bank a fee on deferred participations, based upon the absolute amount and the proportion of the loan which it was committed to purchase. During most of the time, the deferred participation fee was

## TABLE B-34

### Loss Rates on RFC Direct Business Loans Made, and on Extinguished Loans, by Size of Loan and Term to Maturity

| LOAN CHARACTERISTICS | REALIZED NET LOSS AS A PERCENTAGE OF AMOUNT DISBURSED: *On All Loans Made* | REALIZED NET LOSS AS A PERCENTAGE OF AMOUNT DISBURSED: *On Extinguished Loans* |
|---|---|---|
| AMOUNT AUTHORIZED | | |
| Less than $1,000 | 1.9% | 2.2% |
| $1,000–4,999 | 2.4 | 3.0 |
| 5,000–9,999 | 3.7 | 5.5 |
| 10,000–24,999 | 3.1 | 5.3 |
| 25,000–49,999 | 1.0 | 1.7 |
| 50,000–99,999 | 1.6 | 3.2 |
| 100,000–499,999 | 2.0 | 3.4 |
| 500,000–999,999 | 2.5 | 4.4 |
| 1 million and over[a] | 0.4 | 0.7 |
| PERIOD LOAN MADE | | |
| June 1934–January 1935 | 3.1 | 3.1 |
| February 1935–April 1938 | 4.3 | 4.4 |
| May 1938–May 1940 | 2.3 | 2.3 |
| June 1940–February 1945 | 0.2 | 0.2 |
| March 1945–January 1947 | 2.8 | 3.3 |
| February 1947–May 1948 | 1.6 | 2.6 |
| June 1948–June 1951[a] | b | 0.1 |
| TERM TO MATURITY | | |
| Less than six months[c] | 0 | 0 |
| 1 year[d] | 0.7 | 0.8 |
| 2 yrs. | 0.6 | 1.0 |
| 3, 4 yrs. | 0.9 | 1.4 |
| 5–9 yrs. | 1.8 | 3.6 |
| 10 yrs. and over | 0.8 | 1.2 |
| Payable on demand | 47.3 | 47.3 |
| Not available | 2.2 | 3.0 |
| PREVIOUS ACTION | | |
| Repeat loan[a] | 1.2 | 1.8 |
| Initial loan | 1.4 | 2.3 |
| All loans | 1.3% | 2.1% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans. The record covers disbursements and losses through December 1951 on loans authorized from June 1934 through June 1951; for number and amount of loans made and loans extinguished, see Tables B-1 and B-17.

[a] Loss on six loans in process of settlement at the end of 1951 is excluded.

[b] Less than 0.05 percent.

[c] Loss on four loans in process of settlement is excluded.

[d] Loss on two loans in process of settlement is excluded.

computed on the outstanding balance of RFC's portion of a loan: 1 percent when the bank's share was 10 to 25 percent; ¾ of 1 percent when the bank's share was 25 to 50 percent; and ½ of 1 percent when the bank's share was over 50 percent.

In March 1945 RFC extended the principle of participation by writing Blanket Participation Agreements with commercial banks. Under such an agreement, an approved bank was automatically assured of a deferred participation up to 75 percent of the amount of any business loan made by the bank which conformed to the statutory restrictions imposed upon RFC. The announced purpose of the BPA program was to "adequately and promptly care for the large volume of applications for loans which it is anticipated may develop during and subsequent to the period of reconversion from a wartime to a peacetime economy." Originally, banks were permitted to make eligible loans up to $250,000 to any one borrower (later increased to $350,000, and then reduced to $100,000) without prior approval. By making it possible for a bank to obtain a loan guarantee without prior appraisal by RFC of each individual loan, the BPA program greatly extended the range of RFC participations.

Although numerous banks availed themselves of BPA facilities, the program was criticized by some bankers on grounds of providing an unnecessary and untimely stimulus to credit expansion, of encouraging loose lending practices by banks, and of adding to the already heavy liabilities of the federal government.[33] On January 22, 1947 it was withdrawn by RFC, and was replaced by the Small Loan Participation program, which was in effect a simplified procedure for handling applications for deferred participation. SLP loans, with an RFC commitment up to 75 percent on business loans limited to $100,000 each, could be finally approved in RFC's field offices, provided the loan agency manager telegraphed a report to Washington on the solvency of the borrower and the value of his collateral, and received from the Secretary a telegraphed reply that solvency and collateral were satisfactory to the RFC Board.

The BPA and SLP programs involved special features and were operative only late in the period of RFC's activity. Chief attention will be focused upon the ordinary, ongoing types of participation loans made by RFC, with later comment on the characteristics of loans under blanket participation agreements.

### DEVELOPMENT AND MAGNITUDE OF PARTICIPATION LENDING

Outstanding amounts that RFC was committed to extend on demand—or, in some cases, had extended—in participation loans always formed a considerable segment of the Corporation's total credit volume, and at times (from mid-1946 through mid-1947) exceeded the amount of its

[33] See *Proceedings* of American Bankers Association, Convention, Chicago, September 1946. Also *Wall Street Journal*, September 26, 1946.

## TABLE B-35

### Loss Rates on RFC Direct Business Loans Made, and on Extinguished Loans, by Financial Characteristics of Borrower

| BORROWER CHARACTERISTICS | REALIZED NET LOSS AS A PERCENTAGE OF AMOUNT DISBURSED | |
|---|---|---|
| | *On All Loans Made* | *On Extinguished Loans* |
| TOTAL ASSETS[a] | | |
| Less than $5,000 | 6.2% | 7.7% |
| $5,000–24,999 | 4.6 | 6.5 |
| 25,000–49,999 | 1.7 | 3.5 |
| 50,000–999,999 | 1.1 | 2.1 |
| 100,000–249,999 | 2.9 | 5.7 |
| 250,000–499,999 | 1.2 | 2.4 |
| 500,000–749,999 | 0.9 | 1.4 |
| 750,000–999,999 | 1.0 | 1.5 |
| 1 million and over[b] | 0.7 | 1.2 |
| Not available | 1.9 | 2.3 |
| NET INCOME TREND[c] | | |
| Sharply upward | 0.2 | 0.3 |
| Moderately upward | 2.0 | 4.2 |
| Horizontal or mixed | 1.0 | 1.6 |
| Moderately downward | 7.9 | 14.1 |
| Sharply downward[d] | 0.6 | 1.0 |
| New business[e] | 1.5 | 3.0 |
| Not available[f] | 6.1 | 7.7 |
| CURRENT RATIO[a] | | |
| Less than 1.00[b] | 2.3 | 3.9 |
| 1.00–1.49 | 1.0 | 1.6 |
| 1.50–1.99 | 0.3 | 0.5 |
| 2.00–2.99 | 0.4 | 1.1 |
| 3.00–4.99 | 0.7 | 1.7 |
| 5.00 and over | 2.2 | 3.1 |
| Not available[g] | 1.9 | 2.4 |
| All loans | 1.3% | 2.1% |

From the National Bureau of Economic Research survey of RFC direct business loans exclusive of participations and national defense loans. The record covers disbursements and losses through December 1951 on loans authorized from June 1934 through June 1951; for number and amount of loans made and loans extinguished, see Tables B-1 and B-17.

[a] At time of loan application.

[b] Loss on six loans in process of settlement at the end of 1951 is excluded.

[c] During three fiscal years prior to loan authorization. For classification used, see Table B-28.

[d] Loss on one loan in process of settlement is excluded.

[e] Firms newly forming at time of loan or too young to have calculable trend.

[f] Loss on five loans in process of settlement is excluded.

[g] Includes firms just forming at time of loan, and other firms not supplying information.

direct lending.[34] Up to mid-1947 RFC authorized more than $1 billion as its share of immediate and deferred participations with commercial banks. Of this amount, $629 million consisted of the RFC share of ordinary participation loans, and the balance represented commitments under the BPA program (with a small amount under the SLP program begun in 1947). Among ordinary participation loans are included both the "regular" business loans, made under the authority and subject to the limitations of Section 5 (d) of the RFC Act of June 19, 1934, and the "national defense" loans, made under expanded statutory authority effective June 1940, which removed some of the restrictions as to purpose, maturity, and collateral security that otherwise applied.

Nearly all of the ordinary participations were made on a deferred basis (as were all of the BPA loans); only 12 percent of them involved the immediate extension of RFC funds. Thus we are dealing here largely with a loan guaranteeing function, and will use that terminology except if immediate participations alone are meant.

Table B-36 gives a summary of the number of participating banks, number of ordinary participation loans (exclusive of withdrawals and cancellations), gross amount authorized, and RFC share of the authorizations over the period June 1, 1934 to July 1, 1947, and for three subperiods: the post-depression period June 1934 through December 1937; the recession and pre-World War II recovery period January 1938 through December 1941; and the war and postwar period January 1942 through June 1947. Mid-1947 was chosen as terminal date because it marked the end of the regular monthly reporting by RFC to Congress on which the study relied for information about participating banks.

Over the period as a whole, the gross amount of ordinary participation loans authorized was about $828 million, of which the RFC share was 76 percent. The average size of loan authorized was $70,100 in the case of immediate participations, of which the amount extended by RFC averaged $53,200. The average size of deferred participations was $148,300, with the share guaranteed by RFC averaging $112,600. Before World War II the average amount of loan authorizations was considerably smaller, and the RFC percentage share was less, than after the price inflation of the war and postwar periods. Yet RFC was consistently the major partner in participation loans, carrying two-thirds to three-quarters of the risk.

The deferred participation loans made during 1934–1947 averaged about twice the size of RFC's direct loans—$148,300 versus $72,300—and both were considerably larger than the average bank term loan made during 1946, which was somewhat over $27,000.[35] Thus, RFC's guaran-

[34] See Chart B-1, page 431, for quarterly outstandings from 1934 on, where the small amounts of immediate participations are included with direct loans and contrasted with the deferred participations (loan guarantees).

[35] Holthausen, *op.cit.*, Table 6, p. 505; the estimates refer to term loans made from November 1945 to November 1946 and give the amount loaned less repayments during the year.

TABLE B-36

Summary of RFC Participation Loan Operations, 1934–1947

| | *June 1934 through Dec. 1937* | *Jan. 1938 through Dec. 1941* | *Jan. 1942 through June 1947* | *Total 1934–1947* |
|---|---|---|---|---|
| Number of participating banks | 312 | 1,043 | 1,218 | 2,018[a] |
| Number of participation loans | 395 | 1,891 | 3,679 | 5,965 |
| Immediate | 269 | 371 | 88 | 728 |
| Deferred | 126 | 1,520 | 3,591 | 5,237 |
| Gross amount of loans authorized | $27,503,900 | $148,107,100 | $651,920,100 | $827,531,100 |
| Immediate | 17,550,100 | 17,999,600 | 15,506,000 | 51,055,700 |
| Deferred | 9,953,800 | 130,107,500 | 636,414,100 | 776,475,400 |
| RFC share | $19,783,100 | $ 98,110,400 | $510,636,600 | $628,530,100 |
| Immediate | 12,576,100 | 12,672,100 | 13,513,300 | 38,761,500 |
| Deferred | 7,207,000 | 85,438,300 | 497,123,300 | 589,768,600 |
| Average size of loans | $69,630 | $78,322 | $177,200 | $138,731 |
| Immediate | 65,242 | 48,516 | 176,204 | 70,131 |
| Deferred | 78,998 | 85,597 | 177,225 | 148,267 |
| Average RFC share | $50,084 | $51,883 | $138,798 | $105,370 |
| Immediate | 46,751 | 34,157 | 153,560 | 53,244 |
| Deferred | 57,198 | 56,209 | 138,436 | 112,616 |
| Average RFC percentage share | 71.9% | 66.2% | 78.3% | 76.0% |
| Immediate | 71.7 | 70.4 | 87.1 | 75.9 |
| Deferred | 72.4 | 65.7 | 78.1 | 76.0 |

From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under blanket agreements; the few SLP loans made in 1947 are also excluded. Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement.

[a] Less than the sum of the numbers shown in each period because banks participating in more than one period are counted only once.

teeing of commercial bank loans occurred with respect to credits of considerably larger average amount than either banks or RFC were extending singly.

Participation loans appear to have functioned as a counter-cyclical factor before World War II and as a war financing measure after 1941 (Table B-37). They expanded through 1934 and 1935 and tapered off during 1936 as the Great Depression ended, falling to a very low point of activity during 1937. During 1938, RFC business lending programs were greatly accelerated to combat the sharp business recession; thereafter the pace of participation lending was slowed. After the United States' entry into World War II the number of ordinary participation loans authorized rose to an all-time peak, the high for the aggregate amount

## TABLE B-37

Number and Amount of RFC Participation Loans Authorized Annually, 1934–1947
*(dollar figures in thousands)*

| YEAR | PARTICIPATIONS | | GROSS AMOUNT | | RFC SHARE | |
|---|---|---|---|---|---|---|
| | *No.* | *Percent* | *Amount* | *Percent* | *Amount* | *Percent* |
| 1934 (6 mo.) | 51 | 0.9% | $ 3,243 | 0.4% | $ 2,419 | 0.4% |
| 1935 | 201 | 3.4 | 11,855 | 1.4 | 8,552 | 1.4 |
| 1936 | 87 | 1.5 | 7,967 | 1.0 | 5,681 | 0.9 |
| 1937 | 56 | 0.9 | 4,440 | 0.5 | 3,131 | 0.5 |
| 1938 | 883 | 14.8 | 64,473 | 7.8 | 41,409 | 6.6 |
| 1939 | 525 | 8.8 | 45,361 | 5.5 | 31,985 | 5.1 |
| 1940 | 312 | 5.2 | 15,181 | 1.8 | 9,845 | 1.6 |
| 1941 | 171 | 2.9 | 23,092 | 2.8 | 14,871 | 2.4 |
| 1942 | 1,370 | 23.0 | 133,162 | 16.1 | 103,326 | 16.4 |
| 1943 | 856 | 14.4 | 167,139 | 20.2 | 134,930 | 21.4 |
| 1944 | 606 | 10.1 | 142,993 | 17.3 | 115,579 | 18.4 |
| 1945 | 357 | 6.0 | 96,362 | 11.6 | 74,758 | 11.9 |
| 1946 | 318 | 5.3 | 65,351 | 7.9 | 48,910 | 7.8 |
| 1947 (6 mo.) | 172 | 2.9 | 46,912 | 5.7 | 33,135 | 5.3 |
| Total | 5,965 | 100.0% | $827,531 | 100.0% | $628,530 | 100.0% |

From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under the BPA and SLP programs. Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement.

coming a year later. The volume remained high through 1944, and then declined substantially after the end of the war.

Viewing these movements over longer spans, it is seen that the volume of participation loans authorized rose at an accelerating rate. During the first 43 months of RFC's life only 395 loans aggregating $28 million were involved; during the succeeding 48 months (to the end of 1941), 1,891 loans aggregating $148 million were authorized; during the final 66 months (to mid-1947) no less than 3,679 loans amounting to $652 million were authorized, exclusive of loans in which RFC participated under the BPA program and which alone amounted to more than $525 million. Evidently, loan guaranteeing under participation arrangements was a practice of growing popularity and vitality, at least until the curtailment of RFC's functions in 1947 and 1948.

Of the 5,965 ordinary participation loans authorized during 1934–1947, not far from half were national defense credits (Table B-38). The defense loans averaged larger than the regular loans, and the RFC share in them was also higher, in dollar amount and percentagewise. Hence about 60 percent of the total RFC commitments to participation loans from 1934 to mid-1947 consisted of national defense loans made after June 1940 under wartime powers.

TABLE B-38

Regular vs. Defense, and Deferred vs. Immediate Participations by RFC, 1934–1947

| Type of Participation | Number | Gross Amount | RFC Share |
|---|---|---|---|
| *Regular* | *54.5%* | *42.6%* | *39.5%* |
| Immediate | 11.0 | 4.4 | 4.1 |
| Deferred | 43.5 | 38.1 | 35.4 |
| *National Defense* | *45.5* | *57.4* | *60.5* |
| Immediate | 1.2 | 1.7 | 2.0 |
| Deferred | 44.3 | 55.7 | 58.4 |
| Total | *100.0%* | *100.0%* | *100.0%* |

From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under the BPA and SLP programs. Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement. For number and amount of loans, see Table B-36.

Among the national defense participations only a very few—about 3 percent by number and by amount—involved the immediate use of RFC funds (Table B-38). Among the regular participations, immediate extension of RFC loan funds was more frequent but nevertheless was far outweighed by deferred participations, which represented 80 percent by number and 90 percent by amount. Commercial bankers naturally preferred a loan under which the bank advanced the total amount of the funds and earned the interest thereon (less participation charges), with the RFC standing by to take up a major part of the loan upon demand, rather than to have the RFC share in the original advance and divide the interest income from the loan.

RFC participations were strongly concentrated around the 75 percent level (Table B-39). Other points of concentration were around the 50 percent and 90 percent levels. Altogether, about 70 percent of the loans and 76 percent of the gross amount authorized involved an RFC share of either 50, 75, or 90 percent; and over two-thirds of the amount of RFC commitments represented participations at the 75 and 90 percent levels. These facts suggest that if RFC had been limited by law to a maximum participation of 50 percent, the volume of its participation lending might have been considerably reduced.

### CHARACTERISTICS OF PARTICIPATION LOANS AND OF BORROWING FIRMS

The size distribution of bank loans made with RFC participation is as would be expected from the average size figures already given. Over half were in the over $10,000 to $100,000 range, and only 25 percent in amounts of $10,000 or less. Nearly three-quarters of the gross amount authorized represented loans of more than $200,000; in fact 43 percent

TABLE B-39

Distribution of Participation Loans by RFC Percentage Share Authorized, 1934–1947

| *RFC Percentage Share* | *Number* | *Gross Amount* | *RFC Share* |
|---|---|---|---|
| 0–39.9 | 1.0% | 0.9% | 0.3% |
| 40.0–47.4 | 0.9 | 0.4 | 0.2 |
| 47.5–52.4 | 16.2 | 12.6 | 8.3 |
| 52.5–60.8 | 3.2 | 2.5 | 1.9 |
| 60.9–72.4 | 8.4 | 6.4 | 5.7 |
| 72.5–77.4 | 32.5 | 35.6 | 35.1 |
| 77.5–82.4 | 12.2 | 6.4 | 6.7 |
| 82.5–87.4 | 3.6 | 4.8 | 5.4 |
| 87.5–92.4 | 20.9 | 27.8 | 33.0 |
| 92.5–99.9 | 0.6 | 1.4 | 1.7 |
| 100.0 | 0.4 | 1.3 | 1.7 |
| Total | 100.0% | 100.0% | 100.0% |

From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under the BPA and SLP programs. Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement. For number and amount of loans, see Table B-36.

represented loans of over $1 million (Table B-40). A comparison of this material with the distributions given earlier for loans made independently by banks and by RFC (Table B-2), though hampered by differences in the class boundaries used, again clearly shows the essentially "middle size" character of the RFC business credit programs. Even more than

TABLE B-40

Size Distribution of RFC Participation Loans Authorized 1934–1947

| *Size of Loan Authorized* | *Number* | *Gross Amount* | *RFC Share* |
|---|---|---|---|
| $5,000 and under | 11.1% | 0.3% | 0.3% |
| 5,000–10,000 | 13.5 | 0.8 | 0.8 |
| 10,000–25,000 | 22.3 | 3.0 | 2.8 |
| 25,000–50,000 | 16.4 | 4.7 | 4.6 |
| 50,000–100,000 | 16.5 | 9.6 | 9.6 |
| 100,000–200,000 | 8.6 | 9.6 | 9.2 |
| 200,000–500,000 | 7.2 | 17.1 | 17.0 |
| 500,000–1,000,000 | 2.2 | 11.7 | 11.7 |
| Over $1 million | 2.1 | 43.2 | 44.1 |
| Total | 100.0% | 100.0% | 100.0% |

From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under the BPA and SLP programs. Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement. For number and amount of loans, see Table B-36.

RFC's direct lending, its participation credit—largely in the deferred, or guarantee, form—was concentrated in loans of $50,000 to $500,000 size, whereas commercial bank loans made independently were concentrated more in the smallest and largest size classes.

As with direct lending, RFC's loan guaranteeing activity concentrated heavily in the manufacturing sector of business (Table B-41). Within that sector, again the metals and metal products division received the

TABLE B-41

Industrial and Regional Distributions of RFC Participation Loans Authorized 1934–1947

| *Borrower's Industry and Region*[a] | *Number* | *Gross Amount* | *RFC Share* |
|---|---|---|---|
| Manufacturing and mining[b] | 60.4% | 71.7% | 72.7% |
| Food, liquor, and tobacco | 10.8 | 12.8 | 12.4 |
| Textiles, apparel, and leather | 6.0 | 5.5 | 5.2 |
| Metals and metal products[c] | 20.2 | 31.9 | 34.0 |
| Petroleum, coal, chemicals, and rubber[c] | 5.7 | 7.5 | 7.7 |
| Other[d] | 17.7 | 14.0 | 13.4 |
| Retail trade | 13.3 | 2.4 | 2.4 |
| Wholesale trade | 4.9 | 6.5 | 6.4 |
| Construction | 6.9 | 7.0 | 7.0 |
| Transportation, communications, and public utilities[e] | 6.1 | 3.4 | 3.3 |
| Services | 3.9 | 1.1 | 0.9 |
| Finance, insurance, real estate | 3.3 | 6.7 | 6.1 |
| All other[f] | 1.3 | 1.2 | 1.1 |
| New England | 6.7 | 4.1 | 4.2 |
| Middle Atlantic | 10.7 | 9.3 | 9.3 |
| East North Central | 16.3 | 14.2 | 14.1 |
| West North Central | 10.5 | 7.9 | 7.8 |
| South Atlantic | 16.1 | 16.6 | 16.8 |
| East South Central | 9.1 | 8.0 | 7.6 |
| West South Central | 12.4 | 12.5 | 12.4 |
| Mountain | 5.7 | 3.9 | 3.9 |
| Pacific | 12.2 | 23.2 | 23.7 |
| Possessions | 0.3 | 0.3 | 0.2 |
| Total | 100.0% | 100.0% | 100.0% |

From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under the BPA and SLP programs. Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement. For number and amount of loans, see Table B-36.

[a] For states included in the regions, see Table B-8. Details of industry composition are given below.

[b] Mainly manufacturing; mining concerns account for 3.6 percent of the total number and less than 2 percent of the total gross amount authorized.

[c] Loans to mining companies form only a nominal fraction.

[d] Covers lumber and lumber products; paper and allied products or industries such as printing; stone, clay, and glass products (including nonmetallic mining and quarrying, with very few loans); and other miscellaneous manufactured products.

[e] Excludes railroads.

[f] Mainly fisheries and farming.

most loans (20 percent of loans to all industries) and the largest credit (32 percent of the gross amount authorized); loans to aircraft and aircraft parts makers, and to other manufacturers of transportation equipment (except automobiles)—industries which were expanding rapidly during the period under consideration—were particularly important within the metals group. In contrast, of bank term loans made during 1946 without RFC participation only 4 percent by number and 16 percent by amount went to the metals and metal products industry. But the fields where bank term loans were most numerous—retail trade, and services—were comparatively unimportant in bank lending under ordinary RFC guarantee.

The reasons for these differences are not definitely known. It is a plausible view, however, that the risks of term lending are, on the average, greater for firms in manufacturing than for firms of equal size in retail or service trades, because the term to maturity of the credit that is required is normally longer, the profitability of the investment fluctuates through a wider range, and technological and cyclical influences are more pronounced. Banks probably found relatively more numerous instances to request RFC participation in lending money to manufacturing firms.

Regionally, the pattern of participation lending departed significantly from the sizes of the business loan markets as measured by outstanding commercial and industrial loans made independently by commercial banks. The South Atlantic, West South Central, and Pacific regions had relatively large percentages of the amount of participation loans authorized (Tables B-41 and B-8). New England, the East North Central region, and especially the Middle Atlantic region had smaller shares of participation credit than ordinary bank loans. In the Pacific states, which received about 12 percent of the number and 23 percent of the amount of participation loans, average loan size was relatively large—$264,200 against $138,700 for the nation—and the portion guaranteed by RFC was correspondingly large (averaging about three-quarters of the gross amount, as elsewhere). These figures bear out an observation made subsequently in connection with the regional distribution of participating banks: participation credits were relatively heaviest in those states and regions which were in process of most rapid economic development. In this respect, RFC loan guaranteeing apparently tended to function as a support for venture capital.

### CHARACTERISTICS OF BANKS UTILIZING RFC PARTICIPATION FACILITIES

What kinds of commercial banks made the most frequent and extensive use of cooperative lending arrangements with RFC, particularly as regards their size, type of charter, location, and the population of the communities served?

There has been a general impression that, in sharing the risks of business loans, RFC mainly helped small commercial banks to meet the credit needs of their communities. The evidence shows, to the contrary, that medium-sized and large banks consistently used RFC participation facilities with relatively much greater frequency than did small institutions. During the years 1942–1947, banks with deposits of less than $5 million comprised 77 percent of the total number of insured banks in the United States, but they included only 32 percent of the number of insured banks utilizing RFC participation (Table B-42). At the other

TABLE B-42

City Size and Deposit Size Distributions of All Insured Banks and of Banks Using RFC Participation, and Corresponding Distribution of Participation Loans Authorized 1942–1947

| BANK CHARACTERISTICS | ALL INSURED BANKS[a] | PARTICIPATING BANKS[b] | PARTICIPATION LOANS[b] | | |
|---|---|---|---|---|---|
| | | | *Number* | *Gross Amount* | *RFC Share* |
| SIZE OF CITY | | | | | |
| Less than 2,500 | 53.1% | 17.1% | 8.0% | 2.2% | 2.3% |
| 2,500–4,999 | 13.0 | 8.1 | 5.1 | 1.5 | 1.5 |
| 5,000–9,999 | 10.7 | 11.4 | 7.1 | 2.4 | 2.4 |
| 10,000–24,999 | 9.1 | 16.7 | 11.8 | 7.7 | 7.6 |
| 25,000–49,999 | 4.1 | 9.9 | 8.2 | 6.0 | 6.1 |
| 50,000–99,999 | 2.8 | 9.3 | 15.0 | 12.3 | 12.7 |
| 100,000–499,999 | 4.2 | 17.5 | 33.7 | 52.0 | 52.1 |
| 500,000 and over | 3.0 | 9.5 | 10.9 | 15.8 | 15.3 |
| Not available | .. | 0.5 | 0.2 | c | c |
| DEPOSIT SIZE | | | | | |
| Under $250,000 | 0.7 | .. | .. | .. | .. |
| $250,000–499,999 | 4.9 | 0.7 | 0.2 | c | c |
| 500,000–999,999 | 16.6 | 3.2 | 1.3 | 0.1 | 0.1 |
| 1–1.9 million | 26.1 | 8.3 | 4.0 | 0.9 | 0.9 |
| 2–4.9 million | 28.6 | 19.7 | 12.0 | 4.0 | 4.1 |
| 5–9.9 million | 11.7 | 21.5 | 14.4 | 7.1 | 7.0 |
| 10–24.9 million | 6.6 | 19.7 | 19.6 | 10.8 | 11.1 |
| 25–49.9 million | 2.2 | 9.8 | 10.6 | 10.9 | 11.3 |
| 50–99.9 million | 1.2 | 7.0 | 12.5 | 14.8 | 14.7 |
| $100 million and over | 1.4 | 10.1 | 25.3 | 51.3 | 50.8 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

a As of October 10, 1945; computed from *Annual Report* of the Federal Deposit Insurance Corporation, 1945, Tables 41 and 45, pp. 74 and 78. The total number of insured banks included is 13,481. The deposit size classes differ from those used for participating banks, "$250,000 and under" forming the first group, and so on.

b From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under the BPA and SLP programs. Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement. The number of insured banks using RFC participation in 1942–1947 was 1,201; the number of participation loans, 3,654; their gross amount, $650,737,000; and the RFC share authorized, $509,653,000.

c Less than 0.05 percent.

end of the size scale, large banks (deposits $10 million and over) formed only 11 percent of the total number of banks but included 47 percent of the participating banks. Clearly, the RFC participation program was not characteristically a small bank aid. To a much greater extent, medium-sized and large institutions tended to use a public guaranty in lending money to business. Nearly 70 percent of the participation loans authorized, and nearly 90 percent of their amount and of the RFC share, pertained to commercial banks with deposits of $10 million or more.

The banks which utilized RFC participation facilities characteristically were large-city institutions. This refutes the impression that RFC participation was mainly useful to the bank in the small community which was unable, because of legal limitations upon its lending powers or prudent diversification of its portfolio, to meet by itself the credit needs of its larger customers. The dominance of large-city banks in the RFC participation clientele persisted throughout the period 1934–1947, although it declined to some extent through time. During 1942–1947 only about 10 percent of all insured banks were located in cities with populations of 50,000 and over, but about 36 percent of all participating banks were located in these large centers (Table B-42). Only a very small fraction—about 3 percent—of banks in centers under 5,000 population utilized RFC guaranty in business lending; yet appreciable proportions of the institutions in larger centers did so. These findings are, of course, consistent with those regarding the distribution of participation loans by size of bank, because of the fairly strong positive correlation between the size of banks and the size of the communities in which they are situated.

Throughout the thirteen-year period 1934–1947, the banks utilizing RFC participation in business lending were to a relatively large extent members of the Federal Reserve System. During the years 1942–1947 member banks formed 46.8 percent of the American banking population, but they included no less than 74.5 percent of all participating banks (Table B-43). Because the larger institutions tend to hold national charters, or, if state-chartered, to hold membership in the Federal Reserve System, the figures substantiate the view that participation with RFC was characteristically most frequent with the larger and better-established banks of the nation.

Comparison of the regional distribution of participating banks with that for all banks shows that through 1937 the New England, Middle Atlantic, South Atlantic, and Pacific regions had disproportionately large numbers participating; relatively few banks in the East North Central, West North Central, and West South Central regions participated (Table B-44). Later, some of these regional disparities disappeared. But the Mountain region emerged as an area of relatively frequent use of RFC participation facilities and the South Atlantic and Pacific regions con-

## TABLE B-43

### Distributions by Type of Charter for All Banks and for Banks Using RFC Participation, and Corresponding Distribution of Participation Loans Authorized 1942–1947

| TYPE OF BANK | ALL BANKS[a] | PARTICIPATING BANKS[b] | PARTICIPATION LOANS[b] Number | Gross Amount | RFC Share |
|---|---|---|---|---|---|
| National | 34.1% | 53.9% | 65.3% | 77.3% | 77.6% |
| Insured state member of Federal Reserve System | 12.7 | 20.6 | 18.3 | 16.5 | 16.5 |
| Other insured state | 44.9 | 24.1 | 15.7 | 6.0 | 5.7 |
| Noninsured state | 8.3 | 1.4 | 0.7 | 0.2 | 0.2 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

[a] Covers all commercial and mutual savings banks in the United States and possessions (14,725) as of December 31, 1945; computed from the *Annual Report* of the Federal Deposit Insurance Corporation for that year, Table 102, p. 98. Includes 92 trust companies not regularly engaged in deposit banking: 1 national, 3 state members of the Federal Reserve system, 5 insured state nonmembers, and 83 noninsured.

[b] From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under the BPA and SLP programs (with information on type of bank from the source given above). Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement. Covers 1,218 participating banks; and 3,679 loans, whose gross amount was $651,920,000 and the RFC share authorized $510,637,000.

## TABLE B-44

### Regional Distributions of All Banks and of Banks Using RFC Participation, 1934–1937, 1938–1941, and 1942–1947

| | 1934–1937 | | 1938–1941 | | 1942–1947 | |
|---|---|---|---|---|---|---|
| REGION[a] | *All Banks* | *Participating Banks* | *All Banks* | *Participating Banks* | *All Banks* | *Participating Banks* |
| New England | 5.9% | 8.7% | 6.0% | 5.6% | 6.0% | 8.2% |
| Middle Atlantic | 15.6 | 22.1 | 15.5 | 15.6 | 15.1 | 12.6 |
| East North Central | 20.6 | 16.3 | 20.4 | 19.2 | 20.6 | 20.2 |
| West North Central | 22.6 | 12.5 | 22.5 | 13.6 | 22.3 | 12.0 |
| South Atlantic | 10.8 | 14.7 | 11.0 | 13.7 | 11.1 | 15.5 |
| East South Central | 7.5 | 8.0 | 7.5 | 7.2 | 7.5 | 7.2 |
| West South Central | 10.7 | 3.9 | 10.8 | 10.6 | 11.0 | 11.3 |
| Mountain | 3.2 | 3.5 | 3.3 | 5.8 | 3.3 | 6.0 |
| Pacific | 2.9 | 9.9 | 2.7 | 8.1 | 2.7 | 6.4 |
| Possessions | 0.2 | 0.3 | 0.2 | 0.6 | 0.3 | 0.5 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Number of banks | 15,444 | 312 | 14,877 | 1,043 | 14,725 | 1,218 |
| Ratio of participating to all banks | | 2.0% | | 7.0% | | 8.3% |

Data for participating banks are from the National Bureau of Economic Research compilation of all RFC participation loans except those made under the BPA and SLP programs. Figures for all commercial and mutual savings banks are year-end data from *Annual Reports* of the Federal Deposit Insurance Corporation for 1937, 1941, and 1945 (pp. 73ff., 108f., and 98ff., respectively); the 1937 and 1941 data exclude all noninsured trust companies, and those for 1945 exclude such companies if not engaged in deposit banking.

[a] For states included in the regions, see Table B-8.

tinued so, while banks in the West North Central region—containing the predominantly agricultural states of Minnesota, Iowa, Missouri, the Dakotas, Nebraska, and Kansas—continued to use RFC guaranty comparatively seldom. Relatively most frequent participation was found in those regions which were developing economically with the greatest rapidity. Thus RFC's cooperation with banks in business lending tended to aid firms in developing areas rather than businesses in areas of less rapid development, as was seen also in the regional distribution of borrowing business concerns.

### BANK CONCENTRATION OF PARTICIPATION LENDING

There was a high degree of concentration in the use of RFC participation facilities by banks. No less than 51 percent of the gross amount authorized under such arrangements over the years 1934–1947 was concentrated with 99 banks—about 5 percent of all participating banks—each of which utilized RFC guaranty (or, in some cases, immediate extension of RFC funds for part of the loan amount) in ten or more business loans (Table B-45). On the other hand, 1,109 participating banks—55 percent of the total number—used RFC guaranty only once. The 99 banks that were the most frequent users of RFC guaranty accounted for nearly twice as many participation loans, and for nearly seven times as much in gross amount of loan, as the 1,109 banks that made only one RFC

TABLE B-45

Distribution of RFC Participation Loans Authorized 1934–1947, and of the Participating Banks, by Number of Participations per Bank

| NUMBER OF PARTICIPATIONS PER BANK | BANKS USING RFC PARTICIPATION | | PARTICIPATION LOANS | | |
|---|---|---|---|---|---|
| | *Number* | *Percent* | *Number* | *Gross Amount* | *RFC Share* |
| 1 | 1,109 | 55.0% | 18.6% | 7.4% | 7.4% |
| 2 | 369 | 18.3 | 12.4 | 7.8 | 7.4 |
| 3 | 160 | 7.9 | 8.0 | 6.8 | 6.5 |
| 4 | 95 | 4.7 | 6.4 | 4.5 | 4.6 |
| 5 | 71 | 3.5 | 5.9 | 5.2 | 5.1 |
| 6 | 39 | 1.9 | 3.9 | 4.2 | 4.1 |
| 7 | 35 | 1.7 | 4.1 | 4.1 | 4.2 |
| 8 | 22 | 1.1 | 3.0 | 4.8 | 5.0 |
| 9 | 19 | 0.9 | 2.9 | 4.3 | 4.6 |
| 10 and over | 99 | 4.9 | 34.8 | 50.9 | 51.2 |
| Total | 2,018 | 100.0% | 100.0% | 100.0% | 100.0% |

From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under the BPA and SLP programs. Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement. For number and amount of loans, see Table B-36.

participation loan each. The average size of participation loans was very much greater for the frequent users than for banks with one, two, or three participations. Concentration in participation lending increased greatly both just before and during World War II, probably because of the exigencies of financing defense and war production.

Why did this high degree of concentration occur, and why did it tend to increase rather than to diminish? The answers are not clear. Such evidence as the data afford was gathered by comparing the distributions of multiple users and of all participating banks by various bank characteristics. The proportion of multiple users tended to be higher the larger the size class of bank. During 1938–1941, banks with deposits of $5 million and over, which formed 40 percent of all participating banks, constituted 62 percent of all multiple users, and this disproportion characterized each of five subclasses within the group, whereas for each smaller size class the reverse was true. A similar pattern, but with $10 million deposits as the dividing line, appeared for 1942–1947. Correspondingly, throughout the period 1934–1947 it was consistently true that multiple use of RFC guaranty was relatively more frequent among participating banks in the larger than in the smaller centers of population. Regionally, differences in the distribution of multiple users and of all participating banks were not striking, except that during 1938–1941 the East North Central region had few multiple users in relation to the number of banks participating, and the Pacific states, comparatively many.

### PARTICIPATION AND THE LEGAL LENDING LIMITATIONS ON BANKS

Did banks seek RFC cooperation in making business loans because the amounts of credit required in individual cases exceeded the amounts they could lawfully or prudently lend to a borrower? The states variously limit the amount of credit a bank may grant a single borrower to between 10 and 25 percent of the amount of capital and surplus, in order to compel banks to diversify their earning assets and to avoid the risk of crippling impairment of capital in the event of default of a very large loan. Furthermore, bank managements generally limit their commitments to individual borrowers to smaller amounts than the law permits. A knowledge of such management policies would be necessary before one could judge the extent to which RFC participation was sought for the purpose of enabling banks to make larger-than-usual loans without incurring what they would regard as undue risk through inadequate asset diversification.

It is possible, however, to state the relative frequency of participation loans whose amount exceeded the legal lending limitations on the participating banks, and thus could not have been made without the collaboration of RFC (or of other banks). One-quarter of them did exceed the statutory lending limitations on the banks making them (Table B-46). Bearing in mind that the policies of most banks frequently held the size of independently made loans even below the legal limit, the percentage of RFC participations sought by the banks in order to minimize the risks of departing from customary policies of portfolio diversification might be set appreciably higher: say, at one-half.

When the proportions of loans over and under legal loan limits were analyzed by size of lending bank, it was found, as might be expected, that the proportion of over-limit loans rose as size of bank diminished. In summary: RFC undoubtedly functioned as a risk-distributing agency, mainly for banks of medium size, with respect to a considerable part of these loans. It is natural that RFC should have performed such a function. The United States is increasingly characterized by large enterprises with great credit requirements; yet the dominant institutional pattern of banking is one of comparatively small-scale, unit institutions.

### PARTICIPATION AND THE RISK POSITION OF BANKS

In addition to the risk element in larger than usual individual loans, the over-all risk position of a bank may have played a motivating role in the use of RFC participation facilities. The available evidence is given in Table B-47, which compares the ratio of risk assets to total assets for participating banks and for all banks, on selected dates near the close of given lending periods. Among member banks in the Federal Reserve system, the proportion of risk assets, was, in fact, higher for participating than for all banks; the same was true for nonmember banks after 1941,

TABLE B-46

Percentage of RFC Participation Loans Authorized 1934–1947 Whose Amount Exceeded the Lending Bank's Legal Limit

| LEGAL LENDING LIMIT[a] | NUMBER OF PARTICIPATION LOANS | PERCENTAGE OF LOANS WHOSE SIZE WAS: Over Limit | Under Limit |
|---|---|---|---|
| 10 percent | 4,437 | 27.1% | 72.9% |
| 15 | 305 | 28.2 | 71.8 |
| 20 | 667 | 22.8 | 77.2 |
| 25 | 365 | 8.2 | 91.8 |
| All banks | 5,774 | 25.5% | 74.5% |

From the National Bureau of Economic Research compilation of all RFC participation loans to business except those made under the BPA and SLP programs. Refers to net authorizations (i.e. exclusive of loans canceled in full before initial disbursement) for which the necessary information was available.

[a] Defines maximum amount allowable per loan in terms of the lending bank's total capital and surplus.

APPENDIX B

## TABLE B-47

Ratios of Risk Assets to Total Assets for Banks Using RFC Participation and for All Banks, 1934–1947, by Period of Participation

| PERIOD AND TYPE OF BANK | RATIO OF RISK ASSETS TO TOTAL ASSETS[a] | |
|---|---|---|
| | *Participating Banks* | *All Banks* |
| Insured nonmember banks, 1934–1937[b] | 57.2% | 61.1% |
| Insured nonmember banks, 1938–1941[b] | 52.0 | 52.0 |
| Insured nonmember banks, 1942–1947[b] | 25.6 | 23.2 |
| National banks, 1934–1937 | 47.8 | 40.2 |
| National banks, 1938–1941 | 39.3 | 37.8 |
| All member banks, 1938–1941 | 35.5 | 27.2 |
| All member banks, 1942–1947 | 23.0 | 21.8 |

[a] Risk assets were computed by subtracting cash and U.S. government securities (direct and guaranteed) from total assets. Ratios are as at the close of the periods, excepting for 1942–1947 (ratios as of 1945), for member banks 1938–1941 (as at end of 1942), and for national banks 1934–1937 (as at mid-1939). *Sources*: *Assets and Liabilities of Operating Insured Banks* (Federal Deposit Insurance Corporation), pp. 30 and 31 of the following issues: December 31, 1937, No. 8; December 31, 1941, No. 16; June 30, 1945, No. 23. *Annual Reports of Comptroller of the Currency,* 1939 and 1942, pp. 127 and 29 respectively. *Federal Reserve Bulletin,* July 1943, p. 676, and June 1946, p. 678.

[b] Excludes a few banks in the District of Columbia, Alaska, and the Virgin Islands and banks which either did not accept deposits or were liquidating their deposit business.

though not before. There is some basis for the view, therefore, that participating banks sought RFC assistance because they were in comparatively exposed positions, though the evidence is not conclusive. Before the relative amounts of risk carried by each group of banks could be known accurately, an analysis of the qualities of the assets held by participating and nonparticipating banks would be necessary. The true differences in risk positions are not unambiguously disclosed by the relationships between broad categories of assets.

### SPECIAL FEATURES OF LOANS UNDER BLANKET PARTICIPATION AGREEMENTS

Having described the characteristics of the loans, of the borrowing business enterprises, and of the commercial banks participating in the regular participation program of RFC, it remains to observe the special features of the BPA credits to business which commenced during March 1945 and ended twenty-two months later on January 22, 1947.

The BPA program, in operation during the period of business reconversion following World War II, was administered energetically by

RFC. Blanket agreements for deferred RFC participation were made with no fewer than 5,253 banks, and loans under the agreements were actually made by 2,422 banks, about one-fifth of all operating commercial banks.[36] The BPA program brought many banks into cooperative credit relations with RFC over and above those which had participated under ordinary arrangements.

More than 11,000 separate loans to business firms were made under blanket agreements, with a total authorized amount of about $525 million. Thus the average size of loan under BPA arrangements was $48,000, only about a third as large as the average ordinary participation loan. Evidently, the automatic approval principle caused the RFC loan guaranty to reach loans of much smaller average amount than had theretofore been the case. Of the total amount of loans, the part guaranteed by RFC was $381 million, or 73 percent (about the same as in ordinary deferred participations, where it was 76 percent). When it is recalled that RFC guarantees under the ordinary participation program during the same two years totaled only $124 million, and even during the two years when their total was highest (1943 and 1944) only $251 million, it is apparent that the BPA arrangement vastly enlarged the scale of RFC participation and enormously increased the usage of governmental guarantee of business loans. This raised apprehensions among bankers, provoked criticism, and contributed to the ultimate withdrawal of the program.

Under the blanket agreements RFC first began to guarantee loans of comparatively small amount in large numbers, partly because there was a maximum size placed upon such loans. About 56 percent of the loans made under blanket agreements were of $25,000 size or less, whereas only 47 percent of ordinary participations were of similarly small size (Table B-48). In gross amount, loans of $25,000 or less constituted about 14 percent of credit authorized under BPA arrangements, but only 4 percent of ordinary participation credit. At the other end of the scale, only 29 percent of the gross amount of loans carrying a BPA guarantee comprised loans of over $200,000, whereas 72 percent of ordinary participation credit fell in that class.

The BPA program also brought the RFC into closer cooperation with banks located in small communities. Data are not available showing BPA loans classified by size of banks or by size of city, but the number of banks that entered into BPA agreements with the RFC, classified by size of city in which located, is known. Nearly half of the BPA banks were in small centers under 5,000 population, whereas only a quarter of the banks were located in such centers under the ordinary participation arrange-

36 Sources of statistical information about operations under the BPA program are special tabulations prepared by the Research and Statistics Division and Economics Analysis Staff, Controller's Office, RFC.

TABLE B-48

Size Distributions of Loans Authorized under Blanket Participation Agreements between RFC and Banks, 1945–1947, and of Ordinary RFC Participations, 1934–1947

| SIZE OF LOAN | LOANS UNDER BPA[a] | | LOANS MADE WITH ORDINARY RFC PARTICIPATION[b] | |
|---|---|---|---|---|
| | *Number* | *Amount* | *Number* | *Amount* |
| $5,000 and under | 11.7% | 0.8% | 11.1% | 0.3% |
| 5,000–10,000 | 15.6 | 2.7 | 13.5 | 0.8 |
| 10,000–25,000 | 28.3 | 10.8 | 22.3 | 3.0 |
| 25,000–50,000 | 21.1 | 17.0 | 16.4 | 4.7 |
| 50,000–100,000 | 13.2 | 21.3 | 16.5 | 9.6 |
| 100,000–200,000 | 5.8 | 18.4 | 8.6 | 9.6 |
| Over 200,000 | 4.3 | 29.0 | 11.5 | 72.0 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

a From an unpublished tabulation by the Research and Statistics Division, Office of the Controller, Reconstruction Finance Corporation, August 22, 1947; covers 11,057 loans totaling $525,423,000. RFC participation under the BPA program was always on a deferred basis.

b From the National Bureau of Economic Research compilation of all RFC participation loans except those made under the BPA and SLP programs. Refers to net authorizations, i.e. exclusive of loans canceled in full before initial disbursement.

ments made during 1942–1947 (Table B-49). Under the BPA program RFC participation thus began to assume more of the character of a small-town banking aid.

The industry distribution of loans made under BPA guarantee was more like that of bank term loans made independently at about the same time than was the industrial pattern of ordinary participation lending from 1934 to mid-1947 (Table B-50 compared with Tables B-7 and B-41). The greatest number of ordinary participation loans went to manufacturers of metals and metal products, and of miscellaneous products such as lumber, paper, clay, and glass—altogether, about 38 percent of the total—whereas only 10 percent of bank term loans went to those two divisions. The figure for BPA loans lay between: about 27 percent. Of ordinary participation loans, 22 percent went to the retail trade, wholesale trade, and service divisions of industry; of BPA loans, 33 percent; of bank loans, 61 percent. Still more in terms of amount is the closer resemblance of the BPA and the independent bank loan distributions apparent. Of independently extended bank credit, 25 percent, and of BPA-guaranteed credit, 28 percent went to the metals and miscellaneous manufacturing groups, as against 46 percent of ordinary participation credit. And the percentage of BPA-guaranteed credit going to retail, wholesale,

TABLE B-49

City Size Distributions of Banks with RFC Blanket Participation Agreements, 1945–1947, and of Banks Using Ordinary RFC Participation Facilities, 1942–1947

| | NUMBER OF BANKS | | PERCENTAGE DISTRIBUTION | |
|---|---|---|---|---|
| SIZE OF CITY | *With BPA's*[a] | *Participating with RCA under Ordinary Arrangements*[b] | *Banks with BPA's* | *Banks Participating under Ordinary Arrangements* |
| Under 5,000 | 2,604 | 314 | 49.6% | 25.8% |
| 5,000–9,999 | 701 | 139 | 13.3 | 11.4 |
| 10,000–24,999 | 730 | 202 | 13.9 | 16.6 |
| 25,000–49,999 | 332 | 119 | 6.3 | 9.8 |
| 50,000–99,999 | 253 | 113 | 4.8 | 9.3 |
| 100,000–199,999 | 187 | 101 | 3.5 | 8.3 |
| 200,000–499,999 | 224 | 110 | 4.3 | 9.0 |
| 500,000–999,999 | 103 | 48 | 2.0 | 3.9 |
| 1 million and over | 119 | 66 | 2.3 | 5.4 |
| Total | 5,253 | 1,218[c] | 100.0% | 100.0% |

[a] From an unpublished tabulation by the Research and Statistics Division, Office of the Controller, Reconstruction Finance Corporation, August 27, 1947.

[b] From the National Bureau of Economic Research compilation of all RFC participation loans except those made under the BPA and SLP programs.

[c] Includes a few banks in communities unclassified as to size, accounting for about 0.5 percent of the total.

and service firms—divisions relatively neglected in other RFC credit activities—actually exceeded the figure for independently extended bank credit (24 as against 19 percent). This is further evidence that banks tended to use the simplified form of government guarantee available under PBA to underwrite risks of a type that they had been assuming under their term lending programs.

### *Prices and Costs of Business Credit Supplied by RFC*

Information is assembled in this section on the prices charged by the RFC for its business credit services, on the costs incurred, and on the relation between revenues and costs. Estimates are made of the amount of "subsidy" inherent in the Corporation's policies, and some comparisons are drawn between those policies and the business lending practices of commercial banks. Certain implications regarding the ability of the Corporation to carry credit risks, the incentives for business firms and banks to utilize RFC services, and the credit policies of commercial banks are pointed out.

#### THE STANDARD LOAN RATE POLICY OF RFC

The statutes governing RFC never specified the rate of interest to be charged by the Corporation for business loans; nor did they indicate an

## TABLE B-50

Industry Distribution of Loans Authorized under Blanket Agreements between RFC and Banks, 1945–1947

| *Industry* | *Number* | *Gross Amount* |
|---|---|---|
| Manufacturing | 38.7% | 45.4% |
| Food, liquor, and tobacco | 8.4 | 11.4 |
| Textiles, apparel, and leather | 1.7 | 3.0 |
| Metals and metal products | 14.2 | 16.7 |
| Petroleum, coal, chemicals and rubber | 2.1 | 3.1 |
| Other[a] | 12.3 | 11.2 |
| Mining | 2.4 | 3.1 |
| Retail trade | 16.6 | 8.6 |
| Wholesale trade | 6.6 | 9.1 |
| Construction | 14.2 | 17.2 |
| Transportation, communications, and public utilities | 8.9 | 7.5 |
| Services | 10.1 | 6.4 |
| Finance, insurance, real estate | 0.7 | 1.5 |
| Forestry, fishing, and farming | 1.7 | 1.2 |
| Total | 100.0% | 100.0% |

From a special tabulation prepared by the Economic Analysis Staff, Office of the Controller, Reconstruction Finance Corporation.

[a] Covers lumber and lumber products; paper and allied products or industries such as printing; stone, clay, and glass products, and miscellaneous manufacturing.

average or a range of rates. Indeed, Congress did not even provide a broad directive to the management of RFC regarding its aggregate income from credit operations, or the relation of such income to the Corporation's costs. The management was free to operate at a profit or a loss, so far as the statute was concerned, either on its lending operations as a whole, or on its business loan activities in particular.[37]

The policy of the Board of Directors of RFC was to charge a single, standard rate of interest for each broad class of loans. When industrial and commercial lending was initiated in June 1934, the board established a rate of 6 percent per annum on the unpaid balance of a business loan, irrespective of its amount, term to maturity, or credit risk. In May 1935 the rate was lowered to 5 percent. On April 1, 1939, it was further reduced to 4 percent on all outstanding loans, as well as on loans made thereafter. Effective November 10, 1950, the board raised the rate back to 5 percent, apparently in response to congressional criticism that the Corporation was not covering its business lending costs at the 4 percent rate, and also to bring RFC rates into line with bank rates. RFC applied

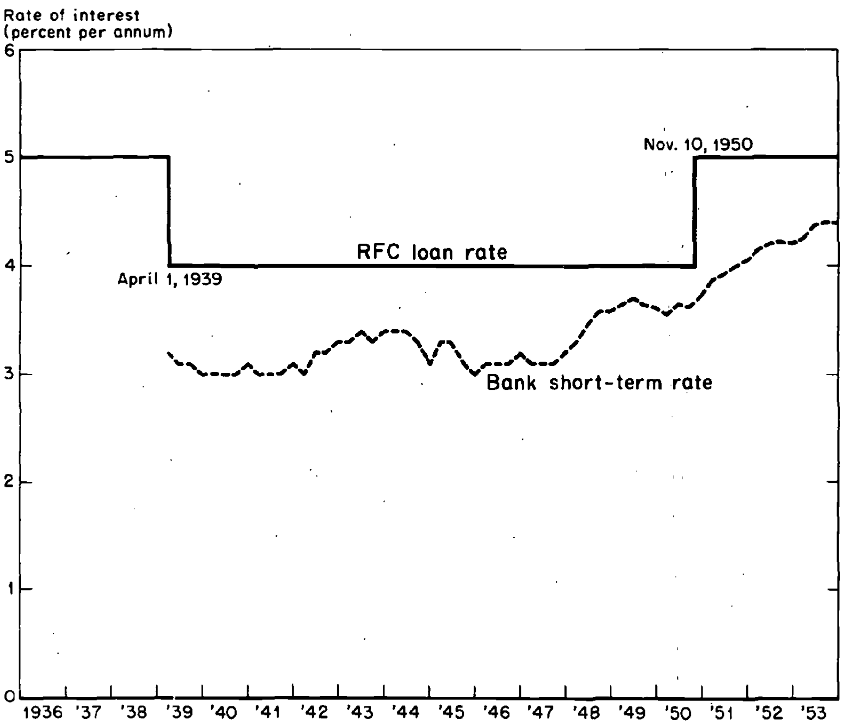
[37] The circulars published by the RFC from time to time relative to loans to industry have contained only general statements such as "Interest shall be at prevailing rates for the character of loan applied for," or "interest shall be at such rates as may be fixed from time to time by this corporation."

the standard rate to its portion of loans made in cooperation with commercial banks (regardless of the bank's rate), as well as to the loans it made independently.

A comparison of the quarterly movement of commercial bank rates on short-term business loans in the $10,000 to $100,000 size bracket with the RFC rate for the period 1935–1951 appears in Chart B-2. The Federal Reserve series on short-term loan rates in the $10,000 to $100,000 bracket was chosen for comparison because the great majority of RFC loans fell into this size class.[38] The chart illustrates the relative insensitivity of the RFC rate to changes in money market conditions.

CHART B-2

Average Interest Rates on Short-Term Commercial Bank Business Loans of Size $10,000–99,999, Quarterly 1936–1953, Compared with RFC Business Loan Rate




Bank data through 1948 are from "New Statistics of Interest Rates on Business Loans," by Richard Youngdahl, "Federal Reserve Bulletin," March 1949, Table 1, p. 231; after 1948, from various issues of the "Bulletin." They give estimated average rates on loans of one year or less made to businesses by banks in nineteen cities: New York, Boston, Buffalo, Philadelphia, Pittsburgh, Cleveland, Detroit, Chicago, Baltimore, Richmond, Atlanta, New Orleans, Dallas, St. Louis, Minneapolis, Kansas City, Seattle, San Francisco and Los Angeles.

38 The relation between the levels of the two curves has no significance, because the bank curve reflects rates on short-term loans carrying limited credit

The attention of Congress was called to the propriety of RFC lending rates in June 1947 when the Comptroller General submitted his first report on the audit of RFC and its subsidiaries for the fiscal year ending mid-1945. Therein, he pointed out that the RFC act "has not contained the general requirement that the Corporation apply such interest rates to loans made by it as would be necessary to cover all of the costs of operation and all of the risks of loss."[39]

The interest rate policy of RFC was one of the principal points of inquiry during late 1947 by the subcommittee of the Senate Committee on Banking and Currency under the chairmanship of Senator Buck. Officials of RFC vigorously defended the policy of a standard rate of interest undifferentiated as between borrowers, and the adequacy of the 4 percent figure. They argued that it would be impracticable to vary the loan rate according to size, degree of risk. or maturity, because, as RFC Chairman Goodloe put it, "distinctions would be a matter of opinion which in most cases would satisfy neither the borrower nor anyone else."[40] They said that because RFC's funds were provided by the Treasury at a fixed rate of interest, the rate it charged for relending this money could not fairly be carried geographically. Concerning the adequacy of the 4 percent rate then current, Chairman Goodloe stated that "the differential between the rate of interest which RFC pays the Treasury and the rate which it charges borrowers should be sufficient to pay the Corporation's overhead and to set up reserves required by good accounting practices. Our present rate of 4 percent has, in the past, been sufficient to accomplish these purposes."[41]

The standard loan rate policy was not challenged by the Committee on Banking and Currency in its 1948 report to the Congress. The committee acknowledged that discriminatory pricing by RFC would probably encounter administrative difficulties and borrower dissatisfactions. It suggested that the advisory committees of bankers and businessmen appointed by RFC to advise the managers of each loan agency might be requested to establish loan rates for their particular areas, but left a decision on this matter up to the Board of Directors of RFC.

The committee did challenge Chairman Goodloe's assertion that the 4 percent rate had been adequate to cover all costs of business lending, pointing out that RFC accounting did not fully reflect the true cost of lending, and that the net result of each lending program could not be determined. It instructed RFC thereafter to maintain its accounts so that

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risk whereas the RFC curve covers rates on term loans carrying higher risks. For loans having identical characteristics, bank rates would undoubtedly have exceeded the RFC rate.

39 House Doc. 316, 80th Cong., 1st sess., June 11, 1947. Letter from the Comptroller General of the United States transmitting a *Report on the Audit of RFC and Affiliated Corporations* for the fiscal year ended June 30, 1945, p. 16.

40 *Hearings* on S. Res. 132 (cited in footnote 20), Part I, p. 65.

41 *Loc. cit.*

the financial results realized in the business lending field could be determined, and it recommended amendment of the RFC Act to require that loans should bear an interest rate "reasonably calculated to enable the Corporation to operate without loss," with a similar recommendation on fees charged for deferred participations.[42] The RFC Act of 1948, however, while providing for regular congressional review of operations, did not include any directive on interest rates or participation fees (see page 426 above).

The RFC loan rate policy was again subjected to close scrutiny during 1950 by the subcommittee on the Senate Committee on Banking and Currency headed by Senator Fulbright. One focal point of the subcommittee's attention was whether RFC lending operations had been conducted on a self-sustaining basis. It was brought out that RFC lending activities as a whole were conducted at a loss of about $6.5 million during the fiscal year 1949, if RFC were charged with the interest paid by the Treasury Department on the full amount of funds employed, whereas it earned its published profit of about $5.2 million on a basis of employment of some $600 million of "cost-free" capital and surplus.[43] Lending operations had been self-sustaining from the standpoint of RFC but they had not been self-sustaining from the standpoint of the taxpayer. Obviously, interest had to be paid by the Treasury Department on funds utilized by RFC in business loan operations, and this interest must be taken into account in calculating the full cost of RFC operations. RFC officials took the view that Congress had deliberately provided the Corporation with interest-free capital funds from the Treasury and in addition had permitted the Corporation to retain (interest-free) earned surplus from previous operations,[44] so that the program was self-sustaining if RFC merely earned sufficient income to cover its other costs of lending. RFC officials regarded the use of interest-free capital funds as a congressional subsidy to small borrowers enabling the Corporation to charge a lower rate. They argued that if Congress had intended otherwise, it should have said so.

To clear up this ambiguity in the statute, the Comptroller General had recommended in February 1950 that Congress enact legislation requiring RFC to pay interest at current costs to the Treasury on all funds used in loan operations, to pay that part of the government's costs of civil service retirement and disability benefits for RFC employees, and to pay

42 Senate Report 974 (cited in footnote 16), pp. 14, 15, and 21.

43 *Hearings* before a subcommittee of the Committee on Banking and Currency, 81st Cong., 2nd sess., May 8 and 9, 1950, on *A Study of the Operations of the Reconstruction Finance Corporation* pursuant to S. Res. 219. *Analysis of Income and Costs*, p. 3.

44 The 1948 act limited the interest-free Treasury funds used by RFC to $100 million; originally, $500 million had been provided as capital stock, of which $175 million was retired in April 1941 as required by a previous enactment. Originally, there was no provision regarding earned surplus; the 1948 act provided that earned surplus in excess of $250 million be turned back to the Treasury.

"all other costs incurred by other governmental agencies for the Corporation's account or benefit where it is practicable and economically feasible to measure the benefits and related costs."[45]

RFC officials conceded before the Fulbright Subcommittee that the single, standard rate of charge for business loans meant that profits on a few big loans covered losses on many small loans, and they forecast higher rates on loans to small firms if this policy was changed. A member of the RFC Board of Directors said: "Ten percent of our loans carry the cost for ninety [percent]. That is the way it has always been, and that is the way it has to be if you are going to continue to make small loans."[46] Manifestly, it would be impossible for RFC or any other lending institution to put each individual loan on a self-sustaining basis. Yet RFC's officials failed to explain why it would not be feasible to classify loans into a limited number of groups with respect to amount or maturity, as is done by some commercial banks, and to vary the loan rate between groups. This would have avoided the subsidy effect of the single standard rate.

Senator Fulbright questioned the desirability of the standard rate policy, and reiterated the suggestion made in the Buck Subcommittee hearings, that loan rates might well vary with size of loan and as between Federal Reserve districts, and urged that RFC rates should be higher than comparable commercial bank rates to discourage business firms from applying to the RFC.[47] But up to the end, RFC persisted in the standard loan rate policy.

### COMPARISON OF RFC AND COMMERCIAL BANK LOAN RATES

The standard loan rate policy of RFC has been at variance with the business loan pricing policies of American commercial banks. In practice banks vary their rates with a number of factors, chief of which are (1) size of the loan, (2) term to maturity, and (3) size of the borrowing firm. Size of loan is important, because a large portion of the administrative expense of lending is fixed irrespective of the amount of a loan. Administrative expense per dollar falls rapidly as the amount of a loan rises, and administrative expense is a large component of the gross interest rate charged. Size of borrowing firm is another determinant of loan rate because of its positive correlation with the degree of risk. Other things being equal, a loan of given amount and maturity will carry more risk of nonrepayment if made to a small firm than if made to a large enter-

45 House Doc. 468, 81st Cong., 2nd sess., February 1950. Letter from the Comptroller General of the United States transmitting the *Report on Audit of Reconstruction Finance Corporation and Subsidiaries* for the fiscal years ending June 30, 1946 and 1947, p. 9.

46 *Analysis of Income and Costs* (cited in footnote 43), p. 71.

47 *Hearings* before a subcommittee of the Committee on Banking and Currency, 81st Cong., 2nd sess., June–July 1950, on *A Study of the Operations of the Reconstruction Finance Corporation* pursuant to S. Res. 219. *Lending Policy*, p. 349ff.

prise, because the relative burden of the debt is greater to the smaller firm and the mortality rate of small enterprises is higher. Of the three factors, the amount of a loan is undoubtedly the most important single determinant of loan rate. Commercial banks therefore commonly scale their interest charges sharply upward, in successive brackets, as loan size falls.[48]

Available information concerning the size structure of commercial bank interest rates on business loans is computed on the basis of outstanding balances (as of November 1946) rather than by original amount, and, for that reason among others, does not afford a precise measure of differences between bank rates and the RFC standard loan rate from the standpoint of loan applicants. Nevertheless, Table B-51 is suggestive on that point. The RFC rate far undershot the bank rates on business term loans with $10,000 or less outstanding, and a classification by original amount would undoubtedly widen rather than diminish the difference shown. The figures show bank rates and the RFC standard 4 percent rate coinciding for term loan balances of about $50,000 size (Chart B-3); and since most RFC loans were less than that in original amount (in 1945 and 1946, for example, 90 percent of them), it is evident that, in general, RFC loans were made at rates well below those of commercial banks.

### TABLE B-51

Average Interest Rates on Different Sizes of Outstanding Commercial Bank Loans to Business, November 20, 1946, Compared with RFC Business Loan Rate

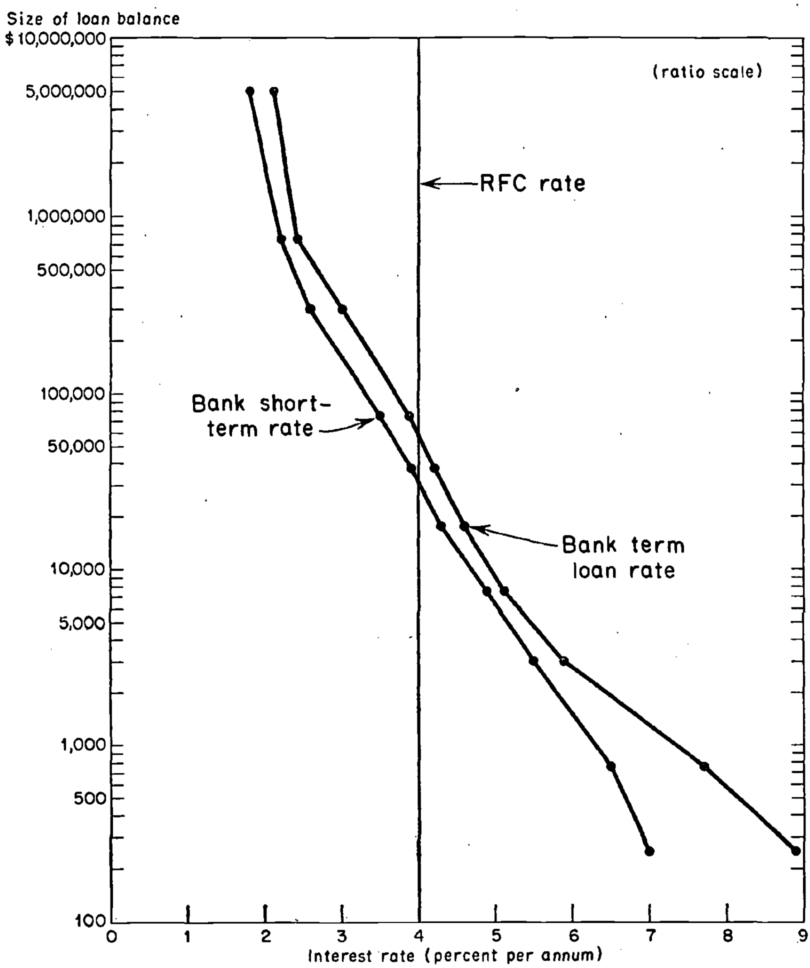
| SIZE OF LOAN BALANCE | MEMBER BANK AVERAGE RATE ON | | DEVIATION OF RFC RATE OF 4% FROM AVERAGE BANK RATE | |
|---|---|---|---|---|
| | *Short-Term Loans* | *Intermediate and Long-Term Loans* | *Short-Term Loans* | *Intermediate and Long-Term Loans* |
| Less than $500 | 7.0% | 8.9% | —3.0 | —4.9 |
| $500–999 | 6.5 | 7.7 | —2.5 | —3.7 |
| 1,000–4,999 | 5.5 | 5.9 | —1.5 | —1.9 |
| 5,000–9,999 | 4.8 | 5.1 | —0.8 | —1.1 |
| 10,000–24,999 | 4.3 | 4.6 | —0.3 | —0.6 |
| 25,000–49,999 | 3.9 | 4.2 | 0.1 | —0.2 |
| 50,000–99,999 | 3.5 | 3.8 | 0.5 | 0.2 |
| 100,000–499,999 | 2.6 | 3.0 | 1.4 | 1.0 |
| 500,000–999,999 | 2.2 | 2.4 | 1.8 | 1.6 |
| 1,000,000 and over | 1.8 | 2.1 | 2.2 | 1.9 |
| All loans | 3.0% | 2.8% | 1.0 | 1.2 |

From "The Structure of Interest Rates on Business Loans at Member Banks," by Richard Youngdahl, *Federal Reserve Bulletin*, July 1947, Table 16, p. 816.

48 Cf. Richard Youngdahl, "The Structure of Interest Rates on Business Loans at Member Banks," *Federal Reserve Bulletin*, July 1947, pp. 803–819.

CHART B-3

Comparison of RFC Business Loan Rate with Average Interest Rates on Outstanding Commercial Bank Business Loans, 1946, by Size of Loan Balance




From Table B-51. Bank rate averages are plotted at midpoints of closed size classes and at $5 million for loans $1 million and over.

Remembering the high-risk character of RFC's portfolio, one would guess that on the average the RFC loans of sizes smaller than $50,000 were priced not only below bank loans of comparable size but also below the cost of RFC, so that the Corporation must either have sustained considerable loss or have met the losses on many small loans out of interest income from a relatively few large ones. This subsidy effect was testified to by the Controller of RFC before the Fulbright Subcommittee in 1950: "Our break-even point on a one-year loan is $150,000; on a 10-year loan it is $50,000. Since our average loan is around 5 years, our break-even point on the average would be between $75,000 and $100,000."[49] The break-even point would have been even higher if RFC had been required to pay interest on the full amount of funds employed in business lending operations.

### DEFERRED PARTICIPATION FEES CHARGED BY RFC

As was the case with direct loan rates, the statutes were silent regarding the amount of RFC's participation fees. Initially, the fees charged for such credit insurance were graduated according to the duration of the Corporation's obligation. For agreements to purchase participations for periods up to one year, the fee was ½ of 1 percent of RFC's agreed participation for each quarter-year, or 2 percent per annum. For agreements running more than one year but not more than two years, the fee was 2 percent of RFC's agreed portion for the first year, plus 1 percent for the second year. Fees for agreements running more than two years were subject to negotiation.[50]

In May 1935 the fee schedule was altered by raising the charge on agreements running between one and two years from 1 percent for the second year to 2 percent of RFC's agreed participation.[51] This action, in effect, made RFC's charge a flat 2 percent per annum on the daily balances of the Corporation's outstanding commitment to purchase a participation in a disbursed loan, a rate maintained until 1938.[52]

In April 1938 the Corporation announced a new schedule of fees, graduated according to the proportion of an outstanding bank loan that it was obligated to purchase: if not more than 50 percent, the fee was 1 percent per annum of RFC's commitment; if more than 50 percent, but not over 75 percent, the fee was 1½ percent; if more than 75 percent, but not more than 90 percent, the fee was 2 percent.[53] That is, the new schedule reduced the charge made by RFC in all cases where the proportion of a loan guaranteed by RFC was 75 percent or less. In comparison with the former arrangements, it provided an inducement to commercial banks to carry a larger proportion of the risk on business loans. Clearly, the amount of risk of nonpayment carried by RFC varied directly with both the duration of its guaranty and the proportion of the loan guaranteed, so that a scientific schedule of premiums to be charged for carrying such risks should have reflected both factors. Yet the new fee schedule considered only the second.

49 *Analysis of Income and Costs* (cited in footnote 43), pp. 150f.
50 RFC Circular No. 15, August 1934, pp. 2–3.
51 RFC Circular No. 15 (revised) May 1935, Sec. E, p. 3.
52 RFC Circular No. 15 (revised) December 1936, p. 2, and (revised) April 1937, p. 2.
53 RFC Circular No. 15 (revised) April 1938, p. 1.

As of September 1939, deferred participation fees were cut in half for each size of commitment specified in the 1938 schedule.

Another charge was made in March 1945, when RFC introduced blanket participation agreements. Under such agreements banks purchased protection at a charge of ¾ of 1 percent per annum of RFC's commitment if it covered more than 50 percent of an outstanding loan, and a charge of ½ of 1 percent per annum where RFC's commitment was less than 50 percent.[54] This represented a further reduction in the Corporation's loan guaranty rates. By 1945, fees were little more than one-third of those of ten years earlier.

The propriety of RFC's deferred participation fees was one of the issues posed for inquiry by the Buck Subcommittee in 1947. John D. Goodloe, Chairman of the Corporation, testified with respect to the BPA program: "Our experience leads me to believe that the participation fees collected under this program will more than cover expenses and losses. A survey of 500 such loans chosen at random shows that the collateral pledged averaged $1.83 per dollar loaned, and that 20 percent of all the loans were additionally secured by guarantees."[55] The small participation fees were attacked, however, not because they might fail to cover RFC costs, but because they provided a strong financial inducement to commercial banks to seek RFC participations rather than those of other banks.[56] They caused RFC to encroach upon credit functions formerly performed by private institutions. While the extent of encroachment was open to question, the existence of an inducement could not be doubted.

The Buck Subcommittee in its report to Congress did not condemn the BPA agreement or the principle of loan guaranty by RFC but did recom-

[54] RFC Circular No. 25, March 1945, p. 1.

[55] *Hearings* . . . on S. Res. 132, Part 1 (cited in footnote 20), p. 37.

[56] Henry T. Bodman, an RFC director, placed the following hypothetical illustration before the Buck Subcommittee: Consider a $100,000 loan by a bank at 4 percent interest, in which RFC takes a deferred participation of 75 percent of the amount for a ¾ of 1 percent annual fee:

| | |
|---|---|
| Bank collects from borrower interest of | $4,000.00 |
| Bank pays RFC "insurance" premium of | 562.50 |
| Leaving the bank a net interest income of | $3,437.50 |
| Since the RFC guaranty is, in a broad sense, equivalent to a government obligation of $75,000, from the point of view of the bank, the yield of which is 1¼ percent or: | 937.50 |
| The balance is | $2,500.00 |

This balance represents an effective income of 10 percent per annum to the bank on the $25,000 it has risked on the credit of the borrower. If the lending bank had sold a 75 percent participation in the loan to another bank, the other bank would have been paid 75 percent of the interest income of $4,000, leaving only $1,000 to the lending bank, or 4 percent on its money risk. (*Hearings* . . . on S. Res. 132, 80th Cong., 1st sess., Part 2, January 1948, pp. 272 and 453.)

mend revisions of the RFC Act to require that "fees charged for deferred participations be at rates which will give reasonable assurance that those operations will be conducted without loss," and the RFC's interest in such participations be limited to 65 percent in loans of $100,000 or less, and to 50 percent in loans over $100,000.[57] The committee apparently concluded that if a bank carried a sufficiently large portion of the loan, it would not relax its ordinary credit standards. In any event, RFC abandoned the BPA program in January 1947, and the deferred participation fee schedule of September 1939 again became effective.

As of November 10, 1950, at the same time that the direct loan rate was raised from 4 to 5 percent, RFC sharply increased the fee for deferred participations to a flat 2 percent. The reasons for this action were probably the doubts expressed at the Fulbright Subcommittee inquiries about the self-sustaining character of the lower rates, objections to the encroachment of RFC activities upon those of commercial banks, and the rising structure of business loan rates during 1950. Thus by 1950 the course of participation fees had come full circle, and returned to the level at which they were originally set in 1934. Like direct loan rates, they had been cut from the original level, then restored; but the amplitude of the swing in participation fees had been much greater. The wide changes in prices of RFC credit insurance apparently did not reflect changes in costs, or even a systematic study of costs, a subject to which attention is now directed.

### COSTS AND REVENUES OF RFC BUSINESS LENDING AND LOAN GUARANTY OPERATIONS

The problem of costing a business lending operation is difficult at best. In fact, no accurate determination of the profitability of a lending operation may be made until after the operation has been wound up and all loans have been finally terminated. The problem of cost calculation becomes more complex when, as has been the case with RFC, the business lending operation is only one of a series of lending, purchasing, selling, and investing activities conducted by the same organization, requiring allocation of joint expenses to separate programs. A further complication arises from the fact—noted previously—that RFC was provided with cost-free capital on which the Treasury Department paid interest, and such interest has been a cost of RFC lending operations from the point of view of the public. Moreover, RFC did not maintain its records in a manner which permits ready comparison of the results of its lending operations with those of private banks.

[57] Senate Report 974 (cited in footnote 16), pp. 21f.

Nevertheless, the Fulbright Subcommittee's inquiry into RFC's costs of business lending during 1949–1950, and the Reports on Audit of the RFC by the General Accounting Office after 1945, produced data which permit useful estimates of costs for the fiscal years 1946 and thereafter. These data for five successive years during which the business lending program bulked large in the totality of RFC activities afford a basis for generalizations concerning the costs of RFC's lending.

RFC reported a net income from its combined lending programs in each year of the period 1946–1950, after provision for losses. Reported net income for the five years amounted to roughly $100 million, an average of about $20 million per annum. Deducting from the reported figures the estimated amounts of interest paid by the Treasury Department on cost-free funds employed by RFC, as well as the estimated amount paid by the Treasury as the government's contribution toward retirement income of RFC employees, the adjusted net income was found by the subcommittee to have been positive in three years and negative in two years. In amount, adjusted net income for the five-year period was estimated at approximately $21 million, or upwards of $4 million per annum. RFC apparently covered its full expenses and earned a small net income on its combined lending programs during the postwar period. The net income was negligible, however, in proportion to the resources employed, forming about 0.3 percent per annum of the average total—some $1.6 billion—of assets employed in all lending programs during the five-year period.

A special study made for the Fulbright Subcommittee provides a statement of the operating results of the business loan program for the fiscal year 1949 and the first nine months of the fiscal year 1950. During fiscal 1949, according to the subcommittee's estimates, if full expenses including interest on cost-free capital and surplus employed in business lending operations are charged against the gross income from business loans, RFC had a deficit of more than $8 million in its business lending operations, and during the first nine months of fiscal 1950 it had a deficit of $5.6 million (Table B-52).

The relation of costs to revenues was even less satisfactory for deferred participation loans than for direct loans during 1949–1950. Although with adjustment for the cost of Treasury funds both operations resulted in losses, relative to the gross revenue, the amount of the losses from deferred participation was much larger. On the basis of the subcommittee's estimates, the operating deficit for loan guaranty was 117 percent of the total income; for direct loans, only 38 percent of the total income. Deferred participation fees would have had to be about double those charged during the 1949 and 1950 fiscal years in order to make the operation break even. Fees of ½ of 1 percent to 1 percent per annum grossly under-

TABLE B-52

Estimated Income and Expense of RFC in Conducting Its Business Loan Program, 1949 and 1950
(*in thousands*)

| | YEAR ENDED JUNE 30, 1949 | | | NINE MONTHS ENDED MARCH 31, 1950 | | |
|---|---|---|---|---|---|---|
| | *Direct Loans (Incl. Immediate Participations)* | *Deferred Partici-pations* | *Total* | *Direct Loans (Incl. Immediate Participations)* | *Deferred Partici-pations* | *Total* |
| *Income* | | | | | | |
| Interest & dividends | $11,759 | $ 792 | $12,551 | $12,997 | $ 684 | $13,681 |
| Other | 17 | 1,322 | 1,340 | .. | 784 | 784 |
| Total income | 11,777 | 2,114 | 13,891 | 12,997 | 1,468 | 14,465 |
| *Expense* | | | | | | |
| Interest at 1⅞% on money employed | 5,572 | 351 | 5,923 | 6,082 | 318 | 6,400 |
| Administration: | | | | | | |
| Loan acquisition | 4,708 | 1,147 | 5,855 | 3,903 | 679 | 4,582 |
| Loan servicing | 3,436 | 2,718 | 6,154 | 3,244 | 1,885 | 5,129 |
| Total expense | 13,716 | 4,216 | 17,932 | 13,229 | 2,882 | 16,111 |
| NET INCOME BEFORE PROVISION FOR LOSSES[a] | (1,939) | (2,102) | (4,041) | (232) | (1,414) | (1,646) |
| Provision for losses | 3,586 | 385 | 3,971 | 3,689 | 290 | 3,978 |
| NET INCOME AFTER "FULL EXPENSE"[a] | (5,525) | (2,487) | (8,012) | (3,921) | (1,704) | (5,624) |
| *Add*: Allowance for interest-free capital and surplus | 8,308 | 2,524 | 10,831 | 4,883 | 930 | 5,813 |
| NET INCOME BEFORE ALLOWANCE FOR INTEREST-FREE FUNDS | 2,783 | 37 | 2,820 | 962 | (773) | 189 |

From Fulbright Subcommittee hearings, 1950, *Analysis of Income and Costs* (cited in text footnote 43), pp. 145 and 148; with the order of items changed to reveal clearly the effect of employment of interest-free capital and surplus by RFC. Amounts do not always add to totals because of rounding.

[a] Figures in parentheses are negative.

priced RFC's loan guaranty services. The sharp increase of charges to 2 percent, effective in November 1950, approximately equated costs and revenues on this calculation.

In regard to direct loans, it appears from Table B-52 that over the twenty-one months covered, a gross income of $24,774,000 and a deficit of $9,446,000 was realized at the 4 percent loan rate. The gross income of $34,220,000 which would have been necessary to place direct business lending on a break-even basis according to the subcommittee's analysis could have been produced with a standard interest rate of between 5½ and 6 percent per annum on all outstanding loans, large and small.

### COSTS AND REVENUES FOR RFC LOANS OF DIFFERENT SIZES

Even if, as the Fulbright Subcommittee's analysis suggests, a standard loan rate of between 5.5 and 6 percent would have enabled RFC to break even on all direct loans to business firms during the fiscal years 1949 and 1950, there would have remained great disparities in operating results as between loans of different sizes. RFC did not maintain the records necessary for an accurate costing of loans of different sizes, but special studies for the subcommittee afford a basis for estimating the profit or loss realized by RFC on loans of different amounts.

During fiscal 1949 and 1950, RFC calculated its average cost of acquiring a direct business loan at $1,368, its average cost per annum of servicing a loan at $907, and the average annual provision for loss at 0.66 percent of loan disbursements.[58] Such costs undoubtedly varied to some extent with size of loan, but, lacking information, it is here assumed that they were constant. The principal element of variable cost was interest paid by the Treasury Department on money employed by RFC. The average Treasury borrowing rate during 1949–1950 was approximately 1⅞ percent, which may be adjusted upward to 2 percent in order to allow for contributions by the Treasury to the retirement fund for RFC employees. This information enables one to estimate roughly the total cost incurred by RFC on loans of different amounts. Gross revenues collected by RFC may be computed by applying the standard 4 percent rate to outstanding loan balances. The difference between gross revenue and total cost is net profit or loss per loan.

Estimates were made of the amount of profit or loss realized by RFC on loans of different amounts at the standard 4 percent rate, on the assumptions that all loans were fully amortized and matured in five years, that all expense and cost was payable at time of making the loan, and that simple interest was charged. On these simplifying assumptions, and without attempting adjustment for variability of cost as among different sizes of loan, it appears that RFC lost about $5,876 on each loan of

[58] *Analysis of Income and Costs* (cited in footnote 43), pp. 150f.

$1,000 it put on its books, and lost very little less than that on each loan of $5,000 (Table B-53).[59] With interest on capital and surplus figured among costs, not until loans reached about $200,000 did RFC avoid loss. As the amount rose above $200,000, the net profit per loan increased steadily. The profit of $21,000 on a loan of $1 million almost sufficed to cover losses on four loans of $5,000. The standard 4 percent rate clearly produced profits on the relatively few large loans sufficient to cover losses on many small loans.

On the assumptions that have been made, the break-even interest rate for a loan of $1,000 would have been unconscionable; even for a loan of $5,000 it would have been about 40 percent. A rate of interest of 3.5

TABLE B-53

Estimated Costs, Revenues, and Profit or Loss Realized by RFC on Business Loans of Different Sizes

*(standard interest rate of 4 percent on a 5-year amortized loan)*

| *Loan Size* | *Acquisition and Service Costs*[a] | *Interest Costs*[b] | *Provision for Losses*[c] | *Total Cost* | *Gross Revenue*[d] | *Profit or Loss* |
|---|---|---|---|---|---|---|
| $1,000 | $5,903 | $ 60 | $ 33 | $ 5,996 | $ 120 | $—5,876 |
| 5,000 | 5,903 | 300 | 165 | 6,368 | 600 | —5,768 |
| 10,000 | 5,903 | 600 | 330 | 6,833 | 1,200 | —5,633 |
| 25,000 | 5,903 | 1,500 | 825 | 8,228 | 3,000 | —5,228 |
| 50,000 | 5,903 | 3,000 | 1,650 | 10,553 | 6,000 | —4,553 |
| 75,000 | 5,903 | 4,500 | 2,475 | 12,878 | 9,000 | —3,878 |
| 100,000 | 5,903 | 6,000 | 3,300 | 15,203 | 12,000 | —3,203 |
| 150,000 | 5,903 | 9,000 | 4,950 | 19,853 | 18,000 | —1,853 |
| 200,000 | 5,903 | 12,000 | 6,600 | 24,503 | 24,000 | —503 |
| 250,000 | 5,903 | 15,000 | 8,250 | 29,153 | 30,000 | 847 |
| 300,000 | 5,903 | 18,000 | 9,900 | 33,803 | 36,000 | 2,197 |
| 400,000 | 5,903 | 24,000 | 13,200 | 43,103 | 48,000 | 4,897 |
| 500,000 | 5,903 | 30,000 | 16,500 | 52,403 | 60,000 | 7,597 |
| 1,000,000 | 5,903 | 60,000 | 33,000 | 98,903 | 120,000 | 21,097 |

Basic information on acquisition and service costs and loss provision from Fulbright Subcommittee hearings, *Analysis of Income and Costs* (cited in text footnote 43), pp. 150f., relating to the twenty-one-month period ending March 31, 1950. Acquisition and service cost data are averages for all loans, and are here applied equally to each size of loan since information on variability of costs with loan size is lacking.

[a] Acquisition cost of $1,368 plus annual service cost of $907 times five (five years being the modal maturity of RFC business loans). For simplicity, all costs are assumed to be incurred at date of making the loan.

[b] Calculated at rate of 2 percent per annum on average outstanding loan balance.

[c] Calculated at rate of 3.3 percent of original loan amount.

[d] Calculated at standard rate of 4 percent per annum on average outstanding loan balance.

[59] This startling result is borne out by testimony of RFC director Harvey Gunderson: "There is no way for a corporation which operates with our checks and balances to make a $1,500 GI loan and make any money on it. I am sure we would be better off if we just wrote them a check and called it a day." *Ibid.*, p. 84.

percent would have been sufficient to cover costs for loans of over $400,000 in amount. Because costs per dollar could not fall below the basic Treasury borrowing rate, adjusted for retirement fund payments by the Treasury on behalf of RFC, 2 percent would have formed a floor below which loan rates could not fall.

### SOME IMPLICATIONS OF RFC BUSINESS CREDIT CHARGES

What have been the major economic effects and implications of RFC's credit pricing policies? One effect has been to provide a stronger inducement to business firms to obtain RFC loans, and to commercial banks to obtain RFC guarantees of their business loans, than would have existed if RFC had pursued a policy of full-cost pricing of its credit services. Although the Corporation sought vigorously to place loans and loan participations with private institutions, and to avoid lending that could have been undertaken privately, these efforts were counteracted to some extent by its own pricing policies.

The standard rate policy subsidized small firms at the expense of larger firms, and offered a stronger inducement to the marginal small business to seek RFC credit than was offered to the medium or large firm. This result appears to have been recognized and deliberately sought by the management of RFC.

An inflexible rate policy had the effect of making RFC credit relatively more attractive at times when loan rates from private agencies were high and firm than when private rates were relatively low. Because high and rising money rates are ordinarily associated with periods of prosperity, and falling rates with contractions in business, the inflexible interest rate policy of RFC had the effect of tending to expand governmental credit to business at times when counter-cyclical policy would have contracted it, and vice versa. One essential instrument for coordination of federal credit programs with other policies for economic stabilization would be a loan rate flexible through time.

APPENDIX C

# The Business Loan Guaranty and Insurance Program of the Veterans' Administration, 1945-1955

### *Origin and Purpose*

THE Veterans' Administration was authorized to guarantee home, farm, and business loans to veterans by Title III of the Servicemen's Readjustment Act of 1944, popularly known as the GI Bill of Rights.[1] Under this statute, far-reaching benefits were conferred upon men and women who had served in the armed forces of the United States during World War II, and a later law included veterans of the Korean conflict.[2] Loan guarantees were but one part of a vast program of public aids to veterans. By mid-1955 VA had guaranteed over four million home, farm, and business loans in original principal amounts totaling $30 billion; VA-guaranteed home loans were a major factor in the postwar housing market.

The dominant purpose of the Servicemen's Readjustment Act, expressed in public and congressional discussions, was to aid the civil re-establishment of returning veterans, whether disabled or not. The principal motives underlying other federal business credit programs—such as assistance to small businesses, reduction of secular or cyclical unemployment, closure of gaps in the structure of private finance, aid to depressed industries, areas, or economic groups—were not at the forefront of the VA loan program, although they may have been in the background. Approximately sixteen million young men and women were to be re-established in civilian life, after service to the nation in time of crisis. It was believed that a complete program of benefits should be provided to them in the public interest, because the destiny of the nation was inseparable from their welfare.[3]

The great range of benefits provided is seen in reviewing the several titles of the Servicemen's Readjustment Act. Title I provided hospitalization and domiciliary care, and payment of disability claims and pensions. Title II granted educational and vocational training benefits. Title III—with which this study is concerned—made available governmental loan guarantees for the purchase or construction of homes, farms, and business. Title IV created rights and services for the placement of veterans in

[1] P.L. 346, 78th Cong., June 22, 1944.

[2] Veterans Readjustment Assistance Act of 1952 (P.L. 550, 82nd Cong., July 16, 1952).

[3] *Annual Report* of the Administrator of Veterans' Affairs, 1944, p. 1.

employment. Title V granted weekly cash readjustment allowances to unemployed veterans.

As these benefits were extended, the aggregate expenditures of the Veterans' Administration for all purposes rose from $828 million during the fiscal year 1944 to a peak of $9.8 billion during fiscal 1950, after which they fell to between $5 billion and $6 billion annually through June 30, 1954.[4] Outlays from 1944 to that date totaled over $60 billion. Over the same period the VA assumed contingent liabilities totaling nearly $13 billion on loans to veterans of about $24 billion.[5] Net expenditures by VA on lenders' claims paid under those guarantees totaled only $21 million up to mid-1954.[6] Business loans were far outweighed by home loans; cumulatively to mid-1954, they formed only about 1.2 percent of the amount of liability assumed by VA on home, farm, and business loans combined.

The business loan guaranty plan in the GI Bill of Rights apparently was based upon a belief that, without support, the creditworthiness of many veterans desiring to acquire businesses would be inadequate. It was designed to support the credit of persons who, through long service at military pay, had been deprived of an opportunity to accumulate substantial amounts of savings or to establish credit or employment records. It was also expected to facilitate the postwar flow of private capital into private enterprise.[7]

VA business credit aid was confined to guarantees or insurance and did not include the power to make loans directly. An early version of the Servicemen's Readjustment Act, passed by the Senate, did include that power. It directed VA upon approval of another federal agency to lend veterans up to $1,000 for the purpose of making "the usual required downpayment" in connection with home, farm, or business financing; VA would have had no discretion in approving or disapproving loans. Later, the present plan—partial guaranty by VA of loans made by other lenders—was substituted;[8] the guaranty was thus intended to take the place of what was normally required as a down payment.[9] The record of congressional discussions is not explicit on the reasons for omitting the direct lending power, but they may perhaps be inferred from considering, for the business program alone, what could have been entailed by a direct loan program. Under a power to lend for business purposes to

[4] *Annual Report* of the Administrator of Veterans' Affairs, 1954, p. 283.

[5] *Ibid.*, p. 97.

[6] *Ibid.*, p. 99.

[7] Cf. *GI Loans—The First Ten Years*, Decennial of the Loan Guaranty Program, Veterans' Administration, June 22, 1954, p. 2.

[8] In 1950 the agency received authority to make direct loans for home purchase or construction, or for construction or improvement of a farm house, if credit was unavailable through private channels.

[9] Cf. Report of Committee on World War Veterans Legislation, H.R. 1418, 78th Cong., 2nd sess., May 5, 1944.

veterans "unable to obtain necessary credit from private sources on reasonable terms"—the formula usually applied to government lending agencies—VA could have been plunged into the banking business on a national scale. The number of loan applications could conceivably have been vastly greater than was ever before handled by a federal business lending agency. Unprecedentedly in federal lending to business firms, VA would have been concerned with a very large number of very small enterprises, and in time might have become through foreclosure the proprietor of numerous firms. The VA was unequipped with personnel, facilities, or experience to become a banker for business. The preferable course was to utilize existing banking facilities, and through VA guaranty or insurance, to stimulate the supply of private business credit to veterans.

The business loan program of VA differs from its farm and home programs in making no charge for the guaranty or insurance service. The public subsidy implied in that feature of the law had two purposes: to reduce the cost of credit to veterans; and to induce lenders to make funds available to veterans that they would not otherwise supply. Congress believed that credit should be available to a veteran who aspired to entrepreneurship and who had a reasonable prospect of success. At the time the act was formulated, fear of postwar unemployment was strong, adding to the desire that veterans be helped to establish their own businesses.

Though but small in terms of the total liabilities and expenditures of the Veterans' Administration credit programs, the guaranty or insurance of business loan is a novel undertaking, of interest for the particular segment of the business population reached—that is, new and very small firms—and for its effect on the practices of business financing institutions.

## *Statutory Provisions*

Rather than trace in detail the numerous amendments of the law under which the VA business credit program operated, we summarize the provisions in effect about the end of 1954, noting the principal changes up to that time.[10]

### ELIGIBILITY

Veterans of World War II honorably discharged after having served for ninety days or more after September 16, 1940 and before July 25, 1947,[11] and veterans of the Korean conflict who served after June 27, 1950

[10] Major amendments to the Servicemen's Readjustment Act of 1944 were made by Public Law 268, 79th Congress, approved September 4, 1946, and numerous changes have been enacted in a series of laws approved during 1947 and 1948. See Veterans' Administration, *Lenders Handbook*, VA Pamphlet 4-3, especially the December 1948 revision.

[11] The original act referred to the "termination of the war." This was established as July 25, 1947 by Public Law 239, 80th Congress, approved on the same day. In cases where a veteran has been discharged because of service-incurred disability, the period of service can be less than ninety days.

and before a date to be determined by Presidential proclamation or concurrent resolution of Congress, are eligible for loan guaranty benefits.[12] An eligible veteran who applies for a loan within ten years after the official end of the conflict in which he participated is entitled to have it automatically guaranteed by the government in an amount not exceeding 50 percent of the loan, provided that the guaranteed amount does not exceed $4,000 in the case of loans secured by real estate or $2,000 in the case of other loans.[13] Veterans going into joint ventures may pool their guarantees.

The authority given VA in 1950 to guarantee secondary loans need not be considered here, since in practice it affected the home loan, not the business loan part of the program.

PURPOSES

A business loan may be guaranteed if the proceeds "are to be used for the purpose of engaging in business or pursuing a gainful occupation, or for the cost of acquiring for such purpose land, buildings, supplies, equipment, machinery, tools, inventory, stock in trade, or for the cost of the construction, repair, alterations or improvement of any realty or personalty used for such purposes or to provide the funds needed for working capital." The proceeds of business loans may also be used to refinance business indebtedness (but, as a general rule, only if that indebtedness is delinquent) or to pay delinquent taxes or assessments on business property.

Besides specifying the purposes as above, the law requires (1) that the property in question be "useful in and reasonably necessary for the efficient and successful pursuit of the business"; (2) that the "ability and experience of the veteran and the conditions under which he proposes to pursue such business or occupation are such that there is reasonable likelihood that he will be successful"; and (3) that "the purchase price paid or to be paid by the veteran for such property or the cost of construction, alterations, or improvements, does not exceed the reasonable value thereof as determined by proper appraisal made by an appraiser designated by the Administrator."[14]

12 For veterans of World War II who served again after June 27, 1950, whatever entitlement benefit remained from earlier service was canceled by the law extending coverage to Korean veterans (P.L. 550, 82nd Cong., July 16, 1952) and a new guaranty privilege granted.

13 The original act required that application for loan benefits must be made within two years after separation from military service or after termination of the war, whichever was the later. The time span for application was lengthened by amendment during 1946. The guaranty maxima for home loans were raised to 60 percent and $7,500 by the Housing Act of 1950, but these loans require prior approval by the Administrator.

14 See *Lender's Handbook* (VA Pamphlet 4-3, revised December 1948), p. 3.5f., citing 38 USE 694c. "Reasonable value" is interpreted by regulation to mean

It is apparent that the proceeds of a VA-guaranteed loan may be used for almost any business purpose, in contrast to loans of the RFC, Federal Reserve Banks, or other federal business loan agencies, which limit purposes in various ways. Nevertheless, the law does not leave wide open the privilege of obtaining a VA-guaranteed loan for business purposes. The limitations set—that "a reasonable likelihood" of success in business should be shown, and that property expenditures should not exceed "reasonable values" for the assets acquired—are more accurately described as conditions of eligibility than as "credit standards." A veteran who meets those conditions is entitled to a loan guarantee by the Administrator, provided that he can find a lender willing to make a loan within the maximum interest rates specified by the law. He must still convince a lender of his ability to repay the loan.

#### TERM TO MATURITY

The law left the term to maturity of a guaranteed business loan up to the lender and the veteran, within general limits of thirty years for loans secured by realty (other than farm realty) and ten years for other loans.[15] VA regulations impose the additional limitation that the maximum maturity may not exceed the economic life of the property securing the loan. Any loan for a term in excess of five years must be amortized in accordance with established procedures. Regulations require at least an annual payment against the outstanding loan balance, and a final payment not more than twice the average of preceding installment payments, excepting in the case of construction loans or extended loans. Loans may be repaid before maturity without penalty. As a loan is repaid, the amount of the VA guaranty is reduced proportionately to the remaining loan balance outstanding.

#### COLLATERAL SECURITY

Real estate loans (except those for repairs or improvements) must be secured by a first lien on the realty. Loans for purchase, alteration, improvement, repair, or production of tangible personal property must be secured "to the extent legal and practicable," and a loan for working capital or other capital, merchandise, or good will or other intangible assets may be made without a lien. Loans of $1,000 or less for alteration, repair, or improvement of real property need not be secured. If over $1,000, such loans must be secured by a first or second lien, and if the

market prices current at time of acquisition of property. The original law had referred to "reasonable normal value" which was construed by many appraisers to indicate pre-World War II price levels, and therefore proved to be unduly restrictive. Cf. *GI Loans—the First 10 Years*, *op.cit.*, p. 4.

[15] The Housing Act of 1950 increased the maximum term for GI business loans secured by real estate from twenty-five years to thirty.

expenditures on property exceed 40 percent of its reasonable prior value, the security must be a first lien. Because loans may be as much as 100 percent of the appraised value of the property offered as security—a loan ratio much beyond the usual standards of prudence—the VA must place a major reliance for repayment of sums borrowed upon the moral character and business ability of the veteran.

### INTEREST RATES

The original legislation prescribed a maximum rate of interest of 4 percent per annum on the unpaid principal balance of all VA-guaranteed loans. However, this was found to be too low and inflexible a limit to make many loans attractive to banks and other lenders, particularly under conditions of active demand for credit and rising money rates. An amendment effective December 17, 1947 permitted the interest rate on insured non-real-estate loans to rise to a maximum of 3 percent discount on the original amount of one-year notes payable in equal monthly installments, or 5.7 percent per annum on the unpaid balance of an interest-bearing note. An amendment of August 10, 1948 also permitted the Administrator, with the approval of the Secretary of the Treasury, to approve of rates up to 4½ percent per annum on guaranteed loans, "if he finds that the loan market demands it."[16] This amendment represented an interesting deviation from the customary federal policy of prescribing an inflexible maximum loan rate.[17] It was due to the inability of VA to make direct loans to veterans on its own initiative, and its need for finding private lenders willing to carry that part of the risk of nonrepayment which was not assumed by VA. The interest rate on guaranteed real estate loans remained at 4 percent until May 5, 1953 when, with credit stringent in the mortgage loan markets in most sections of the country, the Administrator of Veterans' Affairs authorized an increase to 4½ percent. Up until September 1, 1953 the VA paid to the lender a "gratuity" equal to 4 percent of the guaranteed or insured portion of each loan, but not exceeding $160, which amount was credited to the veteran's loan account. It was believed that the VA should prepay approximately the first year's interest due on the part of a loan for which it was responsible, as an additional aid to the veteran.

### PROCEDURE IN CASE OF DEFAULT

In the event of default or to avoid imminent default, the terms of repayment of any VA-guaranteed business loan may be extended by written agreement between the lender and the veteran-borrower, without the

[16] P.L. 901, 80th Cong.

[17] Statutory *maxima* for interest rates under some of the titles of the National Housing Act have been fixed at 5 or 6 percent, but actual rates have been adjusted from time to time at various points below the maxima.

approval of the VA. If an extension is proposed for some other reason, or if the extension will result in the release of an obligor, the prior approval of VA must be obtained.

Failing extension of maturity, when a default has continued (a) 60 days in nonpayment of an installment, (b) 90 days in failure to comply with some obligation other than periodic payment, or (c) 180 days in nonpayment of taxes, the lender is required to file a notice of default with VA within the next 45 days.

A claim for guaranty may be submitted at any time after default has continued for three months (in the case of an extended loan or a term loan, after one month). A claim for insurance may be submitted after three months' default, provided the holder has established the net loss by liquidating all of the available security. It is important to distinguish between a claim for insurance, which represents the net amount due the holder after the property has been sold, from the guaranty claim, which may be filed before sale of the property.

Before the holder forecloses or liquidates security for a guaranteed or insured loan, VA must be notified. The notice may be given at any time after default has continued for three months, and action may be taken thirty days after notification. If the property has been abandoned, waste is occurring, or other circumstances warrant immediate action, the holder may act without advance notice but must report to VA within ten days the action taken and the reasons for it.

Within thirty days after receiving notice of default, notice of intention to foreclose, or a claim for the guaranty, the VA may require the lender to assign the loan and the security therefor to the VA or to another lender designated by the VA, upon paying the original lender the full amount of the outstanding loan balance. If the VA does not exercise this right, the usual result is a sale of the property by the lender. Because the rights of VA are subordinate to those of the lender, the lender has first claim against the proceeds of sale for the satisfaction of the unguaranteed portion of the unpaid loan balance.

To illustrate, suppose a default and property sale in the following circumstances: VA has guaranteed the legal maximum of 50 percent of a loan, the proceeds of which were used to purchase property appraised at 100 percent of the amount expended (i.e. the loan/value ratio was also at the legal maximum); and no repayment whatever has been made by the debtor before default. Even if the property sells for as little as one-half of its original appraised value, plus liquidation expenses, the lender will still have recovered all of the unguaranteed portion of his loan. In other words, the effect of the VA guarantee from the point of view of the lender would essentially be to reduce the maximum loan-value ratio from 100 percent to 50 percent, which brings such loans within the range of the credit standards ordinarily applied in mortgage lending. Hence it appears that for the institutions advancing the funds the potential losses on VA-guaranteed business loans are greatest with respect to non-real-estate loans, particularly where loans for working capital or to acquire intangible business assets are unsecured or are secured by property with low resale value.

### LOAN INSURANCE

The original law of 1944 provided only for loan guaranty. An important amendment effective December 28, 1945 (P.L. 268, 79th Cong.) permitted supervised lenders to elect VA insurance against losses in lieu of loan guaranty. By agreement between a lender and VA, the lender may be insured against loss up to 15 percent of the aggregate amount of eligible loans made by him. Purchased loans meeting the conditions of eligibility are also insurable if, with the loan report, the lender submits to the Administrator evidence of an agreement, made before the loan was closed, to purchase such loans subject to their being insured by VA. The VA maintains a current account in the name of each insured lender, crediting it with the appropriate amounts available for the payment of losses on insured loans made or purchased, and debiting it with the appropriate amounts on account of transfers to other lenders, or payment of losses. The pattern of FHA Title I loan insurance was followed. The 15 percent premium necessarily represented an estimate of the amount needed for reserve, rather than an actuarial calculation.[18]

The loan insurance provision greatly expanded potential operations under Title III, and in the business loan part of the program was widely used. It enlarged the amount of government-supported credit available to any one veteran, and also made the extension of such credit more attractive to lenders. It permitted a veteran to obtain several loans up to a total—in the case of non-real-estate credits—of $13,333, before he had used up the $2,000 maximum legal VA guarantee, whereas previously $4,000 was the maximum obtainable[19] (15 percent of $13,333 equaling $2,000, which is the amount of the available guaranty.) Under it the lender was in a position to recover 100 percent of any loan subsequently defaulting or resulting in a loss instead of the previous maximum of 50 percent covered by VA guarantee, if his insurance account was adequate. The insurance provision was especially attractive to lenders making a large volume of VA loans, because the probabilities were then high that their insurance accounts would have sufficient credits to repay the bank in full for any losses. In effect, a large number of good loans could carry the full amount of a small number of bad loans in a lender's portfolio.[20]

18 The reserve originally called for in FHA loan insurance, 20 percent of the loan amount, was found excessive and reduced to 10 percent.

19 Cf. *Banking*, July 1946, p. 37.

20 It has been shown algebraically that an insured mortgage affords the lender

The reduction of the balance amount of an insured loan by installment payments, or the final payment of a loan, does not reduce a lending institution's reservoir of insurance credit. Hence institutions doing a large volume of insured lending to veterans may in the course of time accumulate insurance coverage equivalent to 100 percent or more of the unpaid balance of all loans in their portfolios.

It should be emphasized that even under the most favorable conditions, loan insurance does not enable a lender to recover *all* of the costs incurred in connection with a bad loan, although reasonable foreclosure costs are recoverable along with unpaid principal and interest. Even if the insurance account of a lender enabled the VA to repay 100 percent of the principal and interest, the lender must still incur administrative expense in arranging for loan extensions, attempting to collect sums due, reducing its claim to judgment, and foregoing interest on the amount of the unpaid balance during the period elapsing between the sale of the property securing the loan and the payment of the claim. Hence it is vitally important to lenders that loans be set up soundly at the start, and 100 percent loan insurance by no means obviates this need.

### AUTOMATIC GUARANTEE AND PRIOR APPROVAL LOANS

Originally, VA-loan guarantees were available only to lenders who had referred loan applications to the Administrator for prior approval, but the very large number of applications received after demobilization began in 1945 resulted in delays in granting credits to veterans. By amendment to the law in 1946, lenders subject to examination and supervision of an agency of a federal or state government (such as commercial banks and insurance companies) were empowered to make loans with an automatic guarantee *without* prior reference to the VA. Nonsupervised lenders (such as individuals, or commercial finance companies in some states) continue to require prior approval.[21] Because supervised lenders must bear the risk of ineligibility of a loan, many of them, despite the availability of automatic guarantee, have continued to seek the Administrator's

more protection than a guaranteed mortgage up to $8,000, provided portfolio defaults do not exceed 30 percent. In addition, as amortization proceeds, insured mortgages will absorb still higher percentages of defaults at an increasingly faster rate (e.g. after 17 percent amortization has taken place, insured mortgages are preferable unless defaults exceed 35 percent). Moreover, business and other loans may be merged into a common insurance account for the lender, which is desirable in helping to underwrite the (usually) more hazardous business loans. See the article by Julian R. Fleischman, "Guaranteed vs. Insured GI Loans," *Savings and Loan News*, August 1946, p. 7. In fact, the number of business loans made on a guaranteed basis up to mid-1955 was considerably smaller than the number insured. Insured loans comprised 60.8 percent of all business loans closed up to that date (*Loan Guaranty*, June 1955, p. 57).

[21] On home loans guaranteed under Section 501(b), which permit the higher guarantee, prior approval by VA is also required.

approval before making loans.[22] However, the proportion of business loans made with prior approval fell from 35 percent in 1946 to less than 10 percent in 1952.

#### A SECONDARY MARKET FOR VA REAL ESTATE LOANS

The attractiveness of VA-guaranteed home loans to commercial banks, savings and loan associations, and other lenders was materially increased by the secondary market supports initiated in 1946. As of August of that year the RFC was authorized to purchase VA-insured or -guaranteed loans, either directly or through a subsidiary,[23] and in 1948 the Federal National Mortgage Association was given power to purchase VA-protected mortgage loans.[24] It is noteworthy that this legislation applied only to home and farm loans and did not provide secondary markets for business loans to veterans, even if secured by real estate. Thus the further legislative measures taken by Congress in that connection need not concern us here.

### *Administration*

#### ORGANIZATION OF THE VETERANS' ADMINISTRATION

The business loan insurance and guaranty program was administered during most of the period under study by the Finance Office of VA, one of the agency's major operating divisions.[25] The Finance Office handled payments of all benefits to veterans and their dependents, made disbursements for services and supplies furnished, paid all VA administrative expenses, and administered guarantees and insurance of loans. Each major function of the Finance Office was assigned to a director, loan insurance and guaranty being the responsibility of the Director of the Loan Guaranty Service. In turn, division chiefs were in charge, respectively, of home, farm, and business loans.

After the Servicemen's Readjustment Act became effective on June 22, 1944, regulations were drafted and forms were designed and printed. In November 1944, four field offices were equipped with loan guaranty divisions to serve the entire United States. As demobilization of the armed forces proceeded during 1945, a flood of applications for loan

22 *Annual Report of the Veterans' Administration*, 1946, p. 42, and *Finance, Guaranty of Loans*, December 1952, p. 71.

23 P.L. 656, 79th Cong., August 7, 1946.

24 P.L. 864, 80th Cong., July 1, 1948.

25 On June 30, 1953 the Executive Office of the President authorized the VA to proceed with a plan for reorganization of its central office along "major purpose" lines in lieu of the "functional line" type of organization previously in effect. Three major departments were established: the Department of Medicine and Surgery, the Department of Insurance, and the Department of Veterans Benefits. Loan guaranty and insurance operations were assigned to the last-named department. *Annual Report of the Administrator of Veterans' Affairs*, 1953, p. 4.

guaranty benefits made apparent a need for decentralization of authority in order to reduce the time elapsing between receipt of an application and disbursement of a guaranteed loan, and for a large number of additional field offices with facilities for processing applications.

Between November 1944 and June 30, 1945, loan guarantee divisions were established in 22 additional field offices, making a total of 26 offices so equipped at mid-1945.[26] In addition, revised administrative procedures for expediting action on applications were first tested, and then installed. The aim was to process loan applications within forty-eight hours of receipt, excluding an additional four or five days required for verification of eligibility at the New York office.[27] The number of field offices equipped for loan guaranty service was further increased to 74 by mid-1946. By mid-1947 the new standard administrative procedures had been installed in all field offices, and the time required for processing loan applications had been reduced by as much as 25 percent.[28] The 1946 amendment extending to supervised lenders automatic guaranty (without prior referral of loan applications to VA) further accelerated loan disbursements. It was said that "Under this new arrangement, a loan can be completely processed in a week at the maximum, or if the veteran is known to the bank, the loan can be granted on the spot. Prior to the 'automatic guarantee' procedure, a month might elapse between application and disbursement."[29]

Field offices equipped with loan guaranty service have full authority to approve or disapprove of most applications for loan guaranty or insurance without reference to Washington. Because veterans move from one region to another and may apply for loan guaranty benefits at different locations and for different purposes, it is necessary for the Veterans' Administration to maintain at a single location a record of each veteran's available but unused benefits under the Servicemen's Readjustment Act, known as the veteran's "entitlement." All entitlement records for the nation are maintained at the Readjustment Accounting Control Division (RACD) of VA located in New York City. Field offices obtained from RACD a statement of a veteran's entitlement before issuing certificates of eligibility to lenders.

### APPLICATION FOR AND ORIGINATION OF LOANS

Applications for business loan guaranty or insurance where the prior approval of VA is required or sought are made jointly by the veteran and the lender. On a single form, the veteran applies to the lender for a loan,

26 *Annual Report of the Administrator of Veterans' Affairs*, 1945, p. 28. See also *Banking*, April 1946, p. 63.

27 *Annual Report of the Administrator of Veterans' Affairs*, 1946, p. 43.

28 *Annual Report of the Administrator of Veterans' Affairs*, 1947, p. 57.

29 Cf. *Banking*, July 1946, p. 37.

and both then apply to the Administrator of Veterans Affairs for insurance or guaranty. The standard form of application requires the following information: (1) general purpose, amount, and terms of the proposed loan; (2) description of prior lien, if any, on the property to be acquired; (3) estimated disbursements of the loan for various purposes, along with expected total cost to the veteran of business property to be acquired, and sources of other funds to finance its acquisition; (4) description of the security offered for repayment; (5) statement of business experience and plans of the veteran applicant, including an estimate of business income and expense for the next twelve months, if the loan is to be used to establish a new business, or a recent balance sheet and operating statement, if the loan is to be used to expand or refinance an existing business. Credit reports and financial data are submitted to the regional office of VA, so that it may determine whether there is a reasonable prospect of repayment.

In the case of loans processed on an automatic basis, the credit function is performed by the lending institution and reported to VA. The same information is given as for prior approval loans, excepting that in lieu of (5) above, the lender certifies to VA that the conditions of eligibility for guaranty have been met by the veteran. Obviously, the lender assumes a greater risk and responsibility with automatic than with prior approval loans. However, once the evidence of guaranty or insurance is issued, it is incontestable except for fraud or material misrepresentation.

The changes in procedure adopted in December 1945, which greatly expedited the credit process, are shown by the following comparative summary of steps:

*Original Procedure*: Veteran discusses loan with bank officer. Veteran and bank fill out form of application for certificate of eligibility for the veteran and send it to the regional office of the VA. Certificate of eligibility is returned to the bank, and enclosed with it is the name of a qualified appraiser who is to appraise the real property involved. The bank obtains a credit rating report on the veteran from an approved credit rating agency. The bank completes arrangements to make the loan and applies to the VA for a certificate of guaranty. The VA sends the guaranty certificate to the bank. The funds may then be paid out to the veteran.

*Revised Procedure*: Veteran discusses loan with bank officer. Bank may accept the veteran's honorable discharge certificate as verification of eligibility for loan. Bank proceeds with credit appraisal, and requests the VA to assign an appraiser. After receiving appraiser's report, bank may pay out loan. After making the loan, the bank sends to VA the veteran's honorable discharge certificate, the note or evidence of debt signed by the veteran, the appraiser's report, and the loan closing statement of the bank. VA endorses the discharge certificate with the amount of the loan made and the portion of the guaranty right used and remaining for the veteran. VA endorses the note, indicating the guaranty reserve covering the loan, and returns to the bank the discharge certificate and the note, retaining the appraiser's report and the closing statement. The discharge certificate is returned to the veteran.

Loans may originate in a number of ways, but it is the standing instruction of VA to the veteran that he "find his own lender." While the loan guaranty and insurance offered to lenders without charge was designed to help veterans obtain credit, it may not be sufficient inducement to lenders to advance funds at the maximum interest charges specified by the law. VA does not assume responsibility for finding a lender nor assure a veteran desiring a loan that he will obtain one. Nevertheless, it assists veterans coming initially to its field offices, by supplying application forms advising the veteran how to make his loan application a bankable proposition. VA has recommended the following steps in arranging for a loan:[30] "(1) find the property you want, (2) go to a bank or other lending agency, (3) present your plan and original discharge papers, (4) property is checked by an approved appraiser,[31] (5) certificate of reasonable value goes to lender, (6) if loan is approved, you get the money."

On occasion, VA offices have suggested banks or other lending institutions which might be disposed to consider a veteran's application. When competition among lenders for VA-guaranteed or -insured loans has been active (as appears to have been the case at times during 1945 and 1946) the VA offices have refrained from directing veterans to particular lenders, in order to avoid the criticism of putting other lenders under a competitive handicap. But at other times VA has not hesitated to direct them. In some instances VA offices referred veterans to government lending agencies; RFC, for example, made a number of VA-guaranteed business loans to veterans unable to get credit from private sources. The ability of VA itself to advance funds, when it could be established that private credit was not available at the specified rates of interest, applied only to loans for home purchase or construction, or for construction or improvement of a farmhouse, not to business loans.

The VA has been flexible in assenting to different procedures of loan origination. For example, a large proportion of business loans—especially in the Pacific Coast region—have been utilized by veterans to purchase automobiles or trucks for business purposes. In many such cases, the automotive dealers making the sales have supplied veterans with application forms, and, acting as authorized agents of the lender (the bank or

30 Veterans' Administration, *Guaranteed Loans for Veterans*, Pamphlet 4-1, (revised), November 1949.

31 Officers of banks and other supervised lending institutions are frequently designated as appraisers of assets other than real estate, so that with personal property loans it is usually the lending officer who makes the appraisal.

commercial finance company acquiring their installment receivable paper), have completed applications for VA-protected loans jointly with veterans. Where the lender involved was a supervised institution utilizing the automatic guaranty provision, a loan might be closed without any personal contact of the lender or the VA with the veteran.[32]

It would be useful to know what percentage of veterans seeking VA business loans have been unable to obtain them because they were deemed by lenders to lack experience or reasonable likelihood of success in business. The VA offices do not prejudge the creditworthiness of a veteran nor deter any veteran from applying for a loan, although they may later reject formal applications on the ground that legal requirements including likelihood of success have not been met. A considerable number of veterans have desired business loans which never reached the stage of formal application—and therefore do not appear in VA statistical records—because they could not find a lender willing to extend credit. The fact that some veterans have obtained VA business loans from the RFC indicates that VA loan guaranty or insurance was not a sufficient inducement to private lenders in all cases. One large bank reported that its officers deterred many veterans from borrowing to go into business, in order to prevent them from dissipating their own savings, as well as public funds, in trying to operate businesses which probably would have turned out unsuccessfully.

### PARTICIPATION OF PRIVATE LENDERS

The success of VA loan guaranty or insurance in aiding veterans was heavily dependent upon the cooperation of commercial banks and other lending institutions. The VA was a passive agency in the credit process; private lenders were to be the makers of loans. Did private lenders enter into the program actively?

There is strong evidence that commercial banks and other lending institutions were aggressive in seeking and making VA loans during the initial years of the program, when good will toward returning servicemen was high and there was a strong, general disposition to aid them in their re-establishment in civilian life. The Federal Reserve survey of business loans held by member banks at November 20, 1946 indicated that although

[32] Similarly, in connection with loans to purchase homes in residential real estate tracts under development, it may be the tract developer instead of the lender who completes with the veteran an application for a VA-protected loan, as part of the total plan for financing purchase of a new home. Ordinarily the tract developer first obtains a "certificate of reasonable value" from VA based upon an appraisal of the prices fixed for the homes, and he also obtains from a lender a commitment to purchase from him VA-guaranteed or -insured loans. He is then able to proceed; but the lender or the VA must still pass upon the borrower's credit rating, ability to pay, and eligibility.

VA-protected loans were but a small fraction of the total, their occurrence was widespread: "Guaranteed or insured lending to G.I.'s for business purposes was general among the member banks in all Federal Reserve Districts. About a third of all of the member banks had some of these business loans. A substantial proportion of the banks in each size group engaged in this type of lending, although it appeared to be more common among the large than among the small banks."[33] During 1945 the American Bankers Association organized a Committee on Service for War Veterans.[34] This committee prepared and circulated a *Manual of Procedure for Making GI Loans*, conducted questionnaire surveys of bankers' attitudes toward such loans, and sought amendments to the law designed to augment the volume of insured and guaranteed loans, for example, the automatic guaranty of VA loans and the provision of a secondary market for them. It conferred frequently with officials of the VA, and sought procedures for obtaining more uniform appraisals, which, during 1946, was said to be "the most troublesome factor in the veterans' credit situation."[35]

Many commercial banks established separate loan offices staffed by specialists in VA loans. In various cities—for example, Philadelphia, Rochester, Houston—banks jointly established centers where veterans could discuss their plans and make loan applications, in some instances staffed to provide information and counsel on housing, business, job placement, and other matters as well as loans. These actions[36] illustrate the receptiveness of commercial bankers to the VA credit program during the demobilization period. Profit was certainly not the only, or even the major, motive of bank extension of VA business loans, considering the relatively long risks, high administrative costs per dollar of credit, and limited interest return. A desire to cultivate public good will and help veterans re-establish themselves was equally important.

After 1946, there was some diminution of banking interest in VA business loans. Even from the start there were certain rural areas in which local bankers were reluctant to make them. Business loans were generally more hazardous than home or farm loans; most of them did not have a first lien on realty, and therefore had no secondary market. In many small communities local bankers had been accustomed to charging 6 to 8 percent or more on small business loans, and were not attracted by credits offering a maximum of 5.7 percent, even when the VA insured the loans or guaranteed half of their amount. For small banks in small communities, the

33 Cf. Tynan Smith, "Security Pledged on Member Bank Loans to Business," *Federal Reserve Bulletin*, June 1947, pp. 676f.

34 Cf. *Banking*, October 1946, p. 56. 35 Cf. *Banking*, November 1946, pp. 117f.

36 See *Banking*, September 1945, p. 62; February 1946, p. 39; March 1946, p. 36; July 1946, p. 36; and August 1946, pp. 47, 89.

number of VA business loans that might be developed was insufficient to make the VA loan insurance device attractive.

Savings and loan associations, although active in the home loan part of the program, scarcely participated in VA-protected business lending because only a small fraction of the loans were eligible for negotiation or purchase by them.

By late 1947, RFC had made a total of 3,924 GI business loans aggregating $16,483,000, instances where veterans had been unable to find private sources of credit in their communities. In a study covering 2,910 business loans authorized by RFC from June 1946 through September 1947 after they had been declined by banks—of which 1,852 were GI loans—the agency found that in 22 percent of the cases, or about one-third of those concerning veterans, the bank's refusal resulted from a stated policy not to make GI loans.[37]

EVOLUTION OF BANK CREDIT STANDARDS

Commercial banks made the great majority of all VA business loans. To most commercial banks the veteran's business loan posed a new type of credit problem, namely, the making of term loans to new or very small businesses that would be amortized out of earnings. This is a fact that deserves great emphasis. Since 1935, commercial banks have developed a large volume of term loans to medium-sized and large business enterprises.[38] They have traditionally made numerous small short-term business loans maturing within a year and based primarily on the personal credit or collateral security of the small businessman rather than upon an estimate of the earning power of the enterprise.[39] Most banks regarded these loans essentially as personal rather than business loans. VA business loans were novel in applying the term-loan principle to very small enterprises, including new as well as established firms.[40]

Faced with a new type of credit problem, commercial banks gradually evolved procedures and credit standards as a result of experimentation and observation. The law and regulations of VA did not go beyond the general criteria that the borrower show experience and reasonable like-

37 *Hearings* before a Subcommittee of the Committee on Banking and Currency, U.S. Senate, 80th Cong., 1st sess., on S. Res. 132, "A Resolution for an Inquiry into the Operation of the Reconstruction Finance Corporation and Its Subsidiaries"; Part 1, December 11, 1947, p. 34.

38 For descriptions of the development of bank term lending, see *Term Lending to Business* (1942) and *Business Finance and Banking* (1947), by Neil H. Jacoby and R. J. Saulnier (National Bureau of Economic Research, Financial Research Program).

39 Cf. Charles H. Schmidt, "Member Bank Loans to Small Business," *Federal Reserve Bulletin*, August 1947, p. 963.

40 From the standpoint of the lender, the difference between new and established firms in the very small business field is not important, because the fortunes of the enterprise are so heavily determined by the single owner-manager.

lihood of success in business. It was up to the banks to interpret these general requirements in terms of specific rules and standards.

During the initial phase of the VA program, which lasted from 1945 up to about mid-1947, commercial banks did not have well-formulated credit standards for veterans' business loans, and were inclined to be liberal in making them. Because many young veterans had not had any business experience, loans were often made to men who had only a technical proficiency in a certain trade or occupation. For example, a young veteran who acquired skill as a radio technician in the army, would be considered to have sufficient experience to obtain a loan to open a radio repair shop. His skill in repairing radios, however, may not have been matched by business acumen in purchasing parts, maintaining records, marketing his services, and controlling expenses. Many VA business loans were made to enable veterans to purchase Army surplus trucks for the purpose of entering the commercial trucking business. These appeared to be sound loans, especially since many veterans had learned truck operation and repair in military service and the trucks were purchased at apparently low prices. Experience showed, however, that commercial trucking was a business requiring talents additional to those of truck driver and mechanic; also, military vehicles were ill-adapted to many commercial transportation needs. Hence, many of these loans turned out unfortunately for the bank, the VA, and the veteran.

At the beginning, banks also lacked experience with respect to the amount of the veteran's own funds that he should be expected to invest in a business. Certain banks advanced nearly the entire amount of money required by a veteran for equipment, stock of goods, and working capital. If the venture did not immediately succeed, a veteran could simply "walk away" from it after the working capital had been exhausted, leaving the bank with a liquidation problem, though the veteran would remain liable to the VA in the event it had to pay a claim by the bank.

Another question was the maturity of loans. The law permitted maturities up to ten years for non-real-estate loans, provided the loan was amortized. During the initial phase of the program, many banks set up business loans on a five-year basis, or for even longer periods. Repayment experience however, was often unfavorable on business loans of such long terms.

Through trial and error, banks gradually learned what credit standards should be met in order to make VA business loans bankable. One banker, writing from considerable experience, recommended the following rules:[41]

(1) Insist on a down-payment by the veteran out of his own resources of about 10 percent of the property purchased with a loan, so that the

[41] Earl R. Parsons, "We're Learning a Lot about GI Loans," *Banking*, July 1946, pp. 36f.

veteran will have an equity of his own to protect. (2) Set up an amortization schedule for repayment of the loan as soon as possible—within two or three years. Veterans may always apply for new loans, after the initial loan has been repaid, if they have unused benefits left. (3) Make sure the veteran has enough working capital for business operations and funds for personal and family living expense before granting a loan to purchase business equipment. Loans to provide both equipment and working capital are unsound. (4) Be certain the veteran is physically able to carry on the business for which he requests a loan. If he is receiving a disability compensation, get a signed statement from him permitting the VA to show you his service record. (5) Be certain that the veteran does not exaggerate the true profit potentialities of his business, and study the business periodically to provide him with management counsel. (6) Limit loans to veterans with business experience in the type of enterprise they plan to enter, or to those whose background indicates they will succeed.

About mid-1947, after the initial flood of loan applications arising from demobilization had passed and as experience with VA business loans developed, there is evidence that bank credit standards were generally raised, and loan applications were more critically scrutinized by banks and VA offices. This change was not solely the product of repayment difficulties, but also reflected the rise in alternative loan opportunities open to banks. In addition, some bankers felt they had perfected the technique of making small business term loans profitably, and preferred to do so without VA participation; for a loan properly set up they considered VA guaranty or insurance unnecessary. In many cases, banks could charge a higher interest rate on nonguaranteed loans than the 5.7 percent maximum under the GI statute; the veteran was often willing to pay a higher rate in order to conserve his guaranty benefits for a home loan, to avoid payment of appraisal fees, or to obtain funds more rapidly with less red tape.[42]

One large branch-system bank with extensive experience in VA business lending came to apply the same credit standards to its VA business loans as to other small term loans to business. Its requirements of any small business term borrower were: (1) He must invest in the enterprise an amount equal to the loan of the bank, thus insuring that the bank would not be, in effect, the senior "partner" in the enterprise. (2) He must have had business experience as well as technical proficiency in the trade or mechanical art used in the business. (3) The loan must be amortized within a maximum period of three years.

[42] Public Law 139, effective September 1, 1951, permitted a veteran to deduct guaranty or insurance entitlement used for business or farm loans from the $7,500 maximum home loan guaranty, with the remainder available for a home loan guaranteed under Section 501(b) of the Servicemen's Readjustment Act.

## APPENDIX C

### *A Statistical Summary, 1945–1955*

BUSINESS LOANS IN THE TOTAL VETERANS' ADMINISTRATION LOAN PROGRAM

Table C-1 presents a cumulative summary of the number, original amount of loans, and original amount of the VA liability on loans, for home, farm, and business loans combined, and for business loans separately, by fiscal years ending June 30, 1945 through 1955. The relatively small role of business loans in the total veterans' credit program is apparent. Through mid-1955 business loans formed only 5.3 percent of the number of loans closed, and only 2.0 percent of the original cumulated amount of loans closed, and only 1.1 percent of the cumulative amount of

TABLE C-1

Cumulative Summary of Home, Farm, and Business Loans Made with VA Guaranty or Insurance in Fiscal Years 1945–1955

| FISCAL YEAR ENDING JUNE 25 | NUMBER OF LOANS CLOSED | ORIGINAL AMOUNT (000) | ORIGINAL VA LIABILITY *Amount (000)* | ORIGINAL VA LIABILITY *As % of Amount of Loans* | AVERAGE SIZE OF LOAN | AVERAGE VA LIABILITY PER LOAN |
|---|---|---|---|---|---|---|
| | | CUMULATIVE TOTALS—HOME, FARM, AND BUSINESS LOANS | | | | |
| 1945 | 12,228 | $ 55,209 | $ 19,645 | 35.6% | $4,515 | $1,607 |
| 1946 | 188,417 | 872,276 | 393,978 | 45.2 | 4,629 | 2,091 |
| 1947 | 823,548 | 4,458,034 | 2,077,608 | 46.6 | 5,413 | 2,523 |
| 1948 | 1,343,642 | 7,420,871 | 3,487,292 | 47.0 | 5,523 | 2,595 |
| 1949 | 1,622,873 | 8,773,513 | 4,170,185 | 47.5 | 5,406 | 2,570 |
| 1950 | 2,020,603 | 10,938,750 | 5,248,360 | 48.0 | 5,414 | 2,597 |
| 1951 | 2,558,613 | 14,630,906 | 7,370,093 | 50.4 | 5,718 | 2,881 |
| 1952 | 2,983,267 | 17,943,871 | 9,266,056 | 51.6 | 6,015 | 3,106 |
| 1953 | 3,299,949 | 20,723,544 | 10,870,824 | 52.5 | 6,280 | 3,294 |
| 1954 | 3,632,518 | 23,947,972 | 12,726,702 | 53.1 | 6,593 | 3,504 |
| 1955 | 4,203,668 | 30,001,134 | 16,153,207 | 53.8 | 7,137 | 3,843 |
| | | CUMULATIVE TOTALS—BUSINESS LOANS | | | | |
| 1945 | 738 | a | a | a | a | a |
| 1946 | 16,215 | $ 47,820 | $ 20,300 | 42.5% | $2,949 | $1,252 |
| 1947 | 68,172 | 213,106 | 81,384 | 38.2 | 3,126 | 1,194 |
| 1948 | 94,455 | 299,433 | 114,538 | 38.3 | 3,170 | 1,213 |
| 1949 | 107,244 | 337,629 | 127,130 | 37.7 | 3,148 | 1,185 |
| 1950 | 119,316 | 369,155 | 134,942 | 36.6 | 3,094 | 1,131 |
| 1951 | 136,836 | 410,718 | 145,168 | 35.5 | 3,002 | 1,064 |
| 1952 | 190,767 | 514,407 | 162,898 | 31.7 | 2,697 | 854 |
| 1953 | 205,450 | 552,365 | 169,578 | 30.7 | 2,689 | 825 |
| 1954 | 214,544 | 577,685 | 174,092 | 30.1 | 2,693 | 811 |
| 1955 | 221,014 | 598,723 | 178,114 | 29.7 | 2,709 | 806 |

Data for 1945–1954 are from *Annual Reports* of the Administrator of Veterans' Affairs, and for 1955 from *Loan Guaranty*, June 1955, p. 57.
[a] Not available.

VA liability. Earlier, the percentages for business loans were somewhat higher, though not large; through mid-1947, about 8 percent by number, 5 percent by amount of loan, and 4 percent by amount of VA liability. But the great diversity of small business ventures posed specially difficult tasks of credit appraisal and administration, both for lenders and for the VA, which made business loans more important in the administration of the whole program than the ratios suggest.

Up to mid-1955 a cumulative total of about 221,000 VA business loans had been disbursed in an aggregate original amount of nearly $600 million. The average original amount of the loans made over the preceding ten and one-half years was about $2,700 and the average original amount of the VA liability was about 30 percent thereof, or $810. Business loans in comparison to all loans were of smaller average size, and VA's liability on them covered lesser fractions of the loan amount (Table C-1); and the contrast increased through time. Business loans made in fiscal years through 1949 averaged between 56 and 64 percent as large as all loans combined, but after mid-1951, less than one-third as large. The portion of the loan amount for which VA carried liability averaged between 29 and 39 percent through 1949, then less than 20 percent after 1950 (Table C-6). The smaller average size of business loans reflects the legal limitation of $2,000 on the amount of the VA guarantee on non-real-estate loans (most business loans were of that type), whereas the limit was $4,000 on real estate loans until 1950 when it was raised to $7,500 for home loans. The smaller portion of the loan amount for which VA protection was utilized by veterans obtaining business loans reflects the relatively wider use of insurance (where VA's protection could not cover more than 15 percent of the loan amount) rather than guaranty in that part of the program.

For business loans and for all loans combined, the VA credit program expanded rapidly during the fiscal years 1945–1947 as demobilization and veteran readjustment to civilian life proceeded. It advanced at a slower rate in fiscal 1948 and at a still slower pace in fiscal 1949 when business activity underwent a mild recession. Then the combined program gained new momentum, especially during fiscal 1951 as economic activity increased after the outbreak of hostilities in Korea. The expansion of the combined credit program during fiscal 1948–1951 was greater than that of the business loan program by itself, the cumulative original amount of all loans combined doubling between mid-1948 and mid-1951, whereas the amount for business loans rose by only 40 percent. This reflected the strong demand of veterans for homes, the availability (until repeal by the Housing Act of 1950) of VA-guaranteed secondary loans while the primary loan was insured by FHA, and the establishment of a 100 percent secondary market for VA-guaranteed real estate loans, as well as a more ample supply of low-cost housing.[43] Again between 1951 and 1955 the cumulative loan amount of the combined program doubled, whereas for business loans the amount rose by only 23 percent. The comparatively small demand for business loans may reflect veterans' preferring to use their VA entitlements for home loans, and increased availability of business credit without VA participation.

A summary of the default and loss experience up to mid-1955 on home, farm, and business loans guaranteed or insured by the VA clearly indicates the much greater hazard inherent in lending to small business enterprises than was present in home and farm loans, nearly all of which are secured by marketable real estate (Table C-2). Of the more than 3.9 million home loans reported closed, the VA had paid claims on about 22,300 loans, or 0.57 percent of the number; and the amount of claims paid formed less than one-tenth of one percent of the original amount of all loans closed. The record was somewhat less favorable for farm loans and strikingly unfavorable for business loans. Up to June 1955 the VA had paid claims on 12,600 of the 221,000 business loans closed, or 5.71 percent of the number; and the amount of those claims was 1.65 percent of the original amount of all such loans closed. Because business loans had a much shorter average maturity than home loans, it is undoubtedly true that the critical period for repayment of home loans has not yet arrived. However, the percentage of the number of outstanding loans in default (including loans awaiting payment of the lenders' claims) at mid-1955 affords a limited preview of relative losses in the future; and the default ratio for home loans was just under 1.1 percent whereas it stood at nearly 10 percent for business loans.[44]

The loan insurance principle was applied much more extensively to VA business loans than to VA home or farm loans, because of the smaller average size of business loans and the infrequency with which they were secured by real estate. Through May 1951 less than one-half of 1 percent of home loans were insured, about 7.0 percent of farm loans, and nearly 40 percent of business loans (Table C-3). Although the number and dollar volume of home loans far outweighed business loans, nearly two-thirds of the initial amounts of insurance credits on the books of the VA at May 25, 1951 were on account of business loans. This appears to indicate that the loan insurance principle finds its widest application in a credit field marked by large numbers of small loans, with respect to each of which risks and uncertainties are considerable.

43 Cf. T. B. King, "The Revival of the GI Loan," *Savings and Loan News*, November 1950, p. 27.

44 A more significant comparison would lie between the default and claim experience on GI business loans and the portfolio experience of lenders with conventional small business term loans. Requisite data are not available, but a few banks which have had extensive experience with small business term loans report a more favorable experience with conventional than with GI loans.

## TABLE C-2

Summary of Default and Loss Experience on Home, Farm, and Business Loans Guaranteed or Insured by VA, to June 25, 1955

*(dollar figures in millions)*

| TYPE OF LOAN | CUMULATIVE NUMBER | | | CUMULATIVE AMOUNT | | | LOANS OUTSTANDING, JUNE 25, 1955 | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Loans Closed* | *Claims Paid* | | *Loans Closed* | *Claims Paid* | | *Total Number* | *In Default*[a] | |
| | | *Number* | *Percent* | | *Amount* | *Percent* | | *Number* | *Percent* |
| Home | 3,914,535 | 22,285 | 0.57% | $29,136 | $17.5 | 0.06% | 3,202,177 | 34,514 | 1.08% |
| Farm | 68,119 | 2,110 | 3.10 | 267 | 1.5 | 0.55 | 25,751 | 699 | 2.71 |
| Business | 221,014 | 12,621 | 5.71 | 599 | 9.9 | 1.65 | 43,771 | 4,260 | 9.73 |
| Total | 4,203,668 | 37,016 | 0.88% | $30,001 | $28.8 | 0.10% | 3,271,699 | 39,473 | 1.21% |

Computed from *Loan Guaranty*, Veterans' Administration, June 1955, p. 57.

[a] Also includes loans on which payment of lender's claim was pending.

TABLE C-3

Relative Importance of Insured Loans among Home, Farm, and Business Loans Made with VA Credit Support, to Mid-1951
*(dollar figures in thousands)*

| LOAN PROGRAM | CUMULATIVE TO MAY 25, 1951 | | | INITIAL INSURANCE CREDITS | |
|---|---|---|---|---|---|
| | *Number of Loans Closed* | *Loans Insured* | | | |
| | | *Number* | *Percent* | *Amount* | *Percent* |
| Home | 2,328,961 | 8,960 | 0.38% | $ 8,488 | 29.6% |
| Farm | 60,657 | 3,943 | 6.50 | 1,356 | 4.7 |
| Business | 134,290 | 52,966 | 39.44 | 18,798 | 65.6 |
| Total | 2,523,908 | 65,869 | 2.61% | $28,642 | 100.0% |

Numbers of loans closed and loans insured are from *Finance, Guaranty of Loans*, Veterans' Administration, May 1951, p. 81. Other data, from a special tabulation supplied by the Veterans' Administration.

The preceding observation is borne out by an analysis of the insured loan accounts of both active and inactive lenders that were on the books of the VA at May 25, 1951. Although information is lacking on the total number of lending institutions participating in the VA loan programs, it is apparent that only a minor fraction of them (696) utilized loan insurance at all, and that only about 40 percent of this number were active lenders (Table C-4). These 273 active lending institutions accounted for more than nine-tenths of the insurance credits outstanding on the books of the VA. Hence, the data bear out the a priori expectations—that VA business loan insurance proved to be attractive to a relatively small num-

TABLE C-4

Number of Private Lenders Participating in the VA Business Loan Insurance Program through May 25, 1951 and Amount of Their Outstanding Insurance Credits

| | LENDING INSTITUTIONS | | INSURANCE CREDITS OUTSTANDING | |
|---|---|---|---|---|
| | *Number* | *Percent* | *Amount* (000) | *Percent* |
| Active lenders | 273 | 39.2% | $21,565 | 90.9% |
| Inactive lenders | 423 | 60.8 | 2,159 | 9.1 |
| Lenders reporting | 696 | 100.0% | $23,724 | 100.0% |

From a special tabulation by the Veterans' Administration, June 18, 1952. "Active lenders" are defined as lenders who made one or more new loans during the preceding six months.

ber of lending institutions with relatively large individual loan volumes. Only when a lender could develop a considerable volume of VA business loans would the amount of his insurance reserve expand to provide ample protection against loss. Although the largest number of banks participating in insured loans were institutions with total assets under $25 million, by far the largest proportion of credit was disbursed by a few large banks each with assets of $100 million or more.[45]

### ANNUAL VOLUME OF VA BUSINESS LOAN OPERATIONS

Up to mid-1955, a cumulative total of 235,320 applications for business loans had been received by VA offices, of which 221,950 or 94 percent were approved. Of the number of loan applications approved, 221,014 loans were reported closed and disbursed (Table C-5). The high percentage of approvals is indicative of the careful screening of applications by commercial banks and other lenders.

By mid-1955 nearly 165,000 loans, or 75 percent of those disbursed, had been repaid in full. An additional 12,621 loans, representing 5.7 percent of the number disbursed, had been terminated by payment of a claim by the VA. The balance of 43,771 loans, representing not quite 20 percent of the total number disbursed, were outstanding at mid-1955.

TABLE C-5

Applications for VA-Guaranteed or -Insured Business Loans, and Loans Made, Extinguished, and Outstanding, 1945–1955

| CALENDAR YEAR | APPLICATIONS RECEIVED | APPLICATIONS APPROVED | LOANS CLOSED AND DISBURSED | LOANS TERMINATED: *By Repayment in Full* | LOANS TERMINATED: *By Payment of Claim by VA* | LOANS OUTSTANDING AT YEAR END |
|---|---|---|---|---|---|---|
| 1945 | 3,871 | 3,312 | 44,485 (1945–1946) | 2,231 (1945–1946) | 379 (1945–1946) | a |
| 1946 | 51,106 | 44,764 | | | | 41,875 |
| 1947 | 39,508 | 37,534 | 38,889 | 9,764 | 2,028 | 68,972 |
| 1948 | 17,393 | 16,596 | 17,817 | 15,763 | 2,604 | 68,422 |
| 1949 | 13,271 | 12,695 | 11,995 | 14,914 | 2,057 | 63,446 |
| 1950 | 13,448 | 11,699 | 11,819 | 11,451 | 1,161 | 62,653 |
| 1951 | 48,566 | 42,789 | 42,491 | 10,319 | 589 | 94,236 |
| 1952 | 25,618 | 29,961 | 30,638 | 13,317 | 791 | 110,766 |
| 1953 | 11,853 | 12,213 | 12,473 | 41,798 | 1,339 | 80,102 |
| 1954 | 7,262 | 7,113 | 7,157 | 29,464 | 1,180 | 56,615 |
| 1955b | 3,424 | 3,274 | 3,250 | 15,601 | 493 | 43,771 |
| Total | 235,320 | 221,950 | 221,014 | 164,622 | 12,621 | .. |

Computed from data in *Finance, Guaranty of Loans* (Veterans' Administration), 1946–1950 Supplement, and from December issues of *Loan Guaranty*, 1951–1954, and the June 1955 issue.

a Not available. b To June 25.

45 Data provided by letter from the Veterans' Administration, April 23, 1953.

Applications received reached a peak of 51,100 during the calendar year 1946; applications approved reached their peak of 44,764 during the same year. Terminations by payment of lenders' claims were most numerous in 1948, whereas repayments of loans in full were highest during 1953, following the 1951 increase in lending mentioned below. By the beginning of 1948, it appears that the VA business loan program had reached a plateau, with between 60,000 and 70,000 loans outstanding at year ends through 1950, and the annual number of new loans closed just about offsetting the number of loans terminated (Table C-5). A sharp increase occurred in number of loan applications during 1951, apparently resulting from veterans' efforts to get longer credit terms for the purchase of automobiles than were available elsewhere, under Federal Reserve restriction of consumer credit by means of Regulation W. During the ten months ended May 25, 1952, some 47,634 VA business loans were closed, of which no less than 43,446 loans, or 91.2 percent of the total, were auto loans.[46]

Tables C-6 and C-7 give annual dollar amounts and average size of loan and of VA liability for the business credit program through 1954 and part of 1955, for all loans closed and for loans repaid. The average size of loans closed decreased by more than one-sixth in 1949, and again, more sharply, in 1951; then rose in 1953 and later. The smaller average size of loans during the middle years may be attributed in part to greater caution on the part of lenders as experience with GI loans developed, and also to changes in the business purposes for which loans were made, especially in 1951–1952 when Regulation W was operative. The average amount of liability assumed by VA also decreased in 1949 and again in 1951, representing less than 20 percent of the amounts of loans made from 1951 through 1954. Primarily the decreasing percentages of VA liability reflect a relative increase in use of VA insurance, under which the public liability was limited to 15 percent of the aggregate amount of a lender's loans, whereas in loan guaranteeing it could cover as much as 50 percent of the amount of a loan.

### DEFAULT AND LOSS EXPERIENCE

The proportion of outstandings loans that were in default (or on which payment of claims was pending) rose from 1.4 percent at the end of 1946 to 6.0 percent at the end of 1949, during three years when defaults were numerous and many loans terminated with loss, as evidenced by VA's payment of a lender's claim (Tables C-8 and C-9). The sharp rise in the default ratio in 1953 and 1954 reflects mainly the decrease in number of outstandings as many loans were repaid.

Up to mid-1955 the cumulative number of business loans for which

[46] Special tabulation provided by the Veterans' Administration, June 18, 1952.

## TABLE C-6

VA-Guaranteed or -Insured Business Loans Made, 1945–1955: Number, Original Amount, and Amount of VA Liability

| YEAR ENDING DEC. 25 | NUMBER | ORIGINAL AMOUNT (000) | ORIGINAL VA LIABILITY *Amount* *(000)* | ORIGINAL VA LIABILITY *Percent* | AVERAGE SIZE OF LOAN | AVERAGE VA LIABILITY PER LOAN |
|---|---|---|---|---|---|---|
| 1946[a] | 44,485 | $136,049 | $ 53,297 | 39.2% | $3,058 | $1,198 |
| 1947 | 38,889 | 126,045 | 47,344 | 37.6 | 3,241 | 1,217 |
| 1948 | 17,817 | 58,450 | 21,347 | 36.5 | 3,281 | 1,198 |
| 1949 | 11,995 | 32,290 | 9,468 | 29.3 | 2,692 | 789 |
| 1950 | 11,819 | 32,351 | 8,572 | 26.5 | 2,737 | 725 |
| 1951 | 42,491 | 82,729 | 14,968 | 18.1 | 1,947 | 352 |
| 1952 | 30,638 | 64,855 | 11,199 | 17.3 | 2,117 | 366 |
| 1953 | 12,473 | 33,646 | 5,882 | 17.5 | 2,698 | 472 |
| 1954 | 7,157 | 21,316 | 3,870 | 18.2 | 2,978 | 541 |
| 1955[b] | 3,250 | 10,991 | 2,166 | 19.7 | 3,382 | 667 |
| Total | 221,014 | $598,723 | $178,114 | 29.7% | $2,709 | $ 806 |

Computed from data in *Finance, Guaranty of Loans* (Veterans' Administration), 1946–1950 Supplement, and from December issues of *Loan Guaranty*, 1951–1954, and the June 1955 issue.

[a] Cumulative from the beginning of the program.

[b] To June 25.

## TABLE C-7

VA-Guaranteed or -Insured Business Loans Repaid in Full, 1945–1955: Number, Original Amount, and Amount of VA Liability

| YEAR ENDING DEC. 25 | NUMBER | ORIGINAL AMOUNT (000) | ORIGINAL VA LIABILITY *Amount* (000) | ORIGINAL VA LIABILITY *Percent* | AVERAGE SIZE OF LOAN | AVERAGE VA LIABILITY PER LOAN |
|---|---|---|---|---|---|---|
| 1946[a] | 2,231 | $ 4,664 | $ 1,962 | 42.1% | $2,091 | $ 879 |
| 1947 | 9,764 | 20,926 | 8,182 | 39.1 | 2,143 | 838 |
| 1948 | 15,763 | 36,185 | 13,722 | 37.9 | 2,296 | 871 |
| 1949 | 14,914 | 38,921 | 14,638 | 37.6 | 2,610 | 981 |
| 1950 | 11,451 | 34,051 | 12,887 | 37.8 | 2,974 | 1,125 |
| 1951 | 10,319 | 32,929 | 12,343 | 37.5 | 3,191 | 1,196 |
| 1952 | 13,317 | 36,109 | 11,867 | 32.9 | 2,712 | 891 |
| 1953 | 41,798 | 95,686 | 19,752 | 20.6 | 2,289 | 473 |
| 1954 | 29,464 | 62,293 | 13,089 | 21.0 | 2,114 | 444 |
| 1955[b] | 15,601 | 35,336 | 7,337 | 20.8 | 2,265 | 470 |
| Total | 164,622 | $397,101 | $115,778 | 29.2% | $2,412 | $ 703 |

Computed from data in *Finance, Guaranty of Loans* (Veterans' Administration), 1946–1950 Supplement, and from December issues of *Loan Guaranty*, 1951–1954, and the June 1955 issue.

[a] Cumulative from the beginning of the program.

[b] To June 25.

## TABLE C-8

### Default Experience on VA-Guaranteed and -Insured Business Loans, 1945–1955

| YEAR ENDING DEC. 25 | DEFAULTS DURING YEAR | | | | LOANS OUTSTANDING AT YEAR END | | |
|---|---|---|---|---|---|---|---|
| | | | Ratio of Cured Defaults to Reported | | | In Default[a] | |
| | *Reported in Default* | *Cured or Withdrawn* | *Annual* | *Cumulative* | *Total* | *Number* | *Percent* |
| 1946 | 1,105[b] | 122[b] | 11.0%[b] | 11.0% | 41,875 | 586 | 1.4% |
| 1947 | 6,231 | 1,628 | 26.1 | 23.9 | 68,972 | 3,076 | 4.5 |
| 1948 | 7,345 | 3,727 | 50.7 | 37.3 | 68,422 | 3,936 | 5.8 |
| 1949 | 5,427 | 3,347 | 61.7 | 43.9 | 63,446 | 3,797 | 6.0 |
| 1950 | 3,082 | 2,476 | 80.3 | 48.7 | 62,653 | 3,153 | 5.0 |
| 1951 | 3,439 | 2,042 | 59.4 | 50.1 | 94,236 | 3,900 | 4.1 |
| 1952 | 4,976 | 2,988 | 60.0 | 51.7 | 110,766 | 5,038 | 4.5 |
| 1953 | 4,408 | 2,027 | 46.0 | 51.0 | 80,102 | 6,024 | 7.5 |
| 1954 | 2,989 | 2,706 | 90.5 | 54.0 | 56,615 | 5,076 | 9.0 |
| 1955[c] | 612 | 922 | 150.7 | 55.5 | 43,771 | 4,260 | 9.7 |
| Total | 39,614 | 21,985 | 55.5% | .. | .. | .. | .. |

Computed from the 1946–1950 Supplement and various monthly issues of *Finance, Guaranty of Loans* (Veterans' Administration; now titled *Loan Guaranty*).

[a] Also includes loans on which payment of lender's claim was pending at year end.

[b] Cumulative from the beginning of the program.

[c] To June 25.

## TABLE C-9

### VA-Guaranteed or -Insured Business Loans Terminated by Payment of Lender's Claim, 1945–1955

| YEAR ENDING DEC. 25 | CLAIMS FILED AFTER DEFAULT[a] | CLAIMS PAID | RATIO OF CLAIMS PAID TO FILED | | NET AMOUNT PAID (000) | AVERAGE SIZE OF CLAIM PAYMENT |
|---|---|---|---|---|---|---|
| | | | *Annual* | *Cumulative* | | |
| 1946[b] | 474 | 379 | 80.0% | 80.0% | $ 311 | $ 821 |
| 1947 | 2,563 | 2,028 | 79.1 | 79.3 | 2,088 | 1,030 |
| 1948 | 2,855 | 2,604 | 91.2 | 85.0 | 2,847 | 1,093 |
| 1949 | 2,008 | 2,057 | 102.4 | 89.5 | 2,049 | 996 |
| 1950 | 1,049 | 1,161 | 110.7 | 92.0 | 706 | 608 |
| 1951 | 596 | 589 | 98.8 | 92.4 | 194 | 329 |
| 1952 | 924 | 791 | 85.6 | 91.8 | 301 | 380 |
| 1953 | 1,412 | 1,339 | 94.8 | 92.1 | 563 | 420 |
| 1954 | 1,158 | 1,180 | 101.9 | 93.0 | 593 | 503 |
| 1955[c] | 640 | 493 | 77.0 | 92.3 | 210 | 426 |
| Total | 13,679 | 12,621 | 92.3% | .. | $9,862 | $ 781 |

Computed from the 1946–1950 Supplement and various monthly issues of *Finance, Guaranty of Loans* (Veterans' Administration; now titled *Loan Guaranty*).

[a] Includes claim subsequently withdrawn.

[b] Cumulative from the beginning of the program.

[c] To June 25.

defaults were reported to VA offices was 39,614, or 17.9 percent of the 221,014 loans closed and disbursed up to that time. In other words, perhaps as many as one out of every six loans made became delinquent in some respect.[47] More than half of the defaulting loans were later removed from default status (Table C-8). A cumulative total of 17,629 loans, or 8 percent of the cumulative number disbursed, had remained delinquent, most of which were terminated before mid-1955 by payment of lenders' claims, with 4,260 still outstanding in default or in process of claim payment. The ratio of loans withdrawn from default status to the number reported in default rose substantially during the first five years of the program, so that by the end of 1950 the number of defaulted loans reinstated to current status was nearly half as large as the total number of defaults reported up to that date. Presumably, this reflected an improvement in administrative technique by the VA and by lenders, and an increasing disposition to work out modifications and extensions of original loans which got into difficulties.

Up to mid-1955, 13,679 claims against the VA had been filed by lenders after default, and claims had been paid on 12,621 loans or 92 percent of those originally filed (Table C-9). The remainder had either been withdrawn or were still pending payment as of that date. During the early years of the program, VA processing of claims lagged materially behind claims filed,[48] giving rise to complaints from lenders. Beginning in 1949 VA offices processed and paid more claims than were filed, and by 1951 they had worked off most of the backlog. A comparison, annually, of the average size of claim payments on loans ending in loss with the average amount of VA's liability on loans that were fully repaid is of interest (Tables C-9 and C-7). In the early years, losses occurred where liability was comparatively heavy; after 1949, the reverse was usually true.

Up to June 25, 1955, claims had been paid on 5.7 percent of all loans closed and disbursed up to that time, and for every claim paid there were 13 loans that had been paid in full up to the same date. The total amount of claims paid was $9,862,000, which was 1.6 percent of the $598,723,000 original amount of loans disbursed. VA statistical records show only the original amounts of loans repaid in full, so that it is necessary to estimate the total amount of repayments up to June 25, 1955.[49]

47 The statement is only approximate, because repeated delinquencies of the same loan are not taken into account.

48 Note that part of the difference, in Table C-9, between claims filed and claims paid would be accounted for by claims withdrawn.

49 Loans fully repaid amounted to $397.1 million by mid-1955. Assuming that loss loans averaged equal in size to loans repaid in full, the total original amount of the 12,621 loans on which claims had been paid by that date would be about $30.4 million, and the total original amount of loans terminated, $428 million. Subtracting that amount from the cumulative amount of all loans closed and disbursed, $599 million, gives an estimate for the total original amount of loans still

Repayments may be estimated roughly at about $480 million, so that the ratio of the amount of claims paid to the total amount of repayments was about 2 percent. It would be desirable to compare the default and loss ratios for VA business loans with those for small business loans made by private lending institutions, but adequate data for the latter are not available. Fragmentary evidence suggests that defaults and losses on VA business loans were relatively higher than those on conventional small business term loans.[50] The hazards involved in extending small term loans to very small and new business enterprises were undoubtedly larger than those which commercial banks had previously been accustomed to carry.

### VA LOANS IN THE SMALL BUSINESS LOAN MARKET

The slight importance of VA activity—from the quantitative standpoint—in the small business credit market can be gauged by means of the commercial and industrial loan survey conducted by the Board of Governors of the Federal Reserve System among member banks in November 1946. (Reliable data for nonmember banks and other lenders to small business are lacking.) The Federal Reserve study embraced a nationwide sample of 2,000 member banks, each of which submitted detailed information on a sample of its business loans outstanding.[51] For purposes of the survey, small businesses were defined as manufacturing and mining concerns with total assets under $750,000; wholesale trade concerns with total assets under $250,000; and retail trade, service, construction, public utility, transportation, and other concerns with total assets under $50,000.

On that definition, loans to small firms were estimated to number 514,000, or three-fourths of all outstanding member bank loans to business. Their total amount was estimated at $2.9 billion, or 22 percent of the business loans held by member banks at the end of 1946, and the average balance outstanding at $5,600. VA-guaranteed or -insured business loans, of which there were an estimated 16,000 totaling $54 million,[52] formed about 3 percent of the number, and just under 2 percent of the outstanding

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outstanding in mid-1955, $171 million. Then, assuming that on the average, half of the indebtedness on the outstanding loans had been paid off, $85.6 million of such payments may be added to the $397.1 million of loans repaid in full to give the estimate for total repayments up to mid-1955: some $480 million.

50 For example, a large bank that made many thousands of small term loans to business, all under $10,000 in amount, during the period covered by the VA business loan program, found that its ratio of losses charged off to the amount of repayments was well under 1.0 percent. Its delinquency ratio (ratio of amount of loans in default to amount of loans outstanding) was about 3 percent, despite a definition of delinquency more rigorous than that used by the VA.

51 Cf. Charles H. Schmidt, "Member Bank Loans to Small Business," *Federal Reserve Bulletin*, August 1947, pp. 963ff.

52 "Security Pledged on Member Bank Loans to Business," by Tynan Smith, *Federal Reserve Bulletin*, June 1947, p. 665.

amount, of member bank loans to small business. The importance of the VA business credit program lies in the particular segment of the market—new and extremely small enterprises—into which it extended the use of term loans, rather than in its size.

### *Characteristics of the Loans*

The distinguishing characteristics of VA-protected business loans are thrown into relief by comparing them with loans of commercial banks to small business enterprises, to the extent that different categories of analysis in the available data allow. Commercial banks are undoubtedly the most important institutional source of credit for very small businesses. Moreover, banks were the preponderant makers of VA business loans, as Table C-10 shows.

Commercial banks made nearly 95 out of every 100 VA business loans during the three and a half years ending in mid-1951, and advanced more than 90 percent of the credit provided. Savings and loan associations, real estate and mortgage companies, mutual savings banks, and life insurance companies made comparatively insignificant numbers of guaranteed business loans, but those they made were larger on the average than those of commercial banks—in the case of all but the savings and loan associations, about twice as large. Next to commercial banks in importance stood individual lenders, who collectively accounted for 2.8 percent of the loans and for 5.1 percent of the amount of credit advanced. Such VA business loans as were made by commercial finance companies presumably are included in this small volume of credits.

TABLE C-10

Number and Amount of VA-Guaranteed or -Insured Business Loans Closed from 1948 through Mid-1951, by Type of Lender

| TYPE OF LENDER | NUMBER OF LOANS | AMOUNT OF LOANS | PERCENTAGE DISTRIBUTIONS *Number* | PERCENTAGE DISTRIBUTIONS *Amount* |
|---|---|---|---|---|
| Commercial banks | 51,947 | $134,451 | 94.3% | 90.1% |
| Savings and loan associations | 489 | 1,464 | 0.9 | 1.0 |
| Real estate and mortgage companies | 523 | 2,771 | 0.9 | 1.9 |
| Mutual savings banks | 563 | 2,678 | 1.0 | 1.8 |
| Insurance companies | 32 | 242 | 0.1 | 0.2 |
| Individuals and other lenders | 1,521 | 7,574 | 2.8 | 5.1 |
| Total | 55,075 | $149,180 | 100.0% | 100.0% |

From a special tabulation provided by the Loan Guaranty Service of the Veterans' Administration. The exact period covered is from December 25, 1947 through June 25, 1951.

SIZE

Information on the size distribution of VA loans by original amount is not available. The best approximation is a distribution by purchase price of the business property financed by the loan, available for a five-month period in late 1947.[53] For the great majority of loans made up to the end of 1947 the loan financed 90 percent or more of the purchase price; use of purchase price therefore overstates only moderately the original amount of loans (excepting loans over $5,000 in amount, for which the ratio of original amount of loan to purchase price fell well below 90 percent).

In comparison with the generality of member bank loans to small business outstanding in November 1946, VA-protected loans show a much greater concentration within the range of $1,000 to $5,000 (Table C-11). The explanation is obvious. On loans not secured by real estate VA's guarantee, by law, could not exceed $2,000 or 50 percent of the loan amount; most VA-protected loans were of that type, hence tended toward amounts close to or below $4,000.

TABLE C-11

Size Distributions of Business Loans Guaranteed or Insured by VA, 1947, and of Outstanding Member Bank Loans to Small Businesses, 1946

| | NUMBER OF LOANS | | PERCENTAGE DISTRIBUTIONS | |
|---|---|---|---|---|
| SIZE OF LOAN[a] | *VA-Protected* | *Member Bank* | *VA-Protected* | *Member Bank* |
| Less than $1,000 | 2,051 | 143,300 | 13.2% | 27.9% |
| $1,000–4,999 | 10,219 | 228,800 | 65.6 | 44.5 |
| 5,000–9,999 | 2,384 | 66,700 | 15.3 | 13.0 |
| 10,000–24,999 | 849 | 48,200 | 5.5 | 9.4 |
| 25,000 and over | 61 | 27,300 | 0.4 | 5.3 |
| All loans | 15,564 | 514,300 | 100.0% | 100.0% |

VA data refer to business loans closed during five months of 1947 (those ending May 25, June 25, August 25, September 25, and October 25) with VA guarantee or insurance, from a special tabulation by the Veterans' Administration. Bank data refer to loans to small businesses outstanding on November 20, 1946, from "Member Bank Loans to Small Business," by Charles H. Schmidt, *Federal Reserve Bulletin,* August 1947, Table 6, p. 970.

[a] For VA-protected loans, refers to purchase price of assets acquired; for member bank loans, to original amount.

[53] The succeeding materials on contract length, type of security, and repayment method for VA-protected loans also refer to limited periods in 1947. No doubt the pattern of loan size underwent some change over time, and terms to maturity may have tended to shorten in later years; but the available data are believed representative for the broad comparisons with bank loans to small business that are possible.

MATURITY

Perhaps the most significant distinguishing characteristics of VA business loans was their relatively long term of final maturity. More than three-quarters of the member bank loans to small business were written to mature within one year or less or were payable on demand; in contrast, only about one out of a hundred VA-protected business loans had a maturity of less than ten months (Table C-12). Looking at the maturity scale from the opposite direction, only 22 percent of the small business loans held by banks had maturities over twelve months, whereas 99 percent of VA business loans called for final payments ten months or more in the future.

It should be recognized that the actual maturities of loans may differ considerably from their original maturities because of extensions and renewals, and that a considerable number of demand or short-term bank loans to small businesses were term loans in practice. However, the term of the formal loan contract is not incidental. The making of a term loan compels lender and borrower to estimate the long-term earning and debt-repaying capacity of the firm at the outset, and requires a different method of credit appraisal than the making of a short-term loan. The VA program brought banks into a relatively new type of credit operation—term lending to new and very small enterprises. Probably for this reason, commercial banks as well as other lenders wrote VA business loans for terms well within the statutory maximum. Whereas the Servicemen's Readjustment Act permitted amortized loans to run as long as ten years even if unsecured, and for twenty years (currently, thirty years) if secured by real estate, it is noteworthy that 74 percent of all VA loans made during the three-month sample period matured within less than five years.

TYPE OF SECURITY

Nearly three-quarters of VA business loans in the sample period were secured by chattel mortgages or conditional sales contracts on the personal property purchased with the proceeds of the loan (Table C-13). About one-sixth were secured by real estate. Less than 10 percent were otherwise secured, or unsecured. The distribution for member bank loans to small businesses outstanding in November 1946 shows, in contrast, a preponderance of unsecured loans (38 percent) and of loans secured by inventory, or various types of claim, or endorsement (32 percent).

Veterans were, of course, in the great majority of cases unable to offer any other collateral security than the property they purchased with the proceeds of a loan, and, lacking a record of successful experience in operating the business they were entering, they were rarely eligible for unsecured personal credit. Although the law permitted VA guarantee on certain types of unsecured loans, it required that veterans using a loan

## TABLE C-12

Distributions by Term to Maturity for Business Loans Guaranteed or Insured by VA, 1947, and for Outstanding Member Bank Loans to Small Businesses, 1946

| TERM TO MATURITY[a] | NUMBER OF LOANS | | | PERCENTAGE DISTRIBUTIONS | | |
|---|---|---|---|---|---|---|
| | | Member Bank | | | | |
| | *VA-Protected* | *All Loans* | *Term Loans* | *VA-Protected* | *All Loans* | *Term Loans* |
| Payable on demand | .. | 64,800 | .. | .. | 12.6% | .. |
| 1 year and less | 101 | 335,200 | .. | 1.0% | 65.2 | .. |
| 1–3 years | 4,252 | 69,300 | 69,300 | 40.7 | 13.5 | 60.6% |
| 3–5 years | 3,374 | 21,800 | 21,800 | 32.4 | 4.2 | 19.1 |
| 5–10 years | 1,411 | 19,700 | 19,700 | 13.5 | 3.8 | 17.2 |
| Over 10 years | 1,295 | 3,500 | 3,500 | 12.4 | 0.7 | 3.1 |
| Total | 10,433 | 514,300 | 114,300 | 100.0% | 100.0% | 100.0% |

VA data refer to business loans closed during three months of 1947 (those ending May 25, July 25, and August 25) with VA guarantee or insurance, from a special tabulation by the Veterans' Administration. Bank data, referring to loans to small businesses outstanding on November 20, 1946, were compiled from "Member Bank Loans to Small Business," by Charles H. Schmidt, *Federal Reserve Bulletin*, August 1947, Tables 8 and 14, pp. 972 and 975.

[a] Class intervals for VA-protected and for member bank loans differ as follows:

| *VA* | *Banks* |
|---|---|
| Less than 10 months | 12 months and less |
| 10–30 months | 12–36 months |
| 30–60 months | 36–60 months |
| 60–120 months | 60–120 months |
| 120 months and over | Over 120 months |

TABLE C-13

Distributions by Type of Security for Business Loans Guaranteed or Insured by VA, 1947, and for Outstanding Member Bank Loans to Small Businesses, 1946

| TYPE OF SECURITY | *VA-Protected Loans* | TYPE OF SECURITY | *Member Bank Loans* |
|---|---|---|---|
| Land sale contract | 0.2% | Unsecured | 38.1% |
| Real estate mortgage | 16.7 | Plant & real property | 10.8 |
| Chattel mortgage | 72.2 | Equipment | 18.8 |
| Conditional sales contract, personal property | 1.4 | Government guarantee[a] | 0.3 |
| Other and nonreported | 9.5 | Other[b] | 32.0 |
| Total | 100.0% | Total | 100.0% |

VA data refer to 6,569 business loans closed during two months of 1947 (those ending June 25 and July 25) with VA guarantee or insurance, from a special tabulation by the Veterans' Administration. Bank data refer to an estimated 514,300 loans to small businesses outstanding on November 20, 1946, from "Member Bank Loans to Small Business," by Charles H. Schmidt, *Federal Reserve Bulletin*, August 1947, Table 16, p. 977.

[a] Covers loans involving deferred participation by RFC or the Federal Reserve Banks, or VA guarantee or insurance, where the federal protection was the primary security; otherwise such loans were classified according to major collateral.

[b] Refers to loans secured by stocks and bonds, life insurance, inventories, accounts receivable, assignment of claims, endorsement or co-maker, and miscellaneous other security.

to purchase an interest in real property pledge real estate, and that loans to purchase or improve personal property be secured "to the extent legal and practicable." Lenders did acquire liens on the business property in the great majority of cases. VA business loans were term loans,[54] unlike most of the traditional bank loans to small firms. The greater hazard of nonrepayment involved in distant maturities naturally would have led lenders to take whatever collateral was available, irrespective of the legal injunction.

### METHOD OF REPAYMENT

VA business loan agreements have overwhelmingly called for repayments in equal monthly installments: that was the method in more than 94 out of every 100 VA-protected loans made in the sample period (Table C-14). Since the law required amortization only for loans in excess of five years' maturity and the regulation specified a payment "at least once annually," this probably reflects the favorable experience of lenders with monthly installment payments against FHA Title I loans and consumer

[54] That is, loans maturing in more than one year. The VA has customarily used the phrase "term loan" to designate a "straight" or unamortized loan in distinction from an amortized or serial-payment loan.

TABLE C-14

Distributions by Repayment Method for Business Loans Guaranteed or Insured by VA, 1947, and for Outstanding Member Bank Term Loans to Small Businesses, 1946

| METHOD OF REPAYMENT | *VA-Protected Loans* | METHOD OF REPAYMENT | *Member Bank Term Loans* |
|---|---|---|---|
| Monthly installments | 94.3% | Equal installments | 86.8% |
| Quarterly installments | 1.1 | Unequal installments | 4.3 |
| Semiannual installments | 1.3 | Serial notes | 2.4 |
| Annual installments | 2.2 | Several notes | 0.2 |
| Unamortized | 0.8 | Single payment | 6.1 |
| Not reported | 0.2 | Unclassified | 0.2 |
| Total | 100.0% | Total | 100.0% |

VA data refer to 6,569 business loans closed during two months of 1947 (those ending June 25 and July 25) with VA guarantee or insurance, from a special tabulation by the Veterans' Administration. Bank data refer to an estimated 114,300 term loans to small businesses outstanding on November 20, 1946, from "Member Bank Loans to Small Business," by Charles H. Schmidt, *Federal Reserve Bulletin*, August 1947, Table 8, p. 972.

credits. The monthly payment has become a deep-seated convention in consumer financing. The available information on repayment provisions in the generality of bank term loans to small business is of interest as showing the extent to which regular amortization of credits extending more than one year had become common banking practice by 1946, but does not make clear whether monthly, quarterly, or annual payments predominate.

### *Characteristics of the Borrowing Businesses and of the Business Population*

What were the probable effects of the VA business loan program upon the business population of the country, its aggregate size, its geographical distribution, and its type-of-business composition?

#### SIZE OF THE BUSINESS POPULATION

Between March 31, 1944 and March 31, 1949 there was a net increase of 913,000 in the total number of operating firms in the nation.[55] This 30 percent rise during a five-year period was due to the previous wartime shrinkage in the business population and to generally favorable business profits and opportunities during the postwar years. From the beginning of VA credit activity (June 1944) through March 1949 a total of 104,000 VA-protected business loans were closed; and data for the latter half of 1947 and the calendar year 1948 indicate that perhaps one-third, or 35,000 of the 104,000, were used by veterans to establish new enterprises

[55] See Table C-16, below.

(Table C-15). On the extreme assumption that none of these veterans would have established a new business without VA credit, the indicated ratio of new enterprises financed under VA loan guaranty or insurance to the increase in the business population would be only 3.8 percent. Evidently, the impact of the VA program upon the aggregate size of the business population was slight.[56] In view of the fact that many veterans were in the age group that normally accounts for a large proportion of new enterprise formations, it is likely that far more veterans established new businesses without VA loans than did so with them.

Evidence of the fact that many veterans intended to, and probably did, enter business (i.e., purchase, resume, or start a business) without VA loan benefits is provided by the results of a questionnaire survey of a sample of 20,000 officers and enlisted men made by the Army Service Forces during mid-1944.[57] Eleven percent of the men had fairly definite plans to enter business by themselves or with a relative, and more than 80 percent of them had experience in the line they intended to enter. Most planned to invest not more than $4,000, and about 60 percent stated they possessed at least half of the necessary capital. Only one-sixth stated they planned to borrow from banks and loan companies, and one-tenth from friends. Bearing in mind the fact that this sample covered a soldier

TABLE C-15

Distribution by Purpose for Business Loans Guaranteed or Insured by VA, 1947, 1948

| | FIVE MONTHS OF 1947 | | CALENDAR YEAR 1948 | |
|---|---|---|---|---|
| BUSINESS PURPOSE | *Number of Loans* | *Percent* | *Number of Loans* | *Percent* |
| Establish new business | 5,415 | 35.0% | 5,170 | 26.9% |
| Purchase going concern | 4,108 | 26.6 | 4,401 | 22.9 |
| Repairs to equipment | 164 | 1.1 | 139 | 0.7 |
| Purchase equipment and other assets for going concerns | 5,767 | 37.3 | 9,525 | 49.5 |
| Total | 15,454 | 100.0% | 19,235 | 100.0% |

From special tabulations by the Veterans' Administration for months ending May 25, June 25, August 25, September 25, and October 25, 1947; and for the period December 25, 1947 through December 25, 1948.

56 Table C-15 suggests that the proportion of VA-protected loans used for starting a new business may have been higher in earlier than in later years; but even assuming a proportion as high as two-fifths for the period through March 1949, the ratio of new firms financed under the VA program to the increase in the business population would be only 4.6 percent.

57 Cf. D'Alton B. Myers, "Postwar Business Plans of G.I.'s," *Domestic Commerce*, January 1945, p. 11.

population of about 14 million, it appears that entry into business was contemplated by some 1.5 million men. If even as few as one-quarter of them actually did follow their plans, it would mean that up to March 1949 three veterans entered businesses without VA assistance for every one who entered with VA loan aid.

In 1947 and 1948 (and probably later, as well) the majority of VA-protected business loans were used by veterans to purchase going concerns or to buy equipment, inventory, and other assets for businesses they already operated. The latter purpose was the most frequent, motivating 37 percent of the loans in five months of 1947 and half of the loans in 1948.

### LINES OF TRADE

Over 40 percent of the operating business firms in the United States in 1944 and 1949 were engaged in retail trade, and over 20 percent in the service trades (Table C-16). If the count were confined to small firms, probably those two industry groups would bulk even larger. They also were the groups in which most of the net increase in the total number of firms between 1944 and 1949 occurred: 33 percent in retail trade, 22 percent in services, with a large increase also in construction firms—19 percent of the total increase—though in 1944 that group had represented only 5 percent of the business population.

TABLE C-16

Industry Distributions of the Number of Operating Businesses, 1944 and 1949, and of the Increase in That Period

| | NUMBER OF OPERATING FIRMS (IN THOUSANDS) | | | PERCENTAGE DISTRIBUTIONS | | |
|---|---|---|---|---|---|---|
| TYPE OF BUSINESS | *March 31, 1944* | *March 31, 1949* | *Increase 1944–1949* | *1944* | *1949* | *Increase 1944–1949* |
| Manufacturing | 242.0 | 308.1 | 66.1 | 8.0% | 7.8% | 7.2% |
| Wholesale trade | 143.1 | 202.4 | 59.3 | 4.7 | 5.1 | 6.5 |
| Retail trade | 1,379.8 | 1,684.7 | 304.9 | 45.7 | 42.8 | 33.4 |
| Service industries | 647.6 | 849.0 | 201.4 | 21.4 | 21.6 | 22.1 |
| Contract construction | 149.1 | 323.4 | 174.3 | 4.9 | 8.2 | 19.1 |
| Transportation, finance, and all others[a] | 460.6 | 567.7 | 107.1 | 15.2 | 14.4 | 11.7 |
| Total | 3,022.2 | 3,935.3 | 913.1 | 100.0% | 100.0% | 100.0% |

Computed from Table 7 in "State Estimates of the Business Population," by Betty C. Churchill and Murray F. Foss, *Survey of Current Business*, December 1949, pp. 15f.

[a] Includes mining and quarrying, communications and other public utilities, and insurance and real estate firms.

Among member bank loans to small business outstanding in November 1946, those that had been made under VA protection were distributed industrially about as the foregoing census would suggest, with 63 percent in the retail and service groups combined (Table C-17). A disproportionately large fraction of the generality of the bank loans went to manufacturing firms, whereas the fraction of VA-protected loans going to that industry group corresponded more closely to its proportion in the business population and in the net number of new firms. VA loans to service industries (21 percent of the total) matched that group's importance in the population and in the increase during the postwar years, whereas only 12 percent of the generality of member bank small business loans went to such firms. A disproportionately large fraction of VA loans, on the other hand, appears in the combined groups "utilities, transportation" and "all other," probably reflecting numerous loans to aid veterans' local trucking enterprises. Neither the proportion of the bank loans generally nor of the VA-protected bank loans going to construction firms matched that group's increase of population during the postwar years.

The industry distribution for loans by all types of lender that were made under VA protection during 1949 and 1950 shows an even greater concentration in the retail and service groups than was observed for VA-protected member bank loans outstanding in 1946 (Table C-17); but differences in the classification systems make the comparison doubtful.

### GEOGRAPHICAL DISTRIBUTION

Areas where the share of the business loans made up to mid-1949 under VA guaranty or insurance was larger than the fraction of the business population they included were: northern New England (Maine, New Hampshire, Vermont); Minnesota and the Dakotas; and most of the Mountain states (Montana, Wyoming, Utah, Colorado, Arizona, New Mexico). Areas where the share of VA business loans was small in relation to the business population were: most of the southeast (North Carolina and Tennessee; Louisiana, Mississippi, Alabama, and Florida); also Illinois; Ohio and West Virginia; and New Jersey. The geographical distribution of VA-protected business loans to mid-1949 was not apparently related to differing rates of gain in business population (Table C-18). For example, of seventeen states where the number of firms increased between 1944 and 1949 by 39 percent or more (against a national average of 30 percent), only three (Arizona, New Mexico, Oregon) received a fraction of VA-protected loans that was markedly larger than their share of the business population. The rest had shares of VA loans that either were low compared to the business population or were not much out of line (North Carolina, Georgia, Florida, Alabama, Louisiana, Kentucky, Arkansas, Texas; California, Washington, Idaho, Nevada). Nor, apparently, does the distribution of the veteran population account

TABLE C-17

Industry Distributions of Outstanding Member Bank Loans to Small Businesses, 1946, of Such Loans Carrying VA Guaranty or Insurance, and of Business Loans Guaranteed or Insured by VA during 1949–1950

| | NUMBER OF LOANS | | | AMOUNT | | |
|---|---|---|---|---|---|---|
| | *Held by Member Banks, 1946*[a] | | *Guaranteed or Insured by VA, 1949–1950*[b] | *Outstanding in Member Banks, 1946*[a] | | *Loans Guaranteed or Insured by VA, 1949–1950*[b] |
| INDUSTRY | *All Loans* | *VA-Protected* | | *All Loans* | *VA-Protected* | |
| Manufacturing and mining | 19.6% | 8.3% | 3.6% | 46.0% | 14.6% | 4.6% |
| Wholesale trade | 14.1 | 5.1 | 2.5 | 24.2 | 5.1 | 3.3 |
| Retail trade | 38.2 | 42.0 | 48.0 | 16.2 | 35.8 | 46.1 |
| Services | 11.9 | 21.0 | 30.8 | 5.0 | 16.1 | 33.2 |
| Construction | 5.2 | 5.1 | 4.5 | 3.0 | 4.8 | 4.1 |
| Public utilities and transportation | 5.3 | 13.4 | 9.5 | 2.4 | 8.3 | 7.5 |
| All other | 5.7 | 5.1 | 1.1 | 3.3 | 15.3 | 1.2 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

[a] Data for "all loans" cover an estimated 514,300 loans to small businesses, with outstandings totaling $2.9 million, from "Member Bank Loans to Small Business," by Charles H. Schmidt, *Federal Reserve Bulletin*, August 1947, Table 3, p. 967. Distribution for the VA loans among them—an estimated 16,000, with unpaid balances of $54 million—was computed from data on number of loans and average size by industry group, from "Security Pledged on Member Bank Loans to Business," by Tynan Smith, *Federal Reserve Bulletin*, June 1947, Table 15, p. 676.

[b] Based on a special tabulation by the Veterans' Administration covering loans closed—approximately 24,000 for $64.5 million—with VA guarantee or insurance, during the two years ending December 25, 1950.

The industry classification differed from that of the bank data, and certain groups were combined, as follows: Sales agents, brokers, and jobbers (27 percent of the total by number, 18 percent by amount) were assigned to retail trade, though some may belong in wholesale trade. To the service category were added recreations and amusements (less than 2 percent, by number and amount); professional and semiprofessional (about 11 percent); and trade crafts (about 4 percent), though part may belong with construction.

## TABLE C-18

Distributions by Region and State for Number of Business Loans Made to Mid-1949 with VA Guaranty or Insurance, and for Number of Businesses in 1948, with Percentage Change in Number of Businesses, 1944–1949

| STATE AND REGION | PERCENTAGE INCREASE IN NUMBER OF OPERATING FIRMS, 1944–1949 | PERCENTAGE DISTRIBUTION OF OPERATING FIRMS IN U.S., MARCH 1948 | VA-PROTECTED BUSINESS LOANS CLOSED TO JUNE 25, 1949 | |
|---|---|---|---|---|
| | | | *Number* | *Percent* |
| *New England* | *24.1%* | *6.91%* | *9,933* | *9.32%* |
| Connecticut | 24.9 | 1.46 | 1,150 | 1.08 |
| Maine | 22.9 | 0.74 | 1,471 | 1.38 |
| Massachusetts | 23.4 | 3.44 | 4,557 | 4.27 |
| New Hampshire | 21.5 | 0.44 | 1,407 | 1.32 |
| Rhode Island | 29.0 | 0.55 | 765 | 0.72 |
| Vermont | 25.8 | 0.28 | 583 | 0.55 |
| *Middle East* | *23.9* | *25.90* | *29,050* | *27.19* |
| Delaware | 20.9 | 0.23 | 150 | 0.14 |
| District of Columbia | 9.5 | 0.58 | 1,518 | 1.42 |
| Maryland | 23.6 | 1.27 | 1,152 | 1.08 |
| New Jersey | 22.4 | 3.61 | 1,328 | 1.24 |
| New York | 22.3 | 13.07 | 17,850 | 16.71 |
| Pennsylvania | 27.2 | 6.18 | 6,483 | 6.07 |
| West Virginia | 44.6 | 0.96 | 569 | 0.53 |
| *South East* | *43.0* | *15.23* | *11,751* | *10.98* |
| Alabama | 39.1 | 1.33 | 917 | 0.86 |
| Arkansas | 45.0 | 1.00 | 1,104 | 1.03 |
| Florida | 70.9 | 2.09 | 1,142 | 1.07 |
| Georgia | 41.3 | 1.62 | 1,885 | 1.76 |
| Kentucky | 43.4 | 1.33 | 1,208 | 1.13 |
| Louisiana | 41.8 | 1.23 | 892 | 0.83 |
| Mississippi | 39.2 | 0.81 | 451 | 0.42 |
| North Carolina | 41.6 | 1.78 | 917 | 0.86 |
| South Carolina | 36.1 | 0.88 | 1,073 | 1.00 |
| Tennessee | 32.6 | 1.50 | 720 | 0.67 |
| Virginia | 36.8 | 1.66 | 1,442 | 1.35 |
| *South West* | *48.7* | *7.44* | *7,817* | *7.31* |
| Arizona | 67.3 | 0.48 | 1,137 | 1.06 |
| New Mexico | 46.8 | 0.40 | 685 | 0.64 |
| Oklahoma | 33.9 | 1.38 | 1,238 | 1.16 |
| Texas | 47.4 | 5.17 | 4,757 | 4.45 |
| *Central* | *20.3* | *27.36* | *26,216* | *24.54* |
| Illinois | 12.2 | 6.75 | 5,049 | 4.73 |
| Indiana | 23.8 | 2.50 | 2,260 | 2.12 |
| Iowa | 20.1 | 1.92 | 2,841 | 2.66 |
| Michigan | 24.3 | 4.00 | 3,711 | 3.47 |
| Minnesota | 21.1 | 2.01 | 3,340 | 3.13 |
| Missouri | 13.9 | 2.77 | 3,441 | 8.22 |
| Ohio | 28.6 | 4.91 | 2,580 | 2.41 |
| Wisconsin | 26.0 | 2.50 | 2,994 | 2.80 |

*(continued on next page)*

TABLE C-18 (*continued*)

| STATE AND REGION | PERCENTAGE INCREASE IN NUMBER OF OPERATING FIRMS, 1944–1949 | PERCENTAGE DISTRIBUTION OF OPERATING FIRMS IN U.S., MARCH 1948 | VA-PROTECTED BUSINESS LOANS CLOSED TO JUNE 25, 1949 | |
|---|---|---|---|---|
| | | | *Number* | *Percent* |
| *North West* | *27.4%* | *5.58%* | *8,900* | *8.33%* |
| Colorado | 28.7 | 0.92 | 1,552 | 1.45 |
| Idaho | 40.0 | 0.39 | 412 | 0.39 |
| Kansas | 20.9 | 1.43 | 1,918 | 1.80 |
| Montana | 24.1 | 0.46 | 887 | 0.83 |
| Nebraska | 20.4 | 0.97 | 994 | 0.93 |
| North Dakota | 18.1 | 0.37 | 1,161 | 1.09 |
| South Dakota | 23.6 | 0.44 | 996 | 0.93 |
| Utah | 36.9 | 0.39 | 655 | 0.61 |
| Wyoming | 36.1 | 0.21 | 325 | 0.30 |
| *Far West* | *56.0* | *11.61* | *13,177* | *12.34* |
| California | 59.2 | 8.54 | 9,176 | 8.59 |
| Nevada | 44.9 | 0.15 | 169 | 0.16 |
| Oregon | 46.1 | 1.21 | 1,763 | 1.65 |
| Washington | 48.6 | 1.71 | 2,069 | 1.94 |
| United States | *30.2%* | *100.00%* | *106,844* | *100.00%* |

VA data from Annual Report of the *Administrator of Veterans Affairs*, 1949, Table 88, p. 236; other data from "State Estimates of the Business Population," by Betty C. Churchill and Murray F. Foss, *Survey of Current Business*, December 1949, pp. 14ff. (change in business population refers to March 31 dates).

for the disproportions in the distributions of VA loans and of the business population. Partly, no doubt, the geographical pattern of VA loans reflects differences in the availability of private banking services and the willingness of banks to make such loans.

### *Effects on the Amount and Cost of Credit*

The primary objectives of the VA business credit program were, first, to lower the price of credit to every veteran desiring to enter business for himself and possessing a reasonable likelihood of success, and, secondly, to obtain for veterans more liberal credit terms, such as credit with smaller-than-normal equity on the part of the borrower. One important criterion for judging the success of the program is therefore the extent to which the program actually succeeded in (a) increasing the number of veterans able to obtain business credit, and (b) reducing the cost of business credit to veterans who would have been able to negotiate loans without VA assistance.

How high an interest rate would veterans have had to pay for loans of the sizes, maturities, collateral security, and other characteristics of VA business loans, without VA guaranty or insurance? One need merely recall the observed characteristics of VA business loans to realize that, up to the time of the VA program, very small term loans to new and small enterprises were not generally available from commercial banks. Neither were they generally available from commercial finance companies, which dealt with many small enterprises, but not with many firms as small as those into which veterans entered. It follows that the program did succeed in increasing materially the number of veterans able to obtain business credit from financial institutions. VA guaranty of up to 50 percent of the amount of a loan (and later VA insurance of up to 100 percent of individual loans where the lender had sufficient insurance credit in his account), combined with the desire of banks to aid returning veterans, did induce banks to make many loans which were formerly considered beyond the pale of sound banking practice, and to make them at a moderate rate of interest, as prescribed by the law.

Analysis of the probable effects of VA guaranty or insurance upon the cost of business credit to veterans requires an understanding of the components of interest rates charged by banks for business credit. In theory, three important components enter into the gross interest rate charged for a business loan: (1) pure interest on riskless assets, (2) costs of administration of a loan, which rise rapidly per dollar loaned as loan sizes diminish, (3) risk premium to compensate for the hazard of nonrepayment of principal and interest and to provide a reserve out of which losses may be met. VA loan guaranty or insurance served to reduce the third component; it did not affect the other two. If the amounts of pure interest and of costs of administration may be estimated roughly, it will be possible to calculate the importance of VA guaranty in reducing the total interest rate charged on a loan. A loan of $3,000 maturing in three years may be considered as representative of VA business loans during 1946 and 1947, the most active years of the program.[58]

"Pure interest" on riskless assets, judged by yields of government securities with three-year maturities, was about 1½ percent per annum during 1946 and 1947. Scattered information suggests that the average cost of administering VA loans of $3,000 was at least 2½ percent per annum. The sum of these two items, 4 percent, may be taken as the minimum basic return to a commercial bank, without allowance for risk premium; the risk premium may be regarded as the difference between the interest rate charged and 4 percent per annum.

A small business loan to a veteran at 6 percent would involve a 2 percent risk premium component. If VA guaranteed repayment of half the loan, it would reduce the appropriate risk premium by at least one-half, or to 1 percent, and in the case of a lender who had built up an adequate insurance reserve it might reduce it by 100 percent, or be the

[58] See Tables C-6 and C-12, above.

equivalent of a 2 percent annual rate of interest. A bank might therefore be expected to make guaranteed or insured loans at 5 percent which it would not have made without guaranty except at 6 or 7 percent. Similarly, an 8 percent unguaranteed loan would have a risk premium component of 4 percent, and VA guaranty would reduce the bank's loan rate by at least half this amount, or 2 percent. The bank would be expected to make the same loan on a guaranteed basis at 6 percent that it would have made without guaranty at 8 to 10 percent. It is noteworthy that the relative reduction in loan rate caused by VA guaranty rises as the risk-premium component rises. VA guaranty provided a relatively larger incentive to banks toward riskier than toward safer loans.

An indication of the amount of reduction in loan rate caused by VA guaranty is provided by a consideration of interest rates charged on member bank term loans to business that were outstanding in late 1946. The average interest rate charged varied according to the amount of the loan and the size of the borrowing firm; for three size classes of small firms, the averages were as follows:[59]

| | AVERAGE RATE FOR BORROWERS WITH TOTAL ASSETS OF | | |
|---|---|---|---|
| LOAN SIZE[a] | *Less than $50,000* | *$50,000–249,999* | *$250,000–749,999* |
| Less than $500 | 9.0% | 6.9% | 6.8% |
| $500–999 | 7.8 | 6.0 | 4.9 |
| 1,000–4,999 | 6.0 | 5.6 | 5.0 |
| 5,000–9,999 | 5.2 | 5.0 | 4.3 |
| 10,000–24,999 | 4.8 | 4.5 | 4.3 |
| 25,000–49,999 | 4.5 | 4.3 | 4.2 |
| 50,000–99,999 | .. | 4.2 | 4.0 |
| 100,000–499,999 | .. | 4.3 | 3.9 |
| 500,000–999,999 | .. | .. | 3.8 |
| Loans of all sizes | 5.4% | 4.4% | 4.0% |

[a] Size of loan refers to unpaid balance; hence the results somewhat understate the differences between rates on loans of larger and smaller original amount.

Since the enterprises of VA borrowers by and large were of smaller size and subject to greater risk than those included in the smallest size class of bank term borrowers, it seems likely that the charge on three-year loans of $3,000 to very small firms, if banks had made them without guaranty, would have been at least 10 percent per annum.[60] On the

[59] From "The Structure of Interest Rates on Business Loans at Member Banks," by Richard Youngdahl, *Federal Reserve Bulletin*, July 1947, Table 16, p. 816.

[60] On small amortized business term loans, banks ordinarily quote rates of discount on the borrower's note. Thus 5 percent discount on a loan maturing within three years and repayable in equal monthly installments would be equivalent to approximately 9½ percent interest.

assumptions made previously, regarding administrative cost and pure interest, such loans would have about a 6 percent risk-premium component. VA guaranty would have reduced this by one-half, or 3 percent, enabling a bank to make a loan at 7 percent with VA guaranty for which it would have charged 10 percent without it. However, the law limited the bank's charges (on insured non-real-estate loans) to 5.7 percent. This limitation undoubtedly made numerous VA loans unattractive as bank portfolio holdings, even with VA insurance, and was a restrictive factor in the program to enlist broad banking participation in making business credit available to veterans. The statutory differential of 1.7 percent between the maximum charge for real estate loans and that for non-real-estate business loans understated the true difference in costs and risks.