

of renewal), either unsecured, secured by collateral, or guaranteed by wealthy individuals interested in the enterprise. The operations of the borrowing firm were intimately known to the directorate of the local bank, which was thoroughly integrated in the life of the community; expenses of investigation were not heavy.

In the financial and industrial crisis of 1930-1934, loans became difficult to obtain; there were many bank failures, borrowers sometimes found renewals difficult to negotiate. Since the successful resolution of the banking crisis of 1933, the banks in general have, however, returned to their traditional lending practices, and the pressure of funds seeking investment has made them willing to extend credit to credit-worthy borrowers. They have been encouraged to extend credits of longer maturity than ordinary commercial paper by the 1935 revision of the banking laws permitting the Federal Reserve Banks to rediscount, under certain conditions, all types of paper presented by their members, provided it met the test of "soundness". Moreover, bank examination procedures have been revised to distinguish more sharply between "slow" and "doubtful" assets.

In the period of credit stringency of 1932, the Federal Reserve Banks were authorized to make commercial loans direct to industrial and commercial borrowers and the Reconstruction Finance Corporation was given similar powers. High standards were at first required on advances made, and few loans of this type were concluded. In 1934, the law was amended to authorize both the Federal Reserve Banks and the R.F.C. to make industrial loans on quite liberal terms as to maturity, interest rates and collateral, provided they met the test of possessing "full and adequate security". More recently, the R.F.C. has worked on the basis that such loans need only be backed by "reasonable security".

Despite this progressive relaxation of the credit standards required, neither the Federal Reserve Banks nor the R.F.C. have been able to make any considerable volume of advances. The Federal Reserve Banks' industrial advances outstanding at the end of 1938 amounted to only \$17 million; additional commitments outstanding amounted to \$14 million. The total loans of member banks of the Federal Reserve system outstanding at the same date were \$14,000 million. Total applications for industrial loans received by the Federal Reserve Banks from the original grant of authority to the end of 1938 amounted to \$400 million, of which \$175 million were approved. At the end of 1938, the total loans of the R.F.C. to industrial and commercial businesses outstanding amounted to \$108 million.

(b) *United Kingdom.*

Since the Macmillan Commission drew attention in 1931 to the difficulties experienced by small firms in making public issues, a number of companies have been established for the supply of capital and credit to small firms. *Credit for Industry Limited*, a subsidiary of the United Dominions Trust, was established in 1934 with capital of £250,000. The parent company finances the movement of all types of goods by providing instalment and hire-purchase facilities for periods up to three years. Credit for Industry Limited has as its object the provision of capital of a medium-term character to the smaller industrial and commercial concerns whose needs are not large enough to justify the expense of an issue through the usual channels. Loans range from £100 to £50,000 and are repayable within periods not exceeding twenty years. A mortgage or debenture is usually taken as security; the rate charged varies, but "is probably less than the rate usually paid on the preference share".¹ The annual reports of the parent company state that all applications for loans were carefully and sympathetically examined, but that "in only a small number of cases could the application be regarded as legitimate or justifiable". In the first fifteen months of its existence, Credit for Industry Limited granted or approved in principle loans totalling about £1,250,000. Of this amount, less than £250,000

¹ Quoted in A. T. K. GRANT: *A Study of the Capital Market in Post-war Britain* (Macmillan, 1937).